

**STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE**

February 25, 2006

10:16 a.m.

MEMBERS PRESENT

SENATE RESOURCES

Senator Thomas Wagoner, Chair
Senator Ralph Seekins, Vice Chair
Senator Bert Stedman
Senator Kim Elton
Senator Albert Kookesh
Senator Fred Dyson - via teleconference

HOUSE RESOURCES

Representative Jay Ramras, Co-Chair
Representative Ralph Samuels, Co-Chair
Representative Jim Elkins
Representative Gabrielle LeDoux
Representative Kurt Olson
Representative Paul Seaton
Representative Harry Crawford
Representative Mary Kapsner

MEMBERS ABSENT

SENATE RESOURCES

Senator Ben Stevens

HOUSE RESOURCES

Representative Carl Gatto

OTHER MEMBERS PRESENT

Senator Gretchen Guess
Representative Beth Kerttula
Representative Berta Gardener
Representative Vic Kohring
Representative Reggie Joule

Representative Mike Hawker
Representative Peggy Wilson
Representative Norm Rokeberg

COMMITTEE CALENDAR

HOUSE BILL NO. 488

"An Act repealing the oil production tax and gas production tax and providing for a production tax on the net value of oil and gas; relating to the relationship of the production tax to other taxes; relating to the dates tax payments and surcharges are due under AS 43.55; relating to interest on overpayments under AS 43.55; relating to the treatment of oil and gas production tax in a producer's settlement with the royalty owner; relating to flared gas, and to oil and gas used in the operation of a lease or property, under AS 43.55; relating to the prevailing value of oil or gas under AS 43.55; providing for tax credits against the tax due under AS 43.55 for certain expenditures, losses, and surcharges; relating to statements or other information required to be filed with or furnished to the Department of Revenue, and relating to the penalty for failure to file certain reports, under AS 43.55; relating to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue, under AS 43.55; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the oil and gas production tax; relating to the deposit of money collected by the Department of Revenue under AS 43.55; relating to the calculation of the gross value at the point of production of oil or gas; relating to the determination of the net value of taxable oil and gas for purposes of a production tax on the net value of oil and gas; relating to the definitions of 'gas,' 'oil,' and certain other terms for purposes of AS 43.55; making conforming amendments; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 305

"An Act repealing the oil production tax and gas production tax and providing for a production tax on the net value of oil and gas; relating to the relationship of the production tax to other taxes; relating to the dates tax payments and surcharges are due under AS 43.55; relating to interest on overpayments under AS 43.55; relating to the treatment of oil and gas production tax in a producer's settlement with the royalty owner; relating to flared gas, and to oil and gas used in the operation of a lease or property, under AS 43.55; relating to the prevailing value of

oil or gas under AS 43.55; providing for tax credits against the tax due under AS 43.55 for certain expenditures, losses, and surcharges; relating to statements or other information required to be filed with or furnished to the Department of Revenue, and relating to the penalty for failure to file certain reports, under AS 43.55; relating to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue, under AS 43.55; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the oil and gas production tax; relating to the deposit of money collected by the Department of Revenue under AS 43.55; relating to the calculation of the gross value at the point of production of oil or gas; relating to the determination of the net value of taxable oil and gas for purposes of a production tax on the net value of oil and gas; relating to the definitions of 'gas,' 'oil,' and certain other terms for purposes of AS 43.55; making conforming amendments; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 488

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/21/06	(H)	READ THE FIRST TIME - REFERRALS
02/21/06	(H)	RES, FIN
02/22/06	(H)	RES AT 12:30 AM HOUSE FINANCE 519
02/22/06	(H)	Heard & Held
02/22/06	(H)	MINUTE(RES)
02/23/06	(H)	RES AT 12:30 AM HOUSE FINANCE 519
02/23/06	(H)	Heard & Held
02/23/06	(H)	MINUTE(RES)
02/24/06	(H)	RES AT 12:30 AM HOUSE FINANCE 519
02/24/06	(H)	Heard & Held
02/24/06	(H)	MINUTE(RES)
02/25/06	(H)	RES AT 10:00 AM SENATE FINANCE 532

BILL: SB 305

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/21/06	(S)	READ THE FIRST TIME - REFERRALS
02/21/06	(S)	RES, FIN
02/22/06	(S)	RES AT 3:30 PM BUTROVICH 205

02/22/06 (S) Heard & Held
 02/22/06 (S) MINUTE(RES)
 02/23/06 (S) RES AT 3:30 PM BUTROVICH 205
 02/23/06 (S) Heard & Held
 02/23/06 (S) MINUTE(RES)
 02/24/06 (S) RES AT 3:30 PM BUTROVICH 205
 02/24/06 (S) Presentation by Administration
 02/25/06 (H) RES AT 10:00 AM SENATE FINANCE 532

WITNESS REGISTER

JOHN WINTHER
 Windstar Petroleum
 Ultra Star Exploration
 Petersburg AK
POSITION STATEMENT: Supported SB 306 and HB 488(original versions).

DEBORAH VOGT
 Haines AK
POSITION STATEMENT: Opposed HB 488.

JAMES GILBERT
 Kenai AK
POSITION STATEMENT: Supported SB 305 and HB 488 (original versions).

JIM SYKES
 Oil Watch Alaska
 Palmer AK
POSITION STATEMENT: Opposed SB 305 and HB 488.

JIM HASELBERGER
 Alaska Tent and Tarp
 Fairbanks AK
POSITION STATEMENT: Supported SB 305 and HB 488.

MARRICK PEIRCE
 Fairbanks AK
POSITION STATEMENT: Opposed SB 305 and HB 488.

ROGER BURGRAFF
 Fairbanks AK
POSITION STATEMENT: Supported SB 305 and HB 488.

JENNIFER BOWERS
 Fairbanks AK

POSITION STATEMENT: Urged thorough consideration of issues in SB 305 and HB 488.

LAKE WILLIAMS
Fairbanks AK

POSITION STATEMENT: Urged legislature to proceed with caution on SB 305 and HB 488.

JIM SAMPSON
Alaska AFL-CIO
Fairbanks AK

POSITION STATEMENT: Supported thorough understanding of HB 488 and SB 305.

HUGH FATE
Fairbanks AK

POSITION STATEMENT: Supported SB 305 and HB 488, but has concerns.

PAUL LAIRD, General Manager
Alaska Support Industry Alliance
Anchorage AK

POSITION STATEMENT: Supported SB 305 and HB 488 with some changes.

DAVE MACDOWELL
Anchorage AK

POSITION STATEMENT: Cautiously supported SB 305 and HB 488.

DAVID GOTTSTEIN, Co-chair
Backhome 2
Anchorage AK

POSITION STATEMENT: Opposed SB 305 and HB 488.

BILL WALKER
Anchorage AK

POSITION STATEMENT: Urged more public hearings and slowing the process down.

CARLA BEAME
Anchorage AK

POSITION STATEMENT: Supported SB 305 and HB 488.

MAYNARD TAPP
Anchorage AK

POSITION STATEMENT: Supported SB 305 and HB 488.

DARYL KLEPPIN
Anchorage AK
POSITION STATEMENT: Supported legislation.

BERT COTTLE, Mayor
City of Valdez,
Valdez AK
POSITION STATEMENT: Urged caution and to make information available.

JOHN HOZEY, City Manager
Valdez AK
POSITION STATEMENT: Urged more meetings and public information.

LOUISE PARRISH
Valdez AK
POSITION STATEMENT: Urged the legislature to slow down and have extensive hearings.

BILL CORBUS, Commissioner
POSITION STATEMENT: Urged legislature to slow down and have extensive hearings.

DAVE COBB
Valdez AK
POSITION STATEMENT: Urged them to slow down and have more hearings.

RICH LONG
Valdez AK
POSITION STATEMENT: Didn't quite understand the PPT yet.

JOHN REEVES
Fairbanks AK
POSITION STATEMENT: Encouraged more meetings and separation of the gasline.

NICK STEPOVICH
Fairbanks AK
POSITION STATEMENT: Urged time for public to digest issues.

LORI BACKES, Executive Director
All Alaska Alliance
Fairbanks AK
POSITION STATEMENT: Urged more hearings and public information.

RYAN COLGAN

Fairbanks AK

POSITION STATEMENT: Urged caution on SB 305 and HB 488.

GUY PETERS

Fairbanks AK

POSITION STATEMENT: Urged caution.

TODD LARKIN

Fairbanks AK

POSITION STATEMENT: Urged proceeding with caution.

CAL SKAUGSTAD

Fairbanks AK

POSITION STATEMENT: Supported the legislation.

KATHY FONTAINE

Anchorage AK

POSITION STATEMENT: Supported the legislation.

JERRY MCCUTCHEON

Kenai AK

POSITION STATEMENT: Opposed the Governor's bill.

J.R. HANK LANGMAN

Anchorage AK

POSITION STATEMENT: Opposed the Governor's bill.

THERESA OBERMEYER

Anchorage AK

POSITION STATEMENT: Commented on unrelated matters.

MIKE PRAX

Fairbanks AK

POSITION STATEMENT: Commented on the PPT.

RHONDA BOYLES

Fairbanks AK

POSITION STATEMENT: Urged them to move forward expeditiously.

CHRIS WEST

Anchorage AK

POSITION STATEMENT: Supported the legislation.

JIM DECKER

Anchorage AK

POSITION STATEMENT: Supported legislation.

ANDREW VAN CHAU

Anchorage AK

POSITION STATEMENT: Supported the Governor's bill, SB 305/HB 488.

MERRICK JOHNSTON

Anchorage AK

POSITION STATEMENT: Commented on the Governor's bill, SB 305/HB 488.

RACE G. JONES

Anchorage AK

POSITION STATEMENT: Commented on the Governor's bill.

CHANCY CROFT

Anchorage AK

POSITION STATEMENT: Commented on the Governor's bill.

BOB BATCH

Anchorage AK

POSITION STATEMENT: Supported the Governor's bill.

STAN GATES

Anchorage AK

POSITION STATEMENT: Commented on the Governor's bill, SB 305/HB 488.

BARBARA HUFF-TUCKNESS, Director

Governmental Affairs

Teamsters Local 959

Juneau AK

POSITION STATEMENT: Opposed the Governor's bill, SB 305/HB 488.

TOM BRICE

District Council of Laborers

POSITION STATEMENT: Commented on the PPT.

ACTION NARRATIVE

HB 488-OIL AND GAS PRODUCTION TAX

SB 305-OIL AND GAS PRODUCTION TAX

CHAIR THOMAS WAGONER called the joint meeting of the Senate and House Resources Standing Committees to order at [10:16:06 AM](#). Present at the call to order were Senators Kim Elton, Ralph Seekins, Bert Stedman, Albert Kookesh and Chair Thomas Wagoner; Representatives Jim Elkins, Paul Seaton, Mary Kapsner, Kurt

Olson, Gabrielle Le Doux and Co-Chairs Ralph Samuels and Jay Ramras.

10:16 at ease 10:17

CHAIR WAGONER announced that they would receive testimony on the Governor's PPT proposal introduced in the House as HB 488 and in the Senate as SB 305. He asked John Winther to begin.

JOHN WINTHER, Windstar Petroleum and Ultra Star Exploration, said his companies hold over 24,700 acres on the North Slope and hoped to become a producer. He and his partner were instrumental in getting decisions in the charter for development that was in the merger agreement between BP and Arco. He recounted, "Without a doubt, I can say that without these provisions, there wouldn't be an opportunity for independents on the North Slope today."

Partly because of his and his partner's efforts in Washington, D.C., Arco's assets in Alaska had to be sold off, which led to Phillips Petroleum coming to Alaska. He and his partner both felt that at least three majors had to be on the Slope to insure competition. They contracted with Arco to drill the only independent Alaskan oil well on the North Slope. They were not daunted when all they found was water and have gone on to negotiate with BP to drill another well at Pt. McIntyre.

MR. WINTHER urged the committee to leave the oil production tax at 20 percent and keep the \$73 million annual deduction. Raising the tax would discourage exploration and development by the majors. He related how he didn't know much about big oil except that they made big money and pumped a lot of oil, but after dealing with them, he has a better understanding of how they work and why they do things the way they do. He advised:

I think the most important thing to remember is they have more opportunities to drill oil around the world than they have money for. So, they have to pick and choose their projects. It is a well-known fact that Alaska is the most costly place to do business, but it is also the most politically stable oil supply for the United States and the world. While we may think Alaska is the place they must do business, I doubt they think that way. This 20 percent is what they agreed to and I think it should not be raised.

We who were in Alaska before oil knew what kind of economy we had and it wasn't what you would call

robust. I think that the state budget in 1967/68 was \$98 million. Our oil production is declining every year, so why discourage development by increasing the 20 percent tax?

The \$73 million deduction is something that heavily favors the independents and really doesn't do much for the majors, because of their high profits. So, I urge you to keep this in the bill along with the tax credit....

DEBORAH VOGT said she retired from the Department of Revenue as Deputy Commissioner in 1999 and was an assistant attorney general for many years before that and dealt with oil and gas tax matters. She praised the administration for recognizing the problems in the ELF and that HB 488 was a good fundamental approach, but had a seriously flawed execution. While allowing producers to recover their sub costs before they pay taxes was a modern and common approach throughout the world, she said, "It gives far too much away and unnecessarily so." She contrasted that money to the revenues needed by communities in Alaska because of seriously reduced revenue sharing.

She pointed to the deduction in the current legislation for capital expenditures coupled with the tax credit for the same expenditures as being incredibly generous and surmised that the general public would like to be able to use something like that on their own income tax returns. But, she said:

If the bill stopped right there, I think we'd have a generous competitive piece of legislation, so long as the tax rate were appropriate, but the bill goes on to grant what, I believe, are totally unnecessary give-aways to the taxpayer.

MS. VOGT listed the \$73 million pre-tax allowance to all producers whether they need it or not, and whether they are investing that money in Alaska or not, and the clawback provisions as unnecessary. According to Roger Marks' testimony, the allowance would cost about \$40 million a year, which she thought could be better spent elsewhere. And the clawback provision does not fit with incentives as it is impossible to incent activities that took place a half-decade ago. This provision would cost the state \$170 million in each of the next six years if the price of oil goes above \$40. "This provision should be deleted."

Repealing the surcharges of 2 cents and 3 cents a barrel that were passed after the Exxon Valdez oil spill was another provision Ms. Vogt opposed. She said that the Department of Revenue projected that this legislation only raises money for two years. She opined:

Certainly a tax structure that plunges to worse than what we have now at \$25 a-barrel oil is absurd. At \$25, these companies are making plenty of money and the DOR numbers show that at that price they would clear about \$1.7 billion under the current tax structure. This bill would take all of that, the severance tax component of that, money away from the state - about \$400 million if the price were to go back to \$25 oil, which a couple of years ago we considered a really decent price for oil.

What's the right rate? Certainly the 25 percent originally proposed by the Governor would be better. Dr. Van Meurs' study is based on this rate and shows that Alaska would be very competitive at this rate.

[10:30:51 AM](#)

JAMES GILBERT, Sunny River resident, said this legislation was part of an agreement between BP, Exxon and Conoco and represented a balanced package that would support the producers' strategy to develop the oil and gas resources on the North Slope. Any further tax increase would jeopardize that future. He emphasized, "Alaska fiscal policies should encourage investment and focus on growing the pie rather than taking an increased share of a shrinking pie."

He argued that while new developments, like Oooguruk, needed royalty relief to move forward, they also required the infrastructure that is owned by the majors. Existing business must be healthy in order to provide development opportunity for the gas industry.

[10:34:24 AM](#)

CO-CHAIR JAY RAMRAS said he had heard of Mr. Gilbert's activities with the Alaska Support Industry Alliance and asked what he thought of Dr. Van Meurs' comment that the 25/20 and 20/20 were similar and that they would both work.

MR. GILBERT replied that the Alliance hadn't discussed the percentage amounts that much and his testimony was strictly as an individual and not related to his activities with the Alaska

Support Industry Alliance. He supported the 20/20 and the \$73 million allowance in the proposed legislation in particular.

JIM SYKES, Oil and Gas Advisor for the Green Party of Alaska, said he was the founder of Oil Watch Alaska that made sure the state got a fair share of its resources. He admitted that Dr. Van Meurs was a very bright man, but he felt that people still didn't have enough information.

He said it was not clear how well the state would come out in the big picture, but oil companies have been allowed to deduct their transportation fees up to now, and if transportation fees were allowed to be deducted as part of net profits, that would mean billions for the gasline owners and the state would be left only millions - depending on the price.

He said the tax credit was appealing because it gave people the opportunity to explore and develop and invited smaller companies in, but the problem was that it looked like a complete loss if you didn't seek to recover it in some way. It would be reasonable to give a credit when people are trying to find something and the credit sticks only if they don't find it. But when they begin to produce what they found, the credit should be treated more as a loan so that they replace the credit they were given. That's the only way it becomes fair.

The other problem with the credit was that a smaller company, like Conoco, had to sell out at Milne Point before it merged because it was not an owner of the pipeline and couldn't afford to compete because it was at such a tremendous disadvantage on the tariff. That problem would continue to exist if credits were given to just the smaller companies - a lot of them are not going to be owners of the pipeline. He advised, "So you have to ask yourself what are we doing here? Are we just simply paying the tariffs for new companies to come in and explore?"

A number of years ago, a BP employee told him that the state could actually make a great deal of money if it cut out the middle man, meaning BP, Conoco and Exxon, and hired the same subcontractors they used to extract the oil and gas.

He speculated that at \$40 a barrel, the state would get a little more than \$330 million under the proposed legislation compared to what it gets now. He thought it would be simpler for the state to subtract the federal take from the economic rent, but when oil went above \$20 a barrel, to split the price evenly - 50/50. He conjectured that at \$40 a barrel oil, the state should

get somewhere between \$1.2 billion and \$2 billion, not \$330 million.

MR. SYKES said the past four governors have settled tax cases out of court when \$10 billion or \$12 billion were at stake and they were settled for a nickel or a dime on the dollar. He urged that the legislature to know exactly what the companies would be allowed to write off and that it consider other proposals before making a final decision. The state can't afford to make a mistake now that will affect it for the next 40 years.

JIM HASELBERGER, Alaska Tent and Tarp, said he provides environmental products for the oil companies. He trusted that Alaska's three-part government worked and that both the Governor and the producers negotiated in good faith. The bill assured continued resource development in the state and created good jobs and a good lifestyle for its people. He supported this legislation.

MARRICK PEIRCE, FAIRBANKS, thought this was the poorest piece of legislation the legislature had looked at in decades. He accused that it was being fast-tracked and the state stood to lose billions of dollars and gain many years of costly litigation. He urged them to slow down and thoroughly vet the issues.

He absolutely did not agree with the effective date of July 1. The state had lost billions of dollars that could have been used for a number of improvements by failing to revise its oil production taxes years ago and he thought an effective date of January 1 would help mitigate some of that loss.

MR. PEIRCE also thought the proposed 20 percent tax rate was a "give-away" of hundreds of millions of dollars and the reason for such a low rate was because of administration linked it to the gas pipeline. He mentioned that the Port Authority could make its proposal work without asking for any such give-aways.

ROGER BURGRAFF, Fairbanks, supported both SB 305 and HB 488 as a good step towards solving the long-term policy of taxing the petroleum industry. Companies need a stable tax policy to be able to invest billions of dollars in Alaska.

JENNIFER BOWERS urged legislators to consider this plan carefully and to, "Please slow down." She feared that the Governor already agreed to a plan with the oil companies without any public dialogue. She urged the legislature to adopt a gas tax plan that provided the maximum benefit to all Alaskans.

[10:52:18 AM](#)

CO-CHAIR RAMRAS explained that this bill was a revision of oil taxes and not a gas pipeline contract. He assured her that the legislature was being very deliberate in its consideration of it and that it would get a lot more public scrutiny.

[10:53:47 AM](#)

REPRESENTATIVE PAUL SEATON asked where she thought the confusion about what issues are in SB 305 and HB 488 comes from.

MS. BOWERS replied that her biggest concern was that the Governor conferred with the producers without any public comment, whatsoever. She thought the Governor was not paying a whole lot of attention to what the public was saying. She thought there was a lot of room for improvement on the legislation. Pressures from lobbyists were viewed to be so great that legislators were almost forced to bend it them.

CHAIR WAGONER reassured her that the Senate was not receiving pressure from anyone and that more hearings were being held on this bill than any other.

CO-CHAIR RALPH SAMUELS said he has had no pressure whatsoever from lobbyists and vowed to continue holding many hearings.

[10:56:40 AM](#)

LAKE WILLIAMS, Fairbanks, said it seemed like this legislation was being rushed. He questioned the Governor's motives because his own experts recommended a 25 percent tax and he lowered it to 20 percent. "At this point, we had a jet rammed down our throat that the legislature voted against - the public was against it and it still ended up on his airstrip."

CO-CHAIR RAMRAS remarked that he appreciated it when anybody from District 10 testified early on a Saturday. He was mindful of Mr. Williams' concerns and stated the legislature would proceed slowly and deliberately through this issue.

JIM SAMPSON, Alaska AFL-CIO, said that the oil production tax regime has needed revision for a long time and commended Governor Murkowski for his leadership in bringing it forward. He also appreciated the work that Representative Gara, Senator French and others did on this issue over the last couple of years. He thought that because the ELF was not price sensitive, it had never really worked for the benefit of the state and he

cautioned members of the legislature that they must understand how this tax system works before they vote on it.

11:05:52 AM

CO-CHAIR SAMUELS agreed and explained how many committee meetings were cancelled because of it. He maintained that he had felt literally no pressure from lobbyists.

11:07:32 AM

REPRESENTATIVE NORM ROKEBERG asked if he was against any linkage of this bill to the gas transaction.

MR. SAMPSON replied yes.

REPRESENTATIVE ROKEBERG said it would be helpful if the AFL-CIO's legal counsel looked into long-term commitments in the Commerce Clause of the U. S. Constitution.

MR. SAMPSON replied that they would look at the issue within the confines of their resources. He personally believed that a linkage would violate the Alaska Constitution, as well.

CHAIR WAGONER added those questions were already being asked and that discussion was already taking place.

HUGH FATE, former Alaska State Representative, supported the 20/20 concept. He had three concerns - one was that the parameters of both the 20 and 25 percent tax on net should be considered, because since Dr. Pedro Van Meurs recommended 25 percent and the Governor chose 20. That issue has caused the public to question what was going on. Secondly, using the \$40 dollar-a-barrel oil as a reference price concerned him because the U.S. Department of Energy projected a range of prices as low as \$48 - \$52 going up to \$60 in 2030. He suggested having a reopener or pegging a number to the NYMEX so that the state received the maximum tax on net that it should. Thirdly, the process through which those taxes would be paid, which is 90 percent now and 10 percent on March 31, needs to be reviewed, in particular the interest provisions on the 10 percent. He encouraged them saying this legislation was a good basis on which to work and he would support it with the caveats he mentioned.

REPRESENTATIVE ROKEBERG clarified that the \$40 figure in section 21 was a floor price in the transition provision that was being called the "clawback provision."

11:14:26 AM

REPRESENTATIVE SEATON asked if he was talking about having a sliding scale if the price of oil goes to \$100, for instance, so that Alaska's take is a greater percentage.

11:15:07 AM

MR. FATE replied that the scale would have to somehow be quantified by using the NYMEX or some other means.

11:15:40 AM

PAUL LAIRD, General Manager, Alaska Support Industry Alliance, said he was encouraged by the tax credit and annual allowance because he believed they would achieve their goals of stimulating new investments, developing existing resources and finding new ones. However, the Alliance was concerned that a \$1 billion annual tax increase on the very industry that was already providing about 90 percent of Alaska's state revenues would tarnish Alaska's competitiveness and its ability to attract investments. They were also concerned that the state already had a \$1.2 billion budget surplus and no fiscal plan for managing excess funds during the good times or balancing the budget when times were lean.

11:19:08 AM

DAVE MACDOWELL, Anchorage, said he had been working in the oil industry for 25 years and couldn't recall any issue that was more important to Alaska than the one before them today. He confided that this legislation left him both hopeful and worried. He thought the new tax structure would effectively lead to a fiscal contract that provided clear and durable rules for oil and gas development. However, because it hit the major oil producers with a massive tax increase, he cautioned:

These are the companies that have the technical and financial strength to succeed in the difficult high-cost North Slope environment where production is declining and new development prospects are getting smaller and harder to produce. Common sense tells me that when taxes go up, the investment climate gets worse. Higher taxes may mean more money for the state in the short term, but over the longer term, I worry that less investment and lower production would be the outcome....

He had faith and hope that the legislature would see these issues very clearly and wouldn't make this legislation worse. He

urged them to do everything possible to insure a healthy oil business that enabled a gas pipeline project to move forward.

11:23:20 AM

DAVID GOTTSTEIN, Backhome 2, said he co-chairs that group with former Alaska governor, Wally Hickel, whose letter he read that exhorted the legislature to not approve any new tax scheme without a thorough understanding of it and to not be blackmailed or intimidated into passing flawed legislation. "If it's good legislation, it will stand up to that scrutiny."

MR. GOTTSTEIN urged the members to:

Open up the process to competitive market forces instead of agreeing to a sole source contract negotiated in secret. Those who argue that the oil industry needs a tax scheme and rates set that they approve of and that they need a guarantee that it is stable for the next 30 years in order for them to agree to build a pipeline are negotiating on behalf of the producers.

Those who represent Alaska should respond by saying the oil industry is fraught with uncertainty and danger all around the world as they deal often with unstable regimes in order to produce oil and gas reserves - even at times being solved by armed militias, even as we see in Saudi Arabia and Nigeria in these last weeks. In contrast, producers on the North Slope of Alaska are completely protected by the courageous men and women of the United States Armed forces and are blessed to operate safely in a free and democratic society where they are privileged to be subject to the will of the democratic society as it sees fit over time.

Finally, please don't approve any new tax scheme without full knowledge of the economic consequences over perhaps a hundred possible price and production scenarios over a long period of time. Don't race to a conclusion prematurely, even at the risk of offending the major North Slope producers....

He said the Governor had linked the tax issue to the gasline, but most Alaskans want it to be completely separate. He stated, "I personally believe we should build the all-Alaska line first

and now unless a competing bid proves itself to be better. Let's not be puppets, but rather puppet masters."

11:27:04 AM

BILL WALKER, Anchorage, said he was speaking as an individual today, but he disclosed that he is the general counsel for the Alaska Gasline Port Authority (AGPA).

CHAIR WAGONER asked him to clarify if he was speaking on behalf of AGPA now.

MR. WALKER reiterated that he was speaking as an individual. He said this was potentially good legislation, but he didn't know enough about it. He urged them to have more public hearings, to slow the process down and to make Department of Revenue information that was used by the Governor for his legislation available to the public. He also exhorted them to keep the tax issue and gasline project separate.

SENATOR DYSON invited Mr. Laird back to have him explain what he meant when he said both the producers and support industry would have a \$1 billion impact.

MR. LAIRD explained that the Alliance has heard the tax increase would be as much as \$1 billion annually for the major producers which would impact reinvestment by them, which in turn would have a direct impact on his members.

CARLA BEAME, Anchorage, said that she works for British Petroleum (BP), but was speaking for herself. She said her company was building its strategy on at least a 50-year future in the state. BP and other majors have hired and trained Alaskans and brought in talent and expertise that has benefited not just the oil industry, but communities all over the state. She advised:

As you consider this bill, I trust that you will keep your eyes on what we have in common - a healthy oil business, a healthy economy and people who are able to have the kinds of opportunities that I have had.... I support this bill as it is, even though it may not be completely perfect in the interests of helping to move this issue forward. Let's not lose sight of the big picture - one that could be very bright for us all.

MAYNARD TAPP, Anchorage, said he was a small business owner working in the oil and gas industry and he supported the

legislation. He asked them if they were to loan money to a relative, would they charge a high rate of interest or a small amount of interest to encourage them to become successful so they could pay you back and make the family business grow. He concluded:

I would like to reinforce two principles. The State of Alaska cannot tax its way to prosperity and I want Alaska to be high if not highest on the list where our fellow citizens, the oil companies, want to invest their money.

[11:38:14 AM](#)

DARYL KLEPPIN, Anchorage, said he had a family and was an employee of BP and supported both SB 305 and HB 488. He was proud of the way BP had both developed the state's resources and remained good stewards of the environment. He said that Alaska was geographically remote and he thought the current proposal was balanced and would keep the state competitive. A robust oil and gas industry means jobs for Alaskans. He defended the clawback provision saying it's clear that this legislation was a significant tax increase.

[11:40:53 AM](#)

SENATOR DYSON asked if he was implying that raising the tax rate above 20 percent would be extreme.

MR. KLEPPIN replied yes.

SENATOR DYSON clarified that DR. VAN MEURS' report says the marginal net profit tax rates across the world were varied, but many of them were much higher - North Sea and Denmark, in particular. He asked how moving up from 20 percent gets to be extreme in light of what the other tax rates are around the world.

MR. KLEPPIN replied that you have to take the state property and corporate taxes and federal taxes into account, as well. "When you aggregate those, you will see that Alaska is pushing towards the end, particularly in the United States."

[11:42:15 AM](#)

JOHN HOZEY, City Manager, Valdez, endorsed Governor Hickel's letter and was encouraged to hear there would be more public hearings. He urged them to slow down and to not be held hostage to the gasline deal.

11:43:57 AM

BERT COTTLE, Mayor, City of Valdez, said he had received numerous phone calls from the residents of Valdez asking him to urge the legislature to slow down the process and allow public review and input.

CHAIR WAGONER asked him what he meant by "slow down the process."

MAYOR COTTLE replied that the public wants to be allowed to look at all the documents that have gotten them to this point. They have not had access and have not been able to figure out the numbers. They also did not feel the next two weeks was enough time for a full review.

CHAIR WAGONER commented that he didn't know when they would get to the end of these hearings. "So, your information is a lot better than mine and I'm chairman of Senate Resources Committee."

LOUISE PARRISH, Valdez voter, said she needed a lot more time to understand the information on this issue and to offer her opinions to her representatives.

CHAIR WAGONER responded by announcing, "All the documents that are being used in committee or that we receive are on line and available currently at www.ak.republicans.org/sen.res."

11:48:46 AM

BILL CORBUS, Commissioner, Department of Revenue (DOR), said the computer model was the only document that he knew of that hadn't been made available to the public, yet, and he would see if he could cleanse the confidential information from it and get it out to the public.

SENATOR SEEKINS said he could hear constitutional concerns on this issue in the Judiciary Committee, which he chaired.

SENATOR ALBERT KOOKESH asked for an example of something that would have to be taken out because of confidentiality.

COMMISSIONER CORBUS replied that some confidential information may have been derived from income tax returns filed by the oil companies.

REPRESENTATIVE SEATON asked if he was preparing charts of taxation for public consumption that would show how gas would be

taxed differently from oil. Right now they have just a joint single model based on oil.

COMMISSIONER CORBUS replied that yesterday, Roger Marks, Petroleum Economist, Department of Revenue, converted the gas tax to the equivalent of oil. To that extent, the difference has been addressed already, but the vast majority of gas on the North Slope would be addressed under the stranded gas contract that would be presented to the legislature for its consideration. The tax rates for oil and gas in the PPT legislation would be the same. They have tried to convert the price of gas to the equivalent price of oil.

DAVE COBB, City Council member, Valdez, said he was also a member of the Alaska Gasline Port Authority. While he supported certain aspects of HB 488, he said, "Slow down. This bill is not about what's right for the oil industry; it's about what is right for Alaska." He urged them to hold hearings in the more communities around the state.

RICH LONG, City Council member, Valdez, said has worked for the oil industry in the past and supported what it had done for the state. It seemed that the 20/20 was a wash. He encouraged them to research the difference in what the 20/20 formula versus the 25/20 would do to the industry and the state. He urged them to slow down. He wanted to support it, but didn't understand it well enough, yet.

[11:59:53 AM](#)

SENATOR SEEKINS admitted that he didn't understand it yet either. That's why they were still having Resource Committee hearings on it. He didn't want to slow down, because he needed to digest a lot of information.

[12:02:48 PM](#)

REPRESENTATIVE MARY KAPSNER responded to what she thought was a valid concern saying that she understood the 20/20 formula to not be a wash.

CO-CHAIR RALPH SAMUELS agreed and added that they were not correlated to be a wash at all. The credit would depend on how much was spent and how much was made. The \$73 million allowance, profit and current credit programs would factor into it, as well. He also said they don't want to slow down.

REPRESENTATIVE KAPSNER said they have an energy conference break in March and this has to be done by the end of session.

CO-CHAIR SAMUELS reassured the public that the legislature was going to get as much information as it could and would understand it before making a decision.

[12:09:11 PM](#)

REPRESENTATIVE BERTA GARDNER said 20/20 was not a wash.

[12:10:29 PM](#)

CO-CHAIR RAMRAS echoed sentiments that it was a go-slow process.

CHAIR WAGONER said, "Ditto."

JOHN REEVES, Fairbanks, said he was on the Port Authority, but he was speaking as a private citizen. He did not want to see the bill tied into construction of the gas pipeline. He urged the legislature to slow down and to allow more meetings.

[12:15:26 PM](#)

CHAIR WAGONER agreed and hoped that Alaska's stability could be reflected somewhere in the formula.

NICK STEPOVICH, Fairbanks constituent, said he was not for or against the legislation, but explained that the slow down was so the public could digest the issue.

CHAIR WAGONER clarified that this legislation wasn't being hurried like some people seemed to think.

MR. STEPOVICH also strongly urged that the tax issue not be linked to the gasline. He asked why Alaskan companies hadn't been involved in discovering or the production of oil.

CHAIR WAGONER informed him that when he gets on the plane in Kenai on Monday morning, he sees more than 40 people heading to the North Slope to go to work.

MR. STEPOVICH said he was referring to Alaskan companies that have discovered oil and been involved in production that was going down the pipeline.

[12:21:23 PM](#)

LORI BACKES, Executive Director, All Alaska Alliance, urged getting more information on this legislation to the public and scheduling extra meetings throughout the state. She urged them to develop good public policy and to keep the tax and gasline issues separate.

12:26:25 PM

CHAIR WAGONER stated rubberstamping this proposal was furthest from what the legislature was going to do. He reminded people to keep their comments directed to the tax bill.

SENATOR BERT STEDMAN commented that numerous people have said the current tax system was broken and must be brought up to date. He assured the public that legislators had spent a lot of time preparing even their staff for this issue and they were just in the early stages of its consideration. They are talking about a big tax increase for the oil companies and it would affect the state for many years to come.

CO-CHAIR SAMUELS followed up saying that this legislation is not just about getting more money. It asks how much risk Alaskans can stomach.

CHAIR WAGONER clarified that this legislation dealt with only 25 percent of the revenues coming into the state - just the severance tax from the oil industry. He also said they needed to reflect on how much worse off the state would be to continue using the current ELF with \$20-a-barrel oil than with the PPT.

12:34:39 PM

RYAN COLGAN, Fairbanks, said he respected this process a great deal. He asked them to consider that the taxable royalty in section 9 on page 4, line 19, could be determined by an agreement made after this legislation passed. Also, the gross value at point of production, in section 20 on page 11, could be calculated based on a formula adopted after this legislation passed. Further he said:

The lease expenditures component of the calculation cannot be known with any certainty at this point as the operative definition of "lease expenditures" are the direct, ordinary and necessary costs, which are substantially determined based on typical industry standards as proposed in AS 43.55.160(c). The information used to compute the tax is confidential under this bill and the model used to craft these provisions is not public. You may trust this administration or the last administration to carry out the ambiguous provisions of this bill, but do you trust future administrations?

He concluded saying, "Just because ELF is bad doesn't make this legislation good. Consider the alternatives."

GUY PETERS, Fairbanks, urged legislators to continue developing the oil industry, but to proceed with caution in developing the PPT.

12:40:08 PM

CO-CHAIR RAMRAS explained that this legislation was meant to incent the producers and explorers "to get back into the dirt in Alaska and find more oil and fill up that pipeline." This bill incents a 30-year old revenue stream that will result in more severance taxes, more jobs, more royalty oil, and the economic multiplier of getting billions of dollars of new investment on the Slope.

12:41:12 PM

TODD LARKIN, Fairbanks, said he didn't have a solid opinion on the legislation at the moment, but he voted for Republicans because of their ideals and one of them was to create an inviting market to draw in new business, large or small and create economic opportunity for all Alaskans. He was interested in creating personal financial independence rather than a bunch of dependents. He hope the PPT followed the constitutional mandate and that any proceeds would be heavily invested in the Permanent Fund so that individual Alaskans could make their own financial decisions.

CAL SKAUGSTAD, Fairbanks, supported the Governor's bill and he encouraged its passage if the legislature determined its provisions were in the state's best interest.

12:44:29 PM

KATHY FONTAINE, Anchorage, supported the legislation, but she emphasized that the state must be fiscally responsible and not short-sighted in wanting too much.

JERRY MCCUTCHEON, Kenai, said the requests to slow down were really a request for information and time for the public to obtain it. He urged them to look at the original bids on North Star as a model for the percent of net profit tax plan. He feared that the Governor's plan would have endless litigation. They would control what would be net profits and costs and he used Exxon as an example. He accused that they were here today because they were promised a gasline contract in which the producers were not obligated to build a pipeline, but rather to just consider it.

SENATOR STEDMAN reminded people that they were dealing with changing the ELF tax, not the gasline.

J. R. HANK LANGMAN, Anchorage, said that everybody where he's from wants the legislature to drop the legislation and start over. He said that people need more time to understand what they are doing.

THERESA OBERMEYER, Anchorage, commented on unrelated issues.

MIKE PRAX, North Pole, said he was representing himself. He said that Alaska is in partnership with the oil companies and has to compete in the world market with them. The state shouldn't get into an adversarial relationship with them.

RHONDA BOYLES, Fairbanks, urged the legislature to move forward on this issue and said that she had confidence in their abilities. She wanted to see more oil production, exploration and development saying, "Taxes are not good, but jobs are." She preferred the 15/15 scenario.

[1:05:50 PM](#)

REPRESENTATIVE SEATON referred her to Robyn Wilson's Petroleum Tax overview that contained the Department of Revenue's long-term forecast. It indicated that this bill would give the state more money for two years, but after that it underperforms the ELF for two years and after that it does exactly what the underperforming ELF does. This was unacceptable to him and others on the House Resources Committee.

[1:07:57 PM](#)

REPRESENTATIVE ROKEBERG commented that the tax structure used now is dying of its own weight.

SENATOR STEDMAN said that ELF is a little bit better under a certain scenario, but above a certain price, the proposed structure would be substantially different and that point was one of the decisions the legislature has to determine.

MS. BOYLES read Buzz Otis' statement supporting a new tax regime. He also urged them to take the time necessary to fully understand both the near and long-term ramifications of this bill.

[1:10:52 PM](#)

CHRIS WEST, Anchorage, said he has been employed by BP since 1998, and has four Alaskan boys. He reported that the resources on the Slope are very large, but they are increasing hard to transport when competing for investment dollars. He thought the bill was fair and would help move resource development forward.

REPRESENTATIVE ROKEBERG asked if a higher tax credit for heavy oil specifically would encourage more invest in it.

MR. WEST replied that Alberta, Canada, has a vibrant heavy oil economy compared to Alaska's and he thought the tax scheme was the difference.

JIM DECKER, Anchorage oil industry worker, said he supported the PPT legislation and that it would make the gasline a reality. He thought the PPT should be revenue-neutral over time. Department of Revenue projections indicate the new tax would provide far more revenue to the state than the existing ELF-based production tax and he didn't think the state should use the shift to the PPT as an opportunity to grab more revenue from an industry that already provides over 80 percent of state revenues. The shift should be about moving to a more equitable, less regressive, tax structure; the focus should be on creating a healthy business environment that increases production, which would result in higher revenues for the state.

MR. DECKER also favored establishing a mechanism to insure that excess revenues received under the PPT during times of relatively high oil prices would be placed into a reserve to cover revenue shortfalls during times of relatively low oil price. He explained:

My concern here is that in my household, expenditures rise to meet income and I am asking that the legislature insure that the state's expenditures do not rise to consume the entirety of revenues received under the PPT in our current high oil price environment.

CHAIR WAGONER emphasized that one of the key issues of the legislation was to increase in oil production and that is where the state would derive the biggest benefit.

ANDREW VAN CHAU, Anchorage, said he was a BP employee and that the PPT was an unprecedented tax hike that doubles the overall tax rate for the oil industry. If it encouraged development, he supported it; if it was just a grab for money, he didn't.

Lawmakers should think about shaping Alaska's fiscal policies to encourage investment. He placed his faith in the legislature.

CO-CHAIR RAMRAS asked which percentage he supported.

MR. CHAU replied that he would leave that up to the legislature.

1:24:09 PM

MERRICK JOHNSTON, Anchorage, said she just started working with BP and thought this was a good time to set tax policy. She suggested setting aside another Permanent Fund for education so its revenues were not so narrowly focused on oil and gas taxes. She questioned having a six-year transition period in the beginning of the 30-year contract and not the end. She thought this was a good time to establish a state fiscal policy and thought Alaskan residents should consider paying an income tax. She concluded by urging them to diversify Alaska's resources by investing in its intellectual properties.

1:27:05 PM

RACE G. JONES, Anchorage, said Alaska's partnership with the oil and gas developers has mostly been good. He had concerns with HB 488, but he couldn't address them without understanding the pipeline contract. He asked if HB 488 could have a clause allowing for a revision if affected by the gasline contract, which he thought might help prevent litigation.

CHAIR WAGONER replied that the legislature is dealing with a stand-alone bill on oil and gas taxation and the Governor's gasline contract would be addressed at a later date after he completes negotiations and the contract is ready for signature. The legislature would, then, make the choice of voting it up or down. If it is voted down, a letter would be attached indicating the problems.

MR. JONES asked him if he was saying the legislature would have the ability to go back and look at HB 488 if it felt the need after they saw the pipeline contract.

CHAIR WAGONER replied, "Absolutely."

1:30:47 PM

CHANCY CROFT, Anchorage, said he has owned oil and gas leases in Alaska, but he was speaking for himself. He related that he had a minor role in the beginning of the process when the state changed its severance tax. He hoped the present legislation would involve many weeks and maybe months on behalf of those who

worked on it then. He related how in 1978, the legislature passed a bill providing for a net income tax separate accounting to determine the basic income the state would receive in addition to royalty income from the oil industry. That was repealed in 1981 by tacking it on to other legislation without much of a hearing. It was signed into law by Governor Hammond and he regretted having done that to the day of his death. He was told the effect was revenue neutral, but it wasn't. The fact of the matter was because it didn't go through a thorough legislative process, it cost the state billions of dollars.

MR. CROFT exhorted them to consider all of the legislation on this topic. He noted that they had heard skeptical comments and that was due to the fact that other bills dealing with the question of ELF were pending before the legislature, but none of them received a hearing and still do not. When this type of legislation was considered in the past, bills introduced by the legislature had the same status as bills introduced by the governor. He hoped the legislature would consider all the bills on this subject, not just one.

He thought it was important for the legislature to address the intent with which they were approaching this legislation because the Supreme Court, for years, has urged the legislature to express its intent. It would be important particularly since the question has arisen about whether this is tied in any way to the pipeline contract. and that:

He urged them to consider eliminating any tax credit completely, because it creates distortion and is terrible policy. He mentioned that Representative Ramras also talked about the possibility someone might attempt to insert these credits into other areas.

He said tax policy should include an almost instantaneous review by the legislature to make sure it would not stop an economic operation. But in reality, it's only belatedly that the question of the appropriate tax arises after oil prices have risen substantially. He concluded:

The state and the oil companies are adversaries in the sense that in the long run whatever we take out in taxes does impact their net income, but that doesn't mean we cannot formulate a reasonable policy. It only means that you can't tax the oil after it's gone. And that it's important for us to remember it's not whether the oil companies like us, but whether we have

a reasonable policy. Because we're not here buying love, we're actually selling oil.

CHAIR WAGONER noted that the legislature did have a hearing on Senator French's ELF bill.

MR. CROFT responded that having all the bills on this issue before the committee is important, because that goes a long way towards eliminating the perception that this is only being addressed because a gas pipeline contract might follow or is in any way dependent on it. It also puts all options before the legislature at the same time.

CHAIR WAGONER mentioned that the committee had received many letters from people on this issue who were not testifying in person and those would be entered into the record.

BOB BATCH, Anchorage, said he was here today because he cared about Alaska's future and he supported this legislation as drafted. Passing it makes the rules clear and lasting and would move the gasline project forward.

1:40:53 PM

STAN GATES, Anchorage, said since he had been in Alaska, he has seen an enormous increase in the quality of life and he attributed that enhancement to the development of industry. He recommended that the legislature encourage the oil companies with incentives to come to Alaska to sustain that quality of life. He thought that high oil prices would be sustained indefinitely and that fact needed to be taken into account.

CHAIR WAGONER reiterated:

This is a tax bill; this is not a long-term contract and it is not the intention at this time in the legislature for this to become a long-term contract. That decision is down the road and that will be made by the whole legislature.

1:43:20 PM

BARBARA HUFF-TUCKNESS, Director, Governmental and Legislative Affairs, Teamsters Local 959, said they recognize the importance of oil development to Alaska's economy. She said that SB 305 and HB 488 were very important pieces of legislation and she urged the legislature to give them full consideration saying there would be no room for mistakes.

From her initial review, she felt the 20 percent tax rate with the many liberal deductions was not enough. Knowing this rate will probably be locked in over a 20-year period of time, she felt that fiscal certainty around oil has nothing to do with building a gasline, but rather it was simply an industry-leveraging tactic to lock in a long-term tax rate. The industry should be willing to pay a significant premium for the certainty that they claim is so vital and important to their continued operation in Alaska.

She assumed the tax policy behind the proposed deductions was to stimulate economic activity and job creation in the state, which she endorsed. However, she said:

Money spent outside Alaska should not qualify as legitimate deductions. Allowing overhead costs for payroll out of India does little to stimulate Alaska's economy nor would engineering firms that are paid in Canada actually stimulate anybody else's economy besides the Canadians'. We believe that the current language surrounding capital and operating expense deductions needs additional review, analysis and be written in such a manner to incentivize the companies to hire Alaskans and Alaskan firms with Alaskan employees first and foremost. Let's make sure that these deductions stimulate our economy and not those of other nations. In closing, we urge you to move carefully and deliberately as your decisions will impact our government and quality of life for all of the Alaskans, not only our future, but for years and years to come.

Let us not forget our courageous leaders that went before you. This is not a Republican versus Democrat issue. This should be one of complete and total bipartisan support. Your decisions this session will impact your children's children and the future of all of us in the room as well.

[1:48:34 PM](#)

TOM BRICE, District Council of Laborers, said he needed more time to gauge impacts of the proposal on the state or his membership. He noted there should be a floor so the tax rate isn't an effective zero at some point in time and opined that, "Everybody should be required to pay something if they are going to extracting our resources."

Additionally, he said the write-offs needed the greatest level of clarity possible because ending up in litigation for years and years trying to get our share of the taxes, which was the case in the current system, was not what anybody wanted. He urged the committee to have a very public process.

CHAIR WAGONER thanked everyone for their comments and adjourned the meeting at [1:49:47 PM](#).