

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

April 11, 2011

6:07 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 Bert Stedman
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
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03/24/11 (H) FIN AT 8:00 AM HOUSE FINANCE 519
03/24/11 (H) Heard & Held
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03/24/11 (H) Heard & Held
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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

04/08/11 (S) Heard & Held
04/08/11 (S) MINUTE(L&C)
04/11/11 (S) L&C AT 6:00 PM BUTROVICH 205

WITNESS REGISTER

CLICK BISHOP, Commissioner

Department of Labor and Workforce Development (DOLWD)
Anchorage, AK

POSITION STATEMENT: Continued answering questions about CSHB 110(FIN).

NEIL FRIED, Economist

Department of Labor and Workforce Development (DOLWD)
Anchorage, AK

POSITION STATEMENT: Continued answering questions on CSHB 110(FIN).

ACTION NARRATIVE

6:07:15 PM

CHAIR DENNIS EGAN called the Senate Labor and Commerce Standing Committee meeting to order at 6:07 p.m. All members were present at the call to order.

HB 110-PRODUCTION TAX ON OIL AND GAS

CHAIR EGAN announced HB 110 to be up for consideration [CSHB 110(FIN) was before the committee]. He said they would continue Friday's meeting with Commissioner Bishop and Mr. Fried and would start on page 2 of the Labor and Workforce Development handout.

6:08:55 PM

CLICK BISHOP, Commissioner, Department of Labor and Workforce Development (DOLWD), introduced Mr. Fried an economist for the department.

6:09:31 PM

NEIL FRIED, Economist, Department of Labor and Workforce Development (DOLWD), said Table 2 represents the unemployment claimants whose most recent earnings came from the oil industry from 2000 to 2010. He said the categories are total claims for oil industry intra-state claims (people who are living in Alaska are receiving) and inter-state claims (people who are outside whose last earnings were in Alaska working in the oil industry who are receiving their benefits outside of the state).

Further down, oil and gas extraction and support activities for drilling and oil and gas wells is just dividing the oil industry up into separate categories. The oil and gas extraction basically covers the producers; the support activities, the largest group, covers everybody else (oil field service industry).

[6:10:44 PM](#)

MR. FRIED explained that the total numbers moved along at about 1,000 per year and then increased a little in 2008 to almost 1,400. There was a significant jump in 2009 to 2,700. Then it sort of leveled off and actually dropped off slightly in 2010 at 2,500. That is the experience over the past four years of people whose last major earnings were in the oil industry who became unemployment claimants.

SENATOR PASKVAN said many people are struggling with the first slide that shows statewide in 2009 an all-time high employment in the oil industry and in 2010 it's within 100 employees. What explains, potentially, increases in unemployment when the average employment is at an all-time high?

MR. FRIED replied that Alaska has an employment increase and an unemployment benefits increase, as well. It does look strange and contradictory. A couple of explanations are when looking at the annual industry data that went from 12,800 in 2008 to 12,900 in 2009 is that they are looking at averages; they don't see the monthly changes. The monthly change in the first quarter of 2009 almost reached a peak as high as 13,500 for oil industry employment. By November 2009, employment had dropped by 1,500. So, 2009 started out really strong and then dropped off, and he assumed much of the increase in the number of claimants occurred during the latter part of the year; and that contributed to a big increase in the number of unemployment insurance claims that were tied previously to the oil industry.

One other big thing happened in 2009 that might help explain it, the big macro picture, and that was the first year in Alaska's economy in 21 years where overall employment actually fell and unemployment increased significantly. The job market changed a lot in the broad sense. Alaska went from a job market where it was difficult for employers to find enough workers to now workers having a very difficult time finding work. If you had lost your job (with transferable skills to the construction industry) in the oil industry at any time during 2009 it probably was more difficult to be rehired somewhere, but if the

labor market in general got significantly worse, those alternatives had also declined.

In the first quarter of 2010, oil industry employment recovered nicely and stayed relatively strong through the next two to three quarters; the number of claimants in the oil industry actually declined slightly. But all other industry claimants continued to increase.

6:16:00 PM

SENATOR PASKVAN said America has had two major economic downturns and asked if there is any correlation in his numbers that fit into those patterns.

MR. FRIED replied yes; but Alaska didn't go into recession in those periods while the rest of the country did. Employment managed to grow in 2001 to 2003. What happens each time that occurs is that fewer Alaskans leave the state because the pastures do not look very green elsewhere in the country and more people probably head north looking for opportunities. That effectively pushes up the number of people who are looking for work and then our unemployment rate increased. "That happens all the time."

SENATOR PASKVAN asked if it's an accurate understanding that Alaska appears to be at or near all-time employment.

MR. FRIED answered yes.

SENATOR GIESSEL asked how long a person can be on unemployment.

COMMISSIONER BISHOP replied up to a maximum of 99 weeks.

SENATOR GIESSEL asked if the 2,780 people that were on unemployment in 2009 were also reflected in the 2010 numbers.

MR. FRIED replied that it could be a combination; certainly there were claimants who were new as well as others from 2009.

SENATOR PASKVAN asked if there has been a base wage growth in the oil and gas industry parallel with the all-time high rate of employment.

MR. FRIED replied in 2007 the total payroll was about \$1.3 billion; by 2009 it was close to \$1.6 billion. So, yes, there was a commensurate increase in payroll as in employment.

[6:20:36 PM](#)

COMMISSIONER BISHOP said he wanted to take members' questions now and started by saying that he wanted to put a face on unemployment numbers. A week ago he talked to some of the same people who talked to Senator Paskvan's office from Flowline Alaska, with whom he had a working relationship in his former career. They are probably the only pipe coating facility in the state that does fusion bonded epoxy coating, steel jacketed coating and insulated pipe coating for the North Slope of Alaska. His figures are from construction season 2008 to 2010. He reminded them that the normal construction season on the North Slope is December through April. In 2008, Flowline had 71 full-time employees and in 2010 they had 31 full-time employees. Since they have a niche market, they work closely with the industry and get long lead time on projects so they can order materials and plan their work around the industry's work, but he has been told that the next three or four years looks very grim for them.

Another North Slope contractor he talked to has the specialty of doing well tie-ins. After the well is drilled, they will come in and tie it in to an existing pipeline to get the oil into the TransAlaska Pipeline System (TAPS). They reported employment down by 50 percent; their engineering division is down 60 percent and they are selling off some of their assets. Another pipeline contractor Commissioner Bishop said he talked to last week is down 50 percent on their pipeline work and forecasting going down another 50 percent. Their Alaska hire rate is 95 percent.

[6:26:01 PM](#)

SENATOR PASKVAN said when they are hearing that the employment numbers are at all-time highs, it's hard to rectify that. The January 2011 Trends report specifically says that "the number of non-resident workers employed in Alaska provides an excellent indicator of labor shortage in the state." But according to the commissioner, Alaska doesn't have a labor shortage. How do you explain this? Who is hiring these people if those people aren't?

[6:27:00 PM](#)

COMMISSIONER BISHOP replied that he recognizes the fact that some Alaskan employers have non-resident hire rates of 25 to 54 percent. He has made numerous visits with industry leaders and oil company executives to see how the state can work better them to get more Alaskans into those jobs.

SENATOR PASKVAN responded that everyone wants to make sure that Alaska has a trained workforce, but the troubling thing right now is how to account for the fact that these seasoned highly qualified employees aren't working when Alaska is at all time high numbers of total employment.

COMMISSIONER BISHOP replied this group of North Slope pipeline and pipe coating contractors are "out there on the front end" right after the exploration wells have been drilled. They might not have the skill set the other jobs would require and need more training; and he has written letters asking what the state can do better to train more Alaskans to get them into these jobs.

SENATOR PASKVAN said, then, it seems that the question is what are the jobs of now and in the near future that Alaskans need training in, so that they can be employed when the oil industry as a total is at all-time high employment.

COMMISSIONER BISHOP responded by referring them to a copy of a letter in their packets that he wrote.

[6:31:22 PM](#)

SENATOR PASKVAN asked if he has historical employment trends for these private companies. Did they experience employment declines in past economic downturns?

MR. FRIED replied yes; the department has employment data going back for almost all employers, but the data for individual companies is confidential.

SENATOR GIESSEL said one of the things she became aware of working with the Department of Labor and Workforce Development (DOLWD) and the Department of Health and Social Services (DHSS) statistics is that a lot of times the identifier numbers for different professions aren't real specific. When she looks at the various economic trends, the categories are very broad in oil and gas; it doesn't say whether these jobs are on a drill rig or whatever. Is it possible to drill down to those kinds of specifics or are they just broad-brush numbers?

MR. FRIED replied the definition of the oil and gas industry is fairly narrow. For example, Alyeska Pipeline Service Company; it's usually thought to be an integral part of the oil industry and it is, but it's defined as a transportation company. Or a catering company or security company or even a lot of construction companies will be defined under those various

industries. The biggest breakdown they have is between producers, the Exxons and ConocoPhillips of the world, and the oil field service companies like the Doyon Drillings and the CH2MHills. That breakout is actually in Table 2.

SENATOR GIESSEL asked if the companies that the commissioner was just citing are considered oil and gas or support industries that wouldn't necessarily be reflected in these categories.

MR. FRIED replied that some of them are in the oil field services, but he wasn't sure if they all are.

SENATOR PASKVAN asked if the commissioner knows whether Repcon works up North.

COMMISSIONER BISHOP replied yes, it does.

SENATOR PASKVAN said the January 2011 Trends publication on page 5 says that Repcon reports 100 percent non-resident hire. Is that accurate?

MR. FRIED replied, "It's in the book; I guess it's accurate."

SENATOR PASKVAN said it seems like they are under the construction industry, but it appears they are working in the oil industry. Is that accurate?

COMMISSIONER BISHOP replied yes; they are on the North Slope, but they are categorized in the construction industry. That's just the way they are counted by the Bureau of Labor Statistics.

SENATOR PASKVAN asked if another contractor like Matrix Service, Inc. is working at Prudhoe. That's another company that reports 100 percent non-resident hire. Is that accurate?

MR. FRIED replied yes to both questions.

SENATOR PASKVAN asked what type of construction work within the oil industry does Matrix and Repcon do at Prudhoe?

COMMISSIONER BISHOP replied to his knowledge they do tank repair and clean on vessels.

[6:37:51 PM](#)

SENATOR PASKVAN went to page 11 of April 2011 Trends that has a new hires by industry chart that breaks out the oil and gas industry. Third quarter 2009 saw 636 new hires and third quarter

2010 saw 1,420, for an increase in the oil and gas industry in Alaska of 123.3 percent. "It seems pretty amazing if we got a lot of Alaskans that aren't working."

COMMISSIONER BISHOP pointed out that 47 percent of residents are working.

SENATOR PASKVAN said he understands that to say 47.7 percent of the new hires are residents, but that infers to him that more than 50 percent were non-Alaskans.

COMMISSIONER BISHOP remarked, "That's what it says."

SENATOR PASKVAN said that is troubling to him when he knows his folks at home aren't working. Is that a hiring choice?

COMMISSIONER BISHOP replied yes; it's a hiring choice. The state has "been around the Horn" for 35 years trying to maximize Alaskan hire, he said, and at his confirmation hearing for commissioner he was asked what he would do about Alaska hire. He had replied that issue had faced every other commissioner before him since statehood and he obviously isn't doing a very good job either.

SENATOR PASKVAN asked if he believed there are competent, experienced qualified Alaskans who could do the work that went to non-residents.

COMMISSIONER BISHOP replied if he knew what skill sets they were hired in he could say, but at this point he wanted to read his letter to the industry into the record so the people watching on TV could hear it.

Dear Sir:

Thank you for choosing to do business in Alaska and for hiring Alaska workers. While I recognize that you hire resident workers, I would like to work with you to identify additional qualified Alaskans to fill your hiring needs. The mission of the Alaska Department of Labor and Workforce Development is to provide a safe and legal working environment and advance opportunities for employing our residents. More than \$1.8 billion leaves this state annually each year in non-resident wages. As critical, those jobs are sorely needed in our communities where unemployment reaches hirer than 50 percent.

When you hire trained and experienced workers locally, you can reduce the high cost of importing and retaining your labor workforce. Hiring locally also means you can more readily access state and federal training and employment resources and services designed to benefit your company directly.

I look forward to meeting with you so that we can understand your specific workforce needs first hand and how to best customize our services to meet those needs. Please do not hesitate to call. Along with my senior training team, I'll meet with you at your shop or mine.

Sincerely,

Click Bishop

[6:40:49 PM](#)

CHAIR EGAN said he appreciated that letter and asked him to discuss any replies he had received from any of the firms he sent the letter to.

COMMISSIONER BISHOP responded that he got two verbal replies and one written reply. Two of the majors have called on the phone; he has met with one already and is meeting with another major producer this week. He got one Email reply from another service contractor on the North Slope.

SENATOR PASKVAN said it's a great letter and that it needed to be sent because it's calling on the line some people who need to answer.

COMMISSIONER BISHOP said the Supreme Court has said requiring Alaska hire is unconstitutional and the department "works it as hard as we can work it with the tools that we have." He said they spend a lot of effort advancing apprenticeship in this state by industry and occupation. When you commit to instilling a registered apprenticeship program in your business, you're drawing your workforce from Alaskan schools and the University.

Two years ago as a result of looking forward at the gaps in the gas line training plan, they know the state will need X number of truck drivers, X number of heavy duty mechanics to keep those trucks running, and the department started developing and

building a curriculum and setting it up. It took funding, but they started a truck apprenticeship program through AVTEC.

[6:44:51 PM](#)

Carlisle Trucking Company has signed on for a registered apprenticeship heavy duty mechanic truck program. Carlisle is also becoming a 100 percent Alaska-hire employer and requiring that employees become Alaska residents. Commissioner Bishop said, "I know I don't have the force of law. All's I have is one on one, face to face, one industry and one employer at a time building a relationship and there is an example."

He also cited Lynden Transport as another example of a company he got to commit to an apprenticeship for the heavy duty mechanic program and they are also the first trucking company to launch an over the road line haul driver apprenticeship program - taking apprentices - Alaska kids - to Prudhoe. He said, "We're building our workforce in our gaps right now."

CHAIR EGAN said they would like to hear about them.

COMMISSIONER BISHOP said he couldn't do it all by himself. He needs help "from every one of you." If they are all saying it and he is saying it, it is resonating. In the last two years, he has instituted 52 new apprenticeship programs in the state. The last one is directly tied to corrosion repair, non-destructive testing (NDT), on the North Slope.

[6:48:43 PM](#)

He added that one pipeline company he worked for on TAPS that did Section 3 from the Yukon River down past Salcha, for the first time in 37 years doesn't have a project booked in the state.

SENATOR PASKVAN asked if the apparent trend to hire non-residents appears to be increasing in recent years.

COMMISSIONER BISHOP replied that Alaska is "trending the needle in the right direction" down by five-tenths of a percent.

SENATOR PASKVAN asked if he said \$1.8 billion is lost in earnings to non-residents.

COMMISSIONER BISHOP replied that figure is across all industries.

SENATOR PASKVAN said he was looking on page 20 and asked what percentage of that \$1.8 billion is lost to non-residents in the oil and gas industry.

MR. FRIED responded that it was about \$420 million in 2009.

SENATOR PASKVAN said the next column has a non-resident earnings figure and then "direct effect" followed by \$914,490,000 million; it talks about a 1.87 multiplier. Is the "direct effect" of the \$420 million likely also at that 1.87 multiplier?

[6:51:54 PM](#)

MR. FRIED replied yes.

SENATOR PASKVAN remarked, "It's a lot of money."

SENATOR GIESSEL said she wanted to segue way back to the amount of work on the Slope regardless of who is doing it. She asked if the non-destructive testing is considered oil and gas jobs or oil field support jobs.

MR. FRIED replied that it depends on the employer, because some employers might be doing non-destructive testing along with other things. If they were just doing NDT he didn't think they would be counted in the oil industry.

SENATOR GIESSEL said this is a job category that has a lot of Alaskans working in it, but it might not be showing up in our oil and gas employment numbers.

She said on Friday the commissioner gave them an Email that had the number of pipe net pounds being transported north by Alaska Railroad and it dropped in half between 2009 and 2010. Clearly a lot of different work is going on on the North Slope other than putting down pipe casings. Is that accurate? What does this decrease in pipe headed north mean?

COMMISSIONER BISHOP replied it means less drilling. One of his points last Friday was that in 2009, 109 million pounds went north, but in 2010 it was 42 million. They all agree that there is only one exploratory well being drilled there this year by Brooks Range, and that is one conclusion he has about why there is less in-field drilling being done. He wants to get more exploratory work to develop new fields to get more pipelines so flow lines can get back up to 71 FTEs.

[6:55:52 PM](#)

SENATOR GIESSEL said she appreciated the examples of the companies he had talked to, because in her area she actually knocks on doors of folks that have lost their jobs in the oil field, but they are in the oil field support industries. And they hear about Anchorage companies laying off 50 percent of their employees, also. So, if they could get drilling up on the North Slope, then resident employment would rise also. What are these new employees actually doing on the Slope if they aren't drilling more wells?

COMMISSIONER BISHOP agreed and said they could find that out, but it would take time. He doesn't have that expertise in the department now, but that doesn't mean you can't find those people. They already have identified 113 occupations directly related to building a gas line. This type of debate has never come before the department. He said just from their discussion tonight it can be seen that there is work that goes on on the Slope that falls outside of one of the three categories that comes in under construction. "We can data mine 'til the cows come home," he said, but there is no denying the uptick in numbers.

[6:58:39 PM](#)

COMMISSIONER BISHOP said he goes back to the 2006 oil spill and the fact that the increase in these numbers could be directly tied to maintenance and repair on the corroded pipelines.

SENATOR PASKVAN asked if well casing is needed to do well work-overs.

COMMISSIONER BISHOP replied that is not his area of expertise, but it depends on what they are doing to the well. Cleaning and scaling wouldn't need a work-over rig.

SENATOR PASKVAN said they had a presentation in another committee that showed the number of well work-overs is very substantial in Alaska. Also, the presentation by AOGCC explained it as part of a normal cyclical pattern in Alaska looking back through a number of decades. Does that sound realistic?

COMMISSIONER BISHOP said he wasn't the best guy to ask.

SENATOR PASKVAN said the September 2008 issue of Alaska Economic Trends indicates:

Dramatic improvements in technology in the last decade have had a powerful effect on employment levels. An

example of those include the wide-spread use of horizontal drilling, alter-extended reach drilling, 3-D and 4-D seismic surveys, drill bit sensors and other advancements that reduce the number of wells that need to be drilled.

In other words, they say the oil industry has been able to perform more work using fewer workers. Does that technology have an effect in Alaska where they need to drill fewer wells, but they're finding out the information from other sources.

MR. FRIED replied that those were his words and it was related to a report that the Federal Reserve of Dallas wrote in the 90s that the oil and gas industry had the greatest productivity gains of all industries. It slowed down somewhat in the 2000s, although predictably they continued to increase. If they were looking at it from sort of an accounting point of view, if they would do the very same work today you probably would need fewer workers; although, in the long run, an increase in productivity should lead ultimately to an increase in employment.

[7:03:21 PM](#)

SENATOR PASKVAN followed up from the same September 2008 article that compares Alaska to other oil producing states that indicates Prudhoe Bay "doesn't need a huge workforce to produce oil." They then compared that to Texas, Oklahoma and Wyoming and talked about 400,000 stripper wells, because those are the type of wells that one would have in small fields like Texas has where oil is found all across the state; different than Alaska where it is concentrated in one region. Is it accurate to say that Prudhoe Bay doesn't need a large workforce whereas other states need a lot of well drilling to access their oil?

MR. FRIED replied that was said in context sort of comparing Alaska to the rest of the country, and while he didn't know if it was a benefit, but Alaska's oil fields on average are much larger than the oil fields found elsewhere in the country. Fourteen of the largest oil fields in the country are here in Alaska. For economic reasons, Alaska tends to choose to only develop those larger fields. So, Alaska has the economies of scale when it comes to developing its oil fields.

He said there are a couple of other reasons for that; one is the structure of our oil and gas industry. Many of the companies that operate in other states' headquarters are in those states, so they have additional staff; whereas most of Alaska's employment is tied very specifically to producing the oil in

both the Kenai Peninsula and the North Slope. The last point in looking at that is you have to remember these are oil and gas numbers, which in Alaska means basically oil industry numbers. But comparing those numbers to elsewhere in the country is comparing them with oil and gas; but in some those states, gas is a bigger employer than oil. In that sense, we're mixing a little bit of apples and oranges, especially nowadays with the boom in gas exploration and production.

SENATOR MENARD said they were trying to grapple with just how much is going on with the increase on the North Slope. She thinks the increase is not from oil production and research and exploratory development, but a lot of these jobs are for refurbishment of pipeline and repairs in the infrastructure. Is that a true statement?

[7:06:12 PM](#)

COMMISSIONER BISHOP replied yes; that is what his comments have been "framing."

SENATOR PASKVAN said the AOGCC presentation last Friday shows development, service wells and well bores being drilled on the central North Slope only for the years 1996 to 2010 where in 2010 the number of wells that reflected are at a high going back to 2005. That seems to contradict the well casing numbers from the Railroad.

COMMISSIONER BISHOP responded that he didn't have that slide in front of him.

SENATOR GIESSEL said the DNR might be able to answer it.

CHAIR EGAN said he had invited the DOLWD commissioner and Mr. Fried here today and he hesitated to ask someone else to come up and present anything. They would get an answer, though.

SENATOR PASKVAN said one of the concerns that many people have is that there is a claim that 2,000 jobs have been lost in Alaska. When one looks at the average annual employment, it seems like it is at or near an all-time high. What is the truth?

MR. FRIED replied that he didn't know the source of that data, so he really didn't know.

SENATOR PASKVAN asked if he found that in the data that he reviews as part of his activities as an economist.

MR. FRIED replied no.

COMMISSIONER BISHOP said he does know a lot of the same things and gets the same reports that many of those in the legislature have received.

SENATOR GIESSEL said she was looking at the January 2011 Trends employment forecast for 2011 and page 6 has a chart that provides 2009 and 2010 monthly average employment figures. The category is oil and gas and the change from 2009 to 2010 is negative by 1,000, a drop of 7.8 percent. The department is forecasting an average monthly decrease of 100 more jobs from 2010 to 2011. There are a lot of different data points counting different things. How would you explain the difference?

MR. FRIED replied this series, in theory, represents the same series as the other numbers they discussed. The 2010 numbers were a preliminary estimate for 2010. He explained that the department goes through a four-stage process in estimating employment each year; they produce a preliminary estimate, a revised estimate (based on a sample that they receive from employers), and then when they get the actual data from employers on their ESC reports. The actual administrative data gets overlaid on top of their sample based estimates. When they revised the numbers for 2010, in fact, they did not experience the decline that the sample-based estimates said were happening. Those numbers actually became the 12,800 - in exhibit 1.

SENATOR GIESSEL said in column one the 12,800 is 2009 and then it drops down to 11,800 in 2010. A thousand jobs were actually lost. Is that what you're saying?

MR. FRIED said no; he is saying that when the numbers are revised and the actual numbers were overlaid, that number became 12,800. Their numbers were revised in March of this year.

SENATOR GIESSEL said the data is confusing. On page 10 of the January 2011 Trends, chart 13 shows Anchorage wage and salary employment forecasts. There's oil and gas, which is "dandy," but then she turns to her hometown, Fairbanks, on page 14, and oil and gas isn't even listed. Yet, she knows there are oil and gas jobs there. Why did it get left off of that chart?

MR. FRIED agreed that the data is confusing; oil and gas is part of mining and logging like it is in the other tables, but they are a subcategory of mining and logging. The size of that

workforce is relatively small and because of its size, it is very difficult to estimate.

SENATOR PASKVAN recapped that slide 1 indicates that the 12,800 employed in the Alaska oil industry is a figure that was released as of April 8, 2011.

MR. FRIED agreed and said that the revised figure is now 12,900.

SENATOR PASKVAN asked if that was released last week.

MR. FRIED said correct. He added that the revisions in the previous years are usually very small, because when that 2009 number was produced, they had three quarters of actual data and only had one quarter of "estimated" data; whereas all the months in 2010 were based on sample estimates.

SENATOR PASKVAN referred to the April 2011 Trends that indicates that more workers are being hired in Alaska from the state's unemployment insurance numbers. Then it says the oil industry, in particular, has shown a strong uptick in hiring. Is that accurate?

MR. FRIED replied it is accurate. However, what is interesting about the new-hire data is it's not always representative of growth in the industry; it represents the churning that goes on in the labor market. Looking at the first three quarters of new hire data for 2007 when employment was smaller than it was in 2010 by a thousand or so, there were still more new hires in 2007 than there were in 2010. It's another labor market indicator, in this case, of hiring, because at the same time this is going on, you could have people being laid off as well. For example, if a contractor finished a job, those numbers wouldn't show up in the new-hire data, and if someone else took over that very same contract and hired people - and not the people who were laid off - then they would show up as new hires.

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SENATOR PASKVAN said again the April 2011 Trend indicates in the oil and gas section that "the biggest jumps in new hires and continuous workers were in the oil and gas related industries both of which reached a four-year peak in 2010." Then it says, "The region new hires increased the most on the North Slope primarily due to the spike in the oil and gas industry." This seems to indicate that things were "pretty darn good" in the oil and gas industry based on numbers.

MR. FRIED replied that they had looked at those numbers and 2009 and 2010 are record high.

SENATOR GIESSEL said that same paragraph goes on to say, "However, because it is not possible to differentiate between workers hired to maintain the current fields and those in new exploration, it's unclear if the jump in employment will continue." So, interpreting these statistics is not always "cut and dried." Nevertheless, she said she appreciates the work that goes into it.

CHAIR EGAN asked if he tracks availability of housing and vacancy rates on the North Slope.

MR. FRIED answered no, but it would be interesting.

COMMISSIONER BISHOP added that he knows of several camps that are at capacity.

SENATOR PASKVAN said it is troubling that camps are full and employment is at an all-time high, but at the same time experienced workers are asking why they are not working and it appears that someone from outside Alaska is working. Following in that line, he understands that residency of the North Slope workers is based upon who has applied for PFDs, but on page 2 of the January 2011 Trends seems to indicate that 14.5 percent of the people that apply for their PFD were at one point non-residents. What does that mean?

MR. FRIED answered that it means they have looked at the data and at the people that were categorized as non-residents in 2008, and then they looked at the same group of people in 2009 and found that 14.5 percent of those that were counted as non-residents in 2008 became residents in 2009.

SENATOR PASKVAN asked if that rate were to continue, would that be an ever-growing population of non-residents working on the North Slope.

MR. FRIED replied he didn't think; it depends on other factors. That number is pretty consistent year in and year out.

CHAIR EGAN asked if he was willing to discuss the legal issues of local hire and possible solutions to adding more resident employment opportunities.

COMMISSIONER BISHOP replied that is why he has been working so hard to get employers engaged with getting Alaska kids into apprenticeships. "Those are Alaska kids coming out of our high schools, coming out of our universities. It takes the non-resident piece out of the equation when you are using our kids." He added "it took no law to get there." That is why he has challenged everybody in this room and has said it every year, "Help me."

CHAIR EGAN said he appreciated that, but he was wondering if there were any other possibilities.

COMMISSIONER BISHOP said he went through the book he had on Friday and found some good stuff, but when he asked DNR and DOL about it, it was all unconstitutional.

SENATOR PASKVAN asked if he had seen the capital budget with respect to the pipeline training center and if he could talk about what it is designed to do.

COMMISSIONER BISHOP replied that Pump Station One had a small spill this winter. Over 19 individuals fixing that leak went to that Pipeline Training Center. The training center is in Fairbanks, but the students come from statewide. Over 27 percent come from rural Alaska. That's how fast the state can respond.

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CHAIR EGAN asked if those people were called out or permanent full-time employees.

COMMISSIONER BISHOP replied that they were called out and about 550 people were associated with that whole event.

SENATOR PASKVAN said probably a lot of Alaskans are asking who makes the decisions to hire the non-residents.

COMMISSIONER BISHOP answered that it's up to the individual service companies.

CHAIR EGAN said even if Alaskans are getting trained, there are no guarantees that these companies will hire them.

COMMISSIONER BISHOP responded that there would be some guarantees that some of the companies would hire them. One of the things he does with his job is look forward five years down the road. He wants the tech jobs at the facilities to be Alaskan jobs. He went to Pt. Thomson and Prudhoe and brought ExxonMobil

back to the University Tech Training Program, because it is co-located at the Pipeline Training Center that is integrated from top to bottom. Other contractors that support it know its value and that it's in their vested interested to hire as many of those people as they can. However, some people don't fit with what that training center does and that is some of the reason he wrote the letters to these companies the way he did saying, "What more can we do working together?"

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CHAIR EGAN thanked the commissioner and Mr. Fried for making themselves available to the committee to answer questions and adjourned the meeting at 7:32 p.m.