

HOUSE FINANCE COMMITTEE
March 25, 2011
2:15 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 2:15 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 Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman

ALSO PRESENT

Dan Sullivan, Commissioner, Department Natural Resources;
Bryan Butcher, Commissioner, Department of Revenue;
Representative Mike Hawker; Senator Cathy Giessel.

PRESENT VIA TELECONFERENCE

None

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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Representative Hawker received a book from the Fairbanks Chamber of Commerce containing over 200 personalized and independent letters to Governor Parnell supporting HB 110. He thanked the participants that had sent letters.

DAN SULLIVAN, COMMISSIONER, DEPARTMENT NATURAL RESOURCES, stressed the importance of presenting a world view to the committee. He opined that HB 110 addressed the most urgent and important economic issue faced by the state. He noted sub-debates regarding the intensity of the matter's urgency since talks of oil decline occurred many years prior. He believed that the recent pipeline shutdown resulted from the accelerated decline. He stressed the urgency of increasing throughput.

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Commissioner Sullivan recapped that Alaska retained a world class hydrocarbon resource base. The bad news regarding the Trans Alaska Pipeline System (TAPS) throughput was that it would cost billions of dollars of investment to mitigate the production decline. He pointed out the global "boom" for oil and gas spending. Alaska lacked benefit from the "boom." The state claimed one exploration well drilled during the current year. He mentioned the costs and economic disadvantages encountered when delivering oil in Alaska. Many issues could be addressed directly, indirectly, or not at all. He discussed actions that the government could take to make Alaska a more desirable

investment climate for oil companies. The department was examining every policy tool available to make the investment environment more positive. He believed that the debate and topic dissected the state's relationship with the oil and energy industry. The relationship with industry was crucial to the completion of projects. The goal of the tax bill was not benefiting big oil or giving money away to the oil companies, but instead the goal was securing the state's future.

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Commissioner Sullivan continued to discuss the department's view of HB 110. He mentioned meetings with various economic entities in Alaska who were proponents of the bill. He did not believe that those entities supporting the bill were "stooges" of the oil companies. He concluded that the bill would protect the future of Alaska. He noted the potential for a TAPS shutdown leading to damaged wells and low throughput. The sequencing of opportunity comprised the vision of the administration.

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Representative Gara expressed discomfort with the governor's bill. He agreed with stemming and reversing the decline of output. He believed that the testimony presented did not substantiate the governor's bill. He referred to previous testimony from ExxonMobil, British Petroleum and ConocoPhillips stating that the passage of HB 110 did not guarantee the drilling of exploration wells. He deduced that the governor's bill was the wrong method of spurring exploration.

Commissioner Sullivan deferred to the Department of Revenue (DOR) on the issue of credits. The Department of Natural Resources (DNR) believed that everything possible must be done to attract oil production and activity in Alaska. He believed that tax reform was an important component of the issue. He believed that the governor's bill contained components that were of interest to a broad spectrum of oil companies. He pointed out the importance of the large companies and their involvement in Alaska production.

Representative Gara noted testimony about Alaska's modest sized fields. The economics of producing a field and building a processing facility do not pan out. He wondered

about a credit enabling a company to build a processing facility.

Commissioner Sullivan replied that the department aggressively reviewed options regarding methods to accelerate oil production in the state. He agreed that small field development was important.

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Representative Guttenberg believed that the arguments presented by DNR were largely emotional. He referred to prior testimony made by Kevin Banks. He mentioned dialog regarding development plans, which were deemed confidential. He wondered whether the department considered an executive session with the committee regarding the legislation.

Commissioner Sullivan pointed out limits related to confidentiality clauses. He offered to present anecdotal evidence related to factual information regarding global markets. He promised to return to the committee with an answer.

Representative Guttenberg noted that an independent consultant provided testimony before the committee invalidating the competitive capital argument. Commissioner Sullivan believed that the testimony had been wrong.

Representative Guttenberg further explained the mentioned testimony and hypothesized that if the bill passed the producer's tax burden would be lessened leaving them with more capital. He wondered how the department would enforce the intent of the bill. Commissioner Sullivan responded that DNR considered leases and lease terms as another method of increasing production. He noted that balance was essential for lease terms. The department planned to promote the state and convey to oil companies that Alaska was competitive. Alaska's basins were largely unexplored when compared to the rest of the world.

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Representative Doogan asked to know the cause of the recent pipeline leak. Commissioner Sullivan believed that the cause was corrosion and build up. He offered to provide specific data.

Representative Doogan pointed out that a solution to the shutdown of throughput may not include tax credits. The solution instead was maintenance of the pipeline. Commissioner Sullivan agreed that maintenance was important, however declining throughput often led to problems such as wax build up and water in the pipeline. He believed that the avoidance of future problems with the pipeline lay in the increase in production.

Representative Doogan appreciated the commissioner's position. He opined that allowing the pipeline to deteriorate was not the result of a throughput problem, but a result of people neglecting their jobs.

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Commissioner Sullivan replied that the department was working on the problem and on the infrastructure issues. He explained that increased throughput would present less challenges to the structural problems on the pipeline.

Commissioner Sullivan emphasized that he was not a pipeline engineer, but he understood that technological challenges with the pipeline may increase as a result of declining production.

BRYAN BUTCHER, COMMISSIONER, DEPARTMENT OF REVENUE, asked Representative Gara to repeat his questions.

Representative Gara wondered how quickly the state's \$12 billion savings would run out under the legislation in the event that production is not increased. He also referred to the Frasier Report which stated that 75 percent of companies did not see Alaska's oil tax system as a deterrent to investment.

Commissioner Butcher responded that the Frasier Report could be viewed from different directions. He stressed that 25 percent of companies believed that Alaska's fiscal regime presented a deterrent. He offered to present the study to the committee at a later date. He noted that the state reserves would be assessed during a future presentation.

Representative Gara questioned the accuracy of the fiscal notes attached to the bill. He discussed the annual rather

than monthly tax average. The committee requested five years of historical data regarding cost differences between monthly and annually.

Commissioner Butcher responded that the department would supply the information to the committee. He noted that a change from the more aggressive progressivity curve minimizes the difference between annual and monthly averages.

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Vice-chair Fairclough understood that the respondents to the Frasier Report were compensated for their reports. Representative Gara replied that the Frasier report was credible enough to warrant presentation to the House Resources Committee by Commissioner Butcher.

Commissioner Butcher communicated that the intention of presenting the Frasier report was to provide comparison between various studies. He stated that a focus on data proved more valuable than the comparisons.

Vice-chair Fairclough wondered whether the respondents were paid to respond. Commissioner Butcher believed that the respondents to the study were paid \$1000. The department believed that the study had had value.

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ADJOURNMENT

The meeting was adjourned at 3:02 PM.