

HOUSE FINANCE COMMITTEE  
August 3, 2006  
11:44 A.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [11:44:06 AM](#).

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Carl Moses

ALSO PRESENT

Speaker John Harris; Representative Ethan Berkowitz;  
Representative John Coghill; Representative Les Gara;  
Representative Carl Gatto; Representative David Guttenberg  
Representative Vic Kohring; Representative Pete Kott;  
Representative Gabrielle LeDoux; Representative Mark Neuman  
Representative Kurt Olson; Representative Ralph Samuels;  
Representative Paul Seaton; Representative Bob Lynn; Robynn  
Wilson, Director, Division of Tax, Department of Revenue;  
William Corbus, Commissioner, Department of Revenue; Dan  
Dickinson, Consultant, Tax Division, Department of Revenue;  
Tom Williams, Tax Attorney, British Petroleum; Brian Wenzel,  
Vice President, Finance and Planning, Conoco-Alaska; Patrick  
Foley, Manager of Land and External Affairs, Pioneer.

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 3001 An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas'

as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date.

CS HB 3001 (FIN) was reported out of Committee with a "do pass" recommendation and with a new fiscal impact note from Department of Revenue.

HB 3006 An Act making an appropriation to study the feasibility of a spur line from a gas pipeline in this state; and providing for an effective date.

HB 3006 was SCHEDULED but not HEARD.

#hb3001

HOUSE BILL NO. 3001

An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the production tax; amending the definition of 'gas' as that definition applies in the Alaska Stranded Gas Development Act; making conforming amendments; and providing for an effective date.

11:45:00 AM

Co-Chair Chenault noted that conceptual Amendment #2 was on the table for consideration [the motion to adopt was made by Representative Chenault ~~on 8/2/06~~ and objected by Representative Stoltze on 8/2/06].

11:45:53 AM

Co-Chair Chenault MOVED to WITHDRAW the ~~original~~ Amendment #2 ~~& and~~ replace it with Amendment #2A. There being NO OBJECTION, it was replaced.

11:46:25 AM

Co-Chair Chenault MOVED to ADOPT Amendment #2A. Representative Hawker OBJECTED for discussion purposes.

ROBYNN WILSON, DIRECTOR, DIVISION OF TAX, DEPARTMENT OF REVENUE, explained the changes made to the amendment. She pointed out that in modeling the formula an error was discovered. She went on to say that both industry and the Department realized that at the marginal point there was the possibility that the tax rate could exceed 100-200%. ~~The~~ ~~n~~New language was added to clarify completely the intent that the tax rate ~~does-would~~ not go higher than 25% ~~or and~~ ~~not~~ lower than 20%. She provided examples to illustrate the tax rate as calculated in that language. She noted that if

calculations differ ~~in paragraph 1 from paragraph 3~~, the higher of the two would be the rate, not exceeding 25%.

[11:50:15 AM](#)

Representative Kerttula asked if the lower rate would be taken rather than the rate that exceeded 25%. Ms. Wilson responded that the 25% rate would be taken.

Ms. Wilson pointed out that in order to be technically perfect it would need an algebraic equation to solve for R. The sponsor felt that having the correct algebra in regulations is the way to handle this because the formula provides the parts.

[11:51:40 AM](#)

Representative Kerttula asked if the actual equation would be available before the floor vote. Ms. Wilson stated that the formula in the amendment would be the equation. Representative Hawker ~~stated it is the correct formula to put in statute because it observed that the formula identifies the elements that create the limit. The algebra is available and will be available before the vote on the floor.~~

[11:53:24 AM](#)

Representative Kerttula asked for clarification. Ms. Wilson ~~stated it is the correct~~ explained that the equation ~~used to isolate~~ "R". The ~~algebra~~ algebraic formulae isolating "R" for that would be placed in regulations.

~~[11:53:58 AM](#)~~

~~Representative Kerttula noted that she did have questions on the amendment.~~

[11:54:33 AM](#)

Representative Kerttula referenced production decline and voiced concern regarding a scenario in which a company ~~does not spend more money but they have declining~~ has declining production without increasing expenditures. She noted that in this scenario the company would get the 5% decline credit ~~without but it would not result in greater~~ an increase in production. Ms. Wilson requested that Mr. Dickinson come forward.

[11:55:34 AM](#)

DAN DICKINSON, CONSULTANT, TAX DIVISION, DEPARTMENT OF REVENUE, ~~replied that he agreed with Ms. Wilson's~~ assessment ~~was correct~~ and emphasized that there could be a numerator

effect. He said that though the scenario presented is a mathematical possibility, it is an unlikely combination to drive the tax rate down.

Representative Kerttula emphasized that the scenario was possible and asked if there was a way to correct that situation. Mr. Dickinson replied that the rate could not drop lower than ~~the 20% tax rate~~.

[11:58:36 AM](#)

Representative Hawker ~~added,~~ added that though the posing of this hypothetical situation was important, it overlooks the reality of the circumstances now existing in Alaska. He went on to say, ~~with vast known reserves,~~ the mechanism is targeted ~~toward for development of these~~ resources to maintain the pipeline.

[12:01:13 PM](#)

Mr. Dickinson acknowledged that Representative Kerttula's concerns were accurate. He went on to say that in doing the modeling, problems arose from the inability to predict how much production would be incentivized.

[12:02:46 PM](#)

Representative Kelly stated that there are two things that can protect against inflation. The first is a "2011 study," which will allow for review and ~~the provide an~~ opportunity to make changes if necessary. The second is the general agreement among members that oil should not be tied in between now and project sanctions. He felt these two things provided the needed security for members.

[12:05:12 PM](#)

Representative Kerttula voiced concern with the 2006 investment rate of 4.6. ~~Referring to the chart -~~ She noted that, based on the chart, the tax rate in 2006 would be 21.5%. Mr. Dickinson said that, though mechanically that assumption is correct, the 5-year average is what will determine the rate. Representative Kerttula asked if there were calculations based on what was previously passed by the House. Mr. Dickinson stated that he didn't have them presently, but could provide them to the committee in a day or two.

[12:07:04 PM](#)

Representative Hawker pointed out that the numbers indicate capital expenditure from 2006. He went on to say that only upstream expenditures apply for the tax credit. In closing he noted that Representative Kerttula's concern was valid.

but emphasized that he gained comfort from the five-year trend line for establishing the base.

[12:08:41 PM](#)

Representative Kerttula asked if all expenditures, such as feeder lines and transportation, are included in the investment credit. Mr. Dickinson stated that the numbers do not include down-stream transportation. Upstream investments will be included up to the point of production. The definitions of what would qualify as an investment expense have not changed.

Representative Kerttula asked about the cap at 25%. Mr. Dickinson observed that it moves from 20% to 25%. Elsewhere in the bill, there is a separate calculation ~~from~~ progressivity, which is also capped at 25%. He noted that the investment incentive percentage is completely separate from progressivity. Mr. Dickinson clarified that with the amendment the tax rate would be capped at 25% and the progressivity would be capped at 25%.

[12:12:29 PM](#)

~~In response to a question by Representative Kerttula, asked what the percentage ends up being after the incentive, the credit and the decline rate with the new gas fields.~~  
~~Mr. Dickinson responded explained that at the extreme, 75% of the investment could be underwritten by the state and federal governments combined would cover 75% of the investment and companies would put in 25% out of pocket. The~~ Expenditures underwritten by the state and federal government can never reach higher than 75%.

[12:15:00 PM](#)

Representative Kerttula requested a monetary example of the 20% rate. Mr. Dickinson stated that the limit ~~@-at~~ 75%, ~~it~~ would be ~~1/2~~ half a billion dollars, assuming that prices stay in the range that they are today. If there is a price correction, the number will drop.

[12:16:36 PM](#)

Representative Hawker explained how much industry pays versus government. He clarified that the state "pays" nothing and that the industry pays to the state. The state is just providing the incentive in terms of a tax credit.

[12:18:41 PM](#)

Mr. Dickinson confirmed ~~RepresentativeRep~~ Hawker's comments and went on to say that the financing of the credit is through the additional taxes that are earned.

Co-Chair Meyer asked if there should be a cap for investments. He went on to inquire if a cap would deter investments. Mr. Dickinson stated that at a certain point an investor can get no more than a 20% break and therefore can make investment decisions accordingly. He acknowledged that companies would look at the tax effect when determining investment strategy, which is the intention of the bill. With regards to whether there should be a cap for investments, he said that would be a policy call. He went on to say that the table suggests there would have to be extreme investment before getting to the 20% floor.

[12:22:24 PM](#)

Representative Kerttula asked if the formula could be manipulated to reflect the 23.5% passed by the house. Mr. Dickinson stated that the mechanical readjustment of the midpoint could be done with the formula.

Representative Kerttula mentioned Pt. Thompson ~~& and~~ noted taxation and the amount coming back to the State of Alaska. Mr. Dickinson stated that there is a huge amount coming back to the State if Pt. Thompson is developed and prices stay where they are. Representative Kerttula asked for clarification that these are future gains. She went on to question whether in the near future the State would be paying development costs. Mr. Dickinson confirmed that this was correct, but noted that there is no development right now.

[12:24:54 PM](#)

Representative Holm reiterated comments made by Representative Meyer regarding the floor and whether that minimized the incentive for industry to put more money into the fields. He commented on the philosophical approaches and balance of maximizing the dollar ~~thru-through~~ maximum extraction, which would lessen the decline and the risk of incanting to o much and draining the resource. Mr. Dickinson noted that the ~~conservation~~ Conservation Commission has restrictions regarding how much extraction can happen at one time without damaging the reservoir. He noted that the question of development is 10-20 years from now.

[12:28:26 PM](#)

Mr. Dickinson explained ~~the-a~~ handout on the severance tax under the Produce or Pay Plan (POP) and various Petroleum Production Tax (PPT) proposals at \$20/bbl; \$40/bbl & \$60/bbl ~~{(Copy on File)}~~.

[12:33:07 PM](#)

Representative Hawker pointed out that all models were predicated on one set of investment level assumptions. He asked if those assumptions could be characterized. Mr. Dickenson noted that the models were calculated with light oil, heavy oil and an exploration component. He noted that it is a set of investments that are higher than they are today because we are continuing to show oil being produced. Representative Hawker advised that the charts are a mechanical illustration of the best behavior to secure additional investment. He went on to say that it is possible that the tax collection could prove to be higher than the chart illustrates, if the legislature is successful in providing an environment that secures the desired behavior. The charts are a benchmark.

Representative Kelly noted that the charts show investment has been frozen as well as production. It does not show the whole situation.

Representative Kerttula pointed out that it did not show a prediction of deductions or credits. Mr. Dickinson noted that it does show a baseline of investment and is reflected in the fiscal note.

Representative Kerttula wanted to better understand the figures. Mr. Dickinson stated that the same credits and deductions were being shown. Representative Hawker stated that only in the future would the State be able to analyze the consequences of current actions. He went on to say that the need to reflect on the results of creating the law was the reason for establishing the 2011 revaluation report as part of the bill.

[12:39:06 PM](#)

Mr. Dickinson continued the overview of the handout: Cumulative ~~severance~~ Severance Tax, 2007-2030 POP and various PPT proposals. The final pages look at the entire State share. This assumes royalties, taxes and the thorough tax piece and total government share and what is left for the companies.

AT EASE: [12:42:20 PM](#)  
RECONVENE: [1:03:36 PM](#)

Co-Chair Meyer stated that HB 3006 would not be heard at this meeting.

TOM WILLIAMS, TAX ATTORNEY, BRITISH PETROLEUM (BP), did not support Amendment 2A. He stated that BP supports the 20/20 agreement. He noted his gratitude for previous concerns being addressed in the amendment. He went on to say that the variable rate mechanism allows the company to buy down

the rate to ~~the~~ 20/20 and BP appreciates the efforts there. The problem, he noted, was with the progressivity. Mr. Williams pointed out that the industry is based on three elements: ~~;~~ conventional oil, heavy oil and gas. He asserted that none of those are strong enough by themselves to sustain business on the North Slope for 40-50 years. He described the three elements as a structure ~~of~~ with three legs. He opined that progressivity makes the structure weaker, including the gas. He noted that under this system the industry could see their rate go up to 45%, which ~~and that~~ would weaken the oil industry.

[1:10:13 PM](#)

Representative Kelly pointed out that, since negotiations began, oil has doubled in price. He asserted that governments all around the world are attempting to determine how to address the commodity. He argued in favor of adding the progressivity element. He stressed the need for net profit versus gross profit.

[1:14:55 PM](#)

BRIAN WENZEL, VICE PRESIDENT, FINANCE AND PLANNING, CONOCO-ALASKA, noted his earlier testimony regarding 3 concerns:

- Inconsistencies with good fiscal policy ~~;~~
- Concerns about unnecessary complexity and the risk of false economies and unintended consequences ~~;~~ and
- The fundamental shortsightedness on taxation implied in the CS.

He noted that amendment #2A addresses policy concerns as well as making a step forward with progressivity by raising the trigger price. Mr. Wenzel agreed with Mr. Williams: that progressivity at any level ~~does~~ effects investment. He went on to say that because of this Conoco Phillips has serious concerns ~~of~~ with overall taxation applied by the amendment. He ~~further commented on~~ noted concerns with a reintroduction of the base allowance in the amount of \$12 million dollars. He stated that it is inconsistent to incentivize new investors at a different rate. He felt the State should strive for alignment of all bases and treat all investors equally. Mr. Wenzel voiced another concern about the speed at which the legislation is moving. He urged that time be allowed for testimony to consider different scenarios.

[1:19:23 PM](#)

Co-Chair Chenault noted that the amendment has been in process for a considerable amount of time. The idea was to look at industry and the severance tax increase. He

furthered the point by stating that in order to move forward, something had to be crafted. The House Finance Committee (HFC) has looked at many scenarios and agreed that unintended consequences should be addressed. He hoped for a perfect bill but questioned if that was possible. He hoped for something that could bridge the gap between the State and the industry. He further maintained that ~~today~~ there is a huge demand on the resource and it is important to move forward on the issue.

[1:24:35 PM](#)

PATRICK FOLEY, MANAGER OF LAND AND EXTERNAL AFFAIRS, PIONEER, applauded the House Finance Committee for listening to the concerns of the new investors in the State of Alaska. He commented that Amendment #2A is an improvement especially with the ~~credit of the~~ \$12 million credit. The new investor does not have facility access or existing infrastructure that larger companies have in place. The current PPT bill has a tax rate of 25%; in general, the total package of the bill continues to provide a modest incentive.

Mr. Foley urged consideration of the mechanism by which the production tax rate is bought down from 25% to 20%. The development project for Pioneer is ~~ugerie+L21+Oooquruk it and~~ can be categorized development per barrel in excess of \$7 dollars capex. [L3]The investment incentive is maxed out by the \$6 dollar investment and is designed to reward a level investor. He went on to say that Pioneer will invest millions of dollars, but emphasized that the production at the start will be modest. The first year of production, Pioneer expects to make approximately \$3 million, but the investment could be \$90 million ~~dollars~~.

Mr. Foley continued with suggestions on how to deal with these unintended consequences. He recommended consideration of a rolling average to amortize or allow a company who has the unused capex to carry it forward. Or, he suggested, use it in future periods to buy down the tax rate. He commented on the gold plating deterrent in the bill and advised that it had the effect of a substantially higher tax rate than the 25%. ~~In the period of performing in the way the state is motivating a company to perform, investing large amounts of money, the~~ He felt that newer companies were not able to maximize the incentive due to the amount of time it takes to show production. are not being rewarded but are being punished.

[1:31:38 PM](#)

Representative Kerttula referenced a previous committee substitute, which ~~—allowed~~ ing carry forward credit until after production and question if this was Mr. Foley's recommendation. Mr. Foley replied that was correct and

~~emphasized; however~~ that he hoped the capital could be carried forward.

[1:33:11 PM](#)

Representative Hawker argued that the proposed bill strikes a rate balance ~~thru~~ through the mechanism with the deductions and the credits. He stated that the \$12 million ~~dollars~~ credit was a significant advantage to small companies like Pioneer; ~~it~~ it provides an opportunity to help ~~the~~ small companies compete with the larger companies. He reiterated the benefits for industry.

[1:37:14 PM](#)

Representative Hawker WITHDREW his OBJECTION to Amendment #2A. There being NO further OBJECTION, it was adopted.

AT EASE: [1:37:45 PM](#)

RECONVENE: [3:21:59 PM](#)

Mr. Dickinson ~~referred reviewed to~~ a series of spreadsheets entitled: "Five Step Calculation of Tax Rate Under Amendment 2A" (copy on file.) ~~He explained that the first page sets up the range of the the~~ net production tax value per barrel. ~~He shared various examples to get per barrel wellhead value with extremes from \$100 to \$11.~~ [L4]

[3:24:43 PM](#)

Mr. Dickinson ~~explained referred to charts illustrating how to move tax rate down.~~ (Copy on file)

~~Step One, which examined the ability to decrease the tax rate through investment. At zero investment there would be a 25% tax rate per barrel. A six dollar per barrel investment would result in a 20 percent tax rate. He concluded that investors are able to move their tax rate down through investment: "Invest Down" of Tax Rate (independent of price)"~~

÷

~~Step Two addressed the gold plating problem by the calculation adding a calculation of the of "R" factor or rate. The tax rate would be at 25 percent cap if there is no investment. The number that flows from the R factor is only important if it is above 20 or below 25 percent, since there are caps on either end. The point is that if the percentage goes below 20% it is still 20%, if it goes above 25% it is still capped at 25%. Step 2 is the calculation.~~

~~Step Three, the color graph, demonstrates that investments of between \$6 and \$7 dollars would buy the tax rate down to~~

~~20 percent; investments of \$1.50 or less would result in a 25 percent tax rate. illustrates what happens when both the investment and price are combined. At the lower-lower investment range the R factor is not in play and the rate is the same as in step one. At the higher prices the rate does not reach to the 20%. Mr. Dickinson pointed out the difficulty of buying down the tax rate at higher oil prices; a Mr. Dickinson gave an example of prices at \$100 per barrel oil; the lowest and an investment rate of \$7 dollars the tax rate would still be at the percentage gets is 23%. The interaction between the two shows that at low prices and high investments the 20 percent tax rate would occur, but it would be more difficult to reach 20 percent at higher prices. the 20% cannot be maintained.~~ He noted that this limits the effectiveness of the buyback. He candidly commented that it puts a brake on the tax break.

[3:29:34 PM](#)

Step Four: Prop Version (prior to credits) with variable rate. Mr. Dickinson noted an error in the chart and noted that the numbers were off by a half a column [1.5%]. ~~of 1.5%. He observed that progressivity is calculated after the base rate. He noted progressivity is increases with price. the chart illustrates that when prices are high the more progressivity there is.~~

Step Five: Net Tax Rate Plus Progressivity. This chart adds the base and progressivity to illustrate the effective tax rate applied to the production tax value under section 170.

[3:31:31 PM](#)

Clearer

~~Co-Chair Meyer questioned the numbers at \$70 and investment at 3.50 the graph shows 28%. He thought it closer to 26%.~~

In response to a question by Vice-Chair Meyer, Mr. Dickinson reiterated that the graph was ~~slightly~~ off by 1.5%.

In response to a question by Representative Kerttula, Mr. Dickinson clarified that progressivity depends on the net value defined as the selling price, less operating costs of getting the oil out, transportation costs and upstream investments. ~~He further commented that the 26% is the correct number.~~

[3:32:56 PM](#)

Representative Kerttula MOVED to ADOPT Amendment 3.  
Representative Stoltze objected.

Representative Kerttula noted that all the amendments are conceptual because they were drafted to the original bill. She explained that Amendment 3 would remove Point Thompson from out of the bill. She said this is an attempt to move gas out of the bill and thus out of the allowance for deductions and credits. She opined these should be borne by the company. She stressed that companies are responsible for developing under the current lease. She noted that at high prices the state would be responsible for 75% of Pt. Thompson's development.

[3:35:47 PM](#)

~~\*\*\*~~ Representative Les Gara ~~related~~ maintained that some things should not be incentivized. He noted upstream costs for Point Thompson are going to range between \$2 and \$3 billion dollars. In October of 2005, the State ordered the owners of the Point Thompson field to develop ~~that field~~ it for its oil and gas properties. The amendment addresses this by removing Pt. Thompson so that the oil companies like Exxon and other owners are not rewarded with the credits and deduction for developing what they already have and obligation to develop. The amendment would return a potential of a billion dollars in tax reduction to the Point Thompson holders back to the state of Alaska. He asserted that they have not earned the tax break or credits.

Co-Chair Chenault asked where the issue currently stands. Representative Kerttula said the lease has been extended for 6 months. Co-Chair ~~Chenault asked then, questioned~~ if they are not in default. ~~Representative Representative~~ Kerttula explained that they are not in default under the Commissioner's ruling, but stressed that it is not possible to know what a court would rule. responded by saying, technically they are not in default.

[3:38:39 PM](#)

Representative Hawker argued against the amendment. He mentioned a roadblock by raising the taxes.

Representative Kerttula pointed out that there is a 75% write-off.

[3:40:27 PM](#)

Representative Kelly ~~related that he understands~~ the acknowledged the idea behind the amendment, ~~but~~. He added that the intent expressed might be premature. He went on to say there is activity at Pt. Thompson and there is also time to address it in the future.

Representative Kerttula responded by saying that she hopes that it will be addressed in the future but is doubtful about that reality.

Representative Stoltze maintained his objection.

A roll call vote was taken on the motion to adopt Amendment 3.

IN FAVOR: Kerttula, Joule

OPPOSED: Foster, Hawker, Holm, Kelly, Stoltze, Weyhrauch, Meyer, Chenault

The MOTION FAILED (2-8).

Representative Moses was absent from the vote.

[3:42:49 PM](#)

Representative Kerttula MOVED to ADOPT Amendment 4. Representative Stoltze objected.

Representative Kerttula explained that the amendment was an effort to craft something closer to what the house passed in the previous session; ~~it~~ it was also an attempt to be in line with the world rate. ~~The~~ The amendment would set the start rate at 23.5% and go up to 27%.

Co-Chair Chenault commented that the past legislative time has been spent trying to determine the right rate. He went on to say that it is important to look at the tax package as a whole, not just a severance tax take. He also felt that there is a misconception in the general public that the tax rate is 20%. He ~~further noted that he didn't think~~ felt the rate should ~~not be raised~~ be higher just to get more money out of the industry. He ~~requested members not support~~ spoke against Amendment #4.

Representative Kerttula agreed ~~that the tax rate it~~ is not a 20%, ~~but rate. She went on to say~~ emphasized that Alaska has been way below the world average. She added that having been under the average for so long, the State should get a larger take now for the benefit of Alaskans.

A roll call vote was taken on the motion to adopt Amendment 4.

IN FAVOR: Kerttula, Joule

OPPOSED: Foster, Hawker, Holm, Kelly, Stoltze, Weyhrauch, Meyer, Chenault

The MOTION FAILED (2-8).

Representative Moses was absent from the vote.

AT EASE: [3:48:30 PM](#)

RECONVENED: [3:50:26 PM](#)

Representative Kerttula ~~moved to adopt~~MOVED to ADOPT Amendment 5. Representative Stoltze objected.

Representative Kerttula explained that the amendment was an increase in the progressivity rate; ~~it~~ it retains the 25% slope, but raises the cap from 25% to 50%. ~~Progressivity and~~ would start at \$35 rather than \$40 ~~in the bill~~dollars per barrel of oil. This is an effort to ~~gain~~increase state revenues when prices are high.

Representative Hawker noted that the progressivity language has been in existence from the beginning of the discussion. It is the culmination of a deliberate process. He opined that the numbers should be allowed to stand.

~~\*\*\*~~Representative Kerttula agreed that it has been discussed, but not in its current form. She ~~went on to say~~stressed the importance of that dealing with the issue of progressivity for the benefit of Alaska's future. and rate is one of the most important things for the future. ~~She went on to say~~observed that the State's consultants have underlined this point.

[3:54:28 PM](#)

Co-Chair Meyer pointed out that the number varied based on which consultant you listen too. What has been consistent is the voice of industry saying progressivity is ~~too~~too high. He ~~further commented on~~observed that the amendment ~~that there is a~~manipulation of the dollar amount, but not the curve.

[3:55:24 PM](#)

Representative Joule noted that though Dr. Van Meurs did not include progressivity, he did say ~~it~~ that it was a very creative initiative.

~~Co-Chair Chenault commented that the previous comments were not necessarily to disagree with progressivity but to point out that a balance has been struck between those differing in opinion.~~

A roll call vote was taken on the motion.

IN FAVOR: Kerttula, Joule

OPPOSED: Foster, Hawker, Holm, Kelly, Stoltze, Weyhrauch, Meyer, Chenault

The MOTION FAILED (2-8).

Representative Moses was absent from the vote.

[3:57:22 PM](#)

Representative Kerttula MOVED to ADOPT Amendment 6.  
Representative Stoltze objected.

Representative Kerttula explained that the amendment ~~is would~~ remove the allowance of ~~a~~ worldwide cost ~~may be~~ deduction ~~ionsed from the new tax~~. She further clarified that ~~it the amendment~~ allows for expenses made within the State, but disallows tax credits for expenses outside the State.

Co-Chair Chenault asked if ~~all dollars spent expenditures~~ have to be spent in the ~~state of Alaska~~ State. He gave an example of costs associated with construction. Representative Kerttula explained ~~that it is~~ the intent of the amendment ~~is~~ to accommodate those expenses that have ~~been incurred in the State and have~~ direct relationship to the ~~state~~ State. Co-Chair Chenault ~~felt that the noted that he thought the~~ intent was already ~~clear and maintained that all costs outside the state could not be excluded in the bill~~.

Representative Kerttula ~~explained that her intent is to prevent~~ ~~said she is trying~~ ~~costs that do not directly~~ ~~[pertain to oil and gas production in the State]~~ ~~as allowable deductions. She to prevent costs that would not apply. She went on to say that the intent is there but she wanted to stressed the desire to take it a step further provide for~~ absolute clarity.

[4:00:07 PM](#)

Representative Hawker noted that "incurred in the state" had its own set of problems and provided examples. As the bill is crafted there is a substantial increase in the powers of the Department of Natural Resources and Department of Revenue in making determinations and interpretations of what is and is not allowable costs. He addressed the possibility of a constitutional issue in establishing a disadvantage to other states. He opined that the bill is written with adequate protection of and for Alaskans.

[4:01:46 PM](#)

Representative Kelly ~~said~~ ~~thought the definition of allowances had been tightened up~~ with the debate of gross and net, ~~the definition of allowances had been tightened up~~. He noted Dr. Van Meurs' comment regarding the rules that they are the tightest set of rules he has seen.

[4:03:34 PM](#)

Representative Weyhrauch ~~stated he would vote no~~indicated he would oppose the amendment and referred to page 27-8 that outlines allowable costs. He felt this addressed the concern regarding allowable expenditures.

[4:05:21 PM](#)

Representative Kerttula agreed with Representative Weyhrauch, but wanted the additional language for clarification.

A roll call vote was taken on the motion.

IN FAVOR: Kerttula, Joule

OPPOSED: Foster, Hawker, Holm, Kelly, Stoltze, Weyhrauch, Meyer, Chenault

The MOTION FAILED (2-8).

Representative Moses was absent from the vote.

[4:06:40 PM](#)

Representative Kerttula ~~moved~~MOVED to ADOPT Amendment 7. She stated that this amendment was the broader version of ~~amendment~~Amendment 3. Representative Stoltze objected.

Representative Kerttula explained ~~the~~that the amendment would take gas completely out of the bill and allow the bill to be simply an oil tax bill. This would allow gas to be considered separately, so that the oil tax is not used to pay for gas development. ~~reasoning behind the amendment.~~

Representative Kerttula ~~withdrew~~WITHDREW Amendment 7 ~~due to the vote on amendment 3~~.

Representative Kerttula ~~moved~~MOVED to ADOPT Amendment 8. Representative Stoltze objected. ~~She~~Representative asked~~Kerttula asked~~ Representative Gara to help explain the amendment adding that it had to do with clawback on expenditures.

[4:08:42 PM](#)

**\*\*\***Representative Gara discussed the purpose of the amendment. He stated that the bill currently gives companies that have invested in the state a tax credit for past investments made over the past 5 years. He noted that those investments were offered within a system that provided a very generous tax rate. He maintained that rewarding

companies with ~~the-a~~ 20% tax credit is inappropriate. The amendment is a compromise to the extent that when a company's investments are greater than the prior year investments, it can be written off at the 20%. He spoke of retroactive rewards vs. retroactive tax.

[4:10:48 PM](#)

Representative Kelly noted that this came from the ~~governor's~~ Governor's office months ago and was dealt with by the 2 for 1 compromise. He suggested that the bill as it currently stands is a good compromise with the possibility of passing both bodies.

Representative Hawker concurred with Representative Kelly's remarks. He related that this new tax proposal is a massive increase in taxes for the industry. He maintained the current proposal is a fair balance when moving from the old tax regime into the new one.

[4:14:26 PM](#)

Representative Kelly pointed out that the bill from the ~~governor's~~ Governor's office was a result of rigorous negotiations with the oil companies.

Representative Gara disagreed with a comment made by Representative Hawker that the new tax bill would create a considerable amount of new revenue. He noted that at \$40 per barrel all the revenue coming into the state, if North Slope gas is developed, would go out in gas field deductions. He furthered his point illustrating what the actual dollar amount would represent over the next 10 years. He reiterated that the state of Alaska has been being below [L6]the world average in oil tax rates.

Representative Hawker acknowledged world oil prices, but emphasized that Alaska is not an average place in the world.~~commented.~~

A roll call vote was taken on the motion.

IN FAVOR: Kerttula, Joule

OPPOSED: Foster, Hawker, Holm, Kelly, Stoltze, Weyhrauch, Meyer, Chenault

The MOTION FAILED (2-8).

Representative Moses was absent from the vote.

AT EASE: [4:18:47 PM](#)

RECONVENE: ~~4:30:03 PM~~ [4:30:03 PM](#)

Representative Kerttula WITHDREW Amendment #9.

Representative Kerttula WITHDREW Amendment #10.

Representative Kerttula MOVED to ADOPT Amendment #11.  
Representative Stoltze OBJECTED.

Representative Kerttula explained that the amendment<sup>[L7]</sup> disallows any costs incurred for oil discharge cleanup, other than routine maintenance to be used toward a deduction. She maintained that ~~she didn't think that~~ any un-permitted oil discharge clean up costs should not be allowed as a deduction.

4:32:39 PM

Representative Kelly stated that the amendment had previously been before the Committee and felt it needed further clarification ~~and still he does not quite understand it. He noted his concerned with the wording of the amendment.~~

Representative Hawker concurred with Representative Kelly. He stated that he was confused with Department of Environmental Conservation regulations and Department of Revenue tax law. He spoke against the amendment.

4:34:40 PM

Representative Weyhrauch noted that there was an amendment on the House Floor dealing with spills. He noted he would be a no vote, but reserve the right to change his opinion.

A roll call vote was taken on the motion.

IN FAVOR: Kerttula, Joule

OPPOSED: Foster, Hawker, Holm, Kelly, Stoltze, Weyhrauch, Meyer, Chenault

The MOTION FAILED (2-8).

Representative Moses was absent from the vote.

4:35:58 PM

Representative Stoltze MOVED to REPORT CS HB 3001 (FIN) out of Committee with individual recommendation and with the attached fiscal note.

Co-Chair Chenault interjected that there was a pending new fiscal note forthcoming to the House floor.

Representative Kerttula OBJECTED.

[4:37:24 PM](#)

Representative Kerttula spoke to the objection. She maintained that tThe current bill does not address the real concerns of the State of Alaska.

Representative Joule added his concerns with the proposed legislation. He encouraged further review by voice from the lLegislative consultants. ~~;-h~~He asked that the bill receive final hearing in the House Rules Committee.

[4:40:26 PM](#)

Co-Chair Chenault ~~responded that they had~~observed that a requested was made of EconOne to provide information to the committee before the floor vote. Trespond. ~~[-L8]~~The Department has run the needed numbers. ~~It is the intent to have the drafts before the body before the final vote.~~

[4:42:11 PM](#)

Representative Hawker added noted that there has been more than 6 months to review and compare results of EconOne and the department's findings. Due to the fact that the information closely correlates he felt comfortable using the department's numbers. -comments~~[-L9]~~. He concluded ~~his comments by saying he felt~~that the bill should be moved to the floor.

[4:43:19 PM](#)

~~Co Chair Chenault pointed out that Governor Hickel sat before the Committee.~~

A roll call vote was taken on the motion.

IN FAVOR: Foster, Hawker, Holm, Kelly, Stoltze, Joule, Weyhrauch, Meyer, Chenault

OPPOSED: Kerttula

The MOTION PASSED (9-1).

Representative Moses was absent from the vote.

[4:44:28 PM](#)

Co-Chair Chenault acknowledged that much work had been done on the bill in the House Finance committee as well as other committees. He thanked members of the committee for their work.~~made final comments[-L10]-~~

CS HB 3001 (FIN) was reported out of Committee with a "do pass" recommendation and with a new fiscal impact note from Department of Revenue.

#

ADJOURNMENT

The meeting was adjourned at 4:45 P.M.