

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 10, 2012

3:35 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel
Senator Joe Thomas

COMMITTEE CALENDAR

SENATE BILL NO. 192

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

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 192

SHORT TITLE: OIL AND GAS PRODUCTION TAX RATES

SPONSOR(S): RESOURCES

02/08/12	(S)	READ THE FIRST TIME - REFERRALS
02/08/12	(S)	RES, FIN
02/10/12	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JEFF STEPP, Staff
Senator Joe Paskvan
Aide, Senate Resources Standing Committee

Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Introduced SB 192 as aide to the Senate Resources Standing Committee.

BRYAN BUTCHER, Commissioner
Department of Revenue (DOR)
Anchorage, AK

POSITION STATEMENT: Commented on SB 192.

BRUCE TANGEMAN, Deputy Commissioner
Tax Division
Department of Revenue (DOR)
Anchorage, AK

POSITION STATEMENT: Commented on SB 192.

ACTION NARRATIVE

[3:34:06 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 Senators Wielechowski, McGuire, French, Stevens, Co-Chair Wagoner and Co-Chair Paskvan.

SB 192-OIL AND GAS PRODUCTION TAX RATES

[3:35:45 PM](#)

CO-CHAIR PASKVAN announced SB 192 to be up for consideration and presented the hearing agenda. He said that SB 192 will initiate a discussion about the progressive feature of the ACES tax system. The bill's sponsor and the oil industry, itself, have advanced the argument that the upside is taken away at high oil prices because of progressivity. SB 192 is a vehicle for engaging in that discussion. His aide, Jeff Stepp, would explain the bill today. The department had not been asked to comment today, but they would have the opportunity to do so in the very near future.

[3:36:58 PM](#)

CO-CHAIR WAGONER moved to bring SB 192, version 27-LS1305\M, before the committee. There were no objections and version M was before the committee.

[3:37:49 PM](#)

JEFF STEPP, staff to Senator Paskvan and Aide to the Senate Resources Standing Committee, presented SB 192 to the committee. He said the current production tax structure known as Alaska's

Clear and Equitable System (ACES) requires companies to pay tax upon "the production tax value" generally only when they are making profits from oil and gas production in the state. In addition, tax credits are provided for capital expenditures with higher credits available for certain oil and gas exploration investments. The progressive feature in ACES means that the state, as the resource owner and tax collector, receives more production tax revenue when oil prices are high relative to underlying costs; similarly it significantly lessens the state's share of revenue when per barrel margins decline due to low oil prices.

It has been the persistently high price of crude since the passage of ACES which creates the potential for the upside potential being taken away at very high oil prices. When the request for SB 192 was made, the directions to the bill drafter were simple: please draft a new bill that allows for one continuous progressivity rate under ACES. That is to say, change the two steps so that there is one .4 percent rate above \$30 PTV (eliminate \$92.50 ARM and remove the statutory maximum tax rate of 75 percent).

[3:39:30 PM](#)

SENATOR STEDMAN joined the committee.

MR. STEPP said SB 192 was analyzed by the Department of Revenue in the fiscal note and was described by them such that their language was incorporated directly into the sponsor statement. It says:

SB 192 makes a change to the progressive tax rate portion of the production tax in AS 43.55.011(g) by removing the second trigger of the progressive tax rate calculation that lowers the progressive tax rate to .1 percent on production tax values of \$92.50 or greater. The bill also removes the statutory maximum tax rate of 75 percent under the production tax statutes. The bill retains the initial trigger of \$30 in production tax value at which point the progressive tax rate is calculated as .4 percent per dollar increase in production tax value.

MR. STEPP remarked that he was still reading from the fiscal note that said given 2011 DOR oil price production and lease expenditure forecast through FY2018 (incorrectly referenced in the fiscal note as FY2017), the tax rate changes from the bill are not projected to have a direct revenue impact. The fall 2011

forecast through the time period covered by the fiscal note ranges from \$106 barrel to close to \$110 barrel of ANS crude oil. Combined with anticipated production levels and lease expenditure projects, DOR's forecast doesn't anticipate production tax values meeting or exceeding \$92.50 of PTV per barrel. Therefore, based on DOR's most recent forecast the progressivity rate changes in SB 192 will not impact revenue expectations.

MR. STEPP continued reading from the fiscal note that said if oil prices were to increase or if production were to increase with no corresponding increase in lease expenditures, production tax rates and therefore revenue could be increased from this bill.

[3:42:08 PM](#)

With current production levels and current transport costs and lease expenditure levels, much of North Slope crude oil would be subject to a production tax increase under SB 192 at \$120 to \$130 per barrel and above. Without a maximum production tax rate as is advanced currently in this bill, tax rates could continue to escalate until they exceed 100 percent. Marginal government take exceeds 100 percent at approximately \$140 barrel when holding all other assumption constant. This means that at \$140 barrel, the government would take more than 100 percent of every dollar that the oil price increases. That is the end of the fiscal note.

In conclusion, Mr. Stepp said, while some assume this legislation would result in a tax increase on the industry, DOR's fiscal note seems to assert "based on our most recent forecast progressivity rate changes in this bill will not impact revenue expectations." The fiscal note says quite clearly on the front page that through FY18 SB 192 would not increase the amount of revenue paid by the industry or collected by the state by one single penny.

[3:43:16 PM](#)

He said that in the final paragraph of the fiscal note analysis scenarios were presented in which progressivity rates may become a burden to industry, but said it was important to note that this scenario was not part of DOR's projections. The risk to the industry then appears to be low. Still that risk will be addressed by this committee in forthcoming discussions about SB 192.

MR. STEPP said SB 192 has an effective date of January 1, 2013.

[3:43:53 PM](#)

COMMISSIONER BRYAN BUTCHER, Department of Revenue (DOR), State of Alaska, said he had been asked to lay out what they see as the problem and he appreciated the opportunity. Facts to begin the conversation include: oil prices are climbing to all-time highs (starting in mid-2000), the TAPS throughput has continued its steady decline, other oil producing regions are enjoying production and employment booms (the reasons are fairly obvious; extra developments have become economic with higher oil prices and technological improvements) and competition is high (many areas to invest around the world).

[3:46:13 PM](#)

He said that folks have wondered if we are running out of oil and according to the Alaska Department of Natural Resources (DNR) and the U.S. Geological Service, it's not a resource issue. We're still a very resource-rich state. Cumulative production from the North Slope through 2010 has been over 16 billion barrels and it's estimated that there are 40 billion barrels of conventional oil still there. There is estimated to be 200-300 trillion cubic feet (tcf) of conventional natural gas and tens of billions of barrels of heavy and viscous oil as well as large shale oil and gas plays. The heavy and shale oil, although they are known to exist, are more speculative and there are questions about when they will be economic and what will be needed to make them economic (things that DNR and DOR are currently working on).

CO-CHAIR PASKVAN noted that Senator Joe Thomas was in the audience.

COMMISSIONER BUTCHER said according to the federal government the North Slope is not even considered to be a mature basin, with over 70 percent of state land up there being "minimally explored."

Other important points to consider he said where that the state has never been in this position before Prudhoe Bay and Kuparuk was the largest untapped oil reservoir when it first started producing in North America over 30 years ago. Over 90 percent of what was being produced was oil mixed in with some water and gas; that has now completely flipped to over 90 percent natural gas and water with less than 10 percent oil. There is still plenty of oil to be produced but not nearly as easily or inexpensively as when it first started.

COMMISSIONER BUTCHER said the state has a lot more information on the PPT/ACES issues in terms of operating and capital expenses than it had when those debates were taking place and hopefully the added information would play a valuable role going forward.

He noted that members should have copies of "Alaska's Oil and Gas Fiscal Regime" prepared by the DOR that tried to bring together a comparison of oil producing regions' fiscal regimes. It was not an easy task with all of the variations between different types of taxes, royalties and tax credits, but the one thing they do know is that Alaska continues to decline faster than the department had forecasted.

[3:50:47 PM](#)

Slide 5 showed the largest oil producing jurisdiction in North America with a price bouncing between \$10 and \$30 from the 1970s through the 1990s, then spiking up in 2004 and 2005 and peaking in 2008 and having a precipitous drop and then building back up again. North Dakota looked fairly constant but has begun to increase and will probably pass Alaska in production in 12 months. Alberta bounced around with periodic increases and decreases over the decades, but the production curve has moved upward at a higher angle since 2005 when more production became economic. Most interesting were the lines indicating Alaska and Texas that were dealing with same decline curve, but the difference became when Texas figured out a way to turn the curve around (and Alaska didn't).

SENATOR FRENCH said last time they were together he had asked if the new production in Texas was from conventional oil or shale and the commissioner had indicated it was from conventional oil. Senator French said he had asked for some "source documents" on that and asked if he had those yet.

COMMISSIONER BUTCHER answered no, but he would get those from his office today, but he had a chart now that was part of the response. It shows the Eagle Ford Shale is where almost all of the oil shale in Texas had been coming from and up until 2009, production had been anywhere from 787,000 barrels a year to 308,000 barrels a year; in 2010, the last year he had information on, it got up to 4.3 million barrels for the entire year. In January through November of 2011, not on the chart, it jumped up to 21.8 million barrels. That is expected to go much higher in 2012, possibly as high as 300,000 barrels a day extra.

So, when he talked to the Texas Railroad Commission, the equivalent of the Alaska Oil and Gas Conservation Commission (AOGCC) in Alaska, and enquired if the curve up had to do with shale oil, the executive director's explanation was "Absolutely not." This was all conventional oil that became more economic at high oil prices that flattened curve out and crept it up. And he said to watch 2011, 2012 and 2013 when it would really move up and it would be due primarily to shale oil.

[3:55:07 PM](#)

SENATOR WIELECHOWSKI said Texas has a reserves tax on the oil that is in the ground and that when the price of oil becomes very high, then the oil companies want to get the oil out of the ground as quickly as possible. Did he know the percentage of that oil or if it has any impact on what is happening in Texas?

COMMISSIONER BUTCHER replied no.

[3:55:43 PM](#)

BRUCE TANGEMAN, Deputy Commissioner, Tax Division, Department of Revenue (DOR), said that issue will be part of their comparisons to other oil producing areas that is coming up. The reserves tax is one that Alaska doesn't have that other regions do.

SENATOR STEDMAN asked if Texas has similar barriers to entry as Alaska does. Are they land locked with ice? Do they have one pipeline to get it out? Do they have basically one subsurface owner? So everything else is equal expect for our tax structure or is this a more complex question?

COMMISSIONER BUTCHER replied that Alaska is more complex than just taxes. Obviously labor is easier to get and Texas has mostly private land without the extra permitting; but with the exception of the new shale play, Texas doesn't have the size of reservoirs that Alaska has. And it costs a lot more money to do business up on the North Slope in Alaska than it does in Texas or Alberta or North Dakota and that has to be factored in to the equation when a company looks at where it's going to do business.

MR. TANGEMAN said in slide 6 they can look back now on how the change from gross to net tax affects the state, and 2008 capital planning by the private sector would have probably been in place when that change took place.

[3:59:11 PM](#)

CO-CHAIR PASKVAN said he was looking at the fall 2011 Revenue Sources Book on page 31 that shows CAPEX at \$2.3 billion in FY11, \$2.7 billion in FY12 and \$3.0 billion in FY13 - indicating that CAPEX is a progressing expenditure.

MR. TANGEMAN said that was correct, but numbers in the Revenue Sources Book are a forecast; numbers on slide 6 are the actual numbers and another slide comparing the forecast to actual spending would show that the department has been historically overly optimistic (similar to the production curve).

SENATOR STEDMAN said it would be helpful to have the actual and the projected numbers for the years beyond FY13. He said they are expecting a CAPEX of \$3,356,000 in FY 13 and he was preparing the state to pay credits on those and wanted to make sure the numbers sync-up.

MR. TANGEMAN pointed to FY12 in the Revenue Sources Book and said CAPEX is 13 percent below last year's actual expenditures. He said they are missing that \$2.7 billion forecast severely right now and stated that they had only been in the net tax system for four or five years and they are obviously on a learning curve.

[4:03:11 PM](#)

COMMISSIONER BUTCHER added that this monthly picture was more of a snap shot for the benefit of the committee. It's more insight than definitive information.

[4:03:50 PM](#)

SENATOR STEDMAN asked if they could have the graph restated with the additional data in the Source Book along with projections that aren't in the Source Book and some analysis on expectations versus reality, because there is a huge difference in the numbers.

COMMISSIONER BUTCHER responded they would be happy to do that.

SENATOR FRENCH said he understood that the Revenue Sources Book figures come from industry. So it looks like we'll get back to a healthy CAPEX and a decrease in OPEX - although it's always possible that something could change.

COMMISSIONER BUTCHER said that could very well happen and he hoped it would. The point he was trying to make is that they receive most of their production forecasting from operators as well and it always tends to be overly optimistic. Companies look

forward to production and spend levels that aren't decided by their boards of directors, yet, and historically the information the state gets tends to be on the optimistic side. The same thing happens when they are trying to project what their spending will be, because these are operators working at a particular place that are looking forward to what is going on and don't have a direct role in the decision-making of the company on a corporate level.

SENATOR WIELECHOWSKI asked to see the data going back to 2000 if possible. Did he know what the CAPEX was from 2000 to 2006?

MR. TANGEMAN replied going back to the gross tax days, they did not receive the same information they are receiving now.

SENATOR WIELECHOWSKI said he had seen older charts with CAPEX and recalled that they showed a drop of about 40 percent at a time when we were hitting all time record highs under the old tax system and he thought it would be important information to see.

[4:06:57 PM](#)

SENATOR WIELECHOWSKI asked what kind of information the department asks the companies to provide for making its forecasts. Do they have to say which fields they are planning on producing? How much in each particular field? Is there a penalty for not giving accurate information for the forecasts?

COMMISSIONER BUTCHER replied that they work with every company that is producing and every operator, not just on a well to well level, but on a field-wide level to gather as much information as possible. They also work with DNR and the Alaska Oil and Gas Conservation Commission (AOGCC) to make sure that the information they are getting is actually going through the permitting necessary to get there (things they can check out). He didn't know of penalties, but would be surprised because it is such a speculative issue.

MR. TANGEMAN said as soon as you attach a penalty would see very low CAPEX estimates, because they would want to come in over consistently. The goal is to get the most accurate information possible and that comes through a give and take process with their partners.

SENATOR WIELECHOWSKI said he agreed that it's important to get accurate information to manage the resource. He said it would be helpful for the state to try to determine the cause of the

decrease in CAPEX, because if it was because of a delayed permit it could be addressed. If a company said they aren't spending on a particular field because it's no longer profitable under ACES that would also be helpful to know. He said he has asked information for some time about which fields or projects are not being developed because of the oil tax structure versus other impediments, but hadn't had a response.

[4:10:08 PM](#)

MR. TANGEMAN said DNR is changing how it handles permitting and some of its leases and that would probably be a presentation on its own. When Senator Stedman mentioned CAPEX in FY12 and FY13, the projections that are new to the state are the explorers. They do not have a tax liability and they are not producing yet. But they have all heard the great enthusiasm with which they are exploring and taking advantage of the incredibly generous suite of tax credits Alaska has. The department is not forecasting production from those speculative plays yet and is just taking CAPEX into account.

For instance, the first Great Bear presentation last year was very optimistic with 200 wells and hundreds of thousands of barrels flowing within the next couple of years, but as they learned how the state and process works and that the shale play is brand new, they had revised their plan down to kick off six wells this winter.

[4:13:03 PM](#)

CO-CHAIR PASKVAN asked if he agreed that companies' CAPEX aren't influenced necessarily by tax policy but rather by national and international conditions and corporate philosophy.

COMMISSIONER BUTCHER answered yes; it's a number of things and every company works with different dynamics.

MR. TANGEMAN added he has heard that some folks believe the tax regime contributes very little to CAPEX decisions, but he thought it did.

SENATOR WIELECHOWSKI said Prudhoe Bay is somewhat unique in that it has the Prudhoe Bay Operating Unit Agreement and he asked how that impacts investment decisions. Are there similar types of agreements for Kuparuk or any of the larger fields?

COMMISSIONER BUTCHER said that would be a more appropriate conversation to have with DNR.

SENATOR WIELECHOWSKI said his basic understanding is that the Prudhoe Bay Agreement requires agreement by all three producers: BP, ConocoPhillips and Exxon. So one essentially has veto power over the other two.

[4:15:48 PM](#)

MR. TANGEMAN also deferred that answer to DNR. He continued to slide 8 that showed the forecast versus actual numbers noting a mistake: you need to move the fiscal years to the right or all the colored lines to the left. He emphasized that the net tax system is still a new process for the state in general, but the forecasts have consistently been optimistic.

[4:17:25 PM](#)

CO-CHAIR PASKVAN asked if he believed it was a mistake in the Revenue Sources to forecast a \$3.0 billion CAPEX for FY13.

MR. TANGEMAN responded by pointing back to slide 7 that showed 13 percent under FY11 through the first six months of FY12. There are six months left to go and if it rebounds back to 13 percent or more then it will be back on track.

[4:18:51 PM](#)

SENATOR STEDMAN asked the department to break out the CAPEX for the three legacy fields of Prudhoe Bay, Kuparuk and Alpine. He also asked them to explain when and the timing of how they integrate with the industry and come up with the forecast for CAPEX and how many years out the companies file as far as their targeted years and how many times a year that is updated.

MR. TANGEMAN replied that part of their Monday presentation will be on just that.

COMMISSIONER BUTCHER said their analysis of ACES was presented in a simplistic fashion broken into two pieces: the tax credits and the progressivity of the production tax. The tax credits are very popular and appear to be going up on a yearly basis. He remarked that the governor was focusing on the progressivity side because that is the point at which large companies make production decisions and believes something has to change. He said DNR Commissioner Sullivan had done a good job going around and talking to every possible oil company he could to drum up support for the December lease sale that was successful, and during that time he heard from both companies that did business here but don't anymore and companies that had never done business up here that the taxes are too high, that there is no high end and that DOR is hurting DNR's ability to bring more

companies into the oil patch. It seems to be a corporate-wide feeling.

[4:23:16 PM](#)

SENATOR STEDMAN said he had indirectly heard those comments but was puzzled because an explorer might come in and absorb the 30 or 40 percent credit and then flip their business to an existing producer, so why wouldn't the producer in the free market just pay the fellow less for his asset?

COMMISSIONER BUTCHER replied that a company has to determine that even paying less for leases still is more valuable to them than what their capital could do in another state or country.

MR. TANGEMAN expanded they might be able to realize a short-term purchase but their cash flow model would have to deal with the high production tax for the next 30 years.

SENATOR FRENCH said he had listened to the same arguments about lowering taxes and wanted some real examples of places where lowering taxes resulted in more production. He asked for an example of a project that is on hold because of ACES - how much would it cost and how much oil would it make - so he could see the barriers.

COMMISSIONER BUTCHER replied absolutely; they have had those conversations with companies. The companies need an opportunity to testify in front of the legislature about what a material change in taxes is going to do for them, too.

SENATOR FRENCH said he had specifically asked for that information, but the industry doesn't have to wait until they are in front of the committee; it has other avenues of communication like a letter or an advertising campaign, a brochure. He hoped they were not waiting to be formally asked in front of a committee.

SENATOR WIELECHOWSKI said the administration had proposed this bill over a year ago and asked if in the year he promoted it he didn't have a single example of a project that has been delayed or put off because of the tax structure.

COMMISSIONER BUTCHER replied that was not what he was saying. He said from the very beginning that the state will lay out what they believe the problem is and what they believe the solution is, but companies have to come forward and explain what the

material difference is and they have been waiting for over a year to do that.

MR. TANGEMAN added that industry had been on record over the Interim about some "very hefty investment potential of \$5 billion for ConocoPhillips and \$5 billion for BP" and they listed projects that would be economic with a reduction in tax.

[4:29:24 PM](#)

SENATOR WIELECHOWSKI said he wanted "to see the projects" that are delayed, how many barrels of oil they will produce, what their net present value is, what their internal rate of return is. "I want to see the numbers," he said, "because personally I have a hard time giving \$2 billion in tax breaks without having the data."

He said he keeps hearing from other companies that the state's fiscal terms are discouraging investment and he pulled up the 2010 Fraser Institute Report, one the DOR relied on, that asked 645 oil company executives if Alaska's fiscal terms encourage investment or discourage investment; and 74 percent of the respondents said Alaska's fiscal terms either encouraged investment or was not a deterrent to investment, 17 percent said it was a mild deterrent, 6 percent said it was a strong deterrent and 3 percent said they would not invest.

COMMISSIONER BUTCHER responded that it's difficult to break that down unless you have the details on who is looking for tax credits and who is looking at progressivity.

SENATOR STEDMAN asked if lawmakers shouldn't consider the Fraser Report valid or not spend a lot of time on it.

COMMISSIONER BUTCHER replied it was a snap shot of the perception; in fact, the 2011 Frasier Report has Alaska looking worse than in 2010. It is "a beauty slide that gives a sense of what folks see as Alaska," but it didn't have as much value as digging into some of the details.

SENATOR STEDMAN said he agreed.

CO-CHAIR PASKVAN said the Fraser Institute Report defined fiscal regime and asked if that definition excluded production taxes.

COMMISSIONER BUTCHER replied yes.

CO-CHAIR PASKVAN reasoned that the Fraser Report is not assessing the issue they are addressing, which is production tax.

COMMISSIONER BUTCHER replied correct; he was using it as a company view of Alaska more than a specific report.

[4:33:01 PM](#)

MR. TANGEMAN said including the production tax, the biggest tax involved, would definitely skew the numbers. To be Alaska-specific the survey would have to ask do you like the tax credits. Alaska is a great place to invest for an explorer that has no intention of ever producing; they're going to find something and flip it.

SENATOR STEDMAN said it was refreshing to see that they recognize some of the data and presentations they are using are less than useful in trying to fix this problem.

MR. TANGEMAN agreed absolutely, and splitting out the credits from the production tax is a huge discussion that doesn't always get fleshed out in the surveys.

[4:34:58 PM](#)

CO-CHAIR PASKVAN said another way to say that is if you only focus on one component of load on industry you can very much deceive the listener.

COMMISSIONER BUTCHER agreed.

[4:35:40 PM](#)

COMMISSIONER BUTCHER said slide 10 emphasized a few of the changes that happened as a result of ACES that tripled the ELF tax and raised tax credits.

CO-CHAIR PASKVAN asked if they are intending the \$100 to be the ANS crude price in the application of progressivity.

COMMISSIONER BUTCHER answered yes; they are just using it as an example.

[4:36:32 PM](#)

MR. TANGEMAN expanded if you lay these two scenarios out in the income statement format with the price of oil and back out transportation costs (under ACES you would also back out OPEX and CAPEX) that calculation would result in \$29. Whereas the ELF

system would be a lot easier to calculate the tax was also a lot lower.

CO-CHAIR PASKVAN said if you start with the ANS crude price at \$100 and subtract royalty and \$27 (\$10 each OPEX and CAPEX and \$7 downstream transportation) you get \$20 not \$29.

COMMISSIONER BUTCHER said they were looking at a taxable barrel after royalty.

MR. TANGEMAN got him to \$100 minus \$27 which results in \$73 (PTV) where the tax calculation starts.

CO-CHAIR PASKVAN said he still has trouble with \$29; if you start out with ANS at \$115, subtract royalty and \$27.50, then you're still significantly less than \$29.

MR. TANGEMAN reasoned that he was backing out the numbers to get the \$73, which the tax is then calculated on, and that tax is \$29.

CO-CHAIR WAGONER said he wanted to see a third bar put in for PPT, because they jumped from ELF into the current system and left out what was in the middle.

[4:39:50 PM](#)

COMMISSIONER BUTCHER said he had a slide coming up that did just that.

SENATOR STEDMAN said they need to agree on the format so everyone understands what is on the table to discuss, otherwise they would be going in circles. He suggested using a top down approach since that is how taxes are calculated. The legislature looks at net cash flow.

COMMISSIONER BUTCHER said it's important to look at the numbers two different ways; it's important for the state to look at the state take, but to increase the investment climate you have to look at it from the point of view of the company as well.

SENATOR STEDMAN said his concern was with the chart on left has the credits and the immediate write off of CAPEX; that needed to be discussed because it amounted to maybe one billion per year and, as Senator Wagoner referenced, a reworking of the other chart, and so they don't suffer from "benchmark error" in that the ELF was so far out of line on a worldwide perspective that it is worthless to him to use as a reference.

CO-CHAIR PASKVAN said it would help the discussion about whether the \$29 was accurate or not if they used a different benchmark. If the analysis is \$29 for the State of Alaska and \$71 for industry would he consider that fair?

MR. TANGEMAN replied that is not what this slide was showing, but he would get him the spreadsheet that would walk him penny for penny through those numbers.

[4:45:22 PM](#)

COMMISSIONER BUTCHER said slide 11 showed how other states rank Alaska (referencing Mr. Gerking's discussion last week that making an effective tax comparison would be an enlightening exercise). The State of Montana had a comparison of a half dozen or so oil producing jurisdictions and it showed Alaska as "strikingly high" in effective tax rate compared to any other state on the chart.

[4:46:28 PM](#)

CO-CHAIR PASKVAN said he didn't think that was what Mr. Gerking said. But in any event, this is a very narrow comparison as compared to a broad analysis and he didn't want the public to think it was anything more.

COMMISSIONER BUTCHER said that was correct and this is just a snapshot of many snapshots that emphasized the complexities of comparison exercise but also emphasized how Alaska paled in comparison to most other jurisdictions it is competing for capital dollars with.

[4:48:26 PM](#)

MR. TANGEMAN said he thought Mr. Gerking was looking for an easy effective tax rate to calculate as it's not an apples to apples comparison.

CO-CHAIR PASKVAN said even the department's own publication of January 2012 didn't show Montana as a jurisdiction to compare Alaska to and he was concerned they were focusing on a jurisdiction that isn't a peer to Alaska.

COMMISSIONER BUTCHER said the point of this slide is that when someone wants an easy slide that compares effective tax rates across jurisdictions it's just not that simple.

MR. TANGEMAN said several of the jurisdictions on that snapshot are in the department's documents.

SENATOR WIELECHOWSKI said this does nothing but confuse things. He asked if they agreed that Mr. Gerking studied the correlation between tax increases and production rates over 50 years and was unable to find any. Did they have any research to rebut his testimony?

COMMISSIONER BUTCHER replied that didn't watch every word Mr. Gerking said and wouldn't get into a he said/he said issue. He sat through the legislature's two-day Wood Mackenzie seminar that said tax reductions resulted in more investment over all scenarios.

CO-CHAIR PASKVAN said the question was not on investment but on production.

MR. TANGEMAN responded that it seemed to put very little weight on the price of oil, which he thought was interesting because he does, especially in trying to figure out why declines continued under ELF, which he thought was because the price of oil was \$9 to \$20.

[4:52:46 PM](#)

CO-CHAIR PASKVAN asked the source of his information that he was relying on as the "elastic point" for price that would drive the issue.

MR. TANGEMAN replied that is his personal opinion and just common sense.

SENATOR STEDMAN said Prudhoe Bay is declining because it's an aging field; it's a normal decay curve in an elephant field. It's not abnormal. He just didn't agree that the reason for down volume is because the price is down. Volumes have been declining for the last 20 years! They are trying to stop it and turn it around. He would challenge the department to bring information forward that would show declining production in Prudhoe Bay and Kuparuk was caused by the price and not natural evolution and decay of the field. He also challenged them to produce an analytic model that would show a field like either Prudhoe Bay or Kuparuk that would stay at its peak production when it opened up. They all have a rapid rise, then humped over and a long tail. That is what is used in laying out the cash flow models for the decisions.

[4:54:51 PM](#)

COMMISSIONER BUTCHER said in every conversation he has had with a company the price of oil and the amount of money to be made off of oil is a large component in deciding to go forward or not. In a depleting field on the North Slope it's not a question that it's much more expensive to produce a barrel of oil than it used to be and certain kinds of oil is produced at \$100 that wouldn't be produced at \$30 or would be produced at \$200 that wouldn't be produced today.

SENATOR STEDMAN agreed with that, but he disagreed with the characterization of the long 20-year decline in Prudhoe Bay that it was directly a price sensitive issue when it was the natural decay of the field itself.

MR. TANGEMAN clarified that he agreed, and that's why it's important to look at Texas because they were producing for 80 years and when oil prices rocketed their production flattened out (like Alaska). Nobody debates that Alaska has a tremendous resource in the North Slope.

[4:57:30 PM](#)

SENATOR MCGUIRE asked the department to run a few models with respect to Cook Inlet and how SB 309 affected it because it shares some similarities; it's an aging field of 50 years, many people believed that all of the easy gas was taken out, nothing left and that the price itself would govern any kind of investment. Her understanding is, after the largest Cook Inlet lease sale in state history and now the second jack up rig coming up, that it is experiencing a boom.

CO-CHAIR WAGONER said he wanted to see details on why Texas' production levels kicked up if those comparisons are going to be used. How many wells were brought back on line that were not producing and brought back on line because of the price of oil? He knows those wells and that they don't produce much, maybe a half to three barrels a day, and those add up at this price.

CO-CHAIR PASKVAN thanked the presenters and suggested that using more common numbers would help everyone come to better conclusions.

[SB 192 was held in committee.]

[5:02:49 PM](#)

There being no further business to come before the committee, Co-Chair Paskvan adjourned the Senate Resources Standing Committee meeting at 5:02 p.m.