

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 27, 2012

3:33 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

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
02/10/12	(S)	Heard & Held
02/10/12	(S)	MINUTE(RES)
02/13/12	(S)	RES AT 3:30 PM BUTROVICH 205
02/13/12	(S)	Heard & Held
02/13/12	(S)	MINUTE(RES)
02/14/12	(S)	RES AT 3:30 PM BUTROVICH 205
02/14/12	(S)	Heard & Held

02/14/12 (S) MINUTE(RES)
 02/15/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/15/12 (S) Heard & Held
 02/15/12 (S) MINUTE(RES)
 02/16/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/16/12 (S) Heard & Held
 02/16/12 (S) MINUTE(RES)
 02/17/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/17/12 (S) Heard & Held
 02/17/12 (S) MINUTE(RES)
 02/21/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/21/12 (S) Heard & Held
 02/21/12 (S) MINUTE(RES)
 02/22/12 (S) RES AT 1:30 PM BUTROVICH 205
 02/22/12 (S) Heard & Held
 02/22/12 (S) MINUTE(RES)
 02/22/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/22/12 (S) Heard & Held
 02/22/12 (S) MINUTE(RES)
 02/23/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/23/12 (S) Heard & Held
 02/23/12 (S) MINUTE(RES)
 02/24/12 (S) RES AT 1:30 PM BUTROVICH 205
 02/24/12 (S) -- MEETING CANCELED --
 02/24/12 (S) RES AT 3:30 PM BUTROVICH 205
 02/24/12 (S) Heard & Held
 02/24/12 (S) MINUTE(RES)
 02/25/12 (S) RES AT 1:00 PM BUTROVICH 205
 02/25/12 (S) Heard & Held
 02/25/12 (S) MINUTE(RES)
 02/27/12 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

DON BULLOCK, Legislative Attorney
 Legislative Affairs Agency
 Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of SB 192.

BRYAN BUTCHER, Commissioner
 Department of Revenue
 Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of SB 192.

DAN STICKLE, Chief Economist
 Department of Revenue
 Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of SB 192.

BRUCE TANGEMAN, Deputy Commissioner
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of SB 192.

ACTION NARRATIVE

[3:33:58 PM](#)

CO-CHAIR JOE PASKVAN called the Senate Resources Standing Committee meeting to order at 3:33 p.m. Present at the call to order were Senators McGuire, Stedman, French, Wielechowski, Co-Chair and Co-Chair Paskvan.

SB 192-OIL AND GAS PRODUCTION TAX RATES

[3:34:40 PM](#)

CO-CHAIR PASKVAN announced consideration of SB 192. He said that CSSB 192(RES), labeled 27-LS1035\B, was adopted by the committee on February 22, 2012.

CO-CHAIR PASKVAN noted the presence of Senator Giessel and Senator Egan.

[3:36:39 PM](#)

DON BULLOCK, Legislative Attorney, Legislative Affairs Agency (LAA), related that LAA tries, when drafting a bill, to achieve the intent of the bill sponsor, as well as to make the bill clear, and to point out unforeseen consequences. Of the amendments written to SB 192, seven relate to tax rates, five relate to progressivity, one to the minimum tax, one to adjust the \$30 start of progressivity, and two to adjust the calculation of production tax value - one adjusts the production tax value based on prior production and the second one adjusts the gross value at the point of production.

He continued to explain that because the tax rate in AS 43.55.011 applies to the production tax value in AS 43.55.160, it is important to understand what the production tax value is because the average production tax value determines the progressive tax rate. He cautioned that there may be more of a tax benefit than is intended by reducing the value that is taxed, as well as lowering the average, which lowers the tax rate.

[3:39:36 PM](#)

He reviewed that the tax rates, except for the minimum tax, are applied to the production tax value. To get to production tax value on oil on the North Slope, the sale price is "netted back to the point of production." Tanker costs and the tariff on TAPS are subtracted in order to arrive at the gross value at the point of production, which is further adjusted by subtracting lease expenditures.

He continued to explain that the Federal Energy Regulatory Commission (FERC) tariff takes into account the value of TAPS, which has recently been raised and is under appeal. One of the Regulatory Commission of Alaska (RCA) statutes, AS 42.06.420 - valuation of property of a pipeline carrier - requires RCA to periodically look at the value of TAPS. Should the tariff increase, the cost of transportation would increase, which decreases the gross value of oil at the point of production.

[3:41:38 PM](#)

MR. BULLOCK informed the committee that the legislature addressed tanker transportation in AS 43.55.150. The purpose of the statute is for DOR to determine a reasonable rate of transportation. Once the gross value at the point of production has been determined, and the lease expenditures are deducted, the production tax value is determined.

He noted the differences between the two proposed amendments regarding the affective production tax value. The amendment that adjusts the gross value at the point of production will be reduced by the lease expenditures. The one that adjusts the production tax value directly does not involve the lease expenditures. The minimum tax proposed in one amendment is on the gross value at the point of production.

He related that lease expenditures have been examined during the discussions of PPT and ACES. He referred to AS 43.55.160 as the statute that shows which lease expenditures are allowed and not allowed to be deducted.

[3:43:20 PM](#)

SENATOR WIELECHOWSKI asked how oil taxes are calculated on a monthly basis as in ACES.

MR. BULLOCK suggested that when calculating production tax value monthly, one could look at the height of the capital as representing the value of oil, with the full value subject to the initial 25 percent tax and the progressive tax. There are

two approaches to determine the amount of the progressive tax. One method, which is currently in effect, is to look at the average production tax value per barrel of oil equivalent using two levels; the other method is to do the same, but with three levels, and the progressive tax rate applies to everything. Other proposed methods divide the segment of value in various ways, which could serve to fine tune the tax under certain scenarios.

[3:46:36 PM](#)

MR. BULLOCK addressed the separate accounting amendment which would re-enact AS 43.21. He explained that the deductions would be taken against the gross income on the oil production side; however, on the gas production side, the gross amount is the value of the oil and gas produced, minus a long list of deductions that are allowed, or not allowed, in order to determine the taxable amount.

He said the two amendments that would help the state determine what the tax should be, would provide for a petroleum information management system and competitive review board.

MR. BULLOCK noted that he was a hearing officer for DOR during the ELF hearings. He recalled presumptions made during the first ELF hearing when the state had to deal with lease expenditures, which were quite complicated. One of the changes made in TAPS in 2007 allowed DOR to have six years, rather than three years, after the return was filed to make assessments. Consequently, it may be six years before an audit is completed, plus appeal time. The used of a petroleum information management system and a competitive review board could provide valuable information about how the tax system is working, in a timelier manner.

[3:50:34 PM](#)

MR. BULLOCK turned to the subject of royalties. He described the difference between a royalty and a tax. The state, the federal government, regional corporations, and some individuals and businesses are resource owners. The state receives royalty off of state land and part of the royalty from federal land. The royalty is a share of production or money for allowing land to be used for resource development. Twenty-five percent of all mineral lease rentals and royalties received by the state go into the Permanent Fund.

He defined taxes as "the lifeblood of government." It is the money that funds government.

[3:53:25 PM](#)

BRYAN BUTCHER, Commissioner, Department of Revenue, began the presentation on modeling and discussion of CSSB 192, version B, and amendments. He related that version B changes the progressivity rate over \$30 per barrel of production tax value from 0.4 percent to 0.35 percent. It changes the trigger point that slows the rate of progressivity to 0.1 percent, from \$92.50 to \$101.43 per barrel of production tax value. It changes the maximum production tax rate from 75 percent to 60 percent for over \$201.43 per barrel of production tax value, and provides a modest reduction in taxes compared to DOR's Fall 2011 forecast.

SENATOR STEDMAN asked for the background of the format upon which these figures were calculated, including opex and capex numbers, credits, and expenditures.

COMMISSIONER BUTCHER replied that the assumptions are from the current fiscal year and assume transportation cost of \$8.72/bbl, opex of \$14.03 per taxable barrel, and capex of \$10.25 per taxable bbl.

SENATOR STEDMAN asked if those figures were from the FY 2012 Fall forecast.

COMMISSIONER BUTCHER said yes.

SENATOR STEDMAN inquired if they included royalty barrels. He thought the capex number looked low.

COMMISSIONER BUTCHER said the numbers referred to taxable, non-royalty barrels.

SENATOR STEDMAN figured that if the \$10 per barrel by production was included, the result should equal the capex.

COMMISSIONER BUTCHER explained that the numbers should connect directly to the income statement numbers from the Fall 2011 revenue forecast.

[3:58:44 PM](#)

SENATOR STEDMAN suggested having those numbers checked before the next meeting. He did not think that the numbers would result in \$2.7 billion in capex. He also wondered how credits were handled.

DAN STICKLE, Chief Economist, Department of Revenue, clarified that the capex and opex numbers shown are taken from the income

statement and reflect deductible capex and opex. There is a portion of the total capex expenditures that DOR would expect to not be deductible for purposes of the production tax. Those are not reflected in the income statement. For the snapshot model, as far as credits go, DOR assumes a straight 20 percent capital credit on all capital expenditures.

SENATOR STEDMAN understood that the capital credit was included in the calculations for the tax.

MR. STICKLE said that was correct. He added that the charts show the effective tax rates, net of credit.

CO-CHAIR PASKVAN noted that the capex expenditures varied greatly from \$2.7 billion to \$1.8 billion. He suggested that the legislature is trying to "find level ground" so that the numbers are internally consistent.

MR. STICKLE pointed out that the total transportation and lease expenditure costs could be shifted over by \$5 to equal the projections for FY 13.

[4:01:23 PM](#)

SENATOR FRENCH requested to know the dollar difference in income to the state between ACES and SB 192, version B, at \$120 barrel.

COMMISSIONER BUTCHER replied that revenues would be reduced by about \$125 million in FY 13, \$230 million in FY 14, and around \$200 million a year in the out years until 2020.

BRUCE TANGEMAN, Deputy Commissioner, Tax Division, Department of Revenue, added that FY 13 represents half a year because the effective date would be January 1, 2013.

SENATOR FRENCH inquired if it would be a reduction of \$250 million for the full year.

COMMISSIONER BUTCHER agreed.

SENATOR FRENCH said that was a lot of money.

SENATOR STEDMAN asked how much of the \$2.7 billion in capex is non-deductible.

[4:03:28 PM](#)

MR. STICKLE explained that the difference between the \$2.7 billion and \$1.8 billion would represent spending from companies

that do not have a tax liability. The intent with the charts is to show the effective tax rate paid by producing companies.

SENATOR STEDMAN asked what amount DOR was using for the credits.

MR. STICKLE related that it is a 20 percent capital credit.

SENATOR STEDMAN asked for the amount in dollars.

MR. STICKLE said it would be about \$360 million.

SENATOR STEDMAN suggested that current producing fields and their tax implications be kept separate. He inquired how changing oil prices impact capex and opex.

[4:05:03 PM](#)

MR. STICKLE replied, for the purpose of the snapshot analysis, DOR froze in the capex and opex expenditures. The intent is to provide a snapshot of impacts on current producers.

SENATOR STEDMAN asked if the 30 cents per barrel non-credited exclusion allowance was included.

MR. STICKLE said he would have to check on that.

SENATOR STEDMAN asked if the model was a snapshot of the legacy fields.

MR. STICKLE said that was correct. The intent of the modeling is to provide a high level snapshot that would allow comparison of tax systems.

SENATOR STEDMAN said it was a good idea, but he cautioned that there are huge capital credits coming to the state. The overall petroleum revenue will decrease significantly.

COMMISSIONER BUTCHER agreed. He said the snapshot was of what would happen if the investment climate is increased and tax credits are considered for companies that are paying taxes.

[4:07:50 PM](#)

SENATOR WIELECHOWSKI asked for an explanation of the difference between ACES and version B of SB 192 at \$120 and \$130 oil.

COMMISSIONER BUTCHER reported that it would be a loss of approximately \$175 million for FY 13, \$350 million for FY 14, and about \$300 million a year in the out years through 2020.

MR. TANGEMAN added that was based on \$120 per barrel.

CO-CHAIR PASKVAN said that the public could be confused by \$120 per barrel. That amount is pricing, not production tax value.

COMMISSIONER BUTCHER said that was correct if the price of oil over a fiscal year averaged \$120 per barrel.

CO-CHAIR PASKVAN asked what the production tax value was. He said that for FY 13 the number is \$37.50 worth of deductions taken from the ANS crude price.

[4:10:01 PM](#)

COMMISSIONER BUTCHER reported that it was approximately \$33 for FY 12.

MR. STICKLE clarified that when calculating the production tax value for tax purposes, a company is allowed to take lease expenditures for all of the barrels against the taxable barrels.

SENATOR STEDMAN advised looking at dollars, not cost per barrel due to net royalties and other factors.

COMMISSIONER BUTCHER responded that he was happy to put the numbers in dollars.

He turned to slide 4 - a snapshot of comparisons of effective production tax rates at oil prices between \$60 and \$200.

[4:12:17 PM](#)

He explained that slide 5 compares effective production tax rates of ACES and CSSB 192/B.

He related that slide 6 shows a breakdown of share of profit under SB 192/B by dollar amount, from \$40 to \$265. The blue areas show the producer's share, the green shows the state's share, and the red shows the federal government's share. Under current law, at \$115, the federal share is at 15 percent, the state share is at 57 percent, and the producer's share is at 28 percent.

CO-CHAIR PASKVAN asked what is included in the definition of profit.

COMMISSIONER BUTCHER replied that it is all-inclusive and contains royalties and other taxes.

MR. STICKLE added that the definition of profit is gross value, less transportation costs and lease expenditures.

CO-CHAIR PASKVAN questioned if royalty was included in the calculation.

MR. STICKLE said it was calculated based on total barrels, so royalty is included as part of the state share.

SENATOR STEDMAN noted income tax and property tax were included. He asked if a 35 percent federal corporate income tax rate was used.

MR. STICKLE said yes, and a 9.4 percent state corporate income tax rate was used.

SENATOR STEDMAN inquired about the subject of "flattening the split" between the state and the industry. He predicted that the federal share would hold at about 13 percent.

[4:15:50 PM](#)

MR. STICKLE answered that Senator Stedman was approximately correct in his predictions.

COMMISSIONER BUTCHER showed how absolute profit would look in terms of dollars under CSSB 192/B - slide 7. He looked at the \$115 snapshot to compare CSSB 192/B to the current law.

CO-CHAIR PASKVAN understood that DOR was using FY 12 capex numbers. He referred to the Revenue Sources Book on page 103, which shows that profit is about \$13.36 billion. After credits, the government take is about \$5.4 billion. He questioned if that was correct.

COMMISSIONER BUTCHER replied that what DOR is trying to show is the investment climate in the state from the perspective of a company doing business in Alaska, therefore, included in the analysis of the state's share are royalties.

CO-CHAIR PASKVAN said he was examining the definition of profit. Generally speaking, at \$115 the state receives 40 percent and the industry receives 60 percent of the profit.

MR. STICKLE added that would be correct when referencing what is left over exclusively after looking at the production tax

payment. Out of that 60 percent, the company would have to pay the royalties and taxes.

CO-CHAIR PASKVAN again referred to page 103 of the Revenue Sources Book and stated that it starts out at \$22.8 billion and then takes out the royalty.

4:20:18 PM

SENATOR STEDMAN thought there was a problem reflected in the chart on slide 7 regarding how the state's share grows. One of the consultants recommended freezing the industry/state split, which would substantially change the results. He also cautioned the use of widespread pricing from \$40 to \$265. He maintained that the expense side and the credit side would never stay constant over the vast changes in price.

COMMISSIONER BUTCHER agreed. He offered to research a formula that would account for that issue, such as between \$90 and \$140.

4:23:33 PM

MR. TANGEMAN agreed that with a steady increase in inflation, capex would rise with the price of oil. He said there have been significant oil price swings in a short amount of time whereby capex would not have kept up.

COMMISSIONER BUTCHER addressed Amendment B.5 as shown on slide 8. Progressivity would be bracketed with 25 percent as the top bracket. The amendment provides tax brackets for progressivity, with the progressively higher rate only applying to the value within that tax bracket. It generally follows the existing progressivity slope. A maximum production tax rate of 50 percent would apply over \$92.50 per barrel production tax value.

COMMISSIONER BUTCHER turned to slide 9 which shows the effective production tax rates of ACES, as compared to the bracketed rates up to 50 percent as seen in Amendment B.5.

CO-CHAIR PASKVAN asked how much production tax is lost under the amendment at \$110, which is an FY 12 or FY 13 estimate of the yearly average oil price.

MR. STICKLE replied that he did not have the numbers for FY 12. From FY 14 to FY 18, the first five years the provision would be fully in effect under the terms of the amendment, the range of the change in revenue would be from \$1.05 billion to \$1.3 billion per year.

[4:27:00 PM](#)

CO-CHAIR PASKVAN opined that FY 12 would also be about \$1 billion.

COMMISSIONER BUTCHER related that slide 10 depicts the share of profit under bracketed rates up to 50 percent under Amendment B.5. He made a comparison to current law at \$115 oil, which shows a more substantial shift of profit to the industry.

SENATOR STEDMAN said there appears to be more of a shift of profit to the industry than recommended by one consultant.

CO-CHAIR PASKVAN agreed that was Mr. Van Meurs' opinion.

COMMISSIONER BUTCHER explained slide 11, the absolute profit under bracketed rates up to 50 percent as found in Amendment B.5. He again made the comparison to current law at \$115 oil.

CO-CHAIR PASKVAN referred to slide 6 where government take was about 75 percent at \$150 oil. He asked how much revenue loss the state would experience in production tax at the same price under the conditions depicted in slide 11.

COMMISSIONER BUTCHER offered to get back to the committee with that information.

SENATOR FRENCH pointed out to the public some of the problems the legislature has with this balancing act when the state's take is reduced by almost \$2 billion. The industry receives about \$1.1 billion; however, the federal government gets about \$700,000 million or \$800,000 million, none of which will come back to the state.

COMMISSIONER BUTCHER agreed. He corrected that about \$1.3 billion would go to the producers.

[4:31:14 PM](#)

COMMISSIONER BUTCHER turned to Amendment B.4, as shown on slide 12. He said that in this amendment, progressivity is bracketed at 35 percent. It provides for tax brackets for progressivity, with the progressively higher rate only applying to the value within that tax bracket. It generally follows the existing progressivity slope. The maximum production tax rate of 60 percent would apply over \$92.50 per barrel production tax value.

He related that slide 13 compares the effective production tax rates of ACES and Amendment B.4.

CO-CHAIR PASKVAN asked if the reduction in revenues to the state at \$110 oil was the same as shown on previous slides 9 and 13.

COMMISSIONER BUTCHER opined that the numbers at \$110 would be identical. He said the separation between B.4 and B.5 would occur at about \$160.

MR. STICKLE added that Amendment B.4 adds two additional brackets, one at 30 percent at \$105 to \$117.50 and one at 35 percent above \$117.50. The difference between the two amendments is apparent at \$105 oil.

COMMISSIONER BUTCHER turned to slide 14 to discuss share of profit under bracketed rates up to 60 percent. He said the differences are not as extreme beyond \$130 oil, but identical for what DOR is looking at in the current fiscal year and today.

[4:34:27 PM](#)

MR. TANGEMAN pointed out that slide 16 addresses Co-Chair Paskvan's question about progressivity. It lays out how different progressivity brackets would change at various oil prices.

CO-CHAIR PASKVAN asked about slide 15. He wondered if the transition occurs at about \$150 pricing.

MR. TANGEMAN said that was correct.

CO-CHAIR PASKVAN commented that it looked like the numbers below \$150 remained the same and the numbers increasing on the X access have been modified by the 35 percent bracketed rate to 60 percent.

MR. TANGEMAN said that was correct.

SENATOR MCGUIRE reported that using round numbers shows \$135 to \$147 for the first additional bracket and \$147.50 for the second bracket.

COMMISSIONER BUTCHER concluded the presentation with slide 17, a comparison of effective production tax rates under ACES, CSSB 192/B, Amendment B.5, and Amendment B.4. He said the goal is to find the sweet spot or the material difference. He noted that DOR is aware of additional amendments to SB 192.

MR. TANGEMAN pointed out that the red and purple lines mirror HB 110 more or less. The private sector considers the difference of a \$5 billion gap of potential new investment significant.

SENATOR FRENCH inquired about Amendment B.8 submitted by Senator Wielechowski and himself.

[4:38:22 PM](#)

MR. STICKLE reported that DOR did some modeling on that amendment. Both "simple progressivity and simple progressivity 2" show effective tax rate lines that are very close to ACES and CSSB 192/B.

SENATOR FRENCH thought they would be significantly different in dollars.

MR. TANGEMAN related that DOR received the 18 amendments late in the week and found it difficult to model them all. He hoped to receive a more firm decision on the preferred amendment.

SENATOR FRENCH agreed, but he maintained that \$10 million to \$30 million are significant amounts of money. He stressed the important financial needs of the state.

COMMISSIONER BUTCHER said he would be happy to get the numbers to the committee. He stated if the legislation is a material change that results in billions more in investment and more production, it has a tremendous value. If it is a reduction but does not lead to increased investment or production, then it is just "less revenue to the state".

SENATOR STEDMAN commented that Senator Wielechowski used a suggestion from Mr. Van Meurs to write his progressivity amendment. He wished to have a model run on that amendment.

COMMISSIONER BUTCHER said he would provide that information.

CO-CHAIR PASKVAN agreed that there are important subtle differences between amendments.

[4:43:10 PM](#)

SENATOR WIELECHOWSKI requested marginal tax rates modeled.

He noted that the governor said last week that when oil is between \$60 and \$80 the current oil tax system is competitive. He wondered if Commissioner Butcher agreed.

COMMISSIONER BUTCHER said he could provide marginal tax graphs. He also agreed that ACES does not need to be changed at those prices. He pointed out that the forecast is that oil prices will greatly exceed those prices.

4:44:34 PM

SENATOR WIELECHOWSKI asked if the state was better off doing nothing than passing SB 192.

COMMISSIONER BUTCHER stated it was his position that the legislation has to be a substantive change. He did not see a couple million dollars making a major change as to how companies look at Alaska's investment climate.

MR. TANGEMAN said that ultimately Alaska is in a position where it has to consider tax regimes around the world.

SENATOR WIELECHOWSKI related that BP maintains that Alaska should not be comparing itself to other countries, but instead should do what is best for Alaska. He said he agreed with that.

He said that new oil leases require companies to develop when they can make a reasonable profit. Under \$115 oil and \$140 oil under CSSB 192/B, the oil industry is making \$5.2 and \$5.9 billion in profit. He asked if those were not reasonable levels of profit.

COMMISSIONER BUTCHER countered that the vast majority of production isn't under those leases. He said DNR was the expert on leases. He maintained that if a company has the opportunity to make more money by investing \$1 billion elsewhere, it will.

4:48:00 PM

MR. TANGEMAN agreed that the legislature needs to do what is best for the state - long term. The current tax is only good short term.

SENATOR WIELECHOWSKI differed. He stated that the legislature is looking long term. He said he has requested DOR to provide information on which projects are not economic under ACES that would be economic under HB 110. That information has not been forthcoming.

SENATOR FRENCH suggested that the state take the \$1 billion and invest it as a long-term solution.

COMMISSIONER BUTCHER said the administration would be happy to look at that suggestion if it makes sense. He said state shares are very complicated and include liability.

SENATOR FRENCH pointed out that the suggestion is found in Amendment B.12.

MR. TANGEMAN responded that the liability and revenue impact to the state as part owner would be great if oil was \$15.

He disagreed with Senator Wielechowski's statement that the state "would be broke in 10 years" under HB 110. He said the fiscal note is based on current production forecast. The point is to generate more production through investment and the administration would not wait 10 years for that to happen. The administration does not need to make a leap of faith, but has adequate information to make good decisions.

[4:52:42 PM](#)

SENATOR STEDMAN stressed the need to be aware of a fundamental flaw which needs to be corrected - revenue sharing at prices higher than \$100 to \$130. At some point there needs to be a discussion on freezing the split at 75/25 percent forward. He also highlighted the downside risk to the state regarding credits at low prices.

CO-CHAIR PASKVAN asked if DOR is relying on any probabilistic determinations of the particular values of oil.

MR. STICKLE explained that there are several sources for that type of analysis. He said the United States Energy Information Association publishes such a forecast and DOR could look further into the issue.

CO-CHAIR PASKVAN thought that would be helpful.

COMMISSIONER BUTCHER added that for five of the last six years the department's price forecast has come in under what the actual price ended up being.

[SB 192 was held in committee.]

[4:56:21 PM](#)

There being no further business to come before the committee, Co-Chair Paskvan adjourned the Senate Resources Standing Committee at 4:56 p.m.