

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

May 16, 2006

7:06 p.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Carl Gatto, Vice Chair
Representative Bob Lynn
Representative Berta Gardner
Representative Max Gruenberg

MEMBERS ABSENT

Representative Jim Elkins
Representative Jay Ramras

OTHER LEGISLATORS PRESENT

Representative Norman Rokeberg
Representative Mike Kelly
Representative Peggy Wilson
Representative Mark Neuman
Representative Bill Thomas
Representative Ethan Berkowitz
Representative Beth Kerttula
Representative Sharon Cissna

COMMITTEE CALENDAR

Workgroup: Petroleum Production Tax Issues

- Heard

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

No witnesses to record

ACTION NARRATIVE

CHAIR PAUL SEATON called the House State Affairs Standing Committee meeting to order at 7:06:54 PM. Present at the call

to order were Representatives Gatto, Lynn, Gardner, Gruenberg, and Seaton.

^Workgroup: Petroleum Production Tax Issues

CHAIR SEATON announced the only order of business was the workgroup on petroleum production tax issues. He said the workgroup discussion would center around five issues.

7:07:25 PM

REPRESENTATIVE GARDNER asked that the committee broaden the scope beyond discussion of House and Senate versions only.

7:08:40 PM

REPRESENTATIVE GARDNER some good amendments but wouldn't fall under either version.

CHAIR SEATON all amendments offered in packet in order as offered.

7:10:37 PM

REPRESENTATIVE LYNN don't want to debate old amendments.

CHAIR SEATON put in for reference, not to debate.

7:12:12 PM

REPRESENTATIVE MIKE KELLY Monday next may get new production profits tax (PPT) bill from governor, what contain?

7:12:49 PM

CHAIR SEATON don't know. May also be considering letting commissioner do it on his own.

7:13:08 PM

REPRESENTATIVE GRUENBERG desire to see all ideas considered because it's a work session.

7:15:00 PM

CHAIR SEATON directed attention to Issue 1: What are the positive and negative features of defining the progressivity

surcharge in relation to the gross production? What are the positive and negative features of defining the progressivity surcharge in relation to the gross production?

[7:16:42 PM](#)

REPRESENTATIVE GATTO gross will always... net doesn't matter was pro is, always get zero. Low conditions and high conditions. Discussion about which would be more beneficial to the state, guessing Senate version.

[7:17:30 PM](#)

REPRESENTATIVE ROKEBERG depends what you consider more beneficial. Leveling devices like CPI clauses. Future cost of living impacts.

CHAIR SEATON said one argument for net instead of gross is industry concerned about ... over time and the starting point/take-off point. Set of charts in packet.

[7:19:23 PM](#)

Doing it on the net gives inflationary index built in ...

[7:22:06 PM](#)

REPRESENTATIVE KELLY aggressiveness and net versus gross; those are the two problems. Assured by admin that audit capability, plus fact that companies are auditing one another, gave comfort that they could handle this. In favor of the House version that was more aggressive and in favor of the net.

[7:22:46 PM](#)

CHAIR SEATON seems like with net all expenses will get eaten up.

[7:24:13 PM](#)

REPRESENTATIVE BERKOWITZ has to be easy to understand and simple to implement.

[7:25:46 PM](#)

REPRESENTATIVE ROKEBERG public doesn't fully understand impact of ... Understand that because based on net gives more credence to ...

CHAIR SEATON less investment, ...

CHAIR SEATON more incentive for reinvestment in Alaska.

[7:26:03 PM](#)

CHAIR SEATON when above \$35 take-off point in net, then tax on profit on increased rate and on whole amount.

[7:28:33 PM](#)

REPRESENTATIVE BERKOWITZ when you tell me the pro kicks in when ..., I don't know what that means.

CHAIR SEATON point of production, and each field or well may have diff \$35; it's an audit function on individual companies. Not trying to go in the hole.

[7:28:58 PM](#)

REPRESENTATIVE ROKEBERG think that's right, we should get feedback on this question.

[7:31:08 PM](#)

REPRESENTATIVE KELLY once get to pro, blown through all cost recovery and trying to find way to capture value of commodity that has come up. Gross way provides pure way to do it, measures the delta and where you are on the price. There has been good argument to stick with the net method. Could do it either way.

REPRESENTATIVE ROKEBERG

[7:31:41 PM](#)

CHAIR SEATON PPT done on company-wide profit, but here we are talking about point of production and on diff fields and wells.

REPRESENTATIVE ROKEBERG we do that now

REPRESENTATIVE BERKOWITZ threshold decision... outside scope of conversation.

[7:33:03 PM](#)

CHAIR SEATON if talking about point of production

[7:34:13 PM](#)

REPRESENTATIVE GARDNER expert said have diff tax rates on diff fields, appropriate to consider that here.

CHAIR SEATON

[7:35:18 PM](#)

REPRESENTATIVE KELLY question of how aggressive we want the pro. Believe the House version that was sent over to the other body was aggressive, but relatively conservative compared to what advisors were telling us. More interested in what curve delivers.

[7:36:48 PM](#)

CHAIR SEATON House Resources and House final was almost the same. .24 effective rate, rate on net not deductible was .25.

[7:38:22 PM](#)

REPRESENTATIVE BERKOWITZ go back and look at Daniel Johnson's recommendations.

CHAIR SEATON mentioned Econ One.

[7:39:12 PM](#)

REPRESENTATIVE ROKEBERG

[7:39:47 PM](#)

REPRESENTATIVE KERTTULA with going to net higher price than with gross. Concern if we can really tell what net will be.

[7:40:00 PM](#)

CHAIR SEATON Representative Kelly comfortable with either House Resources Standing Committee or House final.

[7:40:40 PM](#)

REPRESENTATIVE KELLY as long as they trigger; should be above those threshold points.

[7:41:11 PM](#)

CHAIR SEATON how does using net adjust for inflation?

[7:41:33 PM](#)

REPRESENTATIVE ROKEBERG capital expenditures ("capex") and operating expenditures ("opex").

[7:41:57 PM](#)

CHAIR SEATON take-off point and pro. Reiterated question.

[7:42:32 PM](#)

REPRESENTATIVE ROKEBERG a drill bit costs more ten years from now than today

CHAIR SEATON

REPRESENTATIVE ROKEBERG \$15 delta right now.

[7:43:09 PM](#)

REPRESENTATIVE GATTO it depends too much on what the cost of oil will be. As long as you're keeping track, then the net Just saying the cost will go up, ...

[7:44:18 PM](#)

REPRESENTATIVE ROKEBERG don't tax someone bleeding to death, so don't do gross, do net.

[7:45:17 PM](#)

REPRESENTATIVE BERKOWITZ shift in discussion to income tax, instead of what we'll make. If they profit, so should we, and the way to do that is with gross.

[7:46:20 PM](#)

CHAIR SEATON our pro is based on price not profit. If price \$60, then pro... Effective date/tax levels.

[7:47:31 PM](#)

REPRESENTATIVE KELLY when we set number of \$35, we did the reverse: West Texas Intermediate (WTI) or Alaska North Slope (ANS) West we let float. When froze \$35 we stopped that from moving relative to cost.

[7:50:09 PM](#)

REPRESENTATIVE NEUMAN important part of discussion is how much money we want to invest back into Alaska, haven't heard that in discussion yet.

[7:50:59 PM](#)

^CHAIR SEATON to Issue 2: What are the effects of 2/3 Gas Revenue Exclusion (GRE)? (S) What is the effect of 1/3 [North Slope],

[7:51:44 PM](#)

CHAIR SEATON directed attention to handout that is handwritten showing a calculation by Robyn Wilson. Started out with governor bill and \$73-million exclusion.

[7:52:54 PM](#)

REPRESENTATIVE KELLY modified that in House bill (exclusion).

[7:55:22 PM](#)

REPRESENTATIVE KERTTULA said that was discussed, noted Representative Rokeberg has chart.

CHAIR SEATON excluded 2/3 gas anywhere in state.

[7:55:46 PM](#)

CHAIR SEATON Barry Pullman memo, analysis of ... field.

[7:57:08 PM](#)

REPRESENTATIVE KELLY need more information.

[7:58:21 PM](#)

REPRESENTATIVE ROKEBERG what passed in House was equiv to 2/3 in slope. Representative Kelly wanted to raise tax elsewhere.

Approx 1.75 Admin uniform upstream fiscal contract 12 May. How reconcile this with PPT if haven't already done it.

[7:59:11 PM](#)

REPRESENTATIVE BERKOWITZ answer is don't do gas now.

[8:00:58 PM](#)

REPRESENTATIVE GATTO talked about competition.

REPRESENTATIVE BERKOWITZ don't have anyhow, stranded misnomer, there is always somebody who will sell it cheaper. We have fiscal stability so we don't need to race on this.

[8:01:13 PM](#)

[8:04:15 PM](#)

REPRESENTATIVE ROKEBERG referring to blue and yellow chart, said we are working off of bad numbers that need to be updated.

CHAIR SEATON need Barry Pullman to come in.

[8:06:41 PM](#)

REPRESENTATIVE ROKEBERG GAS REVENUE EXCLUSION (GRE)said his and Representative Kelly's bill got interrelated by happenstance, not by plan.

[8:09:01 PM](#)

CHAIR SEATON NR's idea works whether ... or not.

REPRESENTATIVE ROKEBERG right.

CHAIR SEATON said that makes sense to do it that way.

[8:10:50 PM](#)

[8:11:40 PM](#)

REPRESENTATIVE KELLY, regarding Representative Berkowitz' point about two systems: heard they want one regime. Not sure whether that's significant or just an inconvenience.

[8:12:11 PM](#)

REPRESENTATIVE BERKOWITZ that are sections in the PPT bill re: apportionment. Regarding concern that Gatto had

[8:13:08 PM](#)

REPRESENTATIVE KELLY regarding .5 and 2/3. Took something that Econ One generated and put it in place.

[8:14:29 PM](#)

REPRESENTATIVE BERKOWITZ credited Senator Guess for working that out.

[8:15:22 PM](#)

^CHAIR SEATON to Issue 3: What is effect of \$25 million per company direct rebate of transferable tax credits? (H) Concern of small independents only one place to sell Philosophy was to protect the state's other revenue sources. Trying to get the dollars back to the people actually putting investments into ground. \$10 mill rebate in House Resources Standing Committee and up to \$20 in House Finance Committee. Debate on that. Senate does not have direct rebate plan. That's another issue to discuss. ARM Board, or could do it with permanent fund.

[8:15:46 PM](#)

REPRESENTATIVE GATTO like the idea of allowing the ARM Board to do something. It would be their decision.

[8:20:49 PM](#)

CHAIR SEATON just putting one more buyer out there for transferable credit, but establishing a floor. Need feedback from Senate.

[8:21:49 PM](#)

REPRESENTATIVE KELLY some amendments with merit fell off because they were considered not to be in the subject of tax bill.

[8:23:13 PM](#)

REPRESENTATIVE KERTTULA should be some limit as to how far in the future the credits should go. Ann Dickenson during House Finance Committee meeting testified that that is a concern.

Liked letting small companies in to take part in the base credit.

[8:24:23 PM](#)

REPRESENTATIVE GRUENBERG careful study needed, subject is complex and different than rest of bill; consider stand-alone bill.

[8:25:54 PM](#)

[8:26:41 PM](#)

REPRESENTATIVE ROKEBERG decide public policy for expanding market. Great concerns about doing that. Real concern is to protect the state's cash flow and revenue stream.

[8:27:13 PM](#)

CHAIR SEATON House Resources Standing Committee had \$40 mill limit.

[8:28:32 PM](#)

REPRESENTATIVE ROKEBERG put \$50 thousand limit in House Finance Committee.

[8:29:04 PM](#)

CHAIR SEATON regarding "lost carry-forwards."

[8:29:31 PM](#)

^CHAIR SEATON to Issue 4: What is the effect of the 5,000 bbl base allowance capped at 14 million? (S) Asked if anybody is familiar with the Senate version. Suggested the need for more people to explain the differences on that.

[8:30:23 PM](#)

REPRESENTATIVE GRUENBERG asked by Representative Gara to get research on other issues, too.

[8:31:46 PM](#)

^CHAIR SEATON to Issue 5: What is the effect of p22 line 11-13 (H) expense "does not need to be physically located on or near the ... lease?" (H)

[8:32:05 PM](#)

CHAIR SEATON no def of premises.

[8:33:45 PM](#)

REPRESENTATIVE GARDNER heard from more than one expert is ingredients of net profit need to be defined.

[8:33:55 PM](#)

REPRESENTATIVE KELLY not involved in this

[8:34:24 PM](#)

REPRESENTATIVE GATTO question

[8:34:41 PM](#)

CHAIR SEATON out of HRES everything was tied to the lease.

[8:35:07 PM](#)

REPRESENTATIVE GRUENBERG take it out entirely or limit it.

[8:35:23 PM](#)

[8:35:33 PM](#)

REPRESENTATIVE LYNN said the closer the better (leases?)

[8:35:40 PM](#)

CHAIR SEATON no disagreement among this group.

[8:36:14 PM](#)

REPRESENTATIVE GRUENBERG page 21, line 31 to page 22 top, matter of public policy.

[8:36:57 PM](#)

REPRESENTATIVE KERTTULA COULD TAKE SECTION out, but we need to be concerned about the next step. Take one more layer to fix.

[8:38:01 PM](#)

CHAIR SEATON suggesting?

[8:38:37 PM](#)

REPRESENTATIVE KERTTULA not sure, but has to go to the next level.

[8:38:46 PM](#)

REPRESENTATIVE GRUENBERG this is an example of one issue that is fairly complex, and care needs to be taken.

[8:39:00 PM](#)

CHAIR SEATON we'll ask for where we need to go and what we need to do.

[8:39:31 PM](#)

REPRESENTATIVE LYNN said he identified at least six challenges which are shown on his "blog" on the Internet.

[8:39:49 PM](#)

REPRESENTATIVE GARDNER access to facilities is hindrance. Issue to consider.

[8:40:45 PM](#)

CHAIR SEATON page 22, line 26 is another issue.

[8:41:37 PM](#)

REPRESENTATIVE KERTTULA offered to supply a list to the chair.

[8:42:07 PM](#)

REPRESENTATIVE KELLY one issue is to ensure we fully understand gas and oil issues and don't get ambushed by the credits. Resolved gold plating and triple dipping issue.

[8:42:39 PM](#)

REPRESENTATIVE CISSNA expressed a concern regarding not hearing discussion related to the social costs of these kinds of developments. Enormous effect from the amount of publicity. In 70s loads of people arrived and they stayed. That will be a feature that is a bigger problem now than it was then.

[8:43:54 PM](#)

REPRESENTATIVE GRUENBERG from Gara, via Dan Johnson, listed questions for consideration.

[8:46:39 PM](#)

CHAIR SEATON field-by-field analysis is a whole rewrite of the PPT, which we can do. Dan Johnson said the PPT worked well under the design constraints.

[8:47:28 PM](#)

REPRESENTATIVE GRUENBERG haven't gone anywhere near the .375 Johnston suggested. Third issue: whether there should be requirement of working interest provided by owners not to exceed 10 percent access to facilities. That was in [Representative Kerttula's] amendment that did not get adopted.

[8:48:23 PM](#)

REPRESENTATIVE KELLY idea of a floor.

[8:49:50 PM](#)

CHAIR SEATON 5% gross royalty built into this model of this bill. It's not as if it's too foreign...

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REPRESENTATIVE KELLY

[8:51:26 PM](#)

CHAIR SEATON on House floor we did put a floor on the pro.

[8:52:30 PM](#)

REPRESENTATIVE BERKOWITZ there are 2 models within the state's purview. DNR is one and we should have access to it. Another issue is one of auditing.

[8:52:46 PM](#)

REPRESENTATIVE GATTO oil and/or gas. Under the definition you can exclude one over the other.

[8:54:21 PM](#)

REPRESENTATIVE GRUENBERG early Alaska Supreme Court case.

[8:56:19 PM](#)

REPRESENTATIVE KERTTULA abandonment costs, audit authority, point of reduction, definitions on overhead, and whether or not we should ... companies....

[8:56:41 PM](#)

REPRESENTATIVE KELLY need to remember that the bill that the House sent didn't pass in Senate because too low.

[8:57:49 PM](#)

CHAIR SEATON chart of "side-by-side."

[8:59:14 PM](#)

REPRESENTATIVE BERKOWITZ gas contract. Discussion prior to seeing gas contract, but now we've seen it.

[9:00:16 PM](#)

CHAIR SEATON said he requested Econ One and Pedro van Meurs for information regarding gas exclusion. Hear back whether analysis is correct.

[9:01:17 PM](#)

REPRESENTATIVE GATTO regarding Econ One chart.

[9:02:03 PM](#)

CHAIR SEATON reviewed some things that happened on the House floor. Cap at 50 percent.

9:02:44 PM

CHAIR SEATON invited those in audience to submit comments to his office.

9:04:12 PM

^ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:04:26 PM.