

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON NATURAL GAS DEVELOPMENT

August 7, 2006

1:10 p.m.

MEMBERS PRESENT

Senator Ralph Seekins, Chair
Senator Lyda Green
Senator Gary Wilken
Senator Con Bunde
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Thomas Wagoner
Senator Ben Stevens
Senator Kim Elton

MEMBERS ABSENT

Senator Donny Olson
Senator Albert Kookesh

OTHER MEMBERS PRESENT

Senator Bettye Davis
Senator Gary Stevens
Senator Charlie Huggins
Senator Hollis French
Senator Johnny Ellis
Representative Harry Crawford
Representative John Coghill
Representative Ralph Samuels
Representative Mike Kelly

COMMITTEE CALENDAR

Update from BP on TAPS shutdown.

CS FOR HOUSE BILL NO. 3001(FIN)

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

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB3001

SHORT TITLE: OIL/GAS PROD. TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

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|----------|-----|--|
| 07/12/06 | (H) | READ THE FIRST TIME - REFERRALS |
| 07/12/06 | (H) | FIN |
| 07/26/06 | (H) | FIN AT 10:00 AM HOUSE FINANCE 519 |
| 07/26/06 | (H) | Heard & Held |
| 07/26/06 | (H) | MINUTE(FIN) |
| 07/27/06 | (H) | FIN AT 10:00 AM HOUSE FINANCE 519 |
| 07/27/06 | (H) | Heard & Held |
| 07/27/06 | (H) | MINUTE(FIN) |
| 07/31/06 | (H) | FIN AT 10:00 AM HOUSE FINANCE 519 |
| 07/31/06 | (H) | Heard & Held |
| 07/31/06 | (H) | MINUTE(FIN) |
| 08/01/06 | (H) | FIN AT 10:00 AM HOUSE FINANCE 519 |
| 08/01/06 | (H) | Heard & Held |
| 08/01/06 | (H) | MINUTE(FIN) |
| 08/02/06 | (H) | FIN AT 10:00 AM HOUSE FINANCE 519 |
| 08/02/06 | (H) | -- Testimony <Invitation Only> -- |
| 08/03/06 | (H) | FIN AT 10:00 AM HOUSE FINANCE 519 |
| 08/03/06 | (H) | Moved CSHB3001(FIN) Out of Committee |
| 08/03/06 | (H) | MINUTE(FIN) |
| 08/04/06 | (H) | FIN RPT CS(FIN) 7DP 1NR 1AM |
| 08/04/06 | (H) | DP: HAWKER, KELLY, WEYHRAUCH, STOLTZE, FOSTER, MEYER, CHENAULT; |
| 08/04/06 | (H) | NR: JOULE; |
| 08/04/06 | (H) | AM: KERTTULA |
| 08/06/06 | (H) | ENGROSSED |
| 08/06/06 | (S) | NGD AT 1:30 PM SENATE FINANCE 532 |
| 08/06/06 | (S) | -- Meeting Canceled -- |
| 08/07/06 | (S) | NGD AT 1:00 PM SENATE FINANCE 532 |

WITNESS REGISTER

BOB MALONE, Chairman and President

BP America

PO Box 196612

Anchorage, AK 99519

POSITION STATEMENT: BP presentation on TAPS shutdown.

STEVE MARSHALL, President

BP Exploration (Alaska), Inc.

PO Box 196612
Anchorage, AK 99519
POSITION STATEMENT: BP presentation on TAPS shutdown.

BILL HEDGES, Manager
Corrosion Strategy and Planning
BP Exploration
PO Box 196612
Anchorage, AK 99519
POSITION STATEMENT: BP presentation on TAPS shutdown.

JOHN NORMAN, Commissioner
Alaska Oil and Gas Conservation Commission (AOGCC)
333 W. 7th Ave., Ste. 100
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POSITION STATEMENT: Commented on the BP presentation.

ROBYNN WILSON, Director
Tax Division
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Commented on CSHB 3001(FIN), version P.

DAN DICKINSON, CPA
Consultant to the Governor
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Juneau AK 99811-0001
POSITION STATEMENT: Commented on CSHB 3001(FIN), version P.

DR. PEDRO VAN MEURS
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POSITION STATEMENT: Commented on CSHB 3001(FIN), version P.

ACTION NARRATIVE

CHAIR RALPH SEEKINS called the Senate Special Committee on Natural Gas Development meeting to order at [1:10:30 PM](#). Present at the call to order were Senators Wagoner, Ben Stevens, Bunde, Stedman, Hoffman, Dyson, Elton, Wilken, Green, and Chair Seekins. Also present at the meeting were Senator Gary Stevens, Ellis, French, and Huggins; Representatives Coghill and Samuels.

UPDATE FROM BP ON TAPS SHUTDOWN

CHAIR SEEKINS announced the first topic on the agenda was BP's presentation on the TAPS shutdown and that he would turn the gavel over to Senate Resources Chairman Wagoner for this part of the meeting.

SENATOR WAGONER stated that he had conferred with Representatives Samuels and Ramras, co-chairs of the House Resource Committee about having a joint committee meeting in Anchorage next week, but today he wanted to receive BP's presentation.

BOB MALONE, Chairman and President, BP America, introduced others from BP and profusely apologized for the necessity of closing the pipeline on the Prudhoe Bay field. He announced that BP would bring its production back up as quickly as it safely could. He said BP would work with state and federal regulators to develop a program for the field's orderly shutdown, but they would also run a parallel study to look for opportunities to safely maintain some level of production. It was possible that some lines might be able to remain in operation.

He said BP has decided to replace all the main transit lines in Prudhoe Bay with new lines as part of the first-phase program. Its top four priorities are: to assure the safety and integrity of their operating infrastructure, to minimize any impact on the environment, to continue the cooperative working relationship with the relevant federal and state agencies, and fourthly to restore production as soon as it is safe.

CHAIR WAGONER announced that Senator Davis had joined the committee.

1:16:13 PM

MR. STEVE MARSHALL, President, BP Exploration Alaska, also offered his apologies and regret for having to close the pipeline. He explained that BP had been conducting operations in accordance with the Department of Transportation compliance action order, which requires BP to clean, scrape, and smart pig all of the transit lines at Prudhoe Bay. Smart pigging would give BP definitive information on the condition and location of any defects in those lines so they could be repaired or replaced.

He reported that the Lisbourne line had been pigged and it was found to be in very good shape. It was put back into service and

remains at about 17,000 barrels per day. A second 30-inch line from flow station 2 (about 33,000 barrels per day) on the east side of Prudhoe Bay to flow station 1 had been cleaned, scraped, and smart-pigged and he reported that preliminary information indicated 16 anomalies of wall thickness loss in excess of 70 percent. Those anomalies will have ultrasonic testing to pinpoint where exactly the defects are. Removing insulation from one of the locations revealed oil stains and they decided to shut it down.

MR. MARSHALL said further investigation found about four to five barrels of crude oil leaking on to the tundra. That was contained and about half of it has been cleaned up. The line was isolated, a vacuum inserted, and the rate of leakage is going down and there should be no further spillage. This leak had been occurring for about 15 minutes after flow station 2 was shut down.

He said these results were unexpected. The testing BP had done prior to the smart pigging didn't indicate this level of damage. It appeared that a different corrosion mechanism was at work that had been seen on the GC2 line spill in March. So systematic approach to shutting down the rest of the fields was taken to corroborate and further understand the condition of the remaining lines before putting them back into service. He stated, "Care for the environment ranks a number-one priority."

[1:20:48 PM](#)

SENATOR BUNDE asked how the main line is impacted if feeder lines have corrosion and if other corrosion techniques were used on TAPS that weren't used on the feeder lines.

MR. MALONE answered that Alyeska Pipeline Service Company uses a mechanism to clean and de-wax the TAPS [TransAlaska Pipeline System] as a matter of course and it doesn't have this problem.

SENATOR BUNDE asked if TAPS-type activity would be extended to feeder lines in the future.

MR. MALONE responded that BP believed it had an adequate corrosion control program on the field lines, but they now know that it was not adequate. "So, we will be modifying our program moving it to all the recent technology and science that we can find in order to enhance that program to assure that this doesn't happen again."

CHAIR WAGONER announced that Representative Crawford had joined the committee.

1:22:49 PM

SENATOR DYSON asked if more anomalies were found on one side of the lease than the other.

MR. MARSHALL replied that BP is looking at the section of line from flow station 2 to flow station 1, a section of line that is further east than the 34-inch GC2 line that failed earlier. The velocity of the oil through that line is perhaps the lowest of any in the field - about a half-foot per second - as opposed to 2 feet per second for the GC2 section. This might have bearing on the ability of the fluids to keep the water from dropping out and staying in the line. He mentioned that the Lisbourne line didn't show any significant damage and, in fact, it was in very good condition - even though it was installed in the mid-80s. This is the first of the 1977 transit lines that has been smart-pigged and he reminded them that it's early in the investigation.

1:25:19 PM

SENATOR DYSON said he noticed that BP wasn't doing any blame-shifting, which he really appreciated and he assumed from Mr. Marshall's remarks that the problems they were seeing now are corrosion, not erosion. He asked if new metallurgy or coatings were available now that might provide a better corrosion resistant environment.

BILL HEDGES, Manager, Corrosion Strategy and Planning, BP, replied the velocities in this line are so low that erosion couldn't be a problem. The problems are clearly corrosion-related and are limited to the very bottom of the pipeline in the six-o-clock position. This corrosion is in the form of discrete pits that are not an interlinked network of damage - as was found in the late 80s and early 90s due to carbon dioxide corrosion that attacked a broad surface area, which was much easier to find. While he said it's early to say for sure, the pits look like they are formed from microbiological activity. He said that probably the best mechanism to control corrosion is to keep the lines clean and remove the solids that the bacteria hide behind and to treat the bacteria with chemicals that industry is already using.

SENATOR DYSON asked if better coatings or metallurgy were available now and observed that the carbon steel systems in

Prudhoe Bay have already exceeded their original design life and were going to continue to be in use.

1:27:36 PM

SENATOR ELTON asked the BP representatives to keep the committee informed of whether or not they intend to charge off the capital and operating expenses so the tax issues can be dealt with. He said BP is talking about replacing all the transit lines in the Prudhoe Bay unit and asked how much steel would be needed to accomplish the rebuild and how much was actually available.

MR. MARSHALL replied that the line sizes vary from 30-inches to 34-inches depending on which section of the field the line is in and reminded them that the Lisbourne line didn't need to be replaced at this time. Probably smaller lines - 12, 14, and 18-inch - would be installed to better suit today's volumes. He said BP has put out requests worldwide to find out what level of steel is available and he would share that information with them when it became available.

1:31:43 PM

JOHN NORMAN, Alaska Oil and Gas Conservation Commission (AOGCC), said they have received good reports from BP along with constant briefings. He said that AOGCC inspectors are on the North Slope.

SENATOR BUNDE asked to be kept in the loop on the briefings.

SENATOR SEEKINS asked what kind of solids scraping the pipe generates and if they posed any downstream threats.

MR. HEDGES replied that a variety of things come out of the pipes. On the west side of the Slope, which is where the leak was first detected, they get a lot of sand, corrosion products, and oily hydrocarbon residues, like solid particles of wax and asphaltenes. On the east side, in addition to all those things, they see mineral scale calcium carbonate like those that build up in a domestic boiler system. This is because of the nature of the water that comes out of the ground.

He said he didn't personally perceive that solids pose a direct threat in themselves, because they are non-corrosive; but the real threat is that they allow bacteria to harbor underneath them. The chemicals that kill the bacteria can't penetrate the solids to get to them. He explained that at high velocities, solids can cause erosion of metal off the surface of the pipe. However, this is not an issue for BP or the TAPS pipeline.

He further explained that Alyeska Pipeline Services filters solids out before they get into it's systems, but its biggest problem would be that filtering all the solids at one go would plug up the filtration systems. Solids continuously enter the lines and BP's specification to Alyeska is .35 percent of base sediment and water - meaning if you multiply the total volume going down TAPS by .35 percent, that's the maximum average volume of sediment that it can handle comfortably. This is accomplished with continuous pigging.

[1:37:01 PM](#)

MR. MARSHALL commented that BP's reliance on ultrasonic testing was clearly inadequate and once the lines were cleaned or new ones were installed, its intention would be to rely on maintenance pigging on a regular basis, such that these problems do not crop up in the future.

[1:38:28 PM](#)

SENATOR SEEKINS asked how the anomalies are being addressed in the short term.

MR. HEDGES replied that engineers would decide on using either a temporary sleeve or a permanent clamp as anomalies are identified. Those would be expected to stay in place until the line could be replaced.

SENATOR SEEKINS asked if BP had any intention of shutting the line down.

MR. MARSHALL indicated no and added that if irreparable damage is found, as was the case with the GC2 line, a bypass line could be used.

CHAIR WAGONER also thanked everyone for coming to the meeting and recessed at [1:41:14PM](#).

CSHB 3001(FIN)-OIL/GAS PROD. TAX

CHAIR SEEKINS called the meeting back to order at [1:52:38 PM](#) and announced that CSHB 3001(FIN), Version P, was up for consideration.

ROBYNN WILSON, Director, Tax Division, Department of Revenue (DOR), explained that the bill does five things. It has a variable rate depending on investment per barrel. Secondly, because it's now a variable rate, a monthly calculation of the tax rate is not practical. So this issue becomes an annual tax

return filing with monthly estimated tax payments to insure consistent cash flow. Compared to the conference committee version of the bill, one can note places where "monthly" has been changed to "calendar year".

MS. WILSON said thirdly, version P breaks Section 160 into three more user-friendly sections. Section 160 now provides the basic production tax value framework; Section 165 contains the allowed and disallowed lease expenditures; and Section 170 contains the adjustments to lease expenditures that need to be made, for example, when there is a sale of an asset. Some reordering has also occurred and all the credits are now in AS 43.55.023, .024, and .025.

She said some clarifying language had been inserted regarding, for instance, disallowed items, overhead allowance, and the interplay of operating agreements. The intention has not changed, she stated, but perhaps the most important thing it does is in AS 43.55.180. Required report: where, for example, it was thought prudent to require the DOR to provide a report on the reduced tax rates for private royalties. This version of the bill greatly expands those responsibilities. So, rather than having a couple of very small reports to do on a couple of isolated aspects of the law, Section 180 now requires a comprehensive report from the DOR on the entire chapter paying particular attention to tax rates and the investment credits.

Also, Ms. Wilson said, as originally drafted, Section 180 required those two reports at two or three different points in time. For example, one report was due in 2013 and 2015; all of that has now been coalesced into one large report that will be due the first day of the legislative session in 2011.

[1:59:39 PM](#)

MS. WILSON started her analysis of CSHB 3001(FIN), version P. She said the first two pages weren't different from the conference committee bill, but page 3, line 4, through page 4, line 25, dealing with the variable tax rate, is where the new language and the core of the bill lies.

She recalled the conference committee bill had a base tax rate of 22.8 percent before progressivity was added. This bill provides that the tax rate will depend on the level of investment. So, subsection (f) says if the investment is equal to or less than \$1 per BTU equivalent barrel, the tax rate will be 25 percent. If it's equal to or greater than \$6 per BTU equivalent barrel, the tax rate shall be 20 percent. Section (C)

provides for investments between \$1 and \$6 per BTU equivalent barrel.

2:03:05 PM

MS. WILSON said some of the concern around an investment-based tax rate (variable tax rate) was the potential it provided for gold plating and the question is if the tax benefit of the \$1 capital investment is in excess of the \$1 investment. She explained that this bill contains sort of a provision to take care of that with the equation on page 4, line 12. It says if the tax benefits are in excess of 75 percent of the capital investment, the buying down of the tax rate will be limited.

She said the equation looks scary, but it basically says there are four important tax benefit pieces that would accrue to the producer for a capital investment. The first and obvious one is that there is a tax deduction provided for in this bill. The second principal benefit is if there's a capital investment (CAPEX) credit of 20 percent. The third measurable benefit is that with the CAPEX and given this tax plan, the producer is realizing a benefit because he can buy down his tax rate $[(.25 - R) * PT]$. At the same time, only a certain amount of these tax benefits that change the production tax payable is borne by the producer because a certain amount comes off his federal taxable income. So in talking about the benefit of buying down the tax rate, the federal benefit must be factored in. That is taken into account in this equation by the $[x (1-IR)]$ (the highest federal tax rate) piece.

MS. WILSON said the last major piece is the federal tax deduction itself. If a CAPEX investment is being made, not only will the producer be able to deduct that from the production tax value for this tax, he can also deduct it from his federal income tax return. It's not exactly a one-for-one, because on the federal tax return capital expenditures will be depreciated over a number of years. The sponsors felt these were four key pieces. A couple of other things, like the state income tax benefit when it's written off of the state corporate income tax was not in the equation, but she reminded people that it is a world-wide calculation based on an apportionment percentage. So, the impact for state corporate income tax is fairly small. The sponsors felt that these were the four main benefits and that's the reason they were taken into account in this formula.

2:08:14 PM

She noted however that this is not the perfect drafting; the equation should be solving for "R" and it has been turned into a

pretty complex quadratic formula. So, it was felt that an accountant would find it easier to pick out the tax credit piece or the federal deduction piece using this formula. She anticipated that the actual quadratic formula would be contained in regulations and that is the background to the equation in line 12.

MS. WILSON said the progressivity piece was in subsection (g) on page 4, line 26; the slope for that calculation is .25 percent on page 5, line 2. The trigger, the price at which the progressivity kicks in, is the net production tax value per barrel - \$40 - and that is on line 9. The other difference she pointed out was that the progressivity tax shall not exceed 25 percent (on page 5, line 6). For comparison, she said the conference committee bill had a \$35 trigger with a slope of .175 percent. It had a combined rate of 50 percent derived from adding the basic tax rate to the progressivity, which could not exceed 25 percent. In this bill, because the base tax rate varies just between 20 and 25 percent based on investment, the progressivity tax is on top of that and the progressivity, itself, cannot exceed 25 percent.

SENATOR DYSON asked if progressivity could not exceed an additional 25 percent.

MS. WILSON replied yes; the maximum base rate is 25 percent in addition to the progressivity. If applicable, that progressivity could provide an additional 25 percent on top of that.

[2:10:42 PM](#)

MS. WILSON said the tax rate for private royalties had been moved and reordered from AS 43.55.011 (f) to subsection (i) on page 5, line 14, to make it a little more readable. She said subsection (j) on page 5 contains the Cook Inlet oil and gas ELF provisions and those are the same as in the conference committee bill. The tax is calculated using the basic tax rules for the production tax value generated by Cook Inlet gas and oil and that result is compared to the ELF result for those two things - and the tax is the lower of the two - basically an ELF ceiling for Cook Inlet gas and oil - the very same language that was in the conference committee in AS 43.55.011, but it shows up in a different subsection.

MS. WILSON noted that new language was added on page 6, lines 6 - 8 to clarify how the calculation is made for the comparison, but it does not change the purpose or function of the Cook Inlet gas or oil provisions. That very same language is on lines 25 -

27. New subsection (l) on page 6 is the Cook Inlet oil section. Language on page 7, lines 5 - 9, clarifies how the tax reduction and the ELF ceiling in Cook Inlet would be accomplished. This is important because the base tax rate could utilize CAPEX credits, but they could not be used against the progressivity tax.

She said the next important section starts on page 8, line 27, and gives the rules for the so-called estimated tax installment payments while eliminating the safe harbor provision. A key element is that the federal interest rate will apply both ways. She noted that AS 43.55.020(a) on page 8, line 27, sets out the rules for how the estimated tax payments are calculated. AS 43.55.020(g) on page 11, line 17, talks about the interest that applies on the over or underpaid estimated tax installment payments referencing IRC 66.21 and 66.22. These rates are set and published quarterly by the Treasury Department. She said there is a fairly robust rate for underpayments, but the rate for overpayments is quite a bit less. She emphasized that these are rules that the producers are very familiar with and the rates are less than Alaska's statutory rate, which is now over 11 percent.

She explained the way it worked was if an estimated or an installment payment were underpaid, then the interest would run from the date of that payment due date until March 31. On March 31, the true-up happens and at that point, if the underpayment is still there, then that becomes an addition to the tax. So at that point, the federal interest rate stops and the state statutory rate kicks in again at 11.25 percent. Subsection (g) deals with underpayments of tax and (h) deals with overpayments of tax. She explained that rather than the 95 percent safe harbor with interest that just went one way, the sponsors felt that this would be more fair both ways. She believed the current federal interest rate for underpayments is about 10 percent.

[2:18:40 PM](#)

MS. WILSON reiterated that the CAPEX credit sections had been changed to AS 43.55.023(a), but the substance hadn't been changed. She noted the CAPEX credit is still at 20 percent on page 12, line 24. The subsection that deals with the losses that can be converted to a credit and be carried forward to the next year is on page 13, line 14. Generally, that was intended to be carried forward based on the tax rate. At this point the state has a variable tax rate and the sponsors felt that 20 percent was the appropriate rate to bring that loss forward.

MS. WILSON said the transitional tax credits start on page 15, line 26, subsection (i). The additional nontransferable tax credits from section 170 are now on page 17, starting on line 23. AS 43.55.024(a) is the new area development credit - the same language from the conference committee bill except that here it reflects the \$6,000,000 for a calendar year as compared to the conference committee, which was monthly and said \$500,000 per month. The base allowance credit of \$12 million is on page 18, line 8, and that was previously in section 170. She said the exploration credits are still in AS 14.55.025 on page 19, line 16.

2:21:31 PM

MS. WILSON drew members' attention to the four areas of the state mentioned in Section 160, page 25, line 22 - the North Slope, the area south of the Brooks Range that is not the Cook Inlet (a new area of development), the Cook Inlet oil, and the Cook Inlet gas - and pointed out that the conference committee substitute contained the same structures. The reason she referred to these in four areas is because they are treated slightly differently with special rules. The new area south of the Brooks Range that is not Cook Inlet enjoys the new area development credit. Cook Inlet oil and Cook Inlet gas have the ELF ceiling. She said the drafter spread out Section 160 so that the areas are delineated clearly.

She said another change in that section is on page 25, lines 25 - 31. The conference committee bill language said, "oil and gas produced from a lease or property in the state" and against that, the producer could take expenditures regarding that lease or property in the state suggesting that somehow the bill was requiring individual accounting lease by lease by lease of the production tax value and that was never the intention. So, language in CSHB 3001(FIN) had been changed to say, "from leases or properties" (lines 25 and 28). On page 26, the very same change is on lines 1 and 7, because the new area development credit is applicable to those. Subparagraphs (C) and (D) deal with Cook Inlet oil and Cook Inlet gas, and in that instance, the ELF ceiling is property by property. So, it still says "from a lease or property". This looks like inconsistent language, she said, but that is the reason it is not.

MS. WILSON explained that language on page 26, line 21, says the progressivity will be calculated on a monthly basis, but it will still be reported on the annual tax return. So, paragraph (2) says the "monthly production tax value" of the following four

sections. The changes are the same as in (A) and (B) (changing from "a lease or property" to "leases or properties").

[2:25:38 PM](#)

MS. WILSON said that page 28, line 20, now says, "In determining whether costs are lease expenditures, the department shall consider" and goes on to say "typical industry practices and standards". She explained that the key difference from previous versions of the bill, is that "shall consider" was added because sponsors heard a fair amount of discussion about substantial weight and that language had been added to bring clarity to the weight different things are given.

She noted that line 23 contained a very important phrase that is also in the previous bill. It says that the department shall consider typical industry practices "other than the items (prohibited deductions) listed in (e) of this section,". This means that whatever industry practices are, if it's a prohibited expense on this next list, it's prohibited. Page 29 has the same language on line 25 [regarding (e) and prohibited deductions].

MS. WILSON said clarifying language was also added on page 30, line 8, to "overhead allowance" for the same reason. It now says a reasonable percentage shall be allowed for overhead, but it's a reasonable percentage of the costs that are allowable. "The intention was always to provide a percentage of the direct costs."

She said the same clarification could be found at the top of page 31, line 1. She pointed out that (e) on line 6 contained the list of disallowed expenditures. That list is the very same as in the conference committee bill.

[2:28:56 PM](#)

MS. WILSON said that Section 180 on page 25 requires the Department of Revenue to prepare a report, which is due the first day of the 2011 regular session. However, paragraphs (1) and (2) expand the reporting requirements significantly saying, "the effects of the provisions of this chapter on oil and gas exploration, development, and production in the state, on investment expenditures...." So she asked the committee to pay particular attention to the tax rates provided under AS 43.55.011.

[2:30:02 PM](#)

MS. WILSON said she hadn't pointed out each word change relative to the change from monthly filing to annual, but she noted that

language on page 36, lines 9 - 10 and lines 27 - 28, clarify that spill fees are due on March 31. The last change is on page 37, lines 27 - 31, and while "BTU equivalent" is not new language, it has been moved from one of the subsections to the general definitions because it has been utilized in a couple of sections.

In terms of transition timing, she said, the previous bill provided for 10 months. However, this bill with an annual filing and monthly estimated tax payments, provides that for the rest of 2006, the payments would be made under the current existing rules with a true-up on March 31, but that starting in the January the estimated tax installment payment would be due at the end of February. That is closer to the six-month transition period that was in the governor's original bill and was changed to 10 months during House committee action.

[2:31:54 PM](#)

SENATOR DYSON said there was some discussion about not allowing the producers to have a deduction for the money they spend trying to influence the legislative process and he asked if the federal government allows such a deduction and if she had ever talked about not allowing those as business expenses in her experience with the state.

MS. WILSON replied that she didn't know the federal rule, but this bill said that activity would be almost impossible to deduct as a lease expenditure. If it's not a lease expenditure, it cannot be deducted and you cannot get a capital credit for it either. Clearly it would not be an immediately allowable expenditure. She said further references on pages 30 and 31 talk about lobbying expense being a reasonable percentage of allowed costs.

SENATOR DYSON said he was referencing 26USC162(E).

CHAIR SEEKINS asked Mr. Dickinson to comment on lease expenditures on page 28, line 12.

DAN DICKINSON, Economist, Consultant to the Governor, responded that lobbying expenses weren't normally seen as an ordinary and necessary direct cost. In reference to Senator Dyson's question, he would have to follow up on whether the feds disallow it, and if they do, find out if it's ordinary and necessary with a special disallowance for it or do they simply say it's not ordinary and necessary. He agreed with Ms. Wilson's comment on it.

SENATOR STEDMAN said he was curious about how the offsets work in the tax formula.

[2:36:17 PM](#) recess [2:39:03 PM](#)

CHAIR SEEKINS called the meeting back to order and recognized that Representative Kelly joined the committee.

MR. DICKINSON introduced the "Selection of Higher Rate Table" and said he wanted to focus on how to calculate the tax rate, which in this bill would always be a number between 20 percent and 25 percent. He said this algebraic formula is compared to ELF as being complex and one of the major differences he always points out is that the ELF can drive a company's tax down to zero, but this formula can only drive it down to a number between 20 and 25 percent. This bill has a way to get at the tax rate by looking at the amount of investment a company is making and while there were some problems with that, he wanted to explain the concept first using his tables. Investments [per barrel] up to \$1 don't get any tax relief, he said, and this covers the stuff a company needs to purchase for basic health and safety that can be capitalized under the federal tax system. So, a company's tax rate starts at 25 percent and a basic amount of capital has to be spent every year. As per-barrel spending is increased, the tax rate goes down and this is set up with a fairly simple mathematic relationship. So, for example, going from an investment of \$1 to \$2 per barrel will make a tax rate fall from 25 percent down to 24 percent. Spend an additional \$1 per barrel and your tax rate falls to 23 percent. If you spend up to \$4 on production per barrel, it falls to 22 percent. At \$6, you hit the floor of 20 percent and as you spend additional dollars per barrel, you get no further tax relief.

[2:46:07 PM](#)

He showed the committee his five-step calculation under five different investment scenarios. It indicated that the investors would get lower tax rates and the harvesters would get higher tax rates. He said this calculation has a huge flaw that has to be corrected which is that at high very high prices (like today), when you begin to mess with the tax rate, the effect overwhelms the capital investment and that can lead to a situation called gold plating.

Gold plating happens when someone who is producing 300 million barrels a year goes out and spends an additional \$300 million, so their tax rate drops by 1 percent. But at \$70 a barrel, that

300 million barrels is worth over \$20 billion in tax rate. So, just by making a \$300 million investment, a company gets \$200 million back immediately and that's before credits, federal income taxes, state income taxes, and a whole host of other effects have been accounted for. Situations can be found within the realm of quite reasonable numbers where somebody could spend \$1 and get tax breaks of almost \$1.80. That - everybody agrees - is a terrible effect. It leads to situations where a company is spending money solely for purposes of the tax break, not because it's going to increase production and not because it makes sense. Even gold plating opportunities companies don't like to engage in it.

MR. DICKINSON said that is why he built a formula that made sure gold plating doesn't occur. The calculation of "R" in step 2 prevents it by offering two alternative calculations and basically a company is going to have to pay a tax rate at the higher of the two. He walked the committee through how the "R" kicks in under the \$20 column.

[2:50:01 PM](#)

Turning to the next table, Mr. Dickinson showed how once the comparison is done, you find out what your tax rate is going to be. If oil prices are \$100 and you only make a \$2-investment per barrel, you're still at 25 percent. It doesn't go down to 20 percent until roughly \$15 a barrel is being invested - or five times what current rates are. So, at very high prices, the benefit is not picked up quite as quickly. The danger is if somebody finds a way to do that, in which the state would have to make sure it is looking at the real costs. He further enlightened the committee:

In some sense, what this shows is the "R" factor means that at these high prices, basically folks are going to be very near on the 24, 25 percent range and it's going to take quite a bit of spending to drive them down to the 20 and 21 percent range. On the other hand, if you go down to \$20 and \$30 [price per barrel of oil] that we expect to be in, what you will see is folks can expect to be at a 20-percent tax rate a lot of the time.

[2:52:22 PM](#)

SENATOR STEDMAN said he wanted to compare this with a flat 22.5 percent tax rate - simplicity versus complexity.

MR. DICKINSON said he could print out a graph at a 22.5 percent tax rate for his comparison.

[2:56:58 PM](#)

SENATOR DYSON asked if the administration was comfortable with this approach and did he feel he could negotiate this kind of a scheme with the producers.

BILL CORBUS, Commissioner, Department of Revenue, responded that the administration supported its original 20/20 concept. He couldn't answer how it would address this concept.

[2:58:46 PM](#)

MR. DICKINSON went on to step four that added progressivity at different prices. At \$50 and below, progressivity brings in zero - subtracting an assumed OPEX and transportation cost of \$12 (this takes you below \$40). At \$60, you hit zero because with an \$8 CAPEX and a \$12 OPEX you get down to \$40. But at any price above that, there is progressivity. Step five shows the net effect of the 20 - 25 percent rate mechanism and the progressivity.

[3:01:35 PM](#)

SENATOR BUNDE asked what would be the tax rate at the current rate of investment if prices were at \$70.

[3:02:21 PM](#)

MR. DICKINSON replied that he would go through an example of today's investments at the end of his comments. His next illustration showed what happens at \$1 per barrel investment and the weaknesses of the system. He said that decreasing the volumes in the denominator has the same effect as increasing the volumes in the numerator. His illustration showed what kind of relationship could be seen in a wide range of investments.

[3:03:50 PM](#)

MR. DICKINSON said that everything he had talked about with his 300 million barrel example concerned the entire North Slope, but he pointed out that the North Slope is not a single tax payer. So, he took numbers from ConocoPhillips that lined up closely with numbers he developed in looking at the three major producers' investments per barrel over the last five years. BP ranged from a high of \$5 to a low of around \$2. ConocoPhillips ranged from a high of \$5 to a low of about \$2.50. ExxonMobil ranged from a low of about \$2 to a high of about \$3. The others are folks who are just investing like Anadarko and Pioneer.

He said the final box showed the combined data. BP is at about \$3, so they would be able to knock \$2 down (because the first \$1 doesn't count) and would probably go from 25 percent down to the 23 percent range; ConocoPhillips is closer to \$4 - knock off \$1, and they would go from 25 percent to the 22 percent range; ExxonMobil is about \$2 and knocking \$1 off would take them from 25 percent to 24 percent. The others would typically be found at 20 percent or the lowest rate because they are well over the \$6 per barrel.

[3:06:25 PM](#)

SENATOR STEDMAN asked him to go over how the formula would work year by year.

MR. DICKINSON responded that the rate essentially resets every year and amounts to the total capital for that year divided by the production. So a two-year building program would drive the rate down during those two years and as soon as production started and construction subsided, the rate would go up again.

SENATOR STEDMAN and Senator Elton both discussed how the formula would work with Mr. Dickinson.

SENATOR STEDMAN asked what the tax rates in 2006 would be using the formula.

MR. DICKINSON replied that the average base tax rate would be 21.5 percent across all the producers. On the investment side, ConocoPhillips spent on average \$2 a barrel more than either BP or ExxonMobil; so the totals would be different for all the players.

[3:13:01 PM](#)

SENATOR ELTON said that given current events, he was going to assume that in 2007 BP may see a large increase in capital expenditures and that those additional capital expenditures would make its tax rate go down from 23 to 22.5 percent if this formula were adopted.

MR. DICKINSON replied yes - if it's adopted. He said, however, that simply replacing pipe, however much it is, may not be that expensive compared to other things. For example in 2001, BP spent \$600 million, almost double its average, on creation of the North Star unit - an entire unit, an island, a sub-sea pipeline, and those kinds of things. But today BP is talking about replacing standard pipe, which he didn't believe would be out of the range of numbers seen here today.

[3:15:18 PM](#)

SENATOR BEN STEVENS said he didn't think those costs would impact BP alone.

MR. DICKINSON agreed and added that one of the anomalies of Prudhoe Bay is that BP is a minority owner and that ExxonMobil and ConocoPhillips are each picking up \$.37 of each dollar spent; BP would only be picking up \$.26.

[3:16:12 PM](#)

SENATOR WILKEN asked if the colored chart accounted for inflation.

MR. DICKINSON replied no and added that the sponsors of the bill didn't want inflation on any of the markers so that only real increases in spending would be seen.

[3:19:21 PM](#)

MR. DICKINSON explained that the Produce or Pay Plan (POP) basically means that a company is investing more than it is getting in profits, putting it in a 20 percent tax bracket. His model compared it to the PPT and the status quo. He started with a value of \$73.46 and assumed an OPEX and transportation cost of \$12 and a CAPEX that is simply the 2006 estimate. Using 300 million barrels and deducting the royalty barrels he came up with 262 million barrels for a price of \$56.83 per barrel. This generates a value of \$15 billion in PPT taxable value. Subtract \$40 from \$56.83 and the resulting \$16.83 is the profit the progressivity is calculated on. The baseline profit is \$3.7 billion, but because they are making a \$4.63 investment and the first \$1 is knocked off, that leaves \$3.63. Subtract 3.63 percent from 25 percent and that results in 21.3 percent, which saves about a \$.5 billion on what is getting taxed. The tax for this year under this bill would be \$3.6 billion. Under the original PPT bill it would be about \$1.1 billion less (\$2.5 billion); under the status quo it would be \$1.3 billion.

[3:26:02 PM](#)

SENATOR STEDMAN asked if he could also compare the tax scheme from the last conference committee bill and add the effective tax rate calculation.

SENATOR BUNDE added that he also wanted to see the government-take figures.

MR. DICKINSON responded that he could get those figures for comparison and also observed that the governor's bill and the status quo falls within the range of some of the other bills passed.

[3:27:40 PM](#)

SENATOR ELTON said he wanted to see these figures based on Department of Revenue oil price projections for the next year.

MR. DICKINSON responded that he would see those in the fiscal note.

SENATOR STEDMAN asked if they could just use a particular number rather than getting wrapped up in the day's price.

MR. DICKINSON replied that he typically does that.

SENATOR WAGONER asked since the gold plating correction was just a percentage coming off of the base rate, would that require extra auditing.

MR. DICKINSON replied that it wouldn't take away the need for auditors because DOR would still have to know capital expenditures and the total tax base. The auditing would be identical to any other bill that has the capital credits. The four items - total capital expenditure, total production tax value, the tax rate (highest marginal rate according to federal code) used in the calculation will not require additional auditing.

SENATOR WAGONER asked how many auditing positions the department is short now.

MS. WILSON replied the department had hired a few auditors since the first of the year and one production tax auditor position is left vacant; this does not include the income tax auditors. She agreed with Mr. Dickinson that this bill does not change auditing duties. The department's fiscal note shows a slight decrease - a tax technician position - due to going to a yearly filing from monthly filings.

[3:31:31 PM](#)

MR. DICKINSON said that last page in his model walked through the calculation for ExxonMobil.

[3:35:26 PM](#)

CHAIR SEEKINS commented that ExxonMobil doesn't quite double its tax bill.

MR. DICKINSON replied that was correct.

CHAIR SEEKINS observed that on average, this bill would bring a tax bill to about 272 percent.

MR. DICKINSON replied that is correct and explained that one way to think about this is that currently Prudhoe Bay has a tax rate of 12 percent of gross. ConocoPhillips has the Alpine field and BP has North Star with similar tax rates, but for the second largest field in United States, Kuparuk (50 percent owned by ConocoPhillips, a smaller share by BP, and less than 1 percent by ExxonMobil) its tax rate is going from zero to something approaching 20 percent. So, the investors beyond Prudhoe Bay, under any bill that moves away from paying the zero ELF, will see the largest increase.

[3:37:09 PM](#)

CHAIR SEEKINS pointed out that the tax rate doesn't affect all oil companies the same way; it depends on where their fields are located.

[3:37:27 PM](#)

SENATOR BEN STEVENS wanted to talk about the Chair's comment repealing ELF or keeping it in place as a temporary stop-gap measure during this time of uncertainty. He observed if they keep the current system in place, Kuparuk would still not be subject to production tax.

MR. DICKINSON said that was correct. Simply repealing the ELF would be a big increase in places with a low ELF and almost no increase in those fields, which have a high ELF and Kuparuk has a zero ELF now.

SENATOR BEN STEVENS said his point is that the petroleum production tax is designed to include all production into the realm of being taxed. He said that Kuparuk would not be included in the formula if they would merely repeal the ELF as a stop-gap measure.

MR. DICKINSON clarified if the ELF were repealed, Kuparuk would have a huge payment.

SENATOR BEN STEVENS asked what if it was changed a little bit.

MR. DICKINSON replied there are ways it could be changed to affect Kuparuk; if you just played with the parameters it might not be effected. He said this was the conclusion of his presentation.

SENATOR STEDMAN asked if he would do a summary table of prices at \$50 and \$30 along with the \$70 using a constant CAPEX to make the model easier to work with.

MR. DICKINSON replied he would.

[3:42:48 PM](#) at ease [3:52:59 PM](#)

CHAIR SEEKINS called the meeting back to order and announced that Dr. Van Meurs would comment next.

DR. PEDRO VAN MEURS, Consultant to the Governor, said he was concerned about the overall impression he was getting that either lawmakers prefer something that is very simple that doesn't work or something complex that doesn't work, but he also noticed that something simple that works doesn't seem to get the votes. He repeated that is what concerns him. He elaborated:

When I gave my first recommendation to the Governor, I said it's very simple. Do it like anywhere else in the world. We have lots of experience in how the simple systems work. You just take a percentage of net profit, give some incentive, like a tax credit, and you will get exactly a simple system that's easy to administer. It has no problems and international experience proves that it works. And we now have a House bill that has many, many, good features. I believe there's a major progress on the text of the earlier bill. I do believe that the whole methodology of monthly payments is a simple system - just having interest payments at the end of the year if you over or under pay - I think that's great simplification and it is very sound. But what I'm also particularly happy with is that a lot of the wording about cost control has been significantly tightened up and I think, so generally speaking, Mr. Chairman, I think much of the bill is very much improved relative to earlier concepts.

I'm also pleased that the House has come up with a progressivity formula that I feel personally very comfortable with. As you know, previously, I had urged

the various committees to take the dollar figure where you start the progressivity somewhat high - \$40 or \$45 - but after that you could have a strong progressivity. So, the \$40 and a .25, I think definitely meets those standards, as I had recommended earlier when I recommended against the \$35.

As I said, the item that I was somewhat concerned about is the matter of the rate that has been discussed here. I'm a PhD in economics and I have spent now three days trying to fully comprehend all the economic impacts and I'm still not 100 percent ready, but I promise you if you want to get some economic overview and if you're interested in that, I can have it ready for you tomorrow morning early, if that is of interest to the committee.

Now, so consequently, I'm concerned about the fact that that system is just too complex. I believe it is too complex and I have concerns; I have some preliminary views on that which I would be happy to share if you're interested. I can provide a more fully economic documentation tomorrow, if you're interested. So, consequently [those] are very important issues.

Senator Wagoner also asked my views as to what could be done to enhance the gross character of bill...more on gross and less on net and I believe there are some things that can be done in the bill. I believe personally that a floor as has been suggested a number of times - say like in HB 3004 - a floor whereby you say okay for instance at \$25 a barrel we have at least 4 percent of gross or something in that nature and then maybe go down from there if the price declines - something similar to HB 3004. I believe that could be an enrichment of the bill - not from an economic point of view. I personally don't believe that the - say economically such an issue is not strictly necessary. I believe that the net system works, but I do believe that there is considerable concern out there among the people in Alaska and concerned like oh, if companies just keep deducting all these costs, we may end up with less than what we have now and a floor concept would help.

Another way of strengthening the gross character a little bit would be to restrict somewhat further the

deductible costs. We have, as I mentioned before, in the legislature and particularly to your committee, Mr. Chairman, I think we have a laundry list of items that are not lease expenditures and that are therefore not deductible and therefore not subject to tax credits that is very long. And I testified before that that list is very much in line with even the most stringent international standards. But it is possible to add some items to the list if Senators feel very strongly about these matters. So, I believe it is possible to enhance the gross character of the bill somewhat through maybe a floor or through maybe some further additions to the non-deductible items.

So, basically, Mr. Chairman, that is my very initial view. I believe that the text of the House bill is clearly an improvement over what has been there before. I'm very pleased with much of the language. I think it is really protecting Alaska very well. I think the progressive feature, although of course that is not in the Governor's bill - but I have been testifying here about that - I believe that is very much in line with what I think a well-designed progressive feature would be. I'm concerned about the great complexity of this PPT rate-structure, which I believe could cause quite serious gold plating. And I believe it is possible to maybe enhance the gross character of this bill somewhat if there would be interest on the part of the Senators to do so. If there are any questions, I would be glad to answer them.

4:02:00 PM

SENATOR WAGONER asked if the formula in item (f) on page 3, lines 12 - 25, were taken out and a percentage (the conference committee come up with 22.8) were put in, would that be the right place to put it.

DR. VAN MEURS replied that the Governor proposed a 20/20 plan, but from a structural point of view, if section 5 (e)[page 3, lines 5 - 11] simply said 22.8 percent, he would be so much happier with that than with everything that is now under (f). He reiterated that this formula is horrendously complex, but his formula, which was based on extensive modeling, was very simple. It is no more than multiplying, dividing, and subtracting. The problem with the new formula is that all the factors start interacting quite a bit.

If you assume that the tax rate is a constant and if you take a given value for the production tax, then really what this formula does is relating the PPT rate to the qualified capital [QC] expenditures as a percentage of the production tax value. Now, it is easy to see the easiest way to start with this formula is simply set QC at zero.

He went through the formula [on page 3] that demonstrated if a company would not invest one dime, its base rate would be 25 percent. Then he said you ask how much of a company's net profit it has to spend to bring the rate down and basically, if a company would spend 23 percent of its net profits in Alaska, the rate would be 20 percent. In plain language, he figured that this formula says if a company reinvests at least 23 percent in Alaska, it gets to keep the other 77 percent and would be able to take it out of Alaska - and also get rewarded with a PPT rate of 20 percent. In his mind, that is a harvester's formula and the philosophy behind it wouldn't encourage investors to reinvest.

[4:07:15 PM](#)

SENATOR WAGONER asked if this bill is salvageable with certain changes.

DR. VAN MEURS replied that this whole section is complex. He had verified that all Mr. Dickinson's math for steps 1 - 5 was correct, but what concerned him still was that the formula does not prevent gold plating; it merely slows it down under very high prices.

After doing a back-of-the-envelope calculation and hearing there could be very large new expenditures in the Prudhoe Bay field, Dr. Van Meurs said his initial assessment of section (f) is that 20 percent of the expenditures would be paid by the oil industry and 80 - 90 percent would be paid by the state through a reduction of the PPT. He didn't know how enthusiastic Alaskans would be to step forward and pay for that much of the repair costs.

That is what I mean with gold plating. The State of Alaska would pay a very high share of any incremental investment and that is caused by firstly the tax credits that we have, then the deductions, then the reduction of this rate, which gives the PPT reduction even more. And then don't forget, we still have the 2

for 1 system, which was an additional credit on top of that. So, by the time you add it all up, in my calculations, in the \$60 - \$80 range, you get something like Alaska paying 80 - 90 percent of any repairs in the Arctic through reductions of PPT and personally I would be very concerned about that.

[4:10:34 PM](#)

SENATOR WILKEN, referencing a graph asked if the state didn't need some component of inflation-proofing across the top in order to keep up with inflation-proofing down the side for a deal as long as 25 years.

DR. VAN MEURS replied that was another deep concern, so he had done some preliminary modeling on it. He elaborated:

The first thing to remember is that this formula is a dollar-per-barrel formula. In other words, if a company starts at 22.5 percent, in nominal dollars, as long as they decline their investment at the same rate as the decline of the production, the rate will stay constant. But, or in other words, if your production declines 8 percent, then you can let your nominal investment decline by 8 percent and you will still pay the 22.5 percent rate - because it is dollars-per-barrel. So consequently your rate stays constant as long you decline your investment along with your declining rate of production.

Now, this issue is further aggravated that if you would want to look at real investment, if you want to correct for inflation, what this formula is saying you can significantly faster decline your investment than the decline of the field, because as long as you are in constant dollars equal to the decline of the field you can still add the 3 percent decline on top of that. Or in other words, if you have 3 percent inflation and the oil field declines by 8 percent, your investments can decline by 11 percent and you will still pay the same 22.5 percent rate. So, that again is another deep concern that I have, but I think adjusting for inflation really wouldn't help. I think there are very fundamental problems with this concept.

SENATOR WILKEN said it seems like if the formula was investment in barrels, the state could have a slight increase in investment and a slight decrease in barrels and the tax rate either stays

the same or it goes down and that is the opposite of what they were trying to do.

DR. VAN MEURS replied that he was absolutely correct. He reiterated that his initial economic analysis shows that starting at 22.5 percent, if a company decides to increase its investments by 10 percent per year in nominal terms for three or four years and lets its production decline by 8 percent, in four or five years its PPT goes down to 20 percent and would stay there.

SENATOR WILKEN said he was perplexed. He asked what the House's response was to this basic premise. He asked Dr. Van Meurs if he told them what he told the Senate.

DR. VAN MEURS said he did not testify on this specific issue in the House. He suggested that the House do a production-based formula [a produce or pay concept (POP)], which it didn't go for. His suggested formula guaranteed that the state would get production because that was its goal. He emphasized again that there is great virtue in simplicity and that he would only recommend a complication if it was needed to get this PPT passed. Again he said:

We know international that a system that is simple works. It worked in Norway; it worked in Alberta; it works in the Canadian Arctic; it works everywhere; it works in Australia; it works everywhere where governments have already now 20 or 30 years experience. As I mentioned the 20/20 - I could explain it in five minutes to the Governor. You just take 20 percent of the net income and you give a 20 percent tax credit - and that's the whole system. That's all there is to it. Simple. And now we are here with something that is so complex, that even I need three days to figure it out.

So, consequently, my strong suggestion is why not go back to and rethink this? Is it really so difficult to do something simple? Is it really so objectionable to do something simple? Why we can't just have a simple percent; and why can't we just have a simple tax credit? Everybody in the world does it; everybody in the world is successful with it; everybody in the world has stimulated investment and I think it was actually an interesting experience today seeing suddenly Prudhoe Bay being shut down. It was a

sobering look in the future. That's how Alaska may look like 15 years from now if you don't stimulate reinvestment. And that is so important; that is so important of a simple system that stimulates investment. Other nations know it does; it cannot be abused; it doesn't have all kind of these unknown side effects that these complex formulas have and that is why I appeal to you to really consider - and I appeal to the House - to really consider something simple. There is great virtue in simplicity.

[4:19:34 PM](#)

SENATOR WILKEN thanked him for that explanation and asked if he had offered some economic analysis.

DR. VAN MEURS replied that he could have an analysis ready tomorrow of the features he just mentioned.

[4:21:41 PM](#)

CHAIR SEEKINS asked if he could be more specific about what he believed is a harvester's formula.

DR. VAN MEURS replied that most nations that want to encourage reinvestment think that a majority of net profits should be reinvested. That should be a goal, not just 23 percent.

[4:23:22 PM](#) recess [4:24:18 PM](#)

CHAIR SEEKINS said they had requested a lot of charts and graphs from Mr. Dickinson and Dr. Van Meurs, so he announced the meeting would resume at 9 am tomorrow. There being no further business to come before the committee, he adjourned the meeting at [4:25:03 PM](#).