

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

March 14, 2011

3:34 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Co-Chair
Senator Thomas Wagoner, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Lesil McGuire
Senator Hollis French
Senator Gary Stevens

MEMBERS ABSENT

Senator Bert Stedman

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel

COMMITTEE CALENDAR

SENATE BILL NO. 49

"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 estimated oil and gas production tax; relating to oil and gas production tax credits for certain expenditures, including qualified capital credits for exploration, development, and production; relating to the limitation on assessment of oil and gas production taxes; relating to the determination of oil and gas production tax values; making conforming amendments; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 6

"An Act relating to providing a prekindergarten program within a school district; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 49

SHORT TITLE: PRODUCTION TAX ON OIL AND GAS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/11	(S)	READ THE FIRST TIME - REFERRALS
01/19/11	(S)	RES, FIN
03/09/11	(S)	RES AT 3:30 PM BUTROVICH 205
03/09/11	(S)	Heard & Held
03/09/11	(S)	MINUTE(RES)
03/11/11	(S)	RES AT 3:30 PM BUTROVICH 205
03/11/11	(S)	Heard & Held
03/11/11	(S)	MINUTE(RES)
03/14/11	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

BRIAN BUTCHER, Commissioner-designee
Department of Revenue (DOR)
Juneau, AK

POSITION STATEMENT: Continued presentation on SB 49.

CHERI NIENHUIS, Petroleum Economist
Department of Revenue (DOR)
Juneau, AK

POSITION STATEMENT: Answered questions on SB 49.

BRUCE TANGEMAN, Deputy Commissioner
Department of Revenue (DOR)
Juneau, AK

POSITION STATEMENT: Answered questions on SB 49.

ACTION NARRATIVE

3:34:17 PM

CO-CHAIR JOE PASKVAN called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to order were Senators French, Wielechowski, Stevens, Co-Chair Wagoner, and Co-Chair Paskvan.

SB 49-PRODUCTION TAX ON OIL AND GAS

3:34:59 PM

CO-CHAIR PASKVAN announced SB 49 to be up for consideration. He welcomed Commissioner Butcher to continue his presentation on SB 49 [started on March 11].

[3:37:27 PM](#)

BRIAN BUTCHER, Commissioner-designee, Department of Revenue (DOR), continued his presentation on SB 49 starting on slide 7, a graph of North Slope exploration drilling. It listed the number of exploration drills (in blue) according to the Alaska Oil and Gas Conservation Commission (AOGCC) and an overlay (in green) of the price of oil during that time. He pointed out that Alaska's Clear and Equitable Share (ACES) passed in the latter half of 2007 when 18 wells were drilled. Decisions had been made to drill 16 exploratory wells for 2008 previous to the passage of ACES; in the next two years, 9 wells in 2009 and 4 in 2010 (2 in Pt. Thomson) were drilled and DNR estimates 1 will be drilled in 2011.

SENATOR WIELECHOWSKI asked if the DOR had done any analysis of why the decrease in exploration wells happened.

COMMISSIONER BUTCHER replied that the Department of Natural Resources (DNR) could better answer that. "It's our belief in looking at it that as the price of oil has increased and the exploration has increased in other states that it's as a result of our tax system that passed at the end of 2007."

SENATOR WIELECHOWSKI asked if that would be directly contrary to what his department said just last year that there was an increase in investment on the North Slope and it was due to ACES.

COMMISSIONER BUTCHER responded that the department has new information now.

SENATOR WIELECHOWSKI asked when he came to this conclusion and when the decision was made.

COMMISSIONER BUTCHER replied in discussions with the governor in the latter part of December and after taking the job in January.

SENATOR WIELECHOWSKI asked if he agreed with or disagreed with the following statement: "The good news is we are seeing a lot of increase in oil exploration."

COMMISSIONER BUTCHER replied he didn't flat agree or disagree with that, but he thought they were seeing more activity by the independents. Ultimately, though, he didn't think they were seeing more production or exploration wells drilled.

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SENATOR WIELECHOWSKI asked if Karen Rehfeld knew what she was talking about when she mentioned "increased oil exploration" before the House Finance Committee on January 19.

COMMISSIONER BUTCHER answered that she was probably answering a question in reference to the dollar amount of tax credits that were in the FY12 budget request.

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SENATOR FRENCH said the state went from 16 exploration wells in 2001 to 11 in 2002 and down to 1 in 2003, and in 2004 if lawmakers had decided to reduce oil taxes to stimulate exploration on the North Slope, that would have been an enormous mistake because the state would have missed out on billions and billions of dollars of revenue in 2007/08/09. While he appreciated the point of needing more exploration wells, Senator French said he thought maybe they should just set up a \$150-200 million fund and subsidize the first three and see who drills them first. He cautioned that they must be careful to connect the dots correctly.

CO-CHAIR PASKVAN asked if the DOR had looked at a correlation between the collapse in the U.S. economic markets in 2001/02 and the decline of exploration drilling in 2003.

COMMISSIONER BUTCHER replied yes; some states didn't have a dip and in others did. But as the price of oil began to climb again in 2010/11 drilling began to increase again also. However, drilling did not increase in Alaska and, in fact, continued to decrease. It's not a correlation one can see in some of the other states.

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SENATOR MCGUIRE joined the meeting.

CO-CHAIR PASKVAN asked if he could break out gas exploration wells as compared to oil, because of the "shale explosion in the Lower 48."

COMMISSIONER BUTCHER replied that would be difficult, but they would do their best.

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SENATOR WIELECHOWSKI asked if the 2008/09 wells were all drilled by a single company.

COMMISSIONER BUTCHER replied that companies work together when drilling wells, but he didn't have specifics on those particular years.

SENATOR WIELECHOWSKI asked if he knew companies have agreements with each other such that one decides not to drill a well and the other companies don't drill either.

COMMISSIONER BUTCHER replied that he didn't know.

SENATOR WIELECHOWSKI asked him to look into that, because he has heard if ConocoPhillips and BP want to drill a well and then BP, because of some financial disaster doesn't do it, then the well doesn't get drilled. Is there any sort of interplay?

COMMISSIONER BUTCHER replied he would be happy to do that.

CO-CHAIR PASKVAN said he was trying to ascertain if there is a natural pattern of decline in the number of exploration wells simply because there are fewer undiscovered potentially recoverable barrels of oil in a "mature elephant field."

COMMISSIONER BUTCHER replied that he would get back to him on that, adding that they had been digging into what the natural evolution in the decline of a field is.

CO-CHAIR PASKVAN said 10 or 12 years ago it's likely that the central North Slope had 7 billion barrels of undiscovered potentially recoverable oil and now according to the USGS it has 4 billion barrels and asked if going from 7 barrels to 4 over a 10 or 12 year period is a natural decline.

SENATOR WIELECHOWSKI asked if the explorer companies are required to tell them of their future drilling plans.

COMMISSIONER BUTCHER replied that information is shared between the companies and the DOR, but Ms. Nienhuis could enlighten them more.

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CHERI NIENHUIS, Petroleum Economist, Department of Revenue (DOR), explained that the companies do file plans of development with the DNR and their production forecaster has access to those plans.

SENATOR WIELECHOWSKI asked how much in advance companies are required to give that notification.

MS. NIENHUIS replied that she wasn't sure.

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SENATOR WIELECHOWSKI asked if she was aware of the future drilling plans for 2011/12/13.

MS. NIENHUIS answered that their production forecaster would probably have access to that information prior to doing the forecast.

SENATOR WIELECHOWSKI asked the commissioner for a more definitive answer.

COMMISSIONER BUTCHER answered that he didn't know, but Frank Molly, their production forecaster, could give them more detail.

SENATOR WIELECHOWSKI said he would like to have that information. He asked if an increase in the projected number of drilled wells would change his opinion on changing ACES.

COMMISSIONER BUTCHER responded that would be a good sign, but more exploration wouldn't necessarily lead to more production, because they don't know the success of the exploration wells.

CO-CHAIR PASKVAN asked how far into the future the exploration plans the state receives go.

MS. NIENHUIS replied it varies. Some developers provide comprehensive information; a shorter term project might be different.

SENATOR FRENCH said they are talking about reducing oil taxes on the producers hoping the explorers "will run out there" and explore more. But Exxon, ConocoPhillips and BP don't explore; they're producers, and he was concerned that there may be a mismatch between what they are trying to incentivize, which is exploration, and the people who are going to benefit from this bill who are largely producers.

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SENATOR WIELECHOWSKI said the issue of drilling future wells is important and he hoped someone would be able to testify as to the specifics on the slides that are being presented to the committee.

COMMISSIONER BUTCHER replied that the slides were put together with the expectation that someone would be here from DNR. He said slide 8 highlighted potential production on the North Slope showing 16 billion barrels of cumulative production through 2010 with a little over 5 billion barrels remaining.

CO-CHAIR PASKVAN asked what needs to occur for a volume of oil to be classified as "reserves."

COMMISSIONER BUTCHER replied for oil to be classified "reserves" enough work would have had to be done to tell the company and the state that "the barrels are there." At some point in the future, industry will provide some estimates on what it will cost to produce that oil, particularly in some of the newer areas that have no or very little infrastructure. He pointed out that while remaining North Slope reserves exceed 5 billion barrels, that does not include the approximately 20 billion barrels (heavy oil) in the Ugnu deposit or offshore volumes from the Chukchi or Beaufort Seas that are in the department's forecast.

CO-CHAIR PASKVAN asked what royalty interest the state has in the Chukchi or the Beaufort locations.

COMMISSIONER BUTCHER replied none; they would be jobs for Alaskans and there is no place to put the oil if the construction of a link to the TransAlaska Pipeline doesn't coincide with production occurring out in federal waters.

CO-CHAIR PASKVAN asked what royalty or production tax interest Alaska has in the Arctic National Wildlife Refuge (ANWR) or NPR-A areas.

COMMISSIONER BUTCHER replied the state would get production taxes but no royalty.

CO-CHAIR WAGONER asked if the state receives 50 percent of the royalty in ANWR.

COMMISSIONER BUTCHER replied yes.

CO-CHAIR WAGONER said that still has to be decided in some of the other areas.

COMMISSIONER BUTCHER said that was correct. That was something that was being negotiated between the federal and state government in previous discussions about opening ANW-R.

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He said that slide 9 shows underdeveloped areas of the North Slope where they want to encourage exploration. The darker shaded areas near the coast have the legacy fields where most of the production occurs now. To the left and right are federal lands and just south of the developed North Slope area is the region the governor has identified as state land that the new 15 percent base tax rate in the bill would most likely apply. Armstrong/Repsol and Great Bear leases are in that area.

COMMISSIONER BUTCHER said they put together a sample of investor decision criteria, with industry input, on how to reverse the trend; prospectivity (if and how much oil is out there) and geopolitical stability were two of those.

CO-CHAIR PASKVAN asked if "prospectivity" refers to conventional oil.

COMMISSIONER BUTCHER replied that it is a reference to conventional oil, but it could include other things. When industry testifies they will comment on what they think is available and possible.

SENATOR WIELECHOWSKI asked how Alaska rates in terms of prospectivity and geopolitical stability.

COMMISSIONER BUTCHER answered that it rates very well in prospectivity when compared to other states, but not as well when compared to other Middle Eastern countries. Geopolitical stability is an area where the United States is very strong.

SENATOR STEVENS asked if the health of the TransAlaska Pipeline System (TAPS) enters into investor decisions at all.

COMMISSIONER BUTCHER replied he has heard anecdotally that it does, because there is a concern about when it would shut down. It's a potential negative when companies look at investing long term.

SENATOR STEVENS said they keep hearing it's all on the state's shoulders to help fill the pipeline, but it certainly isn't. If it were to close tomorrow it would be an enormous loss to the oil companies.

COMMISSIONER BUTCHER agreed; it's in their best interest to keep it flowing, as well.

He moved back to the list of investor decision criteria saying regulations (access to resources, development permitting, environmental constraints) is an area in which Alaska has been as accommodating as possible. However, there are federal hurdles here that are not seen in other countries, which make it more difficult. This is nothing the state has any control over, but something that is factored in when a company is weighing development here or someplace else.

He said that operations (existing infrastructure, experienced workforce availability, costs, market proximity) is another important criterion. This is an area that is difficult to compare Alaska with other states like Texas and North Dakota that produce oil, as well as the Middle Eastern areas that sit close to tidewater in that our existing infrastructure is a benefit to the legacy fields, but exploring areas outside of it will be costly to connect to the existing infrastructure. Also, the workforce is not as easy to come by as it is in states like Texas. Alaska's distance from the market also makes it more difficult to "make a development pencil." Dealing with these issues means the oil in Alaska has to be more profitable.

COMMISSIONER BUTCHER said the tax regime in SB 49 does something to improve the investment climate in Alaska when looking at all of the other issues SB 49.

CO-CHAIR PASKVAN asked if he is using the Fraser Report definition of the term "tax regime."

COMMISSIONER BUTCHER replied no; they use it in the broader application, because it means different things to different areas. As an example, in Alberta it means royalty, in Alaska it means production tax; they are different but an oil company has to weigh them all.

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CO-CHAIR PASKVAN asked if he agreed the term "tax regime" in the Fraser Report didn't include production taxes.

COMMISSIONER BUTCHER responded that he agreed, but explained that it was included because it resonated after surveying industry on the pros and cons of different jurisdictions.

CO-CHAIR PASKVAN said they were here focusing on production taxes and the Fraser Report has that category under "fiscal terms" and asked if he agreed with that.

COMMISSIONER BUTCHER replied yes.

SENATOR WIELECHOWSKI asked if there is a reason he didn't include the "fiscal term" section in his Fraser Report when he did his presentation in House Resources.

COMMISSIONER BUTCHER replied it was a fairly minor piece in the House Resources presentation - a snapshot - just as they showed Alaska as 129th out of 141 in a snapshot of the "Wood Mac study." He didn't include that here because it just confused the issue from all perspectives and was more of a problem than it was worth.

SENATOR WIELECHOWSKI asked if he agreed that the fiscal term section of the Fraser Report deals with "government requirements pertaining to royalty payments, production shares and licensing fees" and that when they are considering how industry executives view Alaska's fiscal terms that's really the more appropriate slide to include.

COMMISSIONER BUTCHER replied that he didn't agree with that. They believe that including "tax regime" would have represented one more state that does not have any personal income tax, in particular, when almost 50 percent of them had a negative view.

SENATOR WIELECHOWSKI said he spoke with the author of the study, Gerry Angevine, who said that in looking at the Alaska oil production taxes and royalty payments that it's more appropriate under the "fiscal terms" section. Since the commissioner thinks the taxation regime which is the tax burden "other than for oil production including personal corporate payroll and capital taxes and complexity of tax compliance," he asked what part of SB 49 alleviates the personal, corporate, payroll or capital taxes.

COMMISSIONER BUTCHER replied that no sections of the bill deal with those.

SENATOR WIELECHOWSKI asked, "You thought even though your bill has absolutely nothing to do with alleviating those things, you felt it was appropriate to include a slide to make your case about why we need to reduce production and taxes?"

COMMISSIONER BUTCHER responded that they felt it told a story, which is that 44 percent of respondents when asked about Alaska's tax regime found it a mild to a serious deterrent. He

appreciated Senator Wielechowski saying he spoke to the author, but given the other things Alaska has a relatively low score on, it doesn't make sense to not look at it from a larger view. However, it was set aside along with the Wood Mac study because it was too confusing.

SENATOR WIELECHOWSKI asked if he reviewed the question/responses to fiscal terms which deal with royalty payments and production shares to see what sort of responses were given by industry executives.

COMMISSIONER BUTCHER replied no.

SENATOR WIELECHOWSKI asked the commissioner if it would surprise him to know that 40 percent of the executives who were questioned said that Alaska's fiscal terms encourage investment and 34 percent said Alaska's fiscal terms are not a deterrent to investment.

COMMISSIONER BUTCHER countered that wouldn't surprise him at all. A number of independents and new companies are very excited about the Alaska credits. There is a real split between that excitement from independents who are up here looking to buy up leases and the "larger deeper moneyed companies - the producers" that they then have difficulty finding to partner with. FEX is a good example of a company that got leases, drilled and found oil but couldn't find any producers who were looking at it in the same way. The governor has said this isn't setting ACES aside, but it is trying to keep the positive in ACES while tweaking some of the other issues.

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SENATOR WIELECHOWSKI asked if the fact that 74 percent of industry executives think that Alaska's fiscal terms either encourage investment or are not a deterrent to investment is immaterial to him.

COMMISSIONER BUTCHER answered that it could be said the other way, too; it doesn't change the fact that people don't appear to be exploring in Alaska and production is declining.

CO-CHAIR PASKVAN said a possible way to address Senator Wielechowski's issue is that the commissioner presented five criteria and was asked which ones are most strongly correlated to decisions to invest in Alaska at this time. Senator Wielechowski is saying almost three-quarters of the respondents

say our fiscal terms are either not a deterrent to or do encourage investment.

COMMISSIONER BUTCHER responded that he couldn't say specifically which one was the largest deterrent; that would be something the companies could discuss. Of the five, this bill deals with the one something can be done about and that's taxes. The DNR is working on regulations from the state side of things and the Department of Law is doing what it can on the federal side of things. In terms of the operations, geopolitical stability and prospectivity, they would probably hear different views from different companies because they each have a different focus; some have national and some have global.

CO-CHAIR PASKVAN said the legislature could do something about workforce availability under "operations," but he wanted to know which one is most strongly correlated with decisions to invest given that 74 percent hold the opinion of Alaska that they do.

COMMISSIONER BUTCHER responded that he didn't think they could be separated out; they are all very important. Industry will be in front of them soon and they could ask them that question first hand.

SENATOR WIELECHOWSKI asked if this is his bill or industry's.

COMMISSIONER BUTCHER replied that it is the state's bill and that he can lay out what they believe are some of the issues and the solutions to them, but ultimately they would have to hear from the companies on what it means to them.

SENATOR WIELECHOWSKI said it's the state's bill and the burden is on the state to make its case; they shouldn't rely on industry to do that. The oil companies can say what they want. He asserted that the state would benefit greatly from independent expert analysis - trust but verify.

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COMMISSIONER BUTCHER said he didn't disagree, and they will lay out a case they believe says there is a problem and that it can be solved with an improved investment climate. But ultimately, as state government, they can't say they are going to force the private sector to do A, B and C if this passes. That needs to be heard from industry. The state doesn't have a crystal ball.

CO-CHAIR PASKVAN asked what the administration believes is a fair distribution of net profits.

COMMISSIONER BUTCHER replied that they will get to slides that compare the status quo to where they think tax rates are fair for Alaska as well as reducing them to a point where it would be an encouragement for industry to invest here. Initially they started with Governor Hammond's concept of one-third/state, one-third/federal and one-third/industry when development first started on the North Slope. The state is far in excess of its one-third now and would still be in excess under this bill. They hoped SB 49 would be something material for the industry that did say it was, in fact, a material change and would cause them to reevaluate the decisions they were going to make in terms of Alaska. That is where they are today.

CO-CHAIR PASKVAN said they are here under a production tax system that looks at net profits and asked if the administration has a fair goal in mind.

COMMISSIONER BUTCHER replied no. One of the aspects of the current law and this bill is progressivity and at \$114/barrel the state gets to a point where it's taxing at a higher level than it is in other areas.

SENATOR WIELECHOWSKI said he read the governor's statement where he said Alaska is an "outlier" and asked what states he is comparing us to at those prices, because when he looks at government take figures at those numbers, he doesn't see Alaska as being an outlier. What analysis has been done that shows Alaska is an outlier at those prices?

COMMISSIONER BUTCHER replied that Alaska is an outlier nationally and it becomes very difficult to make an apples-to-apples comparison to other countries. For example, a Middle Eastern country that is sitting on many times the oil Alaska has and is very close to where it can be exported is in a different situation and with very low labor costs.

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SENATOR MCGUIRE said she wanted to make two comments to Senator Wielechowski that she does think it's common when introducing bills to do them by request when industry asks them for certain bill, and other times, like in this case, it's an issue where lawmakers and the administration recognize people are talking loudly about the fact that we are not seeing the exploration on the North Slope that we used to see and we are seeing a decline in the throughput of the TAPS. Those facts bear consideration. She said she didn't see anything in testimony or anything from

the governor that says he has put this out at the direction of the industry. Rather she sees it as an attempt to elicit conversation, to say "this is our stab at it."

As lawmakers, they also have a broader obligation to see how to diversify the state's economy, she said. "We're 90 percent dependent on one main artery." The state owns the resources through subsurface rights and is looking to partner with industry to develop them unlike Texas and other places where subsurface rights are privately held for the most part. She hoped those conversations would not be adversarial, but rather about what can be done to make the climate in Alaska more investment friendly for those who are unhappy. "Wildcatters are very happy," but she wanted to find out which companies aren't happy.

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SENATOR WIELECHOWSKI referenced slide 10 and asked how the five investor criteria are ranked by industry when making a decision where to invest.

COMMISSIONER BUTCHER responded that these are just sample big picture topics that the department put together and those questions would have to be asked of individual companies. He thought that geopolitical stability would mean a lot more to a multinational company than to a small company that just deals with North America.

SENATOR WIELECHOWSKI asked if he thought tax regime is the most important thing companies look at.

COMMISSIONER BUTCHER responded that he couldn't say; obviously, prospectivity would be tremendous. If you didn't have oil available for development you wouldn't even be worried about the tax structure.

SENATOR WIELECHOWSKI asked him if it would be beneficial for him to know how important tax regime is to industry when making a decision to drastically alter it.

[4:27:05 PM](#)

COMMISSIONER BUTCHER responded that tax structure has been very important, but there are many important factors. But that is one of the top ones.

SENATOR WIELECHOWSKI said the commissioner cited the fact that Alaska has the highest taxes in the United States and asked why any company would invest in Alaska because of that.

COMMISSIONER BUTCHER replied it's because Alaska would be rated so high in prospectivity. Prudhoe Bay is the largest field in North America and Alaska continues to have more oil than other states. As a result, there is going to be more interest in exploring in Alaska than in states with the very low tax rates like Illinois, for instance.

He explained that slide 12 illustrated production tax value (PTV) that is the market price of oil minus the transportation costs and allowable lease expenditures (operating and capital expenditures). The base tax rate on the PTV is 25 percent.

[4:29:30 PM](#)

SENATOR FRENCH said it would be helpful to see the governor's bill projected against the dollar breakdown on page 13.

COMMISSIONER BUTCHER replied he could certainly do that for him.

CO-CHAIR PASKVAN asked for backup on how this section of SB 49 applies to FY10/11/12.

COMMISSIONER BUTCHER said he would do that for him.

CO-CHAIR PASKVAN asked if the \$2,754,000,000 is 28.5 percent of PTV in FY12.

COMMISSIONER BUTCHER answered it works out to 33.1 percent, then minus the credit. He didn't know what the percentage is off the top of his head.

CO-CHAIR PASKVAN asked, assuming the math is right, if 28.5 percent is the tax actually paid of the PTV.

COMMISSIONER BUTCHER replied yes, if the math is correct. He also remarked that the department would come out with the spring revenue forecast in the next couple of weeks; these numbers were based on their fall revenue forecast.

CO-CHAIR PASKVAN moved the presentation along to slide 18.

COMMISSIONER BUTCHER said this shows the nominal production tax rate with the blue line being the nominal rate for ACES with a 25 percent base and moving up the slope. Red represents SB 49

unitized fields of the same 25 percent base rate with brackets instead of the way progressivity is currently factored. The bill mimics the ACES slope. The green line represents the non-unitized fields in SB 49; the nominal rates would be 15 percent based rate (as opposed to 25 percent). It has the same slope and caps at 40 percent instead of 50 percent.

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CO-CHAIR PASKVAN asked for clarification: no credits are factored into this graphing?

COMMISSIONER BUTCHER answered that was correct.

CO-CHAIR PASKVAN asked for example, at a \$30 PTV the production tax is approximately 10 percent - in other words, about 15 percent below the base tax rate.

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BRUCE TANGEMAN, Deputy Commissioner, Department of Revenue (DOR), answered that would depend on an individual company's tax credits and its liability. Different levels of credit would determine that starting point.

SENATOR WIELECHOWSKI asked how much in reduced revenue the state would have taken in had SB 49 been in effect since the passage of ACES.

COMMISSIONER BUTCHER replied he would get back to him on that.

SENATOR WIELECHOWSKI asked him to include information on the reduction to the treasury projected at \$100, \$110, \$120/oil when they discuss the fiscal note.

COMMISSIONER BUTCHER indicated he would do that.

COMMISSIONER BUTCHER said slide 19 illustrates the marginal government take that continues to grow, but at a slower rate than under the current ACES progressivity. It eliminates the 93 percent marginal tax rate effect that one hears frequently about from the industry that continues to take more in for the state as the price of oil goes higher up into the 50 percent cap. It's just not as steep as the current progressivity.

COMMISSIONER BUTCHER said page 20 is a breakdown at different ANS West Coast prices in current law. The blue line is the producers' percentage of profit.

CO-CHAIR PASKVAN asked if the term "profit" includes royalty.

COMMISSIONER BUTCHER answered yes.

CO-CHAIR PASKVAN asked if this graph depicts the relationship of the state's production tax relative to the producers looking purely at a production tax with or without credits applied.

COMMISSIONER BUTHCER answered that this graph is inclusive of credits. Using an example of \$115/barrel (about \$1 above what it is today) the state take would be 57 percent, the producer take would be 28 percent and the federal take would be 15 percent - quite a ways from one-third, one-third, one-third.

SENATOR FRENCH asked him to use \$90/barrel as an example. Does he mean the 50 percent share of profit includes the state's one-eighth royalty share?

COMMISSIONER BUTCHER answered yes.

SENATOR FRENCH said if that's true, he wanted to him to rerun that graph, because he was trying to work off of what ACES does, not what the royalty does (because that is set). He said he was working off of slide 14, the production tax called ACES. It shows him that at \$82/barrel out of a production tax value of \$9.6 billion, the state gets \$2.7 billion. That strikes him as being less than one-third. That leaves about two-thirds for industry and the federal government. He needs to know how ACES treats oil company profits, not how we deal with the royalty share, which is set in stone.

CO-CHAIR PASKVAN added that it's important to understand that in using the FY12 projected figures, the costs are \$639 and \$26. The commissioner used upstream costs at \$20; so it's short \$6, which downgrades the deductions and potentially the credits and "gooses up" the progressivity by factoring costs out.

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COMMISSIONER BUTCHER said he could make that adjustment.

CO-CHAIR PASKVAN said in analyzing the percentage of split between FY10/11/12, the state in FY10 got 29.5 percent, in FY11 it gets 28 percent and in FY12 gets 28.5 percent of the PTV (using DOR production tax projections), and said, "We need to get to a specific base line on what the costs are."

SENATOR MCGUIRE said she thought slide 20 was helpful because when businesses look at profit, it's not relevant to them who they have to pay taxes to or in what category. It just means less profit. It would be helpful, however, to in the green part divide out the green bars and show what part between the four taxes is allocated. She said this should remind everyone of how complex Alaska's system is.

COMMISSIONER BUTCHER said they can absolutely do that.

CO-CHAIR PASKVAN asked if he had estimated a percent of taxes that are paid to the U.S. government in the federal portion.

COMMISSIONER BUTCHER replied yes.

CO-CHAIR PASKVAN asked if the federal portion includes federal royalty. The reason he asked is because the FY12 projection includes federal barrels.

COMMISSIONER BUTCHER replied it's just the federal income tax portion.

CO-CHAIR WAGONER said he had been looking at that all the time and he didn't think the federal take was accurate.

COMMISSIONER BUTCHER responded that he just didn't know and invited Ms. Nienhuis to comment.

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MS. NIENHUIS said the federal portion is just federal corporate income tax. The state's proceeds from that come from federal waters to which federal royalties are assessed and is relatively minor. They tried to show the bigger scheme on the North Slope where most of the barrels are state barrels. If they were to divide up everything they would also have to talk about private royalties and things like that; those portions, at least at this point, are pretty small.

CO-CHAIR PASKVAN said his question is in part, for example, federal/state royalty barrels are included on the FY 12 projection. He was getting very confused about whether the state's percentage included federal royalty barrels, because that figure is 15.1 percent. And when one deducts that from the gross value of the oil, the state's value is 12.5 percent. The federal barrels are another 2.6 percent. If that 2.6 percent is included in the state's share, that is distorting it completely.

MS. NIENHUIS agreed and added that she thought the royalty was probably higher than that. It's not 12.5 percent across the entire North Slope; each lease has a slightly different royalty. So, the royalty percentage is closer to 13 percent for the state. Senator Paskvan was correct in that federal barrels (mostly from North Star) are included, but those could be left out on future models. They were trying to depict what a barrel produced on state land would receive.

SENATOR FRENCH said they are talking about ACES, so he found those words misleading because they are not talking about ACES but total global tax take. It's fair to do that, but it's misleading. That leads to the question of if the 50 percent includes royalties barrels, does it also include corporate income tax and property tax.

COMMISSIONER BUTHCER replied yes.

SENATOR FRENCH remarked, "Share of total profit, not ACES, just per barrel."

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SENATOR WIELECHOWSKI pointed out when Governor Hammond made his one-third, one-third, one-third statement, the state had a gross tax and if they were to look at the gross one-third, one-third, one-third, Alaska's tax rate is probably not too far off. Another point would look at the costs the state contributes to unsuccessful development projects, which the DOR says runs 76 percent; the federal share was 8 percent and the company's share was 15 percent. "So, in looking at these numbers, if the state is contributing 76 percent to the unsuccessful development project costs of an existing producer, I think it's fair for us to get a fair share back from that."

COMMISSIONER BUTCHER said they believe this bill provides the state with a fair share.

CO-CHAIR PASKVAN asked who prepared the numbers this slide used.

COMMISSIONER BUTCHER replied they were provided by a DOR model.

CO-CHAIR PASKVAN asked if they could see the numbers. He is trying to figure out if they are basing their predictions on a certain volume of oil.

COMMISSIONER BUTCHER asked if he wanted to know if the model has numbers that can be manipulated.

CO-CHAIR PASKVAN replied that he wanted to be able to "track the thinking" so they could understand the message that was intended to be delivered by showing those percentages.

MR. TANGEMAN responded that they have that model and can provide it to his staff. He said it has a certain number of variables and it flows through to different types of slides.

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CO-CHAIR PASKVAN said he really wanted to see it, particularly the variables that affected this slide.

CO-CHAIR WAGONER said he's "sick and tired" of hearing about North Dakota because they don't see royalty figures or other taxes people pay like county taxes. He wanted to see green section of the graph that is on page 20 broken down into corporate, royalty and property taxes, which Alaska has no control over. On the North Slope, 19 percent of the property tax goes to the borough; the state doesn't get any of that. He repeated they are talking about ACES and this doesn't reflect that at all.

COMMISSIONER BUTCHER said okay. They were looking very broadly only at state land, but he understood the importance of having the breakdown.

CO-CHAIR WAGONER said he wanted him to include state lands; he wasn't interested in what the state gets from federal lands right now.

SENATOR WIELECHOWSKI asked the highest average ANS price they forecast over the next decade.

COMMISSIONER BUTCHER replied in 2020 they have projected an ANS West Coast price of \$111.84.

SENATOR FRENCH asked if that is the highest price they projected, why is more than half the graph directed at prices they do not anticipate they are not going to see.

COMMISSIONER BUTCHER replied they just wanted to lay out all of the prices; and they focused on \$115 because that is where it is today.

SENATOR FRENCH said the commissioner didn't know that when he made the graph; the \$115 is a way point. Did you get extraordinarily lucky?

MR. TANGEMAN replied that they can manipulate the model to show whatever ANS price they want and they thought that was representative.

SENATOR FRENCH replied that it's more productive to spend time on the more likely range of outcomes. He suggested aiming at the center of the target and educating lawmakers about what they want the tax structure to look like at their predicted prices. Then they can go from there.

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CO-CHAIR PASKVAN said so they understand why he is struggling with this, that if in FY11 they are using \$78/barrel for crude (half-way between \$65 and \$90) the state's projected percentage of the gross of 14.8 percent plus 13 percent royalty, for a total of 27.8 percent, how do you get from there to between 42-50 percent as shown on the graph.

COMMISSIONER BUTCHER replied he would be happy to get a breakdown on that for him.

SENATOR WIELECHOWSKI asked in comparing page 20 to 21, what is the policy reason behind lowering the state's share at \$40/barrel. It looks like it's even lower than it would be under the ELF [economic limit factor].

COMMISSIONER BUTCHER answered that they focused more on the "sweet spot" of where they saw the price of oil going.

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CO-CHAIR PASKVAN thanked everyone for their comments and finding no further questions, adjourned the meeting at 4:59 p.m.