

HOUSE FINANCE COMMITTEE
April 29, 2006
1:21 p.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:21:09 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Beth Kerttula
Representative Carl Moses
Representative Bruce Weyhrauch (via teleconference)
Representative Jim Holm (via teleconference)

MEMBERS ABSENT

None

ALSO PRESENT

Judy Brady, Executive Director, Alaska Oil and Gas Association (AOGA); Caleb Steward, Juneau; Representative Woodie Salmon; Representative Ethan Berkowitz; Representative Kurt Olson; Representative Paul Seaton; Wayne Stevens, President, Alaska State Chamber of Commerce, Juneau; Dixie Hood, Juneau; Sean Purvis, Juneau; Representative Kurt Olson; Representative Paul Seaton; Representative Vic Kohring; Representative John Coghill; Senator Gene Therriault; Representative Ethan Berkowitz; Dr. Tony Finizza, Special Consultant, Econ One, Research, Contractor, Legislative Budget and Audit Committee.

PRESENT VIA TELECONFERENCE

Mike Koy, Anchorage; Jerry McCutcheon, Anchorage; Paul Liard, Alaska Support Alliance, Anchorage; Dave Rees, Anchorage; Maynard Tapp, Anchorage; Dr. Paul B. Simons, Anchorage; David Landry, Anchorage; Matt Fagnani, Nenanna Oil Development, Anchorage; David Gottstein, Backbone Two, Anchorage; Tadd Owens, RDC, Anchorage; Reed Christensen, Anchorage; Eric Dompeling, Anchorage; Lynn Johnson, Alaska Support Alliance, Anchorage; Dave Laymon, Anchorage, Kay Lahdenpera, Anchorage; Vic Fisher, Anchorage; Ron Doshler, Anchorage; Mark Hysten, Kakivik Asset Management, Anchorage; Jim Plaquet, Fairbanks; Mike Walleri, Fairbanks; George

Berry, Fairbanks; William McAmis, Fairbanks; Rhonda Boyles, Vice Chair, Alaska Republican Party, Fairbanks; Mark Sharp, Fairbanks; Chris Johansen, Fairbanks; Ron Kovalik, Fairbanks; Luke Hopkins, Fairbanks Assembly, Fairbanks; David James, Fairbanks; Derrick Dieringer, Fairbanks; Lindsey Clark, Kenai; Blake Johnson, Kenai; William Phillips, Soldotna; Mike Milligan, Kodiak; Jim Sykes, Palmer; George Trabits, Trabits Group, Wasilla; Donna Shantz, Regional Citizens Advisory Council, Valdez; Jim Pfeiffer, Seward; Merrick Pierce, Bright Future for Fairbanks, Fairbanks; Tom Lakosh, Anchorage; Ed Martin, Hawaii; Richard Hahn, Soldotna; George Meeker, Homer; Lois Wier, Wasilla; Bill Warren, Kenai; Timothy Mayberry, Fairbanks;

SUMMARY

Public Testimony on SB 305

CSSB 305(FIN) am

"An Act repealing the oil production tax and the gas production tax and providing for a production tax on oil and gas; relating to the calculation of the gross value at the point of production of oil and gas and to the determination of the value of oil and gas for purposes of the production tax on oil and gas; providing for tax credits against the production tax on oil and gas; relating to the relationship of the production tax on oil and gas to other taxes, to the dates those tax payments and surcharges are due, to interest on overpayments of the tax, and to the treatment of the tax in a producer's settlement with the royalty owners; relating to flared gas, and to oil and gas used in the operation of a lease or property under the production tax; relating to the prevailing value of oil and gas under the production tax; relating to surcharges on oil; relating to statements or other information required to be filed with or furnished to the Department of Revenue, to the penalty for failure to file certain reports for the tax, to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue as applicable to the administration of the tax; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the tax, and to the deposit of tax money collected by the Department of Revenue; amending the definitions of 'gas,' 'oil,' and certain other terms for purposes of the production tax, and as the definition of the term 'gas' applies in the Alaska Stranded Gas

Development Act, and adding further definitions; making conforming amendments; and providing for an effective date."

CSSB 305 (FIN) am was heard and HELD in Committee for further consideration.

[1:21:41 PM](#)

CS FOR SENATE BILL NO. 305(FIN) am

"An Act repealing the oil production tax and the gas production tax and providing for a production tax on oil and gas; relating to the calculation of the gross value at the point of production of oil and gas and to the determination of the value of oil and gas for purposes of the production tax on oil and gas; providing for tax credits against the production tax on oil and gas; relating to the relationship of the production tax on oil and gas to other taxes, to the dates those tax payments and surcharges are due, to interest on overpayments of the tax, and to the treatment of the tax in a producer's settlement with the royalty owners; relating to flared gas, and to oil and gas used in the operation of a lease or property under the production tax; relating to the prevailing value of oil and gas under the production tax; relating to surcharges on oil; relating to statements or other information required to be filed with or furnished to the Department of Revenue, to the penalty for failure to file certain reports for the tax, to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue as applicable to the administration of the tax; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the tax, and to the deposit of tax money collected by the Department of Revenue; amending the definitions of 'gas,' 'oil,' and certain other terms for purposes of the production tax, and as the definition of the term 'gas' applies in the Alaska Stranded Gas Development Act, and adding further definitions; making conforming amendments; and providing for an effective date."

JUDY BRADY, EXECUTIVE DIRECTOR, ALASKA OIL AND GAS ASSOCIATION (AOGA), related that AOGA is a non-profit trade association whose 17 member companies represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska. AOGA has proposed 6 new technical amendments to CSSB 305 (FIN) am. She noted that she has provided written testimony (copy on file.) The purpose of the amendments is to clarify issues that could become audit matters in the future. She provided the history of the ELF tax and related disputes. In order to prevent disputes over the PPT, the amendments are offered

to clarify many issues. She proposed that the earliest effective date be July 1.

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Ms. Brady spoke to the issue of production and the tests that will be coming up regarding the bill. The first test will be in the boardrooms of the oil companies and the second test will be from pension investors coming to Alaska this summer. She expressed hope that the bill would do what it is intended to do, raise more money for the state and provide for new investment.

[1:28:01 PM](#)

Representative Stoltze asked about the retroactive provision in ELF in 1989. He wondered about the outcome of the litigation. Ms. Brady said she could get that information. She recalled that in 1989, the ELF was not a hugely different tax regime from what already existed. The big issue was that the state was broke because prices had crashed.

[1:29:59 PM](#)

CALEB STEWART, JUNEAU, maintained that the oil in Alaska belongs to the people. He spoke of the North Slope of Alaska Facility Sharing Study from 2004. He referred to page 55, which says that the largest obstacle to successful negotiations is lack of trust. He asked the members not to trust the big companies and to protect the citizens' resources.

[1:34:09 PM](#)

MIKE KOY, ANCHORAGE, testified against SB 305. He spoke as someone who has had experience working for the oil companies. He listed many reasons why he agrees with the governor's PPT tax proposal.

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JERRY MCCUTCHEON, ANCHORAGE, related that there is no urgency in passing the gas pipeline contract because it has no connection to the PPT. He termed the gas contract meaningless. He said it makes no sense to construct another gas pipeline from Prudhoe Bay. He suggested that there would be litigation if PPT passes.

[1:39:45 PM](#)

PAUL LIARD, ALASKA SUPPORT ALLIANCE, ANCHORAGE, testified that higher taxes equals less investment. The tax rate in

SB 305 is too high. He testified against the passage of SB 305 and in favor of the governor's proposed tax rate.

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DAVE REES, ANCHORAGE, said he has worked in the oil industry for the past 30 years. He mentioned that there are numerous jobs to be filled in the oil industry and a need for training programs.

MAYNARD TAPP, ANCHORAGE, recommended a production tax of 15 percent to create a healthy investment climate. He spoke against SB 305.

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DR. PAUL B. SIMONS, ANCHORAGE, emphasized that the committee should not rush into this matter, but do what is right for Alaska. He said he does not trust the governor. He spoke about the role of heavy oil in countries around the world. He suggested ways to use carbon dioxide in heavy oil recovery. He spoke in favor of 25/20.

[1:53:24 PM](#)

DAVID LANDRY, ANCHORAGE, spoke against SB 305 and in favor of the 25 percent tax rate with the progressivity component. He agreed with the analysis of Dr. Van Meurs and Mr. Johnston.

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MATT FAGNANI, NENANNA OIL DEVELOPMENT, ANCHORAGE, stated that the oil tax must pass now. He requested that the focus should be on increasing production on the North Slope. He spoke against a high PPT tax and in support of the governor's tax proposal.

[2:00:13 PM](#)

DAVID GOTTSTEIN, BACKBONE TWO, ANCHORAGE, urged the committee not to pass the oil tax until they have seen the gas pipeline contract. He spoke against aspects of the governor's bill. He suggested that stranded gas needs to be further examined.

[2:03:00 PM](#)

TADD OWENS, RDC, ANCHORAGE, spoke against the high tax rate and progressivity in SB 305. He urged the committee to create a system that creates increased stability in the state by passing a lower tax rate.

[2:05:18 PM](#)

REED CHRISTENSEN, ANCHORAGE, urged the committee to keep the oil tax simple. He spoke in favor of the governor's bill and against a higher PPT.

[2:08:47 PM](#)

ERIC DOMPELING, ANCHORAGE, spoke of high gas prices at the pumps, but maintained that market fluctuations are cyclical. He suggested that the legislature focus on a fiscal plan and not on higher oil taxes.

[2:12:02 PM](#)

LYNN JOHNSON, ALASKA SUPPORT ALLIANCE, ANCHORAGE, testified in favor of the governor's original PPT proposal to ensure that investment continues. He encouraged the members to think long and hard before making changes to the Governor's proposal.

[2:14:52 PM](#)

DAVE LAYMON, ANCHORAGE, spoke of his experience working for the oil industry the past 30 years. He expressed concern that an increase in taxes would reduce Alaska's competitiveness. He encouraged construction of a gas pipeline.

[2:17:01 PM](#)

KAY LAHDENPERA, ANCHORAGE, spoke in opposition to SB 305. She emphasized that the profits of Alaskan resources should benefit all Alaskans. She urged members to not pass PPT until they see the gas pipeline contracts. She maintained that it would be against the constitution to bind future legislatures. She spoke against a net profit tax. She thought that ELF should be repealed. The tax rate for gas and oil should be the same. The Department of Revenue should be given the ability to audit. She encouraged legislators to listen to consultants and not be rushed. She did not think that producers would pull out of Alaska.

[2:20:51 PM](#)

VIC FISHER, ANCHORAGE, referred to the Governor's statements that a gas contract would be provided on May 10, 2006. He felt that it would be unreasonable to expect the legislature to make a decision before seeing the contract. He observed that industry is requesting a 30-year certainty for fiscal stability. He looked to the Legislature to deal fairly with levels of taxation. He added that adding surplus revenues into the permanent fund are not wasted.

[2:28:05 PM](#)

RON DOSHLER, ANCHORAGE, observed that a gas pipeline is a huge investment and a huge risk. He asked the Committee to reconsider the investment aspect of the proposal.

[2:30:16 PM](#)

MARK HYLEN, KAKIVIK ASSET MANAGEMENT, ANCHORAGE, noted that the oil industry benefits Alaska. He expressed concern with the impact of new taxes. He maintained that PPT is, by nature, a progressive tax. He preferred to focus on a state fiscal plan.

[2:34:51 PM](#)

JIM PLAQUET, FAIRBANKS, speaking as a member of the oil industry, related the ways that the industry has been beneficial to his area. He testified in favor of the governor's bill.

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MIKE WALLERI, FAIRBANKS, spoke in opposition to the governor's proposal. He suggested waiting to see the gas contract before the oil tax is completed. He suggested slowing down the process. He said Alaska should be looking at tax rates from a competitive viewpoint. He suggested tying tax credits with investment and employment.

[2:39:52 PM](#)

GEORGE BERRY, FAIRBANKS, suggested that the tax rate should be high and comparable to world market prices. He suggested sticking with the 25 percent tax rate. He opined that the oil tax issue is the most important decision of our age.

[2:43:46 PM](#)

WILLIAM MCAMIS, FAIRBANKS, emphasized that oil is a non-renewable resource. He suggested taking time on the bill and to not lock the tax bill in for 30 years.

[2:47:11 PM](#)

RHONDA BOYLES, VICE CHAIR, ALASKA REPUBLICAN PARTY, FAIRBANKS, spoke in favor of the governor's bill. She mentioned a resolution sent by the Fairbanks Chamber of Commerce (copy on file.)

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MARK SHARP, FAIRBANKS, thanked the committee for their questions to the oil companies. He noted that the constitution has charged the legislature with managing the

state's resources. He spoke in agreement with Mr. Johnston and Senator Therriault's testimony. He spoke against resource giveaways.

[2:54:12 PM](#)

CHRIS JOHANSEN, FAIRBANKS, testified as a member of the oil industry. He spoke in support of a 20 percent tax rate and against progressivity. He disagreed with a retroactive effective date.

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RON KOVALIK, FAIRBANKS, agreed with Vic Fisher's comment. He urged the legislature not to rush into this tax. He testified against the oil industry. He urged the committee to get the best price for the commodity of oil. He opined it is not a tax issue.

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LUKE HOPKINS, FAIRBANKS ASSEMBLY, FAIRBANKS, spoke against SB 305. He urged the committee to get more information. He urged the committee to obtain figures by the Department of Revenue, which were used when making the tax models.

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DAVID JAMES, FAIRBANKS, said he understands the oil companies' perspective. He maintained that the state owns the crude oil. He asked the legislature to negotiate in the state's best interest. He spoke against the Senate version of the oil tax and in favor of the 25 percent tax.

[3:07:00 PM](#)

DERRICK DIERINGER, FAIRBANKS, spoke of his family's history with oil companies. He suggested getting a fair share of revenue from the oil and gas industry. The most important issue is to get a gas line contract. He spoke as a future Alaskan voter.

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LINDSEY CLARK, KENAI, spoke as a person who has worked for the oil industry for 31 years. He stated support for a fair and balanced PPT as depicted in the governor's bill. He urged special consideration for Cook Inlet.

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BLAKE JOHNSON, KENAI, urged caution when dealing with oil companies. He suggested that the oil companies are not good neighbors. He spoke in favor of the 25/20 proposal.

WILLIAM PHILLIPS, SOLDOTNA, said he has sympathy for the non-profits that have to deal with oil companies. He suggested that the oil companies testify under oath.

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MIKE MILLIGAN, KODIAK, spoke about concern for local taxpayers. He spoke highly of ARCO, when they were in Alaska. He referred to the Constitution's charge to manage resources. He suggested bringing in medium-sized oil companies. He wondered where big oil will go if they leave.

[3:20:51 PM](#)

JIM SYKES, PALMER, agreed with Mr. Johansen's comments. He urged the committee to take their time with this issue. He suggested exploring other ideas such as royalties. He urged the state to get its fair share. He disagreed with the idea that lower taxes means more investment. He suggested amending SB 305 to 30 percent tax and changing incentives.

[3:27:30 PM](#)

GEORGE TRABITS, TRABITS GROUP, WASILLA, said his business is directly dependent on the oil and gas industry. He testified against SB 305 because increased taxes will make development less desirable and hurt small businesses.

[3:29:18 PM](#)

DONNA SHANTZ, REGIONAL CITIZENS ADVISORY COUNCIL, VALDEZ, said she represents those affected by the oil spill. She stated that her interest is in preventing oil spills. She stated that RCAC supports SB 305 with respect to Sections 27 and 29 regarding the surcharge to fund spill preventions using the 470 Fund. She urged the committee to continue the funding of the 470 Fund.

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JIM PFEIFFER, SEWARD, spoke of his career in the oil industry. He said he is concerned about the current proposed tax structure. He spoke in favor of the governor's original proposal.

[3:33:21 PM](#)

MERRICK PIERCE, BRIGHT FUTURE FOR FAIRBANKS, FAIRBANKS, spoke against the governor's bill. He spoke of many concerns with the original PPT. He concurred with the testimony of Daniel Johnston. He urged the committee to include strong progressivity in the bill.

[3:39:09 PM](#)

TOM LAKOSH, ANCHORAGE, concurred with many of the previous testifiers. He compared oil in the ground to the permanent fund. He maintained that progressivity is a necessary part of the legislation.

[3:43:10 PM](#)

ED MARTIN, HAWAII, suggested that Alaska turn from taxing to sharing profits with oil producers. He encouraged members to table the current legislation. He stressed that the Permanent Fund was not borne in one session of the legislature.

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RICHARD HAHN, SOLDOTNA, stressed that it is impossible to figure the net affect to Alaska from the legislation. He maintained that there is no risk of taxing the oil companies out of business. He spoke strongly against the 30-year provision in the bill. He urged the legislature not to act until they have seen the gas pipeline contract. He warned against the oil companies' acceptance of the governor's PPT tax amount.

[3:52:49 PM](#)

GEORGE MEEKER, HOMER, thought that the state should adjust the income on oil actually produced at the wellhead, on the gross income, not the net. There should be no connection between the gas pipeline and the Alaska taxing process. He added that if the pipeline is to be profitable, it will be built. The Legislature cannot make an intelligent decision without the information from the Governor. He urged that Exxon first pay their part of the oil settlement.

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LOIS WIER, WASILLA, echoed previous comments. She stressed that the legislators have the right to make the final decision. The oil companies should not get their way. They will not leave Alaska. She added that 30 years would be too long for a contract. Net profit is something that can be manipulated.

[3:59:00 PM](#)

BILL WARREN, KENAI, said he appreciated the previous testimony. He urged that the gas contract be considered before PPT. He opposed running the natural gas line to Canada. He stressed that Alaskan needs should be considered and should be competitive with worldwide prices. In the

world, oil and gas resources are "gold" and "we can't lose unless we give it away".

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TIMOTHY MAYBERRY, FAIRBANKS, commented that the recent commercials by the oil companies imply that Alaskans are ignorant. He noted that resources should not be taken away from Alaskans. He commented that investment should be encouraged, however, not given away. It is time for Alaskans to benefit from the proposals. He did not support comments made by Governor Murkowski.

[4:04:45 PM](#)

WAYNE STEVENS, PRESIDENT, ALASKA STATE CHAMBER OF COMMERCE, JUNEAU, stated support for a change from ELF to PPT, with tax incentives and reinvestment at level which best maximizes investment by the oil and gas industry. Through the PPT legislation, the Legislature has the opportunity to help define the pace of North Slope oil production. If the Legislature chooses a tax rate higher than that proposed by the Governor, the State Chamber has serious concerns about impacts on exploration and investment. He thought there could be long-term damage for the citizens of Alaska with higher taxes. He also supported a long-term fiscal plan that would make Alaska a more stable economy attractive to private sector investment.

[4:07:03 PM](#)

DIXIE HOOD, JUNEAU, spoke in support of a comprehensive fiscal policy. She urged that the Legislature act in the public's interest. She objected to the Administration's, m./ withholding contract information from citizens and the legislature. She disagreed with the proposal to change from taxing production to taxing net profit. Corporate accountants are too likely to "cook the books". Providing incentives is not appropriate. International demand is increasing at a significant rate and profits are reaching all-time highs. Oil consultants have ridiculed the choices of the legislature. She urged that the Legislature act on behalf of Alaska and its citizens.

[4:10:03 PM](#)

SEAN PURVIS, JUNEAU, urged the Legislature to set aside partisan politics and make considerations that protect the Alaska Constitution.

Representative Chenault closed the public testimony.

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RECONVENED: [4:29:06 PM](#)

MEMBERS ABSENT

Representative Jim Holm
Representative Richard Foster
Representative Bruce Weyhrauch

Co-Chair Chenault asked for clarification from Dr. Finizza, of the various tax rates on gas production under different tax systems. He noted concern on the 1/3 gas revenue reduction scenario.

DR. TONY FINIZZA, SPECIAL CONSULTANT, ECON ONE, RESEARCH, CONTRACTOR, LEGISLATIVE BUDGET AND AUDIT COMMITTEE, discussed the risk of the credit rate in terms of the view of the future. He said that oil companies are using a distribution of prices when planning, which has a central value around \$40 WTI, plus or minus \$15, to get to the P 20 and P 80. That is consistent with Dr. Van Meurs' data. He pointed out that there is no one view of the future. He said, "You really have to think of these things in terms of distribution." He speculated that it could amount to \$25 or \$50. Also, the central tendency might be closer to \$40.

Dr. Finizza discussed his analysis of three types of fields using a distribution of prices, which estimates the probability of a negative tax position. The first field was for new exploration. It is likely that small field would be found, given the fact that ANWR is not open and that the distribution of fields in the Central North Slope and NPRA are likely to be smaller fields. He said there could be a non-economic development and the possibility of a negative credit in new exploration. He estimated that probability at 35 percent at the 20 percent credit, with a 25 percent credit that probability might go up 5 percent. He opined that moving to a 25 percent credit doesn't do that much more damage, given the already high-risk situation.

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Dr. Finizza looked at a satellite field under this future price distribution. The chance of the state having a negative tax position is 25 percent at a 20/20 rate. He also applied that same data to a legacy field wedge and found only a 5 or 6 percent chance of a negative tax. He stated that there is a huge risk already at 20 percent credit and going to 25 percent would boost the risk only a little bit.

[4:37:12 PM](#)

Dr. Finizza related that there is a natural protection at low prices, because there would be little exploration. The

advantage of the credit system is when exploration takes place at \$40 and then the price of oil drops to \$20. He maintained that 25 percent does no more damage than 20 percent.

Dr. Finizza addressed the progressivity feature. He emphasized that it is important to strike a balance between the upside and the downside. He suggested \$50, which is above the central tendency. He voiced a concern that the progressivity rate is in nominal dollars and could harm producers when costs rise. He suggested various thresholds, especially one that is sensitive to changes in costs. He opined that SB 305 should have a cap on progressivity.

[4:41:36 PM](#)

Dr. Finizza thought that a 25 percent tax rate was appropriate. He noted that investment should rise when prices rise, which should produce more investment. He predicted that there would be more investment under PPT at today's prices.

Dr. Finizza referred to legacy fields and the decline rate. He maintained that PPT helps lower the effective severance tax rate by 3 to 4 percent at \$40.

[4:46:02 PM](#)

Representative Kerttula asked how high the tax risk is at 20 percent. Dr. Finizza replied that a satellite field would have a 25 percent chance of losing money, but the large legacy fields would have a much lower rate of 3 to 4 percent. The higher the credit, the more likely chance of a negative tax. He restated his position that the risk is already high at 20 percent, so 25 percent is not that much greater.

Representative Kelly concluded that Dr. Finizza is less concerned than the governor or Dr. Van Meurs about the level of credit going from 20 to 25 percent. Dr. Finizza rephrased Representative Kelly's question to ask if there is risk to investors that would prevent investing in Alaska. Dr. Finizza thought it was not necessary to have a safety net.

Representative Kelly summarized that Dr. Finizza would not favor the safety net even though there is a 35 percent chance of high risk. He asked why the tradeoff is needed if there is a safety net. Dr. Finizza responded that the sweet spot in the price curve is between \$25 and \$50 - where the world will be in the future. The PPT credit and tax system will give protection on the low end and will still be ahead on the upside. He predicted it would bring in more exploration.

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Representative Kelly wondered where the floor should be. Dr. Finizza replied, "When there is a 10 percent chance." He added that he needed more time to think about it. Representative Kelly asked about a floor for the tax when it is approaching zero. Dr. Finizza replied that the 35 percent possibility is for new field exploration. If it is not for the legacy fields, it would work. For legacy fields the risk is only 3-4 percent. If a floor for exploration is designed, tradeoff is loss of exploration. Representative Kelly noted that he is trying to write a tax for everyone. He requested more information.

Co-Chair Meyer commented that if oil gets down to \$20, Alaska is in big trouble. The Committee needs to keep in mind that the government take consists of royalty, property taxes, and corporate taxes.

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Dr. Finizza spoke to concerns about the effective tax on gas under various systems.

Co-Chair Chenault referred to the three charts that deal with "Illustration of Potential Effective Tax Rate on Gas Production Under Different Tax Systems (copy on file.) The current Senate Finance CS before the Committee contains 25/20 with gas revenue reduction to 1/3 of actual value.

Dr. Finizza addressed the issues on the graph that deals with Senate Finance 22.5/25 Alt: With Gas Revenue Reduction to 1/3 of Actual Value. He related that the graph shows the downstream value of gas at \$4, \$6, and \$8 (\$MCF). Cost to the downstream market, the wellhead value, and the taxable wellhead value under the 1/3 scenario in Prudhoe Bay is shown. The final column depicts the total tax under the three tax systems after analyzing production costs, net "profit" per taxable MCF, taxable value, and PPT Tax. He discussed what happens when this analysis is applied to Point Thompson and a new field. He related what would happen under the current ELF.

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Co-Chair Chenault noted that some of the Committee's concerns were about the actual percentages of wellhead value at Prudhoe Bay, Point Thompson, and in new fields. The chart depicts that there are no costs associated with OPEX or CAPEX in Prudhoe Bay.

Dr. Finizza agreed that there would be costs associated with that in the future. He spoke to how capital allocation

would affect Point Thompson. The capital should be allocated in proportion to the gas.

Representative Kelly said the numbers under the 1/3 scenario don't seem to work. Dr. Finizza said at first he thought it was a mistake because it makes Prudhoe and ELF numbers look the same.

[5:07:42 PM](#)

Representative Kelly thought there was an attempt to figure whether costs were ascribed to oil or to gas. He termed it a policy call. Dr. Finizza agreed, depending on what is trying to be accomplished. For Point Thompson all the capital should go to gas because oil is a by-product. Representative Kelly said it is a problem.

Dr. Finizza agreed that more time should be taken. Representative Kerttula echoed Representative Kelly's concern. Dr. Finizza could not offer a number, but said 1/3 won't work.

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Representative Kerttula said the legislature was told the effort was to help the small companies. She questioned whether oil and gas should be treated separately.

Representative Kelly gave an example of a larger-than-expected field discovery. He opined that the state still has drilling potential and should group this together to accommodate that. He suggested pursuing it further.

Dr. Finizza agreed to do more research on the topic.

Co-Chair Chenault wondered if the scenario was thrown in by mistake.

Representative Kelly asked about the safety net and the oil price protection point. He suggested trying to protect Alaska at the lower price of the commodity.

Representative Kerttula asked Dr. Finizza to show the results in dollars for the different scenarios of likely prices and likely volumes. Dr. Finizza said he was trying not to bring gas into the PPT scenarios. He suggested "a rule of thumb". He suggested oil price scenarios using a ratio of market value gas to oil, an 8 to 1 ratio, at \$30, \$40, and \$50. Representative Kerttula said that is what she is looking for. Representative Kerttula also asked for volume information.

CSSB 305 (FIN) am was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 5:21 PM.