

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

October 30, 2007

6:35 p.m.

MEMBERS PRESENT

Representative Carl Gatto, Co-Chair
Representative Craig Johnson, Co-Chair
Representative Anna Fairclough
Representative Bob Roses
Representative Paul Seaton
Representative Peggy Wilson
Representative Bryce Edgmon
Representative David Guttenberg
Representative Scott Kawasaki (via teleconference)

MEMBERS ABSENT

All members present

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."

- HEARD AND HELD

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 2:00 PM HOUSE FINANCE 519
10/28/07	(H)	Moved CSHB2001(O&G) Out of Committee
10/28/07	(H)	MINUTE(O&G)
10/29/07	(H)	O&G RPT CS(O&G) NT 4DP 1NR 2AM
10/29/07	(H)	DP: SAMUELS, NEUMAN, RAMRAS, OLSON
10/29/07	(H)	NR: DOOGAN
10/29/07	(H)	AM: KAWASAKI, DAHLSTROM
10/29/07	(H)	RES AT 1:00 PM HOUSE FINANCE 519
10/29/07	(H)	Heard & Held
10/29/07	(H)	MINUTE(RES)
10/30/07	(H)	RES AT 9:00 AM HOUSE FINANCE 519
10/30/07	(H)	RES AT 6:30 PM HOUSE FINANCE 519

WITNESS REGISTER

SCOTT THORSON, Owner
Network Business Systems
Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 2001, opposed raising taxes on the oil industry.

AVES THOMPSON, Executive Director
Alaska Trucking Association (ATA)
Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 2001, urged that the oil tax rate be kept low and that incentives be used to encourage increased development investment.

JOHN SHIVELY, President
Resource Development Council (RDC)
Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 2001, opposed raising taxes on the oil industry.

BRIAN HOVE, Government Relations Committee Chair
Greater Fairbanks Chamber of Commerce
Fairbanks, Alaska

POSITION STATEMENT: During hearing on HB 2001, testified that the managerial objectives of Alaska's Clear and Equitable Share (ACES) legislation could be accomplished through a non-statutory manner and that the petroleum production profits tax (PPT) system should not be overhauled at this time.

DONALD BENSON
Palmer, Alaska

POSITION STATEMENT: Supported HB 2001 as originally introduced.

JAN BROPHY
Soldotna, Alaska

POSITION STATEMENT: During hearing on HB 2001, testified that the tax needs to be fixed and that the oil industry does not need any incentives.

HARVEY ROOKUS
Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 2001, opposed a tax increase.

CHUCK LOGSDON
Palmer, Alaska

POSITION STATEMENT: During hearing on HB 2001, urged that provisions of the PPT be kept as they are.

BILL WARREN
Nikiski, Alaska

POSITION STATEMENT: Supported HB 2001 and a larger tax.

TOM LAKOSH

Anchorage, Alaska

POSITION STATEMENT: Testified that the provisions of HB 2001 violate three constitutional provisions and that these violations need to be remedied.

STACY SCHUBERT, President

Anchorage Chamber of Commerce

Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 2001, urged that the PPT not be discarded and that it be given more time to work.

MARK SHARP

Fairbanks, Alaska

POSITION STATEMENT: During hearing on HB 2001, supported a gross tax rather than a net tax.

MERRICK PIERCE

Fairbanks, Alaska

POSITION STATEMENT: During hearing on HB 2001, urged that the state not under tax its oil resource and requested that there be discussion of a gross tax versus a net profits tax.

MICHAEL MELIELO, President

Chugiak-Eagle River Chamber of Commerce

Eagle River, Alaska

POSITION STATEMENT: During hearing on HB 2001, testified that waiting four years to review the PPT will provide the time and data necessary for doing a good assessment.

PAT TOLSON

Hydaburg, Alaska

POSITION STATEMENT: During hearing on HB 2001, testified that people in economically depressed rural communities need the oil industry for job opportunities.

JIM UDELHOVEN, Owner

Udelhoven Oilfield System Services (UOSS)

Kasilof, Alaska

POSITION STATEMENT: During hearing on HB 2001, requested that decisions be made in a manner that will propel the oil industry forward.

BILL ZORB

Fairbanks, Alaska

POSITION STATEMENT: During hearing on HB 2001, urged that the net profits tax be restored to 25 percent.

FAY VON GEMMINGEN
Palmer, Alaska

POSITION STATEMENT: During hearing on HB 2001, supported a gross tax rather than a net profits tax.

DARYL NELSON
Chugiak, Alaska

POSITION STATEMENT: During hearing on HB 2001, supported a tax of at least 25 percent off of the gross.

PAUL D. KENDALL
Anchorage, Alaska

POSITION STATEMENT: During hearing on HB 2001, supported a gross tax.

GLORIA DESROCHERS
North Pole, Alaska

POSITION STATEMENT: During hearing on HB 2001, testified that the state should receive higher profits on its oil.

LISA PEGER
Fairbanks, Alaska

POSITION STATEMENT: During hearing on HB 2001, urged that the bill be passed uncut.

JERRY DIXON
Seward, Alaska

POSITION STATEMENT: During hearing on HB 2001, supported an increased oil tax.

ACTION NARRATIVE

CO-CHAIR CARL GATTO called the House Resources Standing Committee meeting to order at [6:35:41 PM](#). Representatives Gatto, Johnson, Roses, Guttenberg, Edgmon, Fairclough, Wilson, Kawasaki (via teleconference), and Seaton were present at the call to order.

HB2001-OIL & GAS TAX AMENDMENTS

[6:36:04 PM](#)

CO-CHAIR GATTO 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 CSHB 2001(O&G).]

[6:36:15 PM](#)

SCOTT THORSON, Owner, Network Business Systems, stated that his company is an information technology ("IT") services firm in Anchorage with 30 employees, but that he is testifying only for himself. He said his customer base is primarily the private sector and that people generally invest in their IT infrastructure when the business environment is sound. About 1-2 percent of his revenue is directly from the oil industry, and about 80 percent is from companies that are directly or indirectly connected to the oil industry. He related that he has heard concern from his customers about increasing taxes on the oil industry and that he is also concerned because he thinks it will have a chilling effect on the overall business environment in Alaska. The main beneficiary of increased taxes on the oil industry is state government, he said. Most working Alaskans, including myself, will not see a benefit. There will be more job opportunities and higher income for Alaskans if the private sector is allowed to develop and the business sector stays robust. The ability of businesses to give raises equates to thousands more in personal annual income than does a couple of hundred dollars from the Permanent Fund, he said. "If you want less of something, put a tax on it," he said. "Alaska needs more production, not less." He did not see how increasing oil taxes would improve the production situation that the state is facing. The legislature has the power to improve things or to crush industry by extracting more tax. He said he does not want to repeat the downturn that happened in the 1980s.

[6:43:14 PM](#)

AVES THOMPSON, Executive Director, Alaska Trucking Association (ATA), spoke from the following written statement [original punctuation provided]:

Thank you. Mr. Chairman and members of the committee, I am Aves Thompson, Executive Director of the Alaska Trucking Association. The Alaska Trucking Association is a state wide organization representing trucking interests from Barrow to Ketchikan. In 2008, our association celebrates its 50th Anniversary of serving the interests of the trucking industry in Alaska. Our more than 200 members represent all of the diverse trucking operations in the state and many associate members who provide goods and services to our industry. It is important to note that, in Alaska, trucking employs over 20,000 people - 1 out of 14 workers. Trucking payrolls are over \$900 million annually and several thousand family-owned and corporate trucking businesses (most have less than 10 employees) operate in Alaska.

On behalf of ATA, I want to make several observations about PPT issues.

It has been said many times that, in developing our natural resources, our constitution requires that we seek maximum return to the citizens of Alaska. While it seems that the emphasis has been on raising taxes to increase tax revenue to the state, we believe that the better way to maximize benefits to Alaskans is to provide good paying, long term jobs for this and future generations.

The State needs to focus on how to slow the decline of production. To accomplish that objective, investments need to continue in existing fields, investments need to be made in heavy oil and investments need to be made to promote the development of new fields. Existing field development should be the first priority. Most of the new production, in recent years, has occurred in existing fields. Without this base production, heavy oil and other new field development will face major additional challenges.

The oil and gas business is capital intensive and it takes many years for return on investments to occur. Increases to taxes lengthen that recovery time and can

negatively impact project economics and investment decisions.

We believe that it is important in setting tax policy to produce adequate revenues for the state but more importantly, encourage further investment in the development of our abundant resources.

We urge you keep the tax rate low and use incentives to encourage increased development investment. As stated earlier, we believe that the better way to maximize benefits to Alaskans is to provide good paying, long term jobs for this and future generations. Investment, not taxes, will provide the jobs we need to ensure our future.

MR. THOMPSON, in response to Co-Chair Gatto, stated that he is the Executive Director of the Alaska Trucking Association which has approximately 200 members and represents more than half of the truck-tractors that operate in the state.

[6:47:34 PM](#)

JOHN SHIVELY, President, Resource Development Council (RDC), noted that RDC's membership includes resource industries, Native corporations, governments, and unions. The message being sent to the oil industry with this tax is also being sent to the whole economy, he stated. Raising taxes now would be doing so at a time when the economy is somewhat fragile. Most of the resource sectors are currently under attack, he said, including timber, mining, coal, commercial fishing, and the cruise ship industry. With school registrations flat or slightly down and a soft housing market, it is not a good time to be sending such a negative signal. Additionally, he said, the tax increase is being considered at a time when the state has a surplus and has not addressed its fiscal future. It does not seem responsible for the legislature to make this major of a decision without a plan in place for the state's fiscal future and how the state's assets will be used. He said he did not believe the legislature would be in session to raise the tax if it was a state income tax on individuals and there was a surplus like there is today. This should be the same for taxes on the oil industry.

[6:51:13 PM](#)

BRIAN HOVE, Government Relations Committee Chair, Greater Fairbanks Chamber of Commerce, spoke from the following written

testimony [original punctuation provided with formatting changes]:

The mission of the Greater Fairbanks Chamber of Commerce is to advocate for, and support, a strong investment and economic development climate in our community and our state. With this commitment in mind, the Chamber was a close observer of last year's PPT discussion. So it follows that this year's debate on a proposed replacement is being monitored just as carefully.

Where oil tax policy is concerned, the Chamber recognizes the delicate balance that must be struck. The State's petroleum assets are non-renewable. As such there is only one opportunity to receive fair value from the severed resource. On the other side of the fulcrum lies the responsibility to implement a tax structure conducive to enhancing future revenue opportunities through creation of a positive investment climate for businesses large and small.

Last year the Chamber supported replacing the obsolete ELF system with PPT, a plan designed to steer revenues to the State that would satisfy a contemporary notion of "fair share". Of equal importance to Chamber membership was PPT's tax credit program designed to kick-start an investment cycle that would help sustain the State until commercial quantities of North Slope natural gas could be delivered to market. The Chamber remains a strong advocate for both of these vital development objectives.

The Administration's ACES proposal has raised much concern among Chamber membership regarding the prudence of completely revamping a tax system that has been on the books only a short time. As proposed, ACES would change every single one of the PPT variables. These include:

- Net Rate
- Floor Rate
- Progressivity Rate
- Progressivity Starting Point
- Investment Tax Credit Structure

The Department of Revenue, in its August 2007 PPT Implementation Status Report, acknowledges that it is too early to tell if the PPT system will have the desired effect. So, while it might be entirely possible that PPT will need some minor modifications to achieve the intended purpose, how do we know what these might be absent a sufficient assessment period?

PPT has returned a level of revenue to the State which is substantially higher than the ELF system it replaced. Yet, the Status Report complains that industry capital and operating costs have exceeded projections and as a result anticipated tax revenues have not met expectations. The Report goes on to acknowledge the recent spate of extraordinary price increases for labor and materials that have beset the industry.

Upward spiraling cost trends defy accurate projections. Anybody in business during the 1970s or early 80s can attest to this. Revamping PPT to take a larger tax cut serves only to exacerbate this cost pressure. And it certainly does not work to achieve the investments the State needs on the North Slope. A final word on costs, the Department of Revenue Spring 2007 Revenue Source Book was prescient in its closing statement regarding PPT, "The PPT system is designed to encourage additional investment. If PPT is successful, costs will increase in the near term and production will increase shortly thereafter."

Of concern to all State residents is the implication that PPT deliberations were subject to undue influence. Much of the discussion on PPT centered on whether the tax rate should be 20% or 25%. Strong personalities on both sides argued the relative merits of each alternative. Yet, it's important to note that ultimately the Legislature did what legislatures do - it compromised. In this case at a very predictable rate of 22.5%. While this was not the level the Chamber supported, membership understands the value in compromise and reconciliation in the interest of achieving a greater goal.

The Chamber membership applauds the Administration's efforts to enhance the quality of information flowing to-and-from State agencies as well as improving the

structural flow of information among its various departments. Furthermore, the Chamber supports the Administration's desire to improve the level of expertise applied to complex tasks necessary to validate compliance with State law. These are prudent managerial objectives which could likely be accomplished in a non-statutory manner.

In summary, the Greater Fairbanks Chamber of Commerce supports the Administration's efforts relating to the gathering and sharing of information as well as the need to attract higher levels of expertise in certain tax accounting fields. With respect to the Administration's tax proposal, it is clear that ACES cannot possibly serve the State's interest in fostering a stable investment climate necessary to secure sustainable levels of North Slope oil production. Therefore, the Chamber cannot support the Administration's desire to completely overhaul the PPT tax system after just one year of experience.

[6:58:18 PM](#)

DONALD BENSON stated that he is representing himself. He said the current tax structure of PPT is compromised and needs to be re-examined for two reasons: 1) to restore the public trust from those who clouded the names of Alaska's state legislators, and 2) to finally bring in Alaska's fair share of oil and gas revenue. Governor Palin's ACES plan [HB 2001, as introduced,] will do just this, he said. He related that in a recent poll 72 percent of the respondents believed Alaska was not getting its fair share. He encouraged the committee to keep intact the key elements of the ACES plan - the progressivity and the trigger, the tax rate, and the important administrative tools that expand the list of reporting returns and expenditure information that the state's administrative accountants need. He stated that ACES is a tax system that will ensure tax write-off of company investments, and additional taxes to companies that do not invest. Additionally, ACES ensures that Alaska, as an owner state, will be treated as an equal business partner. The state needs a new accounting system, he said, that ensures teamwork and partnership. In response to Co-Chair Gatto, Mr. Benson said he is a 55-year-old, third generation Alaskan.

[7:02:26 PM](#)

JAN BROPHY said he has been in Alaska for 22 years, has raised four boys, and is now retired. He stated that he has never before been involved in politics, but that he has been following this issue and some things have been very appalling to him. He said he read Co-Chair Gatto's article in the Peninsula Clarion and that he agrees with everything in the article. Alaska's citizens should not be apologetic for the state's rich natural resources, he said. The oil industry has brought the oil to market, but the oil belongs to the state. He said he did not think the oil industry is going anywhere because as long as there is oil or gas in the ground there is money to be made. The oil industry is making a profit and does not need any incentives to get the oil out of the ground, he maintained. The oil industry wants financial security in the state, but they cannot have security if critics are always going to say that the tax is not right and needs to be fixed. The tax needs to be fixed, he stressed. Elected officials need to remember that they are elected to represent the people of Alaska. The oil industry does not want to deal with a state that is double-minded and can be bought, they want to do business with a body of people that they can trust. As good business people, he said, the legislative body can go head to head with industry and come up with a good plan.

[7:07:03 PM](#)

HARVEY ROOKUS stated that he worked as an oil company employee for 37 years before retiring in 1983. He said he would like to keep the oil companies here and that he "can't see the feeling of making a bunch of money on the first year of the tax increase and then increasing it the next year." This is not the way to go, he said.

[7:08:13 PM](#)

CHUCK LOGSDON spoke from the following written statement [original punctuation provided with formatting changes]:

For the record my name is Chuck Logsdon. I am a petroleum economist currently working as a consultant to the Alaska Oil and Gas Association. Today I am testifying as a citizen from Palmer.

I like the PPT as it is currently structured. I believe it strikes a good balance between obtaining a fair share of the "economic rent" for the State from its production tax, while at the same time providing

incentives to encourage reinvestment of industry profit. Reinvestment that will be crucial to keep oil flowing in the pipeline.

In particular, I like the use of net cash flow as the tax base. From an economist's perspective this is an efficient way of taxing business activity as it directly recognizes the ability to pay the tax in an industry with extremely high upfront capital costs. I also like the progressive rate schedule applied to the tax base because once again, it directly matches the tax to the ability of industry to pay the tax.

I also believe the tax credits in the PPT are set about right. Set too high, tax credits can create the incentive to gold plate and as a result high administrative costs to prevent this from happening. The combination of a tax based on net production value along with attractive tax credits is a solid step toward encouraging the investment needed to keep the TAPS flowing.

Obviously the choice of tax rate is a tough call and a lot of information and comparisons have been generated to try to help policy makers in making the decision as to where that rate should be set. I believe that the current PPT sets this rate about right both for base rate and progressivity.

As you may have gathered, I do not like resource production taxes that ignore the cost of extracting the resource in the tax base. Because resource deposits vary widely in their development costs, such taxes generally require complex tweaking to make adjustments to reflect these differences in the ability to pay the tax. We already have a royalty share that is based on the gross value at the point of production that is the same regardless of profitability or lease location. To encourage resource development it makes sense to go to the net for our production tax and apply it universally.

On efficiency grounds I also do not like fixed floor taxes. However, since government services are an important economic safety net a floor may be necessary but it should be kept low. As a result I like the tax floor mechanism in the PPT.

I would like to see these key provisions of the PPT remain as they are.

MR. LOGSDON, in response to Co-Chair Gatto, stated that he had written newspaper articles in the past and that he is currently working as a consultant on contract with AOGA.

7:11:50 PM

BILL WARREN noted that he is a retired member of Local 367 Pipefitters. He said he has worked on the Trans-Alaska Pipeline System (TAPS) and from Ketchikan to Barrow. He is a 55 year resident, second generation Alaskan representing his grandchildren, he said. He supported ACES and the larger take. He said he trusts Governor Palin and most members of the legislature, but he does not trust the big three producers because they are a monopoly and have too much influence. The big three producers will not be the ones doing the "exploring and creative stuff to get more oil into our 48 inch," he predicted. The state needs to keep its sovereignty and not be dependent upon the three oil producers. He urged that the state cater to, and facilitate for, the explorers and smaller outfits. A gas line is needed right away to give these explorers a pay day where they can not only sell their gas but also have a place to market their oil, he said. The state should have no fear, as the planet is getting increasingly smaller and there is less and less range for the oil producers to operate in. The state does not need to fall all over itself to please the big three, he said. A larger take is needed and it is in line with what the rest of the world is getting.

7:14:48 PM

TOM LAKOSH spoke for himself as a 24-year resident of Alaska. He said that the provisions of [HB 2001] violate three constitutional provisions. He requested that these violations be remedied by the committee. He presented a summary of the first three bullets from the following written statement [original punctuation provided]:

My alternative to ACES is called **TRIPS**, Taxes, Royalties and Infrastructure for the Petroleum Sector. There are some, albeit few, sections of ACES that would be useful but the basic principles at work that require a wholesale reworking of the Bill are:

- Virtually all oil bearing structures on state lands have been explored so there's little reason to provide incentives to the industry to explore where they have already exploited everything they could. BP made this clear in their statement that 70% of their future investment would be in the greater Prudhoe area where they are obligated to wisely extract the hydrocarbons pursuant to the applicable leases and AOGCC guidelines. If producers don't provide full and efficient extraction in the operation plans submitted to the Division of Oil and Gas, leases may be subject to revocation and "there's always other fish in the sea". We should not give existing producers kickbacks where they're obligated to do the job properly and within technological feasibility and economic limits under their existing lease contracts and applicable law. With the price of oil above \$80 there should be little left to recover in our legacy fields and we must demand that the ADOG conduct the mandated evaluations of the economic feasibility of heavy oil extraction now while we still have light oil to mix into TAPS shipments and the price is still high enough to warrant extraction without subsidy.
- Where extraction of heavy or viscous oils is necessarily tied to the availability of lighter oils, the ADNR and AOGCC must conduct the proper technology and economic analyses to insure the optimization of revenues from regulation of the rates heavy and light oils are extracted. The ADNR and AOGCC must thereafter issue the necessary directives to lessees to insure that lessees are producing each type of hydrocarbon on their leases in manner that optimizes the total revenues to the state. There is no quantifiable correlation between the oil production rates or total state revenues and the tax rates so the proper oversight of our regulatory agencies, ADNR/ADOG must be conducted to insure that they regulate lessees to the optimal benefit of the state in conformance with Article VIII Section 2 and the applicable statute, regulations and lease provisions. Only then could the legislature determine if additional tax write-offs and credits would be necessary to ensure maximum benefit to the state and even then it would be preferable to provide ADNR/ADOG additional tools for incentivizing development because they could apply such incentives with surgical accuracy to specific leases and production units where taxes, no matter how specific,

would tend to waste considerable revenue to produce the same hydrocarbon production/revenues.

- The fair legislative investigation of this tax matter mandated by Article I Section 7, necessitates that this committee call ADNR/ADOR to testify on its approval of unit and lease operation plans and explain: their best interest findings, the economic feasibility findings for hydrocarbon extraction required by lease provisions as associated with lease/unit plans of operation; and what their projections are for production at specific fields and for specific hydrocarbons in an effort to reach the maximal benefit to the state. Unless and until ADNR/ADOG produces findings that royalty relief is necessary to reach optimal production rates, any subsidy envisioned in tax write-offs and credits could only produce a negative fiscal note. Moreover, any fiscal note produced absent this detailed investigation would be arbitrary and capricious where there would be no basis for relating what production/revenue was already required of producers in comparison to what the tax legislation was predicted to create. The sad fact of the matter is that ADNR/ADOR has never performed any independent economic feasibility analyses of the operation plans proffered by producers to evaluate whether the state was receiving, or would receive in the future, maximum benefit from the producers' plans of operation. This administrative dereliction of duty must be rectified before the legislature can move forward with any additional incentives to industry beyond what is already provided for in AS 38.05.180. The producers have not utilized the current royalty reduction incentives and should not be allowed to "buffalo" an ill informed legislature into granting an "end run around" the ADNR/ADOR regulations that were specifically designed to prevent such relief without a thorough economic assessment that shows a clear justification for relief. The applicable statutes and regulations actually envision that operational plans required to generate optimal production over the life of the field may in fact demand that lessees operate at a net loss near the end of the field life. Where the legislature imposes write-offs and credits over this regulatory scheme, tax revenues could be eliminated and we might even have to pay producers 20% of costs where they generated no tax revenue at all

due to write-offs. This situation would clearly require posting of a negative fiscal note that would violate the constitutional mandate to maximize public benefit. The legislature must first require ADNR/ADOG to exhaust their administrative duties and lessees must also first exhaust their administrative remedies before any additional incentives such as write-offs or credits are offered.

- If absolutely necessary, we can subsidize production of hydrocarbons that are difficult to develop by adjusting royalty rates instead of taxes. This would allow for lease by lease evaluation that is clearly more sensible than the broad subsidies to all operations. The royalty rates apply to gross production so the 19% range I've suggested has more than enough value available to provide incentive for development of heavy oils and remote gas should existing lessees submit, or new lessees sign on, to the new adjusted royalty rates that express the relative accessibility and marketability of specific lease types at specific distances from established infrastructure.
- The testimony clearly enforced the principle that "if you build it they will come". Angola got a \$1 billion for its leases and rabid global competition because the oil co's knew there was oil to develop. If there's oil/gas to be found, the state should find it and define the field before it puts out leases so it can garner the highest bids among many competitors. The state would also be better able to predict development, classify fields to establish proper royalty rates and determine appropriate deadlines for relinquishment. The more we improve information on prospective fields and insure access, the less we need speculators that demand high rates of return. When we eliminate the discovery and access impediments we essentially only need contractors to build the production facilities and pump the oil as regulated by ADNR and AOGCC.
- If we have to subsidize the industry we should do it in a way that benefits other businesses and public interests. Taking money from royalties to improve transportation to the fields/pipelines floats everybody's boat. The heavy lift helicopters and low impact transport would also reduce tundra impacts, allow a longer exploration season and year round deliveries to isolated drilling/production pads. They

would also be extremely effective tools for getting spill response equipment to remote sites and help repair global warming damage in remote areas that is directly caused by the oil we peddle.

- Our economic future through 40 - 60 years depends on our ability to market gas and the gas will not be marketable until the relative BTU value of gas approaches the price of oil BTUs, (PVM said it was at 40% of oil because Northern Tier coal companies successfully marketed their coal to power plants). The relative BTU value of gas can only be increased by devaluing coal as a power plant fuel with a federal carbon tax. The carbon tax would also likely save us as much in damages to infrastructure from global warming as we would make on oil exports, billions and billions in prevented damage that we wouldn't have to otherwise spend our revenue on to mitigate. If we can't muster the ethics to pursue a carbon tax for its environmental benefit, we should at least pursue a state and federal carbon tax to increase the value of our gas in an effort to make the gas pipeline economical. The gas problem can only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.
- Providing tax incentives to explore or produce on federal land will mostly provide returns for the federal gov't, leaving us with enormous development bills and not much revenue to show for it. Granting these tax write-offs without careful consideration of what will/should be required of producers under existing leases could well reduce revenues from taxes to zero and the additional payment of credits could even require the state to pay the producers for exporting the oil. The least negative impact to exploration from any tax increase can be accomplished by increasing the corporate income tax on hazardous operations because an increase in state corporate tax is used as a direct offset to federal income taxes so there' no net increase in taxes on the oil co's. The increased income tax will also allow Alaska to extract a fairer share of income from production of oil on federal lands and even more so from the federal outer continental shelf, (i.e. the 90/10 vs 50/50 royalty split, justice w/o a court). The progressive sales

tax will also capture additional revenue from federal OCS leases that is otherwise escaping sufficient state capture.

- If we allow the oil co's to write off their Alaskan expenses it would tend to increase the price of our hydrocarbons and make them less competitive on the open market. Taxes do have an effect on corporate behavior and only taxing the gross at the point of export or in-state delivery will serve to keep a market check on expenditures in-state and therefore keep our hydrocarbons as cheap as possible in the market. We have recently discovered from RCA and FERC tariff proceedings that the state and consumers have been overcharged for TAPS costs by as much as \$3/bbl and a sales tax levied at the point of export must be imposed to insure the lowest overall transportation costs where a prior administration has illegitimately surrendered our right to challenge tariffs overcharges in the prior TAPS tariff settlement agreement. We would surely have a strong case for upholding the gross tax where it measures the oil value IN ALASKA. Both PPT and ACES are inviting fly by night wildcatters that will sell their credits and leave. The majors will be just as susceptible to the notion that spending controls are less of a priority given that they can sell the credits for marginal projects if they fail. Why not just take the money we'd spend on write-offs and credits and provide the needed oversight to exploration contractors we hire on a competitive bid? Existing lessees are already required to produce all hydrocarbons as is economically feasible and can apply for royalty relief if prices do not support optimal production rates.
- The discrepancies between projected revenues and collected revenues under PPT suggests that either the state is incapable of properly assessing tax provisions or that tax payers are withholding taxes. Both results suggest we must have a simple tax structure to avoid revenue shortfalls and costly litigation. Moreover, the complicated write-offs and credits would make it nearly impossible for ADNR/ADOG to properly assess appropriate plans for operation of leases/units if ADNR/ADOG was indeed inclined to properly implement their leases, statutes and regulations. Such an impairment of the lease contracts may well be interpreted as violating Article I Section 15 of the state constitution barring such impairment.

- The whole TRIPS scheme is designed to enhance certainty of development, (pre-defined leases and improved access), while alleviating risk due to low prices but eliminating any windfalls to industry, (the progressive sales tax spanning a \$190 price range). Although I haven't done a precise analysis of the total government take, I strongly suspect that these rates would keep us below the Norwegian standard of 78% gross government take up to about \$70/bbl and I would suggest lowering the base oil sales tax and/or raising the new class of corporate income tax until this parity was reached. I'm sure that the Norwegians never anticipated the blistering oil market we have today and so did not include progressivity. The gas problem can only be rectified with a carbon tax and then all else will be controlled by the high, stable gas value generated by a proper valuation of this external cost of our hydrocarbon economy. More stringent particulate regulation would also likely help gas prices.

Proposed Principles and Rates for Design of an Oil Tax Bill:

Production and Corporate Income Taxes, Royalty Rates and Lease Provisions with State Commitments to Exploration, Infrastructure and Carbon Conservation

Raw Oil/Gas Sales Taxes: The gross tax on raw/unrefined hydrocarbons sold in/from Alaska shall be set at the value of the hydrocarbons at the Alaskan terminus of export or point of sale within Alaska in order to provide a market check on production costs and pipeline tariffs in furtherance of the relative competitiveness of Alaskan resources, (e.g. Valdez Marine Terminal for TAPS oil, Drift River or KPL Dock for Cook Inlet oil and gas, at the Canadian border in the case of gas transport by pipeline, at any in-state refinery or point of sale). This tax system would also encourage export of value added petrochemical and refined products. The suggested tax rates for crude oil are as follows:

1. There shall be a minimum sales tax of 15% of gross value for oil prices between \$0 and \$20/bbl;

2. At \$21/bbl the sales tax increases to 15.5% and increases by a rate of 0.5% for each \$1/bbl increase in price to \$30 ;
3. At a price of \$31/bbl the sales tax shall be raised to 20.2% of gross value and shall increase at a rate of 0.2% for each \$1 in value per barrel until a price of \$110/bbl at which point the tax will have accumulated increases to provide a rate of 36% of value;
4. At a price of \$111/bbl the sales tax shall be assessed at 36.1% of value and shall increase at a rate of 0.1% for each \$1 in value per barrel until a price of \$210/bbl at which point the sales tax will have reached its maximum rate of 46% of value.

Corporate Income Tax: A distinct class of Alaskan corporations shall include those operations that handle substantial quantities of hydrocarbons and other hazardous materials, as classified by the ADEC, and be subject to a corporate income tax of 14%. The safety and security issues presented by these operations require significant oversight, security and public safety assets that warrant an enhanced level of corporate classification in such regard.

Royalty Rates: Lease bidders will proffer a signing bonus payment and a bid above an adjustable royalty floor/minimum established between 1% for the least marketable hydrocarbon, (e.g. inaccessible, undefined gas fields), to a maximum of 20% for the highest wellhead value hydrocarbon, (e.g. well defined, light and accessible liquids such as those at Point Thompson). Each new lessee shall consent to an adjustment of its royalty rate every 5 years after production startup that reflects any increase or decrease in the market valuation of the BTU content of the hydrocarbon(s) under development and/or by a substantial improvement in accessibility of leased properties as generated by state efforts. Lessees shall provide all necessary information needed to assess the accessibility of lease holdings and the relative BTU value of Alaskan hydrocarbons. The ADNOR/ADOG shall provide a report to the legislature at the beginning of each general session all best interest findings relative to oil and gas development and suggest any additional statutory provisions necessary to advance the optimal development of the

state's hydrocarbon resources from existing and proposed leases/lease sales.

Hydrocarbon Exploration, Production and Transport Lease Provisions:

ADNR and AOGCC, shall in their administration of lessees operations, conduct the necessary analyses and issue appropriate directives to lessees to provide for the revenue optimizing extraction rates and use of technologies with respect to recovery of viscous and heavy oil recovery as such extraction may be tied to concurrent availability of lighter oils. All new leases shall have relinquishment provisions that reflect the realistic development timelines given the difficulty perfecting necessary permitting and development tasks. All lessees consent to regulation and assistance by the ADEC to effectively utilize and otherwise abate or sequester greenhouse gases released by exploration, production, transport, power generation and refinery operations associated with its leases. Lessees shall proportionately supply all necessary fuel for state aircraft, vessels and vehicles used to assist and administer lessees' operations.

Exploration Commitment: In order to exact the highest signing payments and royalty bids and to provide for a most efficient and predictable development of Alaska's hydrocarbon resources, the ADNR will commit to obtaining the services of exploration experts, whether contracted or employed, with the most advanced geologic mapping and analysis capability to define hydrocarbon resources to their greatest practicable extent prior to leasing of hydrocarbon fields to enhance "prospectivity".

Infrastructure Commitment: The ADOT in an MOU with DNR shall employ all due diligence in coordinating interested state and federal agencies to develop, subsidize or otherwise facilitate transportation of exploration and production materials to proposed leasing areas and for access of gas by Alaskan communities. A dedicated 4% portion of total royalty payments shall be set aside for this Safe Transport Development fund. The ADOT shall minimally provide heavy lift helicopters and other low impact vehicles to advance preservation of sensitive areas, enhance spill response, protect wildlife and maintain security

in leasing areas as training for their primary public safety and security duties that shall include repair and prevention of Global Warming impacts across Alaska. The ADOT shall also advance planning and construction of ports, port services, rail systems and pipelines necessary to promote efficient materials transport along established Alaskan transport corridors and extensions along the AGIA certified ROW(s).

Carbon Conservation Commitment: The state shall employ all due diligence with appropriate funding of legislative and regulatory efforts to establish in state and federal law establishing a transferable carbon tax and to additionally advance CO sequestration and secondary utilization, methane capture and abatement, and Arctic-appropriate carbon-neutral energy generation technologies using a dedicated 4% portion of total royalty payments. The ADEC shall develop regulations establishing a carbon tax, appropriate emissions standards and/or other carbon limiting constraints upon hydrocarbon lessees. The ADEC shall conduct the necessary analyses to establish abatement technology standards and pursue advancement of the best available technologies with a bi-annual \$3 million grant funding that may accumulate beyond the \$3 million level to ensure appropriate funding of appreciably superior and effective technologies.

[7:21:11 PM](#)

STACY SCHUBERT, President, Anchorage Chamber of Commerce, stated that the chamber represents 1300 business members employing a total of 70,000 people. She spoke from the following written statement [original punctuation provided with formatting changes]:

The Anchorage Chamber of Commerce appreciates the Administration's desire to revisit the Petroleum Production Tax to ensure that the most vital component of our State's tax regimen was the result of sound public policy. Still, we have some significant concerns regarding this review.

First, we are concerned that there has been a headlong rush to prejudge the PPT as "unfair" to Alaskans. The

illegal actions of some legislators and special interests have understandably cast a cloud of suspicion on this legislation. It should be kept in mind, however, that many supported the PPT who had no involvement in any improper activities. A large number of upstanding legislators and organizations, including the Anchorage Chamber, supported the passage of PPT as a sensible balance between increased state revenues and incentives for investment; therefore, we respectfully ask that you not start your analysis from the standpoint that the current law of the land is wrong or in any manner "unfair." Review the PPT thoroughly, for all our sakes, but have an open mind to the possibility that the PPT, in fact, is the best option for Alaska despite the unfortunate circumstances surrounding its original passage.

Second, we are concerned that there is insufficient evidence concerning the actual impact of the PPT. It is our understanding that the original PPT legislation contained a provision whereby it would be thoroughly reviewed at the end of five years. Thus, with less than a full-year's worth of data to analyze, a declaration that the PPT is not working would appear hasty and not fully informed. It should also be noted that during the past year the taxation landscape was significantly altered by the temporary shut-down of a significant component of the North Slope fields; therefore, the available data cannot be said to represent a typical year. From all review, the PPT brought in significantly more revenues to the State than the previous ELF system.

Third, we are very concerned about creating an impression that Alaska's tax platform is volatile and undependable. The Anchorage Chamber is not advocating that we need 30 years of certainty in our tax structure but we are concerned that we are faced with the possibility of three distinct methods of taxing petroleum within three years. Even though you will be debating a tax that directly deals only with a certain segment of the economy, it nonetheless, creates an unmistakable reputation that Alaska is a location that is more interested in *taxing* industry than in *growing* industry. Such a reputation is harmful to all business sectors and ultimately, to all Alaskans.

Fourth, we are concerned about the emphasis placed on increased revenues for the State. Without the political will to create a sensible economic plan for the State of Alaska, the Anchorage Chamber is concerned that we are behaving as if we are communally addicted to "oil money." As North Slope production invariably declines, we seem overly zealous to prop up our standard of living by simply increasing our take. What was a fair take 10 years ago is no longer "fair." What was fair last year now appears to be no longer "fair." History is devoid of instances in which a thriving economy has been built on the model of maximizing the government take. In contrast, history teaches us the important lesson that vibrant and flourishing economies spring from environments where the government encourages investment and entrepreneurship. It is ultimately self-defeating for Alaska to increase its short-term revenues at the expense of chilling long-term investment.

Finally, despite these significant concerns the Anchorage Chamber remains optimistic. As a state, we can prosper and we have the ability to make Alaska's future bright. The only question is whether we have the courage, the discipline and the will to resist the path of least resistance and instead focus our efforts on the hard, yet ultimately rewarding work of building a sound economic future. Toward this end, we respectfully ask that during this special session you do these four things:

1. Review the PPT to ensure it is sound public policy but do not discard it simply because of the circumstances surrounding its passage; and
2. If there is legitimate doubt concerning the effect of the PPT, do not be afraid to allow the PPT to exist for sufficient time to allow reliable data to be generated, which is consistent with the original legislation that provided for a review at the conclusion of five years; and
3. Take all appropriate cautions to protect Alaska's reputation as a stable tax environment that encourages and promotes business opportunities and investment; and
4. Consider any revenue enhancements only in conjunction with actually developing a fiscal plan - a spending and savings plan - for the State of Alaska.

7:25:34 PM

MARK SHARP stated that he is representing his children and grandchildren. He said he has reservations about referring to the sale of the state's resources as a tax, but that it is the word that has been given and most easily communicates fiscal policy debate. He said the legislature has abdicated its responsibility to assess the value of the state's oil resources and to determine a fiscal policy that allows the state to place its oil into the market so as to maximize the benefit. Clearly, the oil industry wrote the PPT and submitted it through Governor Murkowski, he said. The state is stumbling into traps the industry inserted into the PPT legislation, thus the state is condemned to a future of litigation. The big three have some of the best lawyers in the world, he said, and they are throwing monkey wrenches into the already slow moving gears of justice. The result is dozens of cases similar to the "Exxon Valdez damage case" now stretching into its twentieth year. The big three love this scenario, he said, because the net profits tax structure results in the state paying the legal bills for both the state and industry's lawyers. "These goons write off the cost of their hired guns against taxes owed the state, or is it a direct credit," he asked. "Who knows!" The PPT is so flawed and complicated, he continued, that even the state's lawyers cannot agree. The legislature's abdication of its responsibilities has led to a giveaway of the state's greatest resource and has put the state in perpetual litigation. Citizens said to keep it simple - a gross tax, a point of production tax - but [the legislature] decided otherwise. These "admitted crooks" were rewarded, he said, with "sweeteners layered with deductions, wrapped with credits, and topped with claw backs." Five years of rebate for investment in infrastructure is a giveaway of state funds to perhaps the most profitable industry in the history of the world, he argued, and this is indefensible. He said he would like to see the state receive its fair share as follows: increasing from 2.5 percent of every dollar starting at \$50 a barrel, 5 percent from \$60 per barrel, 7.5 percent from \$70, topping out at 10 [percent] for every dollar when the price bests \$80.

7:30:47 PM

CO-CHAIR JOHNSON inquired whether Mr. Sharp disliked the governor's plan [HB 2001, as introduced] as well as [CSHB 2001(O&G)] since they are both a net tax.

MR. SHARP responded that anything coming out of the House Resources Standing Committee should have a gross tax facet to it and it should be on the upper windfall end based on an oil per barrel dollar amount.

[7:31:25 PM](#)

MERRICK PIERCE said he is representing himself. He stated that maximum benefit for the state's oil is not being returned to the people as required by state constitution. There has been minimal public participation due to the special session being held in Juneau and there are no public hearings being held around the state. He urged that discussions be framed in a more meaningful way, such as talking about actual dollar values rather than percentages. For example, he said, there is \$23.5 billion worth of oil shipped out of Alaska at the current prices and production levels annually and the state's take of that is only about \$3.5 billion to \$4.5 billion. Presenting it like this lends perspective to what is at stake and leads to the question, "Why does the oil industry get a gross of \$20 billion or so, and we, the owners of the resource, are getting only \$3.5 to \$4 billion?" He requested that there be legislative discussions explaining why a net profits scheme is better for both the state and development than a gross profits tax with a simple price escalator in capital credits. He also requested discussions about TAPS tariffs. Those tariffs increased substantially after PPT was passed, he said, thus reducing big oil's tax burden to the state while simultaneously diminishing the incentive for other independent oil companies to develop on the North Slope due to the higher tariffs. It does not make sense to give away production taxes before correcting this disincentive for independent oil companies. Additionally, he requested legislative debate on how the state will diversify its economy and create good paying jobs as the state stops giving away millions of dollars annually by underselling and undertaxing its oil. There are only a handful of drill rigs in operation on the North Slope, he said, despite the creation of a virtual tax-free environment by the economic limit factor (ELF) and the corporate welfare of PPT. However, there are hundreds of drilling rigs working right now in Texas and Louisiana. He quoted from a statement by Bob Bartlett advising that the state not allow resources to be acquired and then not developed in order to preclude competing with resource extraction being conducted elsewhere in the world by those same companies.

[7:36:07 PM](#)

CO-CHAIR GATTO said his understanding is that there are 21 rigs on the North Slope.

MR. MERRICK responded that the number is less than five, according to the most recent oil and gas journals that he has seen.

7:36:32 PM

MICHAEL MELIELO, President, Chugiak-Eagle River Chamber of Commerce, noted that the chamber is composed of small businesses, community members, and large corporations from an area with a population of 35,000. His discussion focused on three points from a 10/19/07 resolution that the chamber provided to the legislature. He specified:

First, we understand the special session is necessary to restore the public trust in light of the [corruption] investigations. However, we know a lot of you personally and we are confident that your debate did occur in good faith and that you absolutely continue to deserve the public trust. Second, from our perspective, we feel Alaska's oil supply is precipitously declining and we cannot stress strongly enough that your decisions during this special session need to favor continuing reinvestment. Recovery of heavy oil and creating new oil requires significant dollars every single year and without those ... reinvestment dollars the entire economy and job market for Alaska is in serious trouble. Our message to you is, "Please, do not go for short-term financial gain at the cost of long-term investment." Third, we honestly believe that the five-year review for PPT, which is now down to four years, will give you the time and the data you need to do a good assessment. And the question that you need to continually ask is, "Are the producers continuing to reinvest at an acceptable level?" And then juxtapose that with, "Are we seeing significant and positive increase in the state's financial position?"

7:38:45 PM

PAT TOLSON stated that he is representing himself. He said he is a laborer with Laborers Local 942 which has members in Southeast Alaska, Fairbanks, and throughout the Bush. He explained that one area of labor supplied by union members is

line maintenance of the Trans-Alaska Pipeline System, plus pump stations and all of the Prudhoe Bay oilfield developments. He testified as follows:

People like myself that live in remote areas - I, for instance, live in Hydaburg on Prince of Wales Island, Southeast Alaska - have very few opportunities to come and work a job where I can make the kind of money I do in these oil related jobs. I come from a very economically depressed community. The people that live in these communities need these oil industry jobs for its people to have that opportunity to leave the villages and be able to get themselves ahead with the jobs the oil industry provides. What is common knowledge among people who studied our victory at World War II is that it was won by our unlimited amount of oil provided to our forces and allies from the states of Texas, Oklahoma, and Louisiana. ... Right now, if Alaska is given the chance to be able to develop its oil and gas resources, our country can be the strongest power in the world and the safest. It has been said that Russia has the most undeveloped oil resources, but I would like to think Alaska does. I say let's find out. ... Our country needs the oil and gas now, before we become vulnerable to the onslaught of other world powers that don't have our best interests at heart.

[7:41:58 PM](#)

JIM UDELHOVEN, Owner, Udelhoven Oilfield System Services (UOSS), stated that he has been a business owner in Alaska since 1970 and that he has about 500 employees. He said UOSS is a diversified company that does military, oilfield, commercial, and industrial work. He testified as follows:

I'd like to point out that life is a series of decisions and they are just basic yes and no decisions. You people there in Juneau have before you a very important and a very, very difficult decision to make. It is difficult from the standpoint that you have to make the decision collectively through committees, through people from different walks of life, and in conjunction with the governor's office. The decisions that come out of this special session have to propel the oil industry forward. And, I really hope that you are granted the wisdom to

accomplish that because the decisions that follow after this session is over will be made by individuals, and they are just yes and no decisions as simple as me having a job opening and ... I need to fill it and I ask somebody to fill it. ... The large industries, the small industries, the individuals in the homes, and everyone will be making business decisions based on what you people do in Juneau during this period of time that will either propel Alaska forward or stall it. I'm not saying what those are, because you people are swamped with numbers and facts and I'm not privy to all that, so I'm not prejudging what kind of a decision you need to make. But I ask you to do it with vision. I ask you to do it in a manner that will propel the oil industry forward because there is nothing in Alaska at this point in time, based on the budgets that Alaska government has, that can propel us forward. So, the only thing that can happen if the oil industry pulls back is you will have to turn to the Permanent Fund. Any other private income tax, fishing industry, or anything else to try and raise this kind of money would completely devastate them.

7:47:48 PM

BILL ZORB said he is testifying on behalf of himself. He stated that he is concerned Alaskans are being left out of the debate because the legislature is sequestered in Juneau along with the lobbyists of the oil companies. Interior residents get very scant and sometimes non-existent news and information about what is going on in Juneau, he said, and this hearing was not well publicized in Fairbanks. He just happened to be listening to the local radio station and heard about tonight's hearing. He said he was disappointed to read in his local newspaper that both the Senate Resources Standing Committee and House Special Committee on Oil and Gas had gutted the ACES bill [HB 2001, as introduced,] by removing the 25 percent net profits tax and other unspecified changes which he did not fully understand. He urged that the 25 percent net profits tax be restored to the bill.

7:50:15 PM

CO-CHAIR GATTO stated that [the House Resources Standing Committee] went to 90 news outlets to advertise the hearing. He apologized that Mr. Zorb did not see any of the ads. He said

the committee had not yet taken any action on the bill and would be convening for the next several days with the plan to finish a final committee version on Sunday [November 4, 2007].

MR. ZORB reiterated that he would like to see the 25 percent net profits tax restored. He said there are many other owner states that take a far larger share of their oil profits than that and the major oil companies are still doing business there. Alaska's constitution mandates a maximum return on its resources. It is unacceptable that ExxonMobil Corporation ("Exxon") is refusing to divulge its oil profits from Alaska, he said.

[7:53:01 PM](#)

CO-CHAIR GATTO stated that it is Exxon's company policy to report only worldwide earnings and that the legislature has asked them for the Alaska portion.

MR. ZORB responded that this is unacceptable because if the state is considering a net profits tax then it needs to know what the profits are. Further, if Exxon is unwilling to share that information then the state should not do business with them. It is the job of legislators to look out for the best interests of Alaskans by getting the best return on the state's resources. The oil does not belong to the oil companies, he said, it belongs to the state.

[7:54:59 PM](#)

FAY VON GEMMINGEN said she is a lifelong Alaskan whose grandparents arrived in Alaska in 1917 and 1918. She stated that as a CPA she supports a gross method of calculation, not a net method, because there are too many places to hide expenses. Expenses are from fields in Alaska as well as all over the world, she pointed out, and it is very difficult to determine and separate all the expenses that are not Alaskan expenses. Skyrocketing gas and oil prices will affect public safety, she said, such as state trooper vehicles and airplanes, maintenance vehicles, heating state and school buildings, and student transportation. She urged that municipal revenue sharing be considered for the same reasons - public safety, road maintenance, and education. She said the state cannot afford to keep going backwards like it is doing right now with the take from its oil. She thanked the previous two speakers for saying much of what she wanted to say. We must get a share from the

state's oil that will help this state for generations to come, she said. It should not leave the state.

7:57:47 PM

DARYL NELSON supported a tax of at least 25 percent off of the gross. He was concerned that the oil companies would sit on the resource as was done at Point Thomson. He suggested that if the oil companies do not produce at a [tax rate] of 25 percent, then the rate should go to 30 percent or higher. The oil companies need to disclose their profits so Alaska can get its fair share, he stated. Oil companies are making way too much profit - it is the state's oil, not theirs. He agrees with Ms. Von Gemmingen's statements, he said, because he is also worried about the next generation.

8:01:19 PM

PAUL D. KENDALL stated that he is representing himself. The testimony before the committee is flawed, he said, because a standard is not being established and met by having the principals sworn in. Everybody means well, but there is no substance because those principals have not come before you in a sworn-in and committed partnership. He said the state needs to declare 100,000 homes in Alaska and that each home should be 1000 square feet with a two car garage, a tool shed, a 25 foot by 25 foot greenhouse, and be on a 100 foot by 100 foot lot. That particular home should get all of its energy at no charge if all of those energies are converted to natural gas formulas and they are all derived from that particular feedstock. He said he is suggesting this because it is the only way to break this cycle of being at loggerheads. The energy companies are the ones who are perturbing the economy, he said, by adding huge amounts of costs overnight. They cannot keep up this cost because when a cost gets higher the percentages begin to increase geometrically on society. This results in having to drop the economy and ending up at a price per barrel of oil that will not have an increased tax, or end up with a loaded net loss and zero tax. He supported a gross tax. His point, he said, is that in order to have a solution, the solution must have a foundation that is premised along the way, but that there is never time to have that dialogue. It is not taxes, it is the legislature's obligation to find a formula that is viable and brings the state a fair trade for its resources. He said he is staggered to see so few people gather to discuss such a huge issue. ExxonMobil Corporation should be served an eviction notice, he said.

8:09:01 PM

GLORIA DESROCHERS stated that she is testifying as a private citizen with no affiliation. She said it appears that lawmakers have been sweet talked by the oil industry to benefit the industry above the interests of Alaskans and the state. The legislature has been given the duty to be faithful to the best interests of the state and Alaskans, she said, not the best interests of oil companies. Legislators need to keep in mind that Alaska is the parent and the oil companies are the child. However, she said, it appears that lawmakers have historically been associated with oil companies as though the lawmakers are the child, and it is now time to mature. She said she has been listening to Fairbanks resident Frank DeLong on the radio and that he has been involved with oil companies throughout the world and that he built the North Pole refinery. She related Mr. DeLong's experience in Indonesia where the Indonesians were offered minimum profits for their oil by the big oil companies until they demanded a much higher profit, which they received. Oil companies have no patriotic allegiance to anyone but their own profits, she submitted. Alaskans should have this same desire and go for the highest immediately. In response to Representative Fairclough, she related that Frank DeLong's former job with oil companies around the world was to negotiate with countries to get the highest profit for the companies, and that Mr. DeLong's advice to the state is to get the highest that it can.

8:14:40 PM

LISA PEGER testified as follows:

I believe you should pass ACES uncut or we'll know who the enemies of the state are. As oil prices go higher and pass \$100 per barrel and start their climb toward \$200 everyone is going to make it their business to point the fingers back and know who to dump because of misplaced allegiances. You can pretend that you don't know the following but then we just have to figure that you're too stupid for the job: The big three are playing Alaska. A few percentage points up or down are not going to make much difference to the exact order of agenda for the big three as to where their investment dollars go first - unstable countries first, Alaska and the rest of America last. They've had PPT for about 14 months

and they haven't filled up the pipe. We may as well take our due off the table now and in the future because what we need to work on is the bottleneck of the access. When the courts and you and the regulatory commissions have fixed the tariffs and access and pass ACES you will have a flood of new explorers because of secure access, tariff control, and net profits so they can all afford to explore. When the competition - which can help bust the monopolistic grip on America's energy costs - comes then if there is still too much money on the table we can do a cost per barrel and tighten up the scheme. The ACES plan is good in all respects, except I would also like to see the progressivity stay at 2.5 instead of being reduced to 2. Aside from that I think you need to give Sarah Palin her head. She has a plan. She has a lot of political capital and if you go against that it's at your own peril. And she hasn't let us down yet and I think people who are in there monkeying with it are showing their true colors.

[8:17:43 PM](#)

JERRY DIXON stated that he is representing himself and two teenage sons. He supported an increase in the oil tax. He said it concerns him that the State of Alaska, on a per capita basis, has cut the number of state troopers in half. He read the following from a letter from the director of the Division of Alaska State Troopers: "Since 1987 authorized staffing for Alaska troopers has dropped from 310 to 215 ... If we move another state trooper to Seward we have to take a trooper from somewhere else." He related several incidents in which he called for trooper assistance but received no response due to the shortage in the number of troopers. If the state received more revenue, then more troopers could be hired, he said.

[8:20:06 PM](#)

CO-CHAIR GATTO noted that there have been lots of television ads for state troopers and it is his understanding that recruiting troopers is difficult.

MR. DIXON stated that he was a smoke jumper in his first career and that he taught gifted students for the next 30 years. He related that some of his students became troopers, but that one of them recently quit because he was unable to get backups when he was called out to dangerous situations. In response to Co-

Chair Gatto, he said he would mail copies of several articles [regarding state trooper issues] to the committee.

8:22:01 PM

CO-CHAIR GATTO closed the public testimony.

[HB 2001 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:23 p.m.