

**ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE**

April 8, 2011

2:42 p.m.

MEMBERS PRESENT

Senator Dennis Egan, Chair
Senator Joe Paskvan, Vice Chair
Senator Linda Menard
Senator Bettye Davis
Senator Cathy Giessel

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Bill Wielechowski
Senator Joe Thomas

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 110(FIN)

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; relating to the oil and gas production tax rate; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits, including qualified capital credits for exploration, development, and production; relating to certain additional nontransferable oil and gas production tax credits; relating to the disclosure of certain tax information; making conforming amendments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 110

SHORT TITLE: PRODUCTION TAX ON OIL AND GAS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/18/11	(H)	READ THE FIRST TIME - REFERRALS
01/18/11	(H)	RES, FIN

02/07/11 (H) RES AT 1:00 PM BARNES 124
02/07/11 (H) Heard & Held
02/07/11 (H) MINUTE(RES)
02/21/11 (H) RES AT 1:00 PM BARNES 124
02/21/11 (H) Heard & Held
02/21/11 (H) MINUTE(RES)
02/21/11 (H) RES AT 5:15 PM BARNES 124
02/21/11 (H) Heard & Held
02/21/11 (H) MINUTE(RES)
02/23/11 (H) RES AT 1:00 PM BARNES 124
02/23/11 (H) Heard & Held
02/23/11 (H) MINUTE(RES)
02/25/11 (H) RES AT 1:00 PM BARNES 124
02/25/11 (H) Heard & Held
02/25/11 (H) MINUTE(RES)
02/28/11 (H) RES AT 1:00 PM HOUSE FINANCE 519
02/28/11 (H) Moved CSHB 110(RES) Out of Committee
02/28/11 (H) MINUTE(RES)
03/07/11 (H) RES RPT CS(RES) NT 1DP 2DNP 4NR 2AM
03/07/11 (H) DP: FEIGE
03/07/11 (H) DNP: GARDNER, KAWASAKI
03/07/11 (H) NR: FOSTER, MUNOZ, DICK, HERRON
03/07/11 (H) AM: P.WILSON, SEATON
03/14/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/14/11 (H) Heard & Held
03/14/11 (H) MINUTE(FIN)
03/15/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/15/11 (H) Heard & Held
03/15/11 (H) MINUTE(FIN)
03/15/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/15/11 (H) -- MEETING CANCELED --
03/16/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/16/11 (H) Heard & Held
03/16/11 (H) MINUTE(FIN)
03/16/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/16/11 (H) Heard & Held
03/16/11 (H) MINUTE(FIN)
03/17/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/17/11 (H) Heard & Held
03/17/11 (H) MINUTE(FIN)
03/17/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/17/11 (H) Heard & Held
03/17/11 (H) MINUTE(FIN)
03/18/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/18/11 (H) Heard & Held
03/18/11 (H) MINUTE(FIN)
03/21/11 (H) FIN AT 9:00 AM Anch LIO Rm 220

03/21/11 (H) Heard & Held
03/21/11 (H) MINUTE(FIN)
03/21/11 (H) FIN AT 1:00 PM Anch LIO Rm 220
03/21/11 (H) Heard & Held
03/21/11 (H) MINUTE(FIN)
03/23/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/23/11 (H) Heard & Held
03/23/11 (H) MINUTE(FIN)
03/23/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/23/11 (H) Heard & Held
03/23/11 (H) MINUTE(FIN)
03/24/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/24/11 (H) Heard & Held
03/24/11 (H) MINUTE(FIN)
03/24/11 (H) FIN AT 5:00 PM HOUSE FINANCE 519
03/24/11 (H) Heard & Held
03/24/11 (H) MINUTE(FIN)
03/25/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/25/11 (H) Heard & Held
03/25/11 (H) MINUTE(FIN)
03/25/11 (H) FIN AT 3:00 PM HOUSE FINANCE 519
03/25/11 (H) Heard & Held
03/25/11 (H) MINUTE(FIN)
03/26/11 (H) FIN AT 10:00 AM HOUSE FINANCE 519
03/26/11 (H) Heard & Held
03/26/11 (H) MINUTE(FIN)
03/28/11 (H) FIN AT 8:30 AM HOUSE FINANCE 519
03/28/11 (H) -- MEETING CANCELED --
03/28/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/28/11 (H) Heard & Held
03/28/11 (H) MINUTE(FIN)
03/29/11 (H) FIN AT 10:00 AM HOUSE FINANCE 519
03/29/11 (H) -- MEETING CANCELED --
03/29/11 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/29/11 (H) Moved CSHB 110(FIN) Out of Committee
03/29/11 (H) MINUTE(FIN)
03/30/11 (H) FIN RPT CS(FIN) NT 6DP 3DNP 2NR
03/30/11 (H) DP: T.WILSON, FAIRCLOUGH, HAWKER,
COSTELLO, STOLTZE, THOMAS
03/30/11 (H) DNP: GUTTENBERG, GARA, DOOGAN
03/30/11 (H) NR: JOULE, EDGMON
03/31/11 (H) BEFORE THE HOUSE
04/01/11 (H) TRANSMITTED TO (S)
04/01/11 (H) VERSION: CSHB 110(FIN)
04/04/11 (S) READ THE FIRST TIME - REFERRALS
04/04/11 (S) L&C, RES, FIN
04/08/11 (S) L&C AT 2:30 PM FAHRENKAMP 203

WITNESS REGISTER

DAN SULLIVAN, Commissioner
Department of Natural Resources
Juneau, AK

POSITION STATEMENT: Spoke about issues related to HB 110.

CLICK BISHOP, Commissioner
Department of Labor and Workforce Development
Juneau, AK

POSITION STATEMENT: Spoke about issues related to HB 110.

NEIL FRIED, Economist
Department of Labor and Workforce Development
Juneau, AK

POSITION STATEMENT: Answered questions regarding HB 110.

ACTION NARRATIVE

[2:42:20 PM](#)

CHAIR DENNIS EGAN called the Senate Labor and Commerce Standing Committee meeting to order at 2:42 p.m. Present at the call to order were Senators Menard, Giessel, Paskvan and Chair Egan. Senator Davis arrived shortly thereafter.

HB 110-PRODUCTION TAX ON OIL AND GAS

[2:43:31 PM](#)

CHAIR EGAN announced the first order of business would be HB 110 and discussing employment issues. He said today the committee would hear from Commissioner Click Bishop and Commissioner Dan Sullivan.

DAN SULLIVAN, Commissioner, Department of Natural Resources (DNR), said he would begin his remarks with good news. It is important to remember that by any measure the North Slope of Alaska remains a world class hydrocarbon basin. The North Slope is also relatively unexplored compared to other major hydrocarbon basins. He said he could provide an in-depth briefing on these issues if the committee was interested.

[2:47:26 PM](#)

As DNR Commissioner he tries to keep an eye on global issues. Right now there is a global oil and gas spending boom. Shell Oil has announced a four-year, \$100-billion plan; BP is looking at a \$16 billion dollar deal in Russia; Conoco Phillips has flat

spending in Alaska but is doubling spending in the Lower 48; and ExxonMobil has announced goals of doubling US production by 2020. Today a Wall Street Journal article was about Chevron looking at increasing spending in Texas. It is important to note that the State of Alaska is rarely mentioned in these investment strategies. Latest data shows Texas has 741 active drill rigs; North Dakota has 153; Oklahoma has 162; Pennsylvania has 101; New Mexico has 77; Wyoming has 47; Colorado has 66; Ohio has 9; and Alaska has only 10 active drill rigs.

[2:49:31 PM](#)

He noted there is a qualitative difference between a drill rig at Point Thompson and a shale gas drill rig in western Pennsylvania, but this does give a sense of what is happening in the Lower 48 and what is not happening here. DNR believes that the state is not really even in the game. But it is not because Alaska doesn't have a world class hydrocarbon basin.

COMMISSIONER SULLIVAN said many in the oil industry view Alaska as economically challenged for a variety of reasons including a harsh environment, high cost of exploration, remoteness, high transportation costs, strict environmental regulations, environmental group lawsuits, permitting inefficiencies, and federal government anti-development policies. The view from the industry is that Alaska is one of the highest tax regions in the country, especially when oil prices are high.

DNR is very focused on working through a comprehensive package of initiatives to address many of these challenges. Tax reform is a cornerstone of that package of initiatives. The tax debate has raised a number of issues. One is the urgency of the situation. The decline in throughput, approximately 6 percent, is a huge concern. Some have become numb to the issue because it has been around for about 20 years, but he believed the day of reckoning is sooner than most people realize. He was involved with a TAPS shutdown and restart that took place in January. It was a very challenging situation. He noted that Admiral Barrett has testified that the best way to address technical challenges is to get more oil in the pipeline.

[2:53:13 PM](#)

CHAIR EGAN noted the purpose of today's meeting was to talk about employment.

COMMISSIONER SULLIVAN related that for the last three months he has been meeting with companies and leaders throughout the state, in literally hundreds of meetings. Not one company has

provided an enthusiastic outlook on its North Slope activities. He mentioned a speech given yesterday by the CEO of ConocoPhillips, in which he said the service industry in Alaska are taking their expertise and moving to other states to go where the opportunities are. The industry needs these companies here in Alaska. The governor wants to see 1 million barrels a day going through TAPS within a decade. That is the vision he is focused on.

[2:57:28 PM](#)

CLICK BISHOP, Commissioner, Department of Labor and Workforce Development (DOLWD), brought small models of heavy equipment to show the committee and introduced economist Neil Fried. Commissioner Bishop said he had provided committee members with slides that were very succinct, and that he wanted to put a face on the employment discussion.

[3:00:43 PM](#)

The first one shows Alaska's oil industry employment and percent of nonresident workforce, state-wide and in the North Slope Borough. It starts with the year 2000 and goes through 2010 (2010 has only preliminary figures). Annual average oil industry statewide employment in the year 2000 was 8,800; 27.9 percent were non-resident workers. In the year 2006, the average annual employment was 10,100 and 30.8 percent were non-resident. In 2010, the annual average employment statewide was 12,800, and the department doesn't have the figures for non-resident hire yet.

[3:03:24 PM](#)

In 2006 and to a certain degree 2007 and 2008, he believed the increase in employment numbers could be attributed to repair and testing after the TAPS spill. He emphasized these were statewide figures in the three categories the department uses for oil and gas employment.

In the North Slope Borough, the annual average oil industry employment in 2000 was 3,355; non-resident workers were 32.5 percent. In 2006, average annual employment was 6,295 with 37 percent non-residents. In 2009, the annual average was 8,429 with a non-resident rate of 35 percent. For comparison, in 2006 all industries statewide employed 283,800 individuals and 17.9 percent were non-resident. In 2009, the total was 320,900 with 19.1 percent non-resident.

[3:06:40 PM](#)

SENATOR PASKVAN asked if he had a rough estimate of 2010 North Slope numbers and percent of non-resident workers.

NEIL FRIED, Economist, Department of Labor and Workforce Development (DOLWD), answered that the first three quarters of 2010 look similar to the first three quarters of 2009. Fourth quarter figures will be available at the end of April. Non-resident data lags by one year.

SENATOR WIELECHOWSKI asked him to explain why in the book provided to legislators new hires by residency figures don't seem to jibe with the DOLWD figures.

MR. FRIED answered the data from today's DOLWD handout is looking at overall oil industry figures. The other handout is looking at new hires, which is a subset of the first data.

CHAIR EGAN said so that is not the total amount.

MR. FRIED answered yes; it represents new hires for the entire year. The majority of employees were not new hires.

SENATOR PASKVAN noted that Commissioner Galvin indicated employment in the oil industry had increased steadily since the implementation of PPT and ACES. Recent DOLWD numbers indicate a 19.1 percent increase. He asked how they reconcile increased employment numbers with statements that employers are hurting.

[3:12:13 PM](#)

COMMISSIONER BISHOP responded he intended to discuss that in his closing remarks, but he could skip to it if the committee wished him to.

CHAIR EGAN said he could go there whenever he wished.

COMMISSIONER BISHOP said there is an uptick in employment. But he believes that it is due to the spill in 2006 and to increased maintenance and repair requirements of an aging pipeline. He recently asked the Alaska Railroad how much drill casing had been shipped from Fairbanks to Prudhoe Bay. In 2005, the figure was 109 million pounds. In 2010, it was 42 million pounds. He stressed this information should be included in the record, but that it doesn't there is a decrease in drilling activity on the North Slope. This leads to the issue of decreased flow. Exploration wells this year are down to one. This does back up what the oil industry says.

SENATOR THOMAS noted that this means there is a change in the workforce, more maintenance rather than drilling. So there are more people but they are doing different tasks. If that is the case, the work is up and the non-residents are still there. Each year Alaska has more and more non-residents becoming residents. So it is no mystery that Alaskans are not working at Prudhoe Bay, because they are being displaced by companies and workers from Outside. He asked if this is because Alaska doesn't have people with the required skills for the current work.

[3:18:49 PM](#)

COMMISSIONER BISHOP answered that is probably correct. He agreed that many non-resident workers are becoming residents.

SENATOR PASKVAN asked in looking at the 2005 numbers, is he saying that the industry shifted after the spill to a maintenance function and rebuilding of feeder lines, which has caused the employment numbers to increase.

COMMISSIONER BISHOP read a quote from Conoco Phillips CEO Jim Mulva:

Even with the industry investments over the past several years of \$4 billion annually, we have been unable to stop the state's production decline. More and more of these investments that we are making are consumed, and rightfully so, in maintaining and upgrading the older pipelines and facilities and not on developing new oil.

[3:22:09 PM](#)

COMMISSIONER BISHOP said he has tried to get Alaskans trained into these jobs. He still believes many of these employment increases are due to the maintenance needs of old pipelines. This morning he asked the Joint Crafts Council where they are in terms of employment and some unions are down 30 percent. Normal pipeline season on the North Slope is from December through April because they work off of ice roads which starts typically on December 15 when the frost and the cover are both one foot deep. Some of the labor workforce by craft is down 30 percent, some are down 45 percent and some are down 50 percent over the last two-year period.

He said he meets regularly with the oil industry and he wants to put as many Alaskans as possible into those jobs. As recently as March 21 the DOLWD Trends Magazine says Alaska's oil industry is a top employer of non-resident workers, and he has written 11

letters to the heads of these oil companies that he copied everyone, thanking them for hiring Alaskans and saying that he would like to help them improve on it. He referred to a book titled "What Happened to Fairbanks?" written in 1978. He read a quote from the book, as follows:

Although the oil pipeline construction project had been anticipated since 1968, it was not until March of 1974, just one month before actual construction began, that the state Department of Labor formulated its training plan to train Alaskans for pipeline jobs.

[3:28:02 PM](#)

He said the legislature and the Department of Labor and Workforce Development (DOLWD) had the foresight four years ago to develop a training plan for Alaskans. He has now switched gears and is repackaging that document as "The Oil and Gas Training Plan: for Alaskans Now and For the Future." He believes Alaska has a bright future because some pretty exciting things have been heard in this building in terms of other sources of oil plays and the state is moving in the right direction on Alaska hire. It's not happening fast enough, but the department and industry are having those discussions. He concluded saying "Yes, let's fill the pipeline, because it is declining, but let's also fill Alaska's workforce pipeline with Alaskans."

CHAIR EGAN thanked him for coming and stopped questions from the committee because they were out of time.

SENATOR GIESSEL said this has been compelling testimony. She noted that HB 110 has been heard 26 times in the House; its companion bill has been heard six times in this body. Therefore, she moved to report HB 110 [CSHB 110(FIN)] from committee so it could join its companion bills in the next committee of referral.

SENATOR PASKVAN objected.

SENATOR MENARD moved that the Senate Labor and Commerce Committee stand in recess until Saturday, April 9, at 1 p.m. in order to complete and conclude these deliberations and allow HB 110 to be available in Senate Resources as soon as possible.

CHAIR EGAN asked if there was any objection to having the meeting at 1 p.m. on Saturday.

SENATOR PASKVAN objected.

SENATOR MENARD stated this was a privileged motion and not subject to debate. She said a roll call vote was needed.

A roll call vote was taken on the motion to meet on Saturday. Senators Giessel and Menard voted yea; Senators Davis, Paskvan and Egan voted nay; therefore the motion failed.

A roll call vote was then taken on the motion to move the bill from committee. Senators Menard and Giessel voted yea; Senators Paskvan, Davis, and Egan voted nay; therefore the motion failed.

CHAIR DAVIS stated that she voted no because she felt the committee was not yet ready to move the bill. She didn't know what they really got out of this meeting that would allow them to do that. She appreciated the points that were made, but they hadn't gotten a chance to ask any questions. They might have had 100 meetings in the House but she wasn't in any of them. She felt it was wrong to move the bill from committee without doing any work on it.

3:35:00 PM

CHAIR EGAN suggested they continue the meeting at 2 p.m. on Monday. Seeing that several members were not available at that time, he announced he would reschedule the meeting and notify the members of the new time. He then adjourned the meeting at 3:35 p.m.