

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 13, 2010

9:18 a.m.

MEMBERS PRESENT

Representative Craig Johnson, Co-Chair
Representative Mark Neuman, Co-Chair
Representative Bryce Edgmon
Representative Kurt Olson
Representative Paul Seaton
Representative Peggy Wilson
Representative David Guttenberg
Representative Scott Kawasaki
Representative Chris Tuck

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 305(FIN)(TITLE AM)

"An Act providing that the tax rate applicable to the production of oil as the average on oil and gas production for appropriation to the community revenue sharing fund; production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas relating to the allocation of lease expenditures and adjustments to lease expenditures; produced outside of the Cook Inlet sedimentary basin and used in the state increases and providing for an effective date."

- MOVED HCS CSSB 305(RES) OUT OF COMMITTEE

HOUSE BILL NO. 246

"An Act relating to the licensing and regulation of sport fishing operators and sport fishing guides and licensing and registration of sport fishing vessels; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 305

SHORT TITLE: SEPARATE OIL & GAS PROD. TAX/ DEDUCTIONS

SPONSOR(s) : FINANCE

03/08/10 (S) READ THE FIRST TIME - REFERRALS
 03/08/10 (S) FIN
 03/09/10 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/09/10 (S) Heard & Held
 03/09/10 (S) MINUTE(FIN)
 03/10/10 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/10/10 (S) <Bill Hearing Canceled>
 03/11/10 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/11/10 (S) -- MEETING CANCELED --
 03/12/10 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/12/10 (S) Heard & Held
 03/12/10 (S) MINUTE(FIN)
 03/18/10 (S) FIN AT 3:00 PM SENATE FINANCE 532
 03/18/10 (S) Heard & Held
 03/18/10 (S) MINUTE(FIN)
 03/29/10 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/29/10 (S) <Bill Hearing Postponed>
 03/31/10 (S) FIN RPT CS 6DP 1AM NEW TITLE
 03/31/10 (S) DP: HOFFMAN, STEDMAN, THOMAS, EGAN,
 OLSON, ELLIS
 03/31/10 (S) AM: HUGGINS
 03/31/10 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/31/10 (S) Moved CSSB 305(FIN) Out of Committee
 03/31/10 (S) MINUTE(FIN)
 04/01/10 (S) TRANSMITTED TO (H)
 04/01/10 (S) VERSION: CSSB 305(FIN)(TITLE AM)
 04/05/10 (H) READ THE FIRST TIME - REFERRALS
 04/05/10 (H) RES, FIN
 04/07/10 (H) RES AT 1:00 PM BARNES 124
 04/07/10 (H) Heard & Held
 04/07/10 (H) MINUTE(RES)
 04/09/10 (H) RES AT 1:00 PM BARNES 124
 04/09/10 (H) Heard & Held
 04/09/10 (H) MINUTE(RES)
 04/10/10 (H) RES AT 10:00 AM BARNES 124
 04/10/10 (H) Heard & Held
 04/10/10 (H) MINUTE(RES)
 04/11/10 (H) RES AT 12:00 AM BARNES 124
 04/11/10 (H) Heard & Held
 04/11/10 (H) MINUTE(RES)
 04/12/10 (H) RES AT 1:00 PM BARNES 124
 04/12/10 (H) Heard & Held
 04/12/10 (H) MINUTE(RES)
 04/13/10 (H) RES AT 9:00 AM BARNES 124

WITNESS REGISTER

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

POSITION STATEMENT: During hearing of SB 305, answered questions.

PAT GALVIN, Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: During hearing on SB 305, answered questions.

SENATOR JOE PASKVAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During hearing of SB 305, provided comments.

ACTION NARRATIVE

[9:18:19 AM](#)

CO-CHAIR MARK NEUMAN called the House Resources Standing Committee meeting to order at 9:18 a.m. Representatives Tuck, Guttenberg, Edgmon, Kawasaki, Seaton, P. Wilson, Olson, Johnson, and Neuman were present at the call to order.

SB 305-SEPARATE OIL & GAS PROD. TAX/ DEDUCTIONS

[9:18:50 AM](#)

CO-CHAIR NEUMAN announced that the only order of business is CS FOR SENATE BILL NO. 305(FIN)(title am), "An Act providing that the tax rate applicable to the production of oil as the average production tax value of oil, gas produced in the Cook Inlet sedimentary basin, and gas produced outside of the Cook Inlet sedimentary basin and used in the state increases above \$30 shall be 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value and \$30, or the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between that average monthly production tax value and \$92.50, except that the total rate determined in the calculation may not exceed

50 percent; providing for an increase in the rate of tax on the production of gas as the average production tax value on a BTU equivalent barrel basis of gas produced outside of the Cook Inlet sedimentary basin and not used in the state increases above \$30; relating to payments of the oil and gas production tax; relating to availability of a portion of the money received from the tax on oil and gas production for appropriation to the community revenue sharing fund; relating to the allocation of lease expenditures and adjustments to lease expenditures; and providing for an effective date." [Before the committee is HCS CSSB 305, Version 26-LS1577\M, Bullock, 4/10/10.]

[9:19:18 AM](#)

CO-CHAIR NEUMAN stated he would not be accepting any further amendments to SB 305 beyond those that were submitted last night.

[9:19:56 AM](#)

REPRESENTATIVE SEATON said he has two conceptual amendments with his name on them that he discussed with Co-Chair Johnson yesterday. He then opined that these amendments had been properly offered.

[9:20:55 AM](#)

CO-CHAIR NEUMAN said those amendments were delivered at 10:30 p.m. last night and not to other members or the public. He reminded the committee that he wasn't taking any further amendments.

REPRESENTATIVE SEATON pointed out that per Mason's Manual and the Uniform Rules, amendments can be offered by any committee member at the time the committee is meeting on the relevant legislation. He then related that his amendments were conceptually discussed with both Co-Chair Johnson and Co-Chair Neuman yesterday and they are now in the form appropriate to offer before the committee.

[9:22:04 AM](#)

The committee took a brief at-ease.

[9:22:55 AM](#)

CO-CHAIR NEUMAN reminded members of the 24-hour rule for receiving amendments prior to a meeting. Furthermore, he characterized conceptual amendments as amendments that are merely word smithing. However, he recalled that Representative Seaton's conceptual amendments are substantial changes that would eliminate the point of production (PoP) method and remove the per barrel of oil equivalent (BOE) method.

REPRESENTATIVE SEATON offered his belief that Mason's Manual would apply here and that he has the right to offer the amendments, which aren't dilatory amendments. He agreed that the amendments are as Co-Chair Neuman described them and are significant policy amendments.

CO-CHAIR NEUMAN reiterated the committee's policies, which are established and delivered to members at the beginning of the year. He again reiterated that the 24-hour rule applies for significant amendments, adding that the rule is in place to allow adequate time for the co-chairs and committee members to review the amendments. He emphasized that policy has been made very clear.

REPRESENTATIVE SEATON stated that his amendments address whether PoP or BOE should be used as the determining factor for allocating cost. The aforementioned isn't a new concept rather it's a clarification of Version M, specifically on the points that have been discussed at every meeting on SB 305. He reminded the committee that the bulk of the committee discussion has been based on the BOE value, which places the state in a detrimental position. The amendments take the presentation made by Mr. Logsdon and select the criteria for PoP, which is relevant to the discussions the committee has had.

[9:29:26 AM](#)

The committee took an at-ease from 9:29 a.m. to 9:48 a.m.

[9:48:06 AM](#)

CO-CHAIR NEUMAN, upon returning from conferring with Representative Dahlstrom, Chair, House Rules Standing Committee, informed the committee that Mason's Manual applies to the floor. The rules put out by the House Resources Standing Committee earlier in the year apply to that committee, and therefore proposed amendments and committee substitutes need to be delivered to Debra Higgins, Staff, Co-Chair Johnson, or to Co-Chair Johnson or Co-Chair Neuman 24 hours prior to the scheduled

hearing. He reminded the committee that the aforementioned was discussed at length and everyone seemed to accept the policy. However, ultimately Co-Chair Neuman announced that he would allow Representative Seaton to offer his amendments, but limit discussion and comments.

[9:49:51 AM](#)

REPRESENTATIVE SEATON related his understanding that the co-chair had requested two amendments/proposals from the department, which he offered to allow to precede his amendments.

CO-CHAIR NEUMAN said that he didn't believe anyone besides Representative Seaton was offering any amendments.

CO-CHAIR JOHNSON said that he didn't have any amendments.

[9:50:18 AM](#)

REPRESENTATIVE SEATON moved Conceptual Amendment 3, as follows [original punctuation provided]:

The provisions in this bill that de-couple the production tax treatment of oil and gas are limited to the production tax treatment of oil and gas that are produced north of 68 degrees North latitude. Those changes would include Sections 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, and 23.

CO-CHAIR JOHNSON objected.

[9:51:07 AM](#)

REPRESENTATIVE SEATON explained that Conceptual Amendment 3 is meant to help implement the legislation. If the entire tax calculation mode is changed such that it's decoupled throughout the state, there would be significant administrative and tax burden to the producers as well as to the administration and the Department of Revenue. Since the [AS 43.90.320] provision only applied to production taxes levied on North Slope gas shipped through firm transportation capacity, Conceptual Amendment 3 would seek to ensure the industry the least harm and problems in calculating their taxes. "We'll be sure that the amendment does what it is intended to do, and that is talk about North Slope gas at the start of open season," he remarked.

[9:52:33 AM](#)

CO-CHAIR NEUMAN pointed out that taxes are calculated monthly, but deductions can still be taken. He indicated concern with issues that could arise due to the different treatment of the oil and gas depending upon whether it's north or south of 68 degrees North latitude.

[9:54:34 AM](#)

REPRESENTATIVE SEATON reminded the committee that the entire purpose of SB 305 is the AGIA provisions, which specifically apply only to North Slope gas. The definition of North Slope gas is gas produced north of 68 degrees North latitude. Representative Seaton related then that SB 305 would change the way taxes are calculated across the state instead of targeting the gas that is being discussed and reducing the impact on the producers as well as the department. He explained that [Conceptual Amendment 3] would eliminate the need to redo taxes on about five of the seven buckets, discussed in the Logsdon & Associates' presentation.

[9:56:16 AM](#)

REPRESENTATIVE P. WILSON requested that the Department of Revenue staff be allowed to provide information that may help committee members understand.

[9:57:08 AM](#)

MARCIA DAVIS, Deputy Commissioner, Office of the Commissioner, Department of Revenue, remarked that she has just seen [Conceptual Amendment 3] and certainly the department could make it work. She informed the committee that it does have a certain mitigation aspect such that it limits the decoupling effects to the area of concern, which is when the state enters a major gas sail. Since the amendment is conceptual, much of it would be dependent upon the details of it.

[9:58:10 AM](#)

CO-CHAIR NEUMAN inquired as to how Doyon would be impacted if it was drilling in the Nenana area and struck large volumes of gas.

MS. DAVIS answered that if Conceptual Amendment 3 decouples north only, then Doyon would have the benefit of having expenditures associated with their production under the current law. Therefore, Doyon would receive credits and since Doyon is

a small producer, it would have credits it could sell to other producers until such time as they actually produce. Ms. Davis opined then that Conceptual Amendment 3 wouldn't negatively impact Doyon.

[9:58:58 AM](#)

CO-CHAIR NEUMAN inquired as to the situation with [gas in the] Cook Inlet.

MS. DAVIS said that since the decoupling wouldn't impact those in Cook Inlet, it wouldn't impede the flow of their expenditures and etcetera. In further response to Co-Chair Neuman, Ms. Davis said it would depend upon how decoupling is drafted for the North Slope, which would then be reflected in regulations the department would adopt. Ms. Davis thanked Representative P. Wilson for the request of an explanation, but clarified "it wouldn't be explaining this specific amendment, but the underlying W Version and the underlying M Version."

[9:59:55 AM](#)

CO-CHAIR JOHNSON maintained his objection to Conceptual Amendment 3 and then called the question.

[10:00:34 AM](#)

A roll call vote was taken. Representatives Seaton, Guttenberg, Kawasaki, and Tuck voted in favor of the adoption of Conceptual Amendment 3. Representatives P. Wilson, Olson, Neuman, and Johnson voted against it. Therefore, Conceptual Amendment 3 failed to be adopted by a vote of 4-4.

[10:01:38 AM](#)

The committee took an at-ease from 10:02 a.m. to 10:04 a.m.

[10:04:29 AM](#)

REPRESENTATIVE TUCK moved Amendment 4, as follows [original punctuation provided]:

version W.A: Page 12, lines 9-12; version M: Page 31, lines 19-22

Delete

"When determining a reasonable method of allocating lease expenditures between the production

of oil and the production of gas, the department shall consider allocating lease expenditures in proportion to the BTU equivalent barrels of oil produced and gas produced from each lease or property."

Insert

"When determining a reasonable method of allocating lease expenditures between the production of oil and the production of gas, the department shall to the extent possible allocate lease expenditures in proportion to the gross value at the point of production for oil produced and gas produced from each lease or property."

CO-CHAIR JOHNSON objected.

[10:04:48 AM](#)

REPRESENTATIVE TUCK related his understanding that the sponsor is concerned that the state will be in a disadvantaged bargaining position if the gas [tax] has to be changed later on, which was one of the main reasons for decoupling. He then directed attention to the chart on page 2 of the Logsdon & Associates presentation dated April 9, 2010. The chart compares the BOE method versus the PoP method, and the concern by the sponsor is that there will be a total loss of revenue when oil and gas are together. The concern from DOR is that it will be unable to enter into negotiations for changes. Representative Tuck acknowledged that although under the decoupling scenario the state would collect more revenue for the state, the gas proportion would be about one-third lower than if the BOE method was utilized. He opined that whether to couple or decouple comes down to the gas portion of the cost allocation. Determining that on a PoP versus a BOE method places the state more in the status quo environment than the gas cost allocation.

CO-CHAIR NEUMAN asked, "In what way?"

[10:08:39 AM](#)

REPRESENTATIVE TUCK, still referring to page 2 of the Logsdon & Associates report dated April 9, 2010, highlighted that under the BOE method, decoupling results in [tax revenue] in the amount of 0.3 billion while the status quo results in [tax revenue] in the amount of 1.2 billion. However, under the PoP method, the gas cost allocation can be maintained at 0.8 billion

if the oil and gas are decoupled. The aforementioned provides a bit more strength in bargaining.

[10:09:30 AM](#)

CO-CHAIR NEUMAN explained that the Btu equivalency was utilized as a way in which to measure the value of gas. However, it doesn't recognize that there are different gases. In fields such as Prudhoe Bay that contain natural gas liquids, propanes, butanes, and ethanes the Btu value is increased and thus the PoP value changes. Therefore, if the Btu value is changed, the value of the PoP has to be able to be adjusted because the value of that gas is different. "So, if you take out that portion of it, how do you measure that," he asked.

REPRESENTATIVE TUCK opined that the PoP would be a simpler and easier way of determining that. Although the PoP wouldn't determine the Btu value of one gas as compared to another gas, it would be a measure of all production. Representative Tuck related that he prefers the PoP method as it allows the state to ensure it has the higher cost allocation for gas. Decoupling, he opined, would protect the state's best interest.

[10:11:05 AM](#)

CO-CHAIR NEUMAN the problem with using the Btu equivalent is that nobody would drill a field such as Gubik, which is just methane, because the value of that Btu is lower. The actual value of the product must be determined, otherwise how would that product be taxed, he asked. He noted that the Btu value changes depending upon the well, how much gas is coming out of the well, and the types of gas coming out of the well. That Btu value [of the gas] is then compared to oil at the point of production.

REPRESENTATIVE TUCK reminded the committee that Logsdon & Associates stated that there are many different ways to determine the relationship between oil and gas. Representative Tuck said that he didn't have an answer to Co-Chair Neuman, but would like to hear the response from DOR.

[10:13:35 AM](#)

CO-CHAIR NEUMAN inquired as to how the actual value of gas is determined if Btu values are separated from PoP.

[10:13:56 AM](#)

PAT GALVIN, Commissioner, Department of Revenue (DOR), said his understanding of the amendment is that it has nothing to do with establishing the value for the purposes of taxation other than in the allocation of costs between oil and gas in order to derive a production tax value. The ability to use a volume based measurement results in the use of a Btu value in order to properly use a volume of hotter gas, the actual heat value, to establish the volume equivalent. The proportion of that is used to divide costs and establish the profit or, as the amendment suggests, the value of the two streams is reviewed. Therefore, the PoP value of the oil and the PoP value of the gas are reviewed [to determine] the proportion of each. The total costs are then divided based upon the proportion. Commissioner Galvin said that either way is legitimate and will arrive at a production tax value from which the tax is derived. As pointed out by Representative Tuck, the PoP allocation will result in a higher gas production tax that's locked as well as a lower overall tax because the oil's profitability will be reduced since more costs will move to the oil. This will be the case when using PoP versus BOE or heat value.

[10:16:07 AM](#)

CO-CHAIR NEUMAN inquired as to what the department currently uses to derive the value of gas.

COMMISSIONER GALVIN answered that currently regulations include both systems. In further response to Co-Chair Neuman, Commissioner Galvin explained that for the context in which it was needed, DOR chose the allocation that best met the particular purpose. "So, you need to choose one for this particular purpose," he said.

[10:17:11 AM](#)

REPRESENTATIVE SEATON noted his agreement with Co-Chair Neuman on the value basis. However, he wanted to ensure that PoP is a value and isn't a heat content. He expressed the need to calculate what people will pay for the gas whether it's wet or dry gas so that the PoP is the actual value associated with the gas and is for what it will sell.

COMMISSIONER GALVIN replied yes, adding that to determine the PoP value a conversion of heat value isn't used to convert that to volumes rather it's the value they sold for in the market.

[10:18:19 AM](#)

CO-CHAIR NEUMAN inquired as to how the value of the gas is measured if the Btu isn't used.

COMMISSIONER GALVIN responded that it's measured by total sales of the entire stream less transportation costs, which is how it's [calculated now]. He further responded that the PoP is how the attributed gas tax is determined under the status quo. The only time BOE is used is to separate the oil from the gas within a particular field of Cook Inlet in order to compare it to Alaska's Clear and Equitable Share (ACES) for purposes of the "lower of."

[10:19:07 AM](#)

REPRESENTATIVE P. WILSON ascertained that Conceptual Amendment 4 seems to do the same thing as Representative Seaton's amendment [that he has yet to offer]. However, it appears Conceptual Amendment 4 may provide more flexibility to DOR over Representative Seaton's pending amendment.

MS. DAVIS surmised that the debate here is how to get at value better and Co-Chair Neuman has been asking how such can be accomplished without considering the Btu, which is how the market tends to evaluate the value. Conceptual Amendment 4 gets at the heart of value because going to the gross value at the PoP is the closest measure of how the market values the product. Ms. Davis explained that the sales proceeds minus the transportation costs results in the gross value at the PoP, which is the best indicator of the value of the product. Conceptual Amendment 4 proposes to allocate expenditures and costs [based on the notion that] the producers will spend money because of how much money they will receive for that oil and gas. The best indicator of what they will receive for that oil and gas is what people paid for it. The gross value at the PoP provides that benchmark, and thus is being used as the measure for allocating the lease expenditures.

[10:22:57 AM](#)

CO-CHAIR NEUMAN inquired as to what the value is.

MS. DAVIS confirmed that one of the values is Btu, but pointed out that there are other values. Still, the best measure of value is what someone will pay for the product.

CO-CHAIR NEUMAN then inquired as to how this measure would impact propane shipments since [propane] is a higher value Btu.

MS. DAVIS answered that it's captured because the marketplace values that stream and if there's good propane they will pay a price, which will be apparent in the gross proceeds.

CO-CHAIR NEUMAN interjected, "Takes the stream out of the gas."

MS. DAVIS indicated that to be the case, adding that the price will be evident for the product that continues downstream and thus the value of it will be known as well.

CO-CHAIR NEUMAN pointed out that by taking out the propane, the Btus are lowered and the value of the gas that is shipped is also lower. He suggested that perhaps it could make it more difficult to have a successful open season because [the producers] are counting on those Btus to amortize their cost.

MS. DAVIS specified that for this purpose she would consider what the marketplace paid for that volume of gas and the sales prices [from the various products in the stream] could be added.

[10:24:39 AM](#)

REPRESENTATIVE TUCK opined that the May 1st date isn't necessarily the issue. The goal at this point, in the first open season, is to define the portion of combined tax that's derived from gas. He reminded the committee of an earlier DOR presentation that illustrates whether the BOE or PoP method is used the [gas cost allocation] is equivalent in a status quo environment. However, if the oil and gas is decoupled, there is a significant difference in the gas cost allocation. To preserve the sponsor's intent for the state to avoid losing revenue, [Conceptual Amendment 4] puts the state in a better position as it only determines the gas cost allocation and then moves forward. Representative Tuck then asked if [Conceptual Amendment 4] is a simple method of determining the gas cost allocation.

COMMISSIONER GALVIN replied yes. Furthermore, Conceptual Amendment 4 provides good direction to DOR without mandating [the use of the allocating lease expenditures in proportion to the gross value at the point of production]. He characterized Conceptual Amendment 4 as a good balance.

CO-CHAIR NEUMAN interjected that use of the term "shall" [in Conceptual Amendment 4] makes the difference.

COMMISSIONER GALVIN pointed out that Conceptual Amendment 4 inserts language in Section 21 of Version M, which would also need to be inserted in Section 22 on page 32, lines 1-6. Section 21 addresses cost allocation and Section 2 addresses adjustments to cost allocation. In response to Co-Chair Neuman, Commissioner Galvin said that although today is the first time he has seen Conceptual Amendment 4, he is familiar with this type of amendment because the committee has discussed it over the last week.

[10:28:50 AM](#)

REPRESENTATIVE TUCK agreed that the committee talked about this all last week and was the purpose of Co-Chair Johnson's request of DOR to present the one bucket and two buck worlds under the BOE and PoP methods. He reiterated that if the status quo continues, it doesn't matter. However, if the state decides to decouple, it will change the gas cost allocation for the state. Representative Tuck said if the state does decouple, he would prefer using the PoP method because it would bring the state more status quo.

[10:29:43 AM](#)

CO-CHAIR NEUMAN inquired as to how much gas is produced on the North Slope.

COMMISSIONER GALVIN answered that on the North Slope little gas is produced for the purpose of sale in comparison to the total volume brought out from the ground and sent back down.

CO-CHAIR NEUMAN posed a scenario in which the language being inserted by Conceptual Amendment 4 didn't include the term "shall". He then asked how such a situation would impact [AS 43.90.320].

COMMISSIONER GALVIN responded that such a change would result in a significant difference in the way cost allocation would take place when gas is produced for sale. The aforementioned would then result in a significantly different tax burden on the taxpayer. In further response, Commissioner Galvin said, "If there is no expectation of what the department's regulations may use for cost allocation, the potential tax burden would vary significantly depending upon what the department chooses to

use." The existing language [using "shall"] in Conceptual Amendment 4 tells the department the legislature wants a particular cost allocation method to be used in order that the window of potential deviation by the regulations will be narrower than if left undirected.

CO-CHAIR NEUMAN clarified that his point is that one word could have a significant impact and difference.

COMMISSIONER GALVIN emphasized that the effect of this law is that it has significant impacts on the state's revenue and should be considered very carefully. In further response to Co-Chair Neuman, Commissioner Galvin highlighted that [SB 305] locks in [the tax] for potentially 10 years not 2 days. Commissioner Galvin characterized it as "a two-day gimmick to lock something in for 10 years."

[10:32:27 AM](#)

REPRESENTATIVE TUCK pointed out that Conceptual Amendment 4 replaces "shall consider allocating lease expenditures in proportion to the BTU equivalent barrels of oil" with the language "shall to the extent possible allocate lease expenditures in proportion to the gross value at the point of production". Therefore, the "shall" already exists in the legislation and Conceptual Amendment 4 merely changes it from the BTU equivalent BOE to PoP.

CO-CHAIR NEUMAN said that months were spent to develop the system proposed in SB 305, which was deemed the most fair for the state. To change that with an amendment is inappropriate, he opined.

COMMISSIONER GALVIN clarified that there is no previous statutory direction for a cost allocation. The legislature hasn't addressed the issue previously because it's not a necessary part of a combined tax system. In further response to Co-Chair Neuman, Commissioner Galvin explained that the Btu equivalent per barrel was developed for a completely different purpose than cost allocation. The Btu equivalent per barrel related to a methodology for how to compare gas streams to oil streams for the purposes of determining the tax value, which is a different purpose than what's described [in SB 305].

[10:33:50 AM](#)

REPRESENTATIVE TUCK surmised that the state would be in a better position now even if decoupling never occurs than it would were the petroleum production profits tax (PPT) program still in effect. The goal is to protect the interests of Alaskans, which he opined is accomplished with the status quo. Therefore, Conceptual Amendment 4 attempts to maintain the status quo as much as possible while decoupling.

[10:35:15 AM](#)

REPRESENTATIVE TUCK specified his question as follows:

In comparing to the PPT that was before ACES, if we keep everything the status quo, isn't the State of Alaska still collecting more revenues than we would've been under PPT? Are we safe, we're not losing the revenues that's been so feared in decoupling. I mean we are going to be losing some revenues, but it would never be as much revenues as we would've lost if we would've continued with PPT.

COMMISSIONER GALVIN answered yes. As a result of Representative Tuck's question the other day, DOR did run an analysis and found that in the various price relationships between oil and gas the status quo brings in significantly more revenue than under the PPT. The analysis further found that in many instances, particularly when the parity relationship is wide, the increase from PPT to ACES is much smaller than the increase from status quo to decoupled. However, if the PPT was decoupled, whether based on BOE or PoP, the result is a situation similar to the status quo. Therefore, Representative Tuck is correct that even with the proposed cost allocation, compared to PPT the status quo remains the same without going to the decoupled cost allocation world.

[10:37:21 AM](#)

REPRESENTATIVE TUCK requested that Senator Paskvan be allowed to speak to Conceptual Amendment 4.

[10:37:55 AM](#)

The committee took a brief at-ease.

[10:38:57 AM](#)

SENATOR JOE PASKVAN, Alaska State Legislature, related that he is intrigued by Representative Tuck's comment on the potential of a win-win situation. He then related that he has no problem with moving SB 305 with decoupling with the PoP method. The aforementioned accommodates the interests of protecting the state. He concluded by stating he has no objection to [Conceptual Amendment 4].

[10:40:05 AM](#)

CO-CHAIR JOHNSON called the question and then removed his objection.

CO-CHAIR NEUMAN then objected.

[10:40:28 AM](#)

A roll call vote was taken. Representatives Guttenberg, Kawasaki, Tuck, P. Wilson, and Seaton voted in favor of Conceptual Amendment 4. Representatives Olson, Neuman, and Johnson voted against it. Therefore, Conceptual Amendment 4 was adopted by a vote of 5-3.

[10:41:29 AM](#)

REPRESENTATIVE SEATON asked if the charts/slides that were referenced earlier had been introduced to the committee.

CO-CHAIR NEUMAN related his belief that they were provided to committee members, although they have not been introduced to the committee.

CO-CHAIR JOHNSON recalled that the charts were from the presentation that Commissioner Galvin isn't making, and therefore members could discuss them with him after the meeting. He, too, related that the charts/slides haven't been introduced to the committee or used in the committee.

[10:42:49 AM](#)

REPRESENTATIVE GUTTENBERG surmised that the charts/slides mostly deal with PoP versus BOE. He then asked if the issue was taken care of with Conceptual Amendment 4.

COMMISSIONER GALVIN answered that to the extent that DOR would perform an economic analysis on SB 305, with the passage of Conceptual Amendment 4 the department would use the PoP cost

methodology to run the economics. In further response to Representative Guttenberg, Commissioner Galvin confirmed that Conceptual Amendment 4 provides the department direction in terms of whether to use the BOE or PoP methodology.

[10:44:09 AM](#)

CO-CHAIR NEUMAN, upon ascertaining no one wished to testify, closed public testimony.

[10:44:38 AM](#)

REPRESENTATIVE TUCK echoed earlier statements that this really isn't a May 1st issue. The legislature has the ability to decouple at any time and there's no urgency to decouple now. Furthermore, DOR's draft regulations define the portion of combined tax that comes from gas. Any decoupling that occurs after the open season is locked in due to [AS 43.90.320] and has no affect on what the state can bring in for oil. Representative Tuck offered that he likes having oil and gas coupled together because it offers an incentive for a gasline. While the state would potentially receive less revenue if the state didn't decouple, the gas producers would be able to take the lowest gas cost allocation method under [AS 43.90.320], this merely establishes a ceiling for what the producers will have to pay for a gasline. Furthermore, the legislation only gives a tax break if gas prices are extremely low and there is a large parity. If there's a situation in which gas prices are so low that a pipeline isn't necessary, then this discussion isn't necessary. [The legislation] is for determining the gas cost allocation at the point of first open season and only that. In summary, Representative Tuck related that he supports having incentives in place that allow the producers to move their gas down a gasline.

[10:47:15 AM](#)

CO-CHAIR NEUMAN surmised then that Representative Tuck will support the governor's legislation. He then opined, "It's because a person's gas production tax obligation, the tax obligation calculated under the gas production tax that's in effect on the day that [open season] starts, that's where it's at." The value was artificially inflated up because of the calculations of oil and the price of oil. Those calculations weren't accurate, he opined. Co-Chair Neuman noted his agreement that the legislature should ensure the state's interests are secure. He also noted his agreement that the

state has the ability to go back and re-negotiate and that the state should ensure industry has an environment in which it can thrive. In conclusion, Co-Chair Neuman related his support for this legislation.

[10:48:57 AM](#)

CO-CHAIR JOHNSON moved to report HCS CSSB 305, Version 26-LS1577\M, Bullock, 4/10/10, as amended, out of committee with individual recommendations and the accompanying fiscal notes.

REPRESENTATIVE GUTTENBERG objected.

[10:49:21 AM](#)

REPRESENTATIVE GUTTENBERG related his belief that SB 305 is neither necessary nor ready to be moved. He expressed concern that the next committee of referral, the House Finance Committee, doesn't have time to address SB 305.

[10:51:01 AM](#)

REPRESENTATIVE OLSON recalled that one of the co-chairs of the House Finance Committee said that if he received SB 305 today he would have time to properly vet the legislation. Therefore, he opined that it's imperative to forward the legislation today if it's the will of the committee.

CO-CHAIR JOHNSON said he believes the groundwork has been laid for the House Finance Committee and it's important to forward this time sensitive legislation.

REPRESENTATIVE P. WILSON noted that she has reservations in terms of some of the provisions in SB 305. However, Conceptual Amendment 4 will result in less loss to the state, which she partially attributed to the fact that oil is still king in Alaska and the state needs more oil [exploration]. Although this legislation isn't perfect, it's time to forward the legislation.

[10:53:23 AM](#)

CO-CHAIR JOHNSON called the question.

[10:53:30 AM](#)

A roll call vote was taken. Representatives Kawasaki, P. Wilson, Olson, Seaton, Edgmon, Neuman, and Johnson voted in favor of reporting HCS CSSB 305, Version 26-LS1577\M, Bullock, 4/10/10, as amended, out of committee. Representatives Guttenberg and Tuck voted against it. Therefore, HCS CSSB 305(RES) was reported out of the House Resources Standing Committee by a vote of 7-2.

[10:54:23 AM](#)

CO-CHAIR NEUMAN recessed to a call of the chair.

[1:16:27 PM](#)

CO-CHAIR NEUMAN reconvened the House Resources Standing Committee.

[1:16:29 PM](#)

CO-CHAIR JOHNSON moved that the committee adjourn. There being no objection, it was so ordered.

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 1:16 p.m.