

HOUSE FINANCE COMMITTEE
March 21, 2011
1:03 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:03 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Mike Hawker; Mark Langland, CEO, Northrim Bank; Jim Jansen, Chief Executive Officer, Lynden Inc.; Mark Hylan, Owner, Beacon Occupational Safety; Jim Egan, Executive Director, Commonwealth North; Tom Maloney, Resource Development Council; Kevin Durling, Petroleum Equipment and Services Inc., Anchorage; Peter Macksey, Steelfab, Anchorage; Doug Smith, Little Red Services; Steven Pratt, Consumer Energy Alliance Alaska; Ben Cleveland, Vice President, Peak Oilfield Service Company; Jeff Lentfer, Midas Alaska; Edward Gohr, Delta Leasing; Dana Pruhs, President, Pruhs Construction Company; Lynn Johnson, Dowland-Bach Corporation; Dave Hebert, General Manager, Nabors Alaska Drilling; Keith Silver, The Silver Agency, Anchorage; Linda Leary, President, Carlile Transportation Systems, Anchorage; Scott Hawkins,

President, Advanced Supply Chain International; Lisa Reider, Consulting Engineer; Dave Harbor, Anchorage; Joe Beedle, President, Northrim Bank; Mr. Aves Thompson, Executive Director, Alaska Trucking Association; Maynard Tapp, Hawk Consultants.

SUMMARY

HB 110 PRODUCTION TAX ON OIL AND GAS

HB 110 was HEARD and HELD in committee for further consideration.

#hb110

HOUSE BILL NO. 110

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; relating to the oil and gas production tax rate; relating to monthly installment payments of estimated oil and gas production tax; relating to oil and gas production tax credits for certain expenditures, including qualified capital credits for exploration, development, and production; relating to the limitation on assessment of oil and gas production taxes; relating to the determination of oil and gas production tax values; making conforming amendments; and providing for an effective date."

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MARK LANGLAND, CEO, NORTHRIM BANK, stressed the connection between the economy and the banking business. He noted that oil was the driving force of Alaska's economy. He opined that the responsibility for insuring the prominence of the strong oil industry rested with the state. He stressed the leadership's responsibility to ensure that jobs were maintained in Alaska. He believed that oil must be discovered, developed, and produced. He acknowledged that oil production was declining. He encouraged further oil production. He stressed budget discipline. He pointed out the billions of dollars' worth of oil in the ground. If \$4 billion to replace oil revenue was replaced by citizen taxation, each individual would pay \$14 thousand per year. He suggested a fiscal plan that addressed both revenue and budget discipline. He stated that the Alaska Clear and

Equitable Share (ACES) was harmful to the oil industry. He encouraged better alignment between the state and oil industry. He suggested working with companies with world class resources and talents. He urged the committee to restructure ACES. He maintained that Alaska was an unpopular place to invest in oil.

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Representative Gara referred to the "Fraser Report." The study concluded that 76 percent of the companies interviewed viewed Alaska as a favorable place to do business. The current oil tax was not a deterrent for investors. Mr. Langland stated that he had not seen the Fraser Report and thus was unable to comment.

Co-Chair Stoltze commented on the subjectivity of some surveys. Mr. Langland highlighted studies concluding that Alaska was one of the top taxing entities in the world. He noted that various surveys viewing taxes and regulatory regimes regard the process in Alaska as difficult. The cost of producing oil has increased considerably and all regulatory costs reduce the total opportunity for profits, which reduce investment. He argued that the situation was simple. He stressed that maximizing investment would maximize oil production.

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Representative Wilson asked if business activities such as new business and home loans had increased or decreased in the last few years. Mr. Langland replied decreased. He expressed that the current loan demand was the lowest since the crisis in the mid-1980s. He noted that the national financial situation played a part. Oil taxation relates to future investments and the view of Alaska's economy.

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Vice-chair Fairclough asked about foreclosures and savings accounts. She wondered if Alaskans were able to save their money and she also queried capital investments. Mr. Langland replied that Alaska had some of the fewest foreclosures in the country. He pointed out a small increase in foreclosures based on quarters. He stated that the trend was less than comfortable. He cited that both working capital and capital investment demand was down, because of business interest.

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Representative Neuman wondered about changes in the oil and gas industry. Mr. Langland shared a story about a loan officer who had chosen to invest in in North Dakota. He stated that most risks have increased. He stressed that a long-term view led to the greatest concern. He pointed out that Alaska was the only state with only one industry supplying all the money and nearly 50 percent of jobs to the state. He stressed that Alaska needed to look forward in the economy.

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Representative Hawker clarified that the Fraser Report was an opinion survey of industry trade groups, and it was not commissioned by Department of Revenue (DOR). Participants in the survey are added to a drawing for a prize of \$1000.

Representative Doogan relayed the statement that "government's appetite for revenue is unlimited." He wondered how the Alaska Permanent Fund factored into the statement. Mr. Langland was unable to understand the question.

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Co-Chair Stoltze attempted to answer the question. He proposed that if the Alaska Permanent Fund had not been created, then the money might have been spent by the government. Mr. Langland agreed that most governments have an insatiable appetite.

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JIM JANSEN, CHIEF EXECUTIVE OFFICER, LYNDEN INC., stated that 20 percent of his business was related to oil. Since 2007, business for his company in the oil sector was flat to down. The downward trend and reduced productivity of oil were very concerning to him. Other oil producing areas in the world were booming with the high price of oil. He remarked that Alaska is down, because of the methods of oil taxation. He pointed out that there was very little engineering and seismic activity, which proved that the industry was not investing. He remarked that companies would invest in locations with the best possible return. Oil companies would not invest in Alaska if the total

government take was in excess of 80 percent. He stated that Lynden operates a fleet of aircraft, and the oil activity for the airplanes was nonexistent. He stressed that his company was going to other countries to conduct business. He talked about Lynden's current international projects that were led by the availability of business that did not exist here in Alaska. He mentioned the value of tax credits. He stated that ACES countered meaningful investment opportunities. He stressed the urgency to regain Alaska's reputation as a positive location for investment.

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MARK HYLEN, OWNER, BEACON OCCUPATIONAL SAFETY, stated that his company provided medical and safety services. His customers included contractors working in the oil industry. He explained that his clientele numbers had declined over the past few months, due to limited drilling activities. He stated that new projects seem virtually obsolete. He pointed out that his members represent suppliers, engineers, accountants, map makers, hotels, lawyers, banks, marketing companies, insurance companies and many other services that never directly contract with a producer or work on the North Slope. He shared his personal experience working in the North Slope. He stressed the urgency for oil and gas tax reform in Alaska. He encouraged modification of ACES.

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JIM EGAN, EXECUTIVE DIRECTOR, COMMONWEALTH NORTH, stated that Commonwealth North was a non-partisan public policy organization dedicated to educating and informing Alaskans. He stated that the organization supported a reduction of the oil production tax progressivity rate. The board of directors of the organization established a study group to examine whether Alaska's tax structure required adjustment. The group met weekly for 17 weeks of study. He included a report of the study for the committee, "Alaska Oil Investment Tax Structure, Establishing a Competitive Alaska" (copy on file). The study was not a research report, but an examination of public policy that surrounds issues permeating the debate over Alaska's oil tax structure. The study concluded that Alaska's economy was built primarily on oil production. He noted a deepening concern among private sector Alaskans regarding the oil industry's ability to stem production declines and retain

jobs. One third of Alaskan jobs are related to oil development and production in Alaska.

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Mr. Egan continued to discuss the findings of his report. With ACES, when the price of oil increases revenues for producers remain relatively flat. He stressed the necessity to achieve a competitive return. While the progressivity calculation in ACES has substantially increased revenue to the state treasury, it appears to have decreased Alaska's competitiveness against other domestic and international basins, thereby creating a disincentive for investment in Alaska relative to many of those basins. He stated that a competitive return for the oil industry is contingent on the amount of capital tied up in generating the return.

Mr. Egan added that the mentioned study concluded that increasing the rate of return for major oil producer's investment dollars will make Alaska more competitive. Another conclusion established that trading some current oil tax revenue for longer term production from North Slope fields was in the best interest of all Alaskans. He suggested that ACES must evolve to encourage oil profits. He opined that the progressivity rate should be reduced and or capped. The governor and legislature must ensure that oil production is given the highest priority. The legislature must pass revisions to ACES this year. Commonwealth North is a deliberative organization that historically does not make "knee-jerk" responses to policy issues. He hoped to offer a consistent and unique perspective with the report provided. A significant portion of the report was dedicated to developing continuity of data that was presented to the group. The goal of the data selection was to analyze the sources of information from study presenters to ascertain how information was used to support on conclusion or another. He encouraged the utilization of the study's appendix to reach conclusions and educate Alaskans. Alaska must restrain the current momentum of decline in oil production by creating a more attractive and competitive environment for expanding investment and reinvestment by the oil industry.

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Mr. Egan stated that the first step required when encouraging investment and reinvestment of the oil industry, is lowering the progressivity rate to reflect

Alaska's desire to improve the potential return on investment for Alaska's producers. He pointed out the graph included in the report, and gave some examples displayed in the graph. The graph illustrates flat oil production on Alaska's North Slope.

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Mr. Egan explained that the graph reflects changes in the DOR project forecasting after the passage of ACES. He stated that ACES compared internationally. He remarked that it was difficult to compare Alaska to other states, because of complicated tax structures. The study eliminated the inclusion of federal dollars in the comparison between states.

Mr. Egan continued pointed out various tax structures presented for consideration by the legislature. He encouraged legislators to read the various comparisons provided in the study. He believed that the language employed in the study targeted the Alaskan needs.

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Co-Chair Stoltze requested electronic copies of the report. He asked for a public version of the report. Mr. Egan replied that the report would be published on www.commonwealthnorth.org.

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TOM MALONEY, RESOURCE DEVELOPMENT COUNCIL, expressed concern with the current state of the oil industry in Alaska. He pointed out that the decline in oil production will lead to continued decline in the North Slope oil industry. He pointed out that the Alaska oil industry recently lost one thousand production related jobs according to a report published by the Department of Labor and Workforce Development (DOL). He proposed that the solution was to increase drilling. He noted that the number of exploratory wells had decreased considerably and those wells create a significant number of jobs. New investment is required to minimize decline of production. He pointed out that policy must change to reflect the important role that oil has in Alaska's economy. He informed that AOGCC reports were used in his analysis. He pointed out that the federal government was not helping to encourage of oil production. He cautioned that less oil in the pipeline

might hasten the day that the pipeline would be forced to shut down. He spoke of forecasts and reality.

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Mr. Maloney continued to discuss challenges related to the oil industry. He stressed that many Alaskans were leaving Alaska after receiving their education. He encouraged education incentives. He stated that "there is a need to drill to pay the bills." He continued that "to keep the dough, we need the oil flow." He stressed that Cook Inlet production was down 95 percent from its peak 40 years prior. He encouraged private investment to encourage future employment.

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KEVIN DURLING, PETROLEUM EQUIPMENT AND SERVICES INC., ANCHORAGE, spoke about layoffs imminent in his company which are directly related to the activity by the major operators on the North Slope. He stated that he released over 10 percent of his work force last year and another 20 percent this year. He noted that the top industry leaders will not continue to invest in the state without an overhaul of the current tax regime. He advocated for a change.

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Vice-chair Fairclough requested comment regarding the argument that the tax structure is attached to drilling or production. Mr. Durling responded that tens of millions of dollars invested in two drilling rigs were sitting in Vancouver Washington. Each rig would apply an excess of 100 employees. He believed that an improvement in the tax regime would allow the comfort needed to transport the drilling rigs to Alaska. The equipment is merely waiting for the opportunity to drill.

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PETER MACKSEY, STEELFAB, ANCHORAGE, stated that the current tax policy has had a negative effect on his company. He noted that his business changes throughout the year and does not rely entirely on the oil industry. He explained his business structure and the benefit of oil industry investment on employment. Oil fields provided stability for his company during the last ten years. His company

constructs the barrels used to hold the oil. He performed a calculation regarding his company and oil production. He commented on media reports about recent gains for the film industry in Alaska. He understood that Alaska offered the greatest tax incentives in the country for the film industry. He preferred similar advantages for the oil industry.

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DOUG SMITH, LITTLE RED SERVICES, spoke to the benefit of tax credits for oil companies. He explained the services provided by his company, which he described as a barometer of activity for oil production. He noted that his company's activity is down since 2008. The lack of activity and wellwork led to the loss of 11 employees and benefit reductions. Incremental oil rate improvement provided a focus point for his company. He pointed out that the majority of jobs serving the oil industry included maintenance. The maintenance of the facilities is important and maintenance needs are declining. He compared the two decisions regarding the tax credits. He advocated for a competitive environment to allow industry an opportunity to find middle ground. He agreed with the testimony offered by Great Bear Petroleum. He sought an opportunity to compromise with the oil industry as the state is dependent on throughput in TAPS.

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Co-Chair Stoltze explained that the committee did not lack interest in questioning the testifiers, but time constraints prevented them.

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STEVEN PRATT, CONSUMER ENERGY ALLIANCE ALASKA, spoke about his alliance, which is a nonprofit organization. He stressed the need to provide incentive to oil companies, which will reinvigorate the economic security in Alaska. He read a letter regarding the issue. He realized that all members of the committee recognized the potential effects on the economy of decreased oil production. He commented on a resolution passed by the Consumer Energy Alliance Alaska that he was asked to present to the legislature. Aside from state revenue, over 30 percent of Alaskans are dependent upon oil and gas development for employment. For the long term, alliance members are concerned with declining oil

exploration and development in the state and the potential impacts on the economy. In a fiscal sense, state spending increases in the last decade combined with declining oil production provide additional sources of concern. He offered to provide a copy of the resolution to the committee. He encouraged the passage of HB 110, which modifies the progressivity structure of Alaska's tax regime.

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Co-Chair Stoltze discussed distribution of documents.

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BEN CLEVELAND, VICE PRESIDENT, PEAK OILFIELD SERVICE COMPANY, stated that his company is owned by Cook Inlet Regent Corporation and Nabors Alaska Drilling. The company was in business for 24 years with a record of 80 percent local hire. He advocated strongly for changes in the oil and gas tax regime. He stated that ACES reclaims a greater than necessary take for the state. Since the passage of ACES, Peak Outfield Service experienced a 45 percent decline in revenue. The oil industry is the backbone of the state's economy.

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JEFF LENTFER, MIDAS ALASKA, provided his opinions about ACES. He informed that he was raised in Alaska and returned after college. He explained that his business had no direct tie to oil companies, but functioned downstream from the oil industry and relied completely on them. He recalled tough times resulting from low oil prices in the late eighties and early nineties. He did not wish to see Alaska enter the same situation. He expressed concern about the lack of development in Alaska given the high price of oil. He stressed that the state must act now to create the needed incentive. He cited the need for tax incentives to encourage new investment, such as those seen in the film and cruise ship industries. He noted that other companies are also concerned about the current tax laws. He expected

limited development if the tax structure is unchanged. He expressed confusion regarding the \$2 billion tax break that is reported. He thought that without the tax break, additional development would not occur. He stressed that the surplus currently enjoyed by the state is a result of oil industry.

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EDWARD GOHR, DELTA LEASING, provided a history. He worked in the oil industry previously. His focus was a loss of jobs in the state without a tax incentive for the oil industry. Capital projects allow for new hires. The oil companies have a decision making process and they move their business to the areas of less risk. The oil companies are currently choosing other locations. He mentioned a friend whose kids want to come to Alaska, but are unable, because the jobs are not available. He spoke about the permitting process in North Dakota. He noted that the drill rigs are limited. The forecast lessened by six percent this year and will continue to do so for many years without a significant change in the tax structure. He advocated for lower taxes for the oil industry and jobs for Alaskans.

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DANA PRUHS, PRESIDENT, PRUHS CONSTRUCTION COMPANY, discussed his company that employs 150 Alaskans with an annual payroll of over \$8 million. He commented that his greatest challenge and preoccupation was to obtain enough work to retain the employees that have made his company successful. He stated that he is an Alaskan business man without benefit from the oil industry. He stated that he is unable to hire new people as construction needs are low. He expressed concern about the next generation of Alaskans if changes in oil revenue are felt. He believed that the proposed change in the tax structure would provide incentive to oil companies for exploration and development. He expressed confusion about the lack of urgency displayed by the legislature. He supported the passage of HB 110 or any other legislation that that modified ACES and encouraged development of non-unitized areas in a positive manner.

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Vice-chair Fairclough commented that a committee process was in place and the committee had worked tirelessly on the

very important issue. She added that other committees are also working on the issue. The resource committee also had the bill in front of them. She understood the urgency. She stated that the process was expedited.

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Mr. Pruhs asserted that he understood the process and was not picking on the committee. He discouraged a special session to address the issue. He expressed appreciation for the opportunity to testify on the issue.

Co-Chair Stoltze commented on prioritizing the legislation presented to the House Finance Committee.

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LYNN JOHNSON, DOWLAND-BACH CORPORATION, spoke in support of HB 110. He informed that his parents owned the business Alaska Helicopters. He recalled the initial discovery of oil in Prudhoe Bay in July of 1968. He supposed that migration of workers to North Dakota might occur if exploration in Alaska did not commence. He explained his wish to remain and prosper in Alaska. He pointed out that his company is down 10 percent in employees and 40 percent in revenues. He noted the substantial loss of high skill jobs that were easily transferable to other geographical areas. The declining production and throughput of TAPS might lead to a shutdown due to technical problems, which would lead to further loss of high skill employees in Alaska. He pointed out that all Alaskans are in the oil business, yet the state is not competitive with other basins. Competition is the driving force of business. He opined that the progressivity element in ACES compromises Alaska's ability to become competitive in the national and global markets. High oil prices combined with progressivity minimize investment incentive.

Mr. Johnson commented that Norway's taxes remain slightly higher than ours, but the company is government owned. He acknowledged that HB 100 was not perfect, but he believed that its implementation would improve the economy in Alaska.

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MAYNARD TAPP, HAWK CONSULTANTS, spoke in support of HB 110. He believed that ACES halted investment. He remembered a

partnership between the oil industry and the state. He wished to increase production to improve the revenue stream for Alaska. He invited creative thinking and further legislation to exceed the goals of HB 110 and maintain the wealth of the state. He acknowledged that the past investment also resulted in declines in production. He encouraged legislation to solve the problem.

Co-Chair Stoltze appreciated Mr. Tapp's advocacy.

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DAVE HEBERT, GENERAL MANAGER, NABORS ALASKA DRILLING, spoke in support of HB 110. He explained that Nabors Alaska Drilling provided oil and gas drilling and work-over operations on the North Slope and across Alaska. Nabors Alaska Drilling accepts responsibility for drilling the discovery and confirmation wells in Prudhoe Bay. Nabors Alaska Drilling was the largest drilling contractor in Alaska and Nabors Industries is the largest land drilling contractor in the world. He spoke about the decline in operating drilling rigs for his company. The decline in rigs translates to decline in jobs.

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Mr. Hebert highlighted the decline in infield development drilling and work-over operation and export work.

Representative Gara asked if Nabors Alaska Drilling owned the one exploration rig drilling on the North Slope. Mr. Hebert replied yes and stated that his company conducted drilling operations for Brooks Range Petroleum.

Representative Gara asked for information about additional exploration rigs. Mr. Hebert responded that the drilling performed by Brooks Range Petroleum provided the only activity of its kind.

Representative Gara recalled earlier testimony citing that the number of development wells declined. The information received from the Alaska Oil and Gas Conservation Commission (AOGCC) stated that exploration well activity declined, but development and service wells are at the highest level since 2005. Mr. Hebert responded that the overall rig activity had declined slightly in Prudhoe Bay.

He thought that more wells might be drilled with a fewer number of rigs.

Representative Gara reported rumors that Mr. Hebert opined that the legislature should unify and act. He noted that many different ideas exist, yet they are different from that of the governor. He informed that the governor introduced HB 110, yet had not encouraged differing viewpoints from others.

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Vice-chair Fairclough acknowledged that the governor had not ever come to her office to work on compromise. She wondered about the cost of repositioning a drilling rig. She asked if Nabors Alaskan Drilling was interested in repositioning assets outside of Alaska. She asked about the timeframe allotted to the state prior to shipping rigs out of state. Mr. Hebert responded that some rigs can be repositioned, but rigs located in Prudhoe Bay were not conducive to working in other places. He stated that Nabors Alaskan Drilling was looking for every opportunity to increase the market for the underutilized drilling rigs. He estimated a transportation cost of several million dollars to relocate the rigs.

Vice-chair Fairclough asked about two rigs that were reportedly positioned in Canada.

Representative Wilson asked how many jobs each rig would provide. Mr. Hebert stated that a typical drilling rig employed approximately 50 people.

Representative Wilson asked where the employees work who were formerly employed on the inactive drilling rigs. Mr. Hebert replied that some now work in the Lower 48.

Representative Wilson stated that employees might be difficult to get back after people leave.

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Co-Chair Thomas asked if entire families sometimes work for a particular oil rig in the Nabors Alaskan Drilling Company. Mr. Hebert replied no. He furthered that approximately 80 percent of the company's work force was

Alaskan based. He stressed the company's preference for in-state hire.

Co-Chair Thomas asked if Nabors Alaskan Drilling operated at the Kensington Mine. Mr. Hebert replied that his company facilitated drilling not mining.

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KEITH SILVER, THE SILVER AGENCY, ANCHORAGE, spoke in support of HB 110. He claimed to be a victim of ACES. He explained that he was laid off due to a reduction of work on the North Slope and a reduction of support staff in Anchorage. He believed that Alaska must be competitive with other jurisdictions in order to attract investment dollars. He suggested that ACES be changed to Fair and Competitive Tax (FACT).

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Representative Gara questioned the accuracy of the statement that high oil prices do not benefit the oil companies. He noted that ACES was devised to have a 25 percent tax and \$30 in profits before progressivity kicks in. Mr. Silver disagreed. He believed that if the oil companies profited under ACES, the state would see new oil exploration as a result.

LINDA LEARY, PRESIDENT, CARLILE TRANSPORTATION SYSTEMS, ANCHORAGE, testified in support of HB 110. She explained that she moved to Alaska upon graduation from college because there were jobs available. She spoke about downsizing in her company resulting from the downturn in the economy.

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Ms. Leary mentioned that her company endured a three year long wage freeze. She informed that she had seen oil rigs moved from Alaska to Texas. She spoke about the prosperity in North Dakota. She mentioned witnessing 65 drilling rigs during a 120 mile trip in North Dakota. She believed that Alaska could experience the same prosperity. She recommended altering the viewpoint of the oil industry in Alaska. She added that her company would benefit from the simplicity of retaining their equipment in Alaska. She encouraged a sense of urgency regarding new legislation and Alaska's tax regime. She recommended against further

studies to determine the effects of the oil and gas industry. She advocated for working with the industry to promote Alaska.

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SCOTT HAWKINS, PRESIDENT, ADVANCED SUPPLY CHAIN INTERNATIONAL, spoke in support of HB 110. He explained that his company specialized in supply chain management, procurement and warehouse operations in support of North Slope operators. He expressed pride in the jobs related to oil and gas extraction. He stated that the future of those jobs was uncertain, and the trends were discouraging. He was discouraged by the declining investment. He pointed out the consensus building in a diverse manner regarding the tax increases of 2007. He opined that the increases were not working because they suppressed investment in Alaska.

Mr. Hawkins encouraged a sense of urgency. Oil field exploration and new investment are required to fill the pipeline and maintain viability of the resource.

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LISA REIDER, CONSULTING ENGINEER, testified in support of HB 110. She stated that her area of expertise was fuel and fuel systems. She informed that many employees on the North Slope are contractors and consultants as opposed to British Petroleum corporate employees. The British Petroleum employees oversee the work performed by the contractors, but the majority of the work is performed by independent contractors. She spoke about the challenges obtaining fuel for the North Slope fleet. She asked questions about the legislation and wondered why Prudhoe Bay was not allowed to deduct costs for capital improvements.

Ms. Reider informed that the North Slope was an aging facility. The infrastructure and the workforce were aging. Approximately 40 percent of the work force is nearing retirement age. The infrastructure is approaching 35 years old. She recognized the amount of work that must be done. The existing well was harvested, but new oil exploration is nonexistent. She mentioned the great expense for health and human safety on the North Slope. The increment weather results in shorter work days and increased cost of doing business.

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Ms. Reider concluded that the additional expenses of operating on the North Slope do not always benefit production.

DAVE HARBOR, ANCHORAGE, expressed appreciation to the committee for their time and patience. He spoke at length about the history of oil and gas legislation in Alaska. He explained that in 1971 he was asked by Morris Thompson to help with the Alaska Native Claims Settlement Act Communication Program. He explained his role of communicating the enrolment program throughout the world. Through the process he became sensitive to the needs of rural Alaska. He mentioned his opportunity to work on joint venture programs.

Mr. Harbor recalled flying into rural villages in the middle of winter to enable joint venture partnerships to build the Kuparuk Construction Camp.

Mr. Harbor stated that during the 1970s, the state legislature increased various taxes approximately once a year. He recalled the passage of the Alaska Native income tax change that altered the structure of income taxation. The changes led to lawsuits from the oil companies.

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Mr. Harbor referred to the history of oil taxation in Alaska with bipartisan participation, where a definition of "fair share" was determined. He explained that the process was an example of agreement from bipartisan groups including Governor Hammond and Senate President Kertula and House Speaker Duncan. Fair share was defined that led to 20 years of prosperity for Alaska and the elimination of personal income tax.

Mr. Harbor noted the two pronged challenge faced by the state, from both state and federal properties. He pointed out that the actions of the federal government had not benefited Alaska's natural resource development. He thought the best action for state lands was to allow exploration and production to provide the quickest opportunity for new oil flow in the pipeline. He supported HB 110, but would entertain other opportunities to solve the issue.

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JOE BEEDLE, PRESIDENT, NORTHRIM BANK, spoke in support of HB 110. He encouraged an adjustment in the ACES tax laws. He noted that when ACES passed, there was great anticipation for a gas line in Alaska and continued development of federal and offshore lands. He noted that the potential challenges associated with a gas line have changed since the inception of ACES. The market conditions have therefore changed.

Mr. Beedle mentioned tax credits. He stated that his bank exercised its tax credits. A tax credit, when purchased requires risk. An oil company requires a return on the credit. Lowering the tax is important and utilizing the tax credit to modify behavior is also important. He requested that the legislature lower the overall tax rate.

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MR. AVES THOMPSON, EXECUTIVE DIRECTOR, ALASKA TRUCKING ASSOCIATION, explained that the Alaska Trucking Association had 200 members. Each year the association developed legislative priorities, such as highway infrastructure projects and highway safety issues. The number one concern this year was ACES. The association served the oil industry, construction industry and the auto carriers. He understood that many downturns were the result of the national economic crisis. He offered anecdotal information that trucking business is down 10 to 25 percent.

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Mr. Thompson agreed that all Alaskans are in the oil business. He stressed the urgency to reduce the oil tax and provide incentive to bring employees back to work. The Alaska Trucking Association supported HB 110.

Co-Chair Stoltze thanked all of the committee members and participants for coming before the committee.

HB 110 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 4:15 PM.

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