

SENATE FINANCE COMMITTEE
November 6, 2007
11:23 A.M.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at [11:23:10 AM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson

SENATE MEMBERS PRESENT

Senator Lyda Green

MEMBERS ABSENT

None

ALSO PRESENT

Jon Iverson, Director, Division of Tax, Department of Revenue;
Pat Galvin, Commissioner, Department of Revenue

PRESENT VIA TELECONFERENCE

Gary Rogers, Production Audit Manager, Tax Division, Department
of Revenue

SUMMARY

SB 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."

SB 2001 was HEARD & HELD in Committee for further consideration.

SENATE 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."

[11:23:47 AM](#)

Co-Chair Stedman said the subject for the meeting would be lease expenditures, allowable deductions and how they effect operating and capital expenditures. These expenditures are "upstream costs".

[11:24:56 AM](#)

JON IVERSON, DIRECTOR, DIVISION OF TAX, DEPARTMENT OF REVENUE, provided a brief overview of the current PPT provisions. He specifically addressed lease expenditures outlined under AS 43.55.165 and explained that under PPT the upstream costs are known as "lease expenditures": items that are deductible in reaching the production tax value. Upstream costs are made up of capital expenditures and operating expenditures. He clarified

that because capital expenditures are a subset of lease expenditures, the qualified capital expenditures used for purposes of receiving the credit under "lease expenditures" would not be allowed as a qualifying capital credit.

Mr. Iverson stated that AS 43.55.165 sets forth what determines allowable lease expenditures. These are the ordinary and necessary costs incurred upstream to the point of production; the direct costs of exploring, developing or producing oil or gas. When determining what is an allowable lease expenditure the Department applies typical industry standards and practices in billing costs between companies (unit agreements) and also the net profit share lease regulations. [This criterion is set forth under statute.] Direct costs are deductible when incurred, rather than depreciated, under current law. Capital costs, under federal regulations, are assets that last longer and have a useful life, longer than a year. Under PPT, capital expenditures are allowed to be expended when incurred, thereby not depreciated. Allowance for overhead is set forth in the statute and is set as a percentage of direct costs.

[11:28:29 AM](#)

Co-Chair Stedman asked how capital costs are handled for federal tax reporting purposes because they are still tax deductible and depreciated. Mr. Iverson explained that, generally, items that are considered a capital expenditure are depreciated. The value of the asset would be recovered as a tax calculation over time. PPT allows deductions in the year in which the costs occurred.

Co-Chair Stedman clarified that a capital item will show up, if it is on a ten-year schedule, nine years post PPT, as a deduction in a federal tax return and concluded that federal tax treatment would not be affected. Mr. Iverson agreed.

Mr. Iverson explained that overhead is set as a percentage of direct costs. He further clarified that specific costs such as lobbying, advertising, etc., are not significant, in terms of how they effect the tax calculation. He maintained that the overhead allowance is a percentage of direct costs.

[11:30:38 AM](#)

Mr. Iverson outlined the current law regarding two provisions AS 43.55.165(c) and (d), costs billed under unit operating

agreements. He noted this would be discussed further when addressing SB 2001. The PPT statute sets forth what is excluded from lease expenditures. He noted that in addition to the general structure of what is allowable, specific exclusions are established in AS 43.55.165(e)(18). When a cost is excluded as a lease expenditure, it is not allowed as a deduction.

[11:32:24 AM](#)

Senator Huggins asked if health clubs were allowable write offs in PPT or any other state tax. Mr. Iverson noted they were not and clarified that fringe benefits, such as health clubs, are overhead costs, which is set as a percentage of direct costs. The state only audits for direct costs.

Senator Huggins asked for the percentage of direct costs for overhead. Mr. Iverson answered that the percentages are set in regulation 15 AAC 55.270: three percent of non-overhead lease expenditures that are qualified capital expenditures and nine percent of direct lease expenditures that are operating expenditures.

[11:34:03 AM](#)

Mr. Iverson added that there is a provision under AS 43.55.170 that establishes adjustments to lease expenditures. These generally occur in instances where something has been claimed as a lease expenditure in a prior period and when there is recoupment cost.

Mr. Iverson addressed SB 2001 noting that the first provision sets forth an affirmative provision that would allow Department of Revenue (DOR), by regulation, to set out allowable lease expenditures. He explained that PPT established a very broad base of allowable costs with a number of exclusions. The new provision establishes a narrower base of what is allowed initially. The intent is to improved clarity and decrease future litigation by delineating allowable expenditures.

[11:36:38 AM](#)

Mr. Iverson referred back to AS 43.55.165(c) and (d) and explained the difficulty of implementing these sections from an administrative perspective, as well as policy perspective. There are two primary drivers behind PPT provision: an administrative

side and a policy side. He explained that AS 43.55.165 (c) provides that if the Department of Revenue (DOR) makes the finding that parts of a unit operating agreement are substantially consistent with general standard of allowable lease expenditures, then the Department would authorize the producer to treat, as its lease expenditures, the costs that would be billable under the operating agreement. Alaska Statute 43.55.165 (d) takes the provision further; it establishes that costs billed under the agreement are allowed as lease expenditures if DOR makes the finding of "substantial consistency" and at least one working interest owner in a unit has the substantial ability and is effectively auditing.

Mr. Iverson said the administrative concern is one of implementation. The Department of Revenue would have to carefully track the unit operating agreements and the terms of those agreements. Those agreements are "moving targets" and the accounting procedures are often in flux. This also sets forth a subjective finding where a determination needs to be made of what is "substantially consistent" with the regulations and the statutes. He maintained that it is a grey area of whether or not to accept joint audit findings based on this "effectively auditing criteria". Ultimately, it means a multi track audit as opposed to auditing what costs were billed. The audit that is incurred by the joint interest owners, as well as the operating agreement, would require auditing. He concluded that this sets up a multilinear track of confusion. He added that substantial compliance with standards set forth in the statute is not in precise correspondence with the statute and the regulations. As a result, a variance could be allowed between what a tax payer is claiming and what is actually allowed in statute. Under these circumstances, some producers could be treated somewhat differently as to what is actually deducted.

Mr. Iverson maintain that the previously discussed concerns are the reasons the Department supports the repeal of AS 43.55.165 (c) and (d).

[11:39:20 AM](#)

Mr. Iverson further noted that there is imprecision regarding cost allowances under the agreements. As a policy matter, there is concern regarding a shift in responsibility from the Department to the tax payer, for determining what costs are allowed as lease expenditures. He asserted that the Department

is not comfortable with the shift and does not feel it is appropriate. These determinations put the Department in a difficult position of having to use an agreement that had been formulated in the past to predict the future. He clarified with an example of looking at an operating agreement and attempting to discern whether the companies are continuously staying "substantially consistent" with the standards set for the in the statute.

Mr. Iverson noted the added provision in ACES for the exclusion of costs incurred for repair, replacement, or deferred maintenance on a facility undertaken in response to a failure of an unscheduled "disruption in production", spill or hazardous substance event. The Department feels that "disruption in production" is a more usable and workable standard than "improper maintenance". The provision proposed by the Department provides for the Department to assess whether there was an "unscheduled disruption in production". He maintained that determining "unscheduled disruption of production" is a more objective filing.

Mr. Iverson said, within the provision, costs are allowed to be deducted if the costs were the result of something that could not have been prevented by the taxpayers such as acts of war, God, etc.

[11:43:01 AM](#)

Mr. Iverson added that there is an exclusion for the costs incurred to construct, operate, or acquire a refinery or crude topping plant. If the crude oil topping plant is on or near the premises of the property, and the plant is creating a product used on the lease, the difference (the value of the improvement to the product itself) would be considered an allowable lease expenditure. He explained that the amount allowed as expenditure is the difference of fair market value and the prevailing value of the crude.

Senator Huggins emphasized concerns regarding the safety of transporting fuel. He said he is interested in looking at feasible alternatives that allow the state to partner with companies to support topping plants. Mr. Iverson responded that the Department has studied the issue and assumed results to be forthcoming.

Senator Huggins reminded Mr. Iverson that Senate Finance is the last committee of referral and stressed the importance of receiving the information in a timely manner.

[11:44:55 AM](#)

Co-Chair Stedman added that there was limited time for the special session and for the information to be forthcoming. Mr. Iverson understood.

Co-Chair Stedman requested that the Administration bring forth any current cost estimates to the treasury as a result of the shutdown (corrosion issue).

Mr. Iverson clarified that only the information disclosed by the industry can be discussed. He added that currently there is information under investigation that could not be revealed.

[11:46:41 AM](#)

Co-Chair Stedman understood that there could be costs claimed by industry from the shutdown. Costs that survive the audit process may be the same or substantially different depending on how tight the disallowable costs language is.

Mr. Iverson agreed and believed the amendment the Administration proposed regarding the exclusion of costs associated with unscheduled shut downs, would tighten the language.

Mr. Iverson noted that there are items in CSSB 2001(JUD) that cause the department concern. The language allows only lease expenditures incurred in the state. He also said the insertion of language regarding the exclusion from lease expenditures due to unscheduled disruptions in production is problematic because it means the Department has to determine "improper maintenance".

He concluded his presentation and asked for questions.

[11:48:35 AM](#)

Co-Chair Hoffman felt the problem with the ACES language was that it was not definitive enough. He asked if the Administration agreed with that.

Mr. Iverson said he would ask the Administration how to make the language tighter. He emphasized that the proposed language was the product of much consultative thought and effort.

Senator Thomas stated that he felt the "improper maintenance" language was good.

[11:50:36 AM](#)

GARY ROGERS, PRODUCTION AUDIT MANAGER, TAX DIVISION, DEPARTMENT OF REVENUE, referenced language in SCSSB 2001 and said that determining "indirect costs" is the main audit challenge. Unit operating agreements in Alaska typically allow more indirect costs to be charged as direct costs than in other states. He noted the various warehouses around the state. In other states a warehouse would be considered an indirect cost. He asked if these are the things under the proposed language that would be excluded. He asked how a "direct cost" and an "indirect cost" would be defined for auditing purposes. He emphasized the importance of providing clarity around the language. He maintained that these terms would be the reason for future audit disputes.

[11:53:22 AM](#)

Co-Chair Stedman asked how corporations attempting to synergize engineering and administrative duties out of state would be treated in terms of allowable costs.

Mr. Rogers said the normal practice is that engineers charge their time to a specific project which is more easily determinable. He said the cost of shared facilities such as warehouses, freight, shipping, and fringe benefits are more ambiguous.

[11:55:55 AM](#)

Co-Chair Stedman observed that due to lack of labor force in the Pacific Northwest and in Canada, as well as some parts of the U.S., it is highly likely engineering and drafting would be done in India. He asked if the current language would impact those costs directly.

Mr. Rogers replied that if there are no clear regulations for indirect costs, different auditors/lawyers could come to different conclusions on what are indirect costs.

[11:57:03 AM](#)

Senator Elton inquired if there is language in any of the bill versions that makes it easier or harder to draft regulations that would clarify the issue. He further emphasized the difficulty of drafting legislation outlining specific details such as whether a warehouse is a direct or indirect cost.

Mr. Rogers said the Administration's proposal that repeals AS 43.55.165 (c) and (d), and the added amended language AS 43.55.165 (a) and (b), which allows the Department to write regulations while considering unit operating agreements and net profit share lease regulations, would work. He felt this would be adequate to address the issue.

Senator Elton asked if there was language in the any of the committee substitutes that does not work.

Mr. Rogers emphasized that the current language in AS 43.55.165 (e) 22, CSSB 2001 JUD, "other indirect costs", caused him great concern as an auditor.

[11:58:44 AM](#)

Senator Huggins asked Mr. Iverson to elaborate on his concerns.

Mr. Iverson clarified that there may be other issues in addition to the concern about the ambiguity of "indirect costs". Delineation of allowable lease expenditures being only costs "incurred within the state" is problematic as an audit issue. He explained that there are not always resources available within Alaska to take care of regular costs of exploration and development. He provided an example. Though a seismic shoot may be done in Alaska, it may be exported to Alberta for analysis. He observed that the language in ACES regarding "improper maintenance" provides a clearer definition of how to meet the policy objective than that outlined in SB 80.

[12:01:14 PM](#)

Senator Huggins emphasized the reality that only a few days remained for the special session and the importance of getting the language correct.

Senator Thomas asked if the language "unscheduled reduction in production" would necessitate a determination of cause.

Mr. Iverson explained that the language is a strict liability provision so a determination of negligence or whether the facility has been improperly maintained is not required. Costs are excluded if they are incurred in response to an event that results in an unscheduled interruption of production. The area of production is a more familiar area as production is monitored, which makes the interruption in service more easily determinable. He noted that one of the provision of ACES is that any "unscheduled interruptions in production" have to be reported. He maintained the provision also encourages scheduled and planned maintenance. The provision provides clarity in that the reports would support a deductible cost of maintenance.

[12:04:09 PM](#)

Senator Thomas referred to a comment by Mr. Rogers who said there was too much subjectivity in the language regarding "indirect costs". He specifically noted the example of a producer who owns a warehouse used for production in the state and whether it would be allowed as a deduction.

Mr. Iverson deferred to Mr. Rogers.

[12:05:00 PM](#)

Mr. Rogers affirmed the audit issue. He reiterated difficulty of determining the costs of warehouses for two reasons. These facilities save companies on shipping costs, which are generally considered a direct cost. The other issue is that, based on industry standards, the warehouse facilities are considered indirect costs. He went on to say that within the unit operating agreement, the costs are considered direct costs. He maintained that such ambiguity will result in a dispute.

Senator Elton said he struggles with this issue. He posed an example of a "pig run thru a line" that detected corrosion problems before a spill occurred, but those corrosion problems could be attributed to a lack of proper maintenance or deferred

maintenance. At that point maintenance could be scheduled, or it may occur before there was a spill or an event that would trigger unscheduled maintenance. It seems as though the problem with the language in the Governor's bill is that all of those decisions that had been made for a period of years that led to the discovery of the corrosion, still cost the state. In the example, someone was able to schedule maintenance before there was an event. Senator Elton maintained that that was not right. In both cases, whether there was a spill event that triggers the maintenance or not, decisions made for years before the discovery of a problem led to that cost. He did not believe that tax should be credited against the company's taxes.

[12:08:06 PM](#)

Mr. Iverson acknowledged that Senator Elton had a valid concern and that there is a concern with "scheduling". He felt this was something that needed to be addressed in regulation. He maintained that though there are still some concerns with the language in ACES, it provides more clarity than the current language.

Co-Chair Stedman asked if members had questions for Mr. Mintz.

RECESS: [12:09:11 PM](#)

RECONVENED: [1:50:47 PM](#)

Co-Chair Stedman continued the discussion of lease expenditures, allowable deductions, and the impact on operating and capital expenditures.

[1:52:11 PM](#)

PATRICK GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, spoke to the concerns of the legislature and the Department's position on those concerns. He addressed lease expenditures included and excluded. He identified changes in the "corrosion fix", subsection 19, in the original bill, page 44, beginning on line 27. The primary change in the Judiciary Committee was the inclusion of language from SB 80. He clarified that the intent of SB 80 was to ensure that costs associated with the replacement of improperly maintained equipment should not be deductible. The Department recognized the difficulties associated with the ability to implement the language of SB 80 because it dealt with a standard that was improperly maintained,

according to industry practices. When attempting to craft the language for ACES, the Department worked closely with auditors within the Department, as well as with consultants in the auditing field. He maintained that what developed was language that would identify an event which would prompt an auditor to look more closely at specific expenditures to determine if they were acceptable.

[1:55:55 PM](#)

Commissioner Galvin explained that if there is an interruption of flow caused by improper maintenance, then that would act as trigger for looking at costs associated with a repair. He maintained that the language in the original bill would provide greater clarity for the standard. The Senate Judiciary Committee added a more subjective standard of "improperly maintained" equipment, which would not be deductible. He felt the language creates a more complicated and difficult administrative burden.

[1:57:08 PM](#)

Senator Elton countered that there are many events that would not be covered by the suggested language. He provided examples and maintained that things could be addressed by a company to preclude an interruption of service. Under the ACES language costs would be deductible even if a company was careless in responding to concerns that ultimately cause an interruption in production.

Commissioner Galvin recognized that the language is a trade off. When a standard is established due to an association with an event such as an unplanned interruption, things will be missed; some costs will be excluded when the result of properly maintained equipment breaks down unexpectedly. He indicated the question was not whether the provision could result in more or less costs because that is uncertain. He maintained the provision could be implemented in a way to provide auditors with a clearer direction. He further claimed that the ability to prove "improper maintenance" would require additional outside information, whereas "interruption is production" is a more easily determinable factor.

[2:01:04 PM](#)

Senator Elton provided other examples maintaining his point. The Commissioner reiterated that under the ACES provisions there may be some inequity on both sides.

[2:03:19 PM](#)

Co-Chair Stedman asked the Commissioner about his communications with the industry regarding deductions associated with the shutdown.

Commissioner Galvin said he had not received enough information to quantify what costs are associated with the shutdown or to determine whether the costs would be covered under one standard or another. The Department has asked for more detailed information in order to make those determinations.

Co-Chair Stedman said that many were surprised at the magnitude of the repairs due to the shutdown. He pointed to British Petroleum's 20f filing projected cost of \$550 million for integrity management. He asked the Commissioner if this had been factored into the analysis and what impact it would have on the treasury.

Commissioner Galvin informed the committee that the \$550 million had been factored into the production forecasting numbers. He added that the expense for integrity management had been reflected in future cost expectations. He said the industry stated that the integrity management cost piece is expected to remain in place for the long term.

[2:06:43 PM](#)

Co-Chair Stedman asked if the \$550 million was an aggregate amount or specific to one company. Commissioner Galvin responded that he could not be certain, but the numbers generally used for projections are an aggregate number. He further noted that what is not known is how much this commitment to infrastructure will affect investment in other areas. He maintained that this is why the state needs to provide a forecast as it relates to the expectations of expenditures.

[2:08:47 PM](#)

Co-Chair Stedman asked how long it would take before information could be provided to the legislature, if the language was approved.

Commissioner Galvin hoped that with the passage of the bill and implementation of the requirements, the next revenue forecast would be available in the spring, before the budget process is complete.

[2:09:52 PM](#)

Commissioner Galvin expressed concern with language in CSSB 2001 (JUD) regarding "costs incurred within the state". He pointed out the difficulty in auditing and provided an example. If a piece of equipment is manufactured elsewhere and is delivered to Alaska to use in production, it is difficult to determine at what point it is "incurred in the state".

Commissioner Galvin noted the second aspect of concern relates to tax code in Alaska. He emphasized the Administration's support of any effort to provide jobs located within the state, associated with North Slope production. He maintained that he did not feel it appropriate to establish that within the tax code. He maintained that a more appropriate standard would be to allow for deductible costs related to "production" within Alaska.

[2:13:14 PM](#)

Senator Huggins asked the Commissioner if he felt that the language was punitive.

Commissioner Galvin responded that the issue under discussion is not punitive, but he maintained that that Administration is concerned with the overall "package" that is produced.

Senator Huggins asked for clarification of what the Commissioner meant when he said "messaging of our tax code".

Commissioner Galvin emphasized the importance of the entire tax package and the ability to provide a fair share while also attracting oil investment. In doing so the tax package must be balanced with both concerns.

[2:15:37 PM](#)

Senator Huggins explained his expectations of the Department to do its best to implement the law within its means and ability to do so. He asked the Commissioner if that expectation was an accurate expectation.

Commissioner Galvin responded in the affirmative.

Commissioner Galvin drew attention to changes in CSSB 2001(JUD), page 41, regarding allowable deductions definitions. He said that some of the changes are good clarification, whereas others cause some confusion. With regard to the language, on line 6, (i), "for properties on which oil and gas development exploration, development, or production", he clarified that all credits and deductions had to be related to oil and gas development. He added that the language is in some provisions and not in others. {He maintained the inconsistency gave the negative inference that the other provisions are not similarly required to be related to oil and gas development.} He felt the language should be removed.

Commissioner Galvin addressed joint interest billings, noting changes on page 41 of CSSB 2001(JUD). He explained that it is the lead into the section that provides authorization to the Department to use joint interest billings as a method to provide structure to the audit and identify appropriate expenditures. On line 25, language changed from "shall" to "may". The Administration supported the change.

[2:19:04 PM](#)

Commissioner Galvin discussed exclusions from lease expenditures. He addressed added language on page 42, line 23, CSSB 2001(JUD): "violation of law, or failure to comply with an obligation under a lease, permit, or license issued by the state or federal government." He said the language could be added to the section dealing with the corrosion issue. The language addresses concerns regarding the corrosion issue, which are outlined on page 44, line 27.

[2:21:43 PM](#)

Commissioner Galvin addressed an issue that he said had continually surfaced in both the public and the legislative body regarding expenses associated with lobbying, advertising, etc.

He explained that the expenses are not deductible as they have to be directly associated with production, but there is no language in current statutes that specifically said that. He said on page 42, section 59, AS 43.55.165.(e) 8, adds specific language. He further pointed out that the language that was deleted is superfluous. Both changes are supported by the Administration.

[2:23:41 PM](#)

Commissioner Galvin reported that page 43, line 6, section 12, was rewritten. The Department was comfortable with the rewrite. The intention behind the language is to ensure that if there is an internal transfer with costs associated, then there needs to be a justification reported for the amount claimed to make sure it is of fair market value. The onus is on the taxpayer to assign fair market value to the expense.

Co-Chair Stedman asked the Commissioner to address indirect costs, page 46, line 4. Commissioner Galvin explained that lines 1-4 were added in the Senate Judiciary Committee. He felt that the language in subsection (21) was an overstatement of what needs to be excluded from costs. In subsection (22), he felt it was redundant because it states the inverse of the positive statement that "only direct costs" are related. He said the reference to overhead can cause some confusion. He reiterated that overhead is addressed in regulations: of the direct costs, 3% is allowed for overhead for capital expenditures, 9% for operating costs.

Co-Chair Stedman asked if the Commissioner would like to comment on the topping plant issue.

[2:29:38 PM](#)

Commissioner Galvin said the new subsection (20) in CSSB 2001(JUD), page 45, line 21 is the language from ACES. The topping plant issue relates to an investment decision by ConocoPhillips to pursue a topping plant for low sulfur diesel located on the North Slope. The company is required to use a particular low sulphur diesel under current law. There is ambiguity in the current law as to whether the manufacturing of diesel and the building of a refinery is directly related to production and exploration. In the Department's analysis, diesel is a supply issue. The company needs to have it as an

item for fuel to run equipment. Because the companies have an option to purchase the fuel or can manufacture the diesel themselves, the determination was made that building of a refinery should not be a deductible cost. He said that the language recommended by the Department is their policy call in that the cost for building a plant should not be deductible or available for a credit. He said there are estimates of \$300 million to build a refinery which would represent a \$100-150 million impact to the treasury, if the expense is allowed as a deduction. He emphasized that the Department felt it is not an appropriate deduction and should not be associated with or subsidized through a production tax.

Senator Huggins underlined that there is a mandate to use the low sulfur diesel fuel and emphasized the validity of a company's desire to build a plant. He said it was his understanding that if the Department did not support something they would provide other options for addressing particular concerns.

Commissioner Galvin acknowledged there were some discussions regarding the fuel being trucked versus the opportunity for companies to build their own plants to avoid the trucking of fuel. He said DOR has had discussions with the Department of Transportation and Public Facilities (DOTPF). A report had been generated from the associated concerns.

Senator Huggins said he saw the report. He went on to highlight the safety concerns with trucking fuel. He emphasized the importance of looking at the issue and the potential tradeoffs regarding safety.

AT EASE: [2:37:01 PM](#)
RECONVENED: [4:12:48 PM](#)

Co-Chair Stedman said he would get feedback from the Commissioner.

[4:13:12 PM](#)

Commissioner Galvin said that, in summary, regarding the lease expenditure language, the corrosion issue can satisfy most needs with existing language. He added that expanding the description of what costs are going to be excluded, due to criminal conduct or "failure to comply" with a lease requirement, in combination

with original language, was a good solution to the corrosion issue. With regards to the definition of what lease expenditures are going to be excluded, the language regarding costs "incurred within the state" is too broad. With regards to what lease expenditures are provided, that can be tightened up from CSSB 2001(JUD). Other than the mentioned suggestion, the Commissioner felt that the bill was a good mix of clarifications from what was in ACES.

Senator Elton assumed the Administration would have some proposed language on those issues.

Commissioner Galvin affirmed that and said he would submit language to the chairman.

[4:14:54 PM](#)

Co-Chair Stedman noted that he would work with the Administration regarding new or additional language that would be acceptable to all parties.

Co-Chair Stedman asked if the Administration had a targeted range of government take other than what is provided in ACES.

Commissioner Galvin said the issue of government take is one step removed from the primary balance of ensuring that investment opportunities in Alaska are protected. He said the target share should be comparable to Alaska's peers, such as the United Kingdom and Norway.

Commissioner Galvin noted that he had the original ACES metric, which had been requested, available for the Committee. Co-Chair Stedman assured the Commissioner that he would get the information to the committee members.

[4:17:47 PM](#)

SB 2001 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at [4:21:15 PM](#).