

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

October 28, 2007

3:12 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Nancy Dahlstrom  
Representative Mark Neuman  
Representative Jay Ramras  
Representative Ralph Samuels  
Representative Mike Doogan  
Representative Scott Kawasaki

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Bob Buch  
Representative Sharon Cissna  
Representative Bryce Edgmon  
Representative Anna Fairclough  
Representative Carl Gatto  
Representative Lindsey Holmes  
Representative Craig Johnson  
Representative Bob Roses  
Representative Paul Seaton  
Representative Peggy Wilson

**COMMITTEE CALENDAR**

HOUSE BILL NO. 2001

"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."

- MOVED CSHB 2001(O&G) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB2001

SHORT TITLE: OIL & GAS TAX AMENDMENTS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

10/18/07	(H)	READ THE FIRST TIME - REFERRALS
10/18/07	(H)	O&G, RES, FIN
10/19/07	(H)	O&G AT 1:30 PM HOUSE FINANCE 519
10/19/07	(H)	Heard & Held
10/19/07	(H)	MINUTE(O&G)
10/20/07	(H)	O&G AT 12:00 AM HOUSE FINANCE 519
10/20/07	(H)	Heard & Held
10/20/07	(H)	MINUTE(O&G)
10/21/07	(H)	O&G AT 1:00 PM HOUSE FINANCE 519
10/21/07	(H)	Heard & Held
10/21/07	(H)	MINUTE(O&G)
10/22/07	(H)	O&G AT 9:00 AM HOUSE FINANCE 519
10/22/07	(H)	Heard & Held
10/22/07	(H)	MINUTE(O&G)
10/23/07	(H)	O&G AT 9:00 AM HOUSE FINANCE 519
10/23/07	(H)	Heard & Held
10/23/07	(H)	MINUTE(O&G)
10/24/07	(H)	O&G AT 9:00 AM HOUSE FINANCE 519
10/24/07	(H)	Heard & Held
10/24/07	(H)	MINUTE(O&G)
10/25/07	(H)	O&G AT 10:00 AM HOUSE FINANCE 519
10/25/07	(H)	Heard & Held
10/25/07	(H)	MINUTE(O&G)
10/26/07	(H)	O&G AT 10:00 AM HOUSE FINANCE 519
10/26/07	(H)	Heard & Held
10/26/07	(H)	MINUTE(O&G)
10/27/07	(H)	O&G AT 2:00 PM HOUSE FINANCE 519
10/27/07	(H)	Heard & Held
10/27/07	(H)	MINUTE(O&G)
10/28/07	(H)	O&G AT 3:00 PM HOUSE FINANCE 519

**WITNESS REGISTER**

KONRAD JACKSON, Staff  
to Representative Olson  
Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** During the hearing on HB 2001, provided a sectional review of the proposed CS for HB 2001 labeled 25-GH0014\K, Bullock, 10/27/07.

JANE PIERSON, Staff  
to Representative Ramras  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** During the hearing on HB 2001, answered questions.

STEVE PORTER, Consultant  
to the Legislative Budget and Audit Committee  
Alaska State Legislature  
Tehachapi, California

**POSITION STATEMENT:** During the hearing on HB 2001, presented information and answered questions.

BARRY PULLIAM, Senior Economist  
Econ One Research, Inc.;  
Consultant to the Legislative Budget and Audit Committee  
Alaska State Legislature  
Los Angeles, CA

**POSITION STATEMENT:** During the hearing on HB 2001, presented information and answered questions.

MARCIA DAVIS, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** During the hearing on HB 2001, answered questions and presented information.

DAN E. DICKINSON, Consultant  
to the Legislative Budget and Audit Committee  
Alaska State Legislature  
Anchorage, Alaska

**POSITION STATEMENT:** During the hearing on HB 2001, presented information and answered questions.

DON BULLOCK, Attorney  
Legislative Legal Counsel  
Legislative Legal and Research Services  
Legislative Affairs Agency  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** During the hearing on HB 2001, answered questions and provided information.

**ACTION NARRATIVE**

**CHAIR KURT OLSON** called the House Special Committee on Oil and Gas meeting to order at [3:12:08 PM](#). Representatives Olson, Neuman, Ramras, Samuels, Doogan, Kawasaki, and Dahlstrom were present at the call to order. Also present were Representatives Buch, Cissna, Edgmon, Fairclough, Gatto, Holmes, Johnson, Roses, Seaton, and Wilson.

HB 2001-OIL & GAS TAX AMENDMENTS

[3:12:15 PM](#)

REPRESENTATIVE OLSON announced that the only order of business would be HOUSE BILL NO. 2001, "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." [Before the committee was the proposed committee substitute (CS) for HB 2001, Version 25-GH0014\K, Bullock, 10/27/07, which was adopted as the working document on 10/27/07.]

[3:15:28 PM](#)

CHAIR OLSON noted that the key element of the proposed CS for HB 2001 [labeled 25-GH0014\K, Bullock, 10/27/07]("Version K") is the gross windfall profits tax that kicks in at the price of \$50 per barrel. He said that this is not a new concept because it came out of the House Resources Standing Committee (HRES) last year.

[3:16:51 PM](#)

KONRAD JACKSON, Staff to Representative Olson, Alaska State Legislature, presented a sectional review of Version K. He stated that Section 1 amends AS 38.05.035(a) by adding a paragraph directing the Division of Lands, Department of Natural Resources (DNR), to furnish information to the Department of Revenue (DOR) related to the taxes that DOR will be administering. Sections 2 and 3 amend AS 38.05.036(b) and AS 38.05.036(f), respectively, by changing a cross-reference to a paragraph in AS 38.05.035(a). These are technical amendments due to the amendment made in Section 1, he explained. Section 4 amends AS 38.05.036(g), Section 5 amends AS 38.05.123(f), Section 6 amends AS 38.05.133(e), Section 7 amends AS 38.05.180(j)(6)(B), and Section 8 amends AS 38.05.275(c). He said the foregoing are also technical amendments due to the amendment made in Section 1.

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MR. JACKSON reported that Section 9 adds a new paragraph (42) to AS 39.25.110 which is basically the auditor language that was in the governor's original bill [HB 2001, Alaska's Clear and Equitable Share (ACES)]. Section 10 amends AS 41.09.010(d) and is another cross-reference to Section 1. Section 11 amends AS 43.05.230(a) to include some of the tax disclosure information from HB 2001. Section 12 amends AS 43.05.230(h) and is part of the information sharing between DOR and DNR. He pointed out a typographical error for the last word in this paragraph of the sectional - it should be the Department of Natural "Resources", not "Revenue". Section 13 amends AS 43.55.260(a) to make a change to the statute of limitations for assessments of taxes. Section 14 relates to Cook Inlet gas and Section 15 relates to Cook Inlet oil, Mr. Jackson continued, and both of these add AS 43.55.011(o), the subject of an amendment being drafted "as we speak". A similar change occurs in Section 16, he stated, with the addition of reference to AS 43.55.011(o).

MR. JACKSON said Section 17 adds new subsections (o) and (p) to AS 43.55.011. Subsection (o) is a substantive change that adds gross progressivity and subsection (p) provides that any gas produced south of 68 degrees North Latitude, and outside Cook Inlet Basin, will be taxed at a similar rate to Cook Inlet gas. Section 18 cross-references AS 45.55.011, an amendment required by the addition of AS 45.55.01(o). It also deletes references to AS 43.55.011(g). Mr. Jackson related that Section 20 clarifies the period during which interest accrues under the Internal Revenue Service (IRS) code for underpayment of an installment. Section 21 clarifies the period during which

interest accrues under IRS code for the overpayment of an installment. Section 22 amends AS 43.55.023(d) by applying current statutory language to the use of tax credits for losses and expenditures and makes conforming amendments to AS 43.55.030(a) or (e), he said.

[3:22:31 PM](#)

MR. JACKSON noted that Section 23 reduces the credits for transitional investment expenditures (TIE) to those expenditures incurred [after March 31, 2003]. These credits were completely removed in the governor's bill [HB 2001], he said. Section 24 amends AS 43.55.030(a) to make the statement filing requirement apply to all producers rather than only those producers with a tax liability, along with some effective date provisions. Section 25 requires explorers or producers to file an annual statement on expenditures, or adjustments, even if they produce no oil or gas during the year. Section 25 also gives authority to the department to require those reports from producers, explorers, and operators, he stated. Section 26 amends AS 43.55.040 by adding paragraph (5) that authorizes DOR to require a producer, explorer, or operator to file reports and records that are deemed necessary by DOR for future forecasts of revenue.

[3:24:08 PM](#)

MR. JACKSON explained that Section 27 adds new section AS 43.55.075 to push the statute of limitations back to six years. Section 28 adds three new subsections to AS 43.55.110, and Sections 29 and 30 make conforming amendments to AS 43.55.160(a) and AS 43.55.165(a), respectively. He said Section 31 amends AS 43.55.165(e) relating to excluded lease expenditures and that this goes back to the governor's language which includes the disallowance of the ultra-low sulfur diesel plant on the North Slope. Section 32 amends AS 43.55.170(a) by delineating an exception relating to the subtraction of a payment or credit in calculating billing costs. Section 33 adds a new section AS 43.55.890 and Section 34 adds two more definitions. Sections 35-43 are various provisions related to repealing language, applicability, transition language, retroactivity, and effective date clauses, he said.

[3:26:18 PM](#)

REPRESENTATIVE SAMUELS moved to adopt Amendment 1, labeled 25-GH0014\K.3, Bullock, 10/28/07, which read [original punctuation provided]:

Page 18, following line 9:

Insert a new bill section to read:

"\* **Sec. 24.** AS 43.55.023 is amended by adding a new subsection to read:

(1) A person that is exempt from taxation under this chapter may not apply for a transferable tax credit certificate."

Renumber the following bill sections accordingly.

Page 31, line 9:

Delete "Sections 23, 30, 31, 32, and 35"

Insert "Sections 23, 24, 31 - 33, and 36"

Page 31, line 11:

Delete "Sections 14 - 19, 29, and 36"

Insert "Sections 14 - 19, 30, and 37"

Page 31, line 13:

Delete "Sections 24 and 25"

Insert "Sections 25 and 26"

Page 31, line 14:

Delete "sec. 24"

Insert "sec. 25"

Page 31, line 15:

Delete "sec. 25"

Insert "sec. 26"

Page 31, line 16:

Delete "sec. 27"

Insert "sec. 28"

Page 31, line 18:

Delete "secs. 13 and 27"

Insert "secs. 13 and 28"

Page 32, line 15:

Delete "secs. 23, 30, 31, 32, and 35"

Insert "secs. 23, 24, 31 - 33, and 36"

Page 32, line 17:

Delete "secs. 14 - 19, 24, 25, 29, and 36"  
Insert "secs. 14 - 19, 25, 26, 30, and 37"

Page 33, lines 3 - 4:

Delete "Sections 23, 30, 31, 32, and 35"  
Insert "Sections 23, 24, 31 - 33, and 36"

Page 33, line 5:

Delete "Sections 14 - 19, 24, 25, 29, and 36"  
Insert "Sections 14 - 19, 25, 26, 30, and 37"

Page 33, line 6:

Delete "sec. 42"  
Insert "sec. 43"

REPRESENTATIVE RAMRAS objected for discussion purposes.

[3:26:41 PM](#)

REPRESENTATIVE SAMUELS explained that Amendment 1 would disallow the sale of tax credits by a tax exempt entity. This returns the language originally included in the governor's bill [HB 2001], he said, and it provides that a tax exempt entity, such as a municipal-owned electrical utility that owns a gas field, cannot sell tax credits for gas that it owned and discovered because the entity would not have paid taxes on that gas.

[3:27:18 PM](#)

REPRESENTATIVE RAMRAS removed his objection. There being no further objections, Amendment 1 was adopted as written.

[3:27:30 PM](#)

REPRESENTATIVE RAMRAS moved to adopt Amendment 2, labeled 25-GH0014\K.4, Bullock, 10/28/07, which read [original punctuation provided]:

Page 1, lines 3 - 4:

Delete "**and south of 68 degrees North latitude**"

Page 13, following line 20:

Insert a new subsection to read:

"(q) For a calendar year before 2022, the tax levied by (e) and (o) of this section for gas produced from a lease or property that is outside of the Cook Inlet sedimentary basin that is sold and processed

into liquefied natural gas in the state at a facility with a maximum processing capacity that does not exceed 10,000,000,000 cubic feet a year may not exceed the product of the amount of taxable gas produced during the calendar year from the lease or property, multiplied by the average rate of tax imposed under this chapter for taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin, multiplied by the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under AS 43.55.020(f). This subsection applies only to gas produced from a lease or property after December 31, 2007."

Page 14, line 27, following "production":

Insert ";

(6) notwithstanding (1) of this subsection, that part of the installment payment determined by (2) and (3) of this subsection that is attributable to the production of gas that is subject to the limitations under AS 43.55.011(p) or (q) is the result obtained by multiplying the volume of gas produced during the month by the average rate of tax imposed under this chapter for taxable gas produced from all leases or properties in the Cook Inlet sedimentary basin, multiplied by the average prevailing value for gas delivered in the Cook Inlet area for the 12-month period ending March 31, 2006, as determined by the department under (f) of this section"

REPRESENTATIVE DOOGAN objected.

REPRESENTATIVE SAMUELS objected.

[3:27:41 PM](#)

REPRESENTATIVE RAMRAS disclosed a conflict of interest because Amendment 2 relates to Fairbanks Natural Gas (FNG) of which he is an FNG customer through his ownership of Bentley Food Factory, Pikes Landing, and Pikes Waterfront Lodge. Prior to his election, he said, he took out two loans from FNG - one for \$13,000 and one for \$15,000 - and that repaid them in 2003 and 2004. He stated that Anchorage, through its Cook Inlet Basin gas supply, enjoys the lowest prices for natural gas in the U.S. at \$8 per million cubic feet (mcf); however, for that very same gas, Fairbanks pays the most in the U.S. at \$21-\$23 per mcf.

This difference, is because Fairbanks must take its gas to Point MacKenzie where it is liquefied at a loss of 20 percent, then it is transported by vehicle to the Fairbanks area where it is re-gasified and subsequently distributed by pipe. He said that FNG ran into supply problems when Aurora Gas LLC abruptly discontinued gas supply, resulting in the Regulatory Commission of Alaska (RCA) issuing an emergency order that required ENSTAR Natural Gas Company to provide gas to FNG. Representative Ramras explained that FNG then pursued a plan to pivot its gas supply to the North Slope and attempt, with the cooperation of BP Exploration (Alaska) Inc., to commercialize some of the North Slope gas by building a liquefied natural gas (LNG) plant and transporting the gas by the haul road to Fairbanks. In light of the changes being made to tax policy, he said it seemed an appropriate time to make this request and that he understood the other committee members had talked to an FNG representative and were familiar with the topic.

[3:33:05 PM](#)

REPRESENTATIVE KAWASAKI inquired whether this amendment would preclude other companies from building natural gas facilities of the same design on the North Slope.

REPRESENTATIVE RAMRAS said he believed the provision was not specific to FNG and would apply to anyone wishing to build an LNG plant that does not exceed 10 billion cubic feet (bcf) a year. However, he continued, FNG is the only entity that he is aware of that is pursuing bringing a gas supply to Fairbanks.

[3:34:17 PM](#)

REPRESENTATIVE NEUMAN asked whether this would allow a tax credit to be used by a for-profit company to build an LNG plant on the North Slope although the bill stipulates that tax credits cannot be used for constructing a low sulfur diesel plant on the North Slope.

JANE PIERSON, Staff to Representative Ramras, Alaska State Legislature, said this would not allow for the building of a diesel plant because the tax break would be the Cook Inlet break on the sale of gas to a plant that produces less than 10 bcf. In further response to Representative Neuman, Ms. Pierson stated that she did not think a for-profit company could use tax credits against construction of an LNG plant on the North Slope.

[3:36:04 PM](#)

REPRESENTATIVE DOOGAN understood that it is regulated utilities in Anchorage that are receiving the tax benefits and that FNG is not regulated. Therefore, he inquired, how will it be ensured that FNG will confer the tax benefit to its customers.

REPRESENTATIVE RAMRAS responded that while FNG is not an RCA regulated utility, it is under the auspices of the RCA. He said he shared Representative Doogan's concerns, but that the greater issue for consideration is securing a stable natural gas supply for the community of Fairbanks, which is a different issue than what price each community pays for that gas.

[3:40:14 PM](#)

REPRESENTATIVE DOOGAN contended that a competitive advantage will be conferred to this company, plus there is no assurance that the benefit of reduced costs will be passed along to consumers.

MS. PIERSON said the problem is that the tax break is not being given to FNG, it is being given to the people that sell the gas to FNG, and therefore it cannot be done under this bill as a tax bill.

[3:42:08 PM](#)

REPRESENTATIVE SAMUELS stated that no one talked to him about the amendment and that getting into North Slope gas is venturing into the very complex world of the gas pipeline. He said he opposed Amendment 2 because there is not enough information currently available to alleviate his many concerns.

[3:44:13 PM](#)

CHAIR OLSON opposed Amendment 2. He said it was apparent from talking to the [FNG] lobbyist that the bill was being seen as a "Christmas tree" opportunity. He is willing to look at the topic in January, he continued, when there is time to talk with the RCA and review the unresolved issues.

[3:45:01 PM](#)

REPRESENTATIVE NEUMAN said he had not spoken to any lobbyist about the FNG issue and that he is not speaking to any lobbyists or industry representatives while working on HB 2001.

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REPRESENTATIVE RAMRAS related that he had previously gone before the RCA to request regulation of FNG precisely for the concerns being mentioned. He welcomed a vote on the amendment as a way to benchmark the issue for consideration at a later date. He expressed his frustration and anger with the high costs of fuel oil and natural gas and with the antiquated systems for fuel delivery to Fairbanks and rural villages. He said he would vote yes for Amendment 2 so that his community could enjoy access to an abundant supply of natural gas. Passing the savings on to the consumer and RCA regulation are issues that can be addressed during the permitting process involved with gaining access to the gas, he submitted.

[3:50:42 PM](#)

REPRESENTATIVE DAHLSTROM stated that she is not meeting with lobbyists during consideration of HB 2001, although she had heard of the company's concerns in the hallway. She said she is concerned about the effects the amendment might have on other things and that the issue should be dealt with in the next session.

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REPRESENTATIVE DOOGAN said he had spoken with the FNG lobbyist and that he was not provided with much reassurance that the benefit would be passed on to Alaskans. He said he would be voting no on Amendment 2.

[3:52:32 PM](#)

REPRESENTATIVE KAWASAKI noted that costs for natural gas rose sharply after Fairbanks lost its biggest gas supplier from Cook Inlet a few years ago and that this created uncertainty for economic development in the Fairbanks area. He said that getting gas from the North Slope is a good first step for all of Alaska, not just Fairbanks, and therefore he will vote yes on Amendment 2.

[3:53:42 PM](#)

REPRESENTATIVE RAMRAS emphasized that he is not advocating Amendment 2 on behalf of himself or his businesses because natural gas represents only about 1 percent of his business costs and his businesses are outside of his district. Rather,

he stressed, he is advocating for Amendment 2 out of concern for his constituents, some of whom will be unable to afford further increases in the cost of natural gas and who need the reliability of a stable gas supply.

[3:58:55 PM](#)

A roll call vote was taken. Representatives Kawasaki and Ramras voted in favor of Amendment 2. Representatives Samuels, Doogan, Dahlstrom, Neuman, and Olson voted against it. Therefore, Amendment 2 failed by a vote of 2-5.

[3:58:59 PM](#)

REPRESENTATIVE SAMUELS directed attention to his 10/26/07 handout entitled, "First Approaches to Using Certain Receipts from Taxes on the Energy Producing Industry to Alleviate High Alaskan Energy Consumption Costs". The long-run problem, he opined, is that as oil production declines the state will have less money regardless of how this tax bill ends. In 10 years the state will not yet have income from gas and will have run out of oil income, thus jeopardizing the state's energy assistance programs for those low income Alaskans most needing the help. Therefore, he continued, the progressivity income should be set aside and saved for future energy cost assistance programs. He said that once he determined the necessary mechanics for implementing this he would either offer an amendment later this special session or come up with something for the next session in January.

[4:03:56 PM](#)

CHAIR OLSON stated that a key element of the committee's CS [Version K] is the addition of subsection (o) [to AS 43.55.011]. Discussion commenced on this topic.

[4:04:41 PM](#)

STEVE PORTER, Consultant to the Legislative Budget and Audit Committee, Alaska State Legislature, explained the DOR's basic methodology for calculating tax as shown on his multi-page chart displayed by volunteers from the audience: value minus cost, times the tax rate, minus the credits, equals the tax. The value, he said, is determined by multiplying production by the wellhead price, minus the royalty barrels. The wellhead price is determined by subtracting all of the transportation costs from the West Coast price. After the value is determined, the

costs - operating expenses (opex) and capital expenses (capex) - are subtracted and this bill assists in understanding what those costs are, he said. Total operating costs are the operating expenses plus the capital expenses after the 30 cent exemption. Thus, total gross value minus operating costs equals the net annual production tax value; this is then multiplied by the tax. The value and cost equation would remain the same as under current law [PPT], said Mr. Porter. It is the tax and credit portions that are changed under the governor's bill [HB 2001], he continued. The governor's bill [HB 2001] raises the current tax rate from 22.5 percent to 25 percent, reduces the current price index calculation factor from 40 to 30, and lowers the progressivity factor from 0.25 percent to 0.20 percent. The total tax liability is determined by subtracting the 20 percent capital expenses (capex) credit and the transitional investment expenditures (TIE) credits. A minimum tax liability of 10 percent is established under the governor's bill [HB 2001], he said. Mr. Porter then explained that the addition of a gross tax under subsection (o) [to AS 43.55.011 by Version K] results in a substantial difference [from the governor's bill, HB 2001] because gross progressivity takes the tax value prior to cost deductions instead of from the net tax value.

[4:12:41 PM](#)

BARRY PULLIAM, Senior Economist, Econ One Research, Inc.; Consultant to the Legislative Budget and Audit Committee, Alaska State Legislature, directed attention to his 10/28/07 chart entitled, "Estimated Tax Impacts Under Potential Alternative Scenarios, TIE Sensitivity 1 -- No TIE Credit, FY 2008 - FY 2014". He said the chart compares the effective tax rates and tax differences to the current petroleum production profits tax (PPT) law for various progressivity assumptions and price levels. He explained that columns (2) through (6) compare five different ANS West Coast Prices - \$40, \$60, \$80, \$100, and \$120. These are expressed in real 2008 dollars per barrel and inflate at about two and three-quarter percent consistent with the assumptions used by the administration in its fiscal note [for the original HB 2001]. He said the administration used the \$60 and \$80 levels in its fiscal note and that, using the same assumptions used by the administration for these two price levels, Econ One's estimates came out very similar. The top section of the chart entitled, "Estimated Effective Tax Rate," is the tax rate that would be represented as the percentage of gross wellhead value that the tax would bring in. For instance, he said, at a \$60 West Coast price, the current PPT system would result in an effective tax rate of 10.7 percent on the gross

value of the oil over the next 7 fiscal years. Under the current PPT system, he continued, the effective tax rate increases as the price per barrel increases.

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REPRESENTATIVE SAMUELS inquired whether the effective tax rate model uses the same assumption of level costs as did the administration and whether the model incorporates the production level.

MR. PULLIAM responded that the model's assumptions mirror those used by the administration. He said there is a sensitivity on cost that is related to prices. So, relative to a \$60 price level, if prices go up, costs go up with a lag, and if prices go down, they likewise go down with a lag. In further response to Representative Samuels, he stated that the model does take into account the different cost levels over the seven fiscal years shown, so they are based on anticipated production during each of those years.

[4:17:59 PM](#)

MR. PULLIAM continued his discussion, noting that the effective tax rate for ACES [HB 2001] is shown on the line below the current PPT rates. He pointed out that the effective tax rate for ACES [HB 2001] is higher than the current PPT at all of the different price levels. This is because the base tax is higher at 25 percent versus 22.5 percent, and the progressivity factor is different, he said. Additionally, there are no TIE credits under ACES [HB 2001]. He directed attention to the lines entitled, "Progressivity on Gross," and explained that these scenarios keep the current PPT law as it is, but change the trigger point for progressivity from a net to a gross basis. The current law has a trigger of \$40 net, which means after deduction of operating and capital costs. The trigger in all of the scenarios, however, is on a gross wellhead value and the progressivity portion is on the gross value as opposed to the net.

[4:20:09 PM](#)

REPRESENTATIVE SAMUELS understood that this means the transportation costs are incorporated into the progressive feature at the front end, while opex and capex are not incorporated into the progressive feature whatsoever.

MR. PULLIAM said correct.

[4:20:43 PM](#)

MR. PULLIAM described the two different progressivity structures shown on the chart - one structure with a .225 percent increment and one with a .25 percent increment. Another way to think about these, he said, is that the .225 would be a .225 percent per dollar increase over the trigger price shown. Thus,, a \$10 rise over the trigger price would equate to a 2.25 percent progressivity tax on the gross wellhead value.

MR. PULLIAM explained that the bottom section of the chart is an estimate of the average annual production tax that would come in relative to the current PPT under these different scenarios. Under the ACES line of that section, the annual average differences rise from [\$459] million at \$40 per barrel to [\$627] million at \$80 per barrel, then dropping down at prices of \$100 and \$120. The reason for this decrease at the higher prices, he said, is that the progressivity slope in ACES [HB 2001] is not as great as it is under the current PPT. He pointed out that all of the scenarios on the chart assume no TIE credits and that if TIE credits were re-introduced the dollar amounts would decline somewhat.

[4:23:55 PM](#)

REPRESENTATIVE DOOGAN cited the chart's third example under the topic of estimated effective tax rate labeled, "Progressivity on Gross: \$50 Trigger, 0.225% Increment," which results in an effective tax rate of 6.1 percent when the price is \$40 per barrel. He said he assumed that this example is the language in the amendment. He asked if the 6.1 percent is equal to PPT plus the gross progressivity.

MR. PULLIAM explained that the 6.1 represents the total tax the state would collect expressed as a percent of the wellhead value of the oil. Thus, the 6.1 includes the base tax plus the progressivity piece. He said that if this example was the tax plan in place, then at \$40 per barrel the average effective tax rate would be 6.1 percent of the gross value of the oil. In further response to Representative Doogan, Mr. Pulliam explained that when the trigger amount is exceeded, the progressivity taxes the entire gross value. For example, he said, assuming the trigger is \$50 and the price is \$51, the tax would be on the entire \$51.

[4:26:19 PM](#)

REPRESENTATIVE DOOGAN asked, at an oil price of \$50.01, would the progressivity factor then be used on the entire \$50.01.

CHAIR OLSON responded, "Yes."

REPRESENTATIVE SAMUELS added that the progressive feature would be miniscule under a scenario of \$50.01. In regard to the question about 6.1 percent at \$40 per barrel, he said there is no progressivity in that statistic and that it is higher than current PPT due to the elimination of the TIE credits.

[4:27:32 PM](#)

MARCIA DAVIS, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), Juneau, Alaska, responded to a question about TIE credits from Representative Doogan. She explained that the TIE credits are good until 2013 or six years after the credits are first used, whichever is later. For example, she said, TIE credits first used in 2010 would be good for six more years after that.

REPRESENTATIVE SAMUELS commented that this is why it is difficult to model the specifics of the TIE credit even though it goes away.

[4:28:56 PM](#)

REPRESENTATIVE DOOGAN inquired why the percentages vary on the chart between the \$20 increments.

MR. PULLIAM replied that the percentages vary as the price goes up because of the progressivity piece - at higher prices the progressivity tax itself will be growing. For example, he said, if the trigger point is \$50 and prices are \$10 above that, the progressivity piece would be 2.25 percent on the entire gross value of the oil. If prices go up another \$10, then the progressivity piece would go to 4.5 percent of the entire gross value of the oil. Thus, as prices increase, the progressivity piece is a larger and larger percent of the total tax.

[4:30:50 PM](#)

REPRESENTATIVE DOOGAN referred to the example on the chart for progressivity on gross with a \$50 trigger. He noted that when compared to the current PPT, the effective tax rate increases

are asymmetrical between the \$20 price increments - up 3 percent, then up 3.8, then up [4.0], then up [4.2]. Why does the effective tax rate not go up or down in equal increments, he asked.

MR. PULLIAM answered that there is a generally rising difference across the broad spectrum with a little dip between the \$60 and \$80 price and that this may be due to the TIE credits. In the model, the TIE credits are in the PPT line itself, he explained, while the sensitivities of the TIE credits are not included. Additionally, there are different slope factors and different trigger levels relative to current PPT, thus causing the differences being cited.

MR. PORTER explained that the reason for different slope factors is that the PPT is calculated off the net which includes opex and capex which are projected differently over time. They are also projected differently as the prices go from \$40 on up to \$80. In a true gross world the operating and capital expenses that may change over time are excluded, he said, so it is straight off the \$50 or \$60, inflated. In further response to Representative Doogan, Mr. Porter explained that it is not in the PPT numbers, it is the difference in calculation of a gross versus a net. In the net calculation there is a prediction factor of how much the industry will spend on opex and capex over the next eight years and this will vary based on price. In a high price environment, he said, DOR has a delay factor in increasing or decreasing the opex and capex that is a percentage based on price. So, as the numbers are massaged, that ratio comes out in the number that is subtracted against the start price. Another factor that contributes to the percentage variation, he continued, is the TIE credit which is \$200 million a year over the first five or six years. The variation in the percentage change is because the model is built on no TIE credits at all. Thus, the model matches closer to ACES [HB 2001] than to PPT because PPT includes the TIE credits. In further response to Representative Doogan, Mr. Porter confirmed that Version K of the bill is in between these two.

[4:40:03 PM](#)

REPRESENTATIVE RAMRAS opined that there are three significant factions within the legislative body - those, including himself, who prefer the status quo, those who prefer HB 2001, and those who prefer a gross tax methodology - and that the ultimate goal is to satisfy all three of these constituent groups. Every time a dollar in tax is added, he said, a dampening effect takes

place. Some believe it is best to have the least dampening effect during the time that industry is making its decisions as to whether something is or is not economic, and to participate the most when there are windfall profits at prices above \$60. He asked Mr. Porter to speak to the value of the slope of the line and to address the incremental progressive feature that gets richer as the oil price increases.

[4:45:50 PM](#)

MR. PORTER responded that at the higher ranges, there are three increments of revenue to the state. The first increment is the royalty that is a gross tax at a flat 12.5 percent off the top. The next increment is a piece of net and it is curved because it is based on opex and capex over time. As prices get higher, industry will spend more capital, thus opex and capex increase as the price increases. The formulas take into consideration that opex will likely not go up as fast as capex. This results in a growing curve from which the state receives a piece of the net, he explained. In the higher price ranges, the state also wants to make sure that it is getting a fair share of the wedge of the total. At high prices the way to make the tax environment stable is to ensure that everyone is happy with their wedge because if it is disproportionate then it is an unstable tax environment. If the state is going to take additional tax, it will have less impact if it is taken off the higher portion of the wedge. As long as it is fair it is not going to affect the major overall economics of the project, Mr. Porter advised, although any dollar taken away from private business is a dollar that could have been returned to shareholders or reinvested in the community or finding more oil.

[4:48:08 PM](#)

MR. PORTER warned against hitting industry with the progressivity piece at low ranges when the industry is not making money. The trigger price must be a fair price that allows industry a fair profit and when prices are high the state must make sure that it is capturing incremental value. The \$50 trigger with the 0.225 percent increment is a good balance, he said. This scenario takes less money than HB 2001 at \$40, so this would encourage projects with high cost environments. Yet, in the high price environment, he continued, it is substantially higher than the governor's proposal [HB 2001]. In that respect, he said, it is a fair "reference" balance.

[4:50:32 PM](#)

REPRESENTATIVE RAMRAS requested Mr. Porter's opinion on whether the House Special Committee on Oil and Gas was moving in a direction that would satisfy the objectives of the three different constituent groups within the legislature.

MR. PORTER stated that he believed the committee had come across with a fair balance.

4:53:06 PM

REPRESENTATIVE NEUMAN submitted that the state must provide the incentives necessary for developing the harder-to-produce fields because they are Alaska's future. He asked what the "stress point" is on these types of fields and how the \$50 trigger equates in this regard.

MR. PORTER replied that he did not have personal knowledge in this regard, but that Commissioner Galvin had previously testified that it is around \$41 for heavy oil. As technology gets better and industry gets better at producing those heavy oils, they might be able to do it for less than \$41. At the same time, he cautioned, inflation will increase the cost over time. So, the question is establishing a dollar figure that allows for those two elements to weigh against each other and still not impact them. Under current scenarios the \$50 is a good start price, Mr. Porter advised. Then, during the 2011 review, the state can look at how industry fared over the past five years and re-examine the start price in regard to production on viscous and heavy oil reservoirs.

4:56:03 PM

REPRESENTATIVE NEUMAN inquired whether trying to find the edge of where investment into Alaska starts and stops and then backing up a little bit is a good method for determining a start price.

MR. PORTER explained that his philosophy is different, although it might come up with the same result. He said that he looks at where things are today, what the share of the pie looks like, and what is fair. The goal is to create a long-term stable tax policy, he said, and in order to do that a balance must be maintained at all prices.

REPRESENTATIVE NEUMAN commented that during meetings of the House Special Committee on Economic Development, International

Trade and Tourism, the one thing mentioned by every witness was stability.

[4:57:49 PM](#)

REPRESENTATIVE RAMRAS asked what effect inflation might have on the state's share or on a trigger point between now and the year 2011.

MR. PORTER answered that DOR is projecting roughly two and three-quarter percent per year inflation and that the projection assumes oil prices will not be skyrocketing like they have done over the past two years. Inflation will always impact the industry, he said, the key is figuring out what industry's future production costs will be and then keeping the trigger price above that range. He said he believes that the \$50 trigger price is in a fair range and that he would not go down substantially from that.

[4:59:59 PM](#)

REPRESENTATIVE RAMRAS asked who would be hurt the most - industry or the state - should inflation remain at two and three-quarters percent over the next three years and there is no inflation escalator on the trigger price for progressivity.

MR. PORTER responded that while the costs of lifting a barrel of oil would creep toward the \$50 over the three-year period, those costs would not surpass \$50.

[5:01:42 PM](#)

REPRESENTATIVE RAMRAS inquired whether inflation is therefore a benign consideration if all things remain the same.

MR. PORTER stated that from an inflation standpoint, the progressivity factor is, in essence, kicking in sooner by the rate of inflation over time.

[5:02:43 PM](#)

REPRESENTATIVE DOOGAN inquired about another chart before the committee created by Dan Dickinson.

DAN E. DICKINSON, Consultant to the Legislative Budget and Audit Committee, Alaska State Legislature, directed attention to his chart entitled, "Progressivity Studies 10/28/07." He explained

that the first column in the chart demonstrates how the PPT works under current law. He then chose as an example the ANS market price of \$87. He calculated the gross value at the point of production by subtracting \$7 in transportation costs for moving the oil from a North Slope field to Los Angeles, arriving at \$80. He next subtracted \$20 in field lifting costs to arrive at a production tax value of \$60 per barrel. He said that a \$20 lifting cost is a very high number, higher than what has been used in either DOR's or Mr. Pulliam's models. He then calculated the total value by multiplying the \$60 per barrel by the number of taxable barrels projected for 2008 which is 244,000,000. This results in a tax base of \$14.6 billion, he said. The progressivity calculation, he continued, starts at \$40 under current law. The progressivity is determined by: subtracting the \$40 from the \$60 net value of each barrel to arrive at a price index of \$20; the \$20 price index is then multiplied by the 0.25 percent increment factor as established under current law, which means that 0.25 percent is used for each \$1. Thus, at a \$20 price index the progressivity factor is 5 percent and this 5 percent is then applied to the entire base. In this example, he said, that 5 percent generates an additional \$732 million in tax,. Mr. Dickinson then presented the calculations for a production tax value of only \$41: subtract the \$40 from the \$41, arriving at a price index of \$1; multiply the \$1 by 0.25 percent, arriving at a progressivity of 0.25 percent; then multiply the \$41 by 0.25 percent. Thus, he continued, as soon as the \$40 trigger point is exceeded, progressivity kicks in against everything and it grows rapidly. The trigger point in the amendment before the committee is \$50, he noted.

[5:07:46 PM](#)

MR. DICKINSON pointed out that under ACES [HB 2001] the lines are essentially the same [as under PPT] and they result in a similar base amount of \$16.4 billion. The difference, he said, is that ACES [HB 2001] uses an earlier starting point of \$30. Subtracting the \$30 from the \$60 results in a price index of \$30. However, instead of 0.25 percent, ACES [HB 2001] uses a lower rate of 0.2 percent for every \$1, thus the additional progressivity is 6 percent of that same base.

[5:08:33 PM](#)

MR. DICKINSON drew attention to the third column of his chart representing the proposal before the committee [Version K]. Because [Version K] does not subtract the lifting costs, he

said, the \$50 is subtracted from the gross value at the point of production, resulting in a price index of \$30. [Version K] uses an increment of 0.225 percent for each dollar, an increment midway between the PPT and ACES [HB 2001]. Thus, he said, this generates a very high progressivity factor of 6.75. As prices go up, he continued, the dollars of tax - before credits - also go up. He next referred to the three graph lines on his chart depicting the tax revenues that would be generated by ACES [HB 2001], PPT, and the House Special Committee on Oil and Gas (HO&G) proposal [Version K]. At prices of \$27-\$57, he explained, the tax revenue from all three proposals goes upward in a straight line, with ACES [HB 2001] generating slightly more revenue than PPT and [Version K], both of which generate virtually the same amount at these prices. However, things become different once the progressivity starts, he continued. Above the \$57 price, all three lines begin to bend upward due to the progressivity. Without progressivity, he said, the lines would remain straight upward rather than bending upward. The lines start to bend as more is added at higher percentage of the base. He said that ACES [HB 2001] does this earlier than PPT, so at a \$67 price ACES [HB 2001] generates a couple million dollars more than PPT or [Version K]. However, beginning at a \$77 price [Version K] will be higher than either ACES [HB 2001] or PPT, and as prices increase so does the take under the committee's proposal.

[5:12:57 PM](#)

REPRESENTATIVE DOOGAN noted that the lines on the graph show the tax revenue prior to credits. He asked whether the credit provisions of the various bills make the lines perform differently.

MR. DICKINSON responded, "Generally, no." The credits lower the tax, so they would just simply move every line down. The place where there would be some effect, he said, "is what happens at the very bottom when that would take you negative and which credits could be applied." But, as long as it is assumed that the entire credit is implied, it would look exactly the same, just shifted down. In further response to Representative Doogan, he agreed that the credit provisions would reduce the tax revenues but the slopes on the lines would not change.

[5:14:14 PM](#)

REPRESENTATIVE SAMUELS related that the reason a net progressivity [under PPT] was chosen was because - over time -

both costs and prices can go either up or down depending on inflation, a glut, or numerous other reasons. Using a net basis, he said, provides an automatic shifting up and down depending on what costs and prices are doing. By "sticking this at \$50," he opined, there is no automatic shifting and the state is risking that future investments will not be made should costs go up during future decision making processes. This also causes the risk of having to change things again in 2011, he said. Additionally, he related, an industry representative stated that when looking at the tails of a bell curve, even a 10 percent chance of costs going up will be factored in. Thus, increased costs can affect investment decisions even when the price may be up because industry would recoup less money. Is this an accurate description of the risks the state is taking, he asked.

[5:17:06 PM](#)

MR. PORTER stated that he thought this was a fair estimation because there is inflation kicking in so that inflation will creep toward the \$50.

MR. PULLIAM said this was right because the stress price probably takes a greater part in a company's risk analysis than the high side scenarios that it might run.

REPRESENTATIVE SAMUELS quoted a statement by an oil industry expert, Mr. Johnston, warning legislators to be careful because all of the numbers will be wrong. Representative Samuels urged committee members to not read the charts like they are the Bible.

[5:19:12 PM](#)

REPRESENTATIVE SAMUELS moved to adopt Amendment 3, labeled 25-GH0014\K.6, Bullock, 10/28/07, which read [original punctuation provided]:

Page 13, lines 7 - 9:

Delete ".225 percent of the difference between the gross value at the point of production for the month and the product of the total amount of production for that month in BTU equivalent barrels multiplied by \$50"

Insert "the sum over all months of the calendar year of the amount calculated under this subsection. For each month for which this subsection applies, the tax is equal to .225 percent of the monthly gross

value at the point of production of the taxable oil and gas multiplied by the number that represents the difference between (1) the quotient of the total monthly gross value at the point of production of the taxable oil and gas produced by the producer during that month divided by the amount of oil and gas produced by the producer in BTU equivalent barrels, and (2) \$50. The tax levied under this subsection may not be less than zero or more than 25 percent of the gross value at the point of production of the taxable oil and gas"

REPRESENTATIVE RAMRAS objected for discussion purposes.

[5:20:14 PM](#)

DON BULLOCK, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, Alaska State Legislature, stated that Amendment 3 is a new tax on progressivity that is in addition to the 22.5 percent nominal tax already in AS 43.55.011(e). This provides another tax that is triggered when the gross value at the point of production starts to exceed \$50, he said. He read the language of Amendment 3 to the committee.

[5:22:57 PM](#)

REPRESENTATIVE RAMRAS withdrew his objection.

[5:23:13 PM](#)

REPRESENTATIVE DOOGAN understood that some committee members involved with the amendment had had problems with the language. He asked whether those members were satisfied that the language now did what they wanted it to do.

MR. BULLOCK stated that he took the suggested language, which would have put it into two subsections, and made it more concise while still saying the same thing and that this allowed him to put it all in one place.

MR. PORTER agreed that it was correct.

[5:24:08 PM](#)

There being no further objections, Amendment 3 was adopted as written.

MR. BULLOCK noted that this replaces the current progressivity which is repealed at the end of the bill.

[5:24:17 PM](#)

REPRESENTATIVE SAMUELS moved to adopt Amendment 4, labeled 25-GH0014\K.5, Cook/Bullock, 10/28/07, which read [original punctuation provided]:

Page 12, following line 3:

Insert a new bill section to read:

"\* **Sec. 16.** AS 43.55.011(l) is amended to read:

(l) When a limitation under (j) or (k) of this section on the tax levied by (e) and (o) [(g)] of this section has the effect of reducing the producer's tax on oil or gas produced from a lease or property below the amount of tax that would be levied in the absence of that limitation, the amount of the reduction is applied first against the tax levied by (o) [(g)] of this section. However, that tax may not be reduced below zero."

Page 31, line 6:

Delete "43.55.011(l),"

Page 31, line 9:

Delete "Sections 23, 30, 31, 32, and 35"

Insert "Sections 24, 31 - 33, and 36"

Page 31, line 11:

Delete "Sections 14 - 19, 29, and 36"

Insert "Sections 14 - 20, 30, and 37"

Page 31, line 13:

Delete "Sections 24 and 25"

Insert "Sections 25 and 26"

Page 31, line 14:

Delete "sec. 24"

Insert "sec. 25"

Page 31, line 15:

Delete "sec. 25"

Insert "sec. 26"

Page 31, line 16:

Delete "sec. 27"  
Insert "sec. 28"

Page 31, line 18:  
Delete "secs. 13 and 27"  
Insert "secs. 13 and 28"

Page 32, line 15:  
Delete "secs. 23, 30, 31, 32, and 35"  
Insert "secs. 24, 31 - 33, and 36"

Page 32, line 17:  
Delete "secs. 14 - 19, 24, 25, 29, and 36"  
Insert "secs. 14 - 20, 25, 26, 30, and 37"

Page 33, lines 3 - 4:  
Delete "Sections 23, 30, 31, 32, and 35"  
Insert "Sections 24, 31 - 33, and 36"

Page 33, line 5:  
Delete "Sections 14 - 19, 24, 25, 29, and 36"  
Insert "Sections 14 - 20, 25, 26, 30, and 37"

Page 33, line 6:  
Delete "sec. 42"  
Insert "sec. 43"

[5:24:46 PM](#)

REPRESENTATIVE DOOGAN objected in order to have time to look at the amendment.

[5:24:54 PM](#)

MR. BULLOCK stated that AS 43.55.011(1) is repealed under the "current version of the bill" and under the senate version passed yesterday by the Senate Resources Standing Committee yesterday. He explained that the issue, brought to his attention by one of the administration's consultants, is that subsection (1) talks about when Cook Inlet is subject to the tax caps that they are going to have credits that they can't use and this just describes the order in which the credits have to be applied. The old reference that is deleted in brackets is (g) which is the current progressivity and it is replaced with (o), the subsection in the committee's bill [Version K] that was just amended by Amendment 3. So, he said, it deletes a reference to the old progressivity and inserts the new reference to the

progressive tax. He said this is because most of the credits are written from the standpoint that the credit is taken against the tax levied by AS 43.55.011(e) which is the 22.5 percent tax.

[5:26:13 PM](#)

REPRESENTATIVE DOOGAN removed his objection.

[5:26:18 PM](#)

REPRESENTATIVE NEUMAN asked if Mr. Bullock had said that it was the administration that had brought the issue to his attention.

MR. BULLOCK responded yes, that it was an oversight that had not been addressed. When the progressivity was changed in the bill this change was required, he said. In further response to Representative Neuman, Mr. Bullock stated that the administration brought it to his attention and he then presented it to the committee. I work for [legislative members], not the administration, he said.

[5:26:46 PM](#)

There being no further objections, Amendment 4 was adopted as written.

[5:27:10 PM](#)

REPRESENTATIVE RAMRAS inquired how the progressivity feature as currently adopted would at this price affect the exploration and development of heavy oil in Alaska.

MR. PORTER said that specific evaluations could only be given by the individual parties involved in heavy oil development. At \$50, he said, progressivity only takes a small piece, but at \$70 the actual percentage begins to increase. Therefore, it really is affecting the higher ranges where both the heavy oil and the legacy fields are making money. It definitely impacts the economics of heavy oil, he continued, because it affects the overall portion of the pie.

MR. DICKINSON agreed with Mr. Porter. Much of the oil, particularly the heavy oil that is about to be exploited, he said, are smaller reservoirs within the legacy fields of Prudhoe Bay and the Kuparuk River Unit. This maintains within the ability to make specific investments within legacy fields that drive or will increase the cost - which may go as high as \$40 a

barrel - but a baseline net is still being retained for that heavy oil within the legacy field. Then, he continued, if the prices go high there is the exact effect mentioned by Mr. Porter. The amount of investment is what is driving this, he said, as opposed to just saying that because the legacy fields have lots of easy-to-get oil, we want to treat the heavy oil within those fields the same way.

5:30:33 PM

REPRESENTATIVE DOOGAN stated that like Representative Samuels, he had an amendment drafted to remove the language that puts the auditors in exempt service and that he would have offered it if he could have thought of another solution. "Frankly, the idea of tax auditors being political appointees does not appeal to me at all," he declared.

CHAIR OLSON said that he would work with Representative Doogan in January should the auditor provision remain in the bill.

5:32:12 PM

REPRESENTATIVE DOOGAN voiced his concern with language in the bill that essentially targets Nenana shallow gas. There are now two tax regimes for gas, he said, one for the North Slope and the other for everything else that is the same tax regime as Cook Inlet. Encouraging gas production for domestic use in marginally economic areas is a good thing, but it will not be so good should there be a big commercial strike elsewhere that forces the legislature to jump through hoops to make it right. He wished that narrower language could have been found to enable Nenana without throwing the entire state open to those provisions. Representative Doogan acknowledged the risk of taxing industry out of the state. But, he argued, the assumptions for supporting a net profits tax are not necessarily true and there is the risk of leaving money on the table that could be used for when the inevitable oil decline comes. He directed attention to a handout he prepared entitled, "10 Impossible Things" and urged that legislators think about this other kind of risk that has received very little attention.

5:36:18 PM

REPRESENTATIVE SAMUELS stated that in current law the credit for buying net operating losses (NOLs) is at 20 percent, but the tax rate is at 22.5 percent. They should be the same so all players are treated the same, he opined. When the change in tax rate

was stripped from the bill, was there also a change for NOLs, he asked.

MR. BULLOCK responded that he did not recall that provision and recommended that the question be referred to the administration.

REPRESENTATIVE SAMUELS contended that there is a middle ground for finding the right tax level. He advised members to not get wrapped up in the graphs and to instead think about what they want for Alaska 10 years from now, not 2 years. The correct approach for setting public policy is to think on a long-term basis and to think about more than just the tax rate, he opined.

[5:40:34 PM](#)

REPRESENTATIVE NEUMAN stated that he has thought about the issues brought up by Representative Doogan. Given the decline in barrels of oil going down the Trans-Alaska Pipeline System (TAPS) and the current investment climate, the state must do something different, he opined. The governor started out saying that she wanted a gross tax, he said, but after studying the issue her administration concluded that going to a full gross did not work in Alaska. The numbers may be a little different, but the governor's staff came back to the same model passed by the previous legislature, he continued. At \$100 a barrel, Version K produces \$300 million more per year than HB 2001, he stated. It also provides for a gross system, something that was asked for by a lot of Alaskan's in their public opinion messages (POMs). But "we" also wanted to send a message to industry that "we" want stability in our tax rate. He said he believes that Version K does the job in ensuring accountability, getting Alaska's fair share, establishing a good and stable investment, simplifying the system, and preventing the state from being "gamed".

[5:46:58 PM](#)

REPRESENTATIVE RAMRAS emphasized the importance of safeguarding good public policy and a healthy revenue stream for the state. A second revenue source is required, he opined, because regardless of the tax policy adopted the state's income stream from oil resources will never be enough to meet the needs of Alaska's people. He agreed with Mr. Porter that the state must have the discipline to save the surplus earnings while the price of oil is robust. Although he supports Governor Palin, he said, he believes she is wrong to challenge the integrity of decisions made by the entire previous legislature based upon the

unforgivable actions of some. This aside, the committee has crafted a bi-partisan CS that meets the needs of the three constituent groups, he remarked.

[5:54:18 PM](#)

REPRESENTATIVE DOOGAN commented that at the beginning of the last session he sponsored a bill that would have put the entire surplus into the Constitutional Budget Reserve (CBR), but withdrew the bill when it was given no consideration. He said he will be sponsoring another bill to save the surplus and that he will be coming to committee members to ask for their co-sponsorship.

[5:55:45 PM](#)

REPRESENTATIVE SAMUELS moved to report CSHB 2001, Version 25-GH0014\K, Bullock, 10/27/07, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 2001(O&G) was reported from the House Special Committee on Oil and Gas.

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 5:56 P.M.