

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

March 20, 2006

3:37 p.m.

**MEMBERS PRESENT**

Senator Thomas Wagoner, Chair  
Senator Ralph Seekins, Vice Chair  
Senator Ben Stevens  
Senator Fred Dyson  
Senator Bert Stedman  
Senator Kim Elton  
Senator Albert Kookesh

**MEMBERS ABSENT**

All members present

**OTHER MEMBERS PRESENT**

Senator Gretchen Guess  
Senate 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  
 03/18/06 (H) -- Meeting Canceled --  
 03/19/06 (S) RES AT 1:00 PM BUTROVICH 205  
 03/19/06 (S) Heard & Held  
 03/19/06 (S) MINUTE(RES)

**WITNESS REGISTER**

MARK SHARP

Fairbanks AK

**POSITION STATEMENT:** Opposed CSSB 305.

CHRIS JOHANSEN

Fairbanks Chapter

Alaska Support Industry Alliance

Fairbanks AK

**POSITION STATEMENT:** Opposed CSSB 305.

MARK AIMS  
Fairbanks AK

**POSITION STATEMENT:** Opposed CSSB 305.

JUDY BRADY, Executive Director  
Alaska Oil and Gas Association (AOGA)  
Anchorage AK

**POSITION STATEMENT:** Opposed CSSB 305.

JIM WEEKS, Ultra Star Exploration  
3111 C Street, STE 500  
Anchorage AK

**POSITION STATEMENT:** Preferred option 2 for replacing the \$73 million allowance.

MERRICK PIERCE

**POSITION STATEMENT:** Commented on CSSB 305

TADD OWENS, Executive Director  
Resource Development Council (RDC)  
Anchorage AK

**POSITION STATEMENT:** Opposed CSSB 305.

JIM GILBERT, President  
Alaska Support Industry Alliance  
Udelhoven Oilfield System Services Inc.,  
Anchorage AK

**POSITION STATEMENT:** Opposed CSSB 305.

PAUL LAIRD, General Manager  
Alaska Support Industry Alliance  
Anchorage AK

**POSITION STATEMENT:** Opposed CSSB 305.

MARY SHIELDS, General Manager  
Northwest Technical Services  
Anchorage AK

**POSITION STATEMENT:** Expressed dismayed at the dramatic changes considered in CSSB 305.

MAYNARD TAPP  
Hot Construction Consultants  
Anchorage AK

**POSITION STATEMENT:** Opposed CSSB 305.

CAROLINE HIGGINS  
Alaska Support Industry Alliance  
Anchorage AK  
**POSITION STATEMENT:** Opposed CSSB 305.

DOUG REYNOLDS  
University of Alaska Fairbanks  
Fairbanks AK  
**POSITION STATEMENT:** Commented on the tax structure related to  
CSSB 305.

JIM SAMPSON, President  
AFL-CIO  
Fairbanks AK  
**POSITION STATEMENT:** Thanked the committee for the work done on  
CSSB 305.

MARK HYLEN, President  
Kakivik Asset Management  
Anchorage AK  
**POSITION STATEMENT:** CSSB 305 makes absolutely no sense.

LYNN JOHNSON, President  
Dowland-Bach Corporation  
Anchorage AK  
**POSITION STATEMENT:** CSSB 305 would damage the investment  
climate in the state.

TOM WALSH, Co-owner  
Petrotechnical Resources of Alaska  
Anchorage AK  
**POSITION STATEMENT:** Opposed changes made to SB 305.

MATTHEW FAGNANI  
President of Worksafe  
General Manager of NANA Oilfield Services  
Anchorage AK  
**POSITION STATEMENT:** Opposed CSSB 305 and supported SB 305.

FRANK WIESS, President  
Alaska Anvil Inc.  
Anchorage AK  
**POSITION STATEMENT:** Opposed CSSB 305 and supported SB 305.

KEVIN RITCHIE

Alaska Municipal League  
Juneau AK

**POSITION STATEMENT:** Read AMS policy statement.

WAYNE STEVENS, President CEO  
Alaska State Chamber of Commerce  
Juneau AK

**POSITION STATEMENT:** Expressed concern with CSSB 305.

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

**POSITION STATEMENT:** Provided information on the 2 for 1 system.

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

**POSITION STATEMENT:** Governor Murkowski strongly supports the 20/20 system

#### **ACTION NARRATIVE**

**CHAIR THOMAS WAGONER** called the Senate Resources Standing Committee meeting to order at [3:37:24 PM](#). Present were Senators Kim Elton, Fred Dyson, Bert Stedman, Ralph Seekins, Ben Stevens and Chair Thomas Wagoner. Senator Albert Kookesh arrived momentarily.

#### **SB 305-OIL AND GAS PRODUCTION TAX**

CHAIR THOMAS WAGONER announced SB 305 to be up for consideration. That day the agenda would include public testimony, a continuing presentation from Dr. Van Muers, and a summary from Commissioner Bill Corbus.

MARK SHARP, Fairbanks, said this is the first serious attempt in over 20 years to modernize the oil tax structure and it's not likely to be addressed again for many years. With this in mind, he urged members to: 1) separate the gas line issues and make the oil tax restructuring the priority of this legislative session, 2) keep it simple because basing the tax structure on purported net profits as proposed by Governor Murkowski and the industry majors will result in revisiting past mistakes, 3) keep existing court-tested taxes in place and establish a graduated

progressive excess market price tax based on the market price of North Slope crude. He recommended three tax brackets. Bracket 1: market values in excess of \$30 up to \$40 per barrel tax at 20 percent; Bracket 2: market values in excess of \$40 up to \$50 per barrel tax at 25 percent; Bracket 3: market values in excess of \$50 per barrel tax at 30 percent.

MR. SHARP said that this taxing system is simple and takes away the industry's ability to manipulate financial data and litigate areas that are subject to interpretation or challenge. Most important, it would ensure that Alaskans receive their fair share of excess market price. Establishing short-term incentives to spur exploration and increase production is good policy for the state but six years of retroactive kickbacks isn't. Promotion of independent operators ought to be a primary focus of the negotiations and \$73 million per year in tax credits to the behemoth oil companies should not be a focus.

[3:46:26 PM](#)

CHRIS JOHANSEN, Fairbanks Chapter of the Alaska Support Industry Alliance, said it's apparent that the current tax system is dysfunctional, but changes ought to ensure that Alaska gets its fair share. CSSB 305 doesn't do that; it would stifle needed investment, slow production, and decrease good jobs for Alaska. Furthermore, it would make the tax structure for the oil industry the highest in the country but other resource industries such as fishing, mining, timber and tourism wouldn't share the burden. That simply isn't equitable.

MARK AMES, Fairbanks, asked the committee to stop the theft of our providential land-based provisions and suggested that legislators have allowed themselves to be influenced by international moguls including Dr Van Meurs. He pointed out that state resources are to be used for the maximum benefit of its people so, for all the right reasons, consider the producership of the state of our own resources for our own people. In conclusion he asked members to examine the six published goals of the Alaska State Historic Preservation Plan related to the state's cultural and historical resources.

JUDY BRADY, Executive Director, Alaska Oil and Gas Association (AOGA), gave background information on association members and said she hopes the industry will be around in 40 years. AOGA companies have a vested interest in exploring for oil and gas in Alaska and Alaska has a vested interest in their success. The half-empty oil pipeline is generating concern among AOGA members and although it's unclear how many Alaskans realize how serious

this is for Alaska's future, legislators do realize the significance. That's why the CS is such a surprise, she said. Legislatures are asking the right questions to understand the consequences of the tax increase, but somehow they are coming up with answers that will have major consequences on future oil and gas production.

The original version of SB 305 bill would increase the state's production taxes by \$1 billion, which is huge. The House Resource Committee CS doubles that amount and it appears that the Senate Resource Committee CS is even higher. AOGA members have said they could reluctantly work within the original legislation, but the current CS creates a gridlock that is completely unacceptable. Consider the information provided by the explorers and producers that will make the decision to invest after this legislation is passed. Legislators will ensure Alaska's future revenues by doing everything possible to make it more competitive.

JIM WEEKS, Ultra Star Exploration, Anchorage, said he'd seen two proposals to replace the \$73 million allowance and his company prefers the second, which eliminates the \$40 per barrel oil price ceiling. If the Legislature is willing to grant a \$10 million/220,000 barrel for a new field exemption, it shouldn't matter how fast the exemption is recovered and industry prefers it to be sooner rather than later. He heard the committee might increase from 4,000 barrels per day to 5,000 barrels, which is more consistent with the administration's initial proposal and is a change he would encourage. He questioned the need for the seven-year time limit for using exemptions because industry would do everything feasible to use them quickly, but well productivity and conservation issues might require more than seven years to use the exemption.

He agreed that the AOGCC ought to be the referee to resolve disputes regarding what constitutes an oil & gas field or unit, but he asked that the Legislature clarify the intent regarding the eligibility for the 4,000 barrels per day exemption.

MR. WEEKS suggested establishing a fence around existing producing units when the PPT becomes effective. Current production from these units wouldn't receive the 4,000 barrels per day exemption. Peripherals outside the fence that confirm commercial hydrocarbons and justify unit expansion should be eligible for the tax exemption and exploration and development credits. Deeper and shallower accumulations drilled within existing units after July 1, 2006 ought to also be eligible. In

closing he stated support for Dr. Van Meurs' "2 for 1 system" that he summarized on March 18.

4:03:18 PM

MERRICK PIERCE said the attempts to amend SB 305 to increase revenue is encouraging, but the issue of losing revenue when oil falls below \$27 a barrel isn't being adequately addressed. He'd like to see an effective date of January 1, 2006 and more work on the effective rate. There have been a multitude of oil tax disputes in the last decade, and he'd like to see a summary accounting of what the state claimed was due, what it settled for and the difference between the claim and the settlement. Knowing how much overly complex oil tax legislation has cost will clarify the importance of structuring the production taxes to avoid such debacles in the future. Another issue associated with overly complex tax policies is that it puts state auditors in the position of making decisions that are worth billions of dollars.

4:07:07 PM

TADD OWENS, Executive Director, Resource Development Council (RDC), expressed concern with the changes contemplated in CSSB 305. It targets the one industry that is responsible for more than 85 percent in general fund revenue and seeks to add hundreds of millions of dollars to state coffers that already have a surplus. The CS appears to concentrate on short-term revenues at the potential expense of long-term investment, which is needed to slow the decline of oil production. Unless additional investments are made, the decline will continue and state revenues will fall short of projections. The tax regime that the Legislature approves will directly affect how attractive Alaska looks to the industry, and the current CS will place Alaska at a competitive disadvantage.

4:11:31 PM

JIM GILBERT, President, Alaska Support Industry Alliance, and President, Udelhoven Oilfield System Services Inc., Anchorage, said every change in CSSB 305 jeopardizes oil development in Alaska and that jeopardizes every small business owner in the state. Noting that CSSB 305 would leave Alaska with the highest task rate and cost structure in the country, he urged the committee to choose sustainable economic growth for new investments over unsustainable higher tax methodology.

4:13:33 PM

PAUL LAIRD, General Manager, Alaska Support Industry Alliance, Anchorage, said CSSB 305 discourages new investment and

virtually guarantees continuing North Slope production declines, which over the long term will reduce state revenue from royalties, income taxes, property taxes and severance taxes. He urged the committee to rescind the increases in government take seen in the CS and adopt the original bill that is projected to increase revenue to the state by \$1 billion annually and can serve as a catalyst to a North Slope gas line project.

[4:17:35 PM](#)

MARY SHIELDS, General Manager, Northwest Technical Services, expressed dismay at the dramatic changes being considered in CSSB 305. She understands the purpose of the bill is twofold. First it's to obtain a reasonable increase in oil production taxes for the state, particularly when prices are high. Second it is to promote and provide incentive for new investment. However, in its current form the bill is at odds with both purposes. It is the Legislature's responsibility to foster a business climate that attracts new investment in the state and assures that current investors can remain engaged in the business of developing the state. In its current form new investors will be discouraged and current investors will reconsider future plans. She asked the committee to step back and reconsider the Draconian changes that are proposed.

[4:20:44 PM](#)

MAYNARD TAPP, Hot Construction Consultants, Anchorage, said although SB 305 should be viewed as a resource development bill, CSSB 305 looks like a revenue bill. He urged the committee to reframe the bill to make Alaska more competitive.

[4:24:15 PM](#)

CAROLINE HIGGINS, Alaska Support Industry Alliance, Anchorage, said she is concerned about sustainable business opportunities in the oil and gas industry. Although it's generally agreed that additional investments in the oil industry are necessary, the proposed changes to SB 305 jeopardize any such investment. If CSSB 305 passes, Alaska would have the highest tax rate and cost structure in the country, which sends a clear message that Alaska prefers to collect taxes than to attract investment. Reasonable Alaskans recognize the need for oil and gas tax reform, but it must also provide the appropriate level of tax structure to maintain a healthy industry.

[4:26:36 PM](#)

DOUG REYNOLDS, University of Alaska, Fairbanks, said at over \$100 per barrel you've got to have a high marginal tax rate and that won't cause the oil companies to leave the state. Second,

don't use the consumer price index on the switch. The correct index is a GDP price deflator so that you don't lose value.

[4:30:55 PM](#)

JIM SAMPSON, President of the AFL-CIO, Fairbanks, thanked members for their good work and reminded them that Alaskans are relying on them to do the right thing for the long term.

[4:32:13 PM](#)

MARK HYLEN, President, Kakivik Asset Management, Anchorage, stated opposition to new taxes on the industry because they will affect jobs in the future. SB 305 was hard enough to swallow and CSSB 305 makes absolutely no sense. Production is already declining and the proposed changes won't encourage the investment that's necessary to promote new exploration. Regardless of how much we tax industry, it won't change the state's inability to have a fiscal plan. The governor's bill was a first step to a gas pipeline and the recommended changes jeopardize the gas line, jobs and the future of the state.

LYNN JOHNSON, President, Dowland-Bach Corporation, Anchorage, said CSSB 305 would do a great deal of damage to the investment climate in the state. CSSB 305 raises the tax on industry more than \$2 billion and appears to be about a 29 percent delta from existing taxes. The short-term take will increase but in the long term, investment in Alaska will decrease as companies move to more lucrative areas around the world. Production declines will continue and project and maintenance dollars will continue to decrease; thus the downward spiral for investment will continue.

TOM WALSH, Co-Owner, Petrotechnical Resources of Alaska, Anchorage, applauded the committee on its hard work on the legislation, but he opposed the changes made to the governor's original bill. He said this is a complex issue and we ought to be guided by two simple principles. First, tax to fund government services; they ought to be levied to fund the public purpose rather than to create a surplus. Second, create the most competitive business environment possible to attract new investment.

[4:41:03 PM](#)

SENATOR BERT STEDMAN pointed out that the state is selling its natural resources and using a tax system to collect.

[4:41:39 PM](#)

MATTHEW FAGNANI, President of Worksafe and General Manager for NANA Oilfield Services, Anchorage, said CSSB 305 increases taxes too much and overtaxing an industry can have an adverse effect. In the future capital spending may be limited to operation and maintenance and not exploration and development of new technology. He asked the committee to focus attention on increasing production levels of North Slope oil because it's in Alaska's best interest that the oil industry remains healthy. If it isn't healthy, it's doubtful that there can be a healthy gas economy. Let's keep the state moving forward and not kill the golden goose. He said he supports the governor's original bill.

[4:45:42 PM](#)

FRANK WIESS, President, Alaska Anvil Inc., Anchorage, expressed concern with CSSB 305 because it's out of line with the common desire of Alaskans to be successful and take advantage of the opportunities that Alaska offers to those who work hard and take reasonable risks. He stated support for the governor's original bill.

[4:49:36 PM](#)

KEVIN RITCHIE, Alaska Municipal League (AML), Juneau, read the AML policy statement. It supports efforts to equitably increase revenue from changes to ELF and thanks legislators for their efforts in doing the best thing for everyone in the state.

[4:50:52 PM](#)

WAYNE STEVENS, President & CEO, Alaska State Chamber of Commerce, stated support for the revision of the current production tax to a net profit tax with tax incentives for oil and gas exploration and reinvestment. However, the state chamber is concerned about the impact on exploration and other investment as a result of the higher tax proposed in CSSB 305. The long-term future for Alaskans may be jeopardized in favor of a short term, unsustainable revenue gain. The state chamber suggests that while the Legislature considers increasing oil taxes, it should also consider developing a long-term fiscal plan.

CHAIR WAGONER closed public testimony.

[4:53:40 PM](#)

DR. PEDRO VAN MEURS, Consultant to the Governor, said he'd been asked to give additional information about the 2 for 1 system. The idea is that companies could recoup investments from the last five years over a seven-year period. It would be a normal deduction with recovery taking place only when the price is

above the established floor. The table on slide 2 has a \$40 floor. It shows an actual price that is higher than the floor for 5 years and lower than the floor, which demonstrates that for 2 years there would be no investment recovery. In this example Company A has past investment of \$1.8 billion over the last five years. It shows increased investment in the state amounting to \$5.4 billion over seven years. Under the \$2 investment on a \$1 recovery ratio the company would recover its entire investment.

Company B invested \$.5 billion in the past and under the new tax it invests \$3.7 billion in the next seven years. In this example the company would recover 100 percent of the \$.5 billion past investment in the first three years.

Company C invested \$1.5 billion in the past and \$1.5 billion over the next seven years. In this scenario the company would only recoup \$550 million or 36.7 percent. It would be able to get the full benefit of the recovery of its investment on the 2 for 1 ratio, but it would recover nothing in the years when the actual price is below the \$40 floor.

The final column in the chart shows the average tax credit. None of the companies achieve the 50 percent ideal. Company A achieves 46.7 percent, Company B achieves 42.7 percent and Company C achieves 47.3 percent.

[4:58:17 PM](#)

He suggested establishing a firm cutoff date so that at the end of seven years the opportunity to recover the investment is no longer available. The idea behind this is 1) to reward companies that have been strong investors and 2) if companies really intend to double their investment, this feature would click in and they would have the benefit of the recovery. That is a way to recover the claw back in a way that benefits Alaska. He said he agreed with Senator Therriault's statement that companies make decisions on the cash flow going forward and not on costs.

[5:00:28 PM](#)

DR. VAN MUERS said he was also asked to provide a \$46 per barrel rating. There wasn't time to prepare the information, but the chart comparing \$26 and \$36 per barrel oil on slide 3 indicates the trend. Moving from \$26 to \$36 and comparing the 20/20 system to the Alaska Current system you see that the regressive Alaska Current system improves significantly. If the price goes up the profits increase rapidly, which is what makes the Alaska Current system more attractive under high rather than low prices.

Increase the price to \$46 and the system stays regressive and the profits expand rapidly.

The PPT is designed to be a neutral system in that it combines a regressive royalty with a progressive PPT. Systems found in Norway or Russia normally deteriorate if the price increases because of the progressivity - the state takes progressively more. From this you can conclude that at \$46 the proposal for the 20/20 is less attractive than the Alaska Current system. The same scenario would apply under the 25/20 system.

He recapped that the higher the price the less attractive the PPT is relative to the Alaska Current system and the lower the price the more attractive the PPT is relative to the Alaska Current system. If prices are higher investment becomes less attractive, which is a concern except for the fact that the long term forecast for oil is in the \$30 to \$40 range. He noted that he used \$36 per barrel for the main conclusion about investment attractiveness for that reason.

[5:05:58 PM](#)

DR. VAN MUERS said slide 4 indicates the capital costs subject to a 20 percent tax credit. They include: geophysical surveys; exploration wells; development wells (including intangible costs); field facilities (tanks, separators, etc.); and gas processing plants. The purpose of including gas processing plants is to ensure that if there is a future gas line, smaller companies would be in a better bargaining position to get access to the large company facilities or to build plants themselves.

[5:07:57 PM](#)

Slide 5 addresses a Cook Inlet feature, which provides a tax-free allowance for each company based on barrels of oil equivalent per day. In order to ensure that it would only apply to small companies, the amount of the allowance could be determined on the basis of the following formula:

$$\text{BOEPD} = 5000 - (\text{Prod} - 5000) \times 0.1$$

The amount cannot be more than 5000 or less than 0.

The formula provides a sliding scale so that the incentive is reduced gradually as companies become successful. A company at 55,000 barrels per day wouldn't have the benefit, but a company at 10,000 or 15,000 would have a significant benefit. Companies like Anadarko or Chevron would still see a benefit to their operations while trying to establish in Alaska. This feature solves the concern expressed about the Cook Inlet region in a way that would be equitable to all producers in Alaska. This

would apply to oil and to gas so there would have to be a gas oil conversion factor, which is typically 6 mcf per barrel of oil. He suggested that it be drafted in a way that the allowance doesn't create an automatic loss carry forward feature.

[5:12:50 PM](#)

CHAIR WAGONER suggested adding that any company that has been currently producing oil or gas in the state would qualify for the 2 for 1 on prior investments.

DR. VAN MEURS replied the idea of the 2 for 1 is that any company that is willing to double its investment in Alaska ought get the benefit.

[5:13:35 PM](#)

SENATOR FRED DYSON asked for a recap of the chart on slide 3.

DR. VAN MEUR said the lower the number, the higher the competitiveness and the higher the number the lower the competitiveness.

[5:14:52 PM](#)

SENATOR KIM ELTON asked if there is an advantage to the companies that have been players in Alaska and receive a credit as opposed to companies that might come and don't qualify for the credit.

DR. VAN MEURS replied the idea is to reinvigorate and expand activity in companies that have been in Alaska. For a new company there isn't the same incentive, but it's believed that new companies would be attracted by the governors \$73 million feature or the 5,000 barrel per day allowance in the Cook Inlet feature.

[5:17:24 PM](#)

SENATOR RALPH SEEKINS referenced slide 4 and asked if a gas processing plant is included as a capital cost under PPT, would be included later in a cost used to determine a gas tariff in a pipeline.

DR. VAN MEURS replied the gas processing plants are part of the field operations because the idea is to process gas to a marketable form. A gas treatment plant would not be part of a gas processing plant. The distinction is that on the gas treatment plant would likely be a FERC regulated tariff. That is what causes problems for the small companies to get access to the plants, which is why incentives are good. Companies are

given help on gas processing plants to get the needed infrastructure on the North Slope to get access to the pipeline and to also give other producers access to the pipeline.

[5:21:43 PM](#)

SENATOR SEEKINS strongly recommended including the two aforementioned concepts in a future CS.

[5:22:23 PM](#)

SENATOR BERT STEDMAN stated the belief that the 2 for 1 credit ought to be non-saleable.

CHAIR WAGONER said he believes that Dr. Van Muers has it written that way.

MR. BILL CORBUS, Commissioner, Department of Revenue (DOR), said the governor and his administration strongly support the original 20/20 rate. He noted that incentives are badly needed to encourage oil production and recommended the following: 1) don't emphasize short-term revenues, 2) maximize the wealth of the state over the long run and 3) keep your eye on the prize which is the gas pipeline.

There being no further business to come before the committee, Chair Wagoner adjourned the meeting at [5:25:15 PM](#).