

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 24, 2012

9:17 a.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

**OTHER LEGISLATORS PRESENT**

Representative Anna Fairclough  
Representative Mike Doogan  
Representative Bob Lynn  
Representative Kurt Olson  
Representative Dan Saddler  
Representative Pete Petersen  
Representative Chris Tuck  
Representative Lance Pruitt

**COMMITTEE CALENDAR**

HOUSE BILL NO. 3001

"An Act relating to adjustments to oil and gas production tax values based on a percentage of gross value at the point of production for oil and gas produced from leases or properties north of 68 degrees North latitude; relating to monthly installment payments of the oil and gas production tax; relating to the determinations of oil and gas production tax values; relating to oil and gas production tax credits including qualified capital credits for exploration, development, or production; making conforming amendments; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB3001

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

04/18/12	(H)	READ THE FIRST TIME - REFERRALS
04/18/12	(H)	RES, FIN
04/20/12	(H)	RES AT 1:00 PM HOUSE FINANCE 519
04/20/12	(H)	Heard & Held
04/20/12	(H)	MINUTE(RES)
04/21/12	(H)	RES AT 10:00 AM HOUSE FINANCE 519
04/21/12	(H)	Heard & Held
04/21/12	(H)	MINUTE(RES)
04/21/12	(H)	RES AT 2:00 PM HOUSE FINANCE 519
04/21/12	(H)	Heard & Held
04/21/12	(H)	MINUTE(RES)
04/23/12	(H)	RES AT 9:00 AM HOUSE FINANCE 519
04/23/12	(H)	Heard & Held
04/23/12	(H)	MINUTE(RES)
04/23/12	(H)	RES AT 1:00 PM HOUSE FINANCE 519
04/23/12	(H)	Heard & Held
04/23/12	(H)	MINUTE(RES)
04/24/12	(H)	RES AT 9:00 AM HOUSE FINANCE 519

**WITNESS REGISTER**

SUSAN POLLARD, Assistant Attorney General  
Oil, Gas & Mining Section  
Civil Division (Juneau)  
Department of Law (DOL)  
Juneau, Alaska

**POSITION STATEMENT:** Presented the sectional analysis of  
HB 3001.

BRUCE TANGEMAN, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Participated in the sectional analysis of  
HB 3001, and presented the DOR's fiscal note.

LENNIE DEES, Production Audit Master  
Anchorage Office  
Tax Division  
Department of Revenue (DOR)

Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 3001.

JOHN LARSEN, Production Audit Master

Anchorage Office

Tax Division

Department of Revenue (DOR)

Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 3001.

DAN STICKEL, Acting Chief Economist

Anchorage Office

Tax Division

Department of Revenue (DOR)

Anchorage, Alaska

**POSITION STATEMENT:** Answered questions regarding the DOR's fiscal note during the hearing on HB 3001.

#### **ACTION NARRATIVE**

[9:17:52 AM](#)

**CO-CHAIR PAUL SEATON** called the House Resources Standing Committee meeting to order at 9:17 a.m. Present at the call to order were Representatives Seaton, Feige, Dick, Gardner, Kawasaki, P. Wilson, Herron, Munoz, and Foster. In attendance from the House Special Committee on Energy were Representatives Pruitt, Lynn, Olson, Saddler, Petersen, and Tuck. Also present were Representatives Fairclough and Doogan.

#### **HB3001-OIL AND GAS PRODUCTION TAX**

[9:19:48 AM](#)

CO-CHAIR SEATON announced that the only order of business would be HOUSE BILL NO. 3001, "An Act relating to adjustments to oil and gas production tax values based on a percentage of gross value at the point of production for oil and gas produced from leases or properties north of 68 degrees North latitude; relating to monthly installment payments of the oil and gas production tax; relating to the determinations of oil and gas production tax values; relating to oil and gas production tax credits including qualified capital credits for exploration, development, or production; making conforming amendments; and providing for an effective date."

CO-CHAIR SEATON relayed that the committee would be addressing HB 3001's sectional analysis and fiscal note, and acknowledged the presence of the commissioner of the Department of Revenue, Bryan Butcher.

[9:22:39 AM](#)

SUSAN POLLARD, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division (Juneau), Department of Law (DOL) - referring to the Department of Revenue's sectional analysis detailing HB 3001's proposed changes to AS 43.55, Oil and Gas Production Tax - explained first that Section 13 would add a new section 162 providing for a reduction of production-tax-value, sometimes referred to as a gross-revenue exclusion, for purposes of calculating the base tax rate and what she termed, "progressivity," under AS 43.55.011(e) and (g), respectively, and is intended to apply to production from both new and existing fields on the North Slope. Specifically, via use of the language, "from leases or properties north of 68 degrees North latitude that were not, as of January 1, 2008, either within a unit or in commercial production", subsection (a) of proposed new AS 43.55.162 addresses new field production, additionally stipulating that its proposed 30 percent reduction applies to both the base rate and progressivity and that it would be applicable during [the first 10 consecutive years after the later of either the start of sustained production or the effective date of this proposed new section]. It's very likely that it's always going to be [for] the first 10 [consecutive] years after the start of sustained production once this section's proposed effective date is passed, she remarked, surmising that the language of subsection (a) was written as it was simply "to accommodate the possibility that there would be some production that would ... qualify before the effective date of the ... [section]."

MS. POLLARD, in response to questions, offered her understanding that the intention is to ensure that all new North Slope fields enjoy subsection (a)'s proposed 30 percent reduction for at least 10 consecutive years.

BRUCE TANGEMAN, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), concurred.

[9:28:57 AM](#)

MS. POLLARD, in response to another question, relayed that the term, "sustained production" is defined under subsection (1)(3) of existing AS 43.55.025 - Alternative tax credit for oil and gas exploration - as production of oil or gas from a reservoir into a pipeline or other means of transportation to market, but does not include testing, evaluation, or pilot production.

MR. TANGEMAN, in response to a question, explained that Section 13's proposed effective date is January 1, 2013; that for purposes of determining which fields to consider as new fields under subsection (a), the administration chose the date of January 1, 2008, to be the delineating date; and that that would allow [the production-tax-value of any oil and gas produced from such new fields] over the last four years to qualify for subsection (a)'s proposed 30 percent reduction.

REPRESENTATIVE SADDLER asked whether existing law's definition of the term "sustained production" would apply to the bill.

MS. POLLARD indicated that it would.

MR. TANGEMAN, in response questions, relayed that having a delineation date of January 1, 2008, would allow more companies to qualify for subsection (a)'s proposed reduction of production-tax-value, and is intended to provide them with the incentive to accelerate certain projects; and that there currently are companies with projects that could qualify for the proposed reduction.

CO-CHAIR FEIGE offered his understanding that some such companies are waiting to be provided with some kind of incentive before starting production, and that that is why that particular delineation date was chosen for purposes of distinguishing new fields from existing ones.

[9:36:55 AM](#)

MR. TANGEMAN added that under the proposed delineation date of January 1, 2008, [the companies] "Great Bear, Repsol, Armstrong, Brooks Range, [and] anything with new activity" would qualify for subsection (a)'s proposed reduction of production-tax-value, but the Point Thomson, Ooguruk, and Nikaitchuq [fields] would not. In response to comments and questions, he clarified that Section 13 does not address facilities, but instead addresses production related to certain fields, and thus what particular facility the oil or gas is going through is irrelevant for purposes of calculating Section 13's proposed reduction of

production-tax-value; if the oil or gas is produced from a field that qualifies under Section 13's proposed AS 43.55.162(a), then the production-tax-value of that oil or gas would be reduced as stipulated regardless of which facility is used.

CO-CHAIR SEATON asked that information be provided in writing regarding which North Slope fields would be covered under subsection (a) and which would not.

REPRESENTATIVE HERRON asked for the rationale behind choosing 30 percent for subsection (a)'s proposed reduction.

MR. TANGEMAN explained that the DOR ran a model using that percentage and determined it would be fair, both in terms of providing an incentive for new production, and in terms of providing a starting point for conversations between the state and industry. In response to a question, he expressed his belief that "fair" is what will bring the most investment to the state in order to increase production. Based on the fact that industry activity is occurring elsewhere but not in Alaska, it appears that what Alaska currently has in place is not fair to industry, although it works quite well for bringing cash into the state in the short-term. However, the administration is looking for what is fair, long-term, for industry, while continuing to ensure that the state is getting its fair share. He opined that the state is "over-collecting" at this point. In response to comments and questions, he indicated that Section 13 also addresses what would be considered existing fields under its proposed delineation date of January 1, 2008, and does so because it was felt that addressing only new fields would be insufficient in terms of providing industry with meaningful incentives.

[9:46:07 AM](#)

MS. POLLARD, continuing with her explanation of HB 3001's proposed changes to AS 43.55, turned members' attention to Section 13's proposed new AS 43.55.162(b), and explained that for purposes of calculating progressivity, subsection (b) provides for a 40 percent reduction of the production-tax-value of oil and gas produced from existing North Slope fields, described therein as "oil and gas produced from leases or properties north of 68 degrees North latitude, other than oil and gas subject to subsection (a)" of proposed new AS 43.55.162.

REPRESENTATIVE HERRON asked for the rationale behind choosing 40 percent for subsection (b)'s proposed reduction.

MR. TANGEMAN relayed that the administration chose 40 percent as a good place to start based on input from and activity by industry. In response to another question, he indicated that the administration would be amenable to having subsection (b)'s proposed percentage changed as long as both the administration and industry agree that the new percentage would still engender a [positive] change in Alaska's investment climate.

REPRESENTATIVE GARDNER, in response to comments addressing the issue of industry commitments, offered her recollection that without making any actual commitments to increasing oil and gas activity in Alaska, industry has said only that changes [to Alaska's oil and gas tax structure] "may help." Such statements, she pointed out, are not a guarantee that passing HB 3001 - or any other such bill - would result in the sought-after level of industry investment in Alaska, or a guarantee that not passing such a bill would result in that investment never occurring.

REPRESENTATIVE TUCK questioned why existing fields should be given a reduction in production-tax-value for purposes of calculating progressivity, particularly given that the [legislature's consultants] have declined to speculate on whether [HB 3001] really would reduce the current decline in production, but have indicated that Alaska's existing tax structure already adequately addresses existing fields.

MR. TANGEMAN relayed that the goal is to provide industry with a more competitive tax structure for existing North Slope fields as an incentive to increase production from them.

REPRESENTATIVE TUCK questioned how Section 13's proposed AS 43.55.162(b) would help reduce the current decline in production.

MR. TANGEMAN reiterated that under it, Alaska would have a more competitive tax structure for existing fields - an incentive for industry to increase production from such fields. The state must decide whether to simply accept the current decline in production, or lower its tax rates in some fashion so as to draw in more industry investment in an attempt to reduce that decline.

CO-CHAIR SEATON, in response to comments regarding high oil prices, stressed the importance of ensuring that Alaska has a tax structure that's adaptive to oil-price fluctuations, and

expressed concern that with regard to new field production under Section 13's proposed new AS 43.55.162(a), revenue to the state would be reduced and industry could make a profit without paying any production tax.

[10:03:14 AM](#)

LENNIE DEES, Production Audit Master, Anchorage Office, Tax Division, Department of Revenue (DOR), acknowledged that such could result once tax credits are applied, though the calculation for the [base tax rate] would remain the same as under existing law.

REPRESENTATIVE MUNOZ asked whether [the DOR] has a way to quantify current industry investment addressing the decline in production compared to the investment anticipated [under the bill].

MR. TANGEMAN indicated that [the DOR] does not.

REPRESENTATIVE TUCK, referring to Section 13's proposed new AS 43.55.162(b), questioned whether anything would ensure that industry invested its profits in Alaska.

MR. TANGEMAN offered his belief that the existence of Alaska's significant remaining oil and gas reserves would ensure that such investment occurs. In response to comments, he again reiterated his belief that in providing industry with a more competitive tax structure for existing fields, subsection (b) would serve as an incentive to increase investment in, and production from, such fields. In response to a question, he explained that existing law already addresses calculating the gross value of oil and gas at the point of production, and calculating both the annual and monthly production-tax-values, and that nothing in the bill would change those calculations - Section 13's proposed reduction wouldn't be applied until after those other calculations are made.

MS. POLLARD drew attention to Section 13's proposed new AS 43.55.162(c), and explained that similar to subsection (b) of existing AS 43.55.160 - under which production-tax-values are calculated - it stipulates that the annual and monthly production-tax-value may not be reduced below zero. Section 13's proposed new AS 43.55.162(d) stipulates that the tax rate under AS 43.55.011(g) - what's been termed "progressivity" - shall be determined before the application of subsection (a) or (b)'s proposed reduction.

MR. DEES, in response to a question, reiterated that calculating the gross value at point of production and calculating the annual and monthly production-tax-values would not change under the bill, and that Section 13's proposed reduction of production-tax-value wouldn't be applied until after both of those calculations have been made, and indicated that Section 13 in and of itself doesn't address operating costs or losses or the impact of those costs/losses on the total amount of taxes paid.

CO-CHAIR SEATON observed that Section 13 isn't really providing for an actual gross-revenue exclusion regardless of how the administration is referring to it - Section 13 is really just providing for a reduction of production-tax-value.

MS. POLLARD directed members' attention to Section 13's proposed new AS 43.55.162(e), and explained that it stipulates that proposed new AS 43.55.162 would not apply to [gas] produced before 2022 and used in the state. Section 13's proposed new AS 43.55.162(f) stipulates that no adjustment under AS 43.55.162 may be made if the annual or monthly gross value at the point of production is zero or below.

[10:19:35 AM](#)

MS. POLLARD went on to explain that Sections 1, 2, and 3 of HB 3001, respectively, provide conforming changes - regarding Section 13's proposed reduction of production-tax-value - to AS 43.55.011(e)(1), addressing the calculation of the annual production-tax-value for purposes of calculating the base tax rate; to AS 43.55.011(g), addressing the calculation of the monthly production-tax-value for purposes of calculating what's been termed, "progressivity"; and to AS 43.55.020(a), addressing monthly installment payments of estimated taxes. She noted that Section 3 also provides AS 43.55.020(a) and its paragraph (1)(A) and (C) with reworded references to AS 43.55.011 and its subsections. Section 4 of HB 3001 would amend AS 43.55.023(a) by removing the words, "however, not more than half of the tax credit may be applied for a single calendar year;" from the end of existing paragraph (1) so that a tax credit for a qualified capital expenditure could be applied for a single calendar year, instead of having to be split and applied for two calendar years.

The committee took three at-eases between 10:25 a.m. and 10:54 a.m., the last two to address technical difficulties.

CO-CHAIR SEATON, in response to a question, offered his understanding that the date of 2022 referenced in Section 13's proposed new AS 43.55.162(e) is the same date used in existing law regarding gas used in the state.

MS. POLLARD then explained that Sections 5 and 6 of HB 3001, respectively, provide conforming changes to AS 43.55.023(d) and (g) - addressing tax credit certificates - regarding Section 4's proposed change to AS 43.55.023(a) and [Section 14's] proposed repeal of AS 43.55.023(m), a provision addressing the issuance of multiple, transferable tax-credit certificates. Also, to address an oversight made when existing AS 43.55.023(l) was enacted, Section 5 adds well lease expenditures to the list of items in AS 43.55.023(d) for which a tax credit may be claimed. Furthermore, the changes that would be made via Sections 4-6 in order to allow the application of a tax credit in a single calendar year would similarly be made elsewhere in AS 43.55.023 via other provisions of HB 3001.

MR. TANGEMAN, in response to questions, explained that tax credit certificates are the mechanism by which industry realizes its tax credits, and confirmed that under the bill, a tax credit for a qualified capital expenditure could be applied for a single calendar year, instead of having to be split and applied for two calendar years.

MS. POLLARD turned the committee's attention to Section 7 of HB 3001, and explained that by deleting the phrase, "south of 68 degrees North latitude" throughout AS 43.55.023(l) and by replacing the date currently stipulated therein, Section 7 would ensure that a producer or explorer could apply for a tax credit for any well lease expenditure incurred in the state after December 31, 2012; Section 7 also provides a conforming change regarding allowing the application of a tax credit in a single calendar year. Section 8 of HB 3001 provides conforming changes to AS 43.55.023(n) - which stipulates what constitutes an applicable well lease expenditure - regarding Section 7's proposed changes to subsection (l) and [Section 14's] proposed repeal of subsection (m). She indicated that Section 8 is going to require a technical amendment splitting it into two, separate sections because currently under the bill, [both Section 7 and Section 8 have] an effective date of January 1, 2013, but apply to expenditures incurred after December 31, 2012, whereas in contrast, [Section 14 has an immediate effective date but] is retroactive to January 1, 2012.

[11:02:38 AM](#)

JOHN LARSEN, Production Audit Master, Anchorage Office, Tax Division, Department of Revenue (DOR), in response to a question regarding language in Section 8, explained that operating expenses would not be eligible for a well-lease-expenditure tax credit because the language of AS 43.55.023(n) - [both existing and under the bill] - stipulates that to be considered a well lease expenditure eligible for a tax credit, the expenditure must be directly related to certain types of wells, listed therein, and be both a qualified capital expenditure and an intangible drilling and development cost authorized under certain provisions of federal law, listed therein, and stipulates that an expenditure directly related to a well could include an expenditure for certain activity, listed therein. With regard to the term, "well workover" - one of the listed activities in Section 8 - he added that a well workover that merely repaired a well or maintained a well would not be a qualifying activity, but a well workover that either increased production or added what he called, "rate" would be, and that this [interpretation] is consistent with how federal law is applied with regard to federal tax.

CO-CHAIR SEATON expressed interest in obtaining a written legal opinion regarding the language in Section 8's proposed AS 43.55.023(n).

MR. LARSEN, in response to another question, ventured that the purpose of the bill's proposed changes regarding well lease expenditures and associated tax credits is to encourage more industry investment on the North Slope.

MR. TANGEMAN, in response to a further question, offered his understanding that existing AS 43.55.023(n) did result in more industry investment in other parts of the state.

MR. LARSEN, in response to a question regarding the term, "intangible drilling and development cost" as used in Section 8's proposed AS 43.55.023(n)(1), explained that such costs are generally those associated with things that cannot be salvaged/reused, such as labor, cement, lubricants.

[11:13:27 AM](#)

MS. POLLARD then directed members' attention to Sections 9 and 10 of HB 3001, and explained that they provide conforming changes to AS 43.55.028(e) and (g), respectively, regarding

[Section 14's] proposed repeal of AS 43.55.023(m); AS 43.55.028 addresses the oil and gas tax credit fund and purchases of tax credit certificates, and would not otherwise be changed by the bill. Section 11 of HB 3001 repeals and reenacts AS 43.55.160 - which stipulates how annual and monthly production-tax-values shall be calculated for the various "subsets" of production - providing clarification as well as conforming changes regarding Section 13's proposed new AS 43.55.162. Under Section 11, proposed AS 43.55.160(a)(1)(A) would address production from new North Slope fields, and proposed AS 43.55.160(a)(1)(B) would address production from existing North Slope fields; these subparagraphs (A) and (B) contain the applicability and delineation-date language used in Section 13. There would be no change, however, to how the annual and monthly production-tax-values are calculated.

MS. POLLARD noted that recently-passed legislation also amends AS 43.55.160(a), and explained that that's why the administration has chosen to repeal and reenact that section of statute via HB 3001: so as to ensure the readability of the changes being made by the two bills to that provision. Additionally, HB 3001 contains a provision directing the revisor of statutes to give preference to HB 3001 should any conflict arise when those two Acts are consolidated into statute. In response to a question, she touched on aspects of that other legislation. In conclusion, she reiterated that the way annual and monthly production-tax-values are calculated is not being changed via HB 3001's proposed repeal and reenactment of AS 43.55.160(a).

MS. POLLARD went on to explain that Section 12 of HB 3001 would provide conforming changes to AS 43.55.160(e) regarding [Section 11's] proposed changes to AS 43.55.160(a)(1). Section 14 of HB 3001 would repeal AS 43.55.023(m), the provision addressing the [issuance of multiple, transferable tax-credit certificates. Section 15 of HB 3001 would add an applicability section to uncodified law] stipulating which production and which expenditures the various sections of HB 3001 would apply to. In conclusion, she noted that [Section 13 of HB 3001] has an effective date of January 1, 2013, and would apply to production occurring after [December 31, 2012].

MR. DEES, in response to questions, spoke briefly about [other, now-failed] legislation previously heard in committee, and surmised that industry won't have difficulty understanding HB 3001's effects.

[11:31:34 AM](#)

CO-CHAIR SEATON then turned the committee's attention to the DOR's fiscal note for HB 3001.

MR. TANGEMAN explained that page 2 of the fiscal note lists five points addressing HB 3001's main proposed changes. Points 1 and 2, respectively, address Section 13's proposed new AS 43.55.162(a) and (b), which, respectively, provide for a 30 percent [reduction in production-tax-value] for new North Slope fields and a 40 percent [reduction in production-tax-value] for existing North Slope fields. He referred to point 3 on page 2 of the DOR's fiscal note, and said: "This is the 'cap' provision, where we're lowering the cap from 75 percent to 60 percent - currently, the 75 percent cap applies to a production-tax-value of \$342.50 - the new 60 percent cap would ... 'cap out' at a production-tax-value of \$192.50." Point 4 addresses [Sections 4 and 5's proposed changes to AS 43.55.023] allowing a tax credit for a qualified capital expenditure to be applied for a single calendar year instead of two. Point 5 addresses [Sections 5 through 8's proposed changes to AS 43.55.023] adding well lease expenditures incurred anywhere in the state to the list of items for which a tax credit may be claimed.

MR. TANGEMAN referred to page 3 of the DOR's fiscal note, containing two tables, illustrating for fiscal years 2013 through 2018 the estimated changes in production-tax revenue and royalty revenue anticipated under [Section 13 of] HB 3001, compared to estimated changes in such revenues under existing law coupled with increases in forecasted production amounts - specifically, forecasted amounts plus either a 5 percent, a 10 percent, a 15 percent, or a 20 percent increase. In response to questions, he indicated that none of the information on page 3 of the DOR's fiscal note addresses the estimated decline in production, and indicated that the DOR's production forecast - outlined in [the DOR's Fall 2011 Revenue Sources Book] - addresses [fields] currently producing, [fields] under development, and [fields] under evaluation, with the latter two types [of fields] that are coming "on line" still requiring significant capital investment.

[11:36:50 AM](#)

DAN STICKEL, Acting Chief Economist, Anchorage Office, Tax Division, Department of Revenue (DOR), added that in calculating the estimated changes in revenues in the columns reflecting the

forecast increased by a certain percentage, both forecasted production amounts and lease expenditures were increased by the same percentage. For example, in the column reflecting forecasted production plus a 5 percent increase, the forecasted production amounts were increased by 5 percent, and the lease expenditure amounts were also increased by 5 percent.

CO-CHAIR SEATON observed that information provided during previous presentations on HB 3001 addressed the anticipated rate of decline in production.

MR. STICKEL, in response to questions, relayed that [for all three types of fields together,] the aforementioned Fall 2011 Revenue Sources Book indicates a [total] anticipated 3.3 percent decline in FY 13, a [total] anticipated 1.0 percent increase in FY 14, and a [total] anticipated 4.1 percent decline in FY 15; that the second table on page 3 of the DOR's fiscal note reflects only the estimated changes in production-tax revenue, whereas the first table reflects the estimated changes in both production-tax revenue and royalty revenue; that the estimates in both of those tables pertain only to Section 13 of HB 3001; that the oil prices used in the tables' calculations were based on those forecasted in the Fall 2011 Revenue Sources Book and varied between \$108 per barrel of oil (/bbl) and \$109/bbl; that as used on page 3 of the DOR's fiscal note, the phrase "PF and SF contributions" refers to "permanent fund" contributions and "school fund" contributions; and that in the first table on page 3 of the DOR's fiscal note, the column illustrating the forecasted production amounts plus a 20 percent increase reflects an estimated increase in revenues of \$25 million in year 2015 and no estimated change in revenues in years 2016 and 2017.

[11:45:25 AM](#)

MR. TANGEMAN went on to explain that page 4 of the DOR's fiscal note contains a table illustrating the estimated fiscal impacts of the main provisions of HB 3001 in fiscal years 2013 through 2018 based on information in the aforementioned Fall 2011 Revenue Sources Book. The first row of information on that table corresponds with points 1 and 2 from page 2 of the fiscal note and pertains to Section 13's proposed reduction in production-tax-value. The second row of information [corresponds with point 3 from page 2 of the fiscal note and] pertains to what he'd earlier referred to as the "cap" provision.

MR. STICKEL explained that the third row of information [corresponds with point 4 from page 2 of the fiscal note and] pertains to tax credits for a qualified capital expenditure being applied for a single calendar year instead of two; this information is intended to illustrate that [the change effected by Sections 4 and 5 of the bill] would be revenue neutral in the long run.

MR. TANGEMAN, in response to questions, recommended that members read the DOR's Fall 2011 Revenue Sources Book, available on line, adding that it provides information about the aforementioned three types of fields - those currently producing, those under development, and those under evaluation - and anticipated declines in production; and - referring to a table on page 39 of the Fall 2011 Revenue Sources Book - relayed that for currently producing fields only, the anticipated rate of decline is 11.6 percent in FY 13, 6.9 percent in FY 14, 10 percent in FY 15, and 9.1 percent in FY 16, adding that for all three types of fields together, there is a total anticipated 2.1 percent increase in FY 16. For currently producing fields, the aforementioned anticipated rates of decline do take into account the fact that significant investment is occurring in those fields.

[11:53:45 AM](#)

MR. STICKEL, in response to questions, referred to a table on page 91 of the Fall 2011 Revenue Sources Book, and relayed that total unrestricted general fund (GF) [petroleum] revenue is projected to be \$8.2177 billion in FY 13, \$7.7428 billion in FY 14, \$7.0434 billion in FY 15, \$7.0655 billion in FY 16, \$6.7389 billion in FY 17, and \$7.125 billion in FY 18; and that the information provided on page 4 of the DOR's fiscal note reflects the bill's estimated fiscal impact on the projected total revenue amounts outlined in the Fall 2011 Revenue Sources Book.

MR. TANGEMAN, in response to questions regarding pages 3 and 4 of the DOR's fiscal note, explained that the information the administration is providing the committee addresses annual figures, not monthly ones; and offered his belief that because there are still significant resources to extract, it would be reasonable to see increases in production beyond what's been forecast.

[HB 3001 was held over.]

12:06:09 PM

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 12:06 p.m.