

HOUSE JOURNAL
ALASKA STATE LEGISLATURE
TWENTY-FIFTH LEGISLATURE
SECOND SPECIAL SESSION

Juneau, Alaska

Thursday

October 18, 2007

First Day

The House was called to order by Speaker Harris at 8:40 p.m.

Roll call showed 37 members present. Representative Hawker had been excused from a call of the House today.

Representative Samuels moved and asked unanimous consent that the following members be excused from a call of the House. There being no objection, the members were excused as noted:

Representative Gruenberg - from today to afternoon plane time, October 19

Representative Johansen - from today to evening plane time, October 27

The invocation was offered by the Chaplain, Pastor Sue Bahleda of Resurrection Lutheran Church. Representative Dahlstrom moved and asked unanimous consent that the invocation be spread on the journal. There being no objection, it was so ordered.

With respect to the diversity of voices, beliefs, and practices that call out to a presence and a power beyond themselves, I offer the following prayer:

Great and Mighty One, bless the public servants in the government of this state, that they may do the work before them in a spirit of wisdom, charity, and justice. Sustain them

in times of joy and in times of sorrow, in times of conflict and in times of peace. Give them eyes to see and ears to hear; direct their hearts and minds to the needs of all the peoples they represent. Help them use their authority to serve faithfully and to promote our common life. Amen.

(Adapted from *Evangelical Lutheran Worship, Leader's Desk Edition, 2006*)

The Pledge of Allegiance was led by Representative Gara.

CERTIFICATION OF THE JOURNAL

Representative Samuels moved and asked unanimous consent that the journal for the first legislative day of the First Special Session and the Final Supplement of the First Session and First Special Session be approved as certified by the Chief Clerk. There being no objection, it was so ordered.

* * * * *

Representative Samuels introduced Sheridan Johnston, Guest Page, from Hancock, New Hampshire.

Representative Doll introduced Paige Pahlke and Mary Erickson, Guest Pages, from Juneau.

MESSAGES FROM THE GOVERNOR

The following Governor's proclamation, dated September 4, 2007, was read:

"Under the authority of art. II, sec. 9, and art. III, sec. 17, of the Alaska Constitution, and in the public interest, I call the Twenty-Fifth Legislature of the State of Alaska into its second special session at Juneau, Alaska in the legislative chambers on October 18, 2007 at 2:00 p.m. to consider the following subjects:

1. relating to oil and gas production taxes and conservation surcharges on oil and making related amendments;
2. making statutory changes to place certain positions for auditing oil and gas tax and royalty matters in the exempt service of the State Personnel Act;
3. authorizing the public disclosure of certain taxpayer information relating to oil and gas production taxes;
4. relating to the sharing between state agencies of certain oil and gas tax and royalty information.

Dated at Anchorage, Alaska this 4th day of September, 2007.

/s/

Sarah Palin
Governor"

The Speaker stated that the House would stand at ease for a meeting of the Committee on Committees; and so, the House stood at ease at 8:52 p.m.

AFTER AT EASE

The Speaker called the House back to order at 9:07 p.m.

REPORTS OF SPECIAL COMMITTEES

The following report of the Committee on Committees, dated October 18, 2007, was received submitting an amendment to the January 16, 2007, report on page 9 (other reports are on pages 93, 186, and 1154):

Health, Education & Social Services Committee: Keller replaces Neuman

Resources Committee: Fairclough replaces Kohring

Transportation Committee: Keller replaces Kohring

HR 1

House Special Committee on Economic Development, Trade, & Tourism: Keller replaces Kohring

HR 4

House Special Committee on Oil & Gas: Neuman replaces Kohring

The report was signed by Representative Harris, Chair; and Representatives Coghill, Samuels, Chenault, Meyer, Kerttula, and Guttenberg.

Representative Samuels moved and asked unanimous consent that the House adopt the Committee on Committees report. There being no objection, it was so ordered.

**INTRODUCTION, FIRST READING, AND REFERENCE
OF HOUSE RESOLUTIONS**

HCR 201

HOUSE CONCURRENT RESOLUTION NO. 201 by Representative Roses:

Proposing an amendment to the Uniform Rules of the Alaska State Legislature relating to standing committees.

was read the first time.

The Rules Committee submitted the following fiscal note:

1. Zero, House Rules Committee

**INTRODUCTION, FIRST READING, AND REFERENCE
OF HOUSE BILLS**

HB 2001

HOUSE BILL NO. 2001 by the House Rules Committee by request of the Governor, entitled:

"An Act relating to the production tax on oil and gas and to conservation surcharges on oil; relating to the issuance of advisory bulletins and the disclosure of certain information relating to the

production tax and the sharing between agencies of certain information relating to the production tax and to oil and gas or gas only leases; amending the State Personnel Act to place in the exempt service certain state oil and gas auditors and their immediate supervisors; establishing an oil and gas tax credit fund and authorizing payment from that fund; providing for retroactive application of certain statutory and regulatory provisions relating to the production tax on oil and gas and conservation surcharges on oil; making conforming amendments; and providing for an effective date."

was read the first time and referred to the House Special Committee on Oil & Gas and the Resources and Finance Committees.

The following fiscal note(s) apply:

1. Zero, Dept. of Administration
2. Fiscal, Dept. of Natural Resources
3. Fiscal, Dept. of Revenue

The Governor's transmittal letter dated October 17, 2007, follows:

"Dear Speaker Harris:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting a bill to make Alaska's oil and gas production tax system one that is clear and equitable. This legislation would provide the necessary tools to protect the state's interests as it moves forward with the industry on a mutually beneficial basis in the exploration and development of Alaska's oil and gas resources.

The bill would amend the current production tax on oil and gas under AS 43.55 and would amend other statutes to aid in the administration and enforcement of the production tax. It accomplishes six primary goals: (1) requires more complete reporting of tax-related information by producers, explorers, and operators; (2) establishes rules for the sharing of confidential information between state agencies; (3) ensures the public disclosure of important production tax information; (4) provides various tools to help the Department of Revenue (department) administer the tax; (5) institutes clear fiscal terms for

explorers and producers; and (6) establishes an oil and gas tax credit fund to ensure our incentive programs function effectively.

To accomplish the first goal, the bill specifies extensive annual reporting requirements for producers and explorers and makes clear that the department also has authority to require monthly reporting of tax information. The information would provide the department's production tax auditors the tools necessary to conduct thorough and accurate production tax audits and would help the department better monitor costs that may be claimed as deductions or used to obtain tax credits. In addition, the bill would authorize the department to require reporting of forward-looking information, such as producers' budgets for future expenditures. The department needs this kind of information for accurate revenue forecasting. The bill would provide for penalties of up to \$1,000 per day for failure to file certain required reports, in addition to other remedies under current law.

The second goal is accomplished by clearly providing for the Department of Revenue and the Department of Natural Resources to share extensive producer and explorer information, while maintaining the confidentiality afforded under current law. This information sharing would improve administration of both agencies' programs and increase efficiency, since the two agencies often have similar data needs under their respective tax and royalty programs.

To fulfill the third goal, the bill would make clear that the department may publish production tax information aggregated among at least three taxpayers. This would include information on taxes paid, values of oil and gas produced, capital expenditures and other costs, tax credits, and more. Publishing such information would give the public confidence that Alaska is receiving its equitable share of our natural resource value.

As one means of achieving the fourth goal, the bill would provide for placing petroleum revenue auditors into the exempt service. This would help the state retain and attract the necessary expertise by giving the departments flexibility in setting salaries that compete with similar positions in the private sector. Petroleum revenue auditors currently employed with the state would have the option to remain with their union or to be moved into the exempt service.

Another tool is an extension of the statute of limitations for oil and gas production taxes. The bill would increase the time allowable for the department to conduct audits and assess tax deficiencies from three to six years. This change would give the department's oil and gas production tax auditors more time to conduct accurate and thorough audits and to make sure that producers are paying the correct amount of tax under the law.

The fifth goal requires a means to clearly establish how we value oil produced in Alaska and then how we will share that value with those who find, drill, and develop these nonrenewable resources. The bill requires the department to spell out in regulation which costs may be deducted against the tax. It would also expand the list of cost categories that are not allowed to be deducted.

One disallowed category consists of costs for repair, replacement, or deferred maintenance of facilities or equipment, including pipelines, associated with an unscheduled interruption of or reduction in the rate of oil or gas production or with an oil spill or other unpermitted release of a hazardous substance. The bill contains a limited exception, for example, for natural catastrophes beyond the producer's control. Another disallowed category consists of costs to build or operate a refinery or crude oil topping plant. In addition, the current partial disallowance for dismantlement, removal, or abandonment costs is expanded to be a complete exclusion.

When it comes to sharing the value of the resource, the bill puts the state's share at 25 percent of the value after appropriate costs have been deducted. As prices, and profitability, rise, so does the state's share of the value. Once the net value of a barrel reaches \$30.00 on an annual basis, the state's share increases by 0.2 percent for every dollar increase above that trigger. The bill would ensure a certain amount of state production tax revenues by setting a floor on the tax paid by certain highly productive fields. This floor is 10 percent of the gross value of the oil and gas produced from those fields.

The sixth, and final, goal of the bill is to ensure the effectiveness of our credit incentive programs. The bill would establish an oil and gas tax credit fund that is financed with a percentage of oil and gas

production tax receipts. The bill would give the department the ability to expend these funds in order to purchase credits from explorers and small producers. The intent of the incentive credit program is to attract new companies and new investment to our state in the pursuit of oil and gas resources. While we have succeeded in attracting new entrants, these companies have run into problems finding purchasers for the credits accumulated from their investments. If they cannot monetize these valuable credits, the purpose of the program is defeated.

With these changes, our state will have the necessary tools to protect Alaska's interests when it comes to appropriately valuing oil and gas production in this state. Alaska's share of the costs of investment would fall to 45 percent, while increasing our share of the net revenues to 48 percent. We would be able to tell the public, with confidence, that we are getting a fair share of the value derived from these non-renewable resources.

I urge your prompt and favorable action on this legislation.

Sincerely,

/s/

Sarah Palin
Governor"

UNFINISHED BUSINESS

Representative Samuels moved and asked unanimous consent that the following members be excused from a call of the House. There being no objection, the members were excused as noted:

Representative Crawford - from 8:00 a.m., November 1 to 8:00 a.m., November 13

Representative Foster - from noon to midnight, each Monday, Wednesday, and Friday for the duration of the Second Special Session

Representative Joule - from 7:00 a.m., October 24 to evening plane time, October 27

HOUSE JOURNAL

October 18, 2007

1551

Representative Kawasaki - from 7:00 a.m., October 29 to morning plane time, November 5

Representative LeDoux - from noon, October 19 to evening plane time, October 21

Representative Salmon - from 6:00 a.m., October 22 to evening plane time, October 28

Representative Samuels - from 8:00 a.m., November 16 to midnight, December 8

ANNOUNCEMENTS

House committee schedules are published daily under separate cover.

ADJOURNMENT

Representative Samuels moved and asked unanimous consent that the House adjourn until 10:00 a.m., October 19, 2007, for a technical session. There being no objection, the House adjourned at 9:32 p.m.

Suzi Lowell
Chief Clerk