ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
March 28, 2012
1:09 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Alan Dick
Representative Neal Foster
Representative Bob Herron
Representative Cathy Engstrom Munoz
Representative Berta Gardner
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 328
"An Act relating to the oil and gas corporate income tax; relating to the credits against the oil and gas corporate income tax; making conforming amendments; and providing for an effective date."

- HEARD & HELD

OVERVIEW(S): DECOUPLING OF OIL & GAS TAXES

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 328
SHORT TITLE: OIL AND GAS CORPORATE TAXES
SPONSOR(s): REPRESENTATIVE(s) SEATON

02/17/12	(H)	READ THE FIRST TIME - REFERRALS
02/17/12	(H)	RES, FIN
02/29/12	(H)	RES AT 1:00 PM BARNES 124
02/29/12	(H)	Heard & Held
02/29/12	(H)	MINUTE(RES)
03/16/12	(H)	RES AT 1:00 PM BARNES 124

03/16/12	(H)	Heard & Held
03/16/12	(H)	MINUTE(RES)
03/28/12	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

BRUCE TANGEMAN, Deputy Commissioner
Office of the Commissioner
Department of Revenue (DOR)
Juneau, Alaska
POSITION STATEMENT: Provided a PowerPoint presentation entitled "'Decoupling' of Oil and Gas for Production Tax Purposes," dated 3/28/12.

DAN STICKEL, Acting Assistant Chief Economist
Anchorage Office
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska
POSITION STATEMENT: Answered questions during the presentation entitled "'Decoupling' of Oil and Gas for Production Tax Purposes," dated 3/28/12.

ACTION NARRATIVE

1:09:42 PM

CO-CHAIR PAUL SEATON called the House Resources Standing Committee meeting to order at 1:09 p.m. Representatives Seaton, Gardner, Kawasaki, P. Wilson, and Feige were present at the call to order. Representatives Dick, Herron, Foster, and Munoz arrived as the meeting was in progress.

HB 328-OIL AND GAS CORPORATE TAXES

1:10:00 PM

CO-CHAIR SEATON announced that the first order of business would be HOUSE BILL NO. 328, "An Act relating to the oil and gas corporate income tax; relating to the credits against the oil and gas corporate income tax; making conforming amendments; and providing for an effective date."

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REPRESENTATIVE P. WILSON moved to adopt the committee substitute (CS) for HB 328, identified as Version 27-LS1142\I, Nauman,

3/27/12, as the working document. There being no objection, Version I was before the committee.

CO-CHAIR SEATON informed the committee HB 328, Version I, addresses issues brought forth by industry and the Department of Revenue (DOR) relating to the regulations on depreciation schedules, changes in the submission of industry data and the calculation of corporate income tax, quarterly filings, penalties for failure to file, and exemptions for companies with less than a $1 million tax liability. He asked for future comments on the bill to be specific to Version I.

1:12:24 PM

[Although not formally announced, HB 328 was treated as held over.]

OVERVIEW(S): Decoupling of Oil & Gas Taxes

1:13:44 PM

CO-CHAIR SEATON announced that the final order of business would be an overview by the Department of Revenue (DOR) regarding the decoupling of oil and gas taxes.

1:14:14 PM

BRUCE TANGEMAN, Deputy Commissioner, Office of the Commissioner, DOR, said DOR was asked to present an overview on the issue of decoupling in order to refresh the committee's knowledge on this subject as it is expected to resurface in the future.

CO-CHAIR SEATON noted that there was no bill presently before the committee to accomplish decoupling.

MR. TANGEMAN stated the presentation would address the following topics:

- A brief review of how Alaska's production tax works
- What is "decoupling"?
- Why decouple?
- Decoupling Issues
- History: Senate Bill 305 in 2010

MR. TANGEMAN displayed slide 3 entitled "Review: How Alaska's Production Tax Works," and explained the tax is a company-

specific tax based on the Production Tax Value (PTV), which is calculated by taking market price less transportation costs to determine the gross value at point of production (GVPP), and then deducting operating and capital lease expenditures from GVPP to determine PTV. As illustrated, other factors are the base tax rate of 25 percent, which is affected by progressivity when PTV is over $30 per barrel of oil equivalent (/BOE), and increases by 0.4 percent for each $1 of PTV over $30/BOE. For example, at PTV of $50/BOE, the tax rate is 33 percent. In response to Co-Chair Seaton, he confirmed that PTV of $50/BOE is based on Alaska North Slope (ANS) West Coast price of $80 per barrel (/bbl), and PTV of $92.50/BOE is based on ANS West Coast price of $120/bbl.

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MR. TANGEMAN displayed slide 4 entitled "FY 11 Production Tax Calculation," noting the slide is from the DOR Fall 2011 Revenue Sources Book (RSB) and depicts the tax calculation on a "high level." Slide 5, entitled "What is 'decoupling'," illustrated the following: under current law, gas production from major gas sales would be converted to "barrel of oil equivalent" [BOE] and taxed in the same calculation as oil; current law equates six million British thermal units (Btu) to one barrel of oil; and decoupling would calculate oil and gas tax for major gas sales separately. Slide 6 compared the calculation of oil and gas tax liability coupled with the calculation of tax liability of oil and gas decoupled. Slide 7 began to answer the question of why decouple:

- Oil is different than gas (different uses, resource endowments, and substitutes)
- Decoupling allows tax policy to be crafted specific to oil or gas production
- Oil is currently worth more than gas (per unit of energy)
- Gas value as it relates to oil (parity) varies greatly over time. Currently oil costs about $120/bbl and gas costs about $2.20 per million Btu.

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CO-CHAIR SEATON asked whether gas prices in Cook Inlet or on the North Slope are tied to the Henry Hub natural gas pricing point for North America and if not, what price indices are used to compare prices on a worldwide basis.

MR. TANGEMAN expressed his belief that the prevailing price of gas in Alaska is based on the local market.

CO-CHAIR SEATON observed about 240 million cubic feet per day (MMcf/d) of gas pumps into the Southcentral electrical grid. However, Alaska gas is not marketed in the Lower 48 thus the Henry Hub price is not appropriate. He said he would like to see a price comparison for exporting gas to Asia, which is a market in which Alaska would participate if AGIA does not complete a route to Alberta, Canada.

MR. TANGEMAN assured the committee that if a bill were proposed more realistic numbers would be generated. For any major gas sale to occur in the future, a price a lot higher than $2.18 per Mcf must be assumed.

REPRESENTATIVE P. WILSON asked for the indices currently being used by DOR for its forecasts.

MR. TANGEMAN said DOR is using ANS West Coast for oil and the Henry Hub index for gas.

CO-CHAIR SEATON turned the gavel over to Co-Chair Feige.

1:25:00 PM

MR. TANGEMAN displayed slide 8 and pointed out that oil price is not 6:1 of gas price. In the past, 6:1 oil and gas prices may have been parity; however, since 1/06, the price of oil has climbed to its present value. Because oil is worth so much more than gas, decoupling has become a big issue. Slide 9 continued to answer the question of why decouple:

- Including lower value gas in the same tax calculation as higher value oil reduces the average value per BOE and therefore reduces the progressive tax rate on oil. This is known as the dilution effect
- By taxing oil and gas together, gas production reduces oil taxes even through oil operations are unaffected
- This has been called the flip the switch problem; as soon as major gas sales begin, state tax revenue could drop significantly, under certain price scenarios

REPRESENTATIVE KAWASAKI asked for a rough estimate of the current economic impact to the state of the present tax system, and the possible impact of opening a 4.5 billion cubic feet per day (bcf/d) gas pipeline.

DAN STICKEL, Acting Assistant Chief Economist, Anchorage Office, Tax Division, DOR, said DOR looked at numbers from 2011 and found that the reduction in state revenue from oil - due to including gas from Cook Inlet and North Slope sales in the progressivity calculation - would have been about $80 million dollars, and could rise to $100-$150 million per year going forward.

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MR. TANGEMAN displayed slide 10 which laid out the assumptions for the four scenarios on slides 11-14. The assumptions are:

- One year income statement model
- DOR 2012 profiles: 450 thousand bbl/d of oil; 4.5 bcf/d of gas
- Conversion: 6 Mcf = 1BOE
- Costs allocation: $2.5 billion in operating expenses; $2.5 billion in capital expenses; costs split on the basis of gross value at the point of production (PoP)
- Transportation costs: $11/bbl for oil; $4.5/MMBtu for gas

REPRESENTATIVE DICK asked for a further explanation of the BOE conversion factor.

MR. TANGEMAN explained that in the conversion factor BOE has nothing to do with where it falls in the income statement, only that six thousand feet [6 Mcf] of gas is the thermal equivalent to one barrel of oil [1 bbl].

CO-CHAIR FEIGE in further response to Representative Dick, pointed out one thousand cubic feet (Mcf) of gas is also roughly the thermal equivalent to one million Btu (MMBtu).

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REPRESENTATIVE DICK said, "So BOE is not referring to cost ... are we comparing dollars or ... Btus?"

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MR. STICKEL explained the purpose of putting the conversion on slide 10 was just to state a modeling simplification that DOR used for the purpose of preparing the scenarios on slides 11-14. A factor of each scenario is that the tax is assessed - and

progressivity is calculated - on a BOE basis; this was the conversion factor that was used to calculate the "4.5 bcf a day of gas, two barrels of oil equivalent, and we simply used the 6:1 ratio.... It's a modeling simplification."

REPRESENTATIVE DICK further asked whether the 6:1 ratio comparison was of the dollar ratio or the Btu ratio.

CO-CHAIR FEIGE returned attention to slide 5, restating that current law equates [the heating value of] six million Btu to one barrel of oil, and that one Mcf of gas and one million Btu are about the same.

MR. TANGEMAN displayed slide 11 entitled "At high parity, Decoupled Revenue > Status Quo," explaining that an oil price of $120/bbl and a gas price of $8/MMBtu equates to a 15:1 parity.

REPRESENTATIVE GARDNER asked for the difference between the "Oil Stand Alone and Gas Stand Alone" and the "Decoupled" bars illustrated on the slide 11 bar graph.

MR. STICKEL responded that in this slide presentation they are essentially the same. In designing the slides, DOR has provided the ability for a comparison between three different scenarios.

REPRESENTATIVE P. WILSON asked for an explanation of parity.

MR. TANGEMAN answered that parity is the comparison of how oil and gas relate, which was 6:1 years ago but, as oil prices have increased and gas prices have decreased, the parity has grown. Mr. Tangeman returned attention to slide 11, noting that the revenue was based on 450 Mbbl/d of oil production and 4.5 bcf/d of gas production. If revenue from both were calculated together - which is the status quo - state revenue would be $4.1 billion; if decoupled, and calculated separately, state revenue would be $5.9 billion, making a difference of $1.8 billion.

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REPRESENTATIVE P. WILSON presumed the oil companies prefer oil and gas taxed together.

REPRESENTATIVE KAWASAKI inquired as to the reason the scenario was based on 450 Mbbl/d of oil production, instead of the current rate.

MR. STICKEL said 450 Mbbl/d of oil production represents the rate of production DOR expects 10 years from now, based on its Fall forecast.

MR. TANGEMAN further explained it would not be realistic to use today's oil production rate, so DOR factored in the forecasted oil production decline over the next 10 years, which is about the length of time needed to develop gas production to 4.5 bcf/d.

REPRESENTATIVE KAWASAKI asked if DOR also anticipates that the price of oil would be $120/bbl and the price of gas would be $8/MMBtu.

MR. TANGEMAN clarified that DOR could have used its Fall forecast; however, the purpose of this presentation was to show revenue from several different scenarios. As an aside, he said the DOR forecast for ANS West Coast in 2021 is $117.31. Slide 12 indicated that an oil price of $120/bbl and a gas price of $15/MMBtu equates to a parity of 8:1. In this example, total revenue is significantly higher, however, the difference between Status Quo, Oil Stand Alone and Gas Stand Alone, and Decoupled is much less because the price of oil and gas are approaching a parity of 6:1. Slide 13 illustrated an oil price of $90/bbl and a gas price of $15/MMBtu, which are the breakeven levels and parity of 6:1. At this ratio, revenue is nearly the same for Oil Stand Alone and Gas Stand Alone, Status Quo, and Decoupled. Slide 14 illustrated revenues at today's oil price of $120/bbl, gas price of $2.18/MMBtu, and parity of 55:1, yielding an increase in revenue of about $2.7 billion.

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REPRESENTATIVE HERRON asked whether DOR has a slide that depicts oil prices at $150-$160/bbl.

MR. TANGEMAN offered to provide that information.

REPRESENTATIVE HERRON asked whether the high forecasts presented during the discussion of Alaska's Clear and Equitable Share (ACES) were based on oil prices of $100-$120/bbl.

MR. TANGEMAN said he did not recall, but could provide that information.

REPRESENTATIVE HERRON understood during the ACES debates no one dreamed of an oil price of $150/bbl; however, speculators are

now depending on a price of $150/bbl in the future. He questioned why the models presented today do not include high prices.

MR. TANGEMAN agreed, saying at that time the price of oil was $60/bbl, but gas prices were higher than they are today, so parity really was close to the breakeven ratio of 6:1. He noted that DOR has learned that oil prices can go up exponentially and seeks to incorporate models of a wide range of prices.

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REPRESENTATIVE P. WILSON requested that DOR provide bar graphs depicting an oil price of $150/bbl and gas prices of $3/MMBtu and $8/MMBtu, and an oil price of $175/bbl and gas prices of $3/MMBtu and $8/MMBtu.

MR. TANGEMAN agreed to do so. In response to Co-Chair Feige, he said he would determine whether DOR could provide the committee with a model, so each member could run desired scenarios. He turned attention to slide 15, which illustrated the following observations:

- Decoupling provides for a state share similar to the status quo when gas prices are relatively high (less dilution of progressivity under status quo)
- Decoupling imposes a higher state share compared to the status quo when gas prices are relatively low
- Decoupling generates revenue equal to or greater than Oil Stand Alone revenue in all cases.

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MR. TANGEMAN displayed slide 16 which illustrated the following decoupling issues on cost allocation:

- How costs are allocated between oil and gas has a significant impact on overall taxes owed
- Because oil and gas are generally produced together, it is not easy or straight forward to determine the costs applicable to the gas or oil produced
- The cost allocation method could result in uncertainty, disputes, and delays
- Cost allocation should be specified in the statute, and is a very important policy decision

REPRESENTATIVE KAWASAKI asked how other states such as Texas and North Dakota, deal with cost allocation between oil and gas, given the disparity of prices.

MR. STICKEL advised in some ways this is a unique issue faced by jurisdictions that tax on a net basis; in fact, when taxing on a gross basis, lease expenditures are not included in the calculation. However, DOR has found that for jurisdictions that do tax on a net basis and have a separate tax system for oil and gas, GVPP is the most common way to allocate costs between oil and gas production, although not the only way.

REPRESENTATIVE GARDNER asked how complicated it would be to use gross value at point of production for the purpose of allocating costs, but retain the net profits tax system.

MR. STICKEL observed that any form of allocation under decoupling adds a layer of complexity to the tax, and would require new statutes, staff, and regulations, but that is a hurdle DOR can overcome.

MR. TANGEMAN displayed slide 17 which illustrated three cost allocation scenarios. Each scenario was based on GVPP and parity of 15:1. Scenario 1 splits the cost based on BOE, which means 38 percent of the cost goes to oil for a total allocation of $1,875, and 63 percent to gas for a total of $3,125. Scenario 2 splits the cost based on GVPP, which means 76 percent of costs are attributable to oil, and 24 percent are attributable to gas. Scenario 3 splits the cost based on assumed actual costs of 90 percent to oil and 10 percent to gas. He stressed that how the state will allocate and split costs is a big question in regards to decoupling. Slide 18 was a bar graph which illustrated the impact of the allocation methods shown on slide 17. Scenario 1 [bar 1], decoupled with taxable barrels BOE cost allocation, indicated the oil was worth $6.8 billion, and the gas was worth $0.2 billion, for a total of $7 billion. Scenario 2 [bar 2] decoupled with GVPP cost allocation, indicated the oil was worth $5.1 billion, and the gas was worth $0.8 billion, for a total of $5.9 billion. Scenario 3 [bar 3], decoupled with oil costs of 90 percent and gas costs of 10 percent, indicated the oil was worth $4.5 billion, and the gas was worth $1.1 billion, for a total of $5.5 billion. Mr. Tangeman pointed out that this is revenue generated to the state and as more deductible costs are directed toward the higher priced product [oil], the PTV - on which the tax and progressivity are calculated - and state revenue, are driven down.

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REPRESENTATIVE DICK asked whether there is a realistic way to calculate what is attributable to oil and what is attributable to gas.

MR. TANGEMAN explained that starting from the GVPP and then deducting lease expenditures gets very complicated, because wells differ greatly in their mix of oil and gas. So, when taxes are calculated on a gross level, the tax is based on the value of the product, and costs are distributed by value. However, under the net system there is no end to how the costs could be applied, so the difficulty is for the state to decide how to allocate the costs in a fair manner. In response to Representative P. Wilson, he said the price of oil is held constant in the scenarios presented by DOR.

MR. STICKEL further explained the basic principle illustrated on slide 18 is that the price of oil is high and there is a significant progressivity surcharge resulting in a higher tax rate on oil. There is no progressivity on gas thus the more costs that are shifted to oil reduce the tax rate on oil. For example, the bar depicting decoupled with taxable barrels BOR Cost Allocation has 38 percent of the costs shifted to oil and a total of $7 billion in state revenue, and the bar depicting decoupled with oil costs has 90 percent of the total cost shifted to oil and totals $5.5 billion in state revenue; therefore, more costs shifted towards the "oil side" reduce the overall tax liability. Mr. Stickel clarified that there are some instances where costs will be clearly an oil cost or clearly a gas cost; the allocation language only applies to situations where the type of cost is not clear.

REPRESENTATIVE P. WILSON presumed that the state would want to calculate which scenario is best for it, but the oil companies want what is best for them.

REPRESENTATIVE GARDNER said the decision is made by the state.

CO-CHAIR FEIGE assumed that depending on where a particular field is in its production cycle, the revenue from each of the scenarios will vary.

MR. TANGEMAN agreed, saying the state is looking at each scenario at a point in time, but a producer is looking at higher costs during the natural decline of a well.

CO-CHAIR FEIGE asked for a review of each method.

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MR. STICKEL advised the first method allocates costs based on BOE, which would be the energy equivalent ratio of the production of oil and the production of gas. The second method allocates costs based on GVPP, which would allocate the costs based not on the energy equivalent, but on the value of the oil and the gas. The third method allocates costs based on an assumed actual, thus a company would declare its expenses divided between gas and oil; this is the most complicated of the three methods and would require extensive regulation. In general, oil production is inherently more expensive than gas production, which is the rationale for the 90:10 split. He suggested that a straight percentage could also be used. In response to Co-Chair Feige, he said the first method would be easiest for DOR to administer because it is currently in statute, and the third method is the most complex.

REPRESENTATIVE GARDNER asked whether the first method is also easiest for the producers.

MR. STICKEL, although not speaking for industry, pointed out that the data necessary is the same for DOR and industry. In response to Co-Chair Feige, he agreed that the third method could be controversial.

REPRESENTATIVE DICK returned attention to slide 3 and asked whether transportation costs are the costs of getting the gas out of the ground.

MR. TANGEMAN explained the transportation cost would be the Trans-Alaska Pipeline System (TAPS) tariff and the marine transportation costs to get the gas to market. In further response to Representative Dick, he said the cost of getting the gas to the wellhead would fall under lease expenditures.

MR. STICKEL clarified that the cost allocations referred to in the presentation include only lease expenditures.

MR. TANGEMAN displayed slide 19 which reviewed some other decoupling issues to consider:

- Potential impact on current gas production: Cook Inlet gas; gas used in-state; small quantities of other gas production, as in outer continental shelf (OCS)
- Complexity of administration for the state and taxpayers
- Specify gas tax now or save for another session
- Balance between desire for revenue and making a major gas project attractive
- Treatment of net operating loss for gas

2:04:25 PM

MR. STICKEL, in response to Co-Chair Feige, further explained that the treatment of net operating loss for gas issue comes into play in a situation similar to current prices, because selling gas for $2-$3 with a $4.50 tariff results in a GVPP of zero, and money is lost just by shipping the gas. Currently, a loss due to transportation cost is not eligible for a carry-forward annual loss credit.

CO-CHAIR FEIGE surmised this would happen if a company expected a higher price, but after entering a contract for delivery, the market price dropped.

MR. STICKEL said correct.

REPRESENTATIVE P. WILSON presumed that the reason the companies want to own the pipeline is "because they can pay that to themselves ... write-off the loss that way, and still make money."

MR. TANGEMAN advised that the transportation cost is a real cost; it is the cost of building and maintaining the pipeline. In further response to Representative Wilson, he said the cost of transportation may be $4.50 for gas that can be sold for $2, and "regardless of who owns it, somebody's going to be paying that $4.50." This is the overriding discussion around the gas pipeline now, because building a gas pipeline assumes the market price for gas will increase. In response to Co-Chair Feige, he agreed that allowing a write-off of a net operating loss against other production would vastly change the economics of a gas pipeline project.

REPRESENTATIVE P. WILSON observed that other states do not have the problem of transporting gas over long distances.

REPRESENTATIVE DICK opined that gas and oil flow from a well simultaneously thus the cost of getting gas out of the ground is negligible.

MR. TANGEMAN deferred to DNR or the industry.

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CO-CHAIR FEIGE provided an example.

REPRESENTATIVE DICK suggested that in the interest of fairness, if the gas is coming out of the ground anyway, all of the costs at the wellhead should be subscribed to oil.

MR. TANGEMAN advised that not all wells are created equal and the same percentage of oil and gas do not come from each well; in addition, there is a very wide range of mix over a period of time. In the early years of production on the North Slope, most of the flow was oil, but today more of the flow is water and gas, which adds to the cost of production. He turned attention to slide 20 which illustrated the history of Senate Bill 305 in 2010:

- Decoupled oil and gas for purposes of a major gas sale
- Held harmless most current gas production
- Provided one tax calculation for oil, Cook Inlet gas, and gas used in-state
- Provided a separate tax calculation for non-Cook Inlet gas that is exported out of state
- Specified GVPP cost allocation to the extent possible
- Extensive analysis by the legislature, administration, and consultants
- Numerous technical issues raised and addressed
- Final bill is the basis of this year's decoupling in SB 167 and SB 192

CO-CHAIR FEIGE asked how GVPP cost allocations "to the extent possible" fit into the three aforementioned methods of cost allocation.

2:12:13 PM

MR. STICKEL said the initial version of Senate Bill 305 directed that the lease expenditure allocation was left up to the discretion of DOR through regulation; however, in the final version, GVPP was specified as the preferred method of lease

expenditure allocation, including the language "to the extent possible," which left open the possibility for another method of allocation to be specified.

CO-CHAIR FEIGE presumed it was up to DOR to assign another method.

MR. STICKEL said right. He added that the language in the bill directed DOR to develop regulations for the allocation of lease expenditures in those situations where it was necessary, and also directed DOR to allocate lease expenditures based on GVPP to the extent possible. In response to Co-Chair Feige, he agreed that the language gave DOR more flexibility.

REPRESENTATIVE DICK understood that currently the gas and water coming from the well are treated and the gas is re-injected; so, where is the cost if instead of re-injecting the gas, it is put in a pipeline.

MR. TANGEMAN deferred to an expert in oil and gas engineering.

REPRESENTATIVE P. WILSON referred to the flexibility provided in Senate Bill 305 and asked how DOR would determine which cost allocation to utilize.

MR. TANGEMAN recalled that at the time Senate Bill 305 was passed, DOR was dealing with a complex tax system and implementing changes in regulations from the Petroleum Profits Tax (PPT) to Alaska's Clear and Equitable Share (ACES) tax system. He opined Senate Bill 305 "wasn't quite right," but now, two years later, DOR is in a better position to talk about an eventual gas sale.

2:19:16 PM

MR. TANGEMAN, in response to Representative P. Wilson, displayed slide 21 which continued the history of Senate Bill 305 in 2010:

- Passed Senate and House, vetoed by governor
- Reasons cited in veto message:
- 1. Decoupling, on its own, represents an overall tax increase
- 2. Changing the tax during the pipeline open seasons (AGIA, Denali) creates uncertainty
- 3. Change not needed at this time because legislature retains ability to make changes to tax

laws ... any tax locked in for firm commitments at the first AGIA open season only applies to gas, not oil.

MR. TANGEMAN opined the timing was not right for decoupling at that time, and - although the governor still regards these issues as problems - DOR today feels it was appropriate to incorporate language from Senate Bill 305 into SB 192.

REPRESENTATIVE P. WILSON reiterated her question of whether it is better to decouple now before the start of open season, in order to be fair to the oil companies. She clarified that she was talking about the open season that starts in October 2012.

MR. TANGEMAN stated that stability and an awareness of the gas tax structure will be very important to the oil companies down the road. At this time, the administration is willing to put a structure in place that will regulate how gas and oil will be decoupled in the future. Legislation proposed this session would establish a structure for how to deal with a tax on gas next year, or whenever appropriate. He acknowledged that the language in SB 192 would not solve all of the issues surrounding gas.

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CO-CHAIR FEIGE returned the gavel to Co-Chair Seaton.

REPRESENTATIVE P. WILSON inferred the bill would decouple the oil and gas tax without detail.

MR. TANGEMAN restated that the language in HB 192 is the language that was in Senate Bill 305, which was vetoed by the governor. He declined to speculate on future changes to HB 192.

CO-CHAIR SEATON asked whether the administration anticipates that open season bids would be highly contingent upon taxes and other factors.

MR. TANGEMAN declined to speculate.

2:29:40 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:30 p.m.