

SENATE FINANCE COMMITTEE

March 19, 2012

9:05 a.m.

[9:05:03 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Thomas Wagoner; Senator Cathy Giessel;

PRESENT VIA TELECONFERENCE

Maynard Tapp, Self, Anchorage; Brad Lipscomb, Self, Anchorage; Keith Silver, Self, Anchorage; Ben Packa, Self, Wasilla; Carl Portman, Self, Anchorage; Beau Obrigewitch, Self, Eagle River; Tim Coe, CH2MHill, Anchorage; Ginger Kane, Project Engineer, CH2MHill, Anchorage; Dave Hopkinson, Vice President of Construction, CH2MHill, Anchorage; Jim Plaquet, Self, Fairbanks; Barbara Gazaway, Self, Anchorage; Hal Gazaway, Self, Anchorage; Javen Ose, Self, Anchorage; James Garhart, Self, Matsu; Tom Maloney, Alaska Area Manager, CH2MHill, Anchorage; Kati Capozzi, Self, Anchorage; Jeff Lentfer, Self, Anchorage; Winston Burbank, Self, Anchorage; Renee Schofield, Self, Ketchikan; Joe Beedle, President, Alaska Bankers Association, Anchorage; David Sterin, Self, Anchorage; Ken Hall, Self, Fairbanks; Tara Sweeney, Senior Vice President, Arctic

Slope Regional Corporation, Anchorage; Rod McCoy, Self, Anchorage; Charles Norton, Self, Anchorage; Jim Udelhoven, Self, Kasilof; Mary Nanuwork, Self, Anchorage; Cathy Duxbury, Anchorage, Self; Buzz Otis, Self, North Pole; Caroline Bolar, Self, Anchorage;

SUMMARY

SB 192 OIL AND GAS PRODUCTION TAX RATES

SB 192 was HEARD and HELD in committee for further consideration.

#sb192

SENATE BILL NO. 192

"An Act relating to the oil and gas production tax; and providing for an effective date."

[9:06:12 AM](#)

Co-Chair Stedman noted that public testimony would be limited to two minutes per testifier and should address SB 192 in a succinct manner.

[9:08:00 AM](#)

MAYNARD TAPP, SELF, ANCHORAGE (via teleconference), testified against ACES. He did not think it was fair to take billions of dollars from the oil producers and observed that constitution required the development of Alaska's resources. He urged that the problem facing the state was not short-term gains, but long-term fiscal health.

[9:09:30 AM](#)

BRAD LIPSCOMB, SELF, ANCHORAGE (via teleconference), expressed the need for new oil production and related a story from his youth about jobs that were created by the oil industry in Anchorage. He shared that he had a degree in global logistics management and that it had been challenging to find employment with the oil industry in Alaska. The lack of new oil production made him fear for the future of Alaska's job force. Without new oil production in the state, he would be forced to seek employment in places like North Dakota. He concluded that

the state could not have the highest oil taxes in North America and still expect to attract new capital.

9:12:05 AM

KEITH SILVER, SELF, ANCHORAGE (via teleconference), testified against SB 192 and in support of HB 110. He stated that the bill did not make meaningful changes in the progressivity formula. He related that the government take remained too high under the new CS for SB 192 and was worried that it would discourage investment; the oil industry would simply invest in other places that offered a better return. He urged that the current tax structure was designed to make the state competitive when oil was at \$60 to \$80 per barrel and warned that ACES needed to be fixed.

9:14:25 AM

BEN PACKA, SELF, WASILLA (via teleconference), testified against SB 192 and discussed the challenges of entering the job market in Alaska; it had been hard to find employment as an engineer. The current and proposed oil tax policies made him concerned for the state's financial health.

9:15:52 AM

CARL PORTMAN, SELF, ANCHORAGE (via teleconference), testified against SB 192 and urged the passage of legislation that would result in meaningful reform to Alaska's oil tax regime. He defined meaningful reform as a significant change that would improve Alaska's global position in attracting the investment needed to stem decline and increase long-term production. He shared that he was willing to accept short-term losses for long-term gains and hoped that the committee would listen to the investors.

9:17:25 AM

BEAU OBRIGEWITCH, SELF, EAGLE RIVER (via teleconference), testified against SB 192 and wanted meaningful tax reform. He noted that the paid consultants Pedro Van Meurs and Gerald Kepes had both recommended tax reductions and was concerned that public did not fully understand the positive impact that the oil industry had on the state. He spoke about the growing operating budget and pointed out that the

oil industry funded upwards of 90 percent of the state's budget.

[9:19:53 AM](#)

TIM COE, CH2MHILL, ANCHORAGE (via teleconference), voiced his opposition of SB 192 in its current form and urged the committee to amend the bill. He shared concern that Alaska relied so heavily on oil for its revenue, but that the state's oil production continued to decline. He urged the need to make Alaska competitive in attracting new investments and reverse the declining oil flow. He stated that Alaska needed to increase production for our future, even if it sacrificed short-term fiscal gains.

[9:21:04 AM](#)

GINGER KANE, PROJECT ENGINEER, CH2MHILL, ANCHORAGE (via teleconference), expressed opposition to SB 192 and related a personal story about her families' connection with the oil industry. She pointed out that it was becoming more difficult to find work in Alaska. The lack of new North Slope production related projects was her main concern; in 5 years with CH2MHill she had worked on a number of oil related projects, but none of them included a new pipeline or a new production project.

[9:22:54 AM](#)

DAVE HOPKINSON, VICE PRESIDENT OF CONSTRUCTION, CH2MHILL, ANCHORAGE (via teleconference), spoke against SB 192 and shared that he had been working in the oil industry in Alaska since 1974. During that time, he had worked on a vast majority of the major North Slope projects and noted that the current outlook for new construction work in fabrication and field installation was the lowest he had seen in Alaska. A year ago CH2MHill had over 500 people working on new oil field projects in Alaska, but today they had no personnel working on new oil projects; furthermore, there were no new oil project developments in Alaska to deploy their long-term employees to. CH2MHill was being forced to redeploy personnel outside of Alaska in order to keep them employed. He concluded that increased drilling would be beneficial to production.

[9:25:34 AM](#)

JIM PLAQUET, SELF, FAIRBANKS (via teleconference), testified against SB 192 and stated that it did not encourage new production. He agreed with Governor Parnell that the legislature needed to address production taxes in order to spur investment. He said that today's high oil prices should be leading to new investment, but that investment was not occurring because ACES did not incentivize new investment when the price of oil was high. He was worried that the government take remained too high under the new CS for SB 192 and that it would deter investment.

[9:28:09 AM](#)

BARBARA GAZAWAY, SELF, ANCHORAGE (via teleconference), expressed her support of amending SB 192 and stated that ACES was not performing as it should. She urged the committee to spend as much time as was necessary on SB 192 to make well informed, reasonable changes that were fair to both the state and industry.

[9:30:10 AM](#)

HAL GAZAWAY, SELF, ANCHORAGE (via teleconference), testified in support of SB 192 and offered that it more than adequately addressed the criticism of progressivity in ACES at higher oil prices. He stated that other criticisms were false or fabricated by oil producers. He said that under ELF, the rate of oil production decline had continued and pointed out that even under the proposed HB 110 the oil companies would not agree to stop the rate of production decline; furthermore, decline was a natural phenomenon in oil fields and was a result of the lack in development.

[9:33:11 AM](#)

JAVEN OSE, SELF, ANCHORAGE (via teleconference), testified against SB 192 and stated that ACES was working. He remarked that Alaska should exercise its sovereignty.

[9:34:11 AM](#)

JAMES GARHART, SELF, MATSU (via teleconference), expressed his support for rebates to oil producers and that the rebates could be a percentage that was dependent on the producers reaching a certain level of production.

[9:36:55 AM](#)

TOM MALONEY, ALASKA AREA MANAGER, CH2MHILL, ANCHORAGE (via teleconference), testified for the passage of legislation that encouraged new production and stated that in the past, DOR had been frequently over estimating income and under estimating expenses. He indicated that in Alaska's current investment climate the investors took nearly all the risk and downside, while the state took almost all the upside. He urged the need for more oil production.

[9:40:02 AM](#)

KATI CAPOZZI, SELF, ANCHORAGE (via teleconference), expressed opposition of SB 192 and stated that it did not make the meaningful changes that the state needed. She pointed out that the evidence showed that SB 192 was not the answer.

[9:41:20 AM](#)

JEFF LENTFER, SELF, ANCHORAGE (via teleconference), testified against SB 192 as it was written and stated that other business owners were concerned that it did not achieve the type of tax reforms necessary to stimulate investment. He observed that the film tax credit had been effective in increasing film activities in Alaska and thought the same concept also applied to oil production. He was in favor of amending SB 192 to increase development or "better yet" supported HB 110.

[9:43:35 AM](#)

WINSTON BURBANK, SELF, ANCHORAGE (via teleconference), urged the need to incentivize oil corporations to increase production. He stated that an oil company's main objective was to gain profit for its shareholders; companies evaluated the economics on a global level and Alaska was less competitive when compared other areas.

[9:45:45 AM](#)

RENEE SCHOFIELD, SELF, KETCHIKAN (via teleconference), testified against SB 192 and related the need to encourage new development and maintain oil revenue. She pointed out that oil revenue enabled many of the essential services that she and her family enjoyed in Ketchikan.

9:46:58 AM

JOE BEEDLE, PRESIDENT, ALASKA BANKERS ASSOCIATION, ANCHORAGE (via teleconference), urged support of amendments to SB 192 that would motivate oil producers increase investment. He stated that normally, he was an optimist about Alaska's business and growth potential. He was cautious about the future of Alaska's sustained economic growth and warned that SB 192 needed amendments to incentivize oil production. He stressed the importance of the oil industry to Alaska's economy and hoped the legislature would prioritize the long-term health of Alaska.

9:50:10 AM

DAVID STERIN, SELF, ANCHORAGE (via teleconference), expressed his opposition of SB 192 and offered that the state was only in harvest mode because legislation like SB 192 and ACES forced the oil producers to grab all the oil while they could. He said that members of the Alaska Legislature had asserted that there was nothing the state could do to stem decline; however, he pointed out that Texas had slowed, reversed, and had plateaued their production curve. He discussed all the government services that were enabled by oil money and warned that the oil industry employed one third of state.

9:52:43 AM

KEN HALL, SELF, FAIRBANKS (via teleconference), testified against SB 192 and urged that the state needed meaningful legislation that would capitalize on the industry. He felt that SB 192 fell short in increasing exploration, development, and production of oil. He warned that real changes need to be made, but did not want to sacrifice short-term investment for long-term gains for the state.

9:55:10 AM

TARA SWEENEY, SENIOR VICE PRESIDENT, ARCTIC SLOPE REGIONAL CORPORATION, ANCHORAGE (via teleconference), expressed her opposition of SB 192 and shared the importance of the Arctic Slope Regional Corporation's partnership with the oil and gas industry. She pointed out that the bill did not go far enough to stimulate new investment. She urged the

need for training and employment opportunities for all Alaskans and stated that HB 110 was the only bill that had the industry's support.

9:58:51 AM

AT EASE

10:05:39 AM

RECONVENED

10:06:20 AM

ROD MCCOY, SELF, ANCHORAGE (via teleconference), expressed his support of SB 192 and said that he did not support HB 110. He stated that our taxes were right in the middle when compared to other regimes and warned that the political climate in Alaska was heavily controlled by high money interests.

10:09:19 AM

CHARLES NORTON, SELF, ANCHORAGE (via teleconference), voiced his support of SB 192 and offered that HB 110 gave away too much money to the oil corporations.

10:10:05 AM

AT EASE

10:23:14 AM

RECONVENED

10:23:42 AM

JIM UDELHOVEN, SELF, KASILOF (via teleconference), testified in opposition of SB 192 and shared his belief that the legislation would not create jobs. He supported HB 110 and thought that it would stimulate new development and would result in more jobs. He observed that this was a very important decision for Alaska's future.

10:25:14 AM

MARY NANUWORK, SELF, ANCHORAGE (via teleconference), voiced his opposition to SB 192 and pointed out that lawmakers spent too much time trying to solve oil related problems that were not getting solved. She shared that in the past the state had not worked well with native peoples and urged

lawmakers to do a better job with that aspect. She noted that native peoples were in touch with the land and were more aware of problems on the North Slope; she hoped they would be consulted more in the future.

[10:29:44 AM](#)

CATHY DUXBURY, ANCHORAGE, SELF (via teleconference), testified in opposition of SB 192 and urged the passage of HB 110. She thought that supporting the producers would encourage long-term growth for Alaska and mentioned the need for more jobs in the state.

[10:31:30 AM](#)

AT EASE

[10:48:05 AM](#)

RECONVENED

[10:48:14 AM](#)

Co-Chair Stedman reminded the public that testimony would resume in the afternoon meeting.

[10:48:36 AM](#)

BUZZ OTIS, SELF, NORTH POLE (via teleconference), testified in opposition of SB 192 and stated that Alaska was at a crossroads; the interior of the state was suffering from a loss of jobs, high electrical costs, and high fuel costs. He said that Alaska was a resource state and stressed the need for tax legislation that encouraged development in an environmentally friendly way. He suggested that any new legislation should encourage more production.

[10:51:03 AM](#)

CAROLINE BOLAR, SELF, ANCHORAGE (via teleconference), expressed her support of maintaining ACES and pointed out that the state needed assurances from the oil and mining industries that they would produce. She noted that many Alaskans did not understand that oil was a resource that belonged to the whole state and urged that the oil companies did not own the resource.

[10:54:33 AM](#)

SB 192 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

10:54:42 AM

The meeting was adjourned at 10:54 AM.