

**ALASKA STATE LEGISLATURE
SENATE JUDICIARY STANDING COMMITTEE**

April 29, 2011

10:00 a.m.

MEMBERS PRESENT

Senator Hollis French, Chair
Senator Bill Wielechowski, Vice Chair
Senator Joe Paskvan
Senator John Coghill

MEMBERS ABSENT

Senator Lesil McGuire

OTHER LEGISLATORS PRESENT

Senator Dennis Egan
Senator Tom Wagoner
Senator Bettye Davis
Representative Scott Kawasaki
Representative Kerttula

COMMITTEE CALENDAR

PRESENTATION: ACES - AN ASSESSMENT OF ITS EFFECTIVENESS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

SENATOR BILL WIELECHOWSKI
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Delivered a presentation on ACES.

ACTION NARRATIVE

[10:00:56 AM](#)

CHAIR HOLLIS FRENCH called the Senate Judiciary Standing Committee meeting to order at 10:00 a.m. Present at the call to order were Senators Wielechowski, Paskvan, Coghill, and French.

ACES: AN ASSESSMENT OF ITS EFFECTIVENESS

10:01:22 AM

CHAIR FRENCH announced the business before the committee would be to discuss the ACES system and to fully air a side of the story that hasn't been heard this session, the side from those who helped to write ACES. It's important for the public to hear that perspective too. The presentation is being made within the context of a committee hearing, he said, so that there is a permanent record for archiving. This will help future generations of Alaskans that will undoubtedly go through the same debate of how to fairly evaluate the state's mineral wealth that is owned in common. Both the Statehood Act and the Alaska Constitution compel us to think these matters through very carefully, he stated.

CHAIR FRENCH related that in December 2010 he and Senator Wielechowski delivered a PowerPoint presentation on ACES to the Board of Directors for Commonwealth North. Since that time Senator Wielechowski and his staff expanded the presentation, thoroughly researching and documenting every point that will be made today.

Short at-ease from 10:02 a.m. to 10:03 a.m. to set up the presentation.

SENATOR WIELECHOWSKI thanked Senator French for being the impetus for the initial presentation and for scheduling this meeting. It's an important discussion that Alaskans are very eager to hear.

SENATOR WIELECHOWSKI said he would first provide background information to provide context for the discussion. He explained that in 2006 the Legislature reworked the state's outdated Economic Limit Factor (ELF) tax system that was put in place in 1977. The ELF set a 12.25 percent to 15 percent gross tax rate on the value of oil coming out of the ground. It also set out a process of complex adjustments that dropped the tax rate as production declined. The theory was that it would spur investment to drop the tax rate as fields became marginal. What happened was that many marginal and satellite fields were taxed at zero percent and larger fields like Prudhoe Bay and Kuparuk had a declining tax structure. In 2003, 14 of 21 fields on the North Slope were paying a zero percent production tax rate and by 2006, 15 of 19 North Slope fields were paying a zero percent production tax rate.

SENATOR WIELECHOWSKI said the state essentially has more than 20 years experience with a zero percent production tax rate. We'll see whether or not that created more jobs and more investment and whether or not that stemmed the tide of decline through the Trans Alaska Pipeline, he said.

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Alaska is a comparatively young state and it therefore had the advantage of looking at what other states had done with their natural resources. The constitution framers decided to treat the state's natural resources very differently than states like North Dakota, Louisiana, and Texas where the private property owner also owns the subsurface resources. Article VIII, Section 2 of the Alaska Constitution specifically states that "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." In about 2005 the consensus was that Alaska was not receiving the maximum benefit from its resources.

10:07:00 AM

In 2006 the Legislature put in place a new tax structure called the Petroleum Profits Tax (PPT). This was a major development because it was the first time that the State of Alaska taxed net profits rather than gross earnings. However, concerns lingered that tax deductions were too generous and that the state still wasn't getting maximum benefit for its resources.

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To address these concerns the Legislature met in special session in 2007 to reconsider the PPT. To ensure that Alaskans received maximum benefit for their resources, the PPT was replaced by Alaska's Clear and Equitable Share (ACES). There were two major points for passing this legislation. First was to encourage the oil companies to reinvest the huge amounts of money they were making in this state rather than taking Alaska profits and investing in places like Libya, Venezuela, and Ecuador, all of which had higher tax rates.

ACES provides extremely generous tax credits and deductions on reinvestment which makes the tax rate significantly lower. If a company chooses to invest somewhere else, Alaska receives the maximum benefit for its resource by taxing a fair share.

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SENATOR WIELECHOWSKI explained that he and his staff examined ACES using eight different measures. The facts speak to the system's effectiveness and whether or not it needs to be changed. He clarified that most of the charts in the presentation were prepared by the Department of Revenue (DOR), the Department of Natural Resources (DNR) or some other department within the executive branch.

Measure 1 looks at how ACES has affected the revenues that Alaskans receive for their oil.

A bar graph that the Alaska Department of Revenue developed shows the FY07 - FY11 (projected) revenue the state earned under ACES alongside the estimates of what the state would have earned under PPT and ELF. The graph illustrates that the state generated about \$15 billion more under ACES than it would have under ELF. Most of that money is in savings today.

The increased revenue made it possible for the state to invest in infrastructure, create more jobs, fund critical state services, and dampen the effect of the worldwide recession in the state. It also allowed the Legislature to pay back a \$5.5 billion loan to the Constitutional Budget Reserve that was used to cover prior budget shortfalls. While many states are facing bankruptcy, Alaska has nearly \$15 billion in savings. This is the largest state savings account in the nation. The state will have a surplus of several billion dollars this year and the expectation is for a surplus again next year.

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Measure 2 looks at how Alaska's tax rates compare to other jurisdictions and whether or not they are competitive.

SENATOR WIELECHOWSKI noted that some critics say that ACES has tax rates as high as 90 percent, but according to the Parnell Administration the average production tax rate since PPT and ACES passed has been about 32 percent. That's before generous tax credits are factored in.

An Alaska Department of Revenue chart shows that in FY09 when oil was about \$70 per barrel, the average nominal tax rate for ACES was about 30 percent. In FY10 the tax rate was about 32 percent and in FY08 when oil was \$147 per barrel, taxes were about 42 percent.

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Calculating the tax rate under [ACES] is very simple, Senator Wielechowski said. No production taxes are paid until there's a profit. The cost to get a barrel of oil out of the ground and to market is about \$26; the base tax rate is 25 percent and .4 percent progressivity tax is added for every dollar of profit over \$30/barrel. For example, when oil is \$56 per barrel the tax rate is 25 percent; when oil is \$57 per barrel there's a \$1 profit/barrel and the tax rate is 25.4 percent; and when oil is \$58 per barrel there's a \$2 profit/barrel and the tax rate is 25.8 percent.

SENATOR WIELECHOWSKI stated that Governor Parnell's proposal to lower taxes would result in the loss of an estimated \$8.2 billion over the next five years. Less conservative estimates put the loss closer to \$2 billion per year. A line graph that the Alaska Department of Revenue presented to the Senate Resources Committee shows the effective (actual) tax rate under ACES compared to the effective tax rates under the Governor's proposals for current fields and for new fields. When oil is \$100 per barrel the actual tax rate under ACES is about 27.5 percent; at \$110 per barrel the effective tax rate is about 32.5 percent. Under the Governor's proposal in HB 110, the actual tax rate would drop to about 17.5 percent for current fields and to about 12 percent for new fields. This significant drop would cost the state billions of dollars. He noted that some believe that the effective tax rates are as much as 5 percent lower than this.

[10:16:00 AM](#)

CHAIR FRENCH welcomed Representative Beth Kerttula to the hearing.

SENATOR WIELECHOWSKI said to address the claim that Alaska isn't competitive, the next step was to look at how Alaska tax rates compare to other jurisdictions worldwide. A bar graph that Chevron developed showing the changes in government take from 2002 to 2006 helps to make this comparison. Palin Administration experts presented this slide during the ACES debate in 2007. It is titled "Capturing 'Fair Share'." The countries listed have neither the highest nor the lowest tax rates in the world. They're simply governments that have changed their take between 2002 and 2006. Libya changed its take from about 81 percent to about 95 percent; Venezuela changed its take from about 85 percent to about 94 percent; Algeria, China, Kazakhstan, and Russia, increased the take to 90 plus percent; and Angola increased the take to 80 some percent. ConocoPhillips, BP, and Exxon invest in all these countries. In fact, virtually every

country listed is competing for Alaska oil company dollars. Data that's not included in the chart is Iraq's 98 percent tax rate and the UK's new tiered system that ranges from 61 percent to 82 percent. The Gulf of Mexico is another interesting example because it shows an approximate 52 percent government take. What isn't counted in the U.S. Gulf of Mexico data, including the Outer Continental Shelf, is the significant cost for the acquisition of the leases - the signature bonuses. During the ACES debate oil expert Dana Johnson concluded that when the signature bonus costs are factored in for the GOM and the OCS, this number actually increases to about 77 percent. It's a significant increase.

For example, in the Chukchi and Beaufort seas a significant amount of land was leased out several years ago for \$3 billion and Great Bear bought a 500,000 acre lease on the North Slope for \$9 million. This is compared to Texas and other Lower 48 states where companies oftentimes pay \$10,000 per acre. For similar acreage in the Lower 48, Great Bear's lease would have cost \$5 billion so when that is factored in the overall take is much higher.

Many people would like to compare Alaska to Texas, Oklahoma, and North Dakota, but it's not an apples-to-apples comparison. In fact, the Parnell consultants Gaffney, Cline & Associates, testified before Senate Resources Committee a month or two ago and that it wasn't appropriate to compare Alaska to the Lower 48 states. It was more appropriate, the consultants said, to compare Alaska to Norway that has a 78 percent to 81 percent effective government take or to the UK that has a tiered 61 percent to 81 percent government take.

It's not valid to compare Alaska to North Dakota and Texas because it doesn't take into account the higher lease costs or the 25 percent or more royalty rates paid to private landowners. Furthermore, they're not sovereign states; private landowners own the property.

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SENATOR WIELECHOWSKI noted that some have said that Alaska is one of the worst places in the world to do business. But the Frasier Institute Global Petroleum Survey, which the Parnell Administration frequently cited, does not rank Alaska in the bottom twelve worst places to do business in the world. The Alaskan oil companies BP, ConocoPhillips, and Exxon currently do or recently have done business with eight of the 12 countries that have the worst fiscal terms in the world. These are

Bolivia, Venezuela, Russia, Libya, Kazakhstan, Algeria, Iraq, Ecuador, and Argentina. Repsol, a large Spanish oil company that recently came to Alaska, is currently doing business in Bolivia. These are Alaska's competitors and dollars have been flowing from the oil company majors to these countries in recent years.

It would be significant for Alaska to give up \$8.2 billion over five years or up to \$2 billion per year. The Constitutional Budget Reserve, which is the states rainy day savings account, would be depleted very quickly; there would be future deficits; spending on infrastructure and job-creating capital projects would be drastically reduced; there would be cuts to revenue sharing and operating budgets with associated job and service losses and increased local property taxes.

SENATOR WIELECHOWSKI said he points this out because the State of Alaska in recent years has provided the Municipality of Anchorage about \$18 million in municipal revenue sharing, \$100 million in retirement relief, and hundreds of millions in capital budget projects. The municipal revenue sharing and retirement relief alone saves each property tax payer over \$1,000 per year. Property owners in Fairbanks would see significant increases as well.

The Parnell Administration hopes that industry will invest more in the state if taxes are reduced, but there is no assurance of increased investment or job creation. That raises the question of whether it's a reasonable gamble.

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Measure 3 looks at whether investment has decreased or increased since ACES passed.

SENATOR WIELECHOWSKI said that advertisements on the radio, television, and in the newspaper claim that no one is investing in Alaska, but that's contrary to the facts. In the last several months the Alaska Department of Natural Resources stated in an ad in the Petroleum News that:

Alaska is successfully encouraging investment from companies that are new to the state, with the number of petroleum companies doing business in the state almost doubling from 2006 to 2008.

The ad further stated that, "Legacy producers on the North Slope are investing in their own assets, leaving room for new players..." The State of Alaska is telling the Petroleum News

community that Alaska is open for business, which is good, Senator Wielechowski stated.

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CHAIR FRENCH welcomed Senator Tom Wagoner to the hearing.

SENATOR WIELECHOWSKI stated that capital expenditures have increased consistently to all-time highs each year since the passage of ACES. Capital expenditures are predominantly drilling, seismic, and production and other types of costs that produce oil. He displayed a chart of capital expenditures from 2001 to 2010 with the price of oil superimposed. It clearly shows that capital expenditures continued to tic upwards after ACES passed in 2007. But what's interesting is that when there was a zero percent tax rate on 14 of 19 North Slope fields and oil was at historic highs worldwide, capital investment actually declined.

The Alaska Department of Revenue, Revenue Source Books for Fall 2007, Fall 2008, Fall 2009, and Fall 2010 show that both operating expenditures and capital expenditures have increased since ACES went into effect. Total CAPEX/OPEX increased from \$3.6 billion in FY07 to \$4.6 billion in FY10. The total CAPEX/OPEX forecast for FY11 is \$5.125 billion and the forecast for FY12 is \$5.495 billion. The oil companies supply the Alaska Department of Revenue with the forecast numbers, he said, they aren't pulled out of the air.

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CHAIR FRENCH welcomed Senator Bettye Davis to the hearing.

SENATOR WIELECHOWSKI said a question that's consistently come up is if the increased investments on the North Slope are due to maintenance. The Alaska Department of Revenue looked at the issue and on February 4, 2010 supplied the following statements to the Legislature:

CAPEX - Capital expenditures ("CAPEX") on pipeline repairs at Prudhoe Bay increased after corrosion incidents in 2006. However, the majority of growth in capital expenditures since 2007 is attributable to drilling, seismic and other production related projects.

OPEX - Since 2007, the proportion of total operating expenditures ("OPEX") related to major repairs does

not appear to be the key driver in the growth of total operating expenditures.

SENATOR WIELECHOWSKI pointed out that many factors, including the economy, affect decisions to spend money. In 2008 there was a financial meltdown; oil prices plummeted and investment was down worldwide. In 2009, ConocoPhillips announced plans to lay off four percent of its workforce and cut capital spending by 12.6 percent. The CEO made it clear that the company was positioning itself to live within its means. As BP Alaska's President recently acknowledged, taxes are just one factor in determining whether or not to spend money. For example, there's a lack of activity in Cook Inlet despite the USGS report of huge oil and gas reserves, a zero percent tax rate in that area, and Senator Wagner's recent legislation to incentivize a jack up rig. Obviously, it's not just about taxes, there are many other factors.

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Measure 4 looks at how ACES has affected exploration and development.

SENATOR WIELECHOWSKI restated that ACES encourages new investment by providing tax credits and deductions for exploration and development. Parnell Administration consultants have said that these are among the most generous in the world. In fact, the state has paid out more than \$2 billion in tax credits since ACES passed

The North Slope has been described as one of the crown jewels of the world and the success rate for a well in this prolific hydrocarbon basin can be 90 some percent. Information from the Alaska Oil and Gas Conservation Commission shows that there have been many new development wells on the North Slope since 2006. These are wells that have a high probability of extracting oil. In 2006, when the state was just slipping out of the zero percent tax rate, 137 wells were drilled and in 2010, 164 wells were drilled. This was the highest number in five years.

SENATOR WIELECHOWSKI said that ConocoPhillips has testified that the company expects 90 percent of future oil in Alaska to come from existing units - Prudhoe Bay, Kuparuk, and Alpine, so new exploration from the majors isn't likely. However, since ACES passed there has been activity from smaller companies. The Director of the Office of Management and Budget testified before the House Finance Committee on January 19, 2011 that, "The good news is we are seeing a lot of increase in oil exploration."

This was just a week before the Governor introduced the oil tax bills, HB 110 and SB 49. The data shows that applications for exploration tax credits and the amount of qualifying expenditures have generally increased since 2006, hitting an all-time high in 2009 under ACES.

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Measure 5 looks at how ACES has affected jobs in the oil and gas industry.

SENATOR WIELECHOWSKI stated that employment in the oil and gas industry has increased since ACES passed. According to the Alaska Department of Labor & Workforce Development, these jobs pay on average \$14,000 per month. ACES passed in 2007 and Alaska's oil and gas industry employment numbers were just over 11,000. In 2011 that number is 12,800, just 100 jobs short of the 2009 all-time high and up 700 from the same time period last year. By comparison, jobs on the North Slope declined from just under 10,000 to 8,000 between 2002 and 2004 when oil prices were increasing to record highs and 15 of the 19 fields on the North Slope were paying zero percent tax under the ELF.

SENATOR WIELECHOWSKI pointed out that some people have argued that jobs were down between 2002 and 2004 because jobs were down everywhere and companies weren't investing, but statistics from the Alaska Department of Labor and Workforce Development, Research and Analysis Section and the U.S. Bureau of Labor Statistics from February 18, 2010 don't support that argument. A line chart that compares U.S. and Alaska monthly oil industry employment between January 2000 and [December] 2009 shows that jobs were increasing in the Lower 48 beginning in 2003, but they were decreasing in Alaska. Employment numbers in Alaska started to increase when the ELF was replaced and continued to go up after ACES passed. In [mid 2008] job numbers plummeted in the Lower 48, but Alaska didn't see that steep decline; ACES was in place.

Another contentious issue centers on who is getting the new jobs. Concerned Alaskans have testified that they've lost their jobs and companies have expressed concern about laying people off. In fact, the Alaska Department of Labor and Workforce Development has said that unemployment claims for Alaska resident oil and gas workers increased 160 percent from 796 in 2006 to 2,058 in 2010. But the most recent oil and gas employment report, which is for 2009, shows that about 50 percent of all new oil and gas hires were non-residents.

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Measure 6 looks at how ACES has affected industry interest in Alaska.

SENATOR WIELECHOWSKI stated that since the passage of ACES Alaska has seen a significant increase in the number of companies doing business in the state. One of the most recent lease sales was in October 2010. Great Bear, a new company to Alaska, bid on more than 500,000 acres and paid more than \$9 million in bonus bids. This small company has studied the fields and believes there are significant shale oil resources on the North Slope. He noted that Senator Joe Paskvan has done a lot of work on this. Great Bear testified that the company could put up to 1 million barrels of oil per day into the pipeline in the next decade. It's still good if they're half right, he said.

The statement that companies aren't coming to Alaska to do business isn't supported by the facts, Senator Wielechowski stated. In 2006, 19 companies filed annual tax returns. This was the first year that tax filings were made under the net profit tax. In 2007, the number grew to 26; in 2008, it grew to 36; and in 2009, 39 companies filed tax returns in Alaska.

There is other good news. In early March the large Spanish oil company, Repsol, announced plans to begin exploring in Alaska next winter. It hopes to spend at least \$768 million under a "broad-reaching exploration and development program." Repsol is a large investor in Libya and is looking to broaden its reach into more stable areas. The North Slope is particularly promising because it has proven to be oil-rich and it carries low exploratory risk.

SENATOR WIELECHOWSKI said ACES is particularly attractive to "independent" oil companies. The executive vice president of Savant Alaska LLC stated in an article in the December 2009 Alaska Business Monthly that, "... a lot of the prospects that are readily drillable are not large enough for the majors to chase, but for us, they are intriguing." Mr. Vigil went on to say that "One of the big things is to let independent oil and gas companies know that Alaska is open for business and a big incentive is the ACES legislation."

SENATOR WIELECHOWSKI said that those who claim that Alaska's share of profits is too high generally gloss over the fact that the state actually pays for much of the cost of exploration and development activities. In 2010 the Parnell Administration

prepared examples of credits and deductions that a new entrant would receive under ACES.

- A new entrant with no current production pursues an exploration project requiring \$200 million in investment.
- Company receives a 20 percent - 40 percent investment credit (depending on location), worth \$40 million - \$80 million.

SENATOR WIELECHOWSKI noted that to receive a 40 percent investment credit the project must be more than three miles outside an existing unit. The 20 percent credit would apply to a project within an existing unit. Most new entrants would probably get the 40 percent credit because they wouldn't be within an existing unit.

- Company also receives an additional 25 percent credit for its "tax loss" or "net operating loss (NOL)," worth up to \$50 million.
- The total credits of \$90 million - \$130 million can be:
 - Directly recouped in cash from the state.
 - Transferred to a person that does pay tax, so that the transferee pays \$90 million - \$130 million for the exploration; the company pays \$70 million - \$110 million.
- Either way, the state pays \$90 million - \$130 million for the exploration; company pays \$70 million - \$110 million.
- If the exploration effort fails, the state never recoups this money.

The state bears the risk for failure as does the new entrant.

A slide prepared by the Alaska Department of Revenue in 2010 shows that if there is an exploration dry hole for a new entrant, the state picks up 65 percent of the cost, the federal share is 12 percent and the new entrant pays 23 percent. The terms are even more generous if an existing producer has an unsuccessful development project. In that event the state picks up 76 percent of the cost, the federal share is 8 percent, and the company picks up 15 percent of the cost. Given the level of state investment, it's appropriate that Alaskans share in the profits. The State of Alaska is the largest investor on the North Slope and it should reap some of the rewards.

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Measure 7 looks at how ACES has affected company profits.

SENATOR WIELECHOWSKI said profits are strong. The ConocoPhillips consolidated income statements show that earnings and production net income for 2008 was \$2.3 billion for Alaska and \$2.7 billion for the Lower 48. In 2009 E&P net income was \$1.5 billion for Alaska and \$-37 million for the Lower 48 and in 2010 it was \$1.7 billion for Alaska and \$1.0 billion for the Lower 48. In the first quarter of 2011 ConocoPhillips showed a \$548 million profit from Alaska. Exxon doesn't break out Alaska but its profit was \$11 billion in the first quarter. BP's profits are probably a little less than ConocoPhillips.

An article in the August 16, 2009 Petroleum News pointed out that Alaska oil and gas production comprises about 12 percent of ConocoPhillips' worldwide output. In the first quarter of 2009 the company earned \$240 million from its Alaska operations, or 29 percent of its worldwide exploration and production income. ConocoPhillips has acknowledged that the Alaska production tax credits are a significant component in the company's profits. In the second quarter of 2009, more than 55 percent, or \$404 million, of ConocoPhillips' \$725 million in E&P worldwide earnings came from its Alaska business.

Senator Wielechowski said he calculated the Alaska oil and gas production for the current quarter at about 13 percent of the worldwide output and about 28 percent of the worldwide exploration and production income.

On March 23, 2011 ConocoPhillips executives told a group of analysts that Alaska has "strong cash margins" and "very good rates of return." One of the issues during the ACES debates was how to figure out the rate of return an oil company receives when investing on the North Slope. To that end, the Palin Administration hired Gaffney, Cline & Associates and they were asked to stress-test the model for \$80 oil with a CAPEX multiplier of 300 percent. They estimated the rate of return to be 123 percent.

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Measure 8 looks at how ACES has affected oil and gas production levels.

SENATOR WIELECHOWSKI stated that oil production on the North Slope has declined steadily since the late 80s. Production declined under ELF and continued to decline under ACES. The Alaska Department of Revenue developed a graph showing production volume for North Slope fields between FY78 and FY08 and it confirms the significant declines. A subsequent chart

lists the year by year production declines. Since 1989 the decline has averaged about 5.2 percent.

Unfortunately, Senator Wielechowski said, production decline is a natural event as an oil field matures. When the Parnell Administration prepared the fall forecast last year, it estimated that the throughput decline would decrease to about 2 percent per year. That forecast does not factor in either the Repsol announcement or the Great Bear announcement so there is optimism about stemming the decline and putting more oil in the pipeline.

The Alaska Department of Revenue in February 2010 prepared a chart of a typical production profile for fields worldwide. It mirrors what has been seen in Alaska. In general, production increases initially, reaches a peak, and then declines. The rate of decline typically levels off in later years.

SENATOR WIELECHOWSKI said that an ongoing question is if the Trans-Alaska Pipeline is going to shut down, but oil company testimony should lay that concern to rest. In 2006, PB Alaska told the U.S. Securities and Exchange Commission it expected continued production in Prudhoe Bay until 2065. In a recent superior court trial, BP Alaska, ConocoPhillips and ExxonMobil testified before Judge Gleason that TAPS would likely operate until 2042. The companies presented evidence that TAPS could function with throughput as low as 200,000 barrels per day. Heaters might be necessary. Furthermore, a superior court judge recently determined that TAPS would operate at least through 2047. He also determined that there is so much oil wealth on the North Slope that a pipeline would probably be built today if there wasn't one already.

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SENATOR WIELECHOWSKI stated that as recently as 2010 the Parnell Administration told the Legislature that ACES doesn't appear to have a negative effect on the oil and gas industry. In fact, the Alaska Department of Revenue on February 4, 2010 concluded:

In general, the information does not indicate that changes in the tax system have had a direct negative impact on industry activity in the state.

In fact, the data would indicate that the investment incentive provisions of ACES are contributing to increased levels of expenditure.

A quote from the December 20, 2009 Petroleum News stated the following:

Parnell also said that he has already discussed ACES with 10 oil companies. Of those, he said, "four to five" thought the tax system was "just fine," while "two or three" thanked the state for the tax credit program, and two companies wanted to see ACES changed.

SENATOR WIELECHOWSKI pointed out that the 80 percent positive response to the tax regime is consistent with what the Frasier Institute found. That group surveyed 645 oil company executives worldwide and found that 40 percent said that Alaska's oil tax fiscal terms encourage production and 34 percent said Alaska's oil tax regime does not deter investment. Just 9 percent of the 645 executives said Alaska oil taxes are a strong deterrent.

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SENATOR WIELECHOWSKI summarized that Alaska experimented for 20 years to see if a zero percent tax rate encouraged investment and created more jobs for Alaskans. Under ELF most fields were paying zero percent production taxes; jobs declined, investment declined, and production declined. Under ACES investment and jobs are at all-time highs; the number of companies doing business in Alaska has doubled and profits are strong.

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CHAIR FRENCH thanked Senator Wielechowski for the comprehensive presentation and welcomed the public to send criticisms to either his office or Senator Wielechowski's office. This is an important part of the debate and the facts should be straight, he stated, but it's important for Alaskans to hear this side of the story.

[10:51:15 AM](#)

There being no further business to come before the committee, Chair French adjourned the meeting at 10:51 a.m.