

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 14, 2006

12:36 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**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

**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
02/25/06	(H)	Joint with Senate Resources
02/27/06	(H)	RES AT 12:30 AM CAPITOL 124
02/27/06	(H)	Heard & Held
02/27/06	(H)	MINUTE(RES)
02/28/06	(H)	RES AT 12:30 AM CAPITOL 124
02/28/06	(H)	Heard & Held
02/28/06	(H)	MINUTE(RES)
03/01/06	(H)	RES AT 12:30 AM CAPITOL 124
03/01/06	(H)	Heard & Held
03/01/06	(H)	MINUTE(RES)
03/02/06	(H)	RES AT 12:00 AM CAPITOL 124
03/02/06	(H)	Heard & Held
03/02/06	(H)	MINUTE(RES)
03/03/06	(H)	RES AT 12:30 AM CAPITOL 124
03/03/06	(H)	Heard & Held
03/03/06	(H)	MINUTE(RES)
03/04/06	(H)	RES AT 2:00 PM HOUSE FINANCE 519
03/04/06	(H)	Heard & Held
03/04/06	(H)	MINUTE(RES)
03/06/06	(H)	FIN AT 12:30 AM HOUSE FINANCE 519
03/06/06	(H)	Presentation by Legislative Consultant

03/06/06 (H) RES AT 12:30 AM HOUSE FINANCE 519  
 03/06/06 (H) Testimony by legislative consultant  
 03/07/06 (H) RES AT 12:30 AM CAPITOL 124  
 03/07/06 (H) Heard & Held  
 03/07/06 (H) MINUTE(RES)  
 03/08/06 (H) RES AT 12:30 AM CAPITOL 106  
 03/08/06 (H) -- Meeting Canceled --  
 03/09/06 (H) RES AT 12:30 AM CAPITOL 106  
 03/09/06 (H) -- Meeting Canceled --  
 03/10/06 (H) RES AT 12:30 AM CAPITOL 106  
 03/10/06 (H) Heard & Held  
 03/10/06 (H) MINUTE(RES)  
 03/11/06 (H) RES AT 10:00 AM CAPITOL 106  
 03/11/06 (H) -- Meeting Canceled --  
 03/13/06 (H) RES AT 10:00 AM CAPITOL 124  
 03/13/06 (H) Heard & Held  
 03/13/06 (H) MINUTE(RES)  
 03/14/06 (H) RES AT 12:30 AM CAPITOL 124

#### **WITNESS REGISTER**

No witnesses to record.

#### **ACTION NARRATIVE**

**CO-CHAIR RALPH SAMUELS** called the House Resources Standing Committee meeting to order at [12:36:10 PM](#). Representatives Ramras, Elkins, LeDoux, Seaton, Olson, Samuels and Gatto were present at the call to order. Representatives Kapsner and Crawford arrived as the meeting was in progress.

#### HB 488-OIL AND GAS PRODUCTION TAX

CO-CHAIR SAMUELS announced that the only order of business would be 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."

CO-CHAIR SAMUELS said the committee substitute (CS) is not ready, but he has provided a list of changes that are included in a forthcoming CS.

[12:37:19 PM](#)

CO-CHAIR SAMUELS said he will allow the administration and the industry to comment on the CS.

[12:39:06 PM](#)

CO-CHAIR SAMUELS stated that this is the beginning of a long process, and he has no illusions that what comes out of the House Resources Standing Committee will be the final product. He said he tried to build a committee consensus for the CS.

[12:40:43 PM](#)

CO-CHAIR SAMUELS said the first change to HB 488 is making the tax rate progressive. He said the rate would go up by 0.3 percent per dollar increase after \$50 per barrel. It is a good balance to make sure there is no impact on the economy, while taking advantage of high oil prices, he stated. Secondly, the CS has reduced the transitional money. It will allow the deduction of 75 percent of 2005 expenditures; 50 percent of 2004 expenditures; and 25 percent of 2003 expenditures. He said the original legislation spread that cost recovery over six years, and the CS extends the payback period to seven years. He said that at the request of the chair of the House Rules Standing Committee, the inflation indexing mechanism [on the \$40 per barrel price of Alaska North Slope oil] is not going to be in

regulation but will be in the CS. He added that he does not have the one that will be used, but the \$40 price will be adjusted with inflation.

CO-CHAIR SAMUELS said the CS will also extend SB 185, from the 23rd Legislature, which expires in 2007. It will be extended for the explorers on the North Slope, he noted. He said the explorer will have to choose between a 40 percent and a 20 percent tax credit dependent on other parameters. He said there was concern about abandonment costs being used for tax credits, and the CS will contain specific language that those costs will not be eligible for tax credits. The CS will set private royalty oil severance tax at 5 percent, and there is a very small amount of land where it is at 1 percent, he said. He worked with those holders and the industry in trying to come up with a fair number.

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CO-CHAIR SAMUELS said that the Alaska Oil and Gas Association approached the committee suggesting several technical changes. He noted that the ones that were policy calls were not included. It would be better to take those changes to the next committee for adequate consideration, he said. He noted that there had been concern about getting credits for contingency surcharges. There is currently a \$0.05 per barrel charge, and \$0.02 of that is deposited into the response mitigation account, which is maxed out at \$50 million. So the \$0.02 charge has been suspended. The CS will change the \$0.02 charge to \$0.01, so if the account goes below \$50 million, the \$0.01 charge will kick in, he explained. The remaining \$0.03 in current statute goes into the prevention mitigation account, and the CS raises that to \$0.04. The total surcharge is still \$0.05 per barrel, he stated. He said the CS will change the effective date of HB 488 to April 1, 2006, instead of July 1, 2006. This will result in an almost immediate effective date and conforms to a fiscal quarter.

[12:45:37 PM](#)

CO-CHAIR SAMUELS said that the \$73 million allowance was actually \$14.6 million directly off the tax bill, and the CS lowers it to \$10 million and switches it to a credit. The first \$10 million spent in the state is a direct dollar for dollar credit. It is a zero sum game "for the little guys." It was cut down by a third and made a credit instead of an allowance, he reiterated. From the request of the explorers, the CS allows

the state to buy up to \$10 million per year per company for credits at 100 percent of face value.

CO-CHAIR SAMUELS addressed the credits that were sellable. He said, "If there was room under the cap for ExxonMobil Corporation, ConocoPhillips Alaska, Inc., or BP to be able to buy the credit, they said that the going rate was between \$0.90 and \$0.95. And what we wanted to make sure that we did is, that the small company recouped 100 percent of their value." He said the state "is on the hook" for the entire value, so it is a moot point for the state. The CS caps it at \$10 million, he said. The state can have a buy back for it as long as the company proves it was moving forward with reinvestment at the same level in Alaska, "and they'd save a little bit of money around the margins." He said he was concerned that it was open-ended, so it was capped at \$10 million. The CS puts a 5 percent penalty for underpayment of taxes on the monthly payments below 90 percent of actual, and he said that is currently in law. Interest will be charged on any underpayment below 100 percent.

[12:48:09 PM](#)

CO-CHAIR SAMUELS said the CS will be distributed to committee members as soon as possible. There is one large issue that was not addressed and that was heavy oil. The committee is aware of the problem, but he personally felt that having two tax schemes for two types of oil was problematic but could be addressed in separate legislation. He said he realizes it is a big problem for the big players and some of the small ones. He said he didn't find a way to incorporate it into this bill.

CO-CHAIR SAMUELS said he believes a bill will pass this session, and the committee tried to focus the debate. The committee focused on progressivity [and other key issues]. He spoke of all those involved and the admirable job everyone did. He said he would like to shift the debate to the money coming into the state with regard to the future. "What are we going to do if prices go down? Now is the time to start debating what are we going to do at low oil prices when we're \$2 billion in the hole at \$20 [per barrel], and what are we going to do at higher oil prices when you get more money than you really know what to do with?"

[12:51:22 PM](#)

CO-CHAIR SAMUELS repeated the schedule of hearings.

REPRESENTATIVE SEATON requested clarification regarding exploration enhancements in that a company either gets the 40 percent or the 20 percent credit, not both.

CO-CHAIR SAMUELS said the company can choose between the two credits.

[12:52:11 PM](#)

[HB 488 was held over]

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at [12:52 PM](#).