

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 18, 2006

10:06 a.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Ralph Seekins, Vice Chair
Senator Ben Stevens
Senator Fred Dyson (via teleconference)
Senator Bert Stedman (via teleconference)
Senator Kim Elton

MEMBERS ABSENT

Senator Albert Kookesh

OTHER LEGISLATORS PRESENT

Senator Gretchen Guess
Senator John Cowdery
Senator Gene Therriault

COMMITTEE CALENDAR

SENATE BILL NO. 305

"An Act repealing the oil production tax and gas production tax and providing for a production tax on the net value of oil and gas; relating to the relationship of the production tax to other taxes; relating to the dates tax payments and surcharges are due under AS 43.55; relating to interest on overpayments under AS 43.55; relating to the treatment of oil and gas production tax in a producer's settlement with the royalty owner; relating to flared gas, and to oil and gas used in the operation of a lease or property, under AS 43.55; relating to the prevailing value of oil or gas under AS 43.55; providing for tax credits against the tax due under AS 43.55 for certain expenditures, losses, and surcharges; relating to statements or other information required to be filed with or furnished to the Department of Revenue, and relating to the penalty for failure to file certain reports, under AS 43.55; relating to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue, under AS 43.55; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the oil and gas production tax; relating to the deposit of

money collected by the Department of Revenue under AS 43.55; relating to the calculation of the gross value at the point of production of oil or gas; relating to the determination of the net value of taxable oil and gas for purposes of a production tax on the net value of oil and gas; relating to the definitions of 'gas,' 'oil,' and certain other terms for purposes of AS 43.55; making conforming amendments; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 305

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/21/06	(S)	READ THE FIRST TIME - REFERRALS
02/21/06	(S)	RES, FIN
02/22/06	(S)	RES AT 3:30 PM BUTROVICH 205
02/22/06	(S)	Heard & Held
02/22/06	(S)	MINUTE(RES)
02/23/06	(S)	RES AT 3:30 PM BUTROVICH 205
02/23/06	(S)	Heard & Held
02/23/06	(S)	MINUTE(RES)
02/24/06	(S)	RES AT 3:30 PM BUTROVICH 205
02/24/06	(S)	Heard & Held
02/24/06	(S)	MINUTE(RES)
02/25/06	(S)	RES AT 9:00 AM BUTROVICH 205
02/25/06	(S)	-- Reconvene from 02/24/06 --
02/25/06	(H)	RES AT 10:00 AM SENATE FINANCE 532
02/25/06	(S)	Heard & Held
02/25/06	(S)	MINUTE(RES)
02/27/06	(S)	RES AT 3:30 PM BUTROVICH 205
02/27/06	(S)	Heard & Held
02/27/06	(S)	MINUTE(RES)
02/28/06	(S)	RES AT 3:30 PM BUTROVICH 205
02/28/06	(S)	Heard & Held
02/28/06	(S)	MINUTE(RES)
03/01/06	(S)	RES AT 3:30 PM BUTROVICH 205
03/01/06	(S)	Heard & Held
03/01/06	(S)	MINUTE(RES)
03/02/06	(S)	RES AT 1:30 PM BUTROVICH 205
03/02/06	(S)	Heard & Held
03/02/06	(S)	MINUTE(RES)
03/02/06	(S)	RES AT 3:30 PM BUTROVICH 205
03/02/06	(S)	Heard & Held
03/02/06	(S)	MINUTE(RES)

03/03/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/03/06 (S) -- Meeting Canceled --
 03/04/06 (S) RES AT 10:00 AM SENATE FINANCE 532
 03/04/06 (S) Presentation by Legislative Consultants
 03/06/06 (S) RES AT 3:30 PM SENATE FINANCE 532
 03/06/06 (S) Heard & Held
 03/06/06 (S) MINUTE(RES)
 03/07/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/07/06 (S) Heard & Held
 03/07/06 (S) MINUTE(RES)
 03/08/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/08/06 (S) -- Meeting Canceled --
 03/09/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/09/06 (S) -- Meeting Canceled --
 03/10/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/10/06 (S) -- Meeting Canceled --
 03/11/06 (H) RES AT 10:00 AM CAPITOL 106
 03/11/06 (H) -- Meeting Canceled --
 03/13/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/13/06 (S) Heard & Held
 03/13/06 (S) MINUTE(RES)
 03/14/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/14/06 (S) Heard & Held
 03/14/06 (S) MINUTE(RES)
 03/15/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/15/06 (S) -- Testimony <Invitation Only> --
 03/16/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/16/06 (S) -- Meeting Canceled --
 03/17/06 (S) RES AT 3:30 PM BUTROVICH 205
 03/17/06 (S) Heard & Held
 03/17/06 (S) MINUTE(RES)
 03/18/06 (H) RES AT 10:00 AM CAPITOL 124

WITNESS REGISTER

DR. PEDRO VAN MEURS
 Consultant to the Governor
 Office of the Governor
 PO Box 110001
 Juneau, AK 00911-0001

POSITION STATEMENT: Commented on SB 305.

BILL CORBUS, Commissioner
 Department of Revenue
 PO Box 110400
 Juneau, AK 99811-0400

POSITION STATEMENT: Commented on SB 305.

DAN DICKINSON
Consultant to the Department of Revenue
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Commented on SB 305.

ROBYNN WILSON, Director
Tax Division
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Commented on SB 305.

ANGUS WALKER, Commercial Vice President
BP Alaska
Anchorage AK
POSITION STATEMENT: Commented on SB 305.

BRIAN WENZEL, Vice President
Finance and Administration
ConocoPhillips Alaska
Anchorage AK
POSITION STATEMENT: Supported SB 305; opposed CSSB 305(RES).

RICHARD OWEN, Production Manager
ExxonMobil Alaska
Anchorage AK
POSITION STATEMENT: Supported SB 305.

ACTION NARRATIVE

CHAIR THOMAS WAGONER called the Senate Resources Standing Committee meeting to order at [10:06:01 AM](#). Members present at the call to order were Senators Ralph Seekins, Ben Stevens, Fred Dyson (via teleconference), Bert Stedman (via teleconference), Kim Elton and Chair Thomas Wagoner.

SB 305-OIL AND GAS PRODUCTION TAX

CHAIR WAGONER announced SB 305 to be up for discussion. [In the packets was a proposed committee substitute, (Version Y, labeled 24-GS2052\Y, Chenoweth, 3/16/06.)

[10:06:37 AM](#)

BILL CORBUS, Commissioner, Department of Revenue, informed members that he strongly supported the bill as it was originally introduced with the 20/20 scheme and he strongly urged them to return to it. It would provide badly needed incentive for increasing Alaska's declining oil production. He said that the TransAlaska Pipeline (TAPS) is currently operating at less than half-capacity. Production was once at 2 million barrels a day and now it's at 870,000 per day and projected to be 772,000 by 2016. Recent investment and development has been inadequate and higher tax rates would further discourage new investments.

He said in the short-term, the next five years, the target has to be known reserves from existing fields and records show that existing producers have done that development. He advised that the legislature must not emphasize short-term revenues from this tax, but must look at maximizing the state's wealth over the long run and the level of investment the state needs will not occur unless there is an enlightened or balanced tax climate. The numbers show that 20/20 is the right mix.

[10:08:57 AM](#)

Thirdly, he exhorted them to keep their eye on the prize - the gas line. At current prices, it would bring the state more than \$100 billion over the first 35 years of its existence. It would also extend the life of TAPS beyond the year 2030 until the gas runs out. He again urged the committee to return to the original 20/20 scheme.

COMMISSIONER CORBUS mentioned that Dr. Pedro van Meurs would testify on the problems in the CS. He had been a consultant to the state on oil and gas taxation issues since 1996. He also mentioned that Robynn Wilson, Director of the Tax Division, would address administration problems within the CS and Dan Dickinson, its former director who was now a consultant, would address its tax policy problems.

[10:10:39 AM](#)

DR. PEDRO VAN MEURS, Consultant to the Governor, informed the committee that many issues in the proposed CS required his attention. There were so many different ideas in the bill, it was somewhat difficult to grasp the total concept. It was even difficult to understand some clauses, such as the progressivity factor, which wasn't actually progressive. He referred to the formula on page 6, lines 4 and 5, and suggested that oil would need to be over \$1000 a barrel before the state would get a 20-percent tax.

DR. VAN MEURS said the PPT bill is the first step in a process that people hope will lead to a stranded gas contract. Department of Revenue research indicates that there is a very important interaction between the gas line and the state's oil production. If the gas line goes forward, that will prolong the life of the fields associated with TAPS. It will also provide the opportunity for considerable additional oil development.

[10:14:32 AM](#)

DR. VAN MEURS referred to page 3 of his handout that was a repeat of Roger Marks' slide to illustrate the point that without the gas line, production on the North Slope may become uneconomic or impossible after the year 2030. The gas line would add significant oil, as well as particulate condensates and other possibilities.

[10:15:27 AM](#)

DR. VAN MEURS said that they are potentially looking at very high revenues from the gas line, depending on the various price levels, as much as \$4 billion a year at very high prices of, maybe, \$7.50 - at current prices, maybe \$3 billion. There is enormous synergy between gas and oil.

[10:17:11 AM](#)

DR. VAN MEURS said the combination in the PPT opens the possibility of presenting a gas contract to the legislature. He said there had been a lot of debate and evidence presented to them on the relation between the tax rate and the amount of investment. But he said the PPT was a modest change to the overall government take, not a dramatic one, and he didn't see more investment occurring over that rate alone saying, "Nevertheless, it would be an error to say that there is absolutely no relationship between tax rate and investment. Of course there is a relationship between tax rate and investment."

The legislature had requested him to prepare competitiveness indexes at \$36 a barrel. It showed the competitiveness of the PPT under various fiscal options - long term - and didn't include the \$73 million allowance. This is how large oil companies would look at it. The table indicated that the numbers clearly change under the PPT system and not under Alaska's current system. Under his ranking system the lower the number, the more competitive the system and it showed that the 20/20 was clearly more competitive than the current system with this price for the large companies. Other systems in the world are far more attractive - the U.S. Gulf of Mexico or the UK, for instance.

However, the PPT proposal improves the competitiveness at 20/20. At 25/20, there is a slight improvement, but not significant. At 30/20, the PPT becomes less attractive and at 30/15, it becomes much less attractive.

[10:21:47 AM](#)

DR. VAN MEURS said these figures were not based on any analysis of a specific investment, but were generated from the math in his report once he made assumptions about field sizes, costs and circumstances. His conclusion was that definitely there is some relationship between tax rate and level of investment. He summarized that relationship on page 8 of his handout with the following comments.

With the \$73 million tax-free allowance proposed by the governor, new investors who come to Alaska for the first time wouldn't pay any PPT on their first field. Consequently, the credits under the PPT would always make the system more favorable for new investors' first investments no matter what the tax rate. "And that was a very important concept of the PPT - to encourage this new investment, to bring new investors to Alaska."

[10:24:09 AM](#)

DR. VAN MEURS said, at the same time, the reality of the North Slope production is that any increases in production will come from reserves that have already been discovered. "It take years to explore; it takes years to develop and fairly large resources have been identified." He believed if the state wanted to maintain production or decline it less, then it must increase investment by larger oil companies.

At 25/20, he believed the producers would invest about the same - about \$1 billion dollars a year. The system is clearly more competitive under the 20/20 and logically, investment would increase - how much is difficult to say. With 30/20, the state would have less investment; with 30/15, even much less. One thing they know is that at the current level of investment - 25/20 - production has declined.

We know that for a fact from the last five years. That if you invest a billion dollars a year, the production declines. So, I would say it would also be a fact, a reasonable forecast of the model I developed, that if you adopt 25/20, this decline will continue. Will they continue to invest? Yes. As I said, my belief is that investment will continue on a moderate pace - some

companies maybe more than others - but not enough to change the decline rate. And this is the debate that took place internally, but what is the best combination?

[10:27:10 AM](#)

And consequently, the governor decided that the 20/20 was the best combination because he believes strongly that we need to stop the decline of the oil production. We need to do whatever possible to stop that decline and the total revenues to the state are not just how much you get per barrel, but also how much barrels you produce. That is also logical.

So, the 20/20 is a system that at least, based on my model, would result in more investment. You can reasonably forecast that; and consequently, if we just produce another billion barrels more, or two or three billion barrels more, over the next 30 years, obviously, at current prices, that means tens of billions of dollars more for the government. So, consequently, there is this important balance between investment and tax rate. So, that is what I'd like to leave you with. The evidence that I presented to you in my report before and in my subsequent answers to the legislators clearly illustrate that there is some relationship between investment and tax rate.

As I said, I don't believe in dramatic statements. I don't believe that at 25/20 that the oil industries will leave Alaska and at 20/20 they will all storm back. It is not that extreme. We live in an area of uncertainty - that investment patterns, I believe, will be modest. But, there is clear evidence that at 25/20 I think the decline in oil production will continue, because investments will continue at approximately \$1 billion a year. At 20/20, logically investment should increase and consequently, production will decline less or may even stop declining.

[10:29:33 AM](#)

DR. VAN MEURS said some provisions in the CS about Cook Inlet puzzled him and were meant to protect it somehow. And even though he understood the concern, he thought carving out specific areas to be dealt with separately would be counterproductive. First of all, language did not clearly apply

to oil or to oil plus gas and he firmly believed that even in Cook Inlet there are further possibilities for further development and exploration. The PPT was meant to encourage and reward those people who are willing to develop the fields further and willing to explore. It would reward them with very significant tax credits. He persuaded:

We need more exploration, not just in the North Slope; we also need it in Cook Inlet. And carving out Cook Inlet from the main bill does not serve the purpose of seeing more exploration. In fact, what I sense from the special Cook Inlet provisions is that we go in a harvesting mode - in Cook Inlet. We don't want to explore more; we don't want to develop more. Just leave us alone, we have some profits now. Let's just, you know, enjoy it and don't bother us. I think that's the wrong approach. I believe we should strive to also increase activities in Cook Inlet and we should also reward investors in the Cook Inlet region, just as we would do all across Alaska.

[10:32:45 AM](#)

And I don't think that putting Cook Inlet in the harvesting mode is the right thing to do. I also believe that it would be an unfair balance struck as a result in this proposal between those who operate in Cook Inlet and those who operate in other areas.

DR. VAN MEURS said if oil prices go to very high levels, Cook Inlet would not be subject to a severance tax, but companies outside Cook Inlet would and he wasn't clear what the proposal entailed. If there are very high prices, he could see why everyone would want to share in the extra benefit. He also didn't think it was fair for explorers in Cook Inlet to be assured of no taxes while explorers outside Cook Inlet are put on a very tight rein of only getting either the 30 percent or the 4,000 barrel exemption for seven years.

[10:34:08 AM](#)

DR. VAN MEURS cautioned that a complex fiscal system is difficult to administer and is a disincentive for investment to begin with. There is great virtue in simplicity and clarity in tax legislation. Nations that made simple tax laws applying to the whole country get more investment than nations that try to optimize every little corner and piece.

DR. VAN MEURS asked the committee to reflect on how the current ELF system on oil and the new PPT for gas would work together. He asked how one would distinguish between a development for oil or one for gas and remarked that how the whole geographic system would have to be set up to trace where investments were made. It becomes very complex. He strongly urged them to not divide Alaska into pieces.

[10:36:35 AM](#)

DR. VAN MEURS said there seemed to be some misconception on promoting exploration in the CS. He said the PPT already targets massive incentive for exploration, particularly for new investors. The Expected Monetary Value (EMV) column on page 10 indicated how attractive exploration would be. It compared Alaska's current system with the PPT and showed an enormous increase in competitiveness, such that Alaska would be almost among the top in the world in exploration incentive. Encouraging more exploration would be overdoing it and there is no need to complicate the law further.

[10:40:02 AM](#)

DR. VAN MEURS referenced pages 11 and 12 of his handout saying there is a big difference between promoting exploration and enhancing the economics of small oil companies. The proposed CS seems to help the new small companies with a 4,000-barrel exemption for several years, but that is not what is so important about small companies. He explained that hundreds of small companies have operated in Alberta, Canada for over fifty years - as small companies; only a few will become big. As a small company, they contribute to the economy in terms of jobs for one thing. They also have a roll in exploration taking on projects that the larger oil companies aren't interested in. That's why the governor's bill included permanent benefits, not just one-time benefits, for the small companies. He stated that permanent fiscal policy for small companies, Alberta-style, is good policy. He thought the CS confused exploration enhancement with small company protection.

[10:42:34 AM](#)

He said the governor's bill had options to the \$73 million allowance, but he advised making it permanent protection for the small companies reasoning if a company becomes large, it can pay the PPT, but if it struggles on and stays small, it will have protection for the entire time period. He summarized:

The PPT bill does everything necessary to promote exploration - 20 percent tax credits are strong tax

credits by international standards. The tradability of the losses is a magnificent feature from an international perspective. That will attract new explorers. At the same time we like to protect small companies because of the contribution they make to the state and the potential contribution they would make to the state in the long term - not a one-time shot - but as a long-term strategy - so that very gradually we build up these companies to a permanent role in the state. That was the spirit of what was presented and I don't discover that spirit in this substitute.

[10:44:48 AM](#)

DR. VAN MEURS commented on "State Owned Assets," on page 13 of the handout. He cited AS 43.55.024(i)(3)(B) [in the CS], which stated that no credits would be provided for an asset in which the government participates for 5 percent. He reflected that he knew of no assets in which the government participates for 5 percent. So, it seems the clause was put in there as a result of statements the Governor and he had made many times - that to make this project go, there must be state participation and risk sharing. He hoped to demonstrate that to the legislature with ample evidence.

DR. VAN MEURS began his argument saying we live in a very competitive world and this very large gas project may be delayed if the contract is not strong enough to put it at the top of the stack and in a rapid execution mode. He believed that could only be achieved with direct participation of the state. He urged members to delete [the 5 percent government participation provision] - to hear the evidence first and then follow up.

SENATOR JOHN COWDERY joined the meeting at [10:47:27 AM](#).

[10:48:53 AM](#)

SENATOR ELTON said it seems there are two ways for the state to invest in a gas pipeline; one is to purchase an equity share (let's assume it's 20 percent) or to allow credits against payments that otherwise would come to the state. He asked if it uses credits that don't give a larger ownership share, what is the advantage to the state.

[10:50:18 AM](#)

DR. VAN MEURS agreed that the participation in the line, particularly taking the gas in kind, is a very important methodology for improving the rate of return of the project. Providing a credit is another way to improve the rate of return.

The two don't have to go together; they are two separate decisions. It's important not to preclude any options and to maintain an open mind with regard to how this gas line should be structured. He cautioned against closing doors before the new law is integrated into the contract.

[10:53:04 AM](#)

SENATOR BEN STEVENS agreed with Dr. Van Meurs' comments, which related to Section 16 (i)(b) of the CS - that it's a preemptive strike on an issue the legislature hasn't seen. It is up to the legislature to make the policy call when the issue arises and it's not up to consultants and drafters to insert a preemptive clause. He also asked Dr. van Meurs to further define the comparisons on page 7 of the handout. He asked why the numbers decrease from left to right.

[10:55:23 AM](#)

DR. VAN MEURS replied that the decline was caused by the fact that in this type of competitive rating analysis, you rate all of the fiscal systems in accordance with the rate-of-return (ROR). For example, the best ROR is 21 percent, then 19 percent, et cetera. If you change fiscal terms for any one of the systems, you are actually changing many of the other variations - because suddenly the PPT becomes more attractive relative to the current system.

[10:57:09 AM](#)

SENATOR BEN STEVENS asked for clarification on the comparison on page 8.

DR. VAN MEURS answered that it indicates he expects the same level of investment for the proposed system as under the current fiscal terms. He made a simplifying assumption that if the ROR is the same under the current system and the new system, there was no argument for an investor to invest more or less. However, companies may disagree with his rating features.

[10:59:27 AM](#)

SENATOR BEN STEVENS asked why he said the escalator clause, on pages 5-6 of the proposed CS, didn't have an accurate formula.

DR. VAN MEURS replied that he didn't have an opinion on it because he didn't understand it.

CHAIR WAGONER answered that that language needed clarification.

DR. VAN MEURS responded that it would have a huge impact potentially on his economic evaluation.

[11:02:15 AM](#)

SENATOR GRETCHEN GUESS said she enjoyed reading his report, which talked about exploration credits, but not production and development credits. She asked:

Including production and development both in the lease expenditure capital asset that is counted under the lease expenditure and the qualified capital expenditure, are production and development capital expenditures in those two in these numbers?

DR. VAN MEURS replied no. The 20 percent applies to exploration as well as all capital-development costs. The reason is that actually most of the new oil production in Alaska won't come from new discoveries, but from oil that is already discovered. That is why it is so important to grant the 20 percent tax credits for development of oil that is already discovered as well as for exploration. He explained:

In the exploration analysis, people don't just look at the exploration well. They also look at what follows and, consequently, if you see tax credits all the way through, then you know that you have better economics for your development and if there's better economics for your development, you make the exploration again much more attractive. So, that's the philosophy of the law.

SENATOR GUESS thanked him for his answer and went to slide 7 on the international competitive model and asked him to reconcile what he just said about increasing tax credits helping with competitiveness and his testimony was that the state doesn't need any more tax credits in the bill.

[11:05:41 AM](#)

DR. VAN MEURS concurred with her analysis and explained that the reason, internationally, one is careful with pushing tax credits too high is that it exposes the state on the down side. If it gives 30 percent credit on everything when prices are high and everyone invests and then the price collapses, the state is in really bad shape - "because now you have all these tax credits and suddenly no income." He said he actually soul-searched a little bit about whether 20 percent was already on the high side and initially recommended 20/15.

Also, Alaska is contributing to the capital of the investment by implementing tax credits and if they are too high (the term is "gold-plating"), as some nations have done, investments become irrational and become hard to administer. That's why there's a balance between tax credits, risk, proper administration and investment behavior. You have to strike a balance and that's what he thought the 20/20 formula did.

11:10:32 AM

CHAIR WAGONER referred to page 8 of the handout and asked how the claw-back provision - for every \$2 invested by a company, it can reach back and get \$1 - would affect a 20/20 or a 25/20 if it were implemented for four or five years.

DR. VAN MEURS answered that a two-for-one provision is a more creative way of getting something back for Alaska.

As I mentioned, the \$1 billion investment per year that you have seen over the last five years is not enough to stop the decline. Consequently, to officially enshrine in the legislation the concept that yes, if we see \$2 billion a year, then we are willing to give some extra benefit for that - rather than - as you did in the law to just reduce the claw back. And I agree, if you reduce the claw back, of course, the state ends up with more money and the companies end up with less money. That's obvious! But my concerns is what benefit other than this little bit of extra money - now, I shouldn't say little, but hundreds of millions of dollars for most Alaskans sounds like a lot of money. I know that - but in the total scheme of things... this is a small component.

He expounded that it is more creative to structure the provision so that it actually does something for Alaska - and gives a reward, especially to those companies that aren't eager to increase their investment under the new fiscal system. He believed all companies should be eager to increase investment under the 20/20 system.

11:14:14 AM

DR. VAN MEURS suggested that while it would encourage investment, it would also increase the state's risk for a limited period of time - such as five years. Investors who double their investment in Alaska could be rewarded. He explained that the claw-back proposal has a limit that applies

only to oil over \$40 a-barrel. It would be an interesting feature to have and would express a philosophy that the state wants to see. He didn't think companies would immediately start doubling their investment.

CHAIR WAGONER said he was thinking of companies already producing here.

DR. VAN MEURS agreed and said those would get an extra reward for enhancing production from existing fields.

[11:16:39 AM](#)

SENATOR GENE THERRIAULT said that the "sunk cost" to the companies was basically a giveaway and wouldn't impact their future decisions and he favored limiting it. However, with the new thought of two-for-one suggested a little further work would make it useful to the state. He thought it would change the 25/20 scenario from being the same as the status quo to increasing activity from the large producers.

[11:19:50 AM](#)

SENATOR THERRIAULT turned his attention to page 13 and the troubling aspect of the state's paying for its percentage of ownership, as well as for some of the partners' ownership. He asked Dr. Van Meurs if he could somehow model the benefit to the state of doing so. He compared the claw back to a bicycle built for two.

We're willing to get on the bicycle and help our partner pedal to make investment, but we're not going to be the drivers. We're not going to be holding the handlebars. That's going to have to be the companies. I think the way the PPT is structured, we're encouraged to push on the pedals and so are they....

[11:22:59 AM](#)

He saw the original problem was that the companies might be reluctant to get on board the bicycle, but the look back's potential value to the companies of up to \$1 billion was a real incentive for them to get on the bicycle and start pedaling with the state.

[11:24:28 AM](#)

CHAIR WAGONER asked that Dr. Van Meurs hold his answer until the following Monday so further work could be done and other members would be able to be present.

[11:24:57 AM](#)

SENATOR STEDMAN asked that the same table on page 7 be run at \$46 a barrel oil for the following Monday.

DR. VAN MEURS responded that major oil companies don't forecast at \$46 a barrel, and thus it wouldn't reflect their investment behavior. He believed the \$26 - \$36 was the range used for long-term oil price forecast by the major oil companies, but he agreed to generate that table for the committee's information.

CHAIR WAGONER asked Senator Stedman whether he'd meant for the formula on page 6 to have .20 percent for each \$10-increment or for each \$1.

SENATOR STEDMAN replied that he used Econ One's numbers and that needed to be clarified.

[11:27:26 AM](#)

SENATOR ELTON asked if he was missing something when Dr. Van Meurs said there is a difference of three points under 30/20 resulting in less investment and when there's a difference of five points the other way, which would keep investment about the same.

DR. VAN MEURS replied that was a good question. He used that judgment because, in his rating, both NPV [Net Present Value] and are EMV included. He discounted the EMV a little bit because it reflects investment in fields that are already there, not exploration.

If I would include the EMV kind of fully, then it looks like the figures are slightly better for 25; if you discount for EMV, which I have to do if you only look at primarily development fields, then it comes out more or less as I have it here.

[11:30:10 AM](#)

SENATOR ELTON asked if the 20/20 zero on page 7 was with or without the \$73 million.

DR. VAN MEURS replied 20/20 zero indicated that a large producer wouldn't benefit anymore from the \$73 million because it already took the allowance on a corporate basis.

[11:30:38 AM](#)

CHAIR WAGONER returned to the issue of Cook Inlet, saying that the CS didn't excluded it from the PPT - just the current

production. He explained that the Inlet has 20 producing units and those fields are virtually at the end of their lifespan. The CS language rolls those into one area and maintains them at the their royalty reduction level that was established a few years ago. Placing a tax on them would greatly increase their burden even with oil at \$60 a barrel and, "Things will start shutting down." Two platforms are already shut down. The attempt is to maintain that infrastructure. The provision in the CS only affects current production of oil; the PPT applies to all new production.

DR. VAN MEURS replied that some parts of the CS were difficult to interpret on short notice and he is well aware of the marginality of the fields in Cook Inlet, but he wanted to structure the PPT in a way to achieve the more exploration. By excluding a certain portion, as implied in this draft, it would become difficult to administer and without necessary achieving the desired results. He opined that perhaps some other "wrinkles" could be added to the PPT bill to obtain the provision's objectives. He subscribed to the philosophy that if something is good for Cook Inlet, it should be good for all of Alaska. He urged them to keep the framework united.

CHAIR WAGONER said he wanted that infrastructure up and running for future production.

DR. VAN MEURS totally agreed.

[11:35:46 AM](#)

SENATOR GUESS requested a slide of Dr. Van Meurs' assumptions on what is included and excluded on costs, the lease expenditures and the qualified capital expenditures.

DR. VAN MEURS agreed to that.

[11:36:29 AM](#)

SENATOR BEN STEVENS asked if the committee would need a new draft before beginning with amendments.

CHAIR WAGONER said they would just do a cleanup and then work on amendments.

SENATOR BEN STEVENS said the reason he asked was because the chair put a timeline of Tuesday afternoon for amendments due in his office and it would be nice to have the cleaned-up version before then.

CHAIR WAGONER said they would get an update on when the CS would be cleaned up by drafting.

CHAIR WAGONER called an at-ease from [11:38:29 AM](#) to [11:39:27 AM](#).

[11:39:32 AM](#)

DAN DICKINSON, Consultant to the Department of Revenue, came forward with Robynn Wilson, Director, Tax Division to comment.

MR. DICKINSON said there are four separate tax components created [in the CS] - a tax on Cook Inlet oil, which is based on the old ELF system and a tax on Cook Inlet gas and other Alaskan oil based on the PPT; there is also a tax on private royalty and the 20 percent of each \$10-increment. Maybe that level of complexity was appropriate, but what struck him was that folks had not carefully identified which ones they were talking about.

[11:41:36 AM](#)

ROBYNN WILSON, Director, Tax Division, Department of Revenue - said she would walk through the bill and invite Mr. Dickinson to add comments. She started with page 3, line 18, of the CS [version Y]. This section levies the tax and tries to address Cook Inlet properties, but the language that is used talks about "from each lease or property within a field or unit...that was in production". Her concern was that there could be multiple fields within a unit and if part of a field is in production and a new one comes on line within the same unit, how that would work together wasn't clear. The clause "was in production" could be applied to "lease", "property", "field" or "unit".

Another definitions issue was that "unit" is the equivalent of a participating unit, which is a Department of Natural Resources definition; the AOGCC looks at pools and Department of Revenue regulations look at fields. So, she asked for more clarity in that language.

[11:43:31 AM](#)

MR. DICKINSON brought attention back to page 4, lines 10 - 23, that used the existing definition for "value at the point of production (POP) for oil only. He could see three problems with that. First, he believed the DOR's definition cleans up archaic language for oil, but he would want to suggest that having two different definitions apply in two different places, that the legislature thinks they mean something different. He explained:

As a matter of legislative history, we believe we are not changing the point of production and the fact that we have the language in here and need to put it in two different places might suggest otherwise. [He offered a handout - see packet]. The point I'd like to make here is the two definitions essentially are going for the exact same notion. The proposed definition for Cook Inlet, which is our existing definition - it repeats this several times, once dealing with on the premises and one dealing off the premises. The key idea is it's the value of the oil where it's first metered or measured by an automatic custody transfer meter, a tank gauge, or other method approved by the commissioner in a condition of pipeline quality. That's the current definition and if you go, you'll find that phrase in here three separate times. What we have done is try to rewrite it and the proposed definition, which is the second piece of this piece of paper - and again, we used all those same phrases, but we tried to tie them together in a way that we felt was more coherent - saying the value of the oil at the automatic custody transfer meter, which in fact is the universal standard in Alaska, or a device through which the oil enters into the facilities of a pipeline carrier or other transportation carrier, again, in a condition of pipeline quality, or in the absence of an automatic custody transfer meter. We need to put this language in so we're covered - even though as a general rule this doesn't happen.

The gross value at the point of production means the value of the oil at that mechanism or device, which measures the quantity of oil that has been approved by the department for that purpose through which the oil is tendered or accepted in a condition of pipeline quality in the facilities of a pipeline carrier or other transportation carrier or a field topping plant.

MR. DICKINSON said the other tension is, given the definition Ms. Wilson talked about earlier, you could have a single production facility in which an old oil stream and a new oil stream were coming in at the same time. The department wanted to avoid having two different systems and two different definitions of points of production because that could get awkward.

[11:47:07 AM](#)

MS. WILSON returned to her testimony and went back to page 5, line 27, where the CS indicated that the commissioner shall determine the amounts of royalties on all fields developed in ANWR and the NPRA. She wasn't sure that was the drafter's intent, since the commissioner doesn't set royalty. She wondered whether it needed to be "tax on royalty".

CHAIR WAGONER replied that it was supposed to be "tax on the royalty".

MS. WILSON said that needed to be clarified and also suggested that level of discretion would be best left to statute rather than to the commissioner.

[11:48:07 AM](#)

MR. DICKINSON went to page 6, lines 4 and 5, and said his main concern was that it wasn't clear if the tax referred to net or gross.

MS. WILSON agreed. Moving on to page 7, lines 16 - 20, she said Section 10 of the governor's bill had a 90 percent safe harbor payment scenario with an annual true up and she wasn't sure about the purpose of the yearly true up. Lines 16 -20 talked about how interest on an over-payment works. The governor's bill talks about only allowing interest from a date that was 90 days after the March 31 true up. Once a quarterly true up is thrown in, the language indicates that interest will start 90 days after the later of March 31 or the 90 days after the end of each calendar quarter. That doesn't make sense.

[11:50:53 AM](#)

MS. WILSON moved on to page 8, line 21, that described situations where oil and gas is sold under circumstances that don't represent prevailing value. Clarifying language was added to the governor's bill. It read: "If oil or gas is not sold or if oil or gas is sold under circumstances that do not represent prevailing value". The CS added a couple words - "produced, but not sold". Someone might question why those words were not added in front of the second clause, which is "or if oil or gas is sold under circumstances that are not prevailing value". One could argue if it's sold, obviously it would have been produced; she suggested that one can buy or sell anything and advised taking that language out, and added that would make that language consistent with the governor's bill.

[11:52:33 AM](#)

MS. WILSON turned to the section on credits, page 9, lines 10 - 12. The CS envisioned a 20 percent credit for production or development (A) and a 30 percent credit for exploration (B). The rest of (B) says "a credit under this subsection may be applied only against a tax due under AS 43.55.011 - 43.55.160;" She interpreted that to mean that it's creditable only against the PPT, that it's not creditable against the oil, the spill fee or the progressive piece of the tax. But the confusing part is if that restriction was only on the 30 percent credit, then the subsection needs to be sub-paragraphed. If the intent is to put that restriction on both, she said that is not clear.

CHAIR WAGONER interrupted to say that section could be taken out.

[11:54:15 AM](#)

MS. WILSON said, "Okay." She turned to page 10, lines 2 - 6, and asked if those could also come out.

CHAIR WAGONER replied, "Yes, Ma'm."

[11:55:21 AM](#)

SENATOR THERRIAULT asked if the credits could be applied to what is owed in the spill fund.

MR. DICKINSON replied that he believed the intent is to have nothing creditable against the spill funds or vice versa.

[11:56:11 AM](#)

MS. WILSON moved to page 11, lines 7 - 13, Section (e) that talked about transferable tax credit certificates to another person. The governor's bill had an 80 percent limit on the tax that could be offset by a transferred credit. The CS took that out and she didn't think that had been mentioned yet. On the same page, lines 14 - 22 say the commissioner may repurchase a transferable tax credit certificate.

CHAIR WAGONER said that was a drafting error and was coming out.

[11:57:33 AM](#)

MR. DICKINSON asked if lines 14 - 23 were coming out.

CHAIR WAGONER nodded yes.

[11:57:52 AM](#)

MS. WILSON moved on to page 12, lines 16 - 20, that talked about not taking tax credit for expenditures and paragraph (2) talked

about abandonment and used "extended period", which was not defined and that could be the subject of litigation with taxpayers. She noted similar language on page 20, lines 26 - 31.

11:59:20 AM

MS. WILSON went to page 12, lines 22 - 24, that indicated that overall a person cannot take a tax credit for an expenditure incurred for or directly related to a regulated pipeline, but the problem she saw was that it also says, "regulated pipeline per the FERC or the RCA or "similar regulatory body". That may be intended to mean a successor agency, but that was not clear - particularly because language on line 22 says not just "pipelines", but "facilities, other assets, or services". If that is paired with the idea of "similar regulatory body", then you don't know if you're dealing with things that might be regulated by DEC or some other entity.

CHAIR WAGONER said that had already been covered by Mr. Dickinson.

12:00:46 PM

MR. DICKINSON said he was going to spend a lot of time talking about one word - "or" on page 16, lines 17 - 28. He explained that existing statute sets up three criteria. The CS takes those three criteria and linked them with an "or". They have Section (a) in front of them and he passed out Section (b) of the current statute, which takes the three criteria and says:

If the department finds that the conditions in (a)(1), (a)(2), and (3) of this section are present, then the department shall determine the reasonable costs of transportation.

The point he wanted to make is if they are going to insert an "or" in (a), then insert it in (b), as well. Not doing that would change the meaning in ways that he didn't think would solve an existing problem. The statute says the costs of transportation are the actual costs and regulations have 127 pages on how to determine actual costs. He further elucidated:

The world that was envisioned by this statute and by the consultant is a world in which there are transfer costs and the consultant says when you have transfer costs and you have affiliated parties and they sell each other things by the transfer costs, you can get into trouble. That's absolutely correct! But there's no transfer cost. In the early '80s companies came to

us and said gosh, here's the costs that our shipping company charges our production company. The state was not interested - either in looking at royalties or looking at taxes of those. What we do is we look at actual costs. When we audit, we're looking at invoices. The big issues that arise are how you take the \$100 million plus that you take to buy a tanker, that construct a tanker, in American shipyards with certain tax benefits and you recapture those over the 20 years in which you use that tanker. That is the major issue.... I think this notion of trying to find the market value of services or equally efficient services, the kinds of things that are in the statute, the rate, that the consultant talks about, simply aren't necessarily appropriate.

To resolve this, he suggested leaving out the "or" - as the governor's bill had it or else change it in several places.

SENATOR BEN STEVENS asked if it were to be changed in several places, would that change the intent of the existing statute.

MR. DICKINSON replied yes and he strongly recommended not doing that, but if they chose to leave it in, to make it consistent.

[12:04:58 PM](#)

MR. DICKINSON moved on to page 19 and said the consultant from the same firm focused on line 29 of the governor's bill on allowable direct costs and said, if you're going to say just allow outlays of capital assets, folks are going to show up having bought stock in a company and ask for a deduction. A better definition was needed and he suggested the following language:

An expenditure when occurred to acquire an item if the acquisition cost is otherwise a direct cost notwithstanding that the expenditure may be required to be capitalized rather than being treated as an expense for financial accounting or federal income tax purposes.

[12:06:25 PM](#)

SENATOR BEN STEVENS went to page 17, lines 22 - 24, where old Section 20 of the governor's bill was changed and rewritten to Section 25 in the CS and noted that line 22 had a big change.

MR. DICKINSON responded that the governor's bill proposed that the department could do one of several things. One of them was to see if the DNR was looking at the same set of transactions as the DOR and if so, to allow DOR to incorporate those. Secondly, they could set up formulas that look at market values (which is where 150(b) would take them). One of them is on line 3 and the second one starts on line 16. The CS says in option one, you can incorporate DNR generated values; but the second formula says you may not. So, you have to look at other things like indices of market transportation. He understood that they may not incorporate a royalty value, royalty methodology, value or royalty settlement agreement. But lines 22 and 23 only refer to the second kind of formula, not to the first.

SENATOR BEN STEVENS asked if they were both at the discretion of the commissioner.

MR. DICKINSON replied yes.

[12:09:01 PM](#)

MS. WILSON moved on to page 20, lines 26 - 31, beyond the abandonment language. This section lists things for which a person cannot take an expense; that includes abandonment in (m). However, that is modified on the top of the next page where language disallows abandonment and reads, "(i) or proportionate to the production of oil or gas occurring before the effective date of this section; or". What that means to her is that abandonment that happens on April 1, 2006, which would clearly have to do with old production, would be disallowed, but abandonment that happened down the road on a well that just started producing in May 2006, that would be allowed. She saw problems with handling abandonment that happens some time after the effective date for a well that was producing both before the date and after the date. It suggested to her that somehow the expense had to be split up between the old and the new production.

CHAIR WAGONER said he would check on that.

MS. WILSON remarked that in that same vein, (i) is one modification and then an alternate modification is in (ii) saying abandonment will not be allowed if it has to do with a regulated pipeline, if the tariff takes into account abandonment restoration obligations. Again, she had similar problems and she wasn't sure how to administer that and wanted clarification.

[12:11:55 PM](#)

MS. WILSON asked them to keep their finger on page 20, but to turn to page 23, beginning at line 29, where subsection (l) began (and went through page 25) that said, "(l) For purposes of making a determination of direct cost under (d)(2)(L)" and she asked them to flip back to page 20 where (d)(2)(L) has to do with surcharges and (d)(2)(M) has to do with abandonment and then asked them to compare the two. She said it looked like the purpose of the subsection on page 23, beginning on line 29, appears to be in situations where there might not be arm's length exchanges. So, it doesn't make sense to refer to page 20 (L) surcharges and (M) abandonments. She thought perhaps it was mis-referenced and was meant to refer to page 21, line 8, (N) where it talks about non-arm's length transactions.

MS. WILSON asked members to keep that in mind and directed their attention to page 21, line 12, to Section (O), which talked about purchases of businesses. She asked them to flip to page 24, line 2, where it said: "(1) the department may adopt regulations incorporating the concepts of the 26 U.S.C. 482 (Internal Revenue Code)," and remarked that that section talks about transfer pricing. She remarked, "It is a really ugly audit section.... I mean we could employ auditors for years on that one."

MS. WILSON said in addition to Section IRC 482, line 3 [page 24] allowed the department to look at IRS Code 6662(e) that addressed substantial valuation misstatement. It is included in IRC Section 6662, which overall addresses "imposition of accuracy-related penalties on underpayments." Section 6662(e) particularly addresses valuation misstatements. She just didn't know what they were doing with that section overall.

[12:16:17 PM](#)

MS. WILSON moved on to page 24, line 13. This paragraph said the producer shall provide contemporaneous documentation available at the time the document was prepared. So, if the department asks for that documentation and the producer fails to comply with that request, they will be liable for a penalty, but what sort of penalty is not addressed.

She noted that line 14, Subsection (m), says "The provisions of this subsection apply to the purchase or acquisition of a business entity", then it goes on to address particularly an acquisition that is accounted for under IRC Section 338. That section provides that where one company sells the stock of a sub to another company, they can agree that it will be treated for federal tax purposes as a sale of assets. That has specific

application under income tax law having to do with the basis of those assets and she was completely unclear about why it was applied here.

12:18:40 PM

MS. WILSON moved on to page 25, lines 7 - 11, that referenced where a taxpayer has taken a credit in one year for a qualified lease expenditure and then that asset for which the expenditure was made is subsequently removed from the state, and the taxpayer would have to recapture that credit. She noted this paragraph had no time limit, so if the asset was 80 years old and was taken out to salvage or whatever, the taxpayer still has to recoup that. She questioned whether that was the intent. She said that concluded her comments on the proposed CS, although she might find a few other items.

12:19:52 PM

MR. DICKINSON interrupted that he had two items to add to the list. He skipped back to page 21, lines 20 - 22 that defined the kinds of things a producer has to net against their lease expenditures. The CS added the following condition to the governor's bill regarding a producer who has an ownership interest in a facility and they are paid for it:

subject to a management agreement that provides for the producer to receive a management fee determined by whole or in part of the income or gross revenue earned by the production facility;

He was concerned about how expansively that might be read if the producer doesn't have to have any ownership interest and asked if someone could explain what was trying to be accomplished there.

Lastly, language on page 22 talked about the kinds of things that have to be "netted out" when arriving at net value. This referred explicitly to the transition investment expenditures. Line 18 says if they were "a result of expenditures the producer incurred on or after January 1, 2003, and before April 1, 2006," and he suggested deleting the phrase "on or after January 1, 2003," - the notion being if you had something to acquire five years ago, when you sell it, it's part of your net outlay calculation. So, selling something under non-transitional expenditures goes into your calculation and it doesn't make sense to limit it to January 1, 2003.

12:22:05 PM

SENATOR GUESS referred to page 25, lines 21 - 23, and said that "ordinary and necessary" was not defined anywhere. She asked if Ms. Wilson was comfortable that 26 U.S.C. 6662 was clear enough or that the case law around it was clear enough to limit the risk of litigation of the definition.

MS. WILSON replied that quite a body of court cases exist that address this and she expected that would continue. She said she was much more comfortable with a big body of case law than with setting a different standard that has no precedence.

MR. DICKINSON added that the standards they have set have to be "direct, ordinary, and necessary". Merely meeting a standard of ordinary and necessary doesn't qualify them as a lease expenditure.

CHAIR WAGONER said that concluded the presentation and announced a short break from [12:23:35 PM](#) to [12:33:37 PM](#).

CHAIR WAGONER announced that they would hear from British Petroleum next.

[12:34:02 PM](#)

ANGUS WALKER, Commercial Vice President, BP Alaska, had two handouts, one was entitled BP's Presentation on SB 305 and the other Addendum: BP Presentation on SB 305(PPT). He said since 1999, both industry and the Department of Revenue have consistently overestimated production. This was a huge concern to BP as he thought it was for the state. He also concurred that production had been declining at the rate of 6 percent per year with the most recent DOR forecast of 3 percent per annum going forward. He mentioned the development of Alpine and Northstar. [The teleconference transmission became unclear at this point.]

[12:37:11 PM](#)

CHAIR WAGONER indicated that his testimony was breaking up.

MR. WALKER continued by yelling into his Blackberry. He referenced the second graphic, a slide of the latest DOR forecasts that indicate the natural decline of the fields would be 15 percent per year. He said that at the current investment level, \$1 billion to \$1.5 billion per year, that decline will continue be around 6 percent. Significantly more investment was needed around \$2 billion to \$3 billion per year, to get that line to move in the other direction. He said that legislators

needed to ask themselves what it would take to get that kind of investment.

[12:39:42 PM](#)

CHAIR WAGONER broke in to say he was hearing only half of Mr. Walker's comments.

MR. WALKER asked if they could proceed with someone else while he found a different phone.

CHAIR WAGONER said he would proceed with ConocoPhillips and then return to Mr. Walker.

[12:42:22 PM](#)

BRIAN WENZEL, Vice President, Finance and Administration, ConocoPhillips Alaska, presented ConocoPhillips' views on the proposed changes to SB 305.

Your committee substitute, if enacted into law, is going to have a negative impact on the attractiveness of Alaska for ConocoPhillips' investment dollars. ConocoPhillips absolutely opposes this CS and any proposal that increases our industry's taxes above \$1 billion per year proposed by the governor's bill.

The proposal before us today, although difficult to interpret and confusing in several places, might increase oil taxes by an annual average of more than \$2.4 billion. If today's prices continue, this is \$24 billion over the next 10 years. The approach reflected in this committee substitute is clearly to maximize short-term state revenue, while putting at risk long-term production, state revenues, growth in the private sector and jobs. The CS you are considering destroys the balance of the original bill.

ConocoPhillips' view is that our relationship with the state is one in which we are partners that share a common, all-important goal - maximizing production. For the State of Alaska, maximized production will naturally lead to maximized state revenues and jobs. We must both strive to find ways to maintain current production, mitigate natural field production decline and, where possible, develop new production. In our industry, production projections and reserves can be more important than the current cash flow and earnings.

This is because we take a long-term view about how to create value in the future regardless of our inability to predict prices. Alaska also needs to take a long-term view by focusing on how to motivate long-term investment and increase production rather than extracting incremental short-term revenue increases above and beyond the \$1 billion already accepted by the industry.

We realize you have developed this revised bill after listening to the advice of various consultants. If we understand your consultants' testimony, they are suggesting that you can jettison the balance of the original proposal and adopt an approach like that reflected in the CS with no adverse consequence on investment. Indeed, they suggest you will actually increase investment in the state by doing so.

We also have hired a number of consultants and will use their input as we lay out for the House and Senate Finance committees the same points we were unsuccessfully in demonstrating to you. However, at the end of the day, neither your consultants nor ours must make or live with the decision currently before the Alaska State Legislature. Similarly, none of these consultants ever has or ever will make an investment decision on behalf of ConocoPhillips. To the extent your consultants are telling you that the CS will not have a negative impact on ConocoPhillips' investment decisions going forward, I can tell you they are 100 percent wrong.

[12:45:38 PM](#)

Taking billions of dollars for our industry will have a negative impact on investment. Taking away a significant portion of the upside potential in a basin with lead times of a decade or more in an area with low prospectivity and higher costs than almost anywhere else in the world will negatively affect investment and consequently negatively affect production, state revenues and jobs. This is a natural consequence of the action you are taking.

Moreover, the negative effect on our decision-making and on the decision-making of others, will not result just from the increased tax burden you are seeking to impose. There is also the question of our and others'

confidence in the future investment climate here in the state. Adverse changes in the key parameters of the originally proposed bill will result in a fundamental shift in the balance of risks and rewards of reinvestments in Alaska. Unreasonable changes like those imbedded in this CS will cause not only ConocoPhillips, but also other investors to question not whether, but when, Alaska will again change its fiscal regime and impose unfair and unreasonable burdens on those who have taken great risks and invested billions of dollars to develop the state's resources.

It is irrelevant whether that future change will be in the state's production tax, its property tax, its corporate income tax or in the creation of some entirely new tax. The point is that investors will now need to consider another is significant risk in making their economic decisions in Alaska - the risk that Alaska will not approach future fiscal policy changes in a reasonable manner that recognizes the commitment and contribution of companies like ConocoPhillips.

When you are considering how to finalize this CS, I'd encourage you to ask yourselves, is Alaska getting enough industry investment today? If you don't think there's enough investment today, how can raising taxes lead to more investment? Granted, the investment incentives for exploration can be expected to garner some additional production, but that will be years away. The additional production we need to stem decline of the next several years can only come from additional investment around existing infrastructure. Raising taxes on existing infrastructure as you are doing in the CS can only deter that investment.

12:48:20 PM

MR. WENZEL drew the committee's attention to the handout on satellite fields developed over the last 10 years. He pointed out that there are only four fields greater than 50 million barrels. In Alaska, prospectivity is low and costs are high. He cautioned the state about looking at other comparable countries and determining that its government take should be equivalent to them because of the low prospectivity and the high cost. He also pointed out that some of the largest investors are also the ones who are developing the new fields; it's not coming from new investors into Alaska. Even in the future, the State of Alaska

should not expect the list to change dramatically with new names. He said the production would come from the known resources today and further developing them and mitigating decline in the already discovered big fields.

[12:49:54 PM](#)

MR. WENZEL returned to his written testimony, saying:

From our quick review of your CS, it appears that you have changed nearly every key parameter in the original bill in a decidedly one-sided manner that benefits the state and is at the expense of ConocoPhillips and the other major North Slope producers. You have destroyed the balance previously represented in the bill.

Through the CS, you propose to not only significantly increase the base PPT rate to 25 percent, but also further increase that tax rate on the industry at all prices above \$40. At current prices, depending on how we interpret the unfinished language in the CS, the additional surcharge will result in anywhere from \$1.8 to \$2.4 billion in annual tax liability for the industry over the current system. This change is neither fair nor reasonable to existing investors and will be viewed as unfair and unreasonable by potential future investors.

You have severely reduced the intended transition plan such that investors with large, recent capital investment projects, which haven't even begun producing yet are penalized for apparently investing in Alaska too early and being too optimistic about the future of Alaska. I want to emphasize this point. This CS penalizes the very companies that have been investing, creating jobs and building the resource base in the state of Alaska.

You have provided for differentially higher exploration tax credits, but as one of the few companies who have actually applied for exploration credits under the current statute, our experience is that, in fact, current regulation effectively reduces the value of these credits to 70 percent or less of their stated value. Further, these credits only affect about 4 percent of the DOR's expected future sources of production and investment in Alaska.

[12:51:41 PM](#)

Finally, you have moved the effective date of this bill back to a date that is completely impractical. The necessary regulations, procedures and computer systems cannot possibly be adopted and put in place by April 1 of this year, which means that production tax payers in Alaska will have to guess at their tax liability and make unsupported payments of tax in an uncertain attempt to avoid punitive interest costs.

Unfortunately, we are unable to precisely quantify the dollar impact from the CS due to the short turn-around time and the fact that many of the key parameters are apparently still subject to change. However, in our view, these changes from the original bill are completely inconsistent with the goals of a fair and reasonable fiscal policy, increase long-term investment in Alaska and a vibrant, secure Alaska oil industry. We urge you to reconsider the long-term impact of this bill on future production, Alaska jobs and the future of the State of Alaska generally. We urge you not to move this bill out of committee until it can be re-crafted with a more balanced, long-term perspective. Thank you for considering our views.

[12:52:53 PM](#)

SENATOR ELTON turned to page 2 of Mr. Wenzel's written testimony to his comment that government take would amount to \$24 billion over the next 10 years and asked him what the industry take would be - using the same assumptions.

MR. WENZEL answered that he didn't have that number with him, but said that no doubt, the industry would make significant profits.

SENATOR ELTON asked that information to be provided to the committee.

[12:54:09 PM](#)

SENATOR BEN STEVENS asked how many people ConocoPhillips employed in Alaska.

MR. WENZEL replied about 900 employees.

SENATOR BEN STEVENS asked what effect he thought the CS would have on maintaining that number.

MR. WENZEL said this CS wouldn't immediately change employment. But in the long term, positions would be lost through attrition and management would not approve as many projects. He stated that is not their goal in Alaska.

[12:55:29 PM](#)

SENATOR COWDERY asked if he had an estimate of the numbers of subcontractors ConocoPhillips has.

MR. WENZEL replied that he had no estimate of subcontractors.

[12:56:06 PM](#)

SENATOR GUESS referred to Dr. van Meurs' testimony that the CS incentivizes exploration too much and asked him to comment.

MR. WENZEL replied that as the state's leading explorer, he would not agree that the state is incentivizing too much. It would not meet all of ConocoPhillips' needs to improve production and mitigate production in current facilities.

SENATOR GUESS said she understood that both the original bill and the CS provide that all production and development in the lease expenditures are depreciated in the first year; and yet Mr. Wenzel testified that this legislation does nothing for current production. She asked why he said that.

MR. WENZEL answered that a couple of things come to mind. He mentioned the transition effect. Also, much of the investment that goes into facilities to maintain current production are repair and replacement dollars, which don't qualify as capital expenditures. "In our view those investments are as important as your capital expenditures...." His other concern was that the CS severely limits the transition program in the original bill. ConocoPhillips has two projects underway, but not yet producing - Fjord and Nanook. If Alaska goes forward with this sort of approach, it wouldn't get credit for the several hundreds of millions of dollars spent on those projects and that says to investors that they should have waited and done their investments later.

[1:00:18 PM](#)

SENATOR BEN STEVENS looked at page 2 of Mr. Wenzel's written testimony where he said production projections and reserves are more important than current cash flow and earnings. He related that to his statement on page 6 about being too optimistic for

the future and asked whether the company remains optimistic about Alaska.

MR. WENZEL replied yes, optimistic and committed.

SENATOR BEN STEVENS asked if this CS would dim his optimism.

MR. WENZEL replied yes.

[1:01:50 PM](#)

CHAIR WAGONER said he didn't see this bill being too much more punitive than the governor's bill. He asked what the governor's bill would do for his outlook on Alaska.

MR. WENZEL respectfully disagreed that the CS is not much more punitive. The governor's bill stated additional taxes would be \$800 million per year and the CS could be easily over \$2 billion per year. The governor's bill proposed a significant increase in tax liability, but that was looked at in the context of all the things the company expects to do in the future and it felt it could step up to that level of investment.

[1:02:59 PM](#)

SENATOR THERRIAULT asked if he was quantifying the total additional governmental take in the \$800 million - \$1 billion or the total shift from the producers.

MR. WENZEL replied that was the incremental additional tax liability over the current system.

SENATOR THERRIAULT said the federal government picks up 30 to 35 percent also.

MR. WENZEL responded no, those were just production tax numbers.

[1:03:53 PM](#)

SENATOR GUESS went back to her previous question on production. Maintenance would be a lease expense because it's an operating expense, not a capital expense. But if you replace a "widget" that would be a capital expense.

MR. WENZEL replied that he didn't have enough accounting knowledge, but he understood that it would have to extend life of field. He wasn't sure what that meant, but capital expenditures would allow the company to bring on additional production, extend the life beyond what they expected, et cetera, as opposed to simply repairing or replacing equipment.

SENATOR GUESS asked if they needed to repair or replace something to keep current production or increase it, would those come under capital assets in this bill.

MR. WENZEL replied that he wasn't convinced of that.

[1:05:33 PM](#)

SENATOR SEEKINS said he thought those would be operation and maintenance expenses in a different category. As he looked at information from multiple consultants and experts in the field, the 20/20 program, as laid out by the governor with the look back provisions and the \$73 million floor on taxes would increase taxes in terms of the effective tax rate of about 6 percent. If all other factors were the same and then the state adopted a 25/20 program, it would be increased by about another 2.5 percent. He asked if that was a good characterization of what he said.

MR. WENZEL replied that the CS results in an additional \$1.8 billion to \$2.4 billion in tax burden.

SENATOR SEEKINS asked if that was the result of the 25/20 versus 20/20 or did he use a progressivity number at the \$40-range and then back out all the credits.

MR. WENZEL answered yes and he included all elements of this CS including the change in the effective date.

SENATOR SEEKINS asked he agreed with the estimate of \$250 million for the changed effective date (of one quarter).

MR. WENZEL replied that figure was roughly correct for the industry.

SENATOR SEEKINS said they are all put together, it looks like a pretty big chunk, but no one has provided him with the total impact of all the things that would come out of that in the CS. He asked for a graphic, as simple as possible, of the total impact of the CS.

MR. WENZEL said he would attempt to provide that, but making estimates about other companies would be difficult. He suggested that he ask the administration, as well.

[1:10:02 PM](#)

CHAIR WAGONER asked when Mr. Wenzel said an additional \$1.8 billion to \$2.4 billion, if he meant in addition to the status quo or in addition to the governor's bill.

MR. WENZEL replied in addition to the status quo.

SENATOR GUESS added that the difference she saw between the original bill versus the CS is that the state gets more of the upside, but with more risk - because of the credit structure. She asked what price range those estimates used.

MR. WENZEL replied that estimate was based on today's prices.

CHAIR WAGONER asked what would be the additional money under the governor's bill.

MR. WENZEL replied that he concurred with the administration's numbers of \$800 million to \$1 billion more to the state at today's prices.

CHAIR WAGONER said the adjusted credits and the additional 5 percent, which is really only about 2 percent in total government take would result in an additional \$1 billion to \$2.4 billion from the industry.

MR. WENZEL replied yes.

[1:12:13 PM](#)

SENATOR BEN STEVENS asked how he calculated the PPT rate with the escalator to get that number - at current prices. He thought the government take would go up more significantly than the chair just stated.

MR. WENZEL replied that he didn't know the exact rate, but today's price was \$59 or so. He said there are different interpretations of how the progressivity would work.

SENATOR BEN STEVENS asked if the CS was 29/20 at current rates.

MR. WENZEL replied that was correct, but the 29 percent was the nominal rate before any credit.

[1:14:01 PM](#)

SENATOR SEEKINS asked what ConocoPhillips' long-term projection was on the price of oil.

MR. WENZEL respectfully declined to answer saying that was proprietary information.

SENATOR SEEKINS asked with \$40 as a starting point and a 2.5 percent incline that would put the tax at 25/20 at \$60 a barrel and with all other elements being the same, would that be a punitive rate.

MR. WENZEL answered that he was not sure "punitive" was the appropriate term, but he believed it was too high and would result in less investment over the long term compared to a 20/20 scenario.

[1:16:13 PM](#)

SENATOR BEN STEVENS said he thought Mr. Wenzel's rate of the escalator was inaccurate, because it was pegged to West Texas International (WTI) crude. Yesterday's WTI was \$63 and typically ANS is less.

SENATOR ELTON said Dr. Van Meurs used \$36 a barrel oil for his competitive index rating on investment and said that the 25/20 would result in the same level of investment as is now occurring. He asked Mr. Wenzel if he used \$36 a barrel, would he come to the same conclusion.

MR. WENZEL replied no. He suggested that legislators listen to the consultants, but also consider whether a consultant who doesn't invest in Alaska knows best what is going to happen at 20/20 or at 25/20. He suggested listening to what the people who are making those investments are saying and he said it would be potentially "less" than the "same." He reiterated that the 20/20 scenario was a good balance.

[1:19:11 PM](#)

CHAIR WAGONER asked whether Senators Stedman and Dyson, both on teleconference, had questions.

SENATOR STEDMAN didn't.

SENATOR DYSON asked why at today's much lower tax rates there hasn't been more investment.

MR. WENZEL replied that was one of ConocoPhillips' concerns also. He questioned whether this was the right environment to increase the tax burden.

SENATOR DYSON said he'd conclude, then, that taxes aren't perhaps even a significant portion of the issue. He asked if Mr. Wenzel would prefer them to drop the tax rate below the governor's recommendation.

MR. WENZEL said he would encourage legislators to look at all possibilities to find the best mix that would motivate the activity and behavior the state wanted. He couldn't say that fiscal policy completely effected investment or non-investment.

[1:22:17 PM](#)

SENATOR DYSON asked how much investment might increase using a 15/30 scenario.

MR. WENZEL replied that he didn't have estimates for that, although ConocoPhillips' level of investment would definitely be greater. The focus of the company is not on prices, but rather on opportunities to increase production.

[1:23:26 PM](#)

SENATOR STEDMAN asked to get total numbers for the government and industry take so they could be compared.

CHAIR WAGONER asked if ConocoPhillips would invest more under the governor's bill at 20/20.

MR. WENZEL replied yes, under the long term. But more than the current system - he said it would be difficult to quantify. The 20/20 proposal has real potential for a gas pipeline; it represents something that provides common ground to go forward. Also, 20/20 stands on its own as a fair balance.

CHAIR WAGONER asked if governor's proposal at 25/20 would be a pipeline deal-breaker.

MR. WENZEL replied that ConocoPhillips didn't control the decisions for all three companies. Getting to 20/20 was very difficult.

[1:28:27 PM](#)

CHAIR WAGONER thanked Mr. Wenzel for his testimony and said they would go back to Angus Walker from BP.

MR. WALKER returned to page 2 of his written testimony and took up where he left off:

Whilst development of Alpine, Northstar, and the Prudhoe Bay satellites between 2000 and 2002 successfully flattened North Slope production for a number of years, 2005 saw decline return to the 6-percent rate that has characterized this basin in the past. Unfortunately for all of us, there are no more fields of Alpine or Northstar's magnitudes waiting to be developed.

[1:34:25 PM](#)

MR. WALKER presented a graphic addressing the current situation under three different scenarios that showed with no investment the natural decline of the fields would drop. At the current level of investment of \$1 billion to \$1.5 billion per year, the decline would be around 6 percent a year. The latest DOR spring forecast translated into an approximate 3 percent decline, which is the status quo. He said:

However, the 3 percent decline cannot be met without significant additional investment in the order of \$2 billion to \$3 billion per year. Unless those investments are made, history will repeat itself, decline will continue at the current rate and the DOR will be revising its production forecast down yet again.

The real question for you to be asking industry and the consultants is 'What would it take to double investment in the Alaska North Slope?'

Encouraging new exploration is good, but it is a fact acknowledged by all who have testified that the resources expected to be discovered through exploration will likely be significantly less than the resources we already know about. It is investment in these known resources that offers the greatest chance of stemming the decline of ANS production. As you look at incentives for exploration, you must not overlook incentives for investments, which are more likely to succeed.

The tax regime, which you approve will directly impact how attractive Alaska is for investment and that will translate into what the future decline will be. It is in the interest of all, industry and Alaska, that we focus on growing the pie rather than increasing state take from a declining pie. [He explained a graphic

illustrating his point.].... The point I'd really like to make here is this is not just about severance tax.

MR. WALKER said the status quo of a 6-percent decline is happening under the current tax system. The 20/20 proposal is a big tax increase on the industry and is a disincentive to investment rather an incentive and he predicted a bigger decline with it.

SENATOR ELTON followed up, referring to page 2 of Mr. Walker's written testimony. He asked whether Mr. Walker was suggesting that an additional \$2 billion to \$3 billion investment per year was needed to get to the 3-percent decline level and that 20/20 made things difficult. He didn't understand how investment would double under the new proposal if they couldn't get there under ELF.

MR. WALKER answered that he was correct.

There is no prospect of getting to \$2 billion or \$3 billion per year of investment under the new proposal, because we couldn't get there under ELF. In fact our belief is that the new proposal causes an additional burden on industry and will yield a decline rate higher than 6 percent, rather than one that is less than 6 percent.

SENATOR ELTON followed up that the only way to get to the production level needed for the 3-percent decline was to go a tax recipe that is less severe than the existing ELF.

MR. WALKER replied that was correct. He would talk later about examples.

[1:38:04 PM](#)

SENATOR BEN STEVENS tried to elucidate by asking Mr. Walker if he was speaking to the CS as proposed.

MR. WALKER replied that he hadn't addressed the CS. He clarified that the governor's 20/20 proposal increased tax on industry and thus was a disincentive. He advocated rather than increasing the tax burden on industry, to reduce it to stimulate investment.

Returning to Senator Elton's question about the investment required to get to a 3-percent decline; it is a total investment of \$2 to \$3 billion per year, not incremental.

[1:39:52 PM](#)

MR. WALKER said the state could collect zero severance tax and get a better outcome than collecting high severance tax and having less resource development. He said:

The size of the pie is the most important consideration. Maximizing the value of resources for Alaskans means maximizing state revenue and maximizing production. Resources left in the ground are simply a wasted opportunity. This should be the focus of our deliberation. Alaska needs more investment, more jobs, more production, not higher taxes.

The good news for Alaska is that you have a huge known resource base on the North Slope and the bad news is that it is going to be technically difficult to extract and it is one of the most expensive places in the world to produce oil and gas.

Assuming the new 20/20 is put in place, Alaska would also become the area in the United States with the highest marginal tax rate. And needless to say, this introduces one more barrier to attracting investments. Incorporation of a yet higher tax rate at higher prices is yet another take from industry and creates a bizarre fiscal regime being regressive at low prices and progressive at high prices - thus reducing the space for industry and creating yet more barriers to attracting investments.

MR. WALKER'S next graphic indicated U.S. marginal tax rates. With the PPT at 20/20, the marginal tax rate in Alaska will be 61 percent, significantly higher than any other place in the United State. When you add more taxes at higher prices, that adds additional hurdles to investment. He concluded:

To maximize the value of the resources in the ground, the legislature should be focused on maximizing North Slope production by attracting investment. The priority for the State of Alaska should be to encourage investment to help industry develop those known resources, not to make it more difficult and risky than it already is.

[1:42:53 PM](#)

MR. WALKER drew attention to the United Kingdom [see handout] and said he couldn't agree more with Daniel Johnston who said

that reducing taxes virtually created and subsequently sustained an economic boom in the UK. He read a quotation from Daniel Johnston:

Ordinary measures of government taken throughout the 1990s made the United Kingdom government appear rather crazy and irresponsible.... The 'gross benefits' to the UK government go way beyond direct tax revenues and royalties received from the upstream sector of the petroleum industry. The economic impact of the industrial hyperactivity in the UK sector or the North Sea, a direct result of the 'lenient' terms of the 1990s is difficult to measure. Furthermore, the activity in the UK started in the late 1980s and early 1990s when the UK government dropped the ring fence for the 75 percent Petroleum Revenue Tax (PRT) before government take, as it is ordinarily measured, was drastically reduced. The UK offshore became the most active offshore province in the world. Reducing the government take in the following years managed to sustain that boom. Activity and employment in the British petroleum sector is healthy and robust....

The actions of the UK during the 1980 and 1990s provide an excellent role model for any government hoping to attract investment. Let us please not forget the urgent need to stem decline and attract significantly more capital (about twice what is being spent today to the North Slope).

In order to maximize the value of Alaska's resources we believe you should be adopting tax rates lower than those proposed by the governor. In so doing, you would maximize investment, maximize production and maximize jobs for Alaskans. You would also take an important step towards creating a healthy oil business, which will be the foundation for gas.

We recognize the burden on your shoulders in making these decisions. There are many people advising you to increase taxes, which will indeed increase state revenue, but for how long? One year - two years? But at what cost to future production?

MR. WALKER said that BP hadn't had the opportunity to review the CS, but could not support the substantial increase in take from the industry. The base tax rate of 25 percent was too high given

Alaska's urgent need to attract large-scale capital to stem decline. Alaska needs a competitive fiscal regime to attract the investment required.

[1:47:21 PM](#)

MR. WALKER said the change in the effective date meant the tax would be implemented before it was enacted; the transition provisions have been significantly reduced making the implementation unfair for its investors. He urged them not to adopt the CS.

[1:49:28 PM](#)

CHAIR WAGONER noted there were no questions and thanked Mr. Walker for his presentation.

[1:50:21 PM](#)

RICHARD OWEN, Production Manager, ExxonMobil Alaska, said he was Vice President, ExxonMobil Alaska Production, gave the following statement:

I am here today to express ExxonMobil's concerns with the proposed Committee Substitute to SB 305. On February 28, I testified about our key concerns with SB 305 as originally proposed. These changes exacerbate the concerns I described on February 28. Specifically, I will make comments on two areas: the proposal to change the tax rate; and the proposal around reduced transition provisions.

SB 305, as originally proposed, represented a dramatic tax increase on the industry. As I previously testified, we expressed concern that the higher tax rate included in the bill could prevent some of Alaska's challenged resources from being developed. We understand the Committee is now considering even higher tax rates.

Too high a tax rate discourages investment. Companies are willing to accept the risks of long-term, capital intensive investments when there is a corresponding opportunity for upside potential through a variety of factors, such as increased production or higher prices. When you limit or reduce the benefit that Companies can achieve from the upside factors, you reduce the attractiveness of those investment opportunities. The proposal to increase the already

high base tax rate and then further increase that tax rate as oil prices rise, does reduce or limit the upside potential and will result in Companies recalibrating investment decisions. Reduced investment will result in reduced resource recovery, diminished state revenues and fewer employment opportunities, with a resultant negative impact on the state's economy. Again, let me reemphasize this point. While higher taxes may bring in additional revenues in the short-term, any reduction in investment and subsequent production will significantly impact those revenues in the longer term. We believe the focus of the tax bill should be to encourage investment and grow production.

ExxonMobil is concerned with the significant change from the ELF-based system to the PPT system and the need for sufficient transition provisions to mitigate the adverse impact on recent investments. We understand the Committee is considering reducing those transition provisions. While the benefits from a typical oil and gas investment take many years to be realized, the Administration's proposed five-year transition into the higher tax PPT system represented a reasonable transition. The Committee Substitute's proposed transition provisions do not sufficiently address the significant increase in tax burden these past investments will now have to bear.

[1:54:08 PM](#)

Despite our concerns with SB 305 as originally proposed, we are prepared to move forward under that system since it sought to provide a balance of revenues to the state and producers across a range of oil prices, provided sufficient incentive for producers to undertake exploration and development risks, and included reasonable transition provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase.

It is important that the quality of the resources, the risks undertaken by a producer, and the impact on the state's overall investment climate be factored into the design of the tax system. While industry needs predictably and durability under which to gauge

investment decisions, the attractiveness of that predictably and durability is lost if it comes at too high a cost.

As I mentioned earlier, the Committee's proposed substitute exacerbates our key concerns regarding both tax rates and transition provisions. We urge this Committee to support SB 305 as originally proposed.

Thank you again Mr. Chairman for the opportunity to testify today.

[1:55:29 PM](#)

CHAIR WAGONER asked if he heard Dr. van Meurs' testimony on the two-for-one credits for the look back.

MR. OWEN replied yes.

CHAIR WAGONER asked what his reaction to that kind of incentive.

MR. OWEN replied that the transitional arrangement was trying to transition past investments that will incur significantly higher tax burden than was originally foreseen when they shortly come on line. Those transition arrangements, while they are based on capital investments in the past are simply trying to reduce the significantly increased tax burden of those revenue streams. He favored the original proposal.

CHAIR WAGONER asked what effect the 20/20 proposal would have on the positive side to maintain current levels of production or to stop the decline.

MR. OWEN answered that the original 20/20 provided a balance between the tax rate the credit rate. It provided incentives that allow ExxonMobil to go ahead with those investments.

[1:58:06 PM](#)

SENATOR SEEKINS asked if Dr. Van Meurs' competitive rating index indicating that the 20/20 was more favorable than the status quo was a reasonable assumption.

MR. OWEN answered that was very good question. The 20/20 system as proposed, based on the kinds of opportunities that Dr. Van Meurs was looking at, improved the rate of return of the projects by shrinking the pie. It offset some of the upfront investment and reduced the stream going forward by 20 percent.

One confusing part of the picture is that it was dealing with average scenarios, not specific opportunities.

[2:00:53 PM](#)

SENATOR SEEKINS referred to Dr. Van Meurs' page 8 that indicated what he thought would be a level of investment. He suggested that under 20/20, both large producers and new investors would increase investment and asked if he thought that was a reasonable assumption.

MR. OWEN replied that he would make the same observation as before, that it was based on an average of projects, not a specific project. It was dominated by the rate of return, which used data from previous charts. His characterization was correct, but if you look at the broader scale, some of the projects didn't look as attractive as they might under an ELF system, where a producer would be paying zero severance tax. The pie is shrunk, but there is a better cash flow for a while.

[2:03:06 PM](#)

SENATOR GUESS asked the same question she asked ConocoPhillips - that the CS provided increased credits and Dr. Van Meurs thought it provided too many and she asked him to comment on that.

MR. OWEN replied that he hadn't enough time to look at the CS. High credits, by their very nature, do provide incentive. The governor's proposal balanced a lot of these components. While it increased taxes, it provided the basis to move forward.

[2:04:54 PM](#)

SENATOR BEN STEVENS commented that he interpreted Dr. Van Meurs' statements about over-incentivizing exploration to refer to the clause that included a 20 percent for traditional production and development and 30 percent for exploration. He also mentioned that the 25 percent increased the state's exposure on the downside.

[2:05:55 PM](#)

SENATOR THERRIAULT asked whether Mr. Owens supported the 20/20.

MR. OWEN answered yes and specified that he did not oppose the governor's bill.

[2:07:19 PM](#)

CHAIR WAGONER thanked Mr. Owen for his testimony and announced that SB 305 would be held over. There being no further business

to come before the committee, he adjourned the meeting at [2:07:41 PM](#).