

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 29, 2013

2:52 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Dan Saddler, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Mike Hawker
Representative Kurt Olson
Representative Paul Seaton
Representative Geran Tarr
Representative Chris Tuck

MEMBERS ABSENT

Representative Craig Johnson

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE 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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 21

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/16/13 (S) READ THE FIRST TIME - REFERRALS

01/16/13 (S) TTP, RES, FIN
01/22/13 (S) TTP AT 3:30 PM BELTZ 105 (TSBldg)
01/22/13 (S) Heard & Held
01/22/13 (S) MINUTE(TTP)
01/24/13 (S) TTP AT 3:30 PM BUTROVICH 205
01/24/13 (S) Heard & Held
01/24/13 (S) MINUTE(TTP)
01/29/13 (S) TTP AT 3:30 PM BELTZ 105 (TSBldg)
01/29/13 (S) Heard & Held
01/29/13 (S) MINUTE(TTP)
01/31/13 (S) TTP AT 1:00 PM BUTROVICH 205
01/31/13 (S) Heard & Held
01/31/13 (S) MINUTE(TTP)
02/05/13 (S) TTP AT 3:30 PM BUTROVICH 205
02/05/13 (S) Heard & Held
02/05/13 (S) MINUTE(TTP)
02/07/13 (S) TTP AT 3:30 PM BUTROVICH 205
02/07/13 (S) Moved SB 21 Out of Committee
02/07/13 (S) MINUTE(TTP)
02/08/13 (S) TTP RPT 1NR 4AM
02/08/13 (S) NR: DUNLEAVY
02/08/13 (S) AM: MICCICHE, GARDNER, FAIRCLOUGH,
MCGUIRE
02/08/13 (S) LETTER OF INTENT WITH TTP REPORT
02/09/13 (S) TTP AT 10:00 AM BUTROVICH 205
02/09/13 (S) -- MEETING CANCELED --
02/11/13 (S) RES AT 3:30 PM BUTROVICH 205
02/11/13 (S) Heard & Held
02/11/13 (S) MINUTE(RES)
02/13/13 (S) RES AT 3:30 PM BUTROVICH 205
02/13/13 (S) Heard & Held
02/13/13 (S) MINUTE(RES)
02/15/13 (S) RES AT 3:30 PM BUTROVICH 205
02/15/13 (S) Heard & Held
02/15/13 (S) MINUTE(RES)
02/18/13 (S) RES AT 3:30 PM BUTROVICH 205
02/18/13 (S) Heard & Held
02/18/13 (S) MINUTE(RES)
02/20/13 (S) RES AT 3:30 PM BUTROVICH 205
02/20/13 (S) Heard & Held
02/20/13 (S) MINUTE(RES)
02/22/13 (S) RES AT 3:30 PM BUTROVICH 205
02/22/13 (S) Heard & Held
02/22/13 (S) MINUTE(RES)
02/25/13 (S) RES AT 3:30 PM BUTROVICH 205
02/25/13 (S) Heard & Held
02/25/13 (S) MINUTE(RES)

02/27/13 (S) RES AT 3:30 PM BUTROVICH 205
02/27/13 (S) Moved CSSB 21(RES) Out of Committee
02/27/13 (S) MINUTE(RES)
02/28/13 (S) RES RPT CS 3DP 1DNP 2NR 1AM NEW
TITLE
02/28/13 (S) LETTER OF INTENT WITH RES REPORT
02/28/13 (S) DP: GIESSEL, MCGUIRE, DYSON
02/28/13 (S) DNP: FRENCH
02/28/13 (S) NR: MICCICHE, BISHOP
02/28/13 (S) AM: FAIRCLOUGH
02/28/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/28/13 (S) Heard & Held
02/28/13 (S) MINUTE(FIN)
03/01/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/01/13 (S) Heard & Held
03/01/13 (S) MINUTE(FIN)
03/01/13 (S) RES AT 3:30 PM BUTROVICH 205
03/01/13 (S) -- MEETING CANCELED --
03/02/13 (S) RES AT 10:00 AM BUTROVICH 205
03/02/13 (S) -- MEETING CANCELED --
03/04/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/04/13 (S) Heard & Held
03/04/13 (S) MINUTE(FIN)
03/04/13 (S) FIN AT 1:30 PM SENATE FINANCE 532
03/04/13 (S) Heard & Held
03/04/13 (S) MINUTE(FIN)
03/05/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/05/13 (S) Heard & Held
03/05/13 (S) MINUTE(FIN)
03/05/13 (S) FIN AT 1:30 PM SENATE FINANCE 532
03/05/13 (S) Heard & Held
03/05/13 (S) MINUTE(FIN)
03/06/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/06/13 (S) Heard & Held
03/06/13 (S) MINUTE(FIN)
03/06/13 (S) FIN AT 1:30 PM SENATE FINANCE 532
03/06/13 (S) Heard & Held
03/06/13 (S) MINUTE(FIN)
03/06/13 (S) FIN AT 3:00 PM SENATE FINANCE 532
03/06/13 (S) -- Public Testimony --
03/11/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/11/13 (S) -- MEETING CANCELED --
03/11/13 (S) FIN AT 1:30 PM SENATE FINANCE 532
03/11/13 (S) -- MEETING CANCELED --
03/12/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/12/13 (S) Bills Previously Heard/Scheduled
03/12/13 (S) FIN AT 1:30 PM SENATE FINANCE 532

03/12/13 (S) Heard & Held
03/12/13 (S) MINUTE(FIN)
03/12/13 (S) FIN AT 4:00 PM SENATE FINANCE 532
03/12/13 (S) Heard & Held
03/12/13 (S) MINUTE(FIN)
03/13/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/13/13 (S) Heard & Held
03/13/13 (S) MINUTE(FIN)
03/13/13 (S) FIN AT 1:30 PM SENATE FINANCE 532
03/13/13 (S) Heard & Held
03/13/13 (S) MINUTE(FIN)
03/14/13 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/14/13 (S) Moved CSSB 21(FIN) Out of Committee
03/14/13 (S) MINUTE(FIN)
03/18/13 (S) FIN RPT CS 2DP 1DNP 1NR 3AM NEW
TITLE
03/18/13 (S) DP: KELLY, MEYER
03/18/13 (S) DNP: HOFFMAN
03/18/13 (S) NR: FAIRCLOUGH
03/18/13 (S) AM: DUNLEAVY, BISHOP, OLSON
03/18/13 (H) RES AT 1:00 PM BARNES 124
03/18/13 (H) Scheduled But Not Heard
03/19/13 (S) RLS AT 9:00 AM FAHRENKAMP 203
03/19/13 (S) -- MEETING CANCELED --
03/20/13 (H) RES AT 1:00 PM BARNES 124
03/20/13 (H) Scheduled But Not Heard
03/21/13 (S) TRANSMITTED TO (H)
03/21/13 (S) VERSION: CSSB 21(FIN) AM(EFD FLD)
03/22/13 (H) READ THE FIRST TIME - REFERRALS
03/22/13 (H) RES, FIN
03/22/13 (H) RES AT 1:00 PM BARNES 124
03/22/13 (H) Heard & Held
03/22/13 (H) MINUTE(RES)
03/25/13 (H) RES AT 1:00 PM BARNES 124
03/25/13 (H) Heard & Held
03/25/13 (H) MINUTE(RES)
03/26/13 (H) RES AT 6:00 PM BARNES 124
03/26/13 (H) Heard & Held
03/26/13 (H) MINUTE(RES)
03/27/13 (H) RES AT 1:00 PM BARNES 124
03/27/13 (H) Heard & Held
03/27/13 (H) MINUTE(RES)
03/28/13 (H) RES AT 6:00 PM BARNES 124
03/28/13 (H) Heard & Held
03/28/13 (H) MINUTE(RES)
03/29/13 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

MICHAEL PAWLOWSKI, Oil & Gas Development Project Manager
Office of the Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on CSSB 21(FIN) am(efd fld), answered questions regarding the proposed committee substitute, HCS CSSB 21, Version B.

SUSAN POLLARD, Assistant Attorney General
Oil, Gas & Mining Section
Civil Division (Juneau)
Department of Law
Juneau, Alaska

POSITION STATEMENT: During the hearing on CSSB 21(FIN) am(efd fld), answered questions regarding the proposed committee substitute, HCS CSSB 21, Version B.

JOE BALASH, Deputy Commissioner
Office of the Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on CSSB 21(FIN) am(efd fld), answered questions regarding the proposed committee substitute, HCS CSSB 21, Version B.

ACTION NARRATIVE

[2:52:10 PM](#)

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 2:52 p.m. Representatives Olson, Seaton, P. Wilson, Tuck, Saddler, and Feige were present at the call to order. Representatives Tarr and Hawker arrived as the meeting was in progress.

SB 21-OIL AND GAS PRODUCTION TAX

[2:52:28 PM](#)

CO-CHAIR FEIGE announced that the only order of business is 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."

[2:52:45 PM](#)

CO-CHAIR SADDLER moved to adopt HCS CSSB 21, Version 28-GS1647\B, Nauman/Bullock, 3/29/13, as the working document. There being no objection, Version B was before the committee.

[2:53:07 PM](#)

CO-CHAIR FEIGE pointed out two issues with Version B, the first being the language [added] in the title on page 1, line 9, which begins with "relating to the determination of annual oil and gas production tax value ...". He explained there were sections in the bill that came over from the other body dealing with this, but it was not included in the title, so this is a "technical adjustment" and by itself it does not require a title change resolution. The second issue is that Version B does not address the effective dates. In the Senate version, the vote on the effective date failed, which led to the stripping out of the effective date clauses, but the bill is still written as if some of those effective date clauses were there. He said the committee will deal with these issues in future amendments.

[2:54:41 PM](#)

CO-CHAIR FEIGE reviewed the changes included in Version B. In Section 2, page 2, line 5, the revenue sharing source has been changed back to the corporate income tax. Section 22, page 16, line 7, is the most major change to the bill and pertains to changes in the per barrel exclusions in AS 43.55.024 - a sliding scale has been established for those per barrel exclusions within areas that do not fall under the categories of the gross value reduction (GVR), previously called the gross revenue exclusion (GRE), which is detailed in Section 31. Sections 23 and 24, pages 17 and 18, eliminate the three-mile rule between previously drilled bottom hole locations and new

exploration wells, but only as it applied to "Middle Earth". He advised that the committee is not neglecting the several other issues raised during the course of testimony, saying work will be continued to address some of those issue.

[2:56:49 PM](#)

REPRESENTATIVE TARR stated she has not had a chance to look at Sections 23 and 24, and noted that some issues were brought to her attention about the Middle Earth provisions in last year's "omnibus bill" [Senate Bill 23, Twenty-Seventh Legislature]. One issue was extension of the credit period, which it looks like this does. She asked whether the co-chair was aware of those concerns and whether the changes address them.

CO-CHAIR FEIGE said he is aware of the concerns but that these changes do not address them. If those changes are made, he continued, they will be made in the House Finance Committee. The specific changes are on page 18, lines 2 and 21, and all it says is that the credits in subsection (m) of AS 43.55.025 must include (c)(1), (c)(2)(A), and (c)(2)(C); exempted is (c)(2)(B), which pertains to the three-mile rule.

[2:58:12 PM](#)

REPRESENTATIVE SEATON inquired whether in Section 22 the credit is calculated on a monthly basis with no annual true-up.

MICHAEL PAWLOWSKI, Oil & Gas Development Project Manager, Office of the Commissioner, Department of Revenue (DOR), replied Section 22 applies to the per barrel credit, the per barrel credit for the specific production identified on page 16, line 17, which is the production that does not meet any of the criteria in AS 43.55.160(f). He explained AS 43.55.160(f) is the adjustment to the gross value reduction section, previously referred to as the gross revenue exclusion section, on page 24, beginning on line 19. Last night the committee had considerable debate regarding identified pockets in legacy fields that were not contributing. This has been removed from that section so the Section 22 per barrel credit only applies to the oil that does not meet one of the GVR sections. The tax credit is determined monthly based on the gross value at the point of production and it does not affect the annual true-up that happens in the natural course of calculating a company's production tax liability.

SUSAN POLLARD, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division (Juneau), Department of Law (DOL), added that "the look back for figuring out the credit is ... monthly, gross value at point of production of the North Slope oil, the prior month."

[3:00:48 PM](#)

REPRESENTATIVE SEATON surmised it is the same calculation as progressivity with a monthly tax, but in this case it is a credit that is monthly rather than on an annual basis.

MR. PAWLOWSKI responded the credit is what is changing in value on a monthly basis. That credit is based on the gross value at the point of production and the taxable production. The tax rate itself is not changing, it remains at the level of 35 percent which avoids some of the marginal impacts that happen as a tax rate itself changes. It is a credit that adjusts on a monthly basis, rather than a tax rate that adjusts on a monthly basis.

[3:01:46 PM](#)

CO-CHAIR FEIGE drew attention to the gross value reduction (GVR) provisions in Section 31, page 24, explaining that subparagraph (1) applies to new units formed after January 1, 2003. Subparagraph (2) applies to new participating areas (PAs) established in an old unit after December 31, 2011. Addressing subparagraph (3), he explained the previous language was discarded because it was fuzzy in regard to whether an area had contributed to production. The new language provides that if a producer adds to an existing PA, then that area is defined as new oil and qualifies for the GVR. Anything that does not qualify under the GVR would qualify for the credit provided under Section 22.

[3:03:29 PM](#)

REPRESENTATIVE SEATON surmised this is added acreage, not added production.

CO-CHAIR FEIGE answered no, it is going to be on the oil produced from those new areas.

[3:03:48 PM](#)

REPRESENTATIVE SEATON cited the language on page 24, lines 30-31, "acreage added to an existing participating area." He concluded this is not on increased production necessarily; if there is acreage added then that is what this is talking about.

CO-CHAIR FEIGE posed a scenario to explain: There is a participating area (PA) within a legacy field. In the course of exploration the company determines that outside of the original PA there is production. The company expands the PA to include that new pool or reservoir and will now start producing from that. The state will consider this addition to the existing PA as new oil because that is part of what is trying to be incentivized for development.

[3:05:01 PM](#)

REPRESENTATIVE SEATON stated participating areas have generally been reservoirs.

CO-CHAIR FEIGE replied correct.

REPRESENTATIVE SEATON continued, saying that here it is acreage, which is surface, which is like a unit. He said he is trying to get clarity on what is meant here - whether it is expanding surface acreage and that changes, or whether it is reservoir delineation.

CO-CHAIR FEIGE stated Mr. Pawlowski will get back to the committee with this clarification.

[3:05:46 PM](#)

REPRESENTATIVE TARR inquired whether Sharks Tooth, an example previously discussed in relation to the GVR/GRE, would qualify under the parameters in Version B.

JOE BALASH, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), responded that in the Sharks Tooth example there is a circumstance where a portion of the Kuparuk PA could be contracted out of the PA and later expanded to include the larger acreage that would comprise the Sharks Tooth production area. In that case, acreage could be added and to qualify for the GVR/GRE, not only would an expansion have to take place, but it would also have to be metered separately. So, not all expansions of PAs are going to qualify for the GVR and if they do not, they will get the sliding scale per barrel credit.

[3:07:24 PM](#)

CO-CHAIR FEIGE advised that the plan is to let Version B "soak in the public arena" with public testimony and invited testimony next week, as well as presentations from the Department of Revenue and the legislature's consultant.

[3:08:22 PM](#)

REPRESENTATIVE TARR inquired whether a fiscal note will be available by the next committee meeting.

MR. PAWLOWSKI replied he is unsure whether there will be an actual fiscal note, explaining that as the bill has moved through committees and amendments offered, DOR has reserved the final fiscal note for after the version is adopted. The department is putting out draft tables of what the fiscal note would look like, understanding that further mechanisms might be added or things might be moved around. He assured members that DOR will be prepared to provide a reasonable presentation of the fiscal impacts of the changes in Version B.

[3:09:15 PM](#)

REPRESENTATIVE SEATON requested that graphs of the different impacts be provided by Monday.

[3:09:35 PM](#)

CO-CHAIR FEIGE, responding to Representative Tarr, confirmed the small producer credits and other issues are not addressed in Version B and stated amendments can be offered in this regard.

[3:09:57 PM](#)

CO-CHAIR FEIGE held over CSSB 21(FIN) am(efd fld).

[3:10:23 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:10 p.m.