

**ALASKA STATE LEGISLATURE
CONFERENCE COMMITTEE ON SB 2001**

June 7, 2006
11:35 a.m.

MEMBERS PRESENT

Senator Bert Stedman, Chair
Representative Ralph Samuels, Chair
Senator Charlie Huggins
Senator Hollis French
Representative Mike Kelly
Representative Beth Kerttula

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Gary Stevens
Senator Gretchen Guess
Senator Thomas Wagoner
Representative Paul Seaton
Representative Mark Neuman

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 2001(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

HOUSE CS FOR CS FOR SENATE BILL NO. 2001(FIN) am H

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HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB2001

SHORT TITLE: OIL AND GAS TAX

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

05/20/06	(S)	READ THE FIRST TIME - REFERRALS
05/20/06	(S)	FIN
05/20/06	(S)	FIN AT 6:00 PM SENATE FINANCE 532
05/20/06	(S)	Heard & Held
05/20/06	(S)	MINUTE(FIN)
05/21/06	(S)	FIN RPT CS 5DP 1NR 1AM NEW TITLE
05/21/06	(S)	DP: GREEN, WILKEN, BUNDE, DYSON, STEDMAN
05/21/06	(S)	NR: HOFFMAN
05/21/06	(S)	AM: OLSON
05/21/06	(S)	FIN AT 1:00 PM SENATE FINANCE 532
05/21/06	(S)	Moved CSSB 2001(FIN) Out of Committee
05/21/06	(S)	MINUTE(FIN)
05/22/06	(S)	FIN AT 2:00 PM SENATE FINANCE 532
05/22/06	(S)	-- Meeting Canceled --
05/23/06	(S)	TRANSMITTED TO (H)
05/23/06	(S)	VERSION: CSSB 2001(FIN)
05/23/06	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
05/23/06	(H)	<Pending Referral>
05/31/06	(H)	READ THE FIRST TIME - REFERRALS
05/31/06	(H)	FIN
05/31/06	(H)	FIN AT 5:00 PM HOUSE FINANCE 519
05/31/06	(H)	-- Meeting Canceled --
06/01/06	(H)	FIN AT 9:00 AM HOUSE FINANCE 519
06/01/06	(H)	Heard & Held
06/01/06	(H)	MINUTE(FIN)
06/02/06	(H)	FIN AT 10:00 AM HOUSE FINANCE 519
06/03/06	(H)	FIN RPT HCS(FIN) 5DP 1NR 3AM
06/03/06	(H)	DP: HAWKER, HOLM, FOSTER, MEYER, CHENAULT;
06/03/06	(H)	NR: STOLTZE;
06/03/06	(H)	AM: KERTTULA, JOULE, KELLY
06/03/06	(H)	FIN AT 8:00 AM HOUSE FINANCE 519
06/03/06	(H)	-- Meeting Canceled --
06/04/06	(H)	ADJOURN SINE DIE FLD Y6 N34
06/04/06	(H)	TAKE UP RECON SAME DAY FLD Y12 N28
06/06/06	(H)	CONFERENCE COMMITTEE APPOINTED
06/06/06	(H)	SAMUELS (CHAIR), KELLY, KERTTULA
06/06/06	(H)	VERSION: HCS CSSB 2001(FIN) AM H

06/06/06	(S)	CONCUR MESSAGE READ
06/06/06	(S)	CONFERENCE COMMITTEE APPOINTED
06/06/06	(S)	STEDMAN (CHAIR), HUGGINS, FRENCH
06/07/06	(S)	PPT AT 8:30 AM BUTROVICH 205
06/07/06	(S)	NGD AT 9:00 AM SENATE FINANCE 532
06/07/06	(H)	PPT AT 11:30 AM BUTROVICH 205

WITNESS REGISTER

Dan Dickinson, Consultant to the Administration

POSITION STATEMENT: Responded to questions related to SB 2001

ACTION NARRATIVE

CHAIR BERT STEDMAN called the Conference Committee on SB 2001 meeting to order at [11:35:44 AM](#). Present were Representatives Beth Kerttula, Mike Kelly, and Ralph Samuels and Senators Hollis French, Charlie Huggins and Chair Bert Stedman. Also present were Senator Gary Stevens, Senator Gretchen Guess, Senator Thomas Wagoner, Representative Mark Neuman, and Representative Paul Seaton.

SB2001-OIL AND GAS TAX

CHAIR BERT STEDMAN announced CSSB 2001(FIN), and HCS CSSB 2001(FIN) AM H to be up for consideration.

[11:36:58 AM](#)

CHAIR STEDMAN asked for a motion to adopt Senate Version F.

SENATOR HUGGINS moved to adopt CSSB 2001(FIN), Version F.

REPRESENTATIVE SAMUELS objected.

CHAIR STEDMAN asked for a roll call vote and the motion failed. Representatives Kerttula, Kelly, and Samuels voted nay; Senator Huggins, Chair Stedman voted yea and Senator French voted nay.

[11:37:57 AM](#)

REPRESENTATIVE SAMUELS moved to adopt HCS CSSB 2001(FIN) AM H, Version X.A.

CHAIR STEDMAN objected. He asked for a roll call vote and the motion failed. Representatives Kerttula, Kelly, and Samuels voted yea; Senator French voted yea and Senator Huggins and Chair Stedman voted nay.

[11:38:50 AM](#)

CHAIR STEDMAN announced the intention to request powers of limited free conference and questioned whether a motion was necessary.

REPRESENTATIVE KERTTULA affirmed that a motion was in order and that the respective bodies must grant a request for those powers.

At ease from [11:39:35 AM](#) to [11:41:05 AM](#).

CHAIR STEDMAN informed members he would highlight the ten differences between the Senate and House versions after which the members would discuss the next step.

Item 1 - Tax Rate

General Tax Rate:

Senate: 22.5% - .011(e) page 3

House: 23.5% - .011(e) page 3

Cook Inlet Tax Rate:

Senate: 3/4 revenue exclusion for Cook Inlet oil -
.160(a) page 19

House: ELF tax ceiling on Cook Inlet oil - .011(j)
page 3

Item 2 - Credit Usage Floor

Senate: n/a

House: .024 credits cannot be used to reduce PPT tax to
below 4% of gross for ANS region - .024(c) page 10

Item 3 - Gas Revenue Exclusion (GRE)

Senate: ANS gas 2/3 included (1/3 exclusion); Cook Inlet
gas 1/3 included; new gas 1/2 included - .160(a) pages
19-20

House: n/a

Item 4 - Progressivity Surcharge

Senate: over \$35/bbl (net value/boe) x .001 x net value
with new boe rules - .011(g) & (h) page 4

House: over \$35/bbl (net value/boe) x .0025 x net value
with new boe rules - .011(g) & (h) page 4

Item 5 - Transition

Senate: 5 year lookback capex 2 for 1 recoupment - .024(j)
pages 11-12

House: 5 year lookback capex 2 for 1 recoupment (CORRECTED)
- .024(j) page 13

Item 6 - Base Allowance

Senate: \$12 M credit (\$1M per month) (equates to \$53.3M deduction) NOT based on production - .170(a) page 26

House: \$12M credit (\$1M per month) (equates to \$60M deduction) based on production - .170(c) page 29

Item 7 - New Area Development Credit

Senate: n/a

House: \$6M credit (\$500,000 per month) for areas NOT ANS, NOT Cook Inlet - .170(a) page 28

Sunset of New Area Development Credit:

Senate: n/a

House: 10 year rolling - .170(b) page 28

Item 8 - Transition Payment

Senate: 10 month payment on old system; true-up in 11th month; - Section 37(f)(g) pages 33-34

House: 10 month payment on old system; true-up in 10th month (clarification) - Section 36(g)(h) pages 36-37

Item 9 - Credit For Annual Loss

Senate: yes, at 22.5% - .024(b) page 8

House: yes, at 23.5% - .024(b) page 10

Item 10 - Oil Spill

Senate: any oil spill cleanup costs not deductible (exception for gravel pad) - .160(d)(17) page 24

House: any oil spill cleanup costs not deductible (improved pad language) - .160(d)(17) page 25

[11:47:59 AM](#)

CHAIR STEDMAN explained the procedure for applying for powers of limited free conference.

[11:48:38 AM](#)

REPRESENTATIVE KELLY pointed out that some items could be negotiated without additional powers.

CHAIR STEDMAN stated his preference to deal with all 10 items with limited free powers.

REPRESENTATIVE KELLY responded the House members would like the opportunity to talk before going into limited free powers.

REPRESENTATIVE SAMUELS asked to hear from Mr. Dickinson to clarify the meaning of "(corrected)" in Item 5 and "(clarification)" in Item 8.

11:50:32 AM

DAN DICKINSON, consultant to the administration, explained that the difference between the Item 5 versions resulted from a change in two fractions. It is generally agreed that the intent is the same in both versions.

He expressed the opinion that Item 8 is much the same. It's just the question of whether the final true-up of the prior 10-months occurs at the end of that period or with the next payment. The Senate version uses months and the House version uses days. The intent is to make it specific when that would occur.

REPRESENTATIVE SAMUELS asked about Item 10.

MR. DICKINSON recalled that the phrase "gravel pad" was used in the Senate version and the phrase "pad, platform or other structure" was used in the House version. Although not as mechanical as the other two, the notion is that gravel pad is too restrictive. The phrase they were trying to capture is "costs above routine costs associated with an oil spill" and the discussion was that the phrase would clarify the thought.

REPRESENTATIVE KERTTULA asked whether contingency plans were included in the Senate version.

MR. DICKINSON said he thought that was added in the Governor's reintroduced bill.

11:54:32 AM

SENATOR FRENCH said he could see how a gravel pad on the North Slope would be equivalent to a platform in Cook Inlet, but he was unsure how the term "structure" might work in. On the North Slope all structures are on gravel pads so it wouldn't be possible to have a spill on a structure that wasn't contained to a pad. He asked for an example of where the notion of a structure would come into play.

MR. DICKINSON responded that is an area to look at. He asked if it would be appropriate to suggest other slight changes.

CHAIR STEDMAN responded he'd address that request and Representative Kerttula's point later this afternoon.

MR. DICKINSON said he'd also ask the drafter to be available this afternoon.

REPRESENTATIVE SAMUELS asked Mr. Dickinson to be prepared to explain the development credit on Item 7 and what the House Finance Committee did on Cook Inlet.

REPRESENTATIVE KELLY added it would be helpful if he reviewed the change on the floor as well.

MR. DICKINSON agreed.

CHAIR STEDMAN expressed the view that the floor issue, the surtax, and the tax itself would be the more detail-oriented issues.

MR. DICKINSON asked for lead-time if there would be additional requests for data.

CHAIR STEDMAN mentioned the charts from Econ One and those that Mr. Dickinson had prepared.

REPRESENTATIVE SAMUELS asked if he wanted a motion.

CHAIR STEDMAN said he didn't believe a motion was necessary. It was sufficient to have members sign the letters requesting powers of limited free conference.

REPRESENTATIVE KERTTULA asked if the letter was to request limited powers on all ten items.

CHAIR STEDMAN acknowledged the letter highlights the differences on all ten items.

At ease from [12:00:01 PM](#) to [12:12:24 PM](#)

CHAIR STEDMAN announced that the committee would address three items before the break. He asked Mr. Dickinson to explain the difference between the Senate and House versions on Item 3 - Gas Revenue Exclusion (GRE).

MR. DICKINSON said the Senate version had three different GREs. In Cook Inlet 2/3 of the gas would be excluded and 1/3 would be included. When revenues are measured a certain portion would be removed, but all costs would still be present. The effect of that is that in situations of high cost, a loss could be shown even though there wouldn't be a loss if all revenues were

considered. For the North Slope the numbers would be reversed so 1/3 of the gas would be excluded and 2/3 would be included. For anyplace else in the state, 1/2 of the gas would be excluded and 1/2 would be included.

The House version did away with GRE and in Cook Inlet it had a test similar to that found in Item 1 where there's an ELF tax ceiling. For Cook Inlet gas, the tax would be calculated normally and that would be compared to a base period from March 31, 2005 to April 1, 2006. The comparison would be to the tax that would have been paid under the prevailing value during that period. In the ELF that would be calculated for each lease or property in that month. Essentially the tax per mcf would hit a cap based on what it was in the prior year. The tax would go up if there was more volume, but there would be a cap at a dollar per mcf amount.

MR DICKINSON continued to explain the consequence of the second ceiling with the following example:

You calculated your PPT tax and you owed \$10 million and then you calculated what you would have paid under the ceiling and you owed \$5 million. Because you were paying \$5 million less, the House bill would have required that you lose the ability to use credits - for example the .170 credit. Under .170 every company gets a credit of \$12 million to apply to lower taxes. If, under the House version, you are getting a \$5 million reduction as a consequence of this ELF ceiling, you would lose the ability to apply all of that .170 credit. You would, however, retain the ability to use the .024 credits, which are the investments. What the House language ... says is that because of this ceiling, if you pay less, your ability to use credits will be less but it doesn't go away completely. Instead, if you also make investments, those credits can be applied.

Basically, instead of a gas revenue exclusion in Cook Inlet, there is this ceiling and the intent was to recognize the maturity of the Cook Inlet Basin and also to recognize that many of the severance taxes are passed on to consumers so the producers aren't paying. Those are two mechanisms for approaching gas in Cook Inlet, he said.

The counterpart to the 1/2 revenue exclusion for other areas is Item 7. The Senate version called for a GRE to allow for an explorer to have some tax relief. Instead of a GRE, the House

version says there will be an additional \$6 million credit that can be applied for places other than the North Slope or Cook Inlet, but it has all the other restrictions that the Section .170 credits have. It can't be transferred and if it isn't used in a year it can't be carried forward. It says that if in a year you have a tax obligation in those places this credit allows reduction of that obligation by \$6 million.

At ease from [12:18:48 PM](#) to [12:18:59 PM](#)

MR. DICKINSON continued to explain that the final part of the GRE is an exclusion on the North Slope and there is nothing comparable to that in the House version.

SENATOR FRENCH asked for amplification that a portion of North Slope gas wouldn't be carved out for taxation.

MR. DICKINSON responded that's correct.

REPRESENTATIVE KELLY asked him to briefly review the House floor amendment.

At ease from [12:20:16 PM](#) to [12:23:52 PM](#)

CHAIR STEDMAN noted a typo in the letter requesting powers of limited free conference and verified that the first item on both the Senate and House versions should read .011(e).

MR. DICKINSON reviewed the House floor amendment by using an example under the PPT in Cook Inlet with a gas-only producer. If \$10 million of tax liability is generated, just \$5 million is owed as a result of the tests that are done. Prior to the House floor amendment, no credits could be claimed if the total of all other credits came to \$4 million. The floor amendment says the investment credits associated or detailed in Section .024 would continue to be applied even if there had been a large reduction in taxes as a consequence of the ELF based test.

CHAIR STEDMAN asked for a motion.

REPRESENTATIVE SAMUELS moved to adopt the House language on Item 3 - Gas Revenue Exclusion effectively eliminating GRE language.

CHAIR STEDMAN announced that without objection the House version on Item 3 was adopted.

REPRESENTATIVE KELLY moved to adopt the House version on Item 5.

CHAIR STEDMAN objected for discussion purposes. He asked Mr. Dickinson to respond to the issue related to a technical correction.

MR. DICKINSON said the simple explanation is that it's a technical fix. The bill originally had an allowance or deduction that was changed to a credit and somehow one of the factions wasn't multiplied correctly. The intent in both bodies was that if a producer had been investing at \$1 million per year and then increased the investment after the bill passed, then all the transitional investment expenditures could be recaptured.

CHAIR STEDMAN removed his objection and announced that the House version on Item 5 was adopted.

CHAIR STEDMAN recessed the meeting to the call of the Chair at [12:29:03 PM](#).

CHAIR STEDMAN reconvened the meeting at [7:41:26 PM](#) and announced that he would recess the meeting until 9:00 am Thursday, June 8, 2006.