

HOUSE FINANCE COMMITTEE  
April 9, 2013  
9:01 a.m.

9:01:20 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:01 a.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

Bill Armstrong, Owner and President, Armstrong Oil and Gas; Kara Moriarty, Alaska Oil and Gas Association (AOGA); Casey Sullivan, Public Affairs Director, Pioneer Natural Resources; Cecil Elliot, Staff, Representative Mike Hawker; Daniel George, Staff, Representative Bill Stoltze; Diane Blumer, Commissioner, Department of Labor and Workforce Development; Paul Dick, Director, Employment Security Division, Department of Labor and Workforce Development; Brynn Keith, Acting Deputy Commissioner, Department of Labor and Workforce Development.

PRESENT VIA TELECONFERENCE

J. Patrick Foley, Land and External Affairs Manager, Incoming President, Pioneer Natural Resources, Alaska; Ken Thompson, Brooks Range Petroleum, Anchorage.

SUMMARY

HB 63 EXTEND BAR ASS'N BOARD OF GOVERNORS

CSHB 63(FIN) was REPORTED out of committee with a "do pass" recommendation and with one zero fiscal note from the Department of Administration and with an accompanying letter of intent from the House Judiciary Committee.

CSHB 76 (FIN)

UNEMPLOYMENT; ELEC. FILING OF LABOR INFO

CSHB 76(FIN) was REPORTED out of committee as amended with a "do pass" recommendation and with one new fiscal impact note from the Department of Labor and Workforce Development and one new zero fiscal note from the Department of Labor and Workforce Development.

HR 8 TASK FORCE ON SUSTAINABLE EDUCATION

HR 8 was SCHEDULED but not HEARD.

CSSB 7 (FIN)

CORPORATE INCOME TAX

CSSB 7 (FIN) was SCHEDULED but not HEARD.

CSSB 18 (FIN) am

BUDGET: CAPITAL

SB 18 (FIN) was SCHEDULED but not HEARD.

CSSB 21 (FIN) am(efd fld)

OIL AND GAS PRODUCTION TAX

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

CSSB 57 (FIN)

LITERACY, PUPIL TRANSP, TEACHER NOTICES

CSSB 57 (FIN) was SCHEDULED but not HEARD.

#sb21

CS FOR SENATE BILL NO. 21(FIN) am(efd 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."

[9:01:38 AM](#)

Co-Chair Stoltze noted that the current meeting's testifiers were smaller companies than the oil and gas producers that the committee had talked to the prior day. He pointed out that some companies had been unable to attend the meeting, but had sent in letters that would be distributed to members and included in the record.

BILL ARMSTRONG, OWNER AND PRESIDENT, ARMSTRONG OIL AND GAS, discussed the North Slope of Alaska. He stated that he was in big support of the intent of SB 21 and that it represented a very courageous move to tackle a politically hot tax bill. He stated that Armstrong Oil and Gas's activity in Alaska was unique and that he had operated in the state for 12 years; most of the company's time was dedicated to its efforts in Alaska. He shared that the first independent field on the North Slope, which was the Ooguruk field, had been thought up and dreamed up in his office; furthermore, his company had brought Pioneer Natural Resources to the table to develop the field. He pointed out that second independent development on the North Slope also originated from Armstrong Oil and Gas's office in Denver; the company had conducted all the

geological and geophysical engineering work and had brought in Eni Petroleum to operate the field.

Mr. Armstrong related that Armstrong Oil and Gas, along another group of partners, were the operators that were developing a gas field on the Cook Inlet; the field was now the sixth largest in the inlet and was supplying gas to South-Central Alaska. He believed that Armstrong Oil and Gas was the largest lease holder on the North Slope that was outside of the legacy fields. He related that his company was in an aggressive "wildcat" drilling program with a Spanish company, Repsol, which had been brought to the table on some of its ideas; the program had drilled \$250 million worth of wells on the North Slope the prior year and would drill another \$250 million worth of wells this year.

[9:07:38 AM](#)

Co-Chair Stoltze requested a description of Repsol and its dynamics. Mr. Armstrong replied that Repsol was a semi-major out of Madrid, Spain and was the largest employer in that country. He stated that Repsol was not quite as big as ConocoPhillips, but was a very large, multi-billion dollar company; additionally, the company was very well respected globally and was arguably one of the best exploration companies in the world.

Mr. Armstrong believed that as a private company, he had spent more money in Alaska than possibly any other individual in the history of the oil and gas industry in the state. He explained that he did not work for a big company, did not have stock options, and did not receive promotions and that costs for his company in Alaska came out of his wallet. He shared that Armstrong Oil and Gas was a great oil finding company and conducted the hard work regarding finding new drill locations; the company conducted all the geological and geophysical work and ran down all the dead ends that typically did not work. He relayed that Armstrong Oil and Gas drilled a lot of dry holes, which was very disappointing; the company did all the hard work and then managed risk by bringing in larger companies. He expounded that Pioneer Petroleum, Eni Petroleum, and Repsol were examples of the larger companies that Armstrong Oil and Gas had brought to Alaska.

Mr. Armstrong shared that he was always pitching Alaska to other companies and that he had always believed in "putting your money where your mouth is"; therefore, he had put a lot of money into Alaska because he was a "massive" believer in the potential of the state. He related that Alaska had fantastic resources and that he was a "walking, talking, chamber of commerce for the State of Alaska." He spent time talking to bigger oil and gas companies and knew what they said about the pitfalls, problems, assets, etc. of the Alaska; these companies said that Alaska had problems. He related that the bigger oil and gas companies knew about the bad weather in Alaska, understood that the infrastructure was controlled by ConocoPhillips and British Petroleum (BP), acknowledged the tough environmental regulations, and recognized that the permitting was slow; however, most importantly, these companies thought that Alaska's Clear and Equitable Share (ACES) tax law made Alaska a non-player for them as an investment.

Mr. Armstrong stated that the major oil and gas companies thought that ACES was too confiscatory on the high end regarding prices and that when they had an option to go other places, they did so. He shared that some of these major companies questioned why he was in Alaska and stated that his response was that laws can be changed. He explained that the major companies' issues with Alaska were all man-made and were above ground; facilities access and permitting issues could be solved and tax law could be changed. He related that you could find more resources in Alaska by mistake than you could find on purpose in other places.

[9:12:08 AM](#)

Mr. Armstrong related that he originally prepared a PowerPoint presentation, but that it would have been very similar to the presentations of AOGA, Exxon Mobile, Pioneer Natural Resources, etc.; therefore, he had decided to not present the PowerPoint. He pointed out that the only number that the legislature needed to focus on was the number 10, which was the number of rigs that were actively drilling in Alaska currently. He explained that a rig count included rigs that were actually drilling in a certain region and offered that the count had always been the easiest, simplest, and cleanest way to measure the health of an oil industry in a particular region. He shared that Texas currently had over 820 rigs drilling. North Dakota

currently had 200 active rigs and Oklahoma likewise had 200. He opined that the number of active drilling rigs in Alaska compared to active rigs in some of the Lower-48 states was "pathetic" and "ridiculous." He offered that people thought of great fishing, good scenery, big country, and big oil when they thought of Alaska, but that the state was an "afterthought" currently regarding oil and gas because no one was coming here to invest; furthermore, the committee should consider the reason for the lack of investment currently. He pointed out that the legislature had as much control over what happened in the state as anyone and that it needed to question why people were leaving the state and not arriving droves; the answer was the tax laws in the state. He offered that Alaska's tax regime was not the only problem, but it was the foremost.

[9:14:58 AM](#)

Mr. Armstrong believed that SB 21 was a "massive" move in the right direction; it was not perfect, but was much better than ACES. He spoke to the current version of the bill, which was HCS CSSB21 (RES) and related that the 35 percent base tax rate, the loss carry forward, the gross revenue exclusion (GRE), the \$5 per barrel (bbl) credit for explorers, and the small producer credit that were in the current version had hit a very nice sweet spot. He stated that the 35 percent base tax rate was higher than the majors wished to see, but that it was a big improvement over the progressivity problem that was associated with ACES. He shared that the GRE, the \$5 per bbl credit, and the small producer credit opened the door for areas outside of the legacy fields, which was where he thought the future of Alaska's oil and gas industry was. He reported that the boom occurring in the Lower-48 was changing the dynamics of the world's oil industry and that it represented a massive windfall for all the states involved. He discussed hydraulic fracturing technology, which was commonly referred to as "fracking," horizontal-drilling technology, multi-stage fracking technology, and other various technologies that were being used to extract oil in the Lower-48 and pointed out that none of those methods were being used in Alaska; however, the rocks in Alaska were well suited for these technologies. He concluded that HCS CSSB21 (RES) was a massive step in the right direction.

Co-Chair Stoltze inquired if Mr. Armstrong was saying that advances in technology alone would not "do it" for Alaska.

Mr. Armstrong replied in the affirmative and added that technology combined with the ACES tax structure still did not work. He reported that Alaska was competing with every other oil region in the world and that the ACES structure had a tax rate somewhere right around the level of Venezuela and Russia. He felt that he had a unique perspective that a lot of the testifiers before the committee did not have.

Representative Costello inquired what types of leases Mr. Armstrong had, as well as his tax rate on royalty and severance tax. Mr. Armstrong stated that he should have been clearer earlier, but that his company was not in the legacy fields; it was working was in the areas that were the future of Alaska, which most people agreed were good areas to go "chase." He explained that there was no "corporate give away" in the areas outside of the existing units because there was nothing to give away and expounded that these areas did not have any production; what was being discussed was future income that had yet to be realized.

Mr. Armstrong responded to Representative Costello's question. He stated that Armstrong Oil and Gas's royalty rate was one-sixth on all its leases and compared that to the one-eighth royalty rate inside the legacy fields.

Co-Chair Stoltze inquired if the royalty rate was 16.7 percent versus 12.5 percent. Mr. Armstrong replied that it was 16.667 percent versus 12.5 percent.

[9:19:15 AM](#)

Representative Costello opined that Alaska had laws that were great for the explorers and observed that Armstrong Oil and Gas would eventually be looking to move an exploration development into production. She queried what kind of response Armstrong Oil and Gas had received from potential partners to Alaska as it looked into moving into the production phase of a development. Mr. Armstrong related that all of them were appalled by ACES and the high progressivity with high oil prices. He shared that when he had brought Pioneer Natural Resources and Eni Petroleum to the North Slope, Alaska had been under the Economic Limit Factor (ELF) tax regime and that ACES had not been in place at the time. He further explained that when he had brought Repsol to Alaska, HB 110 had been written by the governor

and passed by the House. He offered that Repsol had been "looking at the tea leaves" and thought that tax reform was on the way; as a result, Repsol had chosen to come to Alaska. He explained that Repsol had come to the state because they were playing the "Wayne Gretzky" approach to hockey, which was that "you don't play where the puck is now, but you play where the puck is going to be."

Mr. Armstrong continued to respond to Representative Costello's question and related that potential partners that he was talking to currently viewed SB 21 as competitive. He stated that potential partners thought that SB 21 would put Alaska in line with other investment areas, but that they still had other issues with Alaska such as high costs, inaccessibility, and bad weather.

Co-Chair Stoltze attested that news of impending help or doom was a strong signal. He recalled introducing a bill that would have made modifications on the film tax credit and was told in testimony that he had killed the industry by talking about the bill.

Representative Gara offered that Mr. Armstrong has stated in a prior committee that one of the big impediments to independents in Alaska were the majors and inquired what he had meant by the statement. Mr. Armstrong replied that one of the impediments in Alaska was that the majors controlled the lion's share of almost all of the facilities. He offered that the only facilities in Alaska that were not controlled by the majors were the processing facilities and pointed out that the Trans-Alaska Pipeline System (TAPS) was an open access pipeline for anyone; however, the ability to get to TAPS was one of the aspects that stood in the way. He pointed out that the majors had a lot of land holdings that trades were difficult to be made on, as well as seismic work that was difficult, if not impossible, to make trades for.

Representative Gara inquired if Mr. Armstrong was referencing seismic work that crossed the major companies' lands. Mr. Armstrong replied that he was referencing seismic that had already been shot and made available to be purchased.

Mr. Armstrong continued to respond to Representative Gara's question and related that he got along well with guys from ConocoPhillips and BP, but offered that the majors did not

want the independents to be in Alaska. He opined that although ConocoPhillips claimed that they wanted the independents in Alaska, its actions had demonstrated that it did not.

[9:24:49 AM](#)

Representative Gara inquired how the majors not wanting the independents in Alaska manifested itself in the form of deterrence. Mr. Armstrong replied that he did not want to get into a "major bashing" exercise because they were not the independents' foremost problem; the foremost problem was the state's current tax law.

Representative Gara queried if Mr. Armstrong had brought Repsol to Alaska in 2011 or 2012. Mr. Armstrong thought that it was 2011. Representative Gara inquired if Repsol had bid on leases at that time. Mr. Armstrong responded in the affirmative.

Representative Gara inquired if Mr. Armstrong had helped bring Pioneer Natural Resources to Alaska as well. Mr. Armstrong replied in the affirmative. Representative Gara inquired if Pioneer Natural Resources had moved ahead with production that had started when ACES was in effect. Mr. Armstrong replied in the affirmative.

Representative Gara observed that every oil company in the world would like taxes to be lower all the time, but that he was a little skeptical. He acknowledged that reform might be needed in some areas, such as at high oil prices. He recalled that when Repsol had come to Alaska, its press release had stated that Alaska had low exploratory risk, great rocks, and had great potential; furthermore, the release stated that some potential was disappearing around the world, and that Alaska was a stable, Organisation for Economic Co-operation and Development (OECD) area that did not nationalize oil companies. He asserted that nowhere in the 2012 press release did Repsol claim that Alaska's tax laws were out of whack; the release led him to believe that Repsol was interested in coming to Alaska. He offered that only when HB 110 was being debated later on did Repsol say that it wanted lower taxes.

Representative Gara wondered why he should not be skeptical that people wanted lower taxes when the "carrot" of lower taxes was dangled in front of them. Mr. Armstrong responded

that when Repsol had partnered with his company, HB 110 had been submitted by the governor and passed by the House; as a result, Repsol had assumed that the Senate would also pass the bill. He expounded that Repsol had anticipated lower taxes when it had partnered with him and pointed out that a press release only reflected a fraction of what a major oil company was thinking. He observed that Repsol had released a later press release in which it stated that it needed some version of a modified tax scheme in Alaska.

Representative Gara noted that in Repsol's initial press release, it had announced a \$768 million development program in Alaska and inquired if the company had started that program. Mr. Armstrong responded in the affirmative.

Representative Gara surmised that an oil company coming up to Alaska and investing and buying leases under an existing law would not know that the law would change and queried why he should believe Mr. Armstrong's statement that Repsol knew the law would change. Mr. Armstrong replied that oil companies made decisions all the time where uncertainty was involved. He questioned what the oil price would be in another year and whether Repsol would be nationalized in a foreign country or have a spill in the Gulf of Mexico; he explained that things like this represented a calculated game that "all of us" play all the time. He offered that the word was out that Alaska had a broken oil and gas tax system and that Repsol had made a calculated move to be where the "puck was going to be."

[9:29:15 AM](#)

Representative Gara noted that he liked Mr. Armstrong, but that he did not believe what he was asserting. He explained that Repsol had come in to Alaska and had been interested in it and that only after the tax reform bill started moving did the company say that it was something they would really like; he opined that any oil company would say that.

Representative Gara inquired about the rig counts. He stated that in Alaska, the rigs could horizontally drill for 3 miles or more and that technology was being worked on that could horizontally drill even further. He asserted that a lot of the drilling rigs that Mr. Armstrong had referenced in the Lower-48 fit in the back of a pickup truck. He opined that the rig sizes in Alaska were massively different than they were in the areas where

fracking was being done and inquired if that was correct. Mr. Armstrong replied that in some cases that was true, but not in all cases.

Representative Gara asserted that in the major oil producing states, such as Texas and Wyoming, the overall increase in production was not because of the production of conventional oil, but was related to the "fracking revolution"; he inquired if that assumption was correct. Mr. Armstrong responded in the affirmative.

Co-Chair Stoltze interjected and inquired which part of the question Mr. Armstrong was agreeing to. Mr. Armstrong replied that he was agreeing that the increase in production in the Lower-48 was predominantly due to advancements in technology and the exploitation of the unconventional reservoirs; furthermore, he agreed that Alaska did not have that activity yet, but that it should. He explained that Alaska had just as good, if not better, geology, rocks, and formations as many of the successful plays in the Lower-48.

Representative Gara thought that fracking would come to Alaska, but did not know that for sure; however, he had heard that Alaska's fracking rocks were very good and that there was exploration being conducted. He stated that it was not a compelling case to him when investment had gone up in the Lower-48 due to technology advances and fracking, but conventional oil production was not going up. Mr. Armstrong replied that for the most part, there was not anyone pursuing unconventional plays in Alaska and offered that everyone who understood geology and engineering would state that Alaska was a fantastic candidate for unconventional drilling. He opined that a question to ask was why unconventional plays were not being pursued in Alaska. He asserted that other Alaskan oil players would attest that the state had these resources underground that needed to be developed and pointed out that it was indisputable that the resources were not currently being developed.

Representative Gara noted that Great Bear Petroleum had moved ahead with fracking exploration and that the company had indicated that its early drilling results had been very promising. He acknowledged that Great Bear Petroleum was not a major and would have to partner with someone, but offered that fracking drilling had moved forward in Alaska;

although fracking in the state was not progressing as fast as it was in the Lower-48, it was coming up here.

9:33:58 AM

Co-Chair Stoltze noted that the committee had invited Great Bear Petroleum to attend the proceeding multiple times and that the company had chosen not to attend.

Mr. Armstrong responded to Representative Gara's comments and related that unconventional plays were difficult and involved lots of trial and error. He shared that any successful unconventional play in the Lower-48 typically involved a whole number of players who had to "unlock" the code and that the timelines on these plays involved a lengthy learning curve. He opined that Great Basin [Great Bear] was drilling, but that the chance of it finding a "needle in the haystack" on its first couple of wells was low. He stated that there were dozens of people like himself and dozens of companies like Repsol working in the Lower-48 that were not in Alaska. He offered that Alaska needed those companies and players up here to try to unlock the code because doing so would result in a boom for the state; Alaska would not see 800 drilling rigs running like there were in Texas, but that it might see 75 rigs.

Representative Holmes noted that the committee was trying to determine if the current version of the bill, which was HCS CSSB21 (RES), was getting it right and opined that Mr. Armstrong was saying that the legislation was getting it right; furthermore, the committee wanted a feel for what passing the bill or something similar would mean on the ground. She inquired what Mr. Armstrong would expect to see, from his company's perspective as well as others, on the ground and in what timeframe if the bill were to pass. Mr. Armstrong replied that HCS CSSB21 (RES) was getting it right, but noted for the record that there was no clear right or wrong. He offered that the target was amorphous and that if the state missed it a little with HCS CSSB21 (RES), the legislation could always be tweaked in the future. He pointed out that he could only speak for his current partner on the North Slope, which was Repsol. He shared that Repsol was about half of the way through its \$768 million obligation and that Armstrong Oil and Gas and Repsol had several accumulations that it was ready to take to development once SB 21 passed. He explained that the 2 developments would involve a capital expenditure in excess

of \$2.8 billion and pointed out that the developments would not be commercialized under ACES, but would sit there. He believed that \$2.8 billion would be just the beginning of their investment, but pointed out that it was already a large investment on its own.

Mr. Armstrong reported that the oil business was like any other business and that success begot other success. He opined that once the industry saw that companies in Alaska liked the tax laws and were having success, the other companies would follow to the state. He offered that there would be a whole new level of attention on to Alaska, but that it would not happen overnight; however, he was confident that more companies would be coming to Alaska.

[9:39:30 AM](#)

Representative Holmes did not want to change taxes for tax changing purposes. She explained that if the committee changed taxes, it would be because it wanted to see more production, did not want the decline rate, and wanted a steady, predictable future, so that the legislature would know what it could count on year-by-year to fund schools, roads, and keep people working.

Co-Chair Austerman did not want to leave the impression that the majority of the committee did not believe Mr. Armstrong's testimony and remarked that most of the legislature understood the risk in gambling. He opined that Repsol had made a bet and taken a gamble and thought that the company had made the "right" gamble; furthermore, he anticipated that Repsol and Mr. Armstrong, as well as their work outside of the legacy fields would carry the state in the long-term. He opined that the small players were carrying places like Texas and Wyoming, where there was a long-term development of oil. He pointed out that the committee would move forward with something, but that it did not know exactly what that was yet.

Representative Wilson stated that she had not been in the legislature when ACES had been passed and inquired how many rigs there were on the North Slope before that policy had been enacted. Mr. Armstrong replied that he was not sure about the number of rigs at the time.

Co-Chair Stoltze interjected that AOGA would probably be better suited to answer the question.

Mr. Armstrong replied that he was not aware of the exact number of rigs, but that it not a massive number even before ACES; however, the same thing had been occurring in every state in the Lower-48 at the time.

Co-Chair Stoltze interjected that oil had been \$60 per bbl at the time. Mr. Armstrong replied that Co-Chair Stoltze was correct and added that the technology advances and fracking in general also did not exist at the time. He concluded that the Lower-48 states had boomed, while Alaska had not; therefore, asserting that ACES did not do any damage because there were not a lot of rigs in Alaska prior to the policy was not a fair argument to bring up. He pointed out that there was currently a boom in the oil business because the price of oil was over \$100 per bbl and that the boom involved a combination of technology and high oil prices.

Representative Wilson noted that Pioneer Natural Resources had come to Alaska under the ELF tax regime. She inquired if Pioneer Natural Resources would have still come to Alaska if ACES had been in place at the time and if there was no HB 110. Mr. Armstrong related that Pioneer Natural Resources would not have come to Alaska if ACES was in place because it was his company's idea; furthermore, he would have passed on Alaska completely if ACES had been in place at the time. He concluded that his company would never have come up with the idea to bring Pioneer Natural Resources to Alaska had ACES been in place because the first thing a business did analyze was the potential profit. He stated that it did not make sense to go to a place where even if you had success, the returns paled in comparison to another place and opined that both Pioneer Natural Resources and Eni Petroleum would not be in Alaska had ACES been in place when his company was coming up with the ideas.

[9:44:50 AM](#)

Representative Wilson discussed testimony on the different types of tax credits. She offered that testimony had indicated that Alaska had pretty much got its exploration credits right, but that there were issues with development and production in the state. She inquired if it was correct that an issue in Alaska was that explorations were not reaching development stage. Mr. Armstrong replied in the

affirmative and related that ACES was warped in 2 ways. He explained that the progressivity in ACES "crushed" any producer as oil prices rose. He thought that the qualified capital expenditure credit, while well intentioned, had unwittingly made the state a partner with the oil companies and expounded that had the price of oil gone down, the credits could have crippled the state's finances. He observed that the way that HCS CSSB 21(RES) was crafted the credits were all tied to production, which was a much better way of handling the credits; this way paying less in production taxes would be linked to success and production. He noted that the oil companies would still pay corporate tax, royalties, and lease bonuses. He concluded that the way HCS CSSB 21(RES) was being approached was more sustainable and durable for business.

[9:47:45 AM](#)

Representative Munoz inquired what the effect of SB 21 not passing would be on Repsol and Armstrong Oil and Gas in Alaska. He responded that he could not speak for Repsol, but that he could speak for Armstrong Oil and Gas; furthermore, if SB 21 did not pass, the fields that the company had found over the last 2 years would be non-commercial and would not be developed.

Representative Kawasaki asked whether Mr. Armstrong had been involved in the Pioneer Natural Resources royalty relief. Mr. Armstrong responded in the negative and explained that Pioneer Natural Resources had been the operator, while Armstrong Oil and Gas had been the originator; however, Armstrong was involved with the testimony that Repsol had submitted to the state on royalty relief. He offered that the royalty relief concept was wonderful and that it allowed the fields that were on the bubble of being commercial a chance to be developed.

Representative Kawasaki agreed that the royalty relief was part of the state's tool box, but that it did not get used that often. He acknowledged that royalty relief was recently used in Pioneer Natural Resource's Oooguruk development.

Representative Kawasaki inquired why a partner, explorer, and producer like Armstrong Oil and Gas would not pitch the royalty relief to companies like Repsol, Eni Petroleum, and other groups that it was involved with. Mr. Armstrong

replied that his company did pitch royalty relief to its partners and that although it was a nice aspect of Alaska to tell them about, in most cases, it was not enough with ACES still in place.

[9:51:01 AM](#)

Co-Chair Stoltze indicated to Mr. Armstrong that he was welcome to correspond with the committee regarding any provisions in the legislation.

Mr. Armstrong appreciated the opportunity to express his opinion on HCS CSSB 21(RES). He thought that Alaska was on the precipice of bringing a lot of players to the state and that there was a real potential of turning the decline curve around. He explained that if you were not drilling wells, you were not finding oil and pointed out that Prudhoe Bay had been found by accident; in process of chasing the Lisburn idea, the Ibishak Reservoir in Prudhoe Bay had be found. He furthered that the Kuparuk River was an Ibishak test that did not work and that Alpine Field was a Kuparuk play that had stumbled into the Alpine sand. He concluded that Alaska needed more drilling activity.

Co-Chair Stoltze apologized to the testifiers that were still waiting and offered that other testimonies would likely be shorter because a lot of the questions had been asked.

KARA MORIARTY, ALASKA OIL AND GAS ASSOCIATION (AOGA), began a presentation titled "House Resources Committee HCS CSSB21 (RES) April 9, 2013 Kara Moriarty, Executive Director" (copy on file). She spoke to slide 2 titled "AOGA Member Companies" and related that AOGA was a professional trade association that represented 15 member companies. She reported that you could see from the slide that AOGA's member companies represented the majority of exploration, production, development, refining, transportation, and marketing of oil and gas in Alaska. She related that when AOGA testified on tax numbers, there had be a 100 percent consensus from all its member companies and that the comments she would make, as well as the detailed written comments that were submitted for the record, had all been approved unanimously.

Ms. Moriarty spoke to slide 2 titled "Alaska North Slope Production." She pointed out that Alaska's great challenge

currently, which the industry shared with the state, was the decline of oil production on the North Slope. She related that with respect to oil and gas taxes, the great issue facing Alaska was that there was a fundamental tradeoff between the short-term and long-term benefits and the results for Alaskans. She offered that the challenge would lie in striking a balance between the size of the economic development activity that occurred in the state and the rate of taxation on that activity; furthermore, AOGA's role in the current meeting as the trade association for the industry would be to share its perspective about how close Alaska was to achieving that balance. She stated that AOGA, individual companies, the legislature's consultants, and the administration's consultants had all testified that the current tax structure was not competitive with the opportunities that were present across the globe.

Ms. Moriarty continued to speak to slide 2 and explained that because the present tax structure was not competitive or attractive, investment had shifted to regions elsewhere in order to get more money for shareholders. She related that if a restructuring and tax-rate reduction made investments in Alaska more competitive, companies would want to make investments in the state, even if there were no specific guarantees, because shareholders would demand it.

[9:55:39 AM](#)

Ms. Moriarty spoke to slide 3 titled "HCS CSSB21 (RES) Component: Progressivity."

AOGA supports the elimination of ACES progressivity

- 1) Progressivity under ACES takes away too large a share.
- 2) Progressivity guts the upside potential for Alaska investments.
- 3) Progressivity makes it difficult to analyze and quantify the tax effect.

Ms. Moriarty spoke to slide 3 and opined that repealing the ACES progressivity would be a material step forward in improving Alaska's attractiveness because progressivity was

the single most negative component of the current tax structure. She spoke to the first bullet point and related that at current prices, which about \$100 per bbl, the current tax rate under progressivity was over 40 percent. She discussed the second bullet point and related that it occurred because the more the upside was realized as the price of oil increased, the more progressivity took that upside away. She addressed the final bullet point and expounded that when a plan of development had several elements in it, progressivity made it almost impossible to analyze and quantify the tax effect of any single element because the progressivity for all of the elements together was greater than the sum of the progressivity of each one separately.

Ms. Moriarty discussed slide 5 titled "HCS CSSB21 (RES) Component: Increasing the Base Tax Rate."

AOGA does not endorse increasing the base tax rate to 35%

1) A higher tax rate would be a step in the wrong direction.

2) Increasing the base tax rate is contrary to the Governor's second principle. It would not encourage new production.

3) The lower the tax rate, the more attractive Alaska's system will be to investors.

Ms. Moriarty shared that AOGA felt that raising the base rate to 35 percent would be a step in the wrong direction because it had consistently testified since 2007 that the 25 percent base rate was too high even without progressivity.

[9:57:41 AM](#)

Ms. Moriarty turned to slide 6 and 7 titled "HCS CSSB21 (RES) Component: Tax Credits."

1) AOGA does not support the repeal of Qualified Capital Expenditure Credits (QCE) if it was the only change, but CS offers other incentives that tend to offset this loss.

2) AOGA supports the new credits for new production.

- Gross Revenue Reduction for "non-legacy" fields
- Sliding Scale for legacy fields

3) AOGA supports the extension of the small producer tax credit.

4) AOGA supports maintaining the ability to utilize the loss carry-forward annual loss credit

Ms. Moriarty addressed slide 6 and stated that HCS CSSB21 (RES) offered a package of tax credits and new incentives to spur production. She addressed the first sub-bullet point and related that the gross revenue reduction was a new concept that balanced the loss of the QCE credit; it was coupled with the tax credit of \$5 per bbl of oil that fell in the new production categories as outlined in the bill. She spoke to the final sub bullet point and stated that the bill also included a sliding scale tax credit for legacy fields that started at \$8 per bbl when the gross value at the point of production was less than \$80 dollars. She reported that the sliding scale credit would decrease by \$1 per bbl for each \$10 increment above the \$80 and would reach zero when the gross value at the point of production was at \$150; in doing this, HCS CSSB21 (RES) filled a gap that the Senate passed version of the bill had missed by providing a tax incentive for 80 percent to 90 percent of the remaining oil potential that was on state lands on the North Slope.

Ms. Moriarty spoke to slide 7 and related that HCS CSSB21 (RES) would delay the sunset of the small producer tax credit from 2016 to 2022, which was something that AOGA had specifically advocated for in previous committees throughout the current legislative session; this extension had been included in the original version of the bill. She stated that HCS CSSB21 (RES) also maintained the change to the loss carry-forward credit that would allow a company that spent more money than it made in Alaska to take the loss in the form of a credit that was redeemable by the state or transferable to another tax payer; furthermore, AOGA believed that this particular tax credit was extremely valuable to the current and future new producers in reducing the up-front risk that was associated with new field development. She relayed that AOGA believed that

Alaska's tax policy should not create winners and losers among different types of companies unless there was a very sound policy reason for doing so. She concluded that AOGA supported HCS CSSB21 (RES)'s changes to the tax credit system.

Ms. Moriarty discussed slide 8 titled "HCS CSSB21 (RES) Components: Statutory Interest & Joint Interest Billings."

AOGA supports change in statutory interest

- Lowers risk/makes Alaska more competitive

AOGA supports the use of Joint Interest Billings as a starting point

- Using Joint Interest Billings as the initial source for lease expenditures is more efficient and provides consistency of what are expenses are all

Ms. Moriarty spoke to slide 8 and related that there were two other elements in the bill that she wanted to briefly mention. She pointed out that HCS CSSB21 (RES) addressed a concern that AOGO had raise during testimony in previous committees; she addressed the bill's changes to statutory interest and spoke from a prepared statement (copy on file).

A six-year statute of limitations for auditing and a minimum interest rate of 11% compounding quarterly can nearly double-up any underlying tax liability that the audit may find. The heightened risk this causes is a material factor in terms of Alaska's competitiveness relative to other places. That risk – and not just the reward that an investment can make under the tax laws – is an integral element in an investor's comparison of investment opportunities here versus elsewhere. We endorse this change, which serves to compensate the State reasonably for any lost use of funds that it suffers from a tax underpayment.

Ms. Moriarty continued to discuss slide 8 and the joint interest billings component. She pointed out that the question of using joint interest billings as the initial source of a tax payer's lease expenditures was not about how much a tax payer would be able to deduct; using joint

billings as the initial source was more efficient and eliminated uncertainty and AOGA supported its use as the starting point for the auditing process.

Ms. Moriarty stated that there were several areas of the tax structure that AOGO believed needed to be changed in order to improve the structure's efficiency, but that in the interest of time, she would not discuss them in oral testimony; however, AOGO had highlighted a few of the things that it believed were missing from the bill in its written testimony.

[10:02:21 AM](#)

Ms. Moriarty concluded on slide 9 titled "HCS CSSB21 (RES)."

Current bill is a significant improvement over ACES.

- Repeals high ACES progressivity
- Maintains key credit provisions while creating incentives for new production from legacy and non-legacy fields
- Reforms interest rate for tax underpayments
- Restores ability to administer the tax more effectively

Principal downside: higher base tax rate

Ms. Moriarty spoke to slide 9 and its first bullet point. She relayed that HCS CSSB21 (RES)'s repeal of the high ACES progressivity would eliminate a great deal of complexity in the tax, as well as the uncertainty in analyzing the tax effect on all types of projects. The bill would also extend or broaden existing tax credits for small producers and would create a gross revenue reduction; it also created a system of per barrel tax credits that was directed at new development and production, as well as more production from legacy fields on the North Slope. She addressed the slide's principal downside component and stated that AOGO believed that even a 33 percent tax rate fell on the high side and that a lower rate would generate greater investment that would result in more production.

Co-Chair Stoltze surmised that any member of AOGA had veto power over its comments. Ms. Moriarty responded in the affirmative and furthered that AOGA needed unanimous

consent before any written comments were submitted. She expounded that if one member company of AOGA disagreed with a particular section of the testimony, that section was removed.

[10:04:32 AM](#)

CASEY SULLIVAN, PUBLIC AFFAIRS DIRECTOR, PIONEER NATURAL RESOURCES, provided a PowerPoint presentation titled "House Finance Committee Testimony re: HCS CSSB 21(RES) April 9, 2013" (copy on file). He spoke to slide 2 titled "Forward Looking Statements."

Except for historical information contained herein, the statements, charts and graphs in this presentation are forward-looking statements that are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and the business prospects of Pioneer are subject to a number of risks and uncertainties that may cause Pioneer's actual results in future periods to differ materially from the forward-looking statements. These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms, international operations and associated international political and economic instability, litigation, the costs and results of drilling and operations, availability of equipment, services and personnel required to complete the Company's operating activities, access to and availability of transportation, processing and refining facilities, Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer's credit facility and derivative contracts and the purchasers of Pioneer's oil, NGL and gas production, uncertainties about estimates of reserves and resource potential and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks,

including the possible impacts of climate change, and acts of war or terrorism. These and other risks are described in Pioneer's 10-K and 10-Q Reports and other filings with the Securities and Exchange Commission. In addition, Pioneer may be subject to currently unforeseen risks that may have a materially adverse impact on it. Pioneer undertakes no duty to publicly update these statements except as required by law.

Mr. Sullivan indicated that slide 2 represented legal terminology that specified that anyone who invested in Pioneer Natural Resources based on comments in the presentation did so at their own risk.

Mr. Sullivan discussed slide 3 titled "Pioneer Natural Resources."

Corporate overview:

- \$19 Billion enterprise value
- Member of the S&P 500
- Investment grade rating
- ~3,500 employees
- \$3 Billion capital budget
- \$2 Billion cash flow from operations
- Leading performer in peer group

Alaska Operations Overview:

- 1st independent operator on North Slope
- 70+ full-time Alaska employees
- \$14+ million in annual wages (employees)
- 150 - 300 Alaska contract workers
- ~\$180 million 2013 capital budget
- ~6,000 BOPD gross production
- Net investor in Alaska

Mr. Sullivan addressed slide 3 and stated that Pioneer Natural Resources had produced about 12 million barrels from the Oooguruk field to date. He spoke to the slide's final bullet point and related that a net investor in Alaska meant that all the revenues that Pioneer Natural Resources generated currently went right back into the fields that it was developing and appraising.

Co-Chair Stoltze noted that the meeting's schedule had been switched and understood that Mr. Foley was probably in the queue for a slightly later time.

J. PATRICK FOLEY, LAND AND EXTERNAL AFFAIRS MANAGER, INCOMING PRESIDENT, PIONEER NATURAL RESOURCES, ALASKA (via teleconference), stated that he would replace Todd Abbot as the president.

Mr. Foley discussed slide 4 titled "Pioneer Alaska Profile: Ooguruk."

Exploration:

- 11 exploration wells '02 -'05
- 1 commercial project

Ooguruk Quick Facts:

- 70% Pioneer (operator) : 30% Eni
- ~\$1 billion capital invested
- 12+ million barrels produced
- ~\$270 million in credits received  
(~7 % of total credits issued by the state)

Mr. Foley recalled comments that sometimes credits were granted that did not result in new oil, but asserted that every dollar that Pioneer Natural Resources had spent and accepted credits for had resulted in new oil in the development of Ooguruk. He pointed out that there was a timeline on the bottom of the slide that depicted Pioneer Natural Resources business in Alaska. He related that Pioneer Natural Resources had come to Alaska in 2002 during the ELF tax regime and that its production tax rate under that system would have been zero. He explained that immediately after Pioneer Natural Resources had sanctioned the Ooguruk project for development, the PPT tax came into play, which quickly evolved to ACES. He stated that ACES had added a very troubling progressivity component to the tax system and shared that SB 21 would represent the fourth fiscal regime that Pioneer Natural Resources had encountered in its 12 years of business in Alaska.

[10:11:18 AM](#)

Mr. Foley discussed slide 5 titled "What's Next?"

Nuna Project:

- \$100 Million appraisal program
- ~50 MMBO of resource potential
- Phase I development overview
  - Q3 2013 sanction decision
  - ~\$1 Billion capital required
  - 2015 first oil
  - 14 MBOPD peak production
  - Jobs and economic impact
- Potential for 2nd drill site
- Must compete for limited capital against low-risk, fast-cycle projects in Lower 48

Mr. Foley spoke to slide 5 and stated that the Nuna Project was within the Ooguruk unit and would currently focus exclusively on the Torok interval; the project would initially be developed with a single onshore drill site. He explained that with respect to the Nuna Project, Pioneer Natural Resources had drilled 2 grassroots wells, fracked them, and had tested production. He stated that in order to stay on schedule, Pioneer Natural Resources was queuing up the Nuna Project for sanction approval and internal financial approval in the third quarter of 2013. He pointed out that for a company like Pioneer Natural Resources on a development like Ooguruk, the royalties, production payments, and taxes to the state would not be large; however, it would have a substantial economic impact in the form of jobs.

Mr. Foley discussed slide 6 titled "Pioneer Competitive Resource Opportunities."

WOLFCAMP / SPRABERRY

- \$1,650 MM Drilling Program
  - 627 MMBOE Proven
- 2013 Production (Growth):  
75-80 MBOEPD (+14 - 21%)

Barnett Shale Combo

- \$185 MM Drilling Program
- 33 MMBOE Proved

2013 Production (Growth):  
9-12 MBOEPD (+22 - 41%)

Eagle Ford Shale

- \$575 MM Drilling Program
  - 116 MMBOE Proved
- 2013 Production (Growth):  
38-42 MBOEPD (+36% - 50%)

- > 40 rigs running
- > 20,000 drilling locations

Mr. Foley spoke to slide 6 and related that Pioneer Natural Resources' focus was in Texas.[All of the developments and information on the slide are depicted overlaid on a map of Texas.] He explained that Pioneer Natural Resources would have about a \$3 billion total capital budget for all the U.S. and that "90 some percent" of that would be spent in Texas. He stated that the slide depicted some of the competing projects that Pioneer Natural Resources had when it asked for funding and that the company's 2 big projects were the Eagle Ford Shale and the Wolfcamp/Spraberry, which were both in Texas. He stated that Pioneer Natural Resources had about 3000 employees in Texas.

Mr. Foley discussed slide 7 titled "Relative Rankings and Policy Considerations." He stated that the slide was a graphical depiction of who the players were in Alaska and what their sizes were; it showed "super giants" like Exxon Mobile all the way down to companies the size of Pioneer Natural Resources and smaller. He recalled Ms. Moriarty's remarks that had cautioned the legislature against designing a system that was helpful for some and harmful for others. He questioned which players on the slide the state wanted to remain in Alaska and continue to make large investments and opined that the state wanted all of players, and several more.

Mr. Foley discussed slide 8 titled "Eagle Ford Operators and Companies." He stated that the slide represented a picture of Pioneer Natural Resources' competitors in the Eagle Ford play. He explained that in the box on the left, the companies that operated in Alaska were color-coated; the major companies were shown in blue and the smaller, independent companies were shown in red. He shared that the take away from the slide's list of companies was that not

many of them showed up in color and expounded that not many of the companies were doing business in Alaska. He offered that it would be great if Alaska's fiscal system encouraged all of the companies on the slide to come and do business in the state. He pointed out that one of the reasons companies were not investing here was the fiscal system, but that the costs in Alaska were greater than they were in some of the other places that they could do business in.

Mr. Foley continued to discuss slide 8 and stated that the chart on the right showed the operating and capital costs by state or geographic area; Alaska fell near the bottom of the chart. He stated that Pioneer Natural Resources typically pursued projects that had capital requirements of about \$20 per bbl and annual operating expenses in the \$10 to \$20 per bbl range.

[10:16:23 AM](#)

Mr. Foley discussed slide 9 titled "Typical New Project Spend Profile." He related that he wanted to help the committee to see the world through Pioneer Natural Resources' eyes and show the committee what the economics of a project like Nuna would be. He explained that the slide showed the capital costs and production rate that would result from a typical project that smaller companies considered for investment; it was a \$1 billion capital project with 50 million bbl in total reserves that had a peak production of about 5 million bbl of oil per year, which was equal to 13,700 bbl of oil per day. He relayed that the take-away from the slide's chart was that a typical project would have substantial facility investment for almost 4 years, would have about a 5 year drilling program, and would not reach peak oil production until 8 years after the investment began.

Mr. Foley discussed slide 10 titled "Fostering New Production: Why Credits Matter."

- Benefits to State
  - Credits directly encourage activity in Alaska
    - Jobs, direct and indirect (9x multiplier)
    - More wells
    - More oil
    - More royalties, taxes and throughput

- Benefits to Developer
  - Reduces investor risk
  - Improves small project economics
  - Improves financial performance
    - Doesn't increase debt
  - Builds healthy industry
  - Strengthens competitiveness
- Loss Carry Forward Credit
  - Redeemable / transferable
  - Reduces upfront risk
  - Assists new investment
- Small Producer Credit
  - Simple
  - Predictable
  - Improves project economics
  - Low financial impact to State
  - Included in original SB 21
- \$5 / bbl Credit
  - Rewards production
  - Levels government take

Mr. Foley discussed slide 10 and encouraged the committee to keep the loss carry forward credit in HCS CSSB21 (RES); under this version of the legislation, the credit allowed companies to take a loss and monetize it and go to the state to be reimbursed for the loss. He reminded the committee that Pioneer Natural Resources Alaska had started in 2002 and that 10 or 11 years into the business, it had yet to generate a profit. He spoke to the small producer credit and explained that it had been designed in PPT as a way to level the playing field. The small producer credit was a tax-avoidance credit that did not pay money directly to companies; if a tax liability was not generated, the credit had no value or cost to the state. He explained that a company like Pioneer Natural Resources Alaska would be paying the minimum gross tax, but because the minimum gross tax was less than \$12 million, the company paid no tax; HCS CSSB21 (RES) had an extension of the small producer credit through 2022, which Pioneer Natural Resources strongly supported.

Mr. Foley continued to address slide 10. He discussed the \$5 per bbl credit and stated that it was very helpful for a small company because it would be building its business once it had production.

10:20:51 AM

Mr. Foley discussed slide 11 titled "Mid Sized Producer Adding New Field."

New Field Assumptions:

- 50 MMBO field
- ~\$1 Billion CapEx
- \$10-\$20/bbl variable OpEx
- \$100 ANS West Coast (nominal)

Mr. Foley spoke to slide 11 and related that it used the profile of the hypothetical project that he had depicted on slide 9. He remarked that the profile of the slide's project was very similar to that of the Nuna Project and added that the slide was from the perspective of a company like Pioneer Natural Resources; in other words, because it was a net tax system, all of the other attributes of the business as far as cost and production needed to be integrated. The slide depicted adding a new field that was similar to Nuna on top of a base production that was what Ooguruk was to Pioneer Natural Resources. The slide ran 3 different cases that showed what the investment opportunity would look like under original SB 21, under the version of SB 21 that was passed by the Senate, and what it looked like under HCS CSSB21 (RES). He related that the red bars represented the decreasing value because credits were eliminated, as well as other attributes.

Co-Chair Stoltze surmised that from Pioneer Natural Resources' perspective, the bill had improved with each version that was depicted on the slide and inquired if that was correct. Mr. Foley responded in the affirmative and expounded that from his company's perspective, for a new project like Nuna, the bill had gotten better each step of the way.

Mr. Foley continued to discuss slide 11. He shared that when the administration had first introduced the SB 21, Pioneer Natural Resources had believed that for a company like itself, a project like Nuna was \$52 million worse off

than it was under ACES; however, every version of the bill had improved. He explained that a project like Nuna was only \$8 million worse off under the Senate passed version of SB 21 than it was under ACES; finally, under HCS CSSB21 (RES), the bill had evolved to the point where the project would be \$27 million better off than it was under ACES. He pointed out that original version of SB 21 had a 25 percent base tax, a small producer credit extension, a 20 percent GRE and that as it evolved, the tax rate had gone up to 35 percent and the \$5 per barrel credit and the ability to monetize the loss carry-forward credit had been introduced. He furthered that in CSSB21 (RES), the tax rate had hopefully been lowered to 33.5 percent and the small producer credit had been reintroduced. He explained that the value of the small producer credit represented approximately one-third of the difference between CSSB21 (RES) and the Senate passed version of the bill and that the change in the base tax from 35 percent down to 33 percent represented about two-thirds of the increased value; the take-away was that the type of project that was on the slide was very sensitive to even small changes to the tax rate.

[10:24:51 AM](#)

Mr. Foley discussed slide 12 titled "HCS CSSB 21(RES) Closing Thoughts."

- Pros
  - 33% Base / \$5 bbl credit
    - Keeps tax rate flat across price ranges
  - GRE
    - Rewards new oil production
  - Small producer credit extension
    - Levels playing field
  - Loss carry-forward credit monetization
    - Rewards investment in Alaska
- Cons / 'Wish List'
  - Elimination of capital credits

- Increase GRE for challenged leases to 30%
  - Add targeted credits for facilities/well related costs
- 
- HCS CSSB 21(RES)

Mr. Foley discussed slide 12 and stated that the extension of the small producer credit was important for Pioneer Natural Resources Alaska to incubate its business. He related that when the small producer credit had originally been created under ACES, the intent had been to level the playing field and explained that all of the current producers at the time had a large amount of lease holdings, infrastructure, employees, and data. He furthered that one of the small attributes of the original PPT program was to encourage new investors to come to Alaska with a little bit of a leg-up and strongly urged the committee to extend the small producer credit to continue to encourage new companies to invest in Alaska.

Co-Chair Stoltze thanked Mr. Foley for the succinct closing on letting the committee know what targets of the bill were important to Pioneer Natural Resources; knowing the impact points was helpful because certain aspects of the bill would impact different people in different ways.

Representative Gara noted that people were still waiting for modeling that would assist with formulating amendments and inquired if the amendment process could be delayed a day in order to allow time to get the needed modeling.

Co-Chair Stoltze noted that he was still waiting for information as well and that the schedule for the amendments would be a moving target.

Representative Gara noted that amendments could feasibly be done on Thursday. Co-Chair Stoltze indicated that his office would set the schedule, but that he appreciated the input.

Co-Chair Stoltze requested Mr. Thompson to keep his comments brief. He apologized for the rush and explained that the committee was being summoned to the House Floor.

[10:28:45 AM](#)

KEN THOMPSON, BROOKS RANGE PETROLEUM, ANCHORAGE (via teleconference), began to speak to the presentation titled "House Finance Committee Comments on SB 21" (copy on file) and stated that he would provide the perspectives from an exploration company's approach.

Mr. Thomson discussed slide 2 titled "Why Consider Our Company's Perspectives?"

1) Most active exploration company exploring and developing solely on North Slope state lands

a) Drilled 10 of 36 exploration wells on state lands in 2007--12 (more than COP, BP, XOM, ENI, Repsol, Armstrong combined)

b) 105,000 leased acres in 3 core areas in JV partnership with Ramshorn Exploration (affiliate of large Nabors Industries)

2) ~\$200 MM invested to date in Alaska North Slope projects...3 discoveries, acquired discovery

3) Mustang development project under construction...\$577 MM capital, 44 MMBO, 15,000 BOPD...future level of capital spending/yr same as Pioneer Natural Resources and one--third the level of COP capital spending

4) Three other development projects in permitting /conceptual engineering stages...>\$1.5B capital

5) First production and cash flow to state and our companies...start-up of Mustang in 3Q 2014

6) On investment of \$200 MM, received refunded tax credits totaling \$69MM but State will receive back this amount+ in the first year of Mustang production...and \$1.2 billion over field life

a) All credits have been redeployed on the North Slope for new drilling or seismic to find, develop oil...none sent Outside

b) Credits redeployed has allowed in some years the drilling of 3 exploration wells instead of 2...or 2 wells instead of only 1

c) Payment of credits in cash versus just an allowance against taxes critical to AVCG which has no current production

7) Experience in bringing other independents to Alaska and in raising capital for Alaska

a) Seeking additional capital for Mustang and 3--5 year exploration program...started fundraising 18 months ago, Sept 2011

b) Sent materials to 210 firms, but only 19 wanted to consider Alaska...and after further review, only 2 firms remain interested

c) Biggest hurdles we heard: 1) complex and high gov't take of AK fiscal regime, 2) flow of capital to Lower 48 source rocks

d) Two firm remain and we hope to finalize deal...belief in our confidence that Legislature will make positive change in 2013

Mr. Thompson spoke to slide 2. He addressed bullet point number 6 and related that over \$100 million would be returned to the state in the first year of production from the Mustang development; the state would fully recover the credits that it had paid out to Brooks Range Petroleum. He discussed the Mustang development and shared that it would represent 7 million bbl of royalty oil to Alaska that would reflect about \$700 million in revenue to the state; furthermore, that revenue would be about 10 times the amount of the credits that the state had issued to Brooks Range Petroleum.

Mr. Thomson continued to address slide 2. He spoke to bullet point number 7 and related that he had been working over the last several months to try and bring more capital and independents to Alaska. He stated that ACES was more complex, burdensome, and had a higher government than any other state's tax regime in the U.S. and pointed out that many companies had not wanted to talk to Brooks Range Petroleum regarding investing in Alaska. He discussed table 11 of an Econ One analysis that showed that under ACES, the rates of return and cash margins were far superior in the Bakken shale play than they were in Alaska; however, under

SB 21 the rates of return and cash margins were better in Alaska than in the Bakken.

Mr. Thomson addressed slide 4 titled "What Difference Can Our Company Make" and stated that the graph was significant because it showed just the discoveries that Brooks Range Petroleum had made as a small start-up company. He pointed out that the Mustang development was producing about 15,000 bbl per day and that Brooks Range Petroleum would be at about 50,000 bbl of oil per day from all its developments if its reserves were confirmed. He referenced table 20 of an Econ One report that stated that 40,000 bbl of new oil would be needed to fully cover the state revenue differences that may result between SB 21 and ACES. He shared that slide 4's graph showed that one new exploration company that produced 50,000 bbl per day would make up for the differences between SB 21 and ACES. He thought that independents would come to Alaska as a result of the bill and that the state's oil production could be leveled; additionally, if the majors increased their spending in the legacy fields, Alaska's oil production could turn upward like it had in other states.

[10:34:50 AM](#)

Mr. Thompson discussed slide 4 titled "We See positives In SB 21 To Make Alaska More Competitive."

1) Eliminates progressivity factor, increases base tax rate from 25% to 33% but provides \$5/bbl produced bbl credit

- POSITIVE: Eliminating progressivity simplifies tax calculation and will be a public relations plus for AK
- NEGATIVE to POSITIVE: Base tax rate went from 25% to 35% not expected...a balance at 33% now in bill is reasonable
- POSITIVE: \$5 produced bbl credit better balances relative state/producer takes at low oil prices and flat take at higher prices

2) Increases "Carry Forward Loss Credit(CFL)" from 25% to 33% and is monetizable and transferrable

- POSITIVE: incrementally more future cash flow to re---deploy into facilities & drilling

3) SB 21 originally extended "Small Producers Credits" from 2016 to 2022...reduces small producers' tax bill by \$12 MM/yr...and latest version keeps the SPC extension to 2022 which is very positive for new players

- NEGATIVE TO POSITIVE: SPC REINSTATED TO 2022...more cash flow for small producers to re--deploy into facilities & drilling

4) Specifies 20% QCE tax credit certificate payment in 1 year vs. 2 but does eliminate QCE on 12/31/13 on NS only

- NEGATIVE: goes away 12/31/13 on North Slope...for BRPC, no QCE thru 2015 to redeploy into Mustang development project
- POSITIVE: IF EXTENDED to 12/31/15 for at least small producers...Mustang project was sanctioned assuming QCE...but OK to limit QCE per company per year to \$50MM in order to control impact on state treasury. Been helpful to CI small producers!

5) For new oil, introduces "20% Gross Value Reduction (GVR)" and amends definition of leases that can be included for this GVR 43.55.160...

- POSITIVE: Should incentivize and rewards new oil production on more leases, also helps during low oil price cycles

6) SB 21 originally had a 30% "Exploration Incentive Credit" for NS exploration wells drilled that target new oil discoveries regardless of location...similar to Cook Inlet...please re---instate this through 12/31/18 but OK to cap

- HUGE NEGATIVE: Doesn't matter to legacy field owners, but a huge negative for small exploration companies like ours
- HUGE POTENTIAL POSITIVE: REINSTATE THIS CREDIT, but to minimize impact on state treasury, limit

to \$25 MM credit per year per company...and limit the time for five years through 2018 then "retest" if incentive has generated more exploration

Mr. Thomson discussed slide 4. He spoke to bullet point number 3 and related that the biggest thing to Brooks Range Petroleum as a small company was probably the extension of the small producer credits to 2022. He explained that Brooks Range Petroleum did not have cash flow like the majors and would have its first production in the fourth quarter of 2014; extending the credit would help Brooks Range Petroleum get established and started in Alaska. He discussed bullet point number 4 and related that most of the work for the Mustang project would take place in 2014 after the QCE had expired; the extension of this credit through the end of 2015 would help small companies.

Mr. Thomason continued to speak to slide 4 and bullet point number 6. He related that Brooks Range Petroleum had not received one dollar in exploration credits in its 6 year drilling history and stated that currently on the North Slope, an exploration had to be 22 miles from existing units in order to qualify for exploration credits.

Co-Chair Stoltze stated that the 84 hours he had previously referenced was the time that the House Finance Committee had left and that the remaining 46 to 48 hours would be spent on the House Floor for advancement requirements and transferring bills to the other body. He related that he wanted to give the other body a chance to look at the bill as well and that the committee would do its best in its deliberations.

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

[10:40:39 AM](#)  
RECESSED

[1:34:55 PM](#)  
RECONVENED

[1:35:11 PM](#)  
RECESSED

[4:31:53 PM](#)

RECONVENED

Co-Chair Stoltze discussed the bills before the committee.

#hb63

HOUSE BILL NO. 63

"An Act extending the termination date of the Board of Governors of the Alaska Bar Association; and providing for an effective date."

4:32:24 PM

CECIL ELLIOT, STAFF, REPRESENTATIVE MIKE HAWKER, understood that the committee had a CS to offer.

Co-Chair Stoltze stated that there was a CS for HB 63 and inquired if the sponsors had seen it. Ms. Elliot responded in the affirmative, but added that Representative Hawker preferred a clean sunset bill rather than establishing policy in a sunset bill; however, the sponsor would defer to the will of the committee.

Representative Costello MOVED to ADOPT the proposed committee substitute for HB 63, Work Draft 28-LS0309\0 (Bailey, 4/8/13).

Representative Holmes OBJECTED for the purpose of discussion. She wanted to ensure that Section 3, which mandated continuing legal education for members of the Board of Governors of the Alaska Bar Association, only applied to the lawyer members. She believed that there were non-lawyer members on the board and inquired if that was correct.

Co-Chair Stoltze interjected that there were 3 non-attorney members on the board.

Representative Holmes was not sure if the non-attorney members should be required to take mandatory legal education.

Co-Chair Stoltze indicated that there had been equal protection questions regarding requiring the attorney members to take continuing legal education, but not requiring the public members to do so. He additionally referenced a letter of intent from the House Judiciary

Committee regarding the legislation and the Alaska Bar Association.

Representative Holmes inquired if the mandatory continuing legal education would apply to non-attorney members of the board. Co-Chair Stoltze replied in the affirmative.

Representative Costello asked what the voluntary continuing legal education requirements were for the board.

DANIEL GEORGE, STAFF, REPRESENTATIVE BILL STOLTZE, replied that currently members of the Board of Governors of the Alaska Bar Association were required to take 3 hours of continuing legal education, which could only be mandated by the Supreme Court; however, the Alaska Bar Association and an audit had made recommendations to increase that. Additionally, there was the voluntary hour component that had a current recommendation of 9 hours; this provision in the bill stated that members of the board "shall complete" the recommended hours.

[4:36:06 PM](#)

Representative Gara would consider the bill and listen to what people had to say on the House Floor; however, he did not want to hold up the bill and removed any objection he may have made.

Co-Chair Stoltze commented that Representative Gruenberg might have some thoughts on the bill.

Representative Holmes WITHDREW her OBJECTION.

There being no further OBJECTION, Work Draft 28-LS0309\O was ADOPTED as a working document.

Co-Chair Stoltze inquired if the fiscal note in members' packets was the most recent note. Mr. George stated that the Alaska Bar Association did not receive funding from the legislature.

Representative Costello discussed one zero fiscal note from the Department of Administration.

Representative Holmes MOVED to REPORT CSHB 63(FIN) out of committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 63(FIN) was REPORTED out of committee with a "do pass" recommendation and with one zero impact fiscal note from the Department of Administration.

[4:38:13 PM](#)

AT EASE

[4:39:05 PM](#)

RECONVENED

Co-Chair Stoltze spoke to the letter of intent for HB 63 from the House Judiciary Committee.

Representative Holmes MOVED to ADOPT the letter of intent for HB 63 from the House Judiciary Committee.

There being NO OBJECTION, it was so ordered.

Co-Chair Stoltze noted that the letter of intent would accompany the bill to the House floor.

CSHB 63(FIN) was REPORTED out of committee with a "do pass" recommendation and with one zero fiscal note from the Department of Administration and with an accompanying letter of intent from the House Judiciary Committee.

Co-Chair Stoltze communicated that Co-Chair Austerman would continue the meeting.

[4:39:44 PM](#)

AT EASE

[4:48:13 PM](#)

RECONVENED

#hb76

HOUSE BILL NO. 76

"An Act relating to electronic filing of certain information with the Department of Labor and Workforce Development; relating to surcharges, rate increase reduction, prohibition on the relief of certain charges, the unemployment trust fund account, and the offset of certain unemployment compensation debt under

the Alaska Employment Security Act; relating to the definition of 'covered unemployment compensation debt' in the Alaska Employment Security Act; and providing for an effective date."

Representative Holmes MOVED to ADOPT Amendment 1 to the legislation. The amendment would change the sunset date from 2018 to 2016 (page 6, line 3).

Representative Kawasaki OBJECTED for the purpose of discussion.

Representative Holmes noted that the amendment changed the 5-year sunset date to a 3-year sunset and would provide a 3-year try out period to make sure the bill worked as intended.

Vice-Chair Neuman asked about the meaning of 291 in layman's terms. ["291" was most likely made in reference to AS 23.20.291, which is the statute that Section 6 of the bill addressed.] Representative Holmes responded that the commissioner would probably be better suited to answer the question, but understood that it was associated with a formula that determined year-by-year whether the tax rates for the unemployment insurance needed to be raised; Section 6 of the bill gave the Department of Labor and Workforce Development, in certain circumstances, some discretion that it did not currently have.

Representative Wilson inquired why the sunset date was being reduced by 2 years. Representative Holmes replied that she was not entirely sure what Section 6 did, but that it used a 3-year average in the formula calculation and thought that given the level of uncertainty involved, 3 years would provide a feel for how the bill was working without being too worried about the level of the fund. She concluded that the 3-year sunset period was not a magic number.

Representative Wilson inquired if the intent of the original sunset in 2018 was to do the same look back. Representative Holmes replied that it was her understanding that the look back was consistent with Section 6 of the bill.

Representative Gara noted that he had a question for the commissioner that was unrelated to the amendment.

Representative Kawasaki WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment 1 was ADOPTED.

4:52:18 PM

DIANE BLUMER, COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, deferred the question to Mr. Dick.

Representative Gara queried how much the surplus was currently, as well as the difference between income coming in and expenses going out for the past year or two.

PAUL DICK, DIRECTOR, EMPLOYMENT SECURITY DIVISION, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, replied that the fund was a reserve concept and that the idea of a surplus was not really applicable to the orientation of the fund; however, the department did believe there was room for the exercise of discretion that was in Section 6 of the bill to allow for some reduction in the tax rates so that the reserve would remain solvent in the short-term and long-term future.

Mr. Dick inquired what the second part of the question had been. Representative Gara queried what the surplus was now, as well as what the expenses and income were. Mr. Dick responded that the past several years there had been greater benefits paid out than revenues. He pointed out that FY12 was the last fiscal year on record and that the revenues were close to the benefits in that year. He thought that the department was coming out of a recession where there was a high cost of benefits, but that the trend was turning around; he offered that this was a typical business cycle that the department had seen over the years for unemployment insurance and claims. He added that there were years of high benefits that exceeded the revenue, but that the department was seeing that turning around as the economy came out of recession.

Representative Gara understood that FY12 was roughly even in terms of revenues and benefits and inquired how much the deficit had been the year before, as well as what the surplus was. Mr. Dick believed the deficit had been approximately \$10 million out of \$170 million collected and that the current trust fund balance was \$251 million.

Representative Kawasaki offered that the term surplus was a misnomer and inquired if the fund had ever been in the negative since 1983. Mr. Dick replied that the fund had never been in the negative.

Representative Kawasaki further queried if there had been years that the fund had put out more money than it had taken in. Mr. Dick replied in the affirmative.

Representative Kawasaki observed that there were very few mechanical formulas that had worked successfully, but that this fund seemed to be one. He observed that the fund seemed well managed and expressed concern that tinkering with it would risk its solvency.

[4:57:45 PM](#)

Representative Munoz inquired if the suspension of the increase would ultimately be due from the employer if a commissioner had determined that the increase was suspended. She further inquired if the payment would be ultimately due.

BRYNN KEITH, ACTING DEPUTY COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, answered that ultimately, the tax would be collected. What the bill did as designed was defer that collection during a period of economic recovery in order to give employers more time to recover; furthermore, the fund would try to get to the "magical" 3 percent to 3.3 percent reserve rate that included the surplus that the department talked about. She explained that the department wanted to be at the surplus when there was an economic downturn; the system was designed so that that surplus was a buffer when the fund was paying out more money than it was taking in.

Representative Munoz requested an explanation of the training programs that "this" funded. Ms. Keith replied that the training funds for both the State Training and Employment Program (STEP) and the Alaska Technical Vocational Education Program (TVEP) were from taxes that came off of employees' wages; it was the same amount irrespective of the unemployment insurance taxation. She expounded that any changes that would be made in terms of the bill would be moot in relation to the contribution to STEP and TVEP; what would affect the 2 programs was how many

individuals were working, what the average wage was, and other factors in the economy.

Representative Costello discussed one zero fiscal note from the Department of Labor and Workforce Development and one fiscal impact note from the Department of Labor and Workforce Development.

Representative Costello MOVED to REPORT CSHB 76 (FIN) out of committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

CSHB 76(FIN) was REPORTED out of committee as amended with a "do pass" recommendation and with one new fiscal impact note from the Department of Labor and Workforce Development and one new zero fiscal note from the Department of Labor and Workforce Development.

[5:01:04 PM](#)

AT EASE

[5:02:14 PM](#)

RECONVENED

#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."

SB 18 was SCHEDULED but not HEARD.

#sb7

SENATE BILL NO. 7 am

"An Act relating to the computation of the tax on the taxable income of a corporation derived from sources within the state."

SB 7 was SCHEDULED but not HEARD.

#sb57

CS FOR SENATE BILL NO. 57(FIN)

"An Act relating to parental involvement in education; adjusting pupil transportation funding; amending the time required for employers to give tenured teachers notification of their nonretention; and providing for an effective date."

SB 57 was SCHEDULED but not HEARD.

#hr8

HOUSE RESOLUTION NO. 8

Establishing the Task Force on Sustainable Education in the House of Representatives.

HR 8 was SCHEDULED but not HEARD.

#

ADJOURNMENT

[5:02:14 PM](#)

The meeting was adjourned at 5:02 p.m.