

HOUSE FINANCE COMMITTEE

April 6, 2013

12:35 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 12:35 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative Lindsey Holmes
Representative Scott Kawasaki, Alternate
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative David Guttenberg

ALSO PRESENT

Michael Pawlowski, Advisor, Petroleum Fiscal Systems, Department of Revenue; Joe Balash, Deputy Commissioner, Department of Natural Resources; Barry Pulliam, Managing Director, Econ One Research, Inc.; Janek Mayer, Manager, Upstream PFC Energy; Daniel George, Staff, Representative Bill Stoltze; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority, (AIDEA), Department of Commerce, Community and Economic Development.

PRESENT VIA TELECONFERENCE

John Larsen, Audit Master, Department of Revenue, Anchorage.

SUMMARY

CSSB 18(FIN) am (edf fld)

BUDGET: CAPITAL

CSSB 18(FIN) am (edf fld) was SCHEDULED but not HEARD.

CSSB 21(FIN) am(edf fld)
OIL AND GAS PRODUCTION TAX

CSSB 21(FIN) am(edf fld) was HEARD and HELD in committee for further consideration.

CSSB 23(FIN)
AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

HCS CSSB 23(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Department of Commerce, Community and Economic Development.

#sb21

CS FOR SENATE BILL NO. 21(FIN) am(edf fld)

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; providing a tax credit against the corporation income tax for qualified oil and gas service industry expenditures; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; establishing the Oil and Gas Competitiveness Review Board; and making conforming amendments."

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MICHAEL PAWLOWSKI, ADVISOR, PETROLEUM FISCAL SYSTEMS, DEPARTMENT OF REVENUE, concluded his sectional analysis titled "Department of Revenue Sectional Review HCS CSSB 21(RES) April 5, 2013" (copy on file). The presentation was initiated in an earlier House Finance Committee meeting. He

mentioned page 25, line 4 of the bill, referenced earlier by Deputy Commissioner Balash. He noted that the Department of Revenue (DOR) was using the "small d." The additional test for the third part of the Gross Revenue Exclusion (GRE) must prove to the Department of Natural Resources (DNR) that the new acreage was geologically required for expansion into the existing area and that industry could account for the barrels. He recalled discussion about the counting of the barrels. He saw the provision as an opportunity to advance certain aspects of heavy oil production. He added that geology versus artificial definitions determined whether the oil was considered new.

Co-Chair Austerman referred to slide 10 of the presentation: "For oil and gas produced north of 8 degrees North latitude, the gross value at the point of production is reduced by 20 percent for the oil or gas produced from."

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Co-Chair Austerman interpreted that 20 percent was reduced from the 33 percent tax base. Mr. Pawlowski responded that the production tax calculation utilized an equation beginning with the price of a barrel of oil in the market and subtracting the cost of transporting the oil to market, which determined the gross value at the point of production. The equation's value was then reduced by 20 percent in the provision. The cost of production was subtracted to determine the production tax value.

Representative Gara asked if the 20 percent reduction as defined in the bill equaled a 40 percent reduction in the tax rate. Mr. Pawlowski replied that the price of oil determined the tax rate. He noted that consultants would present charts illustrating the effect between the varying prices of oil.

Representative Gara clarified that the calculation of a 20 percent reduction in the tax rate was inaccurate. Mr. Pawlowski confirmed that the reduction in the gross value led into the equation for determining the tax rate.

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Representative Gara asked Mr. Balash about the oil development planned under Alaska's Clear and Equitable Share (ACES). He asked about the new oil incentive provided

to the projects, which he understood would incentivize future events.

JOE BALASH, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, stated that the CD5 project was not yet sanctioned. He noted that Umiat moved forward with drilling to firm-up the productive capacity of the reservoir, but was not sanctioned either. He stated that the Division of Oil and Gas received plans of development annually. He mentioned the development of the production forecast. Distinguishing between new and old production required a "bright line" to prevent quibbling. The department wished to rely on established processes and tools.

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Representative Gara commented that ConocoPhillips was planning to move ahead with CD5. He was unsure about Ooguruk and Nakiachuk oil fields. He asked if those fields would receive the new oil benefit under the legislation. Mr. Balash replied yes. The legislation was crafted with the awareness that Ooguruk and Nakiachuk would qualify.

Representative Gara disagreed with Mr. Balash about the definition of new oil. He asked why new oil was considered oil produced by 2011.

Mr. Balash responded that the dates indicated had changed from version to version of the bill. He explained the importance of granting the Production Area (PA), drilling, and achieving production. The use of the date December 31, 2011 for a new participating area employed a process of approval for a participating area and further development. He was unaware of approvals of PAs that would have otherwise qualified in the new unit category. He offered to provide additional data and noted that the committee could choose a different date if they wished.

Mr. Pawlowski stated that page 24, line 25 illustrated that the identification of units formed after 2003. He stressed that the benefit was in the future as opposed to one with a retroactive application.

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Representative Gara recalled that "Representative Fairclough's" statement that all oil would be new oil

eventually. The 20 percent GRE for old oil would affect state revenues dramatically as a discount off of an already reduced tax rate. He asked how much new oil would be in the pipeline to produce a similar amount of revenue as the current system.

Mr. Pawlowski replied that the provision had undergone multiple revisions in the process. The House Resources Committee refined the provision drastically because of questions regarding new oil. He stated that DOR saw the vast majority of Alaska's oil coming from areas that would not qualify for GRE. He stated that a projection of percentages was difficult to make. Consultants provided analysis regarding the amount of oil that must be produced over the long term to provide a break-even for the state. The analysis assumed that every barrel was eligible for the provision.

Co-Chair Stoltze clarified that Anna Fairclough was indeed a Senator versus a Representative. Representative Gara concurred. His recollection was that her statement about new oil was made this year as a Senator.

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Representative Gara referenced the term "new geological area" as stated in SB 21 when introduced by the governor. The revised definition was at the discretion of the Commissioner, which concerned him. He stated that companies tended to be interested in expansion. He asked why the definition for GRE was changed.

Mr. Balash responded that a timeline for the application for GRE arose when the amount was established at 30 percent. At 30 percent, the time limit was discussed for a provision with that level of impact on the overall tax calculation.

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Mr. Pawlowski stated that the bill was a process through multiple committees with policy calls developed through the legislative process. When productivity declined on any given oil well, the costs increased, which could lead to inefficient economic results. The risk of creating incentives was prematurely discontinuing a well's production or drilling another well to gain the benefit of

GRE. He stated that qualifications of particular productions and the gained benefit of GRE were addressed in two categories; either a new unit or a new participating area in an old unit. The third category attempted to provide some measure of effect for the GRE to apply to additions in the legacy fields to old PAs. He stated that he could present a set of slides to illustrate the example.

Mr. Pawlowski added that the bill had been through a collaborative process in multiple committees. The policy regarding the extent of new additions in the legacy fields was determined in the legislative process.

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Representative Holmes understood that the prior committee added a "hard floor" of 4 percent to legacy oil, but not to GRE new oil. She asked if the hard floor might be applicable to GRE.

Mr. Pawlowski responded that new participating areas in existing units were not economic. He added that expansions were complicated and new units were clearly new. He advocated for balance of the incentives to arrive at new development. He noted that the timing for new development happened in the future. He encouraged caution when incentivizing new developments.

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Co-Chair Austerman asked for clarification about slide 10: "Leases in a unit established after January 1, 2003." He understood that application would be for two units only. Mr. Balash replied that two currently producing units would apply. Other units formed would eventually lead to production.

Co-Chair Austerman understood that the slide applied to units established after January 1, 2014. Mr. Pawlowski concurred.

Co-Chair Austerman clarified that the indication was for currently producing fields. Mr. Balash agreed that the two fields, Ooguruk and Nakiachuk would be eligible for GRE in 2014 and after.

Co-Chair Austerman clarified that the detail was a policy call. He asked about the impact on the bill if the statement was removed. Mr. Balash wondered if the change would include the application of GRE to all new participating areas formed regardless of where or when the unit itself was formed. If the second category was preserved, then every participating area in new units would qualify, but the two currently producing areas would not.

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Co-Chair Austerman planned to follow-up with the department later.

Mr. Balash revisited the concern regarding the hard floor and taxes expressed by Representative Holmes. Regarding the newer areas on state land, the focus was on leases with a one sixth royalty share. The royalty rates for the newer areas were higher than the legacy royalty rates.

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Mr. Pawlowski discussed slide 11: "Lease Expenditures."

- Lease expenditures are ordinary and necessary cost of upstream operations for exploration, development, and production tax value. Currently lease expenditures are allowed by regulation as required by AS 43.55.165(a)(1)(B)
- The bill restores 2006 language that allows Revenue to consider JIBs that are substantially similar to Revenue's definition of lease

Mr. Pawlowski explained that the slide covered sections 34-36 in the bill found on page 26, line 3 through page 28, line 29. The provision was added in a previous committee and the attempt was to recreate language from previous versions of tax legislation. The language directed DOR to rely on audits performed by joint-interest owners via the Joint Interest Billing (JIB) process. He stated that the technical piece had an effect on how the department viewed lease expenditures. He pointed out the dates listed in the provision.

Co-Chair Stoltze asked which legislator proposed the provision. Mr. Pawlowski replied that the changes were made in the [House] resources committee.

Co-Chair Stoltze requested clarification regarding portions of the bill that differed from the sponsor's intent.

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Mr. Pawlowski stated that section 34 began on page 26. He noted that Legislative Legal made a technical correction removing the date established by the provision. He stated that the provision was created by an amendment offered by Representative Hawker. He continued that page 26; line 23 was section 35, which ended on page 27, line 9.

Representative Gara asked about the section of the bill. Ms. Pollard replied section 34, page 26.

Representative Gara discussed the strict auditing standards in ACES. He opined that the provision minimized the state overview of the costs deducted by the companies. He asked how the provision might weaken the state's ability to audit a company's costs and profits.

JOHN LARSEN, AUDIT MASTER, DEPARTMENT OF REVENUE, ANCHORAGE (via teleconference), replied that the prior committee's amendments implemented the auditing standards that were in place under the Petroleum Production Tax (PPT). He was in the process of evaluating the legislation and whether the use of JIB was necessary. The department had established a set of lease expenditure regulations that would provide transparency about deductible costs.

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Mr. Larsen explained that the regulations were developed based on industry standards. He mentioned the Council of Petroleum Accountants Societies (COPAS), which was an educational organization dedicated to fair and equitable accounting standards. He pointed out that industry participated in COPAS. He was evaluating the bill to determine the sponsor's intent regarding the auditing requirements, and he intended to collaborate with DOL.

Mr. Tangeman added that Mr. Larsen provided the department details regarding the information available to assist with audits. He mentioned the department's access to JIB as a tool for the provision. He noted that the document existed between two companies. He highlighted the state's

responsibility to audit the taxpayer, and did not wish to rely on JIB solely.

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Representative Gara asked if the department wished to retain its existing auditing powers. He wondered if the process might weaken the state's ability to detect costs that should not be deducted.

Mr. Tangeman replied that the department had several different tools, but using one exclusively might limit the ability to use other valuable tools. He stressed that the department required multiple resources to accomplish their auditing job.

Co-Chair Stoltze remarked that he was confused about the audit, but understood that the master auditor was also struggling.

Mr. Tangeman emphasized that the department had access to JIB and employed the tool in its auditing process.

Mr. Pawlowski clarified language on page 26, line 14 and page 27 lines 18 through 19. He highlighted that the costs were not prohibited under (e) of the section, which were costs defined as items that were not lease costs.

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Representative Holmes asked if the provision would reduce the available amount of information for auditors.

Mr. Tangeman responded that the provision might redirect the department to one specific document as opposed to the plethora of information provided in ACES.

Vice-Chair Neuman understood that the department would receive less information with the provision. He wished to see the language that was removed or replaced by the new provision.

Mr. Tangeman responded that the parameters addressed in 2006 provided new territory at ACES's implementation. The department had access to much more information under ACES. He stated that multiple sources of information were relied upon to complete the auditing process.

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Mr. Tangeman stated that a reference to 2006 was unwarranted, because the department had a better understanding of options in 2013.

Mr. Pawlowski stated that 15 AAC 260(d) described the process used to determine lease costs when multiple owners were involved in a field.

Mr. Tangeman added that the department had implemented over 70 regulations in order to proceed in the audit process.

Vice-Chair Neuman commented that DOR received ample funds for the purpose of updating programs needed for the auditing process.

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Mr. Pawlowski discussed slide 12: "Other Key Provisions." He mentioned Section 42 on page 30, line 27, which was an amendment, added in the resources committee by Representative Seaton.

- Allows the Alaska Industrial Development and Export authority to issue bonds for an oil processing facility and to establish an oil and gas infrastructure fund.

Mr. Pawlowski explained that the language provided a mechanism through which the legislature could appropriate funds for financing and construction of oil and gas infrastructure.

Co-Chair Stoltze asked if a pipeline to the peninsula might be hypothetically funded with the mechanism.

Representative Costello requested a summary of the competitiveness review board in the previous version of the bill.

Representative Gara pointed out line 3 and the reference to gas processing facilities and relating pipelines. He understood that a new producer might acquire financing to build their own processing facility.

Mr. Pawlowski concurred and directed members to section 47, page 31, line 28. He explained that the section addressed bond authorization language for AIDEA. The section established the fund in AIDEA and authorized the issuance of the bonds to begin the financing of a facility.

Representative Gara stressed the importance of enabling new producers financing for processing facilities. He heard a rumor about a 10 percent interest rate for such financing. Mr. Pawlowski could not comment on a financing agreement.

Mr. Pawlowski stated that the 10 percent estimate provided an opportunity. He reminded members about past investment in a facility that neglected to produce much oil. The interest rate was entertained as an opportunity for the state to partner and participate in the creation of targeted facilities.

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Mr. Pawlowski pointed out page 28, line 31, which provided the description of the surface infrastructure. The provision discussed the competitiveness review board as an update to AS 43.55.180(b). The update was a direction to DOR to prepare a report analyzing the effect. The reporting provisions were put in place in 2006 when tax laws were revised. The department was required to review the various credits and issues identified in the sections and provide a report back to the legislature on the effectiveness. The due date for the report was before the first day of the 2016 regular session of the legislature. The amendment was made to the existing reporting provision, which expired on page 29, line 1 in 2011.

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Representative Costello requested a description of the previous version's "competitiveness review board."

Mr. Pawlowski replied that the competitiveness review board had the goal of depoliticizing the conversation of oil and gas competitiveness as modeled by Alberta. He explained that a board would be created to review the competitiveness issues in the state with a focus on taxes, infrastructure, regulatory environments and labor and workforce availability. The goal was an ongoing look at what was the most important industry from a state revenue perspective.

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Representative Edgmon requested an interactive model to help understand the moving parts of the bill.

Co-Chair Stoltze noted the request for colorful charts.

Representative Edgmon requested a summary analysis of what the bill might produce as far as fiscal impacts and scenarios of an increase of the revenue curve. He referenced similar charts during ACES deliberations.

Co-Chair Stoltze offered to work on the logistics of the requested presentation. He expressed interest of the parameters expected.

Representative Edgmon asked the administration for a summary analysis of what the bill might produce within a five or ten year period. He stated that increasing the revenue curve was of interest to him. He wished to know the fiscal impacts of the legislation. He stressed that the bill's intentions were to raise the revenue curve. Co-Chair Stoltze noted that the revenue curve would increase with the production curve.

Mr. Pawlowski appreciated the committee's engagement. He stated that the consultant's presentation would provide the requested information. He stressed that the initial plan to equalize production. Co-Chair Stoltze stated that time was limited.

Representative Gara requested that the model include some level of lever allowing data from progressivity at different prices.

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Mr. Pawlowski discussed slide 13: "Summary."

Four principles:
Tax reform that is fair to Alaska
To encourage new production.
Simple and balanced system
Competitive for the long-term

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AT EASE

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RECONVENED

BARRY PULLIAM, MANAGING DIRECTOR, ECON ONE RESEARCH, INC. provided a brief history about himself. He provided a PowerPoint presentation "ACES, SB21/HB72 and HCS CSSB 21(RES) CS SB21 (RES) for House Finance Committee (copy on file)."

Mr. Pulliam explained that he had worked with Alaska since the late 1980s on issues involving royalties, tax and gasline forecasting. He stated that the majority of his work was done on behalf of the administration, but he had also worked as a consultant for Legislative Budget and Audit (LB&A). He worked for other states as well such as California, Texas, Louisiana and Oklahoma and had worked for the Federal Trade Commission in the Department of Interior. He noted history working with oil refiners and gas and oil processors in both the Lower 48 and in Alaska.

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Mr. Pulliam discussed slide 2: "Key Features of ACES, SB21/HB72 and HCS CS SB21 (RES)" He mentioned the operation of the tax system in Alaska under ACES.

Co-Chair Stoltze requested that Mr. Pulliam delineate the section referenced throughout the presentation.

Mr. Pulliam continued with slide 2: "Key Features of ACES, SB 21/HB72 and HCS CSSB 21(RES)." He began by discussing production tax in Alaska. Prior to ACES, tax was based on the gross value of the oil. In 2006, PPT was adopted, which was modified in 2007 to ACES. He noted that ACES moved from a tax on the gross value to a tax on the net value of the oil. He explained that SB 21 also taxed the net value as opposed to the gross value. He noted that ACES had a 25 percent base rate and a progressive tax when the net value of the oil rose above \$30 per barrel and tapered off at \$92 per barrel. The maximum rate would be 25 percent base and 50 percent progressive. He explained that ACES had a tax credit system that provided 20 percent of qualified capital expenditure. A company that spent \$100 million in capital would get \$20 million refunded in taxes. He noted the absence of GRE in ACES. He added that ACES had a minimum

tax of 4 percent when west coast prices were over \$25 along with a small producer credit.

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Mr. Pulliam continued with the second column on slide 2. The second column was titled "SB71/HB72" and depicted the bill as introduced. The base tax rate remained the same at 25 percent. The progressive portion of ACES was removed, leaving the maximum tax rate at 25 percent. The credit system was removed. A GRE was included for new units and PAs, which reduced the value of the oil in the tax calculation.

Co-Chair Stoltze noted that the reference to SB 71 in the column was incorrect, since the bill in committee was SB 21. Mr. Pulliam agreed. He continued that companies that did not have a tax obligation could carry forward losses and increase at 15 percent a year. The process differed from the monetization in ACES. The minimum tax remained the same. The small producer tax credit was extended to 2022.

Mr. Pulliam continued with slide 2 and the third column "HCS CS SB21 (RES)." The 25 percent rate increased to 33 percent. No progressive tax above the 33 percent and credits were reintroduced in the form of a per-barrel credit. He noted two credit systems, one for those that did not qualify for GRE and another for barrels that did qualify for GRE. He noted that GRE remained at 20 percent and was applied to new units and PAs as well as PA expansions. The monetization of net operating losses was reintroduced. The gross minimum tax remained applicable for volumes that did not qualify for GRE (legacy production).

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Mr. Pulliam discussed slide 3: "Tax Calculation Under ACES." He stated that taxes under four different tax scenarios were used for the demonstration. He began with \$100 per barrel leaving a gross value of \$90 per barrel. Production costs were then subtracted to arrive at the net value of \$60 per barrel, which is what the tax would be based on. He pointed out the base tax of 25 percent and the progressive tax of 12 percent, based on the net value. The total tax rate was 37 percent in the example or \$22.20. A \$3 credit was offered, since \$15 was spent in capital, which reduced the tax level to \$19.20.

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Co-Chair Stoltze asked if the chart applied to the production tax. Mr. Pulliam replied that the chart referred to the production tax alone. Other components would be addressed further along in the presentation.

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Mr. Pulliam explained that the last two rows on slide 3 depicted the effective tax rate on the net value and the gross value of the oil. In the example provided, the effective tax rate on net value of the oil was 32 percent.

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Mr. Pulliam discussed slide 4: "Tax Calculation Under ACES: Varying Costs." The slide depicted variations using a constant \$100 per barrel price. The variables in the chart were the operating costs and capital expenditures. He noted that the increase in costs reduced the progressive tax rate and increasing the credit with the additional capital. Ultimately, the 32 percent rate was reduced to 25 percent. When costs were reduced, tax rates increased.

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Mr. Pulliam explained that when the cost of production increased, the net value and tax rate decreased. He added that a new development can also reduce tax on the barrels producing.

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Representative Gara pointed out page 4, lines d and e, where the lower production costs gave a higher tax rate.

Mr. Pulliam replied that he was not suggesting that the idea was bad. He agreed that the feature was part of the design. He suggested that the incentives for efficiency were eliminated by the feature.

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Representative Gara offered that ACES was designed to allow for greater profits with the higher tax rates. Mr. Pulliam

agreed that the profits would increase marginally at a diminishing rate.

Representative Gara questioned the notion that a company might avoid spending efficiently to avoid a higher tax rate. Mr. Pulliam replied that the feature of ACES muted the normal incentive for efficiency. He mentioned the practice of viewing investments as "economic" because of the ability to buy a tax rate down. He mentioned that the incentive to produce a high-cost field could be made to look economic in the system. The funds would come from the reduction in taxes.

Representative Gara understood that ACES attempted to incentivize projects.

Mr. Pulliam stated that he was not complaining. He questioned the effect of the "incentive" on the industry.

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Vice-Chair Neuman asked what components would increase capital expenditure (Capex) and operating expenditure (Opex). Mr. Pulliam responded that the price on the west coast was the same. He explained that the different fields on the North Slope had different cost structures. He added that different cost structures could be found on a given field. He pointed out that operating in another geological area with distance to facilities could increase or decrease costs.

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Vice-Chair Neuman understood that buying down the Capex an Opex increased the net value. Mr. Pulliam concurred. As costs decreased, the progressive rate increased under ACES.

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Representative Costello asked about slide 2. She understood that the comparison of tax regimes showed that both SB 21 and ACES allowed industry the ability to buy down the tax rate.

Mr. Pulliam responded that the price rates illustrated lower tax than the maximum rate. He offered to provide

comparisons between ACES rates and those of HCS CS SB 21(RES), to enable the committee to view the differences.

Representative Costello wished to motivate companies to invest and produce in Alaska by manipulating the tax structure. She asked for further explanation of the purpose of a fixed dollar per barrel credit. She stated that the assumption when creating ACES was that the credits provided for investment would provide the motivation required.

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Mr. Pulliam responded that ACES provided a 25 percent capital credit and spending more money allowed for a reduction in the tax credit. The system with the per-barrel credit was simpler to apply for industry. The marginal tax rate of 33 percent was consistent and the credit was tied to the oil produced in HCS CS SB 21(RES). He opined that the predictability of HCS CS SB 21(RES) was more difficult to model in ACES.

Representative Costello asked why the loss/carry-forward percentage and the base tax rate were the same. Mr. Pulliam explained that parity was provided by the net operating loss credit for someone who was not paying taxes. A higher rate would introduce inefficiencies and a lower rate would skew the economics of the project making it less attractive.

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Representative Wilson pointed to slide 4. She noted that difficult-to-capture oil yielded \$12.50 in tax paid to the state per-barrel of oil. She opined that ACES would yield less money in the long run because of the difficult-to-process oil in the legacy fields.

Mr. Pulliam agreed and noted that the higher the costs to the industry the lower the effective tax rate for the state. When the price of oil is lower, and the operating and capital costs remain high, then the effective tax rate is lower still. The ACES tax rate was both a function of price and costs.

Representative Wilson asked if the state would yield the same revenue under HCS CS SB 21(RES) as in ACES.

Mr. Pulliam responded that the revenue would have been similar under the governor's version of SB 21 when oil was at \$100 per barrel.

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Mr. Pulliam discussed slide 5: "HCS CSSB 21(RES) Per-Barrel Credits Non-GRE Volumes (Stepped Scale) v. GRE Volumes (Fixed)." The chart displayed the two different credits in HCS CS SB 21(RES). The "stepped scale" started at \$8 per barrel and phased out as prices increased and applied to non-GRE eligible volumes. The "fixed \$5" credit applied to the GRE eligible volumes. The effect of either credit would make the 33 percent tax rate slightly progressive.

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Mr. Pulliam discussed slide 6: "Tax Calculation Using Stepped Scale production Credit (Volumes Not Subject to Gross Revenue Exclusion)." The chart provided an example of how the tax would work. The tax was shown for barrels that were not subject to GRE. The column with the box illustrated the \$100 per barrel calculation. The effect of the tax credit lowered the tax rate from 23 percent to 15.3 percent. In the example, the percentage of the gross value was approximately 15 percent. The effective tax rate would top-out at 33 percent by phasing-out the credit.

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Mr. Pulliam discussed slide 7: "Effective Tax Rates under HCS CSSB 21 (RES) (Volumes Not Subject to Gross Revenue Exclusion.)" The graph displayed the tax rates discussed in the previous spreadsheet. The solid line on top showed the effective tax rate on the net value of the oil. The dashed line showed the tax, as a percent of the gross value.

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Mr. Pulliam discussed slide 8: "Tax Calculation Using Fixed \$5 Production Credit (Volumes Subject to Gross revenue Exclusion)." The 20 percent GRE was calculated in the chart. The GRE reduction allowed for fewer taxable dollars. For oil at \$100 per barrel, the effective tax rate on the net value was 14.8 percent and 9.8 percent on the gross value. The credit was fixed at \$5, but the value of the credit dropped as the price of oil increased.

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Mr. Pulliam discussed slide 9: "Effective Tax Rates under HCS CSSB 21 (RES) (Volumes Subject to Gross Revenue Exclusion)." The slide showed the net and gross rates over the price range. He noted that the barrels did not have the 4 percent gross tax floor, so the tax rate would be reduced to zero.

Representative Costello asked about slide 8. She understood that the purpose of the legislation was to address new fields and units. She asked why the chart showed static lease expenditures. Mr. Pulliam responded that the chart allowed a comparison of the different tax rates, using the same cost assumptions.

Representative Gara discussed the calculations that utilized the GRE for new fields. He noted that the 20 percent GRE equated to a 40 percent reduction in tax. Mr. Pulliam replied that without the GRE at \$100 per barrel a 23 percent tax rate was calculated while the GRE yielded approximately 15 percent.

Representative Gara replied that the GRE allowed a 40 percent reduction in tax. Mr. Pulliam concurred, but admitted that he had not performed exact calculations. Representative Gara requested exact calculations.

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Representative Gara pointed to slide 9 and asked if the tax rate took credits and other deductions into account. Mr. Pulliam concurred.

Mr. Pulliam answered Representative Gara's previous question with 35 versus 40 percent tax reduction.

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Representative Gara asked if the state would be protected with the GRE in the event of the discovery of a large field.

Co-Chair Austerman questioned the fairness of the question that would be decided by the administration or the legislature.

Representative Gara thought that the tax rate should be higher for larger, more profitable fields.

Mr. Pulliam stated that he did not have a conceptual problem with a larger field encountering a higher tax rate, but a fair share was not an economic concept. He stated that finding a larger field was unlikely.

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Vice-Chair Neuman opined that a larger field had more value because it would last longer. He stated that the production tax would level out within five years but the corporate tax would increase leading to greater profit for the state. Mr. Pulliam agreed that larger fields yielded additional benefits. He opined that finding a large field would be wonderful for the state, but he did not believe that the state had large fields to offer.

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Representative Costello asked if fields that applied for the GRE required greater lease expenditures because of the structure. She questioned the comparison offered because the lease expenditures for fields with GRE were the same as existing fields. She thought that the purpose of the comparison was to illustrate the difficulty and cost related to new oil exploration and production. She wished to see other lease expenditures listed in the calculation of the effective tax rate.

Mr. Pulliam explained that varying lease expenditures were provided in his presentation. He stated that the cost of production for legacy fields was lower because investments were already made. He noted that legacy fields required ongoing investments, which were sometimes equivalent to development costs in the new fields.

[2:52:59 PM](#)

Representative Costello heard that the natural decline rate of the fields would be 15 to 20 percent. Mr. Pulliam replied 15 to 20 percent decline rate without any further investment. The decline rate was stemmed by continued drilling in the fields.

[2:54:03 PM](#)

Mr. Pulliam discussed slide 10: "State, Federal and Producer Take at Various \$2012 WC ANS Prices for All Producers (FY 2015-FY 2019) ACES and HCS CSSB 21(RES)." The graph depicted a comparison of state, federal, and producer take. The graph showed the amount of money after costs the government or producers received.

Co-Chair Stoltze asked if royalties were counted in "government-take." Mr. Pulliam replied yes. Even private royalty was calculated.

Co-Chair Stoltze asked if the terms listed were "general nomenclature."

Mr. Pulliam concurred and explained that Alaska had public land primarily, so the royalties went to the government. He noted that in slide 10, the green bar depicted the state take. The graph included royalties, production tax, income tax and property tax. He added that ACES, because of progressivity allowed for increases in the state take, but reductions in the federal in producer take when the price of oil increased. The bottom section of the chart showed a graph depicting the same data under HCS CSSB 21(RES).

[2:58:29 PM](#)

Representative Edgmon asked if producer take was the equivalent of producer profit. Mr. Pulliam replied that the terms were similar in concept. He noted that the "take" included the cash flows, while "profit" was largely an accounting measure.

[2:59:05 PM](#)

Mr. Pulliam detailed slide 11: "Average Government-take for All Existing Producers (FY 2015-FY 2019)." The chart provided different iterations of the bill along with ACES and the varying government-take using prices of \$60 per barrel to \$160 per barrel.

[3:01:03 PM](#)

Mr. Pulliam noted slide 12: "Average Government-take for All Existing Producers (FY 2015-FY2019) ACES v. SB21/HB72, CS SB 21 (FIN) and HCS CSSB 21(RES)." The graph depicted

the information shown on slide 11. The red line illustrated government-take for ACES, while the green line illustrated HCS CSSB 21(RES).

[3:02:26 PM](#)

Mr. Pulliam discussed slide 13: "Effective Tax Rates on Gross Value for Legacy Production ACES vs. SB21/HB72, HCS CSSB 21(RES) and Other Large Oil-Producing States with Production Taxes at \$100 Wellhead Value." The chart differed in illustrating the effective tax rate after deductions and credits.

[3:02:54 PM](#)

Mr. Pulliam detailed slide 14: "Effective Tax Rates on Gross Value for Legacy Production ACES vs. SB21/HB72, HCS CSSB 21(RES) and other large oil-producing states with production taxes at \$100 wellhead value." The comparison showed that the taxes in Alaska were higher than other states. The graph used volume and cost from the past year and compared data to other producing states in the country that utilize a gross tax system.

[3:04:17 PM](#)

Vice-Chair Neuman asked about the effective tax rate on the chart. He asked how the chart would look if the federal take was subtracted and the state take was visible.

Mr. Pulliam replied that the tax shown in the chart was simply production tax. He explained that the chart required royalties and income tax to show total state take, which would make the ACES rate even higher. The new calculation would bring HCS CSSB 21(RES) into an even place with the other states on the graph.

[3:06:12 PM](#)

Co-Chair Austerman asked about slide 12 and the variance shown for HCS CSSB 21(RES) in the graph. He asked if the variance was due to new or old oil. Mr. Pulliam replied that the data would vary according to companies' specifics. The graph provided an aggregate across all producers, based on the forecast over the next several years. He added that the data illustrated primarily non-GRE oil.

[3:07:09 PM](#)

Representative Holmes asked about slide 14. She assumed that lower prices would change the data. Mr. Pulliam concurred and stated that at a lower price level, Alaska's tax rates would decline, while the other states would remain static.

[3:08:43 PM](#)

Representative Kawasaki asked about slides 10 and 12. He asked about the graph on slide 10, under ACES at \$100 per barrel, the take was approximately 20 percent while HCS CSSB 21(RES) was greater than 20 percent. Mr. Pulliam asked if Representative Kawasaki was referencing the federal take. Representative Kawasaki concurred. Mr. Pulliam agreed with the assessment. He noted that the federal government was a claimant on profits after the state. The federal government tax rate was 35 percent, with deductions allowed for the cost of operations, royalties, severance as well as income taxes. As the state's severance taxes increased, a lower tax base was available for the federal government.

Representative Kawasaki asked if the federal government received more money when the state taxed less. Mr. Pulliam replied yes. If a company was a dollar more profitable, then 35 percent would go to the federal government.

[3:11:08 PM](#)

Representative Kawasaki pointed to slide 12. He observed that the state would not benefit from low or high prices of oil with HCS CSSB 21(RES). Mr. Pulliam agreed that the range was narrower with HCS CSSB 21(RES) than ACES. He pointed out that upon the inception of ACES, prices of \$60 per barrel were considered high. He stated that the gross floor kicked in at \$25 per barrel.

Representative Gara pointed to slide 10. He observed that the state's share increased as prices increased under ACES. The producer's overall profit increased in tandem. Mr. Pulliam agreed that profits increased under ACES but the margin decreased. He added that profits in other state's tax structures increased at a more dramatic rate due to their lack of progressivity. The industry finds those profits much less attractive.

Representative Gara stated that reducing taxes by \$1 billion, then \$350 million would go to the federal government and the other \$650 million would go to the industry. Mr. Pulliam concurred, but added that the state would benefit from income taxes.

[3:15:35 PM](#)

Representative Gara stated that the state income tax was only 9 percent. Mr. Pulliam replied that he used 6.5 percent for his calculations.

Representative Gara understood the government-take numbers but he believed the profitability numbers would be useful. He understood that the profitability rate was higher than most fields in the Lower 48.

Mr. Pulliam stated that a field where an investment had been made in the past would see higher profitability than an area requiring investments. The new investments provided the greatest challenges.

[3:17:39 PM](#)

Representative Gara understood that cost for higher profits existed. He asked whether the profitability of the state's legacy fields ranked highly in comparison to other locations. Mr. Pulliam disagreed because the other locations would also have old investments with lower takes.

[3:19:40 PM](#)

Mr. Pulliam pointed to slide 15 titled "Summary of Investment Measures for New Participant 50 MMBO Alaska Oil Development ACES and HCS CSSB 21(RES) v. Benchmark Areas." He noted that previous committees performed ample analysis comparing production with capital investment in Alaska and elsewhere. Profitability and investment metrics were also observed for new investments in Alaska relative to other states.

Mr. Pulliam directed attention to the left side of the slide related to West Coast ANS price. The assumption used a new 50 million barrel field that cost approximately \$1 billion to develop. The chart compared ACES and HCS CSSB 21(RES) using two different royalties with regimes in other parts of the world. He used a profitability index and

explained that the greater numbers were better. The internal rate of return represented a calculation of a certain return established by a company.

[3:23:43 PM](#)

Mr. Pulliam continued to address slide 15. Raising the tax rate could increase the Internal Rate of Return (IRR) because of the buy-down effect. He cautioned that IRRs at 100 percent did not necessarily mean they were better than lower IRRs. The final column related to government-take. He noted that the ACES column was in a 70 percent range. The state's take was shown in the net present value (NPV). As present value went up for producers the state take went down. He mentioned items that a producer would consider all aspects of the information provided in the slide along with the geology, stability and other opportunities involved in the investment. He compared column 1 to column 3 and the differing net present value, which was significantly higher under the proposed legislation than under ACES.

Mr. Pulliam further discussed the GRE that was significantly higher in HCS CSSB 21(RES) than under ACES. The government-take would drop with a \$100 barrel of oil price. He discussed non-Alaska projects modeled. He mentioned stability, geopolitical items, and other issues. The HCS CSSB 21(RES) version was generally attractive in comparison with the non-Alaska projects.

[3:27:57 PM](#)

Mr. Pulliam stated that the economics were standalone with the perspective of a new participant. He explained that the data was presented in the form of incremental economics from the standpoint of an incumbent. The chart incorporated the buy-down effect discussed earlier. Under ACES, the NPVs were higher because of the benefit of tax reduction on existing production. He pointed out the cash margins under ACES in column 1, where a \$40 increase in price yields \$8 for the producer. For HCS CSSB 21(RES) in column 3 the same comparison increased from \$23 to \$39, meaning that the producer would keep a larger share of the upside as prices increase.

[3:30:28 PM](#)

Mr. Pulliam turned to slide 17 titled "State Support for Capital Spending Under ACES and HCS CSSB 21(RES) at \$100 West Coast ANS (\$2012)." The graph depicted the differences in systems regarding the state's assistance in upfront development. He pointed out the third bar in the graph and explained that the state would participate by 45 percent through credits and purchase of the Net Operating Loss (NOL). Under the ACES "new participant" category, when the producer spent \$1 billion, the state would issue credits of \$450 million. An incumbent, displayed in the second bar received the benefit of reducing taxes on existing production, which amounted to an additional 60 percent of the cost of new spending covering approximately 80 percent of the capital spending.

Mr. Pulliam pointed to the right side of the bar graph depicting the effect of the proposed legislation. Both the new participant and the incumbent would receive 33 percent in either tax reduction or NOL credits.

[3:33:36 PM](#)

Co-Chair Austerman asked about slides 15 and 16. He interpreted that Alaska would have lower government-take than the other areas listed. He anticipated that his constituents would question the decision.

Mr. Pulliam replied that chart addressed new production opportunities. He opined that government-take was not the most important metric when determining whether a project would get sanctioned. He suggested a comparison with Eagle Ford which showed a 68 percent government-take with a higher NPV. He noted that the investment in Eagle Ford was quick (one year) relative to Alaska. In Alaska, an investment will not yield oil for four or five years. So even with a greater government-take in Eagle Ford, the project would be viewed as more attractive because of the shorter investment time.

Co-Chair Austerman appreciated the information, but stated that a simplified number was often found in government-take.

[3:38:21 PM](#)

Mr. Pulliam appreciated the debate and he understood the tendency to focus on government-take and IRR. He cautioned constituents to review the overall set of information.

Co-Chair Austerman joked that he would recommend that his constituents review the profitability index 12 and the NPV. Mr. Pulliam agreed and added that shorter times between investment and production existed in the Lower 48.

[3:39:54 PM](#)

Representative Wilson asked Mr. Pulliam for his opinion regarding the best course of action. Mr. Pulliam replied that the presentation included a distillation of the numbers and provided a variety of charts that depicting different levels of analysis. He stressed that the decision was not a simple one. He provided an analysis that companies might look at when observing opportunities. He was not able to provide a "magic number."

[3:43:10 PM](#)

Representative Wilson pointed out slides 15 and 16, column 5 to column 11. She wondered where Alaska wanted to be when compared to those columns regarding increased production.

Mr. Pulliam replied that the potential in Alaska was less than Canada. He proposed the North Sea and the Gulf of Mexico offshore as potential sites for comparison. He mentioned that the United Kingdom (UK) had struggled with declining production and recently modified their tax system by instituting the Brownfield Allowance. The Brownfield Allowance was similar to GRE.

[3:46:34 PM](#)

Representative Gara pointed to slide 16 asked about new oil. He noted that schools, roads, and other infrastructure were funded with the revenue from legacy fields. At \$120 per barrel, the profitability index was higher than the other areas listed in the chart. He did not understand the proposal to lower taxes on legacy fields, yielding a higher profitability index than other countries.

Mr. Pulliam replied that the analysis was incremental and included the buy-down on the tax production. He had questioned the approach and incentive for the metrics of

the analysis. He wondered if the producers looked at the benefit in the way it was intended. He pointed out that ACES did not work as the state had intended. Other areas lacked restrictions encountered in ACES.

Representative Gara saw that the UK protected the revenue on legacy fields with the higher tax rate while new fields and expansions had a lower tax rate.

Mr. Pulliam replied that the UK had two basic taxes. Fields developed prior to 1993 had a higher rate than fields developed after 1993. Both sets of fields had the Brownfield Allowance. The allowance was doubled on the older fields.

Representative Gara questioned the comparison to Organization for Economic Co-operation and Development (OECD) countries. He understood that investment opportunities spanned the world. He wondered why not make comparisons to the high-tax areas worldwide.

Mr. Pulliam responded that Alaska did look more attractive than other countries. He mentioned that the areas in slides 15 and 16 were chosen because an increase in investment was observed with increased prices. He chose the areas because they were most appropriate and because they were attracting investment.

[3:54:25 PM](#)

Representative Thompson stated that a company may invest \$1 billion and expect a 15 percent return on their investment. He asked how a company would calculate options with the 4 to 5 year wait in Alaska. Mr. Pulliam replied that a faster production time yielded a higher return and would thus be more attractive. He stated that government-take, as depicted in the presentation, was averaged across the lifecycle of the development.

[3:56:36 PM](#)

Mr. Pulliam discussed slide 18: "Annual State Revenues and Producer Cash Flows at \$100 West Coast ANS (\$2012) 50 MMBO Alaska Oil Development New Participant in Alaska." He explained that the graph depicted a hypothetical cash flow situation under ACES and HCS CSSB 21(RES). The top panel

depicted the producer while the bottom panel depicted the state.

[4:00:40 PM](#)

Mr. Pulliam discussed slide 19: "Annual State Revenues and Producer Cash Flows at \$100 West Coast ANS (\$2012) 50 MMBO Alaska Oil Development Incumbent Participant in Alaska." The buy-down effect was provided initially by the state.

Mr. Pulliam discussed slide 20: "Annual Producer Cash Flows at \$100 West Coast ANS (2012) 50 MMBO Alaska Oil Development." The chart compared the incumbent with the new participant. The net present value of the new participant was lower than the net present value under ACES. The proposed legislation showed similar results for the incumbent and the new participant. The parity would serve as an attractive feature for industry.

[4:02:18 PM](#)

Mr. Pulliam discussed slide 21: "Additional Volumes Need to Offset Projected Fiscal Impact of HCS CSSB 21(RES) (FY2014 - FY2043)." The last section viewed the tax reduction, which would cost the state in revenue. The slide addressed the additional production required to restore the lost tax revenue.

Co-Chair Stoltze asked for elaboration about fields with higher royalty payments.

Mr. Pulliam responded with two different royalty rates in slide 21. He assumed that the new development would qualify for GRE. He determined that with a 16 royalty development, the combined effect of production and more oil would lead to approximately 29 barrels of oil. The amount needed to develop to cover the projected losses was approximately 500 million per year. Using the per-barrel amount from a new development would require approximately 500 million barrels over the next 30 years to bridge the revenue gap. He understood that 500 million barrels equaled approximately 18 million barrels from new development per year. The equation amounted to a daily production of between 45 and 50 thousand barrels per day.

[4:06:47 PM](#)

Mr. Pulliam discussed slide 22: "Testing Reasonableness of Achieving Breakeven Development Capital Required (\$2012)." He queried whether the production was reasonable to expect. Slide 22 provided a "reasonableness test" to ascertain the viability of the plan. The additional annual capital required was approximately \$315 million. He noted that 2012 was \$2.4 billion, so the spending increase would equal 13 percent.

[4:07:46 PM](#)

Mr. Pulliam discussed slide 23: "Estimated Capital Spending for Exploration and Development Alaska North Slope vs. U.S. and Worldwide Spending* 2003 - 2012." The slide compared Alaskan investment to that in other places in the world for exploration and development spending. He pointed out that investment outside of Alaska jumped sharply in the recent years. The spending levels were indexed to a starting point of one. The graph demonstrated that spending leveled-off while spending in the rest of the world grew.

[4:09:19 PM](#)

Mr. Pulliam discussed slide 24: "Testing Reasonableness of Achieving Breakeven Development Capital Spending Increase at Worldwide Pace." The chart attempted to answer the question regarding Alaska spending bridging the gap. In 2003, Alaska had \$1 billion in spending and since that time, worldwide spending increased by 400 percent. He hypothesized that an additional \$1.6 billion would allow development of 88 billion barrels of oil.

[4:10:19 PM](#)

Mr. Pulliam discussed slide 25: "Testing Reasonableness of Achieving Breakeven Gerking, et al. Study of Sensitivity of Drilling to Tax Rates." He mentioned a study performed by economists in the early 2000s viewing the relationship between severance tax rates, production and drilling. The analysis was applied to Wyoming. A simulated doubling of the tax showed that drilling would decline by 23 percent. Production would not decline as a result of the change in taxes. He noted that new wells in Wyoming bring on approximately 25 barrels per day so the addition of the new wells did not impact new production. The increase in taxes on production that was already occurring from existing

investments was not as great. The study showed that the impact on new wells was large.

Mr. Pulliam presented a similar study here in Alaska with the 10 percent change in the tax rate, which would amount to a 40 percent change in drilling starts or 24 new wells. A typical well would produce approximately 67 million barrels. He admitted that the study was old and that the drilling relationship between Wyoming and Alaska was different.

[4:14:32 PM](#)

Mr. Pulliam continued with slide 26: "Testing Reasonableness of Achieving Breakeven Development Relationship between Drilling Increases and Expected Barrels Developed Annually." He opined that the changes proposed in HCS CSSB 21(RES) would send the right message to investors about the willingness to be competitive while offering the expected returns.

Mr. Pulliam discussed slide 27: "HCS CSSB 21(RES) Per-Barrel Credits for Non-GRE Volumes Stepped Scale v. Smoothed Scale." He explained that the graph depicted the stepped scale nature of the credit offered in HCS CSSB 21(RES). He suggested a straight linear function as an alternative that would eliminate the abrupt changes and might be more appealing.

Co-Chair Austerman asked whether the stair step gave a definitive tax rate. Mr. Pulliam answered that the stair step would require oil price analysis. He noted that the tax credit would change at every \$10 increment. If a straight linear function were employed, the credit would be more fluid, while remaining simple to model and plan for. He thought that the elimination of abrupt changes would provide a more stable system with less opportunity for disputes in an auditing process.

[4:19:28 PM](#)

Representative Thompson understood the break-even point and asked if the projected 6 percent decline in legacy production was taken into account.

Mr. Pulliam relayed that the forecast projected a decline. He supposed that the proposed rate would stem the decline.

Representative Gara asked if the decline rate was lower than expected, would the number of barrels required to make up for the loss be larger. He wondered if the revenue difference between HCS CSSB 21(RES) and ACES would be larger as a result of a lower decline rate. Mr. Pulliam replied in the affirmative.

Representative Gara asked about slide 22 and the assumption of the need to invest an additional \$315 million per year and the \$18 lifting cost. He wondered if the lifting cost was reasonable for the remaining oil on the North Slope. Mr. Pulliam answered that the lifting cost might be greater, but he found that the up-front development cost was consistent with other Alaska development costs. Representative Gara asked if Mr. Pulliam was referencing new fields. Mr. Pulliam concurred.

[4:22:27 PM](#)

Representative Gara pointed to slide 23 and asked about years 2007-2012 on Alaska capital investment, which displayed expenditures that had increased very little. He noted that DOR cited that capital expenditures had increased by over 100 percent or \$1.5 billion to \$3.8 billion. He expressed curiosity about the data presented. Mr. Pulliam replied that he used data provided by DOR.

Representative Gara cited slide 24 and Alaska capital spending shown at \$2.4 billion, while the committee received the figure \$3.8 billion from DOR. Mr. Pulliam disagreed.

[4:24:43 PM](#)

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[6:10:44 PM](#)

RECONVENED

JANEK MAYER, MANAGER, UPSTREAM, PFC ENERGY, introduced himself and provided information about the firm. He initiated a PowerPoint presentation titled "House Finance Committee Alaska Fiscal System Discussion Slides April 6, 2013" (copy on file). He noted that his company advised about oil and gas issues with a focus on macroeconomics, oil market forecasting, global gas supply and demand, competitive strategies and other key above ground issues.

The terms set by a government's fiscal regimes were his area of expertise.

Co-Chair Stoltze asked about Mr. Mayer's length of engagement with the Alaska legislature and its oil and gas issues. Mr. Mayer replied that he spent the last several years addressing oil and gas regime issues, and began working in Alaska last year for the entire session.

Co-Chair Stoltze pointed out that Mr. Mayer was under contract with LB&A for service with the legislature. He noted that PFC had accompanied the legislature through various iterations of the issue. Mr. Mayer agreed.

[6:15:18 PM](#)

Mr. Mayer moved to slide 2 titled "ACES: Key Issues."

- High Government Take and high degree of progressivity means uncompetitive for investment at current prices
- High marginal rates mean little incentive for producer efficiency
- "Buydown" effect means incremental and standalone economics very different - with very different impacts for incumbent vs new producer
- Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
- Large scale gas sales would reduce taxes on oil
- Complex system, with often counter-intuitive effects

Mr. Mayer discussed various calculations under ACES and HCS CSSB 21(RES). He addressed fundamental problems under the ACES tax system. He communicated the issues in ACES related to the levels and structure of progressivity. He discussed a question of magnitude relating to progressivity noting that Alaska's government take was relatively high. He stressed that Alaska failed to be competitive for investment. He stated that the basic structure of progressivity as defined by ACES created a series of other problems. He furthered that there were counterintuitive effects; the economics for a project for a new development could be very different. He expounded that credits under the ACES system created a significant downside exposure to state in low price environments for both high cost projects and projects not on state lands. He pointed to large scale

gas sales that would reduce taxes on oil and a complex system, with often counter-intuitive effects.

6:20:16 PM

Mr. Mayer moved to slide 3 titled "Regime Competitiveness - \$80/bbl." The graph depicted the average government take of global fiscal regimes at \$80/bbl. The view modeled by PFC displayed a very broad range of fiscal regimes around the world. The yellow bars represented OECD countries. He explained that the countries with the lowest government-take had the least resource representation and offered the lower level to incentivize investment. The top of the chart displayed countries with large resource opportunities. For an existing producer, at \$80/bbl with ACES the government-take was approximately 65 percent. He added that ACES government-take for a new producer was higher, from 69 and 72 percent. An incumbent producer could buy down their tax rate through spending or investment, whereas a new developer received the benefit of a 25 percent net operating loss credit versus the higher buy-down effect. Both the incumbent and new producer were eligible for the 20 percent capital credit. He added that new units on the North Slope occurred with a 16.7 percent royalty.

6:24:40 PM

Mr. Mayer turned to slide 4 titled "Regime Competitiveness - \$100/bbl." The graph depicted the average government-take of global fiscal regimes at \$100/bbl. At the price, Alaska had the second highest levels of government-take in the OECD, with ACES for new development at a 16.7 percent royalty directly under Norway. He skipped to slide 6: "Government Take Competitiveness - Most Relevant Competitor Regimes." The chart offered a different method of comparison.

Representative Holmes stated that the version in the packet was different from the one on the screen. Co-Chair Stoltze requested further definition as well.

Mr. Mayer further explained the different prices related to government-take as displayed in the chart. He explained that the steep slope displayed by ACES resulted from the progressivity feature. By comparison, other regimes tended to be regressive, because the royalty rates were fixed. All fixed royalty regimes were inherently regressive. He added

that the UK and Australia had profit based regimes, with systems similar to ACES minus the progressivity.

Representative Gara asked about tax rates for new and existing oil producers. He understood that the UK had two separate tax rates. He asked if the depiction of UK on slide 4 encompassed a blending of the two different tax rates. Mr. Mayer replied that the UK, as displayed on slide 4, did not account for the Brownfield Allowance. The data displayed in the chart resulted from existing projects.

[6:31:27 PM](#)

Representative Gara pointed to slide 4 where the government-take for existing producers at \$100/bbl. He asked about investment in non-OECD countries like Russia and Venezuela and wondered why Mr. Mayer focused primarily on OECD countries. Mr. Mayer replied that the three major oil companies with investments on the North Slope also had investments in other non-OECD countries. He explained that extraordinary resource companies sometimes attracted the investment that justified the high level of government-take. He added that the United States was declining in oil production five years ago because investment was directed to places like the deep water of Angola. A reversal of the trend had occurred recently and investment in the Lower 48 had risen. He noted that the Lower 48 was now the greatest competitor with Alaska.

[6:34:19 PM](#)

Representative Gara asked for confirmation that while shale gas production had increased dramatically in the Lower 48, conventional oil production had not increased. Mr. Mayer responded that he would check the overall numbers, but knew of many conventional plays that had seen significant increases in the Lower 48.

Representative Wilson asked if the committee would address SB 23. Co-Chair Stoltze replied in the affirmative.

[6:36:41 PM](#)

Representative Kawasaki asked if there were other metrics that could be used to show comparisons aside from government-take. With the data provided, he asked why areas such as Ireland and New Zealand were not experiencing major

production, since the government-take was so low. Mr. Mayer replied that there were multiple metrics to consider apart from government-take. He elaborated that the work presented by Mr. Pulliam allowed information from a wider range of metrics. He responded that a balance was sought between the quality of a country's resource base and the level of government-take sustained. He stated that Ireland had few resources and the lower level of government take might encourage exploration.

Representative Kawasaki discussed Mr. Pulliam's statement that policy makers should view metrics other than government take when making decisions about tax regimes. He requested a comparison of resource bases or profitability in the various global regimes.

Mr. Mayer recommended viewing the information presented by Mr. Pulliam. He agreed that the balance between the broad metrics was important. He explained that he presented the chart because the information was easily grasped and understood.

[6:40:39 PM](#)

Mr. Mayer turned to slide 7 titled "ACES: Key Issues."

- High Government Take and high degree of progressivity means uncompetitive for investment at current prices
- High marginal rates mean little incentive for producer efficiency
- "Buydown" effect means incremental and standalone economics very different - with very different impacts for incumbent vs new producer
- Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
- Large scale gas sales would reduce taxes on oil
- Complex system, with often counter-intuitive effects.

Mr. Mayer continued with slide 8 titled "ACES: Average and Marginal Production Tax Rates." The graph displayed the comparison between average and marginal tax rates illustrating the sharp increase in the marginal rate with an increase in the price of oil. With the higher marginal tax rate, there was very little market price signal from

movements in the oil price. Producers in Alaska see very little benefit from increases in oil prices.

[6:43:58 PM](#)

Mr. Mayer continued to address slide 8. There was little incentive to create spending efficiency. Accounting for costs related to tax was the "heart" of a profit based taxation system. Taxing the gross value was far less efficient, but taxing profits required adjustments for costs.

[6:47:13 PM](#)

Mr. Mayer continued to discuss slide 8. He stated that ACES incentivized spending, but not cost control, which then disincentivized new spending needed to increase production. He suggested a hypothetical tax rate with a steep progressive slope. He argued that new investment would be nonexistent without the tax incentive in the hypothetical situation. He added that in the situation, the marginal benefit of every dollar spent became enormous. He compared the difference between spending on short term interests in a mature basin versus making an investment decision.

[6:51:02 PM](#)

Mr. Mayer looked at slide 9 briefly, which had been introduced initially by Mr. Pulliam. The slide illustrated a calculation of ACES tax and additional capital spending.

Mr. Mayer discussed slide 10: "ACES - Key Issues."

- High Government Take and high degree of progressivity means uncompetitive for investment at current prices
- High marginal rates mean little incentive for producer efficiency
- "Buydown" effect means incremental and standalone economics very different - with very different impacts for incumbent vs new producer
- Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
- Large scale gas sales would reduce taxes on oil
- Complex system, with often counter-intuitive effects

Mr. Mayer discussed the graphs on slide 11: "ACES - \$18/bbl Capex New Development, Standalone." He pointed out the graph in the upper-left quadrant of the graph, which depicted a range of government-take at different oil prices. The top level of the bars indicated the total level of government-take. The colored bars indicated the different components of the regime that constitute government-take. The data showed that the royalty in ACES was indeed regressive. He added the highly progressive nature of the Profit Based Production Tax (PPT), which was the key component of ACES.

Mr. Mayer continued with slide 11 and the graph in the upper-right quadrant showing a split of net present value of production. The graph illustrated new development on a standalone basis. The data showed a shallow line for the company due to the impact of progressivity, compared to a steep line for the state.

[6:56:02 PM](#)

Mr. Mayer continued with slide 11 and the graph located in the lower-left quadrant. The graph depicted a cash flow analysis at \$100/bbl. The green bars illustrated revenue from a project. The other colored bars depicted the costs associated with production. The after-tax cash flow line often determined the economic attractiveness of the project to the producer along with all of the different economic metrics. Finally, he pointed out a quick economic summary detailed in the lower-left quadrant of the slide for the hypothetical \$18/bbl, 12.5 percent royalty, new development, standalone project. He opined that ACES was adopted under the argument of incremental economics. The fundamental information was the internal rate of return of the project.

[7:00:33 PM](#)

Mr. Mayer compared slide 12: "ACES - \$18/bbl Capex New Development, Incremental to Incumbent" with slide 1. When a project was viewed in a standalone basis, it was analyzed alone. With the incremental basis view, a project was analyzed with both the base production portfolio and the new project in tandem. The base cash flows were subtracted from the combined cash flows in the incremental basis to ascertain the changes stemming from new investment. He

corrected an error in the slide noting that the word standalone did not belong in the title.

[7:02:54 PM](#)

Mr. Mayer discussed slide 12 and noted effects of the marginal tax rate. He stated that the peak in the marginal tax rate had an effect on the overall value to the project. The company lost money with the increase in oil prices, while the state benefitted. He mentioned the high internal rates of return, which warranted further investigation of marginal versus standalone economics.

[7:07:47 PM](#)

Representative Gara pointed to decreasing oil production in major oil producing states in the Lower 48. Mr. Mayer would answer the question later.

Representative Gara looked at slide 8 and asked if companies in Alaska paid approximately 37 percent in production tax. He asked if the rate provided was prior to deductions and credits. Mr. Mayer replied that the rate provided was after deductions but before credits. He thought that including credits in the calculations would show even higher government support for spending.

Representative Gara asked about slide 8 and the "upper line." He asked if the data included the lower rate paid for credits. Mr. Mayer concurred and added that credits would reduce the tax rate.

Representative Costello clarified that the return on the capital employed was the decision that drove investment. Mr. Mayer replied that the return on the capital was the way that large oil and gas companies benchmarked their performance to demonstrate it to the market. He added that small oil and gas companies were focused on growth, while large oil and gas companies focused on efficiency.

[7:12:11 PM](#)

Representative Costello pointed to the buydown effect on the overall system. Since HCS CSSB 21(RES) eliminated the ability to buydown, she asked about the significance of the action versus the progressivity factor. Mr. Mayer replied that the progressivity and the ability to buydown were

inextricably linked. He noted that progressivity created the buydown effect, under the ACES structure. The buydown would not exist with the same progressivity based on the price of oil rather than production value. The level of a company's spending would determine the tax base rather than tax rate. He opined that the buydown aspect in ACES did not help sanction a difficult project. He opined that the project must have attractive economics on a standalone basis.

[7:14:20 PM](#)

Representative Wilson asked what the committee should do and the reason why.

Mr. Mayer replied that a more neutral system that did not artificially create results, but instead created a simple and predictable tax regime that was competitive overall. He believed that HCS CSSB 21(RES) went a long way in achieving the goal. He noted that the different versions of the bill had a more neutral tax rate. He pointed out that results were more difficult to evaluate under the ACES regime because of the progressivity. When he modeled results under HCS CSSB 21(RES), he was able to relate them to different scenarios that made sense.

[7:17:07 PM](#)

Representative Munoz noted that the last presentation yielded data that Alaska was less competitive with new participation categories. She requested comment and asked what aspect encouraged investment. Mr. Mayer responded that the structure of HCS CSSB 21(RES) presented a fundamental difference when a project was viewed on a standalone basis versus when viewed in an incremental basis in a portfolio of an existing producer. Using HCS CSSB 21(RES), the basic economics were identical.

[7:19:36 PM](#)

Representative Gara reported to the committee that Conoco Phillips stated publically the good rates of return in Alaska for the incumbent fields. He wondered if ACES with altered levels of progressivity might be more attractive. He asked about following Mr. Mayer's advice for a lower rate on new fields and proposed that government-takes would be somewhere near the middle.

Mr. Mayer responded that the government-take was not the most important method of analyzing a new producer. The artificial rates of manufacturing high internal rates of return through buydown created undesirable side effects. He advocated for a simpler, cleaner structure.

[7:22:00 PM](#)

Mr. Mayer moved to slide 13: "ACES - Key Issues."

- High Government Take and high degree of progressivity means uncompetitive for investment at current prices
- High marginal rates mean little incentive for producer efficiency
- "Buydown" effect means incremental and standalone economics very different - with very different impacts for incumbent vs new producer
- Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
- Large scale gas sales would reduce taxes on oil
- Complex system, with often counter-intuitive effects

[7:23:08 PM](#)

Mr. Mayer discussed slide 14: "ACES - \$25/bb Capex New Development, Incremental to Incumbent." The model utilized the base and new production while subtracting the economics of the base to arrive at the incremental result. He pointed out the overall split of net present value of production. "At \$75/bbl oil, the Net Present Value (NPV) of state spending on credits is higher than the NPV of all state government take for the project. However, the project still generated positive NPV for the company - a major concern for liability to the state." The price value presented total positive value to the company. The effect of the buydown was lower to the state than to the company, so the company was able to continue to generate NPV at the price.

Representative Holmes asked about the subtitles in the presentation. Mr. Mayer repeated his apology about the use of "standalone" in the subtitle.

Mr. Mayer continued that the data representing total government-take included the federal corporate income tax.

[7:26:24 PM](#)

Mr. Mayer discussed slide 15: "ACES - \$35/bbl Capex New Development, Incremental to Incumbent." Progressivity as implemented in ACES created a liability to the state. The state subsidized the prices. He stressed that government-take was only a small piece of relevant information, while other distortions presented in ACES were also important.

[7:27:38 PM](#)

Mr. Mayer discussed slide 16: "ACES: Key Issues."

- High Government Take and high degree of progressivity means uncompetitive for investment at current prices
- High marginal rates mean little incentive for producer efficiency
- "Buydown" effect means incremental and standalone economics very different - with very different impacts for incumbent vs new producer
- Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
- Large scale gas sales would reduce taxes on oil
- Complex system, with often counter-intuitive effects

Co-Chair Stoltze recalled hearing testimony from other committees regarding areas paying 16.7 percent royalty. He wondered if the higher royalty rate made the outlying areas less competitive. Mr. Mayer replied that a change in the royalty would upset companies that did not bid on projects because of the high royalty rate. Co-Chair Stoltze clarified that the process would not be fair.

Mr. Mayer replied yes. He added that the high royalty did raise government-take. He suggested that leveling the playing field could be addressed in the new tax system. He mentioned that the small producer credit was reintroduced to HCS CSSB 21(RES) by the resources committee. He argued that the establishment of the small producer credit in HCS CSSB 21(RES) was less than ideal and provided incentive for companies to cease growth beyond the threshold provided.

[7:31:42 PM](#)

Mr. Mayer questioned the efficiency of the small producer credit. Since small producers had the higher royalties, the GRE might be manipulated to compensate.

[7:32:45 PM](#)

Representative Wilson asked if the credits were important. Mr. Mayer replied that eliminating all the credits was the governor's initial proposal with SB 21. The flat production tax rate on top of the royalty created a fundamentally regressive system. He commented that the flat \$5 per barrel credit provided an incentive for production and balanced out the regressive nature of the royalty.

[7:34:42 PM](#)

Mr. Mayer discussed slide 17: "Impact of Large-Scale Gas Sales on Tax Rates."

- Under ACES, production tax value is assessed on a combined BTU-equivalent basis for both oil and gas production
 - So long as no major gas export project is under development, this has no impact
 - In the event of the development of a major gas export project, however, when gas prices are significantly lower than oil prices, this could lead to significant reductions in Government Take

[7:35:45 PM](#)

Mr. Mayer discussed slide 18: "ACES: Key Issues."

- High Government Take and high degree of progressivity means uncompetitive for investment at current prices
- High marginal rates mean little incentive for producer efficiency
- "Buydown" effect means incremental and standalone economics very different-with very different impacts for incumbent vs new producer
- Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
- Large scale gas sales would reduce taxes on oil
- Complex system, with often counter-intuitive effects

[7:36:58 PM](#)

Mr. Mayer discussed slide 19: "ACES and SB 21: Issues and Aims."

- ACES - Issues
 - High Government Take and high degree of progressivity means uncompetitive for investment at current prices
 - Credits create significant downside exposure to state in low price environments, for high cost projects, and projects not on state lands
 - "Buydown" effect means incremental and standalone economics very different - with very different impacts for incumbent vs new producer
 - High marginal rates mean little incentive for producer efficiency
 - Complex system, with often counter-intuitive effects
- SB21 AIMS
 - Relatively neutral at a competitive level of Government Take, while further improving competitiveness for new projects
 - Limit downside risk to state from credits
 - Balance system with even impacts for incumbent vs new producer
 - More neutral regime creates low, constant marginal rates - strong incentive for producer efficiency
 - Simplify the fiscal system

[7:39:41 PM](#)

Mr. Mayer briefly discussed slide 20: "ACES and SB 21: Key Changes." He noted that the slide presented a high level analysis of the key changes.

[7:40:11 PM](#)

Mr. Mayer discussed slide 21: "ACES and SB 21: Government-take Comparison Base Production." He stated that the graph depicted three different iterations of SB 21 compared to ACES. He noted that SB 21 removed the capital credits leaving a regressive structure. The aim of CSSB 21 was to create a neutral system, by eliminating the regressive nature and raising the base rate to 35 percent and adding the \$5 per barrel credit. He stated that CSSB 21 created

sufficient progressivity to counteract the regressive nature of the royalty.

[7:43:18 PM](#)

Mr. Mayer noted that HCS CSSB 21(RES) used the basic structure and increased the credits to further reduce government take at the low end without creating an impact at \$100/bbl level.

[7:44:10 PM](#)

Mr. Mayer discussed slide 22: "ACES and SB 21: Government-take Comparison \$18/bbl New Development, Standalone." He pointed out the difference between the finance and the House resources version of SB 21. The reduction in government-take was due to the incorporation of the small producer tax credit. The credit was a fixed amount and had a greater impact at low prices than high prices and substantially reduced the overall level of government take.

[7:46:02 PM](#)

Mr. Mayer discussed slide 24: " ACES and SB 21: Government-take Comparison \$18/bbl New Development, Standalone." The graph depicted marginal and average rates for HCS CSSB 21(RES). The basic structure of HCS CSSB 21(RES) was a flat rate of either 33 or 35 percent across all prices. The \$5 per barrel credit applied brought the average rate down as prices decreased. He opined that the flat marginal rate provided incentives for new producers and incumbents.

[7:47:41 PM](#)

Mr. Mayer discussed slide 25: "Linear Function for Credit may be preferable to Step Function." He pointed out that an impact of the step function was the creation of sudden spikes every \$10 due to credits. He noted that Mr. Pulliam suggested a linear credit as an alternative.

[7:48:24 PM](#)

Mr. Mayer discussed slide 26: "Credits - NOL, Exploration and Small Producer."

- Impact of ACES on project economics is very different for an incumbent vs a new producer

- o At current prices, incumbent experiences impact of "buydown" effect, with new spending reducing tax rate from levels above 25 percent NOL credit (plus also impact of capital credit)
 - o New producer receives only impact of 25 percent NOL credit (plus capital credit)
- Fully monetizable NOL credit for small producers evens this playing field
 - o All producers receive effective 33 percent government support for spending, whether new or incumbent
 - Flat, low marginal rate maintains strong incentive for efficiencies and cost control
 - No undue exposure to the state from higher cost projects at low prices
- Aim is to even the playing field and limit the level of support for exploration as well as other forms of spending
 - o Allowing the Exploration credit to sunset, but having the fully monetizable 33 percent NOL credit means 33 percent government support for exploration spending
 - o again, even impact between incumbent vs new producer
- When the impacts of the system are even between incumbent vs new producer, strong argument that extending "small producer" credit is less warranted
- Overall impact is to significantly simplify the system

[7:49:31 PM](#)

Mr. Mayer discussed slide 27: "Government-take Competitiveness." He explained that the arrows on the left depicted the new development incorporating the impact of the small producer tax credit. Without the impact of the small producer tax credit, a couple of percentage points of government take could be added.

[7:50:56 PM](#)

Co-Chair Stoltze asked if the information presented by PFC Energy could be shared in legislator's newsletters. Mr. Mayer replied yes.

Representative Wilson asked about series one, two, three and four. Mr. Mayer replied that the chart was not properly labeled. He extended his apologies.

[7:52:00 PM](#)

Representative Edgmon asked if more investment had occurred in the North Slope under ACES, would the presentation be different. Mr. Mayer replied that structural problems involved in ACES along with the overall level of government-take were the premises of his presentation. His presentation would remain consistent about the structural issues in ACES. He added that the last five years, under ACES provided compelling evidence for Alaska.

Representative Edgmon mentioned the great emphasis placed on government-take in the last two presentations with the caveat that oil companies used other metrics when making business decisions. He wondered if the committee would receive further information for use in their decision making process.

Mr. Mayer responded that a focus on government-take was important, but did not provide the whole picture. He attempted to present a range of metrics while comparing regimes.

[7:56:05 PM](#)

Representative Edgmon asked if the committee could expect to gain additional information to effectively benchmark the reasons behind the low investment. Co-Chair Stoltze discussed a Saturday Night Live skit.

Representative Gara asked about slide 21. He recalled that Pedro Van Meurs advocated for a 72 percent government-take. Mr. Mayer stated that the decision rested in the hands of the policy makers. He agreed that 72 percent government-take was reasonable for maintenance of legacy production along its current decline. If the legislature wished for substantial new investment in the legacy fields, then an incentive must be provided.

[8:01:28 PM](#)

Representative Gara asked if government-take could be increased to 65 percent under a new tax system, while

offering similar incentives to industry. Mr. Mayer replied that the price of oil was the issue. When competing for new investment, a higher government-take was not competitive.

Representative Gara asked if the state could collect a better share when oil was above \$110 per barrel. Mr. Mayer replied that policy makers could determine the answer. He noted that HCS CSSB 21(RES) reviewed the neutral Senate version and modified it to be more progressive.

Co-Chair Stoltze clarified that Mr. Mayer was obligated to provide information, but not to make policy judgments.

[8:03:12 PM](#)

Vice-Chair Neuman pointed out the decline curve faced by Alaska. He noted that different charts in the presentation showed the decline curve and the loss of funds of \$40 million per day or \$1.5 billion per year. He asked if other countries tended to lower their government-take during times of declining production.

Mr. Mayer provided the example of Alberta, which made similar assumptions about a mature basin without taking into account the high oil prices. He noted that the increase of lease sales for investment occurred in Alberta. He added that the UK government raised the government-take and introduced the ground fuel credit for new development, which reduced government-take on incremental production from legacy fields.

[8:05:53 PM](#)

Co-Chair Stoltze encouraged committee members to schedule time with Mr. Mayer. He valued assistance from veterans on the issue.

CSSB 21(FIN) am(efd fld) was HEARD and HELD in committee for further consideration.

[8:08:30 PM](#)

AT EASE

[8:12:10 PM](#)

RECONVENED

#sb23

CS FOR SENATE BILL NO. 23(FIN)

"An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial Development and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

Co-Chair Stoltze explained that HB 74 had been merged with SB 23.

[8:13:03 PM](#)

Representative Costello MOVED to ADOPT the proposed committee substitute for HCSCSSB 23 (FIN), Work Draft 28-GS1738\R (Bailey, 4/4/13).

Co-Chair Stoltze OBJECTED for discussion.

DANIEL GEORGE, STAFF, REPRESENTATIVE BILL STOLTZE, pointed to changes in the bill. He stated that the CS reintroduced provisions related to Alaska Industrial Development and Export Authority, (AIDEA) direct financing that were removed by the House Labor and Commerce Committee. A change on page 10, line 25 stated, "a natural gas distribution system and affiliated infrastructure in interior Alaska," where the "interior Alaska" portion was added.

Co-Chair Stoltze WITHDREW his OBJECTION.

There being NO OBJECTION, it was so ordered.

Representative Thompson MOVED a technical amendment on page 10, line 25 to capitalize the word "Interior." He commented that the word "interior" in the bill referred to a place and therefore required capitalization.

Representative Kawasaki objected. He asked for clarification on the word interior and its meaning in the bill. Representative Thompson explained that the lowercase word did not adequately reflect Interior Alaska as a place. He posed that the word interior might refer to the inside of his home rather than a place in our state. The Interior

of Alaska included the North Slope, Fairbanks and the Fairbanks North Star Borough.

Co-Chair Stoltze added that the previous committee removed the word interior. The House Finance Committee reinserted the word, which asserted the original intent of the bill. He added that Southcentral was routinely capitalized in legislation.

Representative Thompson relayed that the interior area of Alaska was also characterized as "middle earth."

Representative Wilson added that Interior referred to the Fairbanks area and surrounding communities.

Representative Kawasaki WITHDREW his objection.

Representative Edgmon clarified that Interior also included the rural surrounding areas. Co-Chair Stoltze concurred that Interior was an inclusive term for the central portion of Alaska and the surrounding areas.

[8:17:44 PM](#)

Representative Gara noted that the Interior did not include Southcentral. Co-Chair Stoltze asked for information related to the term from the sponsor.

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, (AIDEA), DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, agreed with the assessment stated with the Interior Delegation that Interior encompassed North Star Borough, parts of the North Slope, Northwest Arctic Borough and the inclusive area in the middle of Alaska.

There being NO OBJECTION, it was so ordered. The technical amendment capitalizing the word "Interior" was ADOPTED.

Mr. Leonard did not have additional comments for the committee. He was available for questions.

[8:20:11 PM](#)

Representative Costello discussed the two "replacement" fiscal notes. The first note from Department of Commerce, Community and Economic Development (DCCED) showed \$950

thousand for FY 14 total operating cost. The second fiscal note from Fund Capitalization showed \$125 million FY 14 operating cost.

Co-Chair Austerman pointed to the new DCCED fiscal note and the \$200 thousand increase in the replacement note. He asked about the change between the two notes. Mr. Leonard replied that the \$950 thousand was the combined HB 74 plus the Interior gas plan. He pointed out the \$200 thousand cost for regulations plus \$750 thousand for project management.

Representative Costello revisited the fiscal notes and discussed the costs in out-years. She stated that the DCCED note showed an operating expenditure of \$650 thousand in FY 15, \$450 thousand in FY 16, \$350 thousand in FY 17 and \$150 thousand for both FY 18 and FY 19.

Co-Chair Stoltze noted that HB 74 received public testimony prior to merging the legislation with SB 23.

[8:24:13 PM](#)

Representative Wilson MOVED to REPORT HCS CSSB 23(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HCS CSSB 23(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Department of Commerce, Community and Economic Development.

Co-Chair Stoltze discussed the schedule for the upcoming days.

Representative Kawasaki asked who would present to the committee the following day. Co-Chair Stoltze replied that the administration and consultants would present to the committee on Sunday.

#sb18

CS FOR SENATE BILL NO. 18(FIN) am

"An Act making, amending, and repealing appropriations, including capital appropriations, supplemental appropriations, reappropriations, and

other appropriations; making appropriations to capitalize funds; and providing for an effective date."

CSSB 18(FIN) am (edf fld) was SCHEDULED but not HEARD.

#

ADJOURNMENT

8:29:46 PM

The meeting was adjourned at 8:29 p.m.