

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 8, 2006**  
**9:02 a.m.**

**CALL TO ORDER**

Co-Chair Lyda Green convened the meeting at approximately [9:02:54 AM](#).

**PRESENT**

Senator Lyda Green, Co-Chair  
Senator Gary Wilken, Co-Chair  
Senator Donny Olson  
Senator Fred Dyson  
Senator Lyman Hoffman

**Also Attending:** SENATOR TOM WAGONER; SENATOR BEN STEVENS; SENATOR GARY STEVENS; SENATOR CHARLIE HUGGINS; Juneau public testimony was heard in the order reflected in the minutes.

**Attending via Teleconference:** Statewide public testimony was received in the order reflected in the minutes.

**SUMMARY INFORMATION**

SB 305-OIL AND GAS PRODUCTION TAX

The Committee heard statewide public testimony on the bill. The bill was held in Committee.

#sb305

CS FOR SENATE BILL NO. 305(RES)

"An Act providing for a production tax on oil and gas; repealing the oil and gas production (severance) tax; relating to the calculation of the gross value at the point of production of oil or gas and to the determination of the value of oil and gas for purposes of the production tax on oil and gas; providing for tax credits against the tax for certain expenditures and losses; relating to the relationship of the production tax on oil and gas to other taxes, to the dates those tax payments and surcharges are

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

This was the ninth hearing for this bill in the Senate Finance Committee.

Co-Chair Green noted that in order to accommodate all persons desiring to comment, a time limit on testimony might be imposed as the hearing progressed.

JUDY BRADY, Executive Director, Alaska Oil & Gas Association (AOGA), testified via teleconference from an offnet site. AOGA member companies have maintained a presence before the Legislature in regards to this legislation, as they "have as much at risk as the State of Alaska in the outcome of this legislation." These companies would be providing the "final grade on the success or failure" of any action undertaken by the Legislature. "They will either continue to invest in Alaska at the levels needed to stop production decline or they won't. .... The oil and gas companies operating in Alaska want this experiment in tax strategy to be successful".

Ms. Brady characterized this legislation as "unprecedented". She quoted Dr. Pedro van Meurs, an international oil and gas

consultant hired by Governor Frank Murkowski's Administration, as saying the Petroleum Profits Tax (PPT), which is the term used when referring to the tax proposed in this bill, "will make Alaska's tax system unique in the world. It represents the largest tax increase against a single industry in the history of the United States. It has a paradoxical goal of increasing taxes" while attempting to encourage investment. "Alaska's tax system will either be a model or a lesson. This is a huge challenge for" both Legislators and the oil and gas industry.

Ms. Brady disclosed that AOGA is running its first television advertising campaign in 15 years. The campaign consists of a review of the past 50 years of oil and gas activity in the State and a preview of the activity over the next 50 years. Today, the industry affects 34,000 jobs and provides 90 percent of the revenue in the State's general fund. The future of the industry would be affected by the actions taken on this bill.

Ms. Brady noted legislators share many of the industry's worries: "a half empty pipeline; declining production on the North Slope; declining oil and gas production in Cook Inlet. The high prices are masking the affects of falling production. We worry about how this legislation will affect the industry's ability to stop the decline. The precarious balance between increasing taxes, increasing investment. We worry that each time you change the tradeoffs you risk that balance. If the tax rate is too high and in addition too much value is taken off the medium to high price end, Alaska jumps to the high cost, high tax [indiscernible] in worldwide competition for investments without the reserves to justify the jump. It is entirely possible for Alaska to price itself out of the investment market. How much is too much? As more information is made available through these hearings, concepts of what is too much and what is reasonable for Alaska's environment are evolving."

Ms. Brady noted that in recent testimony before the House of Representatives Finance Committee, Dr. Anthony Finizza, an energy economist with Econ One Research Inc., a consulting firm hired by the Murkowski Administration, cautioned against implementing a production tax or credit structure exceeding 20 percent. The question is "how much is too much, what is reasonable for Alaska's resource base?" While Mr. Finizza's presentation had urged Legislators to include in their decision-making consideration of such things as full cycle Net Present Value (NPV) and post [indiscernible] development discount rates,

she suggested Legislators also conduct "the look out the window test. Who's out there and what are they investing? Just how competitive is Alaska right now at the highest oil prices in years?" Legislation should be developed that would make Alaska more competitive. This would encourage exploration companies to invest in Alaska rather than in Canada and in other parts of the United States. The worry is that the higher tax rate and the concept of progressivity might be detrimental to business. "Some ideas historically have never worked out the way they were intended and a windfall profits tax is one of them. You seem to have lost track of the fact that a net profits tax is progressive."

[9:07:40 AM](#)

Ms. Brady addressed "the question of whether or not it might be a good idea to set tax rates high, and then lower them later if Alaska doesn't get investment", by restating a warning issued by Dr. van Meurs: "it takes ten years to recover your investment position if you lose it with a faulty tax strategy". Continuing, she noted, "this tax legislation is not intended to lose Alaska's investment position, it is an attempt to improve it. We don't have ten years to get it right." Each consultant and industry company has communicated "this tax legislation must be transparent; to be effective it must be simple. All of us need to understand the tradeoff and the likely consequences. The State and the companies must understand it in the same way. Right now, AOGA's tax committee is working on technical amendments, which we hope will promote this understanding, or at least help clarify where there are differences of opinion. We will submit these amendments for your consideration next week. You are spending hundreds of hours asking the right questions. Thank you. Keep asking them. Please don't pass this legislation out until you are satisfied you have the answers you need. How is Alaska challenged? What is the production potential? How can we insure this production? How can we attract the investment required? Who is our competition? And the most important question: How can Alaska break out of pack? The stakes are very high. We were being very serious when we said in our ads, Legislators, you are writing Alaska's future."

Co-Chair Green appreciated Ms. Brady's testimony and asked her to submit a copy of her remarks.

Ms. Brady agreed to provide her remarks. She voiced appreciation for the Committee's endeavor to compile a list of questions to be further addressed. [NOTE: The Question and Answer Panel discussion was conducted at the April 10, 2006 Committee hearing. See SFIN 0410060903AM.]

Co-Chair Green acknowledged and understood that AOGA would be submitting a response to the questions.

[9:09:23 AM](#)

Senator Dyson appreciated Ms. Brady's comments and recognized her knowledge of the industry. To that point, he asked her opinion in regards to how the Legislature could best "represent the interests of the people of Alaska when oil prices are above the point at which the companies appear to have made their economic decisions. Should the people of Alaska be able to enjoy more of a return off the depletion of their resource and how should we go about figuring out what that return to the people of Alaska should be in order to be fair to them?"

[9:10:16 AM](#)

Ms. Brady judged this to be a "really good ... basic question". Her response first addressed the concern that the Economic Limit Factor (ELF), which is the State's current oil tax structure, "has not been working through the years" and has not provided the people of the State "their fair share over the years". To that point, she noted that during the past 40 years, the State has received in excess of "40 percent of the revenues from the oil industry". During the years 1986 through 2003, when oil prices ranged between \$17 and \$22, the State received a minimum of 64 percent of oil revenues.

Ms. Brady pointed out that "the State continues to benefit every time there's more production". The price of oil would be insignificant were there no increase in production. Production has declined much faster than what was anticipated in 1989 when the ELF was modified. As a result of that modification, the State provided an additional two billion dollars from Prudhoe Bay and Kuparuk field production. The State would be in "serious trouble" were production levels to decline to 600,000 barrels a day, as it would be "unable to fulfill its royalty contract with Flint Hills in Fairbanks". That would have "huge consequences" in that area.

Ms. Brady identified increased investments, additional production, and the gas pipeline as the key elements to the future of the State.

Senator Dyson agreed that "reasonable" efforts must be undertaken to increase production and further the gas pipeline. The question is, were production to increase, "what is the fair return to the people of Alaska for the depletion of their oil when the prices go above the point at which the companies have been making their economic decisions?"

[9:13:09 AM](#)

Ms. Brady stated "the net production tax is progressive: when prices go up and profits go up, the State benefits...hugely." Continuing, she noted that oil companies do not anticipate prices continuing at current prices for longer than the next two or three years. When prices are low, the oil industry "takes the hit and they take the risk"; therefore to counter that, high prices are necessary in order to allow them "to continue to invest". Oil price levels during the last 40 years have been insufficient to entice new companies to invest in the State. Therefore, she asserted that a 20 percent net profit tax would be fair to the State.

Due to the number of people desiring to testify, Co-Chair Green limited testimony to two minutes per person.

[9:15:04 AM](#)

JAMES GARHART testified via teleconference from Matanuska-Susitna (Mat-Su). The 20 percent tax proposed in the Governor's bill is insufficient and should be increased. The prices being charged to consumers at the gas pump and the record profits being experienced by the oil companies substantiate increasing the proposed State tax. 25 percent would be a more reasonable tax rate. Legislators are more concerned with political positioning than working to benefit the people of the State.

[9:16:47 AM](#)

CHRIS JOHANSEN testified via teleconference from Fairbanks. He, "like many others, has a strong opinion on this issue". His engineering degree from the University of Alaska and his

experience working with oil activities in Prudhoe Bay, have assisted him in understanding the complexity of this legislation. He could understand furthering this legislation were the State to enact a long-term fiscal plan and were current revenues unable to provide for the basic needs of the State. "However, just the opposite is true." Some Legislators take great pleasure "in placing their hands around the neck of the goose that lays the golden egg, choking it until it passes out, hoping they don't kill it." He recounted a story about an attempt "to do the right thing" that failed. Rather than increasing tax revenue to the State, the increased taxes would result in decreased production, reduced employment opportunities, and increased prices.

[9:19:14 AM](#)

KAREN CONOVER testified via teleconference from Fairbanks. She is a fourth generation Alaskan whose family has been long-term participants in the transportation industry. The majority of the family's business is dependent on the oil industry. While the family is supportive of the gas pipeline and increased exploration, the impacts of changing the provisions in this legislation beyond that proposed by the Governor are of concern.

[9:20:10 AM](#)

JIM GILBERT, President, Alaska Support Industry Alliance and President, Udelhoven Oilfield Services, Inc. testified via teleconference from Kenai in support of the original PPT bill as introduced by Governor Murkowski. He read his written testimony [copy on file] as follows.

April 4, 2006

Petroleum Production Tax CS SB 305

Every one of the changes in the Senate Finance Committee CS jeopardizes oil and gas investment in our state, which means the Senate Finance Committee is jeopardizing the future of every small business owner in Alaska that supports the oil and gas industry. Every current and prospective producer has testified to that effect, including the independents Alaska is trying to lure to explore here.

The gas fields of Cook Inlet provide gas to the local utilities that supply electricity and distribute natural gas to Anchorage and Kenai Peninsula area residents. The PPT as currently proposed will increase the severance tax on the majority of the gas used to supply the utility companies. The utility sales contracts recognize that production taxes are a cost. Any increase in taxes will therefore result in a direct increase in the cost of natural gas and electricity supplied to residential and business consumers. In addition, the two large industrial users of gas, the fertilizer plant and the LNG [liquefied natural gas] plant, ultimately must absorb any increase in the cost of gas making them less competitive in the world market.

If enacted, the CS will leave Alaska with the highest tax rate and highest cost structure in the United States, putting Alaska at a competitive disadvantage for new investment.

Our concern for the future of Alaskans is compounded by the lack of a state fiscal plan for managing surpluses in a high-price environment like we're currently experiencing. How will we balance the budget when prices are low? The state budget was slightly more than \$2 billion two years ago; it's projected to be as high as \$3.8 billion in another two years.

As the President of the Alliance and also as President of my own company, I urge you to choose sustainable economic growth through new investment over unsustainable government growth through higher taxes in crafting new severance tax methodology.

Reject changes represented in CS SB 305.

[9:22:39 AM](#)

WILLIAN PHILLIPS testified via teleconference from Kenai and read from his prepared testimony [copy on file] as follows.

Testimony on Oil Taxes, Senate Hearing, 8 Apr 2006

I am here to present a reality check and a big Hoorah to those Legislators who have developed the backbone to stand

up for Alaska and honor their oaths despite pressure from a gullible governor and legions of oil industry lobbyists.

To the honorable: HOORAH!

Reality check: Big Oil is engaged in a disinformation campaign to con Alaskans on oil taxes and a gas pipeline. No matter how often a phony story is repeated, it does not make it true.

There are no state or Federal laws or regulations requiring Big Oil's ad campaign to be truthful. They're not trying to sell you a product or get you to buy stock. It is the legal duty of oil executives to maximize return to stockholders by any legal means necessary.

I expect you'll get non-profits testifying for no taxes in response to what is essentially extortion by Conoco. Conoco representatives effectively threaten to stop their funding if taxes were changed. If Alaska had an independent attorney general there would likely be a criminal investigation.

Big Oil will not walk away from Alaska because oil taxes are raised to a level compared to other countries in the world. Other oil companies are prepared to step in to earn the huge profits available.

The oil companies were making profits in the 80's when oil was about \$9 a barrel and wages were high enough for little Kenai to support a Nordstrom store. Since then, they have run off most unions, dropped wages, and Kenai's Nordstrom's is long gone.

Other countries are nationalizing their oil resources freezing Big Oil out. Why else do you think some big players who left Alaska in the past are returning? Remember the oil executive who last week smiled and declined to answer if they were going to pay Libya's 90% to get back in country?

The oil was not created by the oil industry as Big Oil would like the gullible to believe. If they could get the oil without hiring a single person, they would. When the

oil is gone, they will leave and likely leave a mess behind.

Big oil is implying that lower oil taxes will soon get a natural gas pipeline built. And pigs will fly too! Big Oil is using it as a carrot to con some Alaskans, like out governor, into lower taxes on oil.

Conoco/Phillips is buying Burlington Resources, a major holder of natural gas reserves in the lower 48 and Canada for about \$30 billion. Does anyone think CP management is stupid enough to flood the market with Alaska gas and destroy its investment in Burlington?

Other big holders of Alaska gas have gas interests elsewhere they can bring to market sooner and at higher profit. There is no benefit to them to build an Alaskan natural gas pipeline any time within the next 10 to 15 years, and the Canadians are insisting their gas goes to market first maybe by 2011. Alaskan gas is in the ground. It won't go anywhere. There is no big cost to keep it there, and it will just keep increasing in value. Pure economics and pure profit motives drive big companies!

Stand firm for Alaska's fair share on oil! Hoorah!

[9:25:39 AM](#)

PAUL LAIRD, General Manager, Alaska Support Industry Alliance, testified via teleconference from Anchorage and read his testimony [copy on file] as follows.

Thank you, Chairwoman Green. My name is Paul Laird, and I'm general manager of the Alaska Support Industry Alliance. I'm testifying on behalf of the Alliance, a trade organization representing companies that provide goods and services to Alaska's oil, gas and mining industries.

Madam Chairwoman, members of the Finance Committee, the Alliance, and our 400 members, and their 30,000 Alaskan employees have one simple message for you with regard to a new profits-based oil and gas production tax: Don't gamble with our future.

We need a healthy oil and gas industry and steady, long-term oil production.

We need a gas pipeline.

We need sustainable state revenues.

We need oil and gas investment, and the jobs and business opportunities it provides.

The original 20/20 deal negotiated with the producers brings us closer to all of them.

The committee substitute to Senate Bill 305, in its current form, puts all of them at risk.

A billion dollars a year in the hand beats two billion in the bush, and there's too much at stake to jeopardize it all just to make state government even bigger.

Don't gamble with our future. Adopt the 20/20 plan in its original form.

[9:26:52 AM](#)

MARY SHIELDS, General Manager, Northwest Technical Services, testified via teleconference from Anchorage. Her testimony [copy on file] is as follows.

As General Manager for Northwest Technical Services, a company which provides employees to a variety of industries, including the oil industry, I usually approach you and other members of the Legislature on matters that deal very specifically with Wage and Hour, Worker's Compensation and Workforce Training both in title and content. In this case, however, I am concerned that the impact on the workforce and future employment for NWTS' 100+ employees and other Alaska workers may not be quite as evident to others as it is to us.

The crux of the matter is - the more money that goes into the State government in taxes, the less money there will be for investment by the companies in the private sector into new projects and the redefinition of current fields to stem declining production. Reduction of investment will mean

reduction of jobs some of which are directly related to the oil and gas industry, many of which are the "fallout jobs" where most Alaskans work, i.e. at grocery stores, hardware stores, the State of Alaska, etc.

It has also been made very clear that the PPT is, in some fashion, being tied to the gas contract. This impacts even more jobs and opportunities - for Alaskans and, to go beyond our borders, for other U.S. citizens. It has taken us far too long to get to this point in history to jeopardize it now with a taxation rate that could result in a tax and cost rate higher than anywhere else in the United States. This gas line is our future and the future of our state. The monies it will generate will far outweigh those we might realize by the change in the tax rate that has been proposed by the House Resource Committee.

I ask that as you deliberate over the next few days as to which changes you are going to retain prior to sending this Bill forward, you step back and consider all the ramifications of these decisions, particularly the impact on jobs, future development and the quality of life for this and the next generations of Alaskan citizens.

With the resistance of the U.S. Congress to the opening of ANWR, this is our next "big strike". As Senator Ted Stevens' affirmed in his address to the Legislative body, it is a decision that will set the course of the State of Alaska for many years to come.

At this time, I ask that you and your committee reexamine the changes made to SB 305, which are contained in Senate Resources Committee substitute, CSSB 305.

[9:29:36 AM](#)

KATHY WASSERMAN, Representative, Alaska Municipal League (AML), testified in Juneau. AML has endeavored to inform members about the PPT bill, as part of the services AML provides to its members "to keep them involved" and apprised of Legislative activities. To that point, she conveyed municipalities' support of the efforts Legislators are making to address this difficult issue. "It is time to address it." While good healthy industry contributes to the well being of municipalities, AML also

believes the citizens of the State "should have the opportunity and benefits when oil prices are high and large profits are being realized by the oil company." Like ELF, the proposed PPT bill might require modifications over time. To that point, AML is confident that the Legislature would appropriately address any changes deemed necessary in the future.

[9:31:21 AM](#)

Senator Olson asked whether AML is supportive of a 20/20 tax/credit rate or a 25/20 tax/credit rate.

Ms. Wasserman responded that AML member communities have not taken a position on that issue. AML would defer to the judgment of the Governor and the Legislature.

[9:32:02 AM](#)

CHARLIE FANNON testified via teleconference from Mat-Su and stated that the reality is that the world needs and is willing to pay for oil and gas resources. "The companies that produce and market these resources are making record profits." Federal government economists predict continuing high prices. The Organization of Oil Producing Countries' (OPEC) oil minister has indicated the desire to control production to obtain a price of \$80 per barrel. "Don't gamble with Alaska's future, hold the oil companies to a fair and equitable contract based on what you see going around in the rest of the world." He also recommended developing a flexible contract "that could be changed in ten years" as opposed to one that must be adhered to for 30 years. The work being conducted by the Legislature on behalf of the people of the State is appreciated. There is no "need to hurry" on this legislation, as the State's oil and gas reserves would not dissolve, and the oil and gas needs of the world would continue. He requested the Committee take its time and develop legislation that would best benefit the people of the State.

[9:33:48 AM](#)

ERNEST LINE testified from Mat-Su and asked whether Committee members completely understood the bill. Continuing, he questioned whether the Committee had determined this bill to be to the "best possible" solution for the State and its people. The Governor's bill "is the result of" long-term negotiations by the Administration. Therefore, he questioned the reason the

Legislature felt "incumbent" to reconfigure the legislation within the confines of a short time period. Passage of an imperfect bill would bind the State. He asked members to read both the Editorial and an article written by former Legislator Ray Metcalfe, which appeared in the April 7, 2006 edition of the Frontiersman newspaper.

Mr. Line supported constructing an All-Alaska gas pipeline terminating in Valdez as opposed to the proposed gas pipeline route would be transiting over and "subject to " the dictates of a foreign nation. Alaskans would benefit more from the construction of a domestic pipeline.

[9:36:29 AM](#)

TOM ZIMMERMAN, JR., testified via teleconference from Fairbanks in support of the Governor's 20/20 proposal. Considering the industry projections of a six percent annual decline in production of oil, "it would be ill-advised to risk the loss of capital investment from the oil companies at any level because of an unfair and unrealistic level of taxation. ... A doubling of investments would be required to decrease" the projected decline to three percent. He believed that oil companies provide approximately 90 percent of the State's funding. Increasing the tax rate on the oil industry could be likened to "going beyond squeezing" the neck of the Golden Goose to a point of strangulation. While he has been able to earn a living in the State, all of his three children have "sought their futures outside of the State". He worried as to how the State could provide job opportunities for future generations of Alaskans if "we unfairly, through greed, try to extract and squeeze the last nickel from the very source that generates" employment opportunities.

[9:38:15 AM](#)

DENNY SCHLOTFELDT testified via teleconference from Fairbanks and testified as a lifelong resident of Fairbanks. Only three of his high school classmates continue to reside in the community as most others left due to the lack of employment opportunities. Fortunately, due to increasing private industry "investment in Alaska", employment opportunities are expanding. Many of those businesses support oil company or mining activities. Private industry rather than government efforts have changed the

employment scene. He thanked the Legislature for its actions "to encourage private development in this area".

Mr. Schlotfeldt was uncertain of his support for the options being presented in regards to the PPT. To that point, he suggested that the Legislature take no action on the PPT until the Governor publicly provided the details of the Gas Pipeline negotiations. It would be "unfair" to the people of Alaska to testify on this bill while the Governor treats the gas pipeline as "the carrot on the stick" in regards to the PPT, but "leaves everyone in the dark" about it.

Mr. Schlotfeldt declared that due to the fact the oil companies have determined that the construction of a gas pipeline through Canada with a timeline of 2012 would be the most economical decision the Legislature need not rush to make a decision this year. Further information should be sought.

[9:41:35 AM](#)

HAROLD HEINZE testified via teleconference from Anchorage and stressed, as a citizen of Cook Inlet, that the impact of the PPT on Cook Inlet production has not been "adequately addressed". He forecast a "looming supply disaster and major cost increases to the consumers" in the Cook Inlet area. Cook Inlet differs from other oil and gas production areas of the State "in that that production is used in the area." In addition, the approximate two-thirds of the State's population who reside in the Railbelt area of the State rely on "the production of gas in this area for their supply of electricity and heat." Any increase to the cost of gas would impact those prices. The current provisions in the bill "are based upon evaluations and considerations of the investment" and economic decisions on the North Slope. "The economics of Cook Inlet are much more difficult." He supported the [unspecified] issues raised by Senator Tom Wagoner and requested that consideration be given to either zeroing out or insuring "no changes be made to the current severance tax provisions in Cook Inlet ... until further consideration to Cook Inlet production has transpired."

Mr. Heinze, a former commissioner of the State's Department of Natural Resources, suggested "the usage within the State that's associated with Cook Inlet, provides more than an adequate basis in terms of taxation and fees for this area to receive a different treatment based upon valuation by" the Legislature.

Co-Chair Green asked Mr. Heinze to fax his testimony. She also requested other testifiers to fax or otherwise provide their written remarks as well.

Mr. Heinze indicated he had spoken extemporaneously.

Co-Chair Green informed Mr. Heinze that the Committee has developed a set of questions regarding the PPT. She would send a copy of the questions to him and would appreciate his response.

Mr. Heinze affirmed.

Co-Chair Green offered to send the questions to any interested party.

9:44:59 AM

MICHAEL KOY, Former British Petroleum Employee, testified via teleconference from Anchorage and spoke to the question of whether increasing the tax on the oil and gas industry would affect their investment in the State. Based on his experience in "economic evaluations and business development in the oil and gas industry", he determined "the answer simply is maybe". A correctly designed tax structure might not have a negative impact, as the tax is one of several components affecting the investment decision. He likened the PPT to the United States income tax structure with standard deductions, which "is based on the premise that the more you earn, the higher the tax bracket should be ... This is an accepted practice, and there's little reason" to believe that the same premise could not be applied to the oil and gas industry. However, to determine whether or not it would impact investment, three important per barrel oil price ranges should be considered: prices less than \$20 per barrel; \$20 to \$30 per barrel; and prices higher than \$30 per barrel. "Most oil companies and all the major companies use fixed prices when making investment decisions." That price has traditionally ranged between \$20 and \$30.

Mr. Koy communicated that a tax structure developed in consideration of this \$20 to \$30 oil price range would assist in making Alaska an attractive location for investment. The Senate Resources Committee version of the bill "creates a higher tax burden on industry within this" price range than does the State's current Economic Limit Factor (ELF) tax structure, which

already places the State at a disadvantage in comparison to other global tax structures. In order to attract investment or lessen the dis-attraction, the State's tax regime should be lowered below the 25-percent tax proposed in the Senate Resources committee substitute. It would be reasonable to develop a tax structure on prices exceeding \$30 a barrel. This would assist in maintaining the health of the underlying business and would not negatively impact investments. A graduated progressive tax system could be implemented.

Mr. Koy opined that furthering the Senate Resources provisions would incur significant risk to the State in terms of "price, cost risk and exploration risk", in particular. The State would benefit were it to "eliminate the investment tax credit on its exploration costs; thereby eliminating the State's exposure to this risk". The State should instead "place a greater investment tax credit on heavy oil". Large heavy oil discoveries near existing infrastructure exist. Heavy oil could be brought on line fairly fast and the "technical risk" would be to the industry rather than to the State. In conclusion, he urged the Committee to keep the gas pipeline project separate from the PPT issue.

[9:49:19 AM](#)

MERRICK PIERCE, North Pole Resident, testified via teleconference from an offnet site and communicated that, while the State's existing oil tax structure should have been revised earlier, the Governor's PPT bill "is a disaster". Of primary concern is its net profit tax basis, as the net profits tax imposed on the mining industry has only earned the State ten million dollars of the mining industry's gross revenues of \$1.5 billion. "That's less than one percent". Representative Paul Seaton's proposal to implement a mining tax based on gross profits rather than net "is the right direction to go" with the PPT.

Mr. Pierce urged the Committee not to "repeat history" and pass a complex bill, as it would echo the "complex litigation" that has accompanied the existing oil tax structure and cost the State billions in lost revenue. Progressivity should be included in the structure as well as an effective date of January 1, 2006. This date would assist in mitigating the millions of dollars the State has lost due to ELF. The Legislature should listen to the recommendations of their consultants. "The very

worst aspect" of Governor Murkowski's proposal is his effort "to tie oil taxes to the gas pipeline ... There is no reason in the world we should be giving concessions on our oil since a competing proposal for a gas line" from the Alaska Gas Pipeline Port Authority does not include "oil giveaways and no State subsidies."

Mr. Pierce referred to remarks included in a memorandum from former Department of Natural Resources Commissioner Tom Irwin, which specified that no "quantitative evaluation of alternatives such as applications submitted under the Stranded Gas Development Act" had been conducted. A full public disclosure of alternatives should be provided for gas pipeline contract evaluation purposes. The Legislature should pass a simple bill separate from consideration of the gas pipeline.

Co-Chair Green asked that Mr. Pierce provide his written testimony to the Committee.

[9:53:10 AM](#)

GARY HUTCHISON, Fairbanks Resident, testified via teleconference from an offset site and voiced appreciation for the effort to adjust oil and gas production taxes. The desire is that this legislation would implement "the right thing". Current concerns include an aging pipeline and declining North Slope oil production. "It is also frustrating ... that our major industry is subject to international market pressures." Emotions should not influence the development of good public policy. "Higher taxes will not attract investment, but they can force investment to other locations." The development of a gas-line is imperative. He urged the Committee to support the Governor's proposed 20 percent tax structure. He told a story about how the community of Fairbanks lost a project to another region of the State due to greed. Doing the "wrong thing" with this tax structure would not result in industry investment.

[9:56:01 AM](#)

MIKE MILLIGAN, Former Member, Kodiak Island Borough Assembly and Former Charter Member of the Cook Inlet Regional Advisory Committee under the Oil Pollution Act of 1990, Parent, and Taxpayer, testified via teleconference from Kodiak in opposition to the Governor's tax proposal. The oil companies professing they would invest elsewhere were the State to increase its oil

tax should disclose where they would be investing due to "a better situation". They should disclose how they would generate profits in places such as Angola, Nigeria, and Bolivia, which have oil and gas reserves. Committee members should also question what the State could do to "create another ARCO" as "oil and gas development in this State is still coasting on the innovation and the risk and the initiative that was taken by" that one company. The State should endeavor to develop policies to attract "a medium sized oil company that's going to resume that role..." Large oil companies such as British Petroleum and Exxon "are going to leave no matter what because we're dealing with a commodity".

Mr. Milligan stressed that the tax structure on Cook Inlet should be differentiated from that imposed on the North Slope. Concessions should be made for Cook Inlet, as it is a different operation. The gas pipeline issue should also be a separate discussion.

[9:58:52 AM](#)

HILLARY MCINTOSH's remarks [copy on file] were read into the record by SHIRLEY NELSON, testifying via teleconference from Anchorage, as follows.

Thank you for this opportunity to speak on the Committee Substitute to SB 305. Madame Chairman, my name is Hillary McIntosh and I live in South Anchorage. I am here to tell you how your decisions on this tax bill will affect my family. My husband and I both derive our livelihood from the oil and gas industry ... reaching further, so does my sister, brother-in-law, uncle and many friends. I am sure this is a common statement among most Alaskans.

Every producer, majors and independents, has indicated that higher taxes as proposed by the legislature will result in less investment in the Slope. What does that mean to me? What does that mean to my husband, my family members and friends that support the oil and gas industry? I believe it means fewer opportunities for professional growth, a fear of job instability and a distinct disincentive to stay in Alaska.

Short term revenues for government are not worth throwing away long-term investment for Alaska's future. How will

this all pan out when my daughter graduates from college in 2027? Will she want to stay in Alaska? Will the oil and gas market be thriving then? It may not be if you overstep the producers' threshold. Don't let Alaska's biggest export become its children.

Less money to invest in the majors' own industry will certainly mean less money to invest in Alaska's communities as well. Between my husband and me, we sit on several boards and are involved in many area non-profit entities. In fact, I even work for a non-profit. The oil industry, majors and their contractors, have been very generous to the non-profit community and it would be detrimental if their support is reduced due to your important decisions on this tax. Less investment in our communities means less support for programs that I value and feel Alaska's children need.

In the event that community support is reduced, will the State of Alaska subsidize the difference? What plan is in place to manage these windfall profits?

You can shave a sheep many times, but you can only skin him once. I watch gavel to gavel, I read the papers, I watch the news, I've seen the bills themselves ... and I think the changes made to the Governor's bill have destroyed the delicate balance between state and industry needed to ensure a healthy economy and much-needed gas line. Let's not forget that two years of negotiations went into the agreement. I am not asking you to "give in" to the producers' every whim, but I am asking you to think about the negative externalities your changes will cause and how Alaska's future may look in 10, 20 or 30 years. Do not stray too far from the Governor's proposal. Please do not jeopardize my family's future in Alaska.

[10:02:24 AM](#)

LYNN JOHNSON, President, Dowland-Bach Corporation, testified via teleconference from Anchorage and read his testimony [copy on file] as follows.

Good morning Chairwoman Green and other distinguished members of the Senate Finance Committee. My name is Lynn Johnson, and I am a 32-year Alaska resident and President

and co-founder of Dowland-Bach Corporation, a 31 year old Alaska manufacturing and specialty design and fabrication firm. As you know, I have spoken to most of you in person in Juneau, and am once again very honored to be able to present my opinions on the PPT taxation issue. I am a past President of the Alaska Support Industry Alliance, the Anchorage International Rotary Club, and currently serve on several boards, including the American Red Cross of Alaska, Girdwood 2020, the Whittier Ports and Harbors Commission, and the Alaska Export Council.

As many of you know, our firm is one of the rare manufacturing firms in the State of Alaska. We employ 28 people year round, and have taken great pride that we have essentially avoided the cyclical ramp up and ramp down over the past 31 years. We were the Export Council's "Small Business" Exporter of the Year in 2002, primarily for our manufacturing and exporting of wellhead control systems to Colombia, South America. In this instance, we used the knowledge and expertise that we learned on the North Slope to expand our controls and systems business to another oil basin of the world. This controls and systems niche that we compete in serves us well worldwide, but the bulk of our business still does originate from the North Slope and Cook Inlet. For that reason, I urge you to think very seriously about substantially changing any portion of Governor Murkowski's PPT proposal. To make additional investment in Alaska not attractive through excessive taxation would devastate companies like ours and my fellow member companies of the Alaska Support Industry Alliance.

As a business owner, I am a firm believer that economics grow through the private sector, and not necessarily public sector expansion. Several of you on the Finance Committee are small business owners like me and I am sure that you have a great deal of empathy for my point here. Greatly increased production taxes on North Slope oil will curtail investment in facilities and additional expansion necessary on the North Slope and Cook Inlet to extend production to keep TAPS full. With excessive taxation, as we have all heard time and time again, investment capital from the major producers will flow to other oil basins of the world.

In summary, lets think about this increased taxation issue from our personal perspective. If the personal tax rate on

our individual incomes suddenly doubled or tripled, would you be that willing to work that extra two or three hours of overtime? In addition, let's consider the message that we are sending to the oil industry head corporate offices worldwide. We want to double or triple your taxes on oil, we want you to continue to invest hundreds and hundreds of millions of dollars yearly in our Alaskan economy and we also want you to build a 25 billion dollar gas pipeline as soon as possible. Does that sound like a good plan to a shareholder of one of the major producers that owns stock and has no real concern about Alaska? That shareholder is just concerned that his investment in that oil company stock and where the oil comes from is none of his or her concern. For that very reason, hold the tax rates down and keep Alaska competitive with other oil producing basins of the world. Do we want the industry in Alaska for another ten or fifteen years or another fifty??? I think the answer to that question is crystal clear. We need to let the industry know this by making Alaska a good climate in which to invest over the long term. Please think long and hard about any substantial changes in taxation. The Governor's original PPT plan as submitted is a compromise that benefits everyone in the long run. Please keep your committee substitute as close as possible to the original version. The economic future of Alaska depends on it. Thank you.

Co-Chair Green asked Mr. Johnson to fax his written testimony to the Committee.

JIM SYKES testified via teleconference from Mat-Su and thanked Legislators for considering options other than those proposed by the Governor. It is good to compare a variety of options. It is also important "to de-link the system". The tax structure could be simplified by implementing a structure similar to that proposed by the Department of Revenue. The Department has suggested that taxes could be increased to a rate as high as 30 percent. A 1999 report compiled by Oil Watch Alaska found that oil companies continued to show a profit at the 1999 price of ten dollars a barrel, which was a twenty year low. The State has not recovered anything from the "upside" under the existing ELF tax structure. The "simplest system would be to take the federal share out" and split the remainder of the profits 50/50, as the State and its citizens should be considered "equal partners in the development of oil" and should therefore, "have equal share

of the profits" generated from the State's resources. This would equate "to an effective tax rate" ranging from 33 to 35 percent.

Mr. Sykes opined that had the State acted upon the information compiled in the aforementioned 1999 report, the State would have garnered an additional six billion dollars. Oil companies are threatening to leave, slow investment, or curtail support of charities, were the tax rate changed. Such response indicates that the State is "on the right track". The tax rate should be increased from the currently proposed 25 percent rate to 35 percent. The fact is that "oil companies don't have many places to go". "Alaska offers one of the most profitable and one of the most safe places to develop oil anywhere in the world." Were a company to leave, another company would "immediately replace" them or the State could also utilize the subcontractors currently used by the major oil companies.

Mr. Sykes stated that the State should ignore the oil companies' "whining and grumbling" and be successful in its negotiations by "holding the upper hand". A higher tax rate would be fair. Let the oil companies, who "have recovered more than they have lost through slowdowns", "call the bluff". He reminded the Committee that both British Petroleum and ARCO "threatened not to develop oil fields" when ELF was written in 1989. After ELF was enacted, both companies "quietly" went back to work. "If they want our oil", they should pay a fair price. The "overall question" is "who should control Alaska's economy" going forward? It could either be the multinational oil companies or the people of Alaska, as represented by the Legislature. He urged the Committee to consider a variety of tax options, a higher tax rate, and suggested that the 50/50 tax option would be "the most workable of all".

[10:11:02 AM](#)

CHARLES PASKVAN, 30-year Oil Industry Employee, testified via teleconference from Fairbanks and spoke in support of the Governor's tax proposal. He also favored using a portion of the Permanent Fund to support the gas pipeline and issuing stock certificates to each Alaskan. The State would do its citizens "a great favor by building the gas line" ourselves.

[10:12:20 AM](#)

JOHN POLAHN testified via teleconference from Fairbanks and spoke in support of the Governor's bill. During his time in Fairbanks, he has witnessed the economic impact that big industry slowdowns resulting from low oil prices, have had on the economy. Unfortunately, since the economy of Fairbanks is on the upswing, people forget the times when "the oil companies stop spending money" and jobs dissipate, stores close, and homes are foreclosed. Were the Governor's proposal not advanced, the oil companies have stated their spending and their investments in the State would decline. We cannot "afford to take this chance". The State's economy would suffer.

[10:15:45 AM](#)

JIM SAMPSON, testified via teleconference from Fairbanks, and encouraged the Legislature to make good decisions based on information provided by their consultants and what would be in "the best interest of Alaska" rather than acting due to threats from the Governor and the oil industry. The Governor should release the conditions of the Gas Pipeline contract prior to any decision being made on the PPT. The nature of the oil companies' advertising campaigns is counterproductive to their intended goals. The threats to non-profits would also generate negative feedback. He referenced a new television show called "Deal or No Deal" and stated that, unless the Governor releases the conditions of the gas pipeline proposal, there should be "No Deal".

[10:18:28 AM](#)

MAYNARD TAPP, testified via teleconference from Anchorage, and presented his testimony [copy on file] as follows.

My name is Maynard Tapp, I am an Alaska dreamer since 1954; an Alaskan worker since 1972; an Alaskan business owner since 1985; and an Alaskan resident since 1990.

I prefer a Productions Profits Tax of 15 percent over 20 percent.

What should be the primary driver in the debate regarding CSSB 305 and CSHB 488?

Create an investment climate that puts Alaska at (or near) the top of investment opportunities for our partners the

"Producers". This same climate will also raise our opportunity to attract new investors.

How do we increase production to ensure the long-term benefits from Alaska's people's resources?

What can you as Legislators do to grow the source of our wealth?

I believe we must trust our partners, our fellow citizens, those who have invested billions in the State of Alaska accruing billions to the Alaska treasury.

Undeveloped Alaskan resources have no value to Alaska's people if those resources are left in the ground.

I have learned from the various presentations on the PPT presented by the economists, and producers, and the legislators of the State of Alaska. You, the Leaders/Managers of Alaska's resources must use this information to help make informed decisions. Ultimately the experts will leave and we will be left with the results of your actions, not theirs. The experts don't live here, we do.

Do you do everything your dentist/doctor/lawyer tells you to do? No! You make informed choices based on the information they've given to you.

These bills need to be fashioned as "Resource Development" legislation not as tax revenue bills.

Are you looking at the right set of numbers, tax, or return on investment?

Is our goal to grow the resource or grow the government?

We are all partners in this deal; the government, the people, and the "producers". The "producers" reinvest the revenues and grow the source of those revenues. The people get jobs from/and related to the "producers" reinvestment, grow their wealth; reinvest in the community, and grow its wealth, and viability.

As a partner, shouldn't the government support the growth of the revenue resource and not the growth of the

government? Ultimately, the growth of the revenue source supports the growth of government but within our means.

I believe the 20% / 20% is the wrong number, it should be closer to a 15% / 20% PPT. What do your expert say the PPT number should be to attain 0 % to 3% rate of decline? What are you doing to ensure the state's revenue source lasting long enough to meet the needs of Alaska's next generation?

Today production is declining at 6% per year. Starting at 880,000 bbl/d I calculate the pipeline being mechanically inoperable by 2015. Then what?

The new technologies to bring viscous oil to market are not easy, guaranteed, or cheap.

What can you do to encourage investment? It doesn't seem like raising the tax does anything to put more money into exploration. We cannot tax our way to state solvency, in the long run we must invest/grow our way to state solvency and success.

I started a business here twenty years ago waiting for the stars to align.

1. Continuing investment on the North Slope
2. Build the Alaska Gas Pipeline to the lower 48.
3. Get legislation in place to encourage development of ANWR.

What are you, our state representatives in the House and Senate, doing to encourage development and growth of our resource pool, the source of our population's wealth and source of Alaska's state revenues? Please invest in growing the "seed corn" to keep Alaska growing now and into the future.

SHIRLEY NELSON, testified via teleconference from Anchorage, and read her testimony [copy on file] as follows.

My name is Shirley Nelson and I am here to tell you how I feel about the Tax bill before the legislature and how it will affect my family. My husband and my livelihood both depend on the oil and gas industry. All of the producers have stated that higher taxes will reduce investments on

the slope. We need to look at the long term effects of this bill versus the short term.

We need to provide a strong incentive for the oil industry to re-invest in Alaska. This will ensure jobs now and jobs for our children and their children. This will also provide an incentive for our children to stay in Alaska instead of leaving the state to find employment.

The outcome of this tax will affect every community in the state, and the economy in each community would suffer if we force the oil industry to take their investment dollars to other countries and the lower 48.

Please think long and hard before you tax the oil companies out of the State of Alaska.

[10:23:13 AM](#)

JOE RIORDON, Engineer and Consultant, testified via teleconference from Anchorage and noted he has developed many projects for oil companies in Valdez. Imposing a rate that would discourage oil development would have significant negative impacts on the communities of Delta, Valdez, and Glennallen as oil companies might make decisions curtailing activities south of Fairbanks. The North Slope crude oil could be refined in Fairbanks rather than being transited via the Trans Alaska Pipeline to Valdez. The cost of transporting via the pipeline including maintaining the pipeline could also be factors in the decision. "The decision made today will have far-reaching implications, and I am certain that the future viability of Delta, Glennallen, and Valdez would weigh in the balance of the outcome of this tax proposal." He encouraged the Committee to develop a tax system that would encourage oil production, as this would keep those communities "thriving".

[10:25:24 AM](#)

JOAN JOHNSON testified via teleconference from Fairbanks and communicated the positive impact that oil companies operating under a profit have on a community. She questioned the wisdom of increasing taxes on oil companies, as they provide the largest source of income to the State. Many businesses, including her freight and transportation company, work with the oil companies and are affected by their welfare. She would support a 20/20 PPT

tax structure. It is an increase over the current ELF. Any decision that is made should be based on the truth, fairness, the "best for all concerned" and whether it would promote "good will".

[10:28:46 AM](#)

MARK SHARP testified via teleconference from Fairbanks and remarked about the "tipping point" phase that has been used in discussions as to what tax rate would serve to increase or decrease investment in oil production. His tipping point would be triggered by another legislator asking an oil company representative another "softball question" during a hearing. Legislators, particularly those from the Fairbanks areas, need to ask the oil industry "hard" questions. Recent ConocoPhillips remarks before the Legislature's Finance Committees "threaten to visit financial distress on charitable organizations throughout the State." British Petroleum also communicated that non-acceptance of its "lowball tax restructure" would assure "destruction" of the State's urban centers. The major oil companies "seem intent on shredding the last little bit of goodwill they have" remaining with the State's citizens. Recent PPT provisions being proposed would shift the risk from the industry to the State. "Clawbacks" and "looking forward incentives" could be likened to subsidies and would cost the State billions of dollars. The oil industries' "threats" and "arm-twistings" also include furthering incentive provisions that confuse the Legislature's and Administration's accountants, economists, and consultants. Oil companies are also involved in the gas pipeline negotiations. He warned against accepting "lowball numbers dictated to us on a take it or leave it basis" and against committing to a tax structure for long terms. In summary, "government does not belong in private sector business and large projects must stand alone on their own merits without government subsidies". He asked why the oil industry has not reinvested "some of the huge profits" it has obtained from the State's resources into the infrastructure rather than threatening to move those profits to other locations. He urged Legislators to thoroughly evaluate, and strike, the "clawback" provisions being proposed.

Co-Chair Green reminded testifiers of the two-minute limitation.

[10:34:15 AM](#)

WAYNE STEVENS, President and CEO, Alaska State Chamber of Commerce, testified in Juneau. His testimony [copy on file] is as follows.

The Alaska State Chamber of Commerce supports a revision to the current Alaska oil & gas production tax. We also support a change in production tax, to a net profit tax with tax incentives for oil & gas exploration and reinvestment.

Through the PPT legislation, the Legislature has the opportunity to help define the pace of North Slope oil production for both the near-and long-term.

While the oil and gas industry in the State appears to be generally supportive of the Governor's 20/20 oil tax proposal, the State Chamber of Commerce stands firm with its traditional position that any increase in taxes needs to be carefully scrutinized for detrimental impacts on investment in the State.

If the Legislature chooses a tax rate that is higher than that proposed by the Governor, the Chamber has serious concerns about the impact on exploration and other investment, job growth and economic development in the State. We believe higher taxes could accelerate the rate of production decline, with even greater impact on jobs and economic growth in the State.

The Chamber is concerned that calls for a greater tax take from the oil and gas industry may result in damage to the long-term future for Alaskans in favor of a short term unsustainable revenue gain.

Current North Slope production is not declining because taxes are too low.

While the Legislature addresses an increase in oil taxes, the Chamber recommends they also consider developing a long-term state fiscal plan that would make Alaska a more stable economy attractive to private sector investment.

[10:36:05 AM](#)

TADD OWENS, Executive Director, Resource Development Council, testified via teleconference from Anchorage and thanked the Committee for addressing "this very important issue". While the current ELF tax structure should be revisited, the Council is concerned about the tax changes being proposed to "the one industry responsible for nearly 90 percent of the State's general fund revenue." The Senate Resources Committee version of the bill is particularly "worrisome". At current oil prices, it would add millions of dollars to the State's treasury, which is already "experiencing a revenue surplus". Little discussion has occurred in regards to how this money would "be managed over time", and the worry is that State government would grow to fit the surplus revenue. A fiscal plan should be developed that would consider times of lower oil prices. The Legislature's actions on this bill must consider how the State could become "a more competitive place for capital investment", as only through increased investment could Alaska's economy continue to be healthy. The new system must provide long-term fiscal stability rather than continuance of the historical "peaks and valleys".

[10:39:01 AM](#)

CARL PORTMAN testified via teleconference from Anchorage and communicated higher tax rates would negatively affect Alaska's competitiveness in attracting new industry and investment to address declining production on the North Slope. Even were oil prices to remain high, "lower production would compromise Alaska's revenue picture". The long-term forecast for oil production "is based on investment yet to be made by industry; moreover, that future production is based on a substantial increase in industry's annual rate of investment to slow today's steady decline in production". Thus "the key to maximizing State's revenue in the long term is tied directly our ability to attract new investment." Alaska must remain competitive with other areas of the world, and the "tax system must offset higher operating costs and the shrinking resource base". A lower tax rate than that proposed in either the Governor's bill or the Senate Resources bill should be considered.

[10:41:26 AM](#)

CHARLES KELLY testified via teleconference from Fairbanks and voiced appreciation for the efforts being exerted by the Legislature in regards to the PPT; particularly since "all the facts" are difficult to get. The majority of his 17-year career

in the State has been dependent on the oil industry. There is concern that an excessive tax rate could harm the State. The proposed PPT would significantly increase the State's revenue beyond that received at current oil prices under the existing ELF rate structure. "The tax is only a small portion of what the State" receives from oil, as such things as royalties, employment opportunities, and support business activities should be considered. In addition, gas pipeline negotiations should be a separate issue "with no ties" or "no blackmailing by the oil industry telling us what they will or won't do". The State's PPT tax structure should include "some flexibility" rather than being a 20 or 30-year agreement.

[10:43:37 AM](#)

GEORGE BERRY, Retired Oil Industry Employee, testified via teleconference from Fairbanks and urged the Committee to consider oil and gas taxation as separate but "intertwined" issues. Today's Legislators should use a similar approach on this tax legislation as that taken by the 55 Alaskans who created the State's Constitution in that they should "do what's good for Alaska first". While the existing oil tax structure "should be changed and updated", he did not support the Governor's PPT proposal for it would not provide the State "its fair share as owners of our resource" as well as most of the land on which developers are operating. He approved of the Senate's versions of the bill; particularly the progressivity factor. Credits should be limited to expenses relating to activities occurring in the State. The PPT proposal should be considered separately from gas pipeline negotiations. In the 1980s the oil industry had threatened to take their "investment dollars to Russia"; however, they are "still here". "The threats and the innuendos and all the high pressure" advertising currently being run by the oil industries should be taken with "a grain of salt". Legislators should trust their consultants' "guidance" that a tax of "25 percent is a fair balance". He questioned whether there is "sound merit" behind the Governor's "secret deal" with the major oil producers. A nationally renowned financial company recently released a crude oil price forecast of \$100 by the year 2007. As owners of the land and the resources, the Legislature should bargain for its fair share of the revenue "from a position of strength".

[10:47:23 AM](#)

GLENN DESPAIN testified via teleconference from Fairbanks and exclaimed that the Governor's bill "is an absolute sellout". Oil companies have "never been honest" with the State. The fact that the Courts have ruled in favor of the State in cases involving existing oil taxes is proof of this. He spoke in support of a tax based on the quantity of oil rather than on financial statements. He voiced disbelief of the Governor's attempt to get the Legislature to act on the PPT without providing the details of the gas pipeline negotiations, which is the "second part" of "a two part deal". Oil companies have made billions of dollars from the State's resources; however, have not made an adequate investment in further exploration. They are purposefully withholding those activities until an acceptable tax deal is reached. A reasonable tax would not drive them out of the State.

Mr. DeSpain spoke in support of taxing the oil developers who make no effort to develop their known oil reserves. Since the Governor is not releasing "the secret details" of the gas pipeline negotiations, he must be selling the State "down the river".

[10:50:39 AM](#)

JOE HEGNA, Oil and Gas Sector Leader, MWH Global, testified via teleconference from Mat-Su and noted his company was intending to increase its professional oil and gas engineering and environmental staff in the State; however, this action would be negated were the oil and gas industry to curtail its investment in the State. He worried about future employment opportunities available for his four sons, as "a healthy future" would require oil and gas investment. That in turn is dependant on taxation levels, as "the higher the tax, the lower the investment". He urged the Committee "to seek the lowest possible tax rates while encouraging future oil and gas investment".

[10:52:04 AM](#)

DAVID LOWER, Senior Vice President and General Counsel, First National Bank Alaska, testified via teleconference from Anchorage and noted the process involved in making the PPT decision should be "no different" than the process involved in making any "fundamental investment decision". He urged the Committee to support the Governor's PPT proposal, as it would "invest the State's resources to achieve an attractive sustained return for" approximately 50 years rather than putting "its

resources at risk to achieve a potentially higher rate of return" for a short-term period. The oil and gas industry support of the Governor's proposal would "assure ... an additional billion dollars a year in oil revenue" and further investment in the State's resources. This would also contribute to the overall State's economy. While a higher tax would produce increased revenues for a while, it might not incentivize future investment or further the development of gas reserves and the industries' support of a gas pipeline.

[10:54:13 AM](#)

CHUCK BECKER testified via teleconference from Anchorage and voiced disbelief that Legislators are considering doubling or tripling the tax on the oil and gas industry. Such action would "have a crippling affect" on the State's economy. He recently judged 45 business plan entries in the Alaska Federation of Natives' Alaska Marketplace Contest. The entries were creative and consisted of sound business strategies. Awards ranging from \$1,000 to \$50,000 were provided. To this point, the cumulative half a million dollars in awards was contributed by British Petroleum and ConocoPhillips. Without their support, the contest could not have been a success. The question is whether such generosity would continue were the State to significantly increase the tax on the industry. In summary, he urged the Committee "to keep Alaska competitive. Develop a tax regime that is equitable and that would spur investment."

[10:57:44 AM](#)

RAY METCALFE, Former Legislator, testified via teleconference from Anchorage in support of a tax rate that would provide "a better rate of return for Alaskans," not for the oil companies. Those who have testified against high taxes have not provided any comparisons to tax levels of other countries. The Legislature appropriately hired consultant Daniel Johnston to gather and present information on tax rates in other countries. Information on page 47 of Mr. Johnston's report [copy not provided] indicates that "the average government take" on a \$60 barrel of oil "is 92 percent". "The rest of the world gets their oil produced and shipped to market for about eight percent of the cost of a \$60 dollar barrel of oil." Were the price \$20 per barrel, the government's take would equate to 67 percent. In essence the report would indicate that it doesn't cost more to ship and produce a \$100 barrel of oil than it does to ship and

produce a \$40 barrel or a \$20 barrel of oil." Alaska is paying producers more than seven times as much as other states and countries are.

Mr. Metcalfe characterized Mr. Johnston as "one of the most renown" oil and gas industry consultants in the world, and urged the Committee to heed his advice. The State should not give its oil away. ELF was written in 1977 "and was substantially rewritten in 1982 and then again in 1989". As a Legislator at the time of the 1982 ELF rewrite, he recalled remarking to the lobbyists for British Petroleum, ARCO, and Exxon whether the tax formula they were proposing could eventually be applied to Prudhoe Bay. Their response, as well as that of the Commissioner of the Department of Revenue at the time, was "absolutely not, couldn't happen." "In hindsight" he now has determined that each of those individuals had "lied to me, and the oil companies will lie to you today". The oil companies would not quit activities in this State were the State's tax rate to continue to be one of "the lowest taxing major producer in the world". The chart on page 47 of Mr. Johnston's report indicates that Alaska's current tax take of approximately 33 percent ranks it as "the lowest taxing major oil producer in the world". According to Mr. Johnston, the average take is 92 percent. Even were the State to double its current tax rate, it would continue to rank as the lowest major producer.

Mr. Metcalfe urged the Committee to "look at what the oil companies do, not what they say". In the 1980s, the State asked oil companies' bids to include how they would "share the production of the oil" once their costs were recovered. The responses included sharing 67 to 89 percent to the State. The world average at that time was approximately 80 percent, as attested to in Mr. Johnston's report. Some of those wells continue to produce today. The terms of the agreements in the 1980s did not drive producers away and an increase today would not either. While the oil companies "screamed bloody murder" when new bidding procedures were implemented in the 1980s, they continued to bid and participate in bringing Alaska's oil to market.

[11:03:35 AM](#)

KLAUS NASKE testified via teleconference from Fairbanks. He was "upset about the Governor's proposal" as it is a "huge giveaway and sellout to the oil companies". One provision of particular

concern in the Governor's bill is that denying "citizen's right for initiative to bypass the Legislature in raising taxes". Most people have forgotten the Amerada Hess lawsuit the State filed against ARCO, Exxon, and British Petroleum, which continued from 1977 to 1992. While the oil industry's accountants and "aggressive" attorneys "totally outclassed" the State, the State eventually settled for \$600 million, or approximately two-thirds of the revenue it was seeking, and "dropped all criminal charges" against the oil companies. Oil companies reap tremendous profits. While the State's Constitution specifies that State resources should be developed to provide "the maximum benefit" to the State's citizens, that has not happened.

Mr. Naske referenced a recent Letter to the Editor that specified that in order to recoup the 17 billion barrels of oil remaining on the North Slope, British Petroleum would be required to invest approximately \$100 billion dollars. That would equate to \$5.88 per barrel. He agreed with Mr. Metcalfe that oil companies would not leave the State. Unlike the automobile industry, which has abandoned Detroit, oil companies would continue to operate in the State because oil, unlike cars, could not be produced just anywhere. He urged the Legislature "to reject the Governor's" PPT proposal. He also spoke against basing the tax on net profits, as it would be "an invitation to cheating". Oil company auditors are more sophisticated than the State's. He supported a "sliding scale tax based on the per barrel price with a beginning tax rate of 25 percent, as supported by the State's consultants. Legislators must assure the State would receive its fair share of the revenue from its resources. "The gas pipeline would be built when the time is right."

[11:07:37 AM](#)

TIM BECK testified via teleconference from Fairbanks and spoke to a recent newspaper headline heralding "Conoco Oil Taxes May Hurt Non-Profits". This concern prompted him to testify in support of the Senate's efforts on the PPT rather than the Governor "and the industry's" proposal. A higher tax would not drive the industry from the State, as the industry must operate where the non-renewable resource is located. Also, due to the small State population and remoteness, there is "limited opposition" to the industry. He encouraged the Legislature "to suspend" its work on this issue until other routine legislation

was acted upon and both the PPT and the gas pipeline could be addressed together.

11:09:33 AM

DON GRAY testified via teleconference from Fairbanks and urged the Committee to develop a simple and transparent taxation system. A tax rate based on net profit "is a very elusive kind" of accounting concept, as it would allow "many legal discretionary choices;" particularly when taxing a multinational company, which "could show great profits to its shareholders and at the same time show only marginal profitability in Alaska". The focus should be to determine what should be taxed. For instance, the decision could be made to tax oil at the wellhead before it is transited on a pipeline. In addition, a new tax rate that would produce revenue equivalent of what the State is currently receiving could be implemented for a two-year timeframe. That rate could then be revisited as opposed to "locking in a rate" now for 30 years. That would "relieve some of the time pressure" Legislators are experiencing. When determining the appropriate tax rate and incentives, Legislators should remember global oil reserves are limited and oftentimes, the economic climate of the sovereignty is unstable. For instance, oil producers have been unable to ship Nigerian oil because they were forced to remove their employees due to safety concerns.

11:12:46 AM

BILL WARREN, 45-year oil industry employee, testified via teleconference from an offnet site and described oil and gas as being "a precious commodity" that is currently difficult to locate. Uncertain political regimes in other parts of the world make "Alaska a great place to do business", and the oil industry could operate in this State for a long time. However, the State deserves to receive "fair payment for our non-renewable resources". He urged the Committee to carefully devise the PPT and to consider "a barrel production tax as well as a profit tax". The Committee should listen to its consultants rather than to oil producers and should review the gas pipeline proposal before approving the PPT, as otherwise "you guys are working in the dark". A 35-year contract should not be approved, as "the world changes too much". The construction of a natural gas pipeline from Prudhoe Bay to tidewater should occur before other projects are addressed. A Stranded Gas Tax should also be

developed. Alaska rather than the oil industry should "take the reins".

11:15:06 AM

CHARLEY WALTON testified via teleconference from Fairbanks and urged the Committee to carefully and slowly consider this legislation. A 35-year tax structure should not be adopted, as the State must have the flexibility to adjust terms according to the economic climate. This legislation should not be tied to the gas pipeline without being aware of the conditions of that proposal. He appreciated the efforts being made by the Legislature. "We own the State, not the oil companies."

11:16:49 AM

STACY SCHUBERT, President, Anchorage Chamber of Commerce, testified via teleconference from Anchorage and read her testimony [copy on file] as follows.

The core mission of any chamber of commerce is to protect and promote the interests of business. At the Anchorage Chamber of Commerce, our 1,150 members are comprised primarily of small businesses. In fact, 47% of our membership has 10 or fewer full-time year-round employees. Another 15% of our membership has fewer than 25 employees.

Our Board of Directors just yesterday passed a resolution that supports the petroleum production tax proposed by the Administration. I'll repeat that - our board of directors supports the petroleum production tax as proposed by the Administration.

Our Board recognizes the significant contributions the oil industry makes to the State's revenue, and that further exploration and development are critical to maintaining a healthy economy. Businesses in Anchorage rely on the expenditures made by the industry to remain vibrant and healthy contributors. Our restaurants rely on the disposable income of employees of explorer and producer companies to eat in their bakeries and deli's. Our retail stores rely on these employees for regular purchases. Our professional services businesses rely on these employees for their business needs.

So it is with great concern that our board of directors has watched as the legislature considers tax proposals that would increase government take using a "more tax revenue now is better than more revenue later" approach. Alaskans rely on the investment of oil and gas producers in this state. It is disconcerting to see what our future might look like when we disincentive industry to explore and develop Alaska's rich resources.

Furthermore, half of our State's population lives in Anchorage. One in nine jobs in Anchorage exist because of our relationship with rural Alaska. Sixty-seven percent of our State's population is dependent on the Cook Inlet for natural gas. It is therefore important to our board that the existing Cook Inlet tax structure remain in place, as is, so to protect against negative, unintended consequences that the PPT could create.

In closing, our board supports the Administration's proposal and requests an exemption for explorers and producers in the Cook Inlet area. Long-term investment is much more important than short-term gains to the state through increased tax. Alaska's future - our businesses, jobs, economies - is at stake - and it's for that reason that we are concerned with the CS.

Thank you for the opportunity to testify today on behalf of the Anchorage Chamber of Commerce.

[11:19:34 AM](#)

LON WILSON, President, The Wilson Agency, testified via teleconference from Anchorage and noted that his insurance agency "works with both public and private sectors to provide employee benefits to their employees". He read his remarks [copy on file] as follows.

I have concerns about the proposed new oil tax. I believe that Alaska's future as a stable economy is dependent on the encouragement of investment by the private sector. The oil and gas industry is one of our most important private sector segments. It helps support much of the service industry by its presence. The imposition of higher taxes will have a negative impact on jobs, business opportunities, investment, and long-term state revenues.

If you think about it, just because you can produce doesn't mean that you will. No matter what the available resource, it will only be pursued if it is advantageous for you to do so. Let's picture that working one job, 40 hours a week, you sit squarely in the middle of your tax bracket. Now let's say you accept a second job and that additional 20 hours a week just barely bumps you into the next tax bracket. Let's imagine that by jumping into the next bracket, your tax rate is such that you take home no more money than you were taking home with one job. You make more, but your take-home remains the same. Would you do it? Wouldn't it seem that your time (your resources) could be better spent invested elsewhere?

Thinking like any logical person that is working to make a living, most likely, seeing no profit from the additional 20 hours of work a week, you would decide against that job or that investment. I am afraid the oil companies will look at it the same way.

Right now, they have "one job." They have production costs, taxes, and abandonment costs associated with that one job. If by working 20 hours more a week, or in their case, building a gas pipeline, looking for new reservoirs, etc, they do not see a positive net effect, or more specifically, an economically justifiable positive net effect, then there is no reason for them to expand their investment in Alaska.

I ask that you be cautious with the imposition of higher taxes. We have a lot of potential with projects such as the gas pipeline. Don't jeopardize our state's economic future in favor of short-term gain.

AT EASE [11:22:08 AM](#) / [11:22:19 AM](#)

MARK HUBER, Past President, Alaska Support Industry Alliance, testified via teleconference from Anchorage and noted his "intent" following of the PPT hearings. One of the "most compelling" testimonies was presented by David Brambly, Vice President, CRA International, who identified Alaska and the United Kingdom as two of seven producing regions he had examined "that failed to replace their production reserves". This is evident in this State by the declining rates of production in

its fields. Therefore, he ascertained production, rather than the PPT, as being the "key factor" in what would "generate revenue for this State" in terms of taxes, royalties, and property and income taxes. The Senate committee substitute's recommendation of a 25 percent tax rate, which would equate to "an overall ... 55 percent take" should be considered in terms of "risk" verses "reward". The risk of this would be the continuance of the annual six percent decline in production. However, adopting the Governor's 20 percent tax/20 percent credit would "forego the incremental five percent" proposed in the Senate. The reward generated by that action would be "an economy and an oil and gas industry that does replace its reserves or comes closer to replacing those reserves." Mr. Bramley had also noted that the United Kingdom and "Alaska, in terms of findings" have "the highest costs", and, to that point, he urged the Committee to determine what the other five regions were doing to encourage production. Support of the Governor's PPT proposal would "go a long way toward making Alaska's oil and gas industry healthy for a very very long time."

AT EASE [11:25:26 AM](#) / [11:37:31 AM](#)

LLOYD RUIS testified via teleconference from Fairbanks and declared "big oil" would continue to use the same "confuse and divide" tactics they have historically used. Big Oil used similar tactics in the Arab countries until that area "finally nationalized oil companies". The United States Congress admitted they have been "out maneuvered by oil at every turn by the Big Oil" regarding oil drilling on federal lands. Big Oil's response to recent Congressional questioning regarding whether they would ever construct a natural gas pipeline was yes, there are plans to build one in Alaska "right now." Therefore, "the onus" of the gas pipeline is on the oil companies. He cautioned against "the Lion King [movie] phenomenon". While that successful movie grossed approximately one billion dollars, investors who opted to take one percent of the net profits from that movie received nothing; the movie's accountants calculated the movie made a zero net profit. Oil company accountants would exceed the "creativity" of those accountants. Therefore, the State should not base the PPT tax rate on net profit, as "there are too many variables and the oil companies are too good about twisting and dividing and conquering".

AT EASE [11:40:23 AM](#) / [11:48:54 AM](#)

BILL JOOSSE testified via teleconference from an offnet site and proclaimed "the raw materials" belong to the people of the State. "Oil companies have a bad environmental record", and the State should take legal action against the oil companies who have chosen not to develop gas resources. The Governor should listen to advisors. Legislators who have accepted campaign funds from oil companies should not be allowed to be involved in this decision, as they have a conflict of interest.

[11:50:08 AM](#)

FLORENCE COLLINS, Fairbanks Pioneer Home Resident, testified via teleconference from an offnet site regarding the operating budget. Pioneer Home funding should be increased in order to allow more staff to be hired.

Co-Chair Green would convey Ms. Collin's request to the Committee's Operating Budget chairman.

AT EASE [11:52:38 AM](#) / [11:54:00 AM](#)

There being no further testifiers, public testimony on SB 305 concluded.

Co-Chair Green asked Co-Chair Wilken, Operating Budget Chair, to review the afternoon's Operating Budget public testimony schedule.

Co-Chair Wilken reviewed the schedule on the Operating Budget: offnet testimony would begin at 1:00 PM. Testimony from Juneau would follow.

Co-Chair Green reminded the Committee they have been invited to join the House Finance Committee for a presentation by Legislative Consultant, Daniel Johnston, the following afternoon at 1:00 PM.

The bill was HELD in Committee.

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#### **ADJOURNMENT**

Co-Chair Lyda Green adjourned the meeting at [11:55:05 AM](#).