

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

April 20, 2012

10:03 a.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 Dennis Egan  
Senator Bettye Davis  
Senator Johnny Ellis  
Senator Cathy Giessel  
Senator Joe Thomas  
Representative Berta Gardner

**COMMITTEE CALENDAR**

SENATE BILL NO. 3001

"An Act relating to adjustments to oil and gas production tax values based on a percentage of gross value at the point of production for oil and gas produced from leases or properties north of 68 degrees North latitude; relating to monthly installment payments of the oil and gas production tax; relating to the determinations of oil and gas production tax values; relating to oil and gas production tax credits including qualified capital credits for exploration, development, or production; making conforming amendments; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB3001

SHORT TITLE: OIL AND GAS PRODUCTION TAX  
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

04/18/12	(S)	READ THE FIRST TIME - REFERRALS
04/18/12	(S)	RES, FIN
04/19/12	(S)	RES AT 3:30 PM SENATE FINANCE 532
04/19/12	(S)	Heard & Held
04/19/12	(S)	MINUTE(RES)
04/20/12	(S)	RES AT 10:00 AM SENATE FINANCE 532

#### **WITNESS REGISTER**

BRYAN BUTCHER, Commissioner  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Presented information related to SB 3001.

BRUCE TANGEMAN, Deputy Commissioner  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Presented information related to SB 3001.

DANIEL STICKEL, Chief Economist  
Department of Revenue  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions related to SB 3001.

#### **ACTION NARRATIVE**

[10:03:06 AM](#)

**CO-CHAIR JOE PASKVAN** called the Senate Resources Standing Committee meeting to order at 10:03 a.m. Present at the call to order were Senators French, Stedman, Stevens, McGuire, Wielechowski, Co-Chair Wagoner, and Co-Chair Paskvan.

#### **SB 3001-OIL AND GAS PRODUCTION TAX**

[10:04:38 AM](#)

**CO-CHAIR PASKVAN** announced the continuation of the presentation of SB 3001 by the Commissioner of the Department of Revenue, Bryan Butcher.

BRYAN BUTCHER, Commissioner, Department of Revenue, continued the presentation on SB 3001. He began with key provisions in the bill as listed in a Power Point presentation. He related that the third key provision of SB 3001 is that the maximum tax rate is changed from 75 percent to 60 percent. The fourth provision

is to extend the 40 percent well lease expenditure credit to the North Slope. The final key provision of the bill is to allow capital credits to be redeemed in the year earned. Currently, the capital credits are spread over two years. He noted that smaller companies requested that change in order to make it easier on their cash flow. The change would also make it easier for the department to administer. It would be revenue neutral by the third year.

10:06:03 AM

SENATOR FRENCH asked for more information about the retroactivity of credit changes in the bill.

COMMISSIONER BUTCHER offered to provide that information during the sectional analysis.

SENATOR STEDMAN inquired about extending the 40 percent wellhead expenditure credits to the North Slope. He requested an analysis that would back up the need for that change. He noted that previous committee work concluded that there was no need to extend those credits. Instead, it was found that there were too many credits given.

COMMISSIONER BUTCHER noted that the change was a piece from 2010 legislation, HB 280, and was incorporated into HB 110. At that time the companies said the economics of including the 40 percent well lease credits would allow them to extract more oil from existing wells. He suggested that producing companies on the North Slope could provide more information.

10:08:20 AM

SENATOR STEDMAN suggested having a discussion of the risk of exposure to the state due to numerous large credits. He pointed out that recommendations from consultants contradict the information related to extending well lease credits because it allows too much reimbursement from the state on capital costs. He said if the goal is to make the industry happy, the percentage could be increased to 50 percent, but at some point the state has to look at its risk exposure. He requested backup information on that decision that includes rates of return and capital expenditure (CAPEX).

COMMISSIONER BUTCHER said he would be happy to provide that information. He noted that the goal is not to make the companies happy, but rather to incentivize more investment, development, and production.

SENATOR WIELECHOWSKI related a criticism that the tax structure is too complex. He inquired if adding a new provision whereby the ACES tax plus a 40 percent revenue exclusion for progressivity is calculated, is making the process more or less complex.

COMMISSIONER BUTCHER said it was making the tax structure slightly more complex.

SENATOR WIELECHOWSKI suggested that the ACES calculation does not apply anywhere any more. He suggested cutting progressivity.

COMMISSIONER BUTCHER agreed that was an option. He said an attempt was made to take the same structure the Senate used on the new fields and apply it to what was thought to be material to the existing fields. He noted it could be done in a number of ways.

CO-CHAIR PASKVAN explained the 40 percent well lease expenditure credit: for every dollar the oil company invests, they are receiving 40 cents in credit. He questioned why the state is not getting an equity ownership if it is paying 40 percent. He requested an explanation for the increase from 20 percent to 40 percent.

[10:12:34 AM](#)

BRUCE TANGEMAN, Deputy Commissioner, Department of Revenue, addressed Co-Chair Paskvan's question. He explained that the credit would be available to the tax payers, whereas a lot of credits are being enjoyed by companies that do not have any tax liability. Changing the credit from 20 percent to 40 percent would benefit those companies that do pay taxes, resulting in a quicker return on the state's investment.

CO-CHAIR PASKVAN related that Alaska was considered one of the most aggressive systems in the world regarding its credit structure. He wondered how it rates now and if there is a need to go any further.

COMMISSIONER BUTCHER reported that SB 3001 would have an immediate benefit in terms of short term production. He stated that other Organization for Economic Co-operation & Development economic (OECD) countries do not have the healthy credit environment Alaska has. Some of the countries with profit share agreements that take the concept of a credit, but include 100 percent of the costs a company has, go far and above what Alaska does.

SENATOR STEDMAN clarified that not only would companies have a 40 percent credit, but they would have an immediate write off of their capital expenditures.

COMMISSIONER BUTCHER agreed.

SENATOR STEDMAN suggested at \$200 per barrel the capital cost would be borne by the state and the federal government. He did not know what the percentage would be at \$120 per barrel, which is where it is at today.

COMMISSIONER BUTCHER offered to provide that information.

[10:15:50 AM](#)

SENATOR STEDMAN assumed the 40 percent credit was analytically driven. He asked if the analysis had been done.

COMMISSIONER BUTCHER explained that the analysis was done on a bill that was drafted and presented before he was commissioner. He said he was sure that information was available.

CO-CHAIR PASKVAN asked if the committee could have that information later today.

COMMISSIONER BUTCHER said yes.

SENATOR MCGUIRE suggested that the department continue to work on this issue by running its own numbers, hiring its own consultants, and looking at tax systems in order to determine what would be best for Alaska. She termed SB 3001 a "half-baked bill" that is unfair to the legislature, the public, and the producers.

She described the process used to vet HB 110 and the resulting votes. The end result was a solution that would have included existing oil and incremental oil, but the votes weren't there. She defended the model used for HB 110, whereas there is no model being used in SB 3001. She expressed frustration that SB 3001 was unfair because the department didn't fully understand it and it was a tremendous waste of government money and time. She stated that she remains committed and philosophically aligned with the governor to help Alaska remain competitive. She reiterated why the current process is not working.

COMMISSIONER BUTCHER explained that in SB 3001 the governor is attempting to work within the framework the Senate used. It is not HB 110, but a combination of the pieces from both bills.

SENATOR STEDMAN followed up on Senator McGuire's comments. He related that the premise the Senate was operating under before SB 3001 was that there would be a tax structure for legacy fields and incremental production, and new production would be incentivized separately. This bill is a bastardization of that process because there is a 40 percent allowance on the main field, which doesn't fit into the main concept of the Senate's view. There was never any discussion of having gross allowances on the main production pool. He emphasized that one of the fundamental building blocks is broken in SB 3001.

[10:22:28 AM](#)

CO-CHAIR PASKVAN interjected that, in part, the question is how one uses the governor's tax bill to address government take at high oil prices without giving away billions at moderate oil prices. He did not see the structure in SB 3001 that would allow a solution.

COMMISSIONER BUTCHER responded that when a state is trying to change a high tax structure, the tax rate must be reduced at the point companies must make investment decisions on existing fields, not on fields that may exist in ten years.

MR. TANGEMAN responded to Senator McGuire's question as to why this bill is necessary as presented. The tax structure must be "simple and stable." He explained that the bill was put together to work within the existing tax structure. He pointed out that the state has been "beat up" on the fact that that the tax division is always behind. Today, the state understands ACES as well, if not better, than the industry. It is important to know that the state understands ACES and is making changes so as not to lose ground.

[10:26:21 AM](#)

CO-CHAIR PASKVAN returned to the discussion as to whether there are economic advisors or other advisors that are advising the administration about tax structures and might be able to address government take at high and very high oil prices. He understood that there were no advisors available.

COMMISSIONER BUTCHER reported that there are economic advisors working internally in DOR.

CO-CHAIR PASKVAN asked if, at \$120 per barrel oil, the industry is receiving about \$2 billion.

COMMISSIONER BUTCHER did not know if it was that high.

CO-CHAIR PASKVAN asked if it was that high including credits. He inquired if the commissioner was advancing SB 3001 as a "take it or leave it" proposal.

COMMISSIONER BUTCHER responded that the industry is receiving \$1.7 billion.

CO-CHAIR PASKVAN reiterated his questioned about whether the bill was a "take it or leave it" proposal.

COMMISSIONER BUTCHER explained that the task at hand is to figure out where that sweet spot is for companies to see a material change in order to increase investment.

[10:29:06 AM](#)

SENATOR WIELECHOWSKI recalled testimony from DOR and the governor in the past saying that ACES was competitive in the \$60 to \$80 range. He pointed out that SB 3001 was handing half a billion dollars to the industry at \$80 per barrel oil. He asked why that should happen when ACES is competitive at that range.

COMMISSIONER BUTCHER noted it is competitive to the point where it is not as punitive as it is at high oil prices, but it is still higher than any other jurisdiction in North America. Making the reduction will increase the investment climate.

SENATOR STEDMAN talked about a discussion whereby a company would provide \$5 billion of capital enhancements for incremental oil production to slow the decline curve. Yet, another company maintained it would take \$3 billion to \$5 billion a year to achieve that goal. He asked the department what it would take in capital investment to slow the decline curve and where the break even analysis is. He concluded that there is no substance in SB 3001, only philosophical commentary.

COMMISSIONER BUTCHER reported that DOR would talk to DNR to obtain those figures. He maintained that it is impossible to predict where the breakeven point will be in the future.

SENATOR WIELECHOWSKI asked if the 40 percent well lease expenditure credit would be stackable on top of the net operating loss, equaling 65 percent in development credits.

MR. TANGEMAN replied that the well lease expenditure credit would only affect current producers.

SENATOR WIELECHOWSKI inquired what the number of development credits an existing producer would be getting under SB 3001.

MR. TANGEMAN offered to get back to the committee with that information.

SENATOR WIELECHOWSKI suggested the number was 40 percent, plus 25 percent in credits. He understood that the exploratory credits are in the 80 percent range.

MR. TANGEMAN offered to get back to the committee with that information.

SENATOR WIELECHOWSKI questioned that if state picks up 80 percent of the exploration cost, 65 percent or more for the development cost, and is lowering taxes, at what point does the state, as a sovereign, receive a share.

MR. TANGEMAN pointed out that the state has a significant interest already in the form of royalties. He stressed that the bill is not a giveaway. He shared oil prices since PPT was passed and said DOR thinks there is a problem, unlike the Senate, which believes that ACES will be fine for the next ten years. He said that DOR's goal is to incentivize investment and turn the decline curve around.

CO-CHAIR PASKVAN followed up on that statement by quoting Commissioner Butcher from January, 2011:

While it is untenable to blame a tax system for the lack of industry investment, it is equally untenable to claim that the tax system is a reason increased activity or investment occurs. An economic recession stifled investment in business activity in the United States and much of the developed world for over a year. The economic activity of the past three years may not have been the best benchmark by which to judge the impact of a tax system.

He asked if Commissioner Butcher still believes that is true today.

COMMISSIONER BUTCHER said there are many factors that play a role in less investment and taxes are certainly one of them. He said he has learned a lot since he made that statement.

CO-CHAIR PASKVAN asked if his statement was still true today or not.

COMMISSIONER BUTCHER replied that there is some truth in it, but there are a lot of other factors, as well. He said the major role taxes play in investment has become much clearer.

10:37:30 AM

SENATOR STEDMAN recapped that the administration is comfortable at \$80 oil and below. The work the Senate did was on \$100-plus oil, so it seems that there is a \$20 spread to discuss. He related that the Resources Committee would like to see a sliding scale in dollars and a cap, with a cutoff at \$200.

COMMISSIONER BUTCHER believed that the upcoming slide would show that information. He offered to provide specific dollar amounts.

SENATOR STEDMAN suggested increments of \$10 and an analysis of capital costs as a result of the new tax structure.

He agreed with Senator Wielechowski's request for more information about the total amount of credits and the "stacking" of them under the new tax.

COMMISSIONER BUTCHER stated that the 40 percent credit would be in lieu of the 20 percent capital credit. He offered to provide more information.

SENATOR STEDMAN requested the information in writing in a table format.

CO-CHAIR PASKVAN agreed. He asked if that information could be provided later this afternoon.

SENATOR MCGUIRE also agreed. She said she wanted to see a definition of the credits and hypothetical ranges with new North Slope fields and how the numbers interact.

COMMISSIONER BUTCHER said that information is included in the up-coming slide presentation. The estimate of the 40 percent well expenditure lease credit is included in the fiscal note at \$200 million to \$400 million a year.

[10:43:07 AM](#)

SENATOR STEDMAN reminded the commissioner that he, Senator Wagoner, and Senator McGuire worked previously in the Senate Resources Committee to incentivize Cook Inlet in order to increase gas production and in doing so, nearly zeroed out the revenue to the state. He said he would like to revisit that issue for the sake of the state treasury. He compared that situation to oil exploration in the Arctic and cautioned the approach in this bill.

COMMISSIONER BUTCHER did not believe that situation was in the bill. Cook Inlet shows a very low tax rate, which is not proposed in SB 3001.

CO-CHAIR PASKVAN noted the public needs an explanation of the gross revenue exclusion.

COMMISSIONER BUTCHER addressed where the pieces of SB 3001 came from and how it became a hybrid of other tax proposals. Gross revenue exclusion was introduced in HB 276 by the Senate Finance Committee during the regular session as a way to incentivize production. The production cap of 60 percent was introduced by the Senate Resources Committee as a way to limit the state's take at high oil prices. The well lease expenditure credit was introduced and enacted in 2010 through the Cook Inlet Recovery Act or HB 280.

[10:46:22 AM](#)

MR. TANGEMAN explained how the gross revenue exclusion works. He showed a chart that depicts an income statement from the Fall 2011 Revenue Sources Book (RSB). Column D reflects the ACES tax structure and column E reflects SB 3001. The chart is for existing fields.

He gave an example of a reduction and worked out the calculations. He pointed out that the base rate remains the same and the progressive tax rate is calculated on the full production tax value (PTV). The exclusion is taken off of the gross value. The adjusted progressive tax rate is then applied. The increase to the capital credits is included. He concluded that there is only one new calculation for existing wells; for new fields there would be one additional calculation.

CO-CHAIR PASKVAN asked if the credits are included. He assumed all credits are compressed into one year. He wondered about an additional \$200 to \$400 million increase for the 40 percent credit.

MR. TANGEMAN explained the \$300 million increase shown on line 30 is the mid-point of the 40 percent tax credit. He pointed out that the chart applied to taxpayers only, so exploration tax credits are not included.

SENATOR STEDMAN asked if the state receives \$400 million less from total credits.

MR. TANGEMAN agreed.

SENATOR STEDMAN asked about the capital expenditure line and what was excluded. He opined that there should be about \$500 million more included in total CAPEX.

MR. TANGEMAN explained that the chart shows FY 13 capital and operating expenditure estimates.

SENATOR STEDMAN asked if it was the entire capital expenditures applicable to the production tax. He inquired if non-producing entities were excluded.

MR. TANGEMAN replied that the chart is shown on page 104 of the RSB.

SENATOR STEDMAN asked Mr. Tangeman to answer the question.

MR. TANGEMAN answered yes. He said they are the deductible lease expenditures.

[10:52:03 AM](#)

SENATOR FRENCH referred to the negative \$1.464 billion on the chart, which is the difference between what ACES would collect and what would be collected under SB 3001. He calculated that it would be a loss of about \$4 million a day, or \$167,000 per hour that the state would be asking the citizens of Alaska to give up in exchange for "something." The hope is for more investment and for more production. He pointed out if ACES was in place, instead of this bill, every four days the state could build a new high school or pay for statewide pre-kindergarten. He suggested if oil wells cost \$20 million on the North Slope, every 5 days the industry should be drilling a new well, totaling 73 new wells a year.

He suggested putting in benchmarks to ensure new production, or putting the money in escrow. The state is in a relationship with

a partner and partners set benchmarks. He voiced concern that SB 3001 does not do that.

10:55:20 AM

COMMISSIONER BUTCHER said the department has a philosophical difference of opinion. He stressed that "simplicity" was an important theme and noted the process of incentivizing companies to invest in Alaska requires simplicity.

SENATOR FRENCH asked if there should be no strings attached and no benchmarks. He suggested there should be measurable, deliverable investment activity. He maintained that both the legislature and the department agree that there should be more investment in Alaska.

COMMISSIONER BUTCHER stated that the disagreement is on whether or not there are high oil taxes in Alaska and he suggested that Senator French does not believe that.

SENATOR FRENCH requested that they not characterize each other's opinion on philosophy.

COMMISSIONER BUTCHER agreed.

SENATOR FRENCH asked if Commissioner Butcher expects more investment from the bill.

COMMISSIONER BUTCHER said yes. He continued to say that the companies should step forward and make a convincing case for the change in tax structure.

SENATOR WIELECHOWSKI asked for the commissioner's best estimate of how many new barrels of oil will be produced if the legislature passes the bill.

COMMISSIONER BUTCHER did not have a specific number. He said that when taxes are reduced there will be more investment. He noted the need to hear from companies about investment prospects.

CO-CHAIR PASKVAN asked how many barrels of oil it would take to collect the \$1,464.1 billion figure, shown on slide 5, back to the state.

COMMISSIONER BUTCHER said he would have to get back to the committee with that information.

SENATOR PASKVAN asked if that information could be provided later in the day.

COMMISSIONER BUTCHER believed so.

[10:59:55 AM](#)

SENATOR WIELECHOWSKI referred to previous testimony that showed no correlation between reduced taxes and increased production. He proposed a resolution to be included in the bill that said, "If you produce X number of barrels, in addition to what you are already producing, then you get your tax breaks."

COMMISSIONER BUTCHER thought the administration would be open to anything that would result in a material change in the tax structure that would achieve the goal of more investment.

SENATOR STEDMAN referred to proposed structural changes during ACES and the lack of support by the department. He asked if the department supports structural changes and clean-up in ACES.

COMMISSIONER BUTCHER related that he did not understand "how the department disappeared."

SENATOR STEDMAN explained that the governor moved forward on ACES without DOR input.

COMMISSIONER BUTCHER replied that changing the ACES structure does make it difficult for the department. If the change is a means to an end, with a material change, the department is willing to take it on. If it is a more complex structure that adds more administrative work, and is not a material change, then the department sees it as just another structural change to taxes.

[11:02:29 AM](#)

At-ease from 11:02 a.m. to 11:17 a.m.

[11:17:56 AM](#)

CO-CHAIR PASKVAN announced the continuation of the presentation.

COMMISSIONER BUTCHER turned to effective production tax rates, post-credits, for existing production. He highlighted a graph that compares ACES, HB 110, and SB 3001.

COMMISSIONER BUTCHER related information about marginal government take for existing production. The biggest difference

between HB 110 and SB 3001 is that, with a bracketed approach, the marginal rate was reduced slightly more.

He compared the absolute profit of ACES, HB 110, and SB 3001. He described how the profit of each entity is shown and what their total profit would be under each program.

11:22:10 AM

SENATOR FRENCH asked if the difference between ACES and SB 3001 profit at \$120 oil was \$1.7 billion.

COMMISSIONER BUTCHER said yes.

SENATOR FRENCH asked for clarification of profit at different oil prices.

DANIEL STICKEL, Chief Economist, Department of Revenue, answered questions related to SB 3001. He explained the figures on slide 5 are meant to present an illustration of how the production tax is calculated based on \$109 oil. It looks at companies that are paying the tax and is consistent with the revenue forecast. The absolute profit charts are a homogenized example as if all companies were one company.

SENATOR FRENCH asked, if the same approach is taken for each slide, would the results would be the same.

MR. STICKEL opined that there would be a similar, but not exact, result.

SENATOR WIELECHOWSKI asked if credits were included.

MR. STICKEL said yes.

COMMISSIONER BUTCHER continued to explain the share of profit by percentages under the three scenarios as shown on slides 11 - 13.

COMMISSIONER BUTCHER discussed the effective production tax rates on new fields, post-credits, under each bill.

He related information about marginal government take for new fields under the three scenarios.

He turned to a breakdown of profit shares of profit for new fields under the three bills by percentage.

[11:28:17 AM](#)

COMMISSIONER BUTCHER summarized the provisions in SB 3001. He related that the provisions in the bill represent "meaningful change", which is needed to incentivize development of Alaska's oil resources and to stimulate jobs and economic activity. He noted that producers have committed to additional investment contingent on meaningful change. He said he has not talked to any individual companies about their view of how this will take place, but the department has spoken to Alaska Oil & Gas Association (AOGA), which sees the bill as meaningful change.

SENATOR WIELECHOWSKI requested a list of all the commitments the department has received from companies regarding new development if the legislation passes.

COMMISSIONER BUTCHER agreed to provide that information. He referred to a letter from Repsol and Armstrong addressing what new field development would mean in terms of their investment. He noted the hesitation of companies to provide dollar promises that are not run through their board rooms. It is easier to obtain what a reduced tax materially means to them.

SENATOR WIELECHOWSKI asked if the commissioner has any commitments for new development.

COMMISSIONER BUTCHER noted only Repsol's discussion of \$9 billion.

SENATOR STEDMAN pointed out the importance of separating new production, such as Repsol's, from incremental or legacy production. He requested separate information regarding commitments for new development.

CO-CHAIR PASKVAN thought it would be most important for the committee to see a comparison between new and legacy field promises.

COMMISSIONER BUTCHER said he would provide that information. He related that short-term increased production would come from existing fields and long-term increased production would come from existing and new fields.

SENATOR FRENCH recalled the focus that former legislation has lent to the state. He listed commonalities between the different pieces of legislation, such as how to deal with new oil. He suggested focusing now on aging conventional reservoirs. He

wanted examples of those kinds of reservoirs in other states that had their production turned around due to lowered taxes.

He predicted that it would be very difficult to get new oil out of existing fields, and the future of those fields lies with heavy oil.

11:33:53 AM

SENATOR FRENCH inquired about new oil and the need for more information on shale oil. He opined it was not true that it will take 10 years to access shale oil.

SENATOR MCGUIRE said her previous comments were not punitive, but meant to find results about a complex issue. She did not think a forced special session was the best way to get results. She requested that the department consider the Senate Finance Committee charts to help understand the process that was used. She recalled efforts on HB 110.

COMMISSIONER BUTCHER said that the department could review that information.

SENATOR MCGUIRE noted that there are not that many areas that are legacy fields. She suggested looking for research about incentivizing companies to increase volume from legacy fields.

11:38:20 AM

CO-CHAIR PASKVAN related information that says increasing production in legacy fields is unlikely. He referred to a statement from DOR in 1994 that stated that production decline is irreversible. He noted that page 3 of the fiscal note shows an increase in production. He questioned where that would come from. He requested information about reversing decline in legacy fields, as well as investment evidence to show that legacy fields do not stay in the harvest mode.

COMMISSIONER BUTCHER thought the companies could provide this information.

CO-CHAIR PASKVAN asked if DOR believes that a 10 percent increase above current forecast can be attained.

COMMISSIONER BUTCHER said he believes that increase is possible.

SENATOR STEDMAN recalled testimony from ConocoPhillips that said there are technology barriers to increasing production, regardless of the tax structure. He suggested reviewing that

information. He inquired if it was possible to get to 700,000 barrels per day in the legacy fields.

CO-CHAIR PASKVAN related that Senator Stedman was referring to March 1, 2012, testimony to the Senator Resources Committee by Scott Jepson, Vice President for ConocoPhillips, who said that the technologies were lacking. He asked for information about legacy fields' ability to increase production.

COMMISSIONER BUTCHER said he thought the goal of getting to 1 million barrels a day was laudable; he wished only to flatten out the decline curve.

[11:43:57 AM](#)

SENATOR STEDMAN said the record could be checked for Jepson's testimony. He recalled it was during a Senate Finance Committee meeting. He opined that it should be possible to quantify what it would take to get to and stabilize 600,000 barrels a day.

CO-CHAIR PASKVAN said the entire committee agrees there is more work to do and it needs more analysis as to how to get there.

CO-CHAIR PASKVAN reviewed the topics of yesterday's meeting: government take, internal rates of return, net present value, basin progressivity, and engineering constraints of oil throughput. He suggested that if the administration is not looking at those issues, the motivation behind the legislation would seem to be lacking. Many Alaskan's are wondering what that motivation is.

COMMISSIONER BUTCHER pointed out that the department looked at all of the issues Co-Chair Paskvan mentioned when developing the bill.

CO-CHAIR PASKVAN focused on page 3 of the fiscal note regarding the production tax revenue forecast for FY 13. He asked if an increase of 50,000 to 60,000 barrels per day could be called "forecast plus 10 percent."

COMMISSIONER BUTCHER said yes.

CO-CHAIR PASKVAN maintained that even producing 18 million more barrels in a year would result in half a billion dollars short in production tax.

COMMISSIONER BUTCHER thought it should be looked at long term because there will be more investment and development and

eventual production. Looking at it short term would show a reduction in revenue.

11:48:06 AM

SENATOR STEDMAN commented that \$5 billion over seven or eight years was insignificant. The consultant said one would have a hard time seeing it on the chart. He suggested that there is a need for \$5 billion every year. He noted no testimony from the industry on the possibility of that happening.

COMMISSIONER BUTCHER agreed that more than \$5 billion would be needed. He stated that \$5 billion was not a cap and new production will bring in much more as a result of the bill. He opined that it would be difficult for a company to come forward with a dollar figure.

SENATOR STEDMAN maintained that DNR and DOR should be able to provide a financial estimate of what it would take to increase investment, rather than rely on the industry to do so. He continued to say that if there is no way of obtaining that information, then the legislature needs to know that, rather than pass legislation and check back in ten years.

He recalled what happened from the impacts of Kuparuk. He said the Senate Finance Committee will have its consultants review the history of Kuparuk and see how effective driving the severance tax to zero was. He said he was not optimistic that it would be very positive.

11:50:16 AM

CO-CHAIR PASKVAN addressed one component of the governor's bill that addresses new fields. The Senate found the testimony compelling from Repsol Armstrong when they predicted \$9 billion from new field production, which he termed the "sweet spot" in oil production. He reiterated a request for information on existing fields.

COMMISSIONER BUTCHER agreed that new fields are a positive step in ten years. He stressed that the state needs to correct the decline curve now.

CO-CHAIR PASKVAN was more optimistic when increased unconventional production, such as shale and heavy oil, and new fields are considered. He did not think the appropriate message to Alaskans was that oil production was shutting down, and he spoke of a promising future for Alaska.

SENATOR WIELECHOWSKI requested more specific information about how passing this bill would result in more development in the near-term future.

COMMISSIONER BUTCHER said there were companies in the field that said they could produce in the short term.

SENATOR WIELECHOWSKI pointed out that SB 3001 is being touted by the administration as solving the short-term problem. He asked the commissioner if he could name a single project that would occur if the bill is passed.

COMMISSIONER BUTCHER countered that the administration is not saying that this legislation solves the short-term problem, but will improve it. Also, the legacy fields will be able to produce more oil due to improved economics. He said he did not have the specific project information.

SENATOR WIELECHOWSKI reiterated his previous question about naming a single project.

COMMISSIONER BUTCHER clarified that when he says that SB 3001 would improve the investment climate and production, both short term and long term, that testimony will be supported by the oil companies.

[11:55:56 AM](#)

SENATOR MCGUIRE requested that the oil companies and DOR need to be clearer with their information and figures. In past discussions, definitive information was provided. She did not disagree with the premise of the bill; however, she said she needed specific information from the companies, such as proof of capital expenditures.

COMMISSIONER BUTCHER agreed. He related that the governor also said that companies have to make a compelling case.

CO-CHAIR PASKVAN offered that committee members were looking at Gaffney Cline for answers in support of the governor's bill.

SENATOR WIELECHOWSKI said he had great discomfort with the administration and legislature setting policy based on what the industry says. The industry will always ask for more tax breaks. The state should hire experts to help them set policy by analyzing data. He agreed to get Gaffney Cline back to do so.

COMMISSIONER BUTCHER countered that he did not base the bill on what the industry said, but on the high tax level in Alaska and declining investment. The state does need to consider oil companies' input.

SENATOR WIELECHOWSKI noted that the state has dealt with oil tax structure for thirty years, beginning with ELF where there was a zero percent production tax rate on all new fields. By 2006 there was a zero percent tax rate on 15 out of 19 fields. Oil hit record prices from 2000 to 2006. Kuparuk was at a 1 percent tax rate and an 8 percent production decline. BP said the role of Alaska is to be a cash cow. Low taxes got Alaska to a point in time where there were losses in production, jobs, and in investment. He discounted the philosophy that if the state lowers taxes, companies will invest more. The state experienced thirty years of that philosophy and it cost hundreds of billions of dollars. He did not wish to return to that failed policy.

COMMISSIONER BUTCHER noted that oil was \$20 per barrel during that time. Oil is now at \$120 per barrel and it is a different world today.

CO-CHAIR PASKVAN recalled a quote from Lord John Brown from BP in 2002 that referred to high oil prices when prices were at \$20. It said that BP was going to strip the excess cash flow out of Alaska. He cautioned saying Alaska is in a different environment today because oil prices are higher.

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SENATOR FRENCH commented that the administration asserted that oil prices were at \$20 per barrel when the Kuparuk tax rate reached 1 percent and that is not factually true. In 2006 when Kuparuk's tax rate approached 1 percent the price per barrel of oil was in the \$50 to \$60 range. The economics were based on \$20 and oil prices increased rapidly yielding a windfall at that field. He reported working at Kuparuk for eight years. He welcomed the proposed study on the Kuparuk field.

SENATOR STEDMAN recalled when the Senate Finance Committee had their consultants run gross revenue numbers at 2010 oil prices on the opening Artic fields. He suggested that when DOR discusses oil price they consider production as well. He said DOR will be surprised when they consider the gross value of the current oil basin. He maintained that there is no way Kuparuk was a marginal field. He voiced concern that there is no time to do an effective analysis. He concluded that Alaska has an extremely valuable oil basin.

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CO-CHAIR PASKVAN said he looked forward to receiving detailed information from DOR at the next meeting. He hoped that the committee and the administration could find common ground based upon modeling data.

[SB 3001 was held in committee.]

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There being no further business to come before the committee, Co-Chair Paskvan adjourned the Senate Resources Standing Committee at 12:09 p.m.