

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 1, 2013

1:05 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

Representative Mike Hawker

**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  
03/29/13 (H) Heard & Held

03/29/13 (H) MINUTE(RES)  
04/01/13 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

BILL CORBUS  
Juneau, Alaska  
**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

GARY MILLER  
Juneau, Alaska  
**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

JACKIE STEWART  
Juneau, Alaska  
**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

DAVID PERRY  
Meyers Chuck, Alaska  
**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

BRAD FAULKNER  
Homer, Alaska  
**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

KEVIN WALKER  
Homer, Alaska  
**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

JOSEPH SEBASIAN  
Kupreanof, Alaska  
**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

ROGER BURGGRAF  
Fairbanks, Alaska  
**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

LUKE HOPKINS, Mayor  
Fairbanks North Star Borough

President, Alaska Conference of Mayors  
Fairbanks, Alaska

**POSITION STATEMENT:** During the hearing on CSSB 21(FIN) am(efd fld), urged the language for community revenue sharing that was included in the original version of SB 21 be included in the proposed committee substitute.

KARL GOHLKE  
Frontier Supply Company  
Fairbanks, Alaska

**POSITION STATEMENT:** During the hearing of CSSB 21(FIN) am(efd fld), testified in support of oil production tax reform.

TIM TILSWORTH  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to all versions of SB 21 unless certain steps are taken.

RENEE SCHOFIELD  
TSS, Inc.  
Ketchikan, Alaska

**POSITION STATEMENT:** During the hearing of CSSB 21(FIN) am(efd fld), testified in favor of the proposed committee substitute, HCS CSSB 21, Version B.

OWEN GRAHAM  
Alaska Forest Association  
Ketchikan, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

SONYA FUNARO  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

TARA SWEENEY, Senior Vice President  
External Affairs  
Arctic Slope Regional Corporation (ASRC)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in general support of CSSB 21(FIN) am(efd fld) and offered suggestions on the bill.

GRAHAM GREEN  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of SB 21.

MARY BARR

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

TOM MALONEY

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

RACHAEL PETRO, President and CEO

Alaska State Chamber of Commerce

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

MAYNARD TAPP

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

LYNN JOHNSON

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

JOHN DICKENS

Bethel, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

DEANTHA CROCKETT, Executive Director

Alaska Miners Association (AMA)

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

CINDY ROBERTS

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

JOHN "JACK" RODERICK

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to CSSB 21(FIN) am(efd fld).

RICK ROGERS, Executive Director  
Resource Development Council for Alaska, Inc. (RDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

CARL PORTMAN  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

KEITH SILVER  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

SCOTT HAWKINS, President and CEO  
Advanced Supply Chain International  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

GAIL PHILLIPS  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

JEANINE ST. JOHN  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in qualified support of CSSB 21(FIN) am(efd fld).

JOE MATHIS, Vice President for External Affairs  
NANA Development Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

MARY ANN PEASE, Owner  
MAP Consulting  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of CSSB 21(FIN) am(efd fld).

#### **ACTION NARRATIVE**

[1:05:40 PM](#)

**CO-CHAIR ERIC FEIGE** called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Seaton, Johnson, Tuck, Tarr, Olson, P. Wilson, Saddler, and Feige were present at the call to order.

**SB 21-OIL AND GAS PRODUCTION TAX**  
**DRAFT**

[1:05:59 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." [Before the committee was HCS CSSB 21, Version B, labeled 28-GS1647\B, Nauman/Bullock, 3/29/13, adopted as the working document on 3/29/13.]

CO-CHAIR FEIGE opened public testimony on the proposed committee substitute, HCS CSSB 21, Version B.

[1:07:10 PM](#)

BILL CORBUS noted he served as commissioner of the Department of Revenue under Governor Frank Murkowski from 2003-2006. He participated in the decision on the economic limit factor (ELF) aggregation, formulation of the production profits tax (PPT), and watched with dismay in 2007 when the legislature passed Alaska's Clear and Equitable Share (ACES). He offered his support for CSSB 21(FIN) am(efd fld) that includes removal of the extreme progressive tax increase at higher oil prices, inclusion of the gross revenue exclusion (GRE), modification of the tax credit system that will result in credits being granted when oil is produced, and encouragement of new production in the

old legacy fields where a large proportion of total reserves is located. He said this legislation is needed to increase the investment by the petroleum industry to stem the declining oil production. It is also necessary if Alaska is to continue the prosperity it has experienced in the past.

[1:09:11 PM](#)

REPRESENTATIVE P. WILSON inquired whether Mr. Corbus was discussing CSSB 21(FIN) am(efd fld) or the proposed committee substitute, Version B.

MR. CORBUS replied he is not up to speed on the proposed committee substitute, but he is up to speed through the Senate's action.

[1:09:55 PM](#)

GARY MILLER asked who would buy a \$30,000 car without a guarantee and then asked why the oil companies would be given billions of dollars with no guarantee. Alaska's citizens are well aware of progressivity, he said, because when they pay their federal taxes the more they earn the higher the percentage they pay in taxes. The citizens of Alaska pay a progressivity tax and the oil companies should also. The State of Alaska has been given more income by ACES to serve its citizens, while at the same time giving the oil companies \$35 billion in profits. But that is not enough for them, he charged, they want more and to get it they have to have the State of Alaska give up services to its citizens, which would be shortchanging the citizens of Alaska. He urged that this not be done.

[1:11:08 PM](#)

JACKIE STEWART testified she began working in Alaska in 1975 and retired from her state work in 2008. She expressed her concern about the state's unfunded liability for retirees and about education in the state. Her son is in the school system and plans to continue through the Alaska university system. She understood that education is flat funded and that pre-kindergarten has lost about one-third of its funding. She pointed out that these are usually the at-risk children, not the children whose parents can afford good pre-schools. She asked whether these children will be helped to be productive citizens of the state or will the state scrimp on their education so more money can be put into the coffers of the oil companies. The bill is ineffective because there are no guarantees, she said.

If legislators want to reduce oil taxes it should be done in a way that gets some kind of guarantee of production, not a promise or a hope. If this bill is passed, the committee members' constituents will be looking to see how their representative voted and once they realize what a horrific financial mistake it was, they will not vote members back in. The motives of the governor and senators who passed the legislation are being questioned by the people. She urged that the bill not be passed out of committee.

1:14:01 PM

DAVID PERRY questioned why state government would want to reduce the taxing on these large corporations at a time when they are posting record profits and yet the state is moving into the area of reduced funding. He expressed his concern about reduced education and about unfunded liabilities since he is a state employee working for the Alaska Marine Highway System (AMHS). He related that while at sea, crew members are discussing why the state is doing this at a time when the state has so many needs. He is bothered that there is no commitment from the oil companies that they are indeed going to increase production if their tax liability is reduced. Given the state's situation he would think the state would be looking for a commitment from the oil companies to increase production.

1:16:10 PM

BRAD FAULKNER said he is an Alaska resident of 55 years, starting to work on construction of the Trans-Alaska Pipeline System (TAPS) in 1975 and working a number of jobs on the North Slope off and on since then. He strongly opposes the bill as written because he fears that excluding new areas of the legacy fields will have a fiscal impact three to four times what is being predicted. A reason for his fear, he explained, is that much four-dimensional seismic work has been done throughout the legacy fields in the last few years. In Kuparuk that work has been combined with coiled tube directional drilling and Conoco has been able to drill as many as eight separate small pockets of oil off the same hole. When ELF was passed the unintended consequence was that 80 percent of the oil from Kuparuk and Prudhoe was excluded. This same unintended consequence will be found with this bill, he warned, particularly in Kuparuk where the oil is in micro-pools rather than larger pools. It is known that a huge pool of oil sits just off the eastern portion of Prudhoe that has never been tapped and the "end game" has been to figure out how to use this field that would put as much as

165,000 barrels of oil in the pipeline for ten years from the time it is tapped. Unfortunately, those well logs remain proprietary even though they have been known about for years. These 600 million barrels of oil have been warehoused for 35-40 years and now the state is going to give a tax break to develop it while cutting school funding and every other bit of state funding to do it. As a lifelong Alaskan that does not set well with him. When tweaking the bill, it does not matter whether [the base rate] is 30 or 35 percent because it is all about new areas of legacy fields and that is going to make the cost of this bill go up three or four times.

[1:19:17 PM](#)

CO-CHAIR SADDLER inquired why that pool of 600 million barrels of oil has not been produced by the industry when prices are now so high. He further asked where this information about the pool of oil comes from.

MR. FAULKNER responded it has not been drilled at high prices because it is not their first oil field in the world. Every oil field has a predictable decline curve and they built themselves a 48-inch pipeline. So, at some point, to get the last bit of oil out of this massive oil field they found they were going to have to put a minimum amount of oil in order to suck the last of the oil out of the Prudhoe field; remember when they came up with this plan they did not have Kuparuk pegged out yet. An individual retirement account (IRA) is putting money aside to have money for living off during old age - and this is an oil field IRA. He said he cannot tell the committee how he knows this, but he can say time will prove him right. In further response, he posited there are many oil geologists within the state and industry who understand this.

CO-CHAIR SADDLER surmised that what is being said is an unsubstantiated allegation.

MR. FAULKNER answered, "It is kind of unsubstantiated like the gains that the oil companies plan to give you are unsubstantiated. So, that is correct."

[1:21:12 PM](#)

KEVIN WALKER noted Mr. Faulkner wrote an editorial in a Homer newspaper about the 600 million barrels of oil, which is enough oil to keep the pipeline open for 10 more years. The pipeline was built for a 30-year life, but is already 35 years old and in

need of being fixed or rebuilt. Expressing concern about conflict of interest, he said the governor is an oil lobbyist and [Senator] Micciche is a superintendent for ConocoPhillips. Why rush getting oil out of the ground now at \$110 a barrel when in 10-30 years it will be worth \$2,000 a barrel, he asked. The state does not need to go into debt; the oil is like a bank account and can be withdrawn when needed. The state is getting by and does not need to give the oil companies billions of dollars in tax breaks at this time.

1:23:18 PM

JOSEPH SEBASIAN, a commercial fisherman, said he opposes the bill. He related that Governor Parnell is a former oil lobbyist who has said that if this bill is passed something will happen in three to five years. He further related that Ms. Rehfeld of the Office of Management & Budget has said the hope is that production will increase. So, he continued, there is a "maybe" and a "hope", but nothing in black or white or legal factual response from the oil companies. He related that President Calvin Coolidge said, "It is much more important to kill bad bills than pass good ones." Inquiring whether committee members remember "Chuck Hamel or Wackenhut Detective Agency or the Alyeska Pipeline Consortium", he charged that the oil companies have a history of being notorious liars. He reminded members that one of Alaska's most trusted oil advisors, Pedro van Meurs, has said this oil tax giveaway is unnecessary and wrong. He urged the state stay the course for the next three to five years and wait until there is a solid, factual, and legal commitment from the oil companies before Alaskans consider changes. There is no rush or emergency at this time; let the bill die the death it deserves. He shared that his family, children, friends, and people he meets on the street are concerned about the bill.

1:25:58 PM

ROGER BURGGRAF supported CSSB 21(FIN) am(efd fld), saying Alaska is almost totally dependent on oil reserve revenues to cover the costs of government and capital improvements that must be made for the state to survive. Failure to increase oil production will destroy the economic viability of Alaska's economy, its villages, towns, and cities, and the opportunity for the state's people, both in government and private industry, to provide for their families. The legislature in the past has failed to address this problem, ignoring the signs of reduced oil production. While he is no expert on oil and gas taxation, he said he knows something must be done to get the oil companies to

continue to invest in Alaska and find more oil for production. He offered his hope that the interests of those who feel that oil is bad and who do not want more production will not prevail again this year. Meaningful oil tax reform is needed to encourage investment in Alaska by the oil companies. Alaska, if it is going to grow and develop, must build out its infrastructure to gain access to its resources to allow Alaskans to live in Alaska and industries to provide jobs. He said ACES has not done its job; he urged there be a plan that will allow Alaska to survive into the twenty-first century.

[1:29:05 PM](#)

LUKE HOPKINS, Mayor, Fairbanks North Star Borough, President, Alaska Conference of Mayors, thanked the committee for its consideration of community revenue sharing being tied back to a specific source of tax revenue. He urged the committee to support the governor's language in SB 21 that ties the source of community revenue sharing to the corporate income tax since the revenue sharing program has always had a particular source of funding called out in legislation. The Senate removed that language, which is of concern to many of the mayors he has spoken to. Many of his fellow mayors are concerned as to what the local community will be experiencing in terms of reduced fees and state programs that come to local communities. Revenue sharing is one piece that is very near and dear to his borough's residents because in his community the mayors have always put that back into reduced property taxes. He again urged that the language as written in the governor's legislation for the \$60 million in funding be maintained.

[1:31:33 PM](#)

REPRESENTATIVE TARR asked whether the Alaska Conference of Mayors has sent anything to the legislature or passed a resolution on this.

MAYOR HOPKINS replied the organization has not yet had the chance to meet by conference call or electronic mail to pass a resolution. The Alaska Conference of Mayors met with the governor last week and the conference only has a "white paper" on the issue about its concern for the source of revenue, which he offered to send to the committee.

REPRESENTATIVE TARR requested Mayor Hopkins to do so.

[1:32:32 PM](#)

CO-CHAIR SADDLER inquired whether Mayor Hopkins is taking a position on the entire bill in addition to a source for community revenue sharing.

MAYOR HOPKINS responded the bill has concerns for the mayors; letters have been sent to the governor and they were copied to all legislators. Of concern for near-term community level planning is what happens to those programs that receive state funding to assist community residents when the state is in a reduced budget scenario. Nothing very definitive has been heard and the mayors are hoping that as the conversation goes along there will be more definition. He would say the mayors are holding their breath but will have to agree at some point soon and have that conversation with the legislature. He has had conversations with the Interior Delegation members on what might be expected and there is not yet much definition.

[1:34:06 PM](#)

CO-CHAIR SADDLER concluded Mayor Hopkins is appreciative of the linkage with revenue sharing, is concerned about the possible loss of revenue, but takes no position on the bill.

MAYOR HOPKINS answered he would say, "at this time, yes," with the understanding that there is a need to have oil flowing and all those pieces and how to arrive at that. From the conversations he has had, he is unsure there is going to be a re-direction of this legislative package and what may happen to education and other programs that get down to the local level.

[1:34:54 PM](#)

REPRESENTATIVE SEATON appreciated the desire to link revenue sharing and corporate income tax. However, he noted, another section of the bill gives up to \$10 million in corporate income tax credit to oil service providers. He asked if Mayor Hopkins has analyzed whether there is going to be a pot of money with these reductions in corporate income tax that will sufficiently provide for revenue sharing as well as education tax credits.

MAYOR HOPKINS understood the amount of funding received by the state for its corporate and oil and gas taxation, separate from progressivity, is \$750 million. So, with the other reductions that are being talked about, save major reductions in corporate income taxes, there should be enough money for \$60 million every year to be set aside for revenue sharing.

1:36:52 PM

REPRESENTATIVE SEATON presumed Mayor Hopkins has looked at Version B, the committee substitute, that ties [revenue sharing] to AS 43.20.030(c), which he believes is just the corporate income tax. He encouraged Mayor Hopkins to re-analyze this if the mayor is thinking it is corporate income tax as well as oil and gas production tax.

MAYOR HOPKINS responded that is why he is asking to go back to the governor's language which has that larger body of annual tax revenue for revenue sharing and other items that may be attached in this legislation, so it is that \$750 million pot of money.

1:37:59 PM

KARL GOHLKE, Frontier Supply Company, stated his company is a member of the Resource Development Council (RDC), Alaska Oil and Gas Association (AOGC), Alaska Miners Association (AMA), Associated General Contractors of Alaska (AGC), [Alaska Industry Support] Alliance, and the Greater Fairbanks Chamber of Commerce. He maintained the production decline is not because Alaska is running out of oil, but is in part due to Alaska no longer being competitive in attracting industry investment for oil and gas production. High oil prices have expanded industry investment in production, but not in Alaska. Alaska has dropped behind North Dakota in production and is at risk of falling behind California and becoming fourth in the nation. Alaska has the highest cost in tax rates in the nation. Corporate capital is limited and only the most profitable projects in a company's portfolio will get funded. Investors are taking their money where they get a greater return. Alaska needs a new policy that is fair to all Alaskans, encourages new production, restores balance to the system, and is durable far into the future. Frontier Supply Company does not do a lot of business with the oil companies, he explained, but it does a lot of business with employees and companies, like Flowline, ATNS, Universal Welding, The Welding Shop, Alaska Rubber & Rigging, Airport Equipment Rental, Lynden Transport, Carlisle Transportation, Alaska West Express, Sourdough Express, CNR Pipe, Great Northwest, and plumbers and pipefitters, all of which do a lot of business with the oil companies. New production would promote growth in the private sector economy, leading to more economic development, job creation, and long-term revenue streams. The oil decline has been discussed far too long; action is needed now to reform oil production taxes, attract new investment, and increase

production. He urged that there be meaningful reform of oil production taxes to make Alaska a compelling place to invest.

1:40:30 PM

TIM TILSWORTH noted he is a 42-year resident of Alaska, professor emeritus of civil and environmental engineering at the University of Alaska, and a licensed professional engineer for the State of Alaska. He said he has been analyzing and writing about this topic since March 2011 and found no evidence that ACES caused the reduced flow in the pipeline; it is a myth that someone started and everyone piled on. The oil industry blames the rate of progressivity in ACES for lack of reinvestment, but the industry will not guarantee any increased production in exchange for a tax reduction. He urged SB 21, as well as any amended versions, not be passed until there is a solid commitment from the oil industry. If necessary, write a contract between the State of Alaska and the oil industry that says if industry produces new or increased oil the state will give a specific tax break. He urged that ACES be left in place for the legacy fields. If industry has to be given a carrot, then reduce the rate of progressivity from 0.4 percent to 0.3 percent for oil above the price of \$100 a barrel. Debate should be focused on new fields and increased production with capital credits continued for exploration and development of new fields. While SB 21 has some good parts pertinent to new fields, it is not enough. He urged that discussion of an oil industry tax break be tabled to force a special legislative session to ensure Alaska gets the right tax break; there is too much cash, \$6 billion, to pass across the table without in-depth study by every member of the House. Lastly, he expressed his outrage that legislative rules allow members with a conflict of interest to be forced to vote on legislation. The practice is unethical, immoral, and outrageous behavior of elected representatives, he charged. Because Representative Hawker's wife is employed by ConocoPhillips, he urged that Representative Hawker recuse himself from voting on this issue when it comes to the House floor. People receiving support from this industry have no business voting on this issue, he said.

1:45:31 PM

RENEE SCHOFIELD, TSS, Inc., stated TSS does not do business with oil companies, but does do business with local folks who do business with the oil companies. She encouraged the committee to stay with the [governor's] four principles: fairness, new production, keeping it simple, and ensuring it is durable for

Alaskans. She said her goal in keeping her company going is so her granddaughters can go to college in Alaska and continue to work in Alaska. She thanked the committee for working on the bill. In response to Co-Chair Saddler, she confirmed she is in favor of the bill as it is before the committee [Version B].

[1:46:59 PM](#)

OWEN GRAHAM, Alaska Forest Association, testified that revenue for the state is important, but said using the state's resources to incentivize and support economic activity is even more important. This legislation will hopefully provide both, but if the state only gets an increase in economic activity and the related employment, then the legislation will be a success to him. Increasing state revenue is only worthwhile if the funds are used effectively. In Southeast Alaska, for example, the federal government manages over 90 percent of the timberlands, but the government is currently seeking to replace logging and manufacturing jobs in the region with federally funded make-work projects that will disappear when the funding ends. The federal government should instead fund access to the timber resources so a self-sustaining industry of manufacturing wood products can provide jobs. Similarly, the state should be seeking to stabilize and sustain the oil business rather than seeking higher revenues. He said he supports SB 21 because a greater profit incentive for the oil companies will help achieve the goal of sustaining the oil industry into the future.

[1:49:18 PM](#)

SONYA FUNARO said she is employed in project performance management with an oil services company in Anchorage. Born and raised in Juneau, she was active in high school student government and attended college in Massachusetts. From a single parent home, she worked 20-30 hours a week to pay for her clothes and school supplies, as well as worked at fund raising activities so she could participate in college prep activities, such as attending the Close Up program in Washington, DC. She looks forward to receiving the annual permanent fund dividend to help achieve her personal education goals. Since oil production generates royalties that go into the permanent fund, she is concerned the dividend will disappear due to the current trend of production decline. Three years ago worked on the North Slope as part of an exciting construction project that included new production, engineering fabrication, and construction, but that job ended and many of the people working on it had to go out of state to find jobs. Currently, there is not the same

opportunity for oil and gas jobs in Alaska, she said, a great problem considering that so many of Alaska's industries depend on the stability of oil and gas production. She plans to live in Alaska for the rest of her life and would like for her children to have the same benefits and financial security that she had growing up here. A stable economy for years to come is important, so for this reason she supports any legislation that encourages increased oil production in a declining industry.

[1:51:38 PM](#)

TARA SWEENEY, Senior Vice President, External Affairs, Arctic Slope Regional Corporation (ASRC), stated her comments are from the perspective of an employer and a company with an enterprise involved in the value chain of oil development in Alaska, from exploration through refining product and all services in between. She said ASRC is generally in support of CSSB 21(FIN) am(efd fld), is currently reviewing the committee's working draft [Version B], and will continue participating in the public process. On March 27, 2013, ASRC sent a letter to the committee and still stands by the points raised in that letter about what it supports in the bill and what needs strengthening. For today's purposes, she said she will focus on the general area of gross revenue exclusions (GRE) [called gross value reduction (GVR) in the current bill version]. While ASRC feels that the base rate of 35 percent is too high, ASRC could support it if it were coupled with the following changes. First, remove language contained in Section 29 that requires the well to be accurately metered and measured to the satisfaction of the commissioner of the Department of Revenue. It is unclear what "to the satisfaction of the commissioner" means and it creates ambiguity at a time when certainty is needed. This language implies there is an absence of this practice and as a small producer ASRC stands by its metering and measuring practices, which are currently monitored by the Alaska Oil and Gas Conservation Commission (AOGCC). In [the GVR's] current form, producers do not have certainty that a new well will be eligible for the 20 percent [GVR]. If the state wants new oil, then any new well should count for that exclusion. Layering on an additional approval process between the Department of Revenue and the Department of Natural Resources for new oil would be onerous and inefficient. The ASRC supports having new wells eligible for the [GVR]. Second, remove the language also contained in Section 29 that would require the producer to demonstrate to the Department of Revenue the volume of oil or gas produced from that well. This requirement would be burdensome, expand state bureaucracy, and would inhibit oil and gas investment. If a

well is drilled and produces oil or gas, simply put it should qualify. As an employer, service provider, resource owner, explorer, producer, and developer, ASRC is in a unique position to provide comments, she opined. While some may be looking at this issue through a narrow lens, ASRC can see this issue from several important viewpoints. The ASRC strategically plans for a sustainable future in Alaska and supports a healthy and robust oil industry in the state. She thanked the committee for its work and encouraged that there be continued progress on the bill as it moves through the House.

[1:55:20 PM](#)

REPRESENTATIVE TARR asked when the committee might hear from ASRC about the changes made in Version B.

MS. SWEENEY replied ASRC will provide additional insight from its perspective by the end of this week. She pointed out it takes ASRC a little longer to analyze what the legislature puts forward due to ASRC's different facets of involvement in the oil industry as resource owner, producer, explorer, and owner of companies that are involved in supporting the oil and gas industry and employing nearly 5,000 Alaskans.

[1:56:39 PM](#)

GRAHAM GREEN, a lifelong Alaskan, said anyone wanting to know what the State of Alaska's policy on oil production has been can go to the website of the Department of Natural Resources, Division of Oil & Gas, where the Alaska oil/gas production graph shows it all. Total production in 2002 was 388 million barrels and 10 years later in 2012 total production was 211 million barrels, a 45 percent decline. Since 2007, when the failed policy of ACES was enacted, production has declined over 26 percent. He asked how this can be when oil prices are at historically high prices and production has increased in all other oil producing states. According to the "economic research group", all other oil producing states had increases in production in 2012, with the exception of Alaska which was down over 7 percent. After numerous seasons of production decline since ACES was enacted, a change has to be made. He urged the committee's support of SB 21. Responding to Representative Tarr, he confirmed he works in the oil industry.

[1:59:31 PM](#)

MARY BARR declared it is a fact that oil production in Alaska has steadily been declining since 1989, while the state's spending has increased. To encourage additional oil and gas production, the state's spending must be brought under control, she said, and the state's oil and gas tax structure must be reformed. Changes to the tax structure should encourage both additional exploration and additional production. She related the saying that if less of something is wanted just raise taxes on it. Saying taxes are negative incentive, she urged the committee to pass CSSB 21(FIN) am(efd fld).

2:01:04 PM

TOM MALONEY, a long-term resident of south Anchorage, complimented the governor, administration, consultants, and legislature for an outstanding job examining Alaska's current production and tax system. He recalled a recent graph by the Department of Revenue (DOR) for crude oil production by state for 2011-2012. Of the 15 locations, the top two oil producing states were North Dakota and Texas, up over 55 and 34 percent, respectively, for the year. Every other state was up for the year as well, except one - Alaska, which was down by 7.1 percent. In fall 2007, the revenue resource review published by the Resource Development Council contained the following quote from then commissioner [of DOR] Pat Galvin - "Frankly, we have not said that ACES improves the investment climate. Clearly there is going to be a larger state share and that isn't going to make economics of projects better." Mr. Maloney said this was a very astute observation that has been proven correct. In calendar year 2007, North Slope oil production averaged 739,000 barrels a day, but in calendar year 2012 production averaged just 548,000 barrel a day. Five years ago production was nearly 35 percent higher. Production ranged from a low of 399,000 in August to a high of 624,000 in January 2012. Thus, in 2012, the highest producing month was lower than the lowest producing month in 2007. This is unsustainable for a positive long-term economy for Alaska. He urged the committee to focus on the governor's guiding principles and "to not be fine with production decline." The reduction of 191,000 barrels a day for a year, at \$100 a barrel, results in a reduction of approximately \$7 billion in Alaska's economy in one year alone. He encouraged the committee to change the course.

2:03:53 PM

RACHAEL PETRO, President and CEO, Alaska State Chamber of Commerce, noted the Alaska Chamber is a statewide, pro-business

organization comprised of businesses of all types and sizes from across Alaska. For the third year running, Alaska Chamber members have selected reform of oil tax policy to encourage new production as its top legislative priority. This is in addition to the 13 local chambers of commerce that also support oil tax reforms: Anchorage, Bethel, Chugach, Eagle River, Fairbanks, Haines, Juneau, Kenai, Ketchikan, Kodiak, Palmer, Seward, Sitka, and Wasilla. The Alaska Chamber supports the guiding principles the governor has outlined for an oil tax bill and believes that SB 21 is an excellent start at reaching those goals. The Alaska Chamber looks forward to hearing expert analysis on Version B, but remains concerned that SB 21 truly makes Alaska competitive. A competitive oil tax regime will incent new exploration, development, and production. To that end, the Alaska Chamber believes SB 21 should address as many different types of projects as possible. Ending the onerous progressivity within ACES benefits legacy producers and extension of the small producer credit until 2022 would benefit newer market entrants. The Alaska Chamber believes that being competitive means making Alaska's resource stand out from what is available elsewhere in the market. Being middle of the pack when it comes to total government take improves Alaska's competitive position, but is that enough to move capital investment from another region into Alaska? Alaska's remoteness from the market, arctic climate, and high labor and logistical costs cannot be changed by SB 21, but those factors can and should be considered as the bill is crafted because Alaska's economic future depends on it.

[2:06:56 PM](#)

MAYNARD TAPP offered his appreciation for what has been done by the Senate and the committee, noting that limiting progressivity is what is trying to be accomplished. He suggested limiting the government take to 50 percent and 50 percent for producers because a fair deal with a friend is 50:50. He urged leveling of production to 600,000 barrels a day and determining a way to get to the governor's goal of 1 million barrels per day; for example, maybe the right number for government take is 50 percent rather than 62 percent. Alaska wants to be first on the list for investment, not in the middle of the pack. After 40 international years in the oil and gas industry, he has learned that not everything works out the way it was planned. It may be mechanically possible to transport oil at 300,000 barrels a day, but it does not allow for upsets in flow and breakdown in the facility that is 36 years old. The governor's goal is to produce 1 million barrels a day from state lands. Determining the selection of paths to producing the 1 million barrels a day

may not be an easy thing for legislators to do, but getting rid of progressivity and leveling the production to 600,000 barrels of day will provide a scenario where it may be possible to increase oil investment by the producers. Responding to Representative Tarr, he said his 40 years of work in the oil industry was mostly in project and project control.

[2:09:44 PM](#)

LYNN JOHNSON supported SB 21, saying he is a 40-year resident of Alaska, a businessman with Dowland-Bach Corporation, and is involved with many entities throughout town. Alaska needs to become more competitive with other oil producing basins. North Dakota and Texas are kicking Alaska's tail in production rate. Investment flows to regions and projects with the best overall rate of return, he opined. Alaska is already a high cost basin due to geography and climate. Alaska is soon to be fourth in domestic production, behind even California. As said by the governor, meaningful reform is needed that is fair to Alaskans, encourages new production, is simple, and is durable. Alaska's economic future is at stake, oil production needs to be increased now. This is the third legislative session that testimony has been taken on ACES reform and during this period of study and debate TAPS throughput has declined almost 100,000 barrels a day. Saying Alaska cannot afford the decline, he urged SB 21 be the vehicle for making Alaska competitive again.

[2:11:30 PM](#)

REPRESENTATIVE TARR recounted that legislators have repeatedly asked industry whether it will invest more in Alaska should this measure pass, but at no point has industry said it will. She asked whether this gives Mr. Johnson cause for concern.

MR. JOHNSON answered no, industry should be given a chance because there will be tremendous backlash if that investment does not come.

[2:12:39 PM](#)

JOHN DICKENS, a resident of Bethel, said he is taking vacation time from his job to testify because he believes the very future of Alaska is at stake. Alaska is on the very of a financial catastrophe and apocalypse that nobody seems to get their mind around. Fifty percent of Alaska's projected future revenue in 2020 is based on other people's money or oil companies' money that has yet to be invested. Capital is invested to get return

on investment. The committee still has not addressed that the only place worse than Alaska to invest for oil companies is North Korea and Venezuela. As a child he had a dream that someday the oil from the north would be brought to market; every step of the way was a tough fight. It is ironic that many of the people whining today about how much money is going to be given away did not want the pipeline at all. It was a 50-50 tie in the U.S. Senate and Vice President Spiro Agnew broke that tie. From 1973 to 1975 the gross domestic product of Alaska doubled because of oil company investment; it was \$7-\$8 billion in 1970 dollars, in today's dollars that would be about \$143-\$146 billion. He asked why industry would drill in Alaska with the way it is treated. He urged the bill be passed right away. Rather than asking for the oil company's commitment, the legislature's commitment to quit changing the rules should be asked for. Regarding testimony that Governor Parnell has a conflict of interest, he argued that anyone who has cashed a permanent fund dividend has a conflict of interest.

[2:17:51 PM](#)

DEANTHA CROCKETT, Executive Director, Alaska Miners Association (AMA), noted AMA is a statewide umbrella association that represents the six large metal mines in Alaska, the one coal mine, large exploration projects, and hundreds of small placer miners, contractors, and vendors. She explained this issue has been one of AMA's top priorities for the third year in a row because a healthy oil industry is good for the mining industry. Companies are looking at mineral deposits in Alaska that are incredible, but a number of things are stacked against mining companies: a huge lack of infrastructure, very challenging geography, challenging geology, challenging climate, and the state's political structure that is not all that stable. How the state taxes industry is something that can be controlled. Mining companies looking at coming into Alaska are very uncertain and are watching this legislation because they know they could be in this same boat. When constant changes are being made to a tax structure on a single industry, it does not matter whether or not they are an oil business. She urged the committee to exercise this control by passing SB 21 and sending a better message to anyone wanting to invest in Alaska.

[2:20:13 PM](#)

CINDY ROBERTS said she and her husband came to Alaska in 1971 with former Alaska governor and Secretary of the Interior, Wally Hickel. Legislators swear in their oath of office to support

and defend Article VIII, Section 2 - to act for the maximum benefit of the people of Alaska - and this ethical pledge looms over committee members at this moment. Whether the goal of SB 21 is for Alaska to become competitive or attractive, industry is asking legislators to believe they will respond by increasing the throughput of North Slope crude oil and also raise state revenues. She urged members to not forget that in 2006 Alaska's tax system changed from the economic limit factor (ELF) to the production profits tax (PPT). Compromised ethics were part of that deal and the Federal Bureau of Investigation (FBI) stepped in to help Alaska clean up. In 2007 the ACES tax system was established, an action of pride to Governor Palin and her lieutenant governor, Shawn Parnell. At this moment, she opined, challenges to legislators' ethics and honest pursuit of solid information are again endangering Alaska's future as owner state. The committee's colleagues in the Senate have already been compromised. Two long-term, valued employees of ConocoPhillips, now serving as Senate members, asked to be recused from voting on SB 21 due to an undeniable conflict of interest. Their vote will go down in history as Alaska's "9/11" - the moment the owner state became tagged as owned by the oil industry. In two minutes of testimony it is impossible to discuss the billions of dollars that SB 21 will send across the table to an industry that has given no commitment to improve the flow in TAPS or to raise state revenues. She urged committee members, before it becomes a vote of record, to give their actions meticulous rather than partisan analysis, to be ethical, and to not ignore the conflicts of interest among the committee members' own colleagues. She further urged the committee to take its time to evaluate and audit the ACES system and then decide. If members must vote on SB 21 now, she advocated they vote against it.

[2:23:18 PM](#)

CO-CHAIR SADDLER asked whether Ms. Roberts is accusing the legislature of being corrupt and unethical.

MS. ROBERTS replied no, she was pointing out the exact time that the Senate ignored an ethical request from two of its members to recuse themselves from voting where there was a clear conflict of interest that could be taken from the public's side as something against all legislators. She added she was urging committee members to make that same consideration when casting votes on this very critical issue. A case has not been made with audits as to what the exact implications have been on ACES. She has not seen any evaluation of the actual impact in negative

revenue of SB 21 and it was only at 1:00 p.m. today that she received a copy of the proposed committee substitute [Version B], which has no fiscal note. She said she is urging committee members to get all the facts that are pending to ensure that their honor is not questioned.

CO-CHAIR SADDLER inquired whether Ms. Roberts understands that the senators in question did declare a potential conflict of interest and followed the established Senate rules.

MS. ROBERTS responded she understands that, but asked whether that changed their conflict of interest.

[2:25:22 PM](#)

JOHN "JACK" RODERICK, responding to Co-Chair Feige, confirmed he is the author of the book, Crude Dreams: Oil and Politics in Alaska. Moving to his testimony, he said he used to be a small oil explorer in Alaska and taxes was never a consideration; companies come to Alaska or anywhere to find oil and taxes is not a big problem for them. He noted he was the Anchorage borough mayor in the early 1970s, deputy commissioner of the Department of Natural Resources in the late 1970s, and wrote the oil and gas leasing law for Alaska. He said the bill is bad legislation. It is complex and everybody is concerned about putting more oil in the pipeline, but giving a tax break is not the answer, particularly when there is no guarantee from the companies that they will spend the money being given them, or even some of the money, in Alaska. There must be some guarantee, preferably in writing, that that will happen. The largest and most powerful corporations in the world are being dealt with and legislators cannot take it simply on a handshake. He recommended the bill be put aside until there is more information, particularly a guarantee from the companies that they will do what is wanted. While he does not want to be personal, the question has been raised - if this bill passes in almost any form, the result in the national media could be another "Bill Allen, VECO, corruption tale" in Alaska, something he would take personal offense at. He has been in Alaska 60 years, involved in public affairs and the oil business. This is the most important decision legislators will probably ever make and it should not be made this way. Not enough is known, the answers are unknown, and the companies will not guarantee that they will do what they say. This legislation is not the answer. He has worked with every governor since statehood, except Governor Palin, and he does not think any of them would go forward under these conditions without a guarantee from the

other side. If legislators want to work with the industry then work with the industry, have them provide more information, and enter into some sort of a partnership arrangement.

[2:30:30 PM](#)

REPRESENTATIVE TARR noted some of the concerns are about audit information that has yet to be teased out. She inquired whether Mr. Roderick's statement about "more information" is referencing specific information.

MR. RODERICK qualified he does not know if it is true, but said he has read that the governor has experts who have not shared information with the legislation; if true, that is not good. He said he is targeting the big three oil companies and production from the legacy fields in particular. He would ask them what their targets are for profits and while they may not share that, legislators need to get into the "guts of the economics of this thing" and get a lot more information. Legislators are representing the state and the people, and they are dealing with the most sophisticated, smartest people in the world who know what their interests are. What bothers him is the attitude often seen now that legislators are trying to help the industry. However, he declared, be realistic, industry can help itself. While filling the pipeline is a concern, the oil companies know where their oil is and will produce it so long as it is economic. He disagreed that [change] needs to be done right away, saying companies have had that oil for 30 years and a lot more is going to be discovered on the North Slope. The U.S. Geological Survey's numbers are very conservative, he added.

[2:33:28 PM](#)

REPRESENTATIVE P. WILSON, referencing Mr. Roderick's statement that oil companies will make sure they make a profit, inquired whether the oil companies will go somewhere else if they can make a better profit there, or will just stay in Alaska.

MR. RODERICK answered the companies will probably do what Chevron did in the Cook Inlet - sell to a smaller company that does not need that much profit. There is no question in his mind that the oil is going to be taken out of the North Slope. Not talked about are the tens of billions of barrels of heavy oil on the North Slope, which will be taken out if and when it is economic and which BP in particular is working on. He sympathized with legislators about having to deal with this long-term problem, but said it is not good business and not good

public policy when there are no guarantees that the other side is going to perform.

[2:34:54 PM](#)

REPRESENTATIVE P. WILSON asked what the state should do in the meantime, if it waits, when there is not enough revenue to run the state.

MR. RODERICK replied there is \$14 billion in the state's cash account that will last a while. He concurred the state is looking at a fiscal problem down the line, but said there is cash for the next few years so there is time to sort out this long-term problem of what the state's relationship is with the oil industry. He recalled two of the major companies stating that they are going to be in Alaska for the next 50 years; he maintained that that is because the companies want to get the heavy oil. Additionally, he said, they are watching offshore, which has tremendous potential and that oil will have to come onto land and the state will get a share through the pipeline.

[2:36:49 PM](#)

RICK ROGERS, Executive Director, Resource Development Council for Alaska, Inc. (RDC), encouraged the committee to remain focused on the ultimate goal of the legislation, which is increased production from both legacy and new oil fields. He said RDC understands the tension between balancing the short-term impacts to the treasury with the long-term benefits to both the treasury and the economy as a whole. His organization remains concerned that too much of a short-term focus will undermine the overall purpose of this legislation to increase production activity and stem the TAPS throughput decline. Competitiveness is not a single point, but rather a continuum; SB 21 is far more competitive than ACES. The degree to which Alaska's tax policy is modified should keep in mind the challenges of operating in Alaska - the short operating season, high cost, lack of infrastructure, and the delay risks associated with the plethora of federal permits that are often appealed in the courts. To attract sufficient investment capital to overcome the state's specific challenges, Alaska needs to be sufficiently aggressive in its tax reduction to stand ahead of the competition. Smaller producers have less resiliency to overcome these challenges and RDC encourages the committee to consider extending the small producer tax credit to 2022 or beyond, again with the goal of helping existing and future small producers compete in obtaining the capital to

increase production. This is not about worrying about what is good for the industry; it is about worrying about what is best for Alaska in the long term. Regarding the talk about guarantees, he said the status quo is the guarantee of continued plus or minus 7 percent decline rates. If that is done for another five years while trying to obtain more information, where will Alaska's budget be when it is 35-40 percent less annual revenue than today? He said RDC has not done a detailed analysis of the proposed committee substitute [Version B] and looks forward to hearing from the explorers, producers, consultants, and administration to get a better sense of the fiscal impact and how it will lead to more production. In general, RDC is supportive of changes to this evolving tax policy as it moves through the House with an emphasis on increased production from both legacy and new fields. Commending committee members for its diligence, he said RDC is encouraged that this legislature will establish an oil and gas policy this session that leads to a bright future for Alaska.

[2:40:01 PM](#)

REPRESENTATIVE SEATON noted an impetus behind the bill is to get increased volume from the legacy fields, yet a major legacy producer has testified in the past that to do heavy oil it must be mixed with light oil to be able to be run down TAPS. He requested Mr. Rogers' thoughts about how to maximize Alaska's heavy oil resources if there is a spurt in light oil production.

MR. ROGERS responded he is not qualified to answer and suggested the question be asked of a petroleum engineer.

REPRESENTATIVE SEATON surmised RDC would not be in favor of doing something that would make Alaska unable to adequately develop its heavy oil resources in the future.

MR. ROGERS answered RDC's interest is in maximizing the long-term production from Prudhoe Bay, both the known reserves of challenged oil as well as yet to be discovered resources.

[2:41:59 PM](#)

CARL PORTMAN offered his support of meaningful oil production tax reform this session. The legislature has been addressing this issue for years, but has yet to pass significant reforms that will move the needle in attracting the investment needed to reverse the production decline. Given the strong competition in the Lower 48 and abroad for investment capital, Alaska needs to

be among the very best places for investment. He argued that taxes do matter and said lower taxes will generate more investment, which in turn will boost production and lead to more state revenue over the long term. New investment in production will stimulate the private sector, create more jobs, grow the economy, and boost royalty income to the state. Alaska's current oil production tax structure has generated billions of dollars in short-term revenues, but he fears it is at the expense of long-term investment, production, jobs, and a sustainable economy. "Taxing ourselves to prosperity is a poor strategy and will undermine our future in the private sector, the foundation of Alaska's economy," he said. Under the current tax structure the state is guaranteed lower production, guaranteed lower revenue, and guaranteed higher budget deficits over the long term, resulting in a weaker economy and a lower standard of living for Alaskans. Under ACES the state will face leaner budgets and challenges to funding state services and education as production continues in unchecked decline. It is time for major oil production tax reform because the status quo of declining production is unacceptable. He said SB 21 is a step in the right direction and urged committee members to do sufficient due diligence and to ensure the goals set out in the legislation are achieved.

[2:44:18 PM](#)

KEITH SILVER noted he does not work for an oil company or an oil service company, but said many of his clients do. No type of guarantee to the people or to the oil companies was provided in ACES when it was rushed through in a special session of two to three weeks, he pointed out. To ask for a guarantee now would be inappropriate. "To do nothing now would be tantamount to sticking our collective heads back in the ground while the pipeline dries up," he said. Any reduction in taxes now would not be a giveaway, but rather a correction of a taking via ACES. He urged that meaningful reform in oil production taxes be achieved to make Alaska a compelling place to invest. Doing so will prevent a steepening in the decline curve and put more oil in the pipeline.

[2:45:44 PM](#)

SCOTT HAWKINS, President and CEO, Advanced Supply Chain International, noted his company is a materials management company that employs over 200 Alaskans in the oil and gas industry in Alaska. Both he and his company are concerned about the health of the industry currently and the relentless annual

production declines. Even though employment levels have held up fairly well in the last few years since ACES, it has mainly been around maintenance and retrofitting of existing facilities. There has not been adequate new investment in new production, as the slope of the production decline curve illustrates. Because of those concerns, he is encouraged to see SB 21 move out of the Senate and now be before this committee. While he has not yet reviewed the proposed committee substitute [Version B], he said CSSB 21(FIN) am(efd fld) is a major step in the right direction. He encouraged that the proposed committee substitute be strengthened further, specifically to make sure it adequately incentivizes production, both from legacy and new fields. It is also important the bill make Alaska sufficiently competitive this time around. Regarding statements about a giveaway, that mitigating the overreach of ACES is somehow a giveaway to industry, he would submit that taxation is a takeaway and mitigating a takeaway is not a giveaway. Failing to institute a balanced, responsible oil taxation policy that incentivizes new production, thereby bending the production curve in the right direction of upwards, is what would be a giveaway. The state would be giving away future investment capital, future jobs, future production, as well as the fiscal future of the state.

[2:49:25 PM](#)

REPRESENTATIVE TARR stated that according to the employment charts she has seen, 2012 had the highest number of people working on the North Slope since 1990. She asked whether Mr. Hawkins has information to substantiate his statement that many of those jobs are maintenance jobs because that is something she has never seen.

MR. HAWKINS replied he does not have data that he can share today, but imagines it is available from some sources. However, he knows from having hundreds of people in the industry. Since his company does materials management for several major oil fields in Alaska, his company knows what kinds of things are being ordered and what kinds of projects are being worked on. Further, his company has a pretty good handle on new project development and has seen new project activity decline while maintenance and upgrade activity has remained strong. His other answer to the question, he added, is to be wary in interpreting that an increase in employment in the context of production decline is a good thing. All that means is that the cost per barrel of producing is going up while production is going down. If new production is not being seen in the pipeline, rising employment is not necessarily a long-term sustainable trend.

2:51:33 PM

GAIL PHILLIPS, noting she is a former member of the legislature, offered her support for the committee's work to find a reasonable and long-term solution to Alaska's tax conflict. When she served in the legislature, the state was fortunate in that it had a stable tax regime and did not have the grave issue of seriously declining oil production that is faced today. At that time legislators did not have to worry about Alaska's competitive stature in the world market; Alaska was strong, productive, and competitive. Alaska's standing today is totally different and it is up to committee members to set policy that will ensure a competitive regime that will turn things around and make Alaska once again a leader in oil production. Finding a long-term solution to an economically beneficial tax policy is critically important to Alaskans, especially to those with children and grandchildren. She urged the committee stay the course and find a workable solution this session that will change the current ACES law. Offering her support for the bill, she said not much time left is left before it will be too late to turn around the decline curve and make Alaska competitive once again.

2:53:40 PM

JEANINE ST. JOHN thanked members for their hard work and said ACES is flawed. She is glad that there has been recognition of the problem regarding investments and the difference between spending and production. The right thing for Alaska is to incentivize that production. She said she supports SB 21, subject to the fiscal note information and testimony and information from the experts. To be sure, she supports the governor's principles, although the ability to achieve the simplicity principle may be questionable at this point. She said she hopes Representative Hawker is not recused from voting on the bill because he is her representative and she wants his expert opinion and values his judgment on this bill.

2:56:06 PM

JOE MATHIS, Vice President for External Affairs, NANA Development Corporation, noted he was the founding president of the Alaska Support Industry Alliance in 1979. On behalf of NANA Development Corporation and as board member emeriti of the alliance, he offered support for passing SB 21 as it is before the committee today. He said NANA's companies have been meeting

the needs of the oil and gas sector for close to four decades. In 2012 NANA employed nearly 5,000 Alaskans, of which 1,600 are NANA shareholders. Through its business operations, NANA generates income and delivers benefits to its shareholders. NANA shareholders have made significant investments in the oil industry over the past 40 years. NANA has held a small ownership in the Endicott Oil Field for over two decades, has invested in new facilities and equipment at Deadhorse for NANA Oil Field Services, and has invested heavily in a new fabrication facility in the Matanuska-Susitna Valley specifically designed for oil field modules and construction. These business activities have afforded NANA's shareholders and other Alaskans the opportunity to hold good paying jobs as well as receive extensive job training. Oil industry investments fuel the contracts for NANA companies and the jobs that those contracts contract, but NANA is seeing these opportunities go to the Lower 48, such as North Dakota and Texas, where the oil industry is booming. A NANA company has opened a Houston, Texas, office to pursue work in Texas. NANA has had to look at places outside of Alaska for investment and opportunities in oil and gas, such as Australia. Alaska's current investment climate is driving business away. Alaska does not have a lack of oil; rather it has a lack of investment. NANA has heard that the industry has billions of dollars in projects that could be done if Alaska's tax structure was more competitive. Projects would increase oil production and, more importantly, projects that NANA's companies have the skills, experience, and expertise to carry out. NANA has a homegrown workforce from all parts of the state, urban and rural. People need to pull together to ensure Alaska has a stable economic climate to serve its citizens today and into the future and SB 21 will set the stage for continued development of Alaska's economy. NANA believes the work done by the Senate and this committee will produce a viable and fair tax policy for the state, Alaskans, and producers. However, he would be remiss as the founding president of the alliance if he did not address one thing he thinks needs emphasis in language in the bill, which is ensuring that the producers are hiring competitive Alaska contractors for needed infrastructure and production and to bring more oil into production. Homegrown contractors will ensure Alaska content. Alaska has hidden gems in its vast great land that are waiting to reveal themselves and their benefits to Alaska's future. Significant oil and gas tax reform will make that revelation.

[3:00:45 PM](#)

MARY ANN PEASE, Owner, MAP Consulting, testified she is a board member for Commonwealth North, is on the executive committee for the Alaska State Chamber of Commerce, is past president of the Anchorage Chamber of Commerce, and is a board member of Consumer Energy Alliance. She expressed her concern about the staggering decline in oil production, noting Alaska is down from a peak of over 2 million barrels a day to just over 500,000 barrels today. This decline continues at an annual rate of 5-7 percent during a time of increasing oil prices. While attending a [Consumer Energy] Alliance meeting last week she learned about the incredibly rapid growth of production from the Bakken, that North Dakota has the fourth lowest tax rate at 9.8 percent, and is on the path of unprecedented prosperity and economic growth and development. Alaska needs to once again become number one in oil production. Today, North Dakota is first, Texas is second, California is third, and Alaska is fourth, which is unacceptable. The legislature has the opportunity to reform taxes and enable Alaska's economy to have a prosperous and sustainable future, and she believes the committee will reach that conclusion. High oil prices coupled with new technology have created a boom in the oil and gas industry across the country and the world. Alaska, however, is missing out on this boom and it is no secret why - Alaska's taxes are too high and companies are taking their investment dollars elsewhere. More oil is needed in the pipeline to maintain jobs and that action must be taken today; there is no time to continue studying this. The rates and progressivity structure of Alaska's current tax regime provide a disincentive to attracting risk capital to the state, as evidenced by a declining production during increasing oil prices. Increased investment through increased global competitiveness will enhance Alaska's ability to fulfill its constitutional mandate to develop natural resources for the maximum benefit of the people. When over 90 percent of Alaska's budget is truly funded by oil revenues, the state does have a mandate to ensure that it has a sustainable future. The oil and gas industry needs to be shown that Alaska is open for business and is serious about keeping, growing, and expanding that business by making meaningful tax reform happen now.

[3:03:58 PM](#)

#### **ADJOURNMENT**

CO-CHAIR FEIGE recessed the meeting until 9:00 a.m., April 2, 2013, saying public testimony will be continued at that time.