

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 3, 2013

1:48 p.m.

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

All members present

**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."

- MOVED HCS CSSB 21(RES) OUT OF COMMITTEE

[See April 4, 2013, minutes and audio for the conclusion of this meeting.]

**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) -- Delayed to 10:00 am --  
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  
 04/01/13 (H) Heard & Held  
 04/01/13 (H) MINUTE(RES)  
 04/02/13 (H) FIN AT 9:00 AM HOUSE FINANCE 519  
 04/02/13 (H) Scheduled But Not Heard  
 04/02/13 (H) RES AT 9:00 AM BARNES 124  
 04/02/13 (H) - Cont. at 2:00 pm today from 4/1/13 -  
 04/02/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/02/13 (H) Scheduled But Not Heard  
 04/02/13 (H) RES AT 6:00 PM BARNES 124  
 04/02/13 (H) Heard & Held  
 04/02/13 (H) MINUTE(RES)  
 04/03/13 (H) FIN AT 9:00 AM HOUSE FINANCE 519  
 -- MEETING CANCELLED --  
 04/03/13 (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 proposed amendments to the proposed committee substitute, HCS CSSB 21, Version K.

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

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

LENNIE DEES, Audit Master  
 Production Audit Group  
 Tax Division  
 Department of Revenue (DOR)  
 Anchorage, Alaska

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

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 proposed amendments to the proposed committee substitute, HCS CSSB 21, Version K.

BARRY PULLIAM, Managing Director  
Econ One Research, Inc.  
Los Angeles, California

**POSITION STATEMENT:** Speaking as a consultant to the administration during the hearing on CSSB 21(FIN) am(efd fld), answered questions regarding proposed amendments to the proposed committee substitute, HCS CSSB 21, Version K.

DAN STICKEL, Assistant Chief Economist  
Anchorage Office  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

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

MATTHEW FONDER, Director  
Anchorage Office  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

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

#### **ACTION NARRATIVE**

[1:48:48 PM](#)

**CO-CHAIR ERIC FEIGE** called the House Resources Standing Committee meeting to order at 1:48 p.m. Representatives Tuck, Hawker, Johnson, Olson, Seaton, P. Wilson, Tarr, Saddler, and Feige were present at the call to order.

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

[1:49:16 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 28-GS1647\K, Nauman/Bullock, 4/2/13, adopted as the working document on 4/2/13.]

[1:50:25 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 1, labeled 28-GS1647\K.7, Nauman/Bullock, 4/2/13, which read:

Page 17, following line 11:

Insert a new bill section to read:

"\* **Sec. 24.** AS 43.55.024(d) is amended to read:

(d) A producer may not take a tax credit under (c) of this section for any calendar year after the later of

(1) **2022** [2016]; or

(2) if the producer did not have commercial oil or gas production from a lease or property in the state before April 1, 2006, the ninth calendar year after the calendar year during which the producer first has commercial oil or gas production before May 1, 2016, from at least one lease or property in the state."

Renumber the following bill sections accordingly.

Page 29, line 6:

Delete "sec. 31"

Insert "sec. 32"

Page 29, line 20:  
Delete "sec. 36"  
Insert "sec. 37"

Page 29, line 24:  
Delete "28, and 37"  
Insert "29, and 38"

Page 29, line 25:  
Delete "31"  
Insert "32"

REPRESENTATIVE TARR objected.

REPRESENTATIVE HAWKER explained Amendment 1 extends the small producer tax credit expiration date from 2016 to 2022. As a balance is sought to provide an appropriate suite of incentives across the entire spectrum of explorers, producers, legacy producers, and new producers, it is appropriate to extend this credit. The committee was asked to allow this credit to act indefinitely, but that is inappropriate. The credit for each one of those is a maximum of \$12 million a year, which is not a threat to the treasury.

[1:51:31 PM](#)

CO-CHAIR FEIGE requested the administration to comment on Amendment 1.

MICHAEL PAWLOWSKI, Oil & Gas Development Project Manager, Office of the Commissioner, Department of Revenue (DOR), pointed out that extension of the small producer tax credit was included in the governor's original bill in the same manner as proposed in Amendment 1 for the reasons articulated by Representative Hawker. However, as the bill moved through the process, committees weighed the balance and made different decisions. This provision fit the concept, as the governor introduced, that benefits come with production. The small producer tax credit is a non-transferable credit that is taken when a company has production. He offered appreciation that Amendment 1 is drafted in the same manner as which it was considered in the original bill.

REPRESENTATIVE TARR requested further discussion of the fiscal impacts.

REPRESENTATIVE HAWKER replied Amendment 1 extends the tax credit under AS 43.55.024(c). Subsection (c) applies to a calendar year for which a producer's tax liability for production taxes exceeds zero. A producer that is not producing more than 50,000 British Thermal Unit (BTU) equivalent barrels may apply a tax credit of not more than \$12 million for the calendar year. A formula under (c)(2) provides that for more than 50,000 but less than 100,000 BTU equivalent barrels, a producer may apply a tax credit of not more than 12 factored by a fraction for the calendar year; the mechanics of that fraction are in statute.

[1:54:09 PM](#)

REPRESENTATIVE P. WILSON surmised Amendment 1 attempts to ensure long-term as well as short-term results because it is on exploration.

REPRESENTATIVE HAWKER replied extension of this credit is all about crafting a tax policy that ensures the state's policy focus shifts from pure spending by industry to production by industry. This credit requires production to receive benefit.

REPRESENTATIVE SEATON, given this is barrel of oil equivalent, inquired what the effect will be on gas producers and whether it is within the range of the amount of natural gas that would be produced by explorers in Cook Inlet now.

REPRESENTATIVE HAWKER deferred to the Department of Revenue (DOR) for an answer.

MR. PAWLOWSKI responded AS 43.55.024(f) has two small producer credits. He said AS 43.55.024(b) is the small producer credit for areas outside of Cook Inlet and outside of the North Slope. He deferred to the Department of Law (DOL) to discuss the impact in Cook Inlet.

[1:57:06 PM](#)

REPRESENTATIVE SEATON reiterated his question to the Department of Law, asking whether the 50,000 barrel of oil equivalent per day would mean that just about everyone producing gas would be tax free.

SUSAN POLLARD, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division (Juneau), Department of Law, said she cannot answer the economic question, but the particular credit being amended is the small producer credit, so, yes, it does

apply statewide. She said Mr. Pawlowski mentioned the AS 43.55.024(a) credit, which is just a "Middle Earth" tax credit, and Amendment 1 is for AS 43.55.024(c) small producer credit.

1:58:20 PM

CO-CHAIR FEIGE said his reading of Amendment 1 is that it would amend AS 43.55.024(d) by extending the date under which it can be applied for. He offered his belief that what Representative Seaton is getting to is that the credit under AS 43.55.024(a) applies to south of 68 degrees North [latitude].

REPRESENTATIVE SEATON advised he does not have the statute book, but noted that while 50,000 barrels of oil is a small producer, when the math is done to get the barrel of oil equivalent in gas it could mean that a much larger gas producer would qualify for this small producer tax credit. He asked where it covers and how much gas production is being talked about.

CO-CHAIR FEIGE inquired whether Representative Seaton is trying to propose an amendment to AS 43.55.024(c).

REPRESENTATIVE SEATON replied he is trying to understand.

CO-CHAIR FEIGE said he does not think the committee is trying to change AS 43.55.024(c).

MR. PAWLOWSKI suggested the DOR staff in Anchorage address the issue of the relationship of the small producer tax credit under AS 43.55.024(d) to gas production in the Cook Inlet.

2:00:10 PM

LENNIE DEES, Audit Master, Production Audit Group, Tax Division, Department of Revenue (DOR), offered his understanding that Representative Seaton is trying to determine the size of a gas producer in Cook Inlet that would qualify for this credit. He explained Alaska statutes have a conversion factor for BTU equivalent barrels of 6:1. So, essentially, a gas producer producing less than "300,000 mcf" of gas per day would qualify for the full \$12 million. It is not necessarily that it would be tax free; it depends on what the tax liability is for that particular producer. A producer could have a big enough production tax value that it could use this credit and still owe tax. So, it depends on the size of the producer as to whether it is tax free. A producer producing "300,000 mcf" of gas per

day would qualify for the full \$12 million or whatever the tax liability is if it is less than \$12 million.

CO-CHAIR FEIGE inquired whether under AS 43.55.024(a) it would be limited to \$6 million for a gas producer in Cook Inlet.

MR. DEES responded AS 43.55.024(a) does not apply to Cook Inlet; it only applies to Middle Earth, the area outside of Cook Inlet that is south of 68 degrees North latitude.

2:02:18 PM

REPRESENTATIVE SEATON asked whether it is 300,000 or 300 million.

MR. DEES answered 300,000. In further response, he said it is a 6:1 ratio.

CO-CHAIR FEIGE understood that to be 50,000 times 6.

MR. DEES stated "300,000 mcf" of gas, or "300 million cubic feet."

REPRESENTATIVE SEATON said he thinks it is "300 million cubic feet a day" and he is trying to compare that to the size of the gas producers in Cook Inlet.

REPRESENTATIVE HAWKER pointed out this is not a new credit, so it would not be granting anything that is not already in statute. It would simply extend the current tax regime statewide with regard to this activity.

2:03:33 PM

CO-CHAIR FEIGE asked whether DOR has an estimated fiscal note on the impact of extending this credit.

MR. PAWLOWSKI replied the rough estimate for fiscal years 2017 and 2018 is around \$25 million a year. In fiscal year 2019 it will be about \$50 million in total, and that is based on the forecast and companies expected to have a tax liability. The reason this provision was included in the previous version of the bill is that 2022 is the date at which many of the tax ceilings expire and the preferential treatment for tax in Cook Inlet will transition out.

2:04:43 PM

REPRESENTATIVE TARR maintained her objection to Amendment 1.

A roll call vote was taken. Representatives Hawker, Johnson, Olson, Seaton, P. Wilson, Tuck, Saddler, and Feige voted in favor of Amendment 1. Representative Tarr voted against it. Therefore, Amendment 1 passed by a vote of 8-1.

[2:06:03 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 2, labeled 28-GS1647\K.20, Nauman/Bullock, 4/2/13, [text provided at end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TUCK posited that Alaska's Clear and Equitable Share (ACES) may not be broken and just needs fixing; a bill to fix much of that has been introduced, but there will not be time in this session to address it. Amendment 2 attempts to keep the ACES structure, but caps progressivity at 55 percent, given that progressivity has been cited as making Alaska unattractive. Testimony has been heard that new investments are happening on the North Slope, employment is at its highest ever, and investments do lead to production. The ACES system gives heavy tax credits to attract new competition/new explorers on the North Slope. It has been heard in the past that many of the legacy fields are in a harvest mode. It is a matter of trying to move the needle to get those fields into exploration and new development, such as using tax credits to make that closer to the wellhead.

[2:08:48 PM](#)

REPRESENTATIVE HAWKER, regarding the preservation of ACES, said the committee has had a more than adequate dialogue about how ACES is definitely counterproductive to the preservation of a good economic future for Alaska. Amendment 2 would completely remove the substantive core of the legislation before the committee, which has been discussed and analyzed and offers up a very viable mechanism and a very reasonable rate structure for going forward that will restore Alaska's global competitiveness. The issue in Alaska is not taxes, he argued, it is production decline, and Amendment 2 is absolutely counter to addressing production decline.

REPRESENTATIVE TUCK, responding to Representative P. Wilson, said Amendment 2 deletes a portion of the title so a title amendment will be needed.

REPRESENTATIVE TUCK, responding to Co-Chair Feige, confirmed that line 1 would remain in the bill's title and the language beginning at the end of line 2 would be removed down to the semi-colon in line 11. Thus, the Oil and Gas Competitiveness Review Board would be kept in the title.

[2:11:22 PM](#)

REPRESENTATIVE SEATON observed Amendment 2, page 2, lines 4-9, would provide that above a price of \$92.50 the tax would still be multiplied one-tenth of a percent.

REPRESENTATIVE TUCK responded correct and noted it also reduces the progressivity after the tax rate reaches about 50 percent, which occurs when the profit is about \$92.50. Thus, the progressivity is reduced at the top end as well as capped.

REPRESENTATIVE TARR pointed out Amendment 2 maintains those credits identified in testimony as important to new exploration work and the new production that will happen as a result.

REPRESENTATIVE P. WILSON inquired whether Amendment 2 takes away credits since it removes the credits from the title.

REPRESENTATIVE TUCK answered it removes the portion of the title that deals with credits.

[2:13:13 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 2.

REPRESENTATIVE TUCK stated he is unconvinced that taxes alone are deterring new production on the North Slope and the key is to get new production. He recalled charts that were provided to the committee that demonstrated how a producer can significantly buy down its tax liability. The administration has said investments do not necessarily lead to production; however, it was heard from small and big producers that all investments eventually lead to production on the North Slope. A lot of natural decline happens and reversing that on the legacy fields is difficult, but it can be slowed down and that is where much additional oil can come from immediately and quickly. Long-term investments need to continue being made to ensure the state has

brand new oil. As new oil is discovered, even those wells will have a natural decline, so continuous drilling needs to occur. Investments have been made on North Slope facilities, and facilities are needed to do additional drilling. More drilling rigs, modules being built, and new facilities or agreements with existing facilities will result in more production. A benefit of ACES is that there is a penalty to taking profits outside the state. The significant buydown for existing producers and the tax credits along with the windfall revenues coming in help the state to invest. While it is a complex system, it provides balance and gets new investments on the North Slope.

[2:16:08 PM](#)

SENATOR OLSON asked whether Representative Tuck has submitted documentation, such as charts and graphs, from the consultants he is referencing.

REPRESENTATIVE TUCK replied the documents are the ones that have been previously submitted over the last four years to the resources and finance committees.

SENATOR OLSON understood, then, that it was not a separate consultant but the legislature's consultants.

REPRESENTATIVE TUCK drew attention to page 23 of the 2/13/13 PowerPoint presentation provided to the committee by Econ One Research, Inc. He recalled it being stated at the time that in-field projects are very lucrative in Alaska. The slide shows that if a company increases its investment by 15 percent it can buy down its taxes anywhere from 63 percent to 95 percent, depending on the price of oil.

REPRESENTATIVE TUCK, responding to Co-Chair Feige, confirmed the 2/13/13 presentation was on HB 72, but pointed out that slide 23 was demonstrating the buydown effect of existing ACES at oil prices of \$80, \$100, and \$120.

[2:18:44 PM](#)

REPRESENTATIVE HAWKER said this is the argument that was made when ACES passed, the argument being the state can tax itself into productivity with high rates. This has not proven out, nor has it proven anywhere in any tax regime in the world.

REPRESENTATIVE TARR disagreed, citing testimony [by Brooks Range Petroleum Corporation] that its Mustang project is coming on

line because the credits enabled the company to accelerate that project as well as four or five others. While not sanctioned, the other projects have been considered under the existing ACES structure and show 50,000 barrels of oil coming on line by about 2016. It is on the record that that part [of ACES] has worked. She expressed her wish that there was more time because she has been trying to get dates aligned with when things happened and when they did not. The Mustang oil will be the newest oil going into the Trans-Alaska Pipeline System (TAPS) and it will happen under ACES. While ACES may not be working in the way legislators want it for everyone, there are parts that have been demonstrated to have some positive impact.

CO-CHAIR FEIGE agreed the aforementioned was heard from Brooks Range Petroleum Corporation, but noted there are companies that are no longer in Alaska, such as "FEX, Chevron, Anadarko."

[2:20:33 PM](#)

CO-CHAIR SADDLER recalled the consultants stating that a high tax regime and allowing companies to buydown by spending is less attractive both effectively and philosophically than having a more reasonable base rate. The evidence he heard was that the complexity, unpredictability, and high government take was not the way to go. This evidence, along with the lack of increased production, leads him to believe that Amendment 2 is the wrong way to go.

REPRESENTATIVE HAWKER recounted Mr. Armfield [of Brooks Range Petroleum Corporation] saying it is because of the credits that his company is here. Credits are where the state gives back and makes projects profitable. There is a history of testimony by Mr. Armfield and many other producers of all size that the confiscatory tax rates existing under ACES are a huge challenge for them to obtain the capital they need to come to Alaska and develop any oil they have found. Requests have been made that Alaska Industrial Development and Export Authority (AIDEA) provide financing to assist these people because the commercial markets will not provide it under Alaska's current fiscal structure and the exigencies of working in the North Slope. He said he therefore thinks that question was asked and answered by the same person.

REPRESENTATIVE TARR pointed out the base rate in Amendment 2 is 25 percent and the tax is capped at 55 percent; so she would not characterize it as a high base rate.

CO-CHAIR FEIGE noted there would be progressivity on top of that base rate.

REPRESENTATIVE TARR nodded yes.

[2:22:41 PM](#)

REPRESENTATIVE TUCK reiterated the progressivity is reduced to 25 percent at a profit per barrel of \$92.50. He recalled Pioneer Natural Resources stating it would love to be paying taxes in Alaska because that would mean it is making a profit. The state is guaranteeing these companies are profitable once they start producing, he argued. Being partners with the oil industry, the state takes more of its fair share as those profits go up. It is a finite resource, so the state does not want to dump all of its production all at one time on the markets. Rather, there must be consistent production and the state has not seen that because production is declining. He said ACES is a good way for taking advantage of today's high prices and is combined with making sure there are new investments for long-term production down the road. It is a combination of expanding the current fields as well as more fields in the future. He added it is difficult to compare conventional plays to unconventional plays. North Dakota has a high production cost of \$50 per barrel, which is higher than the cost in Alaska. The advantage in North Dakota is the quick return in that investments can pay off as soon as 18 months. However, with shale the decline is very rapid, so drilling must be done constantly to keep that production up, unlike the conventional plays on the North Slope. He urged that ACES be retained and refined.

[2:25:33 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 2.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 2. Representatives Olson, Seaton, Hawker, Johnson, Saddler, and Feige voted against it. Therefore, Amendment 2 failed by a vote of 2-6.

[2:26:48 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 3, labeled 28-GS1647\K.21, Nauman/Bullock, 4/3/13, [text provided at end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TARR, referring to the different tools of base rate, credits, and progressivity, noted a variety of options is being considered that manipulate those different tools to get to the end goal of more production. She explained Amendment 3 makes the \$5 per barrel credit applicable to all oil, retains the 35 [percent] base tax rate, and adds a small amount of progressivity per dollar of profit above \$55 until it caps out at 50 percent. She said the 50 percent cap is reached at about \$130 profit. Thus, Amendment 3 is a compromise between ACES and SB 21. She related she has heard from constituents that they support progressivity because they like for the state to receive more as prices go up. When constituents see articles about company profits being record high, it is hard to sell the idea that the companies are not doing well.

[2:28:55 PM](#)

REPRESENTATIVE HAWKER opposed Amendment 3, saying the difference between progressivity in the tax calculation and a progressive tax system must be understood. Version K is a progressive tax system; it provides progressive taxes, especially on legacy fields. The genius in the bill's progressivity feature is that it only rewards production; it does not reward someone who fails to produce. No matter how small or how progressivity is re-crafted that is based purely on the tax rate, no incentive is created for anyone to produce. All that is created is an incentive to guild the lily, to increase expenses to buy down a company's tax rate. There is no reason for a company to economize and seek to maximum profits. Version K causes people to seek to maximize production, not expenditures, which is a fundamental flaw of Amendment 3.

REPRESENTATIVE TUCK reiterated Amendment 3 maintains the 35 percent base tax rate, adds progressivity, and gives a \$5 per barrel credit for all oil. It is a good combination of trying to take care of legacy fields as well as ensuring a production tax credit. Since the credit is for all production there would be no need to figure out what is old or new production. It is a good balance because it needs to be ensured that facilities are maintained to prevent shutdowns due to equipment or pipeline failures. The amendment would provide a stable tax regime for quite a while.

[2:32:53 PM](#)

CO-CHAIR FEIGE inquired whether a fiscal note is available for Amendment 3.

REPRESENTATIVE TARR replied time constraints did not allow an opportunity to work that out. Regarding Representative Hawker's concerns, she said Amendment 3 does not maintain the ACES structure in terms of the credits. It uses the structure in Version K for doing away with the credits and only the net operating loss (NOL) credit is retained. She argued Amendment 3 does incentivize new production because it applies the \$5 credit on all new barrels. She reiterated she has heard from folks that they like that the state shares in the upside, which is done by the progressivity that would be capped at 50 percent.

[2:34:16 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 3.

A roll call vote was taken. Representatives Seaton, Tarr, and Tuck voted in favor of Amendment 3. Representatives Olson, Hawker, Johnson, Saddler, and Feige voted against it. Therefore, Amendment 3 failed by a vote of 3-5.

[2:35:55 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 4, labeled 28-GS1647\K.25, Nauman/Bullock, 4/3/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TUCK explained Amendment 4 would remove the per barrel credit, replacing it with a per barrel credit of \$12 for all oil, and would change the base rate up to 50 percent as a balance. It would establish a minimum tax of 10 percent of the gross value at the point of production, protecting the state at the lower end of prices. Responding to Co-Chair Feige, he confirmed that Amendment 4 would maintain the current minimum tax structure of AS 43.55.011(f) until the end of 2013. On page 7, following line 1, of the bill, Amendment 4 would add a new section, Section 15, defining the size of the reservoir. In response to Co-Chair Feige, he confirmed Section 15 would set the minimum tax rate at 10 percent of the gross.

[2:40:15 PM](#)

REPRESENTATIVE TUCK, continuing his explanation of Amendment 4, stated page 10, lines 27-31, Version K, would be deleted and new language inserted to set the 10 percent floor in that section of the bill. Version K, page 10, line 17, would be amended to change the base tax rate from 35 percent to 50 percent; this change from 35 percent to 50 percent would also be applied to page 11, lines 1, 14, and 23 of the bill. Version K, page 15, line 10, would be amended from a 35 percent to a 50 percent carried-forward annual loss. Version K, page 17, line 23, would be amended from a tax credit of \$5 to a credit of \$12 for each barrel of oil. In addition to the aforementioned, Amendment 4 would make conforming amendments.

[2:43:30 PM](#)

REPRESENTATIVE TUCK, in response to Co-Chair Feige, said the fiscal impact of Amendment 4 could be seen on the graph accompanying the amendment. Responding to Co-Chair Saddler, he said the bottom axis represents the price per barrel and the vertical axis is the percent tax. With 50 percent tax, \$12 [per barrel] credit, and a tax floor, the percent tax would parallel the path of the tax rate under [Version K] but would remove the stair steps. The floor would set in when prices go down to about \$65 a barrel, protecting the state on the bottom since the state would no longer be taking windfall profits at the top.

CO-CHAIR FEIGE inquired how this would compare to ACES.

REPRESENTATIVE TUCK replied he could find a chart that makes a comparison with ACES, but Amendment 4 would be significantly lower than ACES. In further response, he said he will find a chart by Econ One Research, Inc.

SENATOR OLSON believed the highest model the committee has is for \$105 per barrel, which makes it difficult to make a comparison. Part of the problem was that no one anticipated the price going up to \$140 per barrel or higher.

REPRESENTATIVE TUCK responded that even if the chart only goes up to \$105, the line can just be extended as it approaches, and that is where a big divide is seen between ACES and the current bill. The current bill "flat lines" because 35 percent is the highest the tax rate gets. The proposed 50 percent tax under Amendment 4 would never approach the height seen under ACES.

[2:47:39 PM](#)

CO-CHAIR FEIGE inquired whether the Department of Revenue has a slide that would help provide some comparison.

MR. PAWLOWSKI answered he does not have a chart on an effective tax rate basis under ACES so as to provide an apples-to-apples comparison. Additionally, he said he does not know the assumptions that went into Representative Tuck's chart.

REPRESENTATIVE TUCK said he is trying to locate a chart he believes the committee has that compares ACES to Version K.

[2:48:33 PM](#)

The committee took an at-ease from 2:48 p.m. to 2:49 p.m.

[2:49:23 PM](#)

REPRESENTATIVE HAWKER said it looks like Amendment 4 is trying to preserve the minimum taxes that apply across the state until January 1, 2014. Section 15, page 2, of Amendment 4, is for after January 2014 and talks about each lease or property within a unit or nonunitized reservoir that has cumulatively produced 1 billion British Thermal Unit (BTU) equivalent barrels of oil. He said his recollection is that there is only one such property - Prudhoe Bay - so the provisions of this would apply only to Prudhoe Bay. This provision says there is a 10 percent minimum gross value tax on Prudhoe production, but yet ...

CO-CHAIR FEIGE interjected "no minimum tax on anything else."

REPRESENTATIVE HAWKER, continuing, said it seems Amendment 4 removes the minimum tax after January 1, 2014, on everything else. Page 3, Amendment 4, deals with payment provisions and talks about how a company makes its deposits, which are the installment payments of estimated tax. While it substitutes the ten percent for the zero, one, two, three, and four percent as applicable, somewhere along the way it seems the minimum tax is lost as it would apply across the rest of the world. He guessed that when the rest of the minimum tax goes away, that provision would still apply, so it would just be zero, but Amendment 4 seems to take away the minimum tax provisions from the rest of the North Slope.

[2:52:07 PM](#)

REPRESENTATIVE TUCK, in response to Co-Chair Feige, stated the aforementioned is not the intent, but concurred it appears to be the effect.

REPRESENTATIVE HAWKER further noted that Amendment 4 would also increase the base tax rate and the net effective tax. Regardless of what Amendment 4 does to minimum taxes, he said he does not think the committee should support the amendment because it would further increase taxes over Version K.

REPRESENTATIVE TUCK responded the intent is to increase the tax revenue to offset the revenues that will be lost. It protects the state on the down end, as was the intent of Version K; as an offset it gives a higher per barrel tax credit.

[2:53:58 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 4.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 4. Representatives Seaton, Hawker, Johnson, Olson, Saddler, and Feige voted against it. Therefore, Amendment 4 failed by a vote of 2-6.

[2:55:22 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 5, labeled, 28-GS1647\K.24, Nauman/Bullock, 4/3/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TARR advised that she and Representative Tuck did not receive their amendments from Legislative Legal and Research Services until the start of the meeting, so they have not had an opportunity to review them. She said Amendment 5 is similar to Amendment 4, but has a tax rate of 45 percent, a \$10 credit, and a floor. She drew attention to the graph accompanying the amendment that compares the tax rate under Amendment 4 to Version K. She explained the hook on the left side of the graph represents the tax floor; the tax rate then smooths out over time over many price ranges and would be a little bit above the 35 percent tax rate in Version K. Amendment 5 would provide protection to the state at low prices because the tax would never go to zero. There is one marginal tax rate, which is the base rate, and the other credits and provisions are the same.

REPRESENTATIVE TUCK added that the sections in Amendment 5 are the same as in Amendment 4, but the amendment is much closer to Version K and would ensure the state is protected on the lower end of prices. It would be less regressive than Version K and would help the small producers as well.

[2:58:34 PM](#)

CO-CHAIR SADDLER asked which basins would qualify for the cumulative 1 billion BTUs in production. He further asked what the aim is in setting that parameter for cumulative and annual production.

REPRESENTATIVE TUCK answered that when requesting this amendment from Legislative Legal and Research Services, he asked to: remove the change in per barrel credit and give a per barrel credit of \$10 for all oil, change the base rate tax to 45 percent; and establish the minimum tax at 10 percent of the gross value at the point of production. The language in Amendment 5 is what Legislative Legal and Research Services came up with. He and Representative Tarr did not specifically look to exclude any type of legacy producers or small producers in the amendment, so he does not know why this section was put in. He assumed it was conforming language given there was no intent to exclude anyone in particular.

REPRESENTATIVE HAWKER reiterated it appears Amendment 5 applies the 10 percent alternative minimum tax only to Prudhoe Bay and would remove it from all other potential producers. If the graph is accurate, the amendment would increase the tax over the tax proposed in Version K. Increasing taxes beyond what is in Version K is not wanted, he argued; rather, the committee might want to consider further decreasing them.

[3:00:44 PM](#)

MR. PAWLOWSKI, responding to Co-Chair Feige, said the Department of Revenue's opinion is that Representative Hawker is correct in the long term, but in the short term this minimum would also apply to the Kuparuk Unit. However, according to the Revenue Sources Book, the Kuparuk Unit would fall out of the minimum qualification by fiscal year 2017, which is the beginning of calendar year 2016, because it would not have 100,000 barrels a day of production.

REPRESENTATIVE HAWKER quipped "maybe it is a good amendment."

REPRESENTATIVE TARR said she is unsure that is being interpreted in the way intended. Amendment 5 would protect the state at low prices, thereby sharing on both the low and high ends. It is not a significant increase over Version K and is a more reasonable sharing of the profits from Alaska's common property resource on the North Slope.

[3:02:49 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 5.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 5. Representatives Hawker, Johnson, Olson, Seaton, Saddler, and Feige voted against it. Therefore, Amendment 5 failed by a vote of 2-6.

[3:03:47 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 6, labeled 28-GS1647\K.11, Nauman/Bullock, 4/2/13, which read:

Page 6, line 8:

Delete "35"

Insert "50"

Page 10, line 17:

Delete "35"

Insert "50"

Page 11, line 1:

Delete "35"

Insert "50"

Page 11, line 14:

Delete "35"

Insert "50"

Page 11, line 23:

Delete "35"

Insert "50"

Page 15, line 10:

Delete "35"

Insert "50"

Page 17, line 21:

Delete "new subsections"

Insert "a new subsection"

Page 17, line 23:

Delete "\$5"

Insert "\$12"

Page 17, line 24:

Delete "that meets one or more of the criteria in AS 43.55.160(f) and"

Page 17, line 28, through page 18, line 28:

Delete all material.

REPRESENTATIVE HAWKER objected.

[3:03:55 PM](#)

REPRESENTATIVE TUCK explained Amendment 6 removes the change in per barrel credit and gives a per barrel credit of \$12 for all oil, changes the base tax rate to 50 percent, and does not set a floor. A graph accompanying the amendment was distributed.

CO-CHAIR SADDLER observed Amendment 6 raises the tax and said that may not be the direction - as a policy call - in which the committee wants to go.

REPRESENTATIVE TARR pointed out there is no hook in the graph because there is no floor. This is a trade-off of giving up protection at lower prices in return for sharing more when prices are high.

REPRESENTATIVE P. WILSON opposed Amendment 6, saying that if she was going to make some changes she would "bring it down a little bit further on the top end so that it could go up a little further on the bottom end."

[3:05:59 PM](#)

REPRESENTATIVE HAWKER said Amendment 6 would leave in place the low end protections that currently exist in statute through the minimum tax structure. But, by removing the stepped per barrel credit, it would remove the progressivity feature that is built into that credit for legacy fields. While an interesting idea, he would recommend including that progressivity feature because it is a production-based incentive with that per barrel credit; it is not the policy direction the committee wants to go.

REPRESENTATIVE SEATON stated regardless of how the graphs look and whether the committee likes them, he has a problem with raising the base rate too high. When people are considering coming to Alaska the base rate is the first thing they look at. Progressivity worked because it has a lower base rate and accelerates at higher profits. But, when it starts out with too high a base rate, even with deductions from the base rate it is harder for someone trying to make a decision.

REPRESENTATIVE TUCK said Amendment 6 would take away the stair step that both consultants had advised yesterday to take out. There would still be a progressive function and it would solve the regressivity problem for the oil companies. At low prices the state would not be making any money but would make more money at higher prices.

[3:08:50 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 6.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 6. Representatives Hawker, Johnson, Olson, Seaton, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 6 failed by a vote of 2-7.

[3:09:39 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 7, labeled 28-GS1647\K.22, Nauman/Bullock, 4/2/13, which read:

Page 6, line 8:  
Delete "35"  
Insert "45"

Page 10, line 17:  
Delete "35"  
Insert "45"

Page 11, line 1:  
Delete "35"  
Insert "45"

Page 11, line 14:  
Delete "35"  
Insert "45"

Page 11, line 23:

Delete "35"  
Insert "45"

Page 15, line 10:  
Delete "35"  
Insert "45"

Page 17, line 21:  
Delete "new subsections"  
Insert "a new subsection"

Page 17, line 23:  
Delete "\$5"  
Insert "\$10"

Page 17, line 24:  
Delete "that meets one or more of the criteria in  
AS 43.55.160(f) and"

Page 17, line 28, through page 18, line 28:  
Delete all material.

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TUCK explained Amendment 7 is very similar to [Amendment 6]. He reported Mr. Janak Mayer [of PFC Energy] was unable to get a model back to the committee, but the graph for Amendment 7 would be close to the graph for Amendment 5, except there would be no hook. Yesterday Econ One Research, Inc. drew its line underneath the stair steps while PFC Energy drew its line on top of the stair steps. Amendment 7 draws the line just above the top of the stair steps, so is more of a compromise.

REPRESENTATIVE JOHNSON offered a friendly amendment to the amendment to delete "45" everywhere it appears in Amendment 7 and insert "30". He then withdrew his amendment saying he had made his statement.

REPRESENTATIVE TUCK reiterated Amendment 7 would bring the tax rate closer to the stair step line of Version K and would smooth out that line.

[3:11:41 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 7.

A roll call vote was taken. Representatives Tuck and Tarr voted in favor of Amendment 7. Representatives Hawker, Johnson, Olson, Seaton, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 7 failed by a vote of 2-7.

[3:12:33 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 8, labeled 28-GS1647\K.9, Bullock, 4/3/13, which read:

Page 1, line 4, following "**rate;**":

Insert "**providing an additional tax on the production of oil when the production tax value of a barrel of oil is more than a certain amount;**"

Page 6, line 7, following "**2014**":

Insert "**the sum of**  
**(A)**"

Page 6, line 9, following "**percent**":

Insert "**;** **and**  
**(B) the sum, over all months of a calendar year after December 31, 2013, of the tax amounts determined under (q) of this section**"

Page 7, following line 1:

Insert a new bill section to read:

"\* **Sec. 14.** AS 43.55.011 is amended by adding a new subsection to read:

(q) In addition to the tax in (e) of this section, for a month in which the average production tax value of a barrel of oil is more than \$150, there is levied on the producer of oil for each barrel of oil produced and taxable under (e) of this section a tax of \$1 for each \$10 amount of production tax value that exceeds \$150. The tax in this subsection does not apply to oil the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. The tax levied under this subsection shall be paid at the time and manner in which taxes under (e) of this section are paid under AS 43.55.020."

Renumber the following bill sections accordingly.

Page 29, line 6:

Delete "sec. 31"  
Insert "sec. 32"

Page 29, line 7:  
Delete "18 and 20 - 23"  
Insert "19 and 21 - 24"  
Delete "sec. 18"  
Insert "sec. 19"

Page 29, line 9:  
Delete "Section 19"  
Insert "Section 20"

Page 29, line 20:  
Delete "sec. 36"  
Insert "sec. 37"

Page 29, line 24:  
Delete "Sections 13, 20 - 23, 28, and 37"  
Insert "Sections 13, 21 - 24, 29, and 38"

Page 29, line 25:  
Delete "sec. 18"  
Insert "sec. 19"  
Delete "sec. 31"  
Insert "sec. 32"

REPRESENTATIVE HAWKER objected.

[3:13:04 PM](#)

REPRESENTATIVE TARR noted that in Version K the tax credit per barrel scales down from \$8 to \$0 by \$1 for every \$10 of gross value at the point of production. Amendment 8 would allow the credit to "go negative" so that if the gross value at the point of production is \$160-\$170 there would be a bonus to the state. It would keep the stair step going down and there would be no minimum tax. The makers of the amendment are characterizing as a bonus a simplified progressivity at the higher prices. It is similar to the 45 percent base rate, \$8 per barrel credit, with a little bit more sharing on the upside for the state.

[3:13:54 PM](#)

REPRESENTATIVE HAWKER posited that this overall debate, manifest in the discussion of tax rates and shopping for tax rates and shopping for metrics, is really not the issue before the committee. The issue is production decline. The committee has heard it repeatedly testified that investment equals production

and to attract investment the folks making those decisions must model and compare. Alaska has to compete against their alternatives on a worldwide basis and in that is a probabilistic analysis of future oil prices and the taxes that would be in effect. Amendment 8 would directly exasperate the current problem with ACES, which is that government take is more with each rise in price, rather than providing either a levelized or very predictable staged and capped tax rate at those higher ends. Amendment 8 would take away a significant part of a potential investor's upside analysis, which is one reason why Alaska is not seeing investment and is experiencing production decline and a reason not to vote for the amendment.

[3:15:28 PM](#)

REPRESENTATIVE TUCK pointed out Amendment 8 pretty much "leaves the line" seen [on the graph] for Version K. The difference is that the amendment protects the state's interests when the price goes above \$170 a barrel. It increases the same curve in Version K for prices above \$170 a barrel and is asymptotic, so there is a cap to it. Rather than flat-lining at 35 percent when prices reach \$150 a barrel, it continues once \$170 is reached. Also, unlike ACES, it is a very small curve. It would provide benefits for those times when prices do get up that high versus how much the state expects to lose when prices drop below \$100 a barrel.

[3:17:00 PM](#)

REPRESENTATIVE TARR, while appreciating Representative Hawker's comments, said she does not think anyone would be complaining about what happens at oil prices of \$170 and above because people would be swimming in profits at that price. Amendment 8 is a way for the state to protect itself at very high prices. She recently heard from BP that it is doing its modeling at \$90 a barrel. In checking with other sources, it even may be \$80-\$95 a barrel. Looking at what happens above \$170 a barrel is not a problem today or likely to be one in the next five years if one believes the Futures Forecast, but this amendment would provide that Alaska shares in that windfall profit should prices reach \$170 a barrel. The tax rate graph for Amendment 8 mimics the version of the bill that the committee is considering.

[3:19:06 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 8

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 8. Representatives Johnson, Hawker, Olson, Seaton, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 8 failed by a vote of 2-7.

[3:20:07 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 9, labeled 28-GS1647\K.26, Nauman/Bullock, 4/3/13, which read:

Page 18, lines 4 - 11:  
Delete all material.

Renumber the following paragraphs accordingly.

REPRESENTATIVE HAWKER objected.

The committee took a brief at-ease.

[3:23:30 PM](#)

REPRESENTATIVE TUCK explained Amendment 9 would protect the state at low prices by limiting the credit to a maximum of \$5 per barrel at lower prices. At an average gross value at the point of production of \$110 and above, the credit would step down as currently written in Version K.

CO-CHAIR FEIGE noted there would be no per barrel exclusion below a taxable value of \$100 under Amendment 9 and asked whether the tax rate would then be the base rate of 35 percent.

[3:24:27 PM](#)

The committee took an at-ease from 3:24 p.m. to 3:32 p.m.

[3:32:57 PM](#)

REPRESENTATIVE TUCK withdrew Amendment 9 because it was incorrectly drafted.

[3:33:18 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 10, labeled 28-GS1647\K.19, Nauman/Bullock, 4/2/13, which read:

Page 17, line 21:  
Delete "new subsections"

Insert "a new subsection"

Page 17, line 24:

Delete "one or more"

Insert "either or both"

Page 17, line 28, through page 18, line 28:

Delete all material.

Page 24, line 14:

Delete "one or more"

Insert "either or both"

Page 24, lines 20 - 23:

Delete "; (3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources after December 31, 2012, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area"

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TUCK explained that under Amendment 10 the per-barrel credit would apply to new oil. He said he does not think "the field development should be counted as new oil." If a producer gets the gross reduction exclusion (GRE) then it would also get the per barrel credit. By deleting in Version K, page 24, lines 20-23, the amendment would remove the third section of the GRE that was discussed as not having clarity.

[3:34:22 PM](#)

REPRESENTATIVE TUCK, in response to Co-Chair Feige, concurred the GRE is now called the gross value reduction (GVR).

CO-CHAIR FEIGE said on [3/29/13] the committee changed the third GVR in CSSB 21(FIN) am(efd fld) to make it clearer and that change was included in Version K.

REPRESENTATIVE TUCK specified Amendment 10 would also give the \$5 per barrel taxable oil and would remove the stair stepping. In further response to Co-Chair Feige, he confirmed Amendment 10 would remove what would become subsection (j) of AS 43.55.024 and would entirely remove the floating per barrel credit provision.

[3:36:19 PM](#)

REPRESENTATIVE HAWKER opposed Amendment 10, saying it appears the intent of the amendment is to delete the per barrel credit for legacy fields and further make it difficult by removing the third gross value reduction, which in Version K was an important clarification of intent to ensure that the GVR would be appropriately applicable to oil and gas that was added to a participating area. Amendment 10 would "make the legacy fields pay, eliminate all future benefits from the legacy fields, or severely compromise those benefits to legacy fields." It seems the thought is to take that money and use it to subsidize everyone else as well as pay for the future operations of the State of Alaska. It is a false conception that the state can tax productivity out of legacy fields while at the same time falling over itself to incentivize some other mysterious definition of new oil and new fields. It defeats the purpose of trying to create a levelized, predictable, durable tax system that can be applied universally across all spectrums of those that explore and produce in the state.

[3:39:16 PM](#)

CO-CHAIR FEIGE opposed Amendment 10, stating that taking out the third GVR would take away one of the incentives to find new oil within the legacy fields. Eliminating the floating per barrel credit essentially leaves the base rate in effect on anything coming out of the legacy fields, which would drive investment in new oil outside of the legacy fields. Testimony was heard that most new oil would come from the legacy fields because in Prudhoe Bay a 1 percent rise is a significant volume of oil.

REPRESENTATIVE TARR clarified the per barrel credit allowance is only specific to part three of the [GVR/GRE]. She recalled it was heard from producers that they did not expect to use part three. If it qualifies for part one or part two of the GVR, then it would also apply for the per barrel credit, so it is just part three of the GVR that would be removed.

[3:41:13 PM](#)

CO-CHAIR FEIGE noted part one and part two of the GVR would be either new units outside legacy fields or new participating areas within. He understood Representative Tarr to be assuming there would be new participating areas in the legacy fields, but said he does not believe testimony was heard to that effect.

REPRESENTATIVE TUCK said the intent of Amendment 10 is to incentivize new oil from new areas. Production is already planned for the easy oil in the legacy fields and significant reduction of the state's tax income will help to incentivize those legacy fields.

[3:43:07 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 10. He understood the amendment would leave the \$5 per barrel credit for all fields, including the legacy fields.

REPRESENTATIVE TUCK confirmed that is correct.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 10. Representatives Seaton, P. Wilson, Olson, Hawker, Johnson, Saddler, and Feige voted against it. Therefore, Amendment 10 failed by a vote of 2-7.

[3:44:14 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 11, labeled 28-GS1647\K.18, Nauman/Bullock, 4/2/13, which read:

Page 17, line 24:

Delete "one or more of the criteria in AS 43.55.160(f)"

Insert "the criteria in AS 43.55.160(f)(1) or (2) or both"

Page 17, line 28, through page 18, line 28:

Delete all material.

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TARR explained there is a series of amendments related to the GVR/GRE. She said she likes to call it GRE because it is revenue exclusion. The amendments manipulate different portions of the GVR/GRE to look at ways to accomplish incentivizing new development. Like Amendment 10, Amendment [11] is specific to part three, but instead of eliminating the per-barrel credit and the GVR/GRE, it eliminates only the per barrel credit. The thinking behind Amendment 11 is that much of this may be planned development and it is new development that is trying to be incentivized, not things already in the works. The GRE would still be given, so there would still be incentive

to do in-field work. She added it is a policy call as to where to incentivize the behavior of the oil companies.

[3:46:34 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 11.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 11. Representatives Seaton, P. Wilson, Hawker, Johnson, Olson, Saddler, and Feige voted against it. Therefore, Amendment 11 failed by a vote of 2-7.

[3:47:21 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 12, labeled 28-GS1647\K.23, Nauman/Bullock, 4/2/13, which read:

Page 17, line 21:

Delete "new subsections"

Insert "a new subsection"

Page 17, line 28, through page 18, line 28:

Delete all material.

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TUCK explained that under Amendment 12 if the Department of Natural Resources determines that an in-field has new oil, then the per barrel credit would apply.

REPRESENTATIVE HAWKER understood Amendment 12 would eliminate what is now in Version K, which is a progressive tax feature that is also a production-based feature that provides a balanced benefit to legacy production. He said the amendment is counter to everything that is trying to be done.

REPRESENTATIVE TARR respectfully disagreed, saying that in this case for a legacy field if it can be proved that it qualifies for the third component of the GVR/GRE, then it is eligible for the credit.

[3:49:04 PM](#)

The committee took a brief at-ease.

[3:50:14 PM](#)

REPRESENTATIVE TUCK pointed out that subsection (i) of Section 25, Version K, would still remain. Thus, parts one and two of the GVR/GRE for new oil would remain, and if the provisions of part three are met for new oil, both the credit and the GRE would be received.

CO-CHAIR FEIGE opposed Amendment 12, stating a consideration while crafting the floating per barrel exclusion was that it is easy to identify a drilling rig and easy to identify new oil, but very difficult to quantify the effects of a field-wide effort to enhance production from the legacy fields using new technology or applying existing technology. The floating per barrel credit was chosen as a way where the more produced in those legacy fields, the more of a tax reduction overall, and at lower prices it is even more advantageous in terms of the per barrel credit. While it can be argued some of that oil in the legacy fields would be produced anyway because the wells are there, the intent is to incentivize investment using new technology or more of the current technology to increase the extraction rate and get more oil out of existing rocks over time. Putting Section 25, subsection (j), into law enhances that and enhances it in a way that rewards greater production.

[3:53:52 PM](#)

REPRESENTATIVE TUCK argued government take is being reduced significantly throughout Version K and industry is doing very well in Alaska. A benefit of doing business in Alaska is that the finds are large and very good, unlike in North Dakota where the finds are small and give oil immediately but quickly die. Decline on the North Slope is slow because it is conventional oil. The intent, he reiterated, is to not incentivize things that are already being done.

[3:55:01 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 12.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 12. Representatives P. Wilson, Hawker, Johnson, Olson, Seaton, Saddler, and Feige voted against it. Therefore, Amendment 12 failed by a vote of 2-7.

[3:55:51 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 13, labeled GS-1647\K.12, Nauman/Bullock, 4/2/13, which read:

Page 24, line 14:

Delete "one or more"

Insert "either or both"

Page 24, lines 20 - 23:

Delete "; (3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources after December 31, 2012, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area"

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TARR explained that under Amendment 13 the credit is maintained for part three of the GVR/GRE, but the credit is modified for non-GVR/GRE oil. By taking away part three of GVR/GRE a producer could not go back and add acreage. Some of the uncertainty is removed. She understood from testimony that folks did not anticipate much use of part three. Amendment 13 would add some certainty to how this would be applied.

[3:57:31 PM](#)

REPRESENTATIVE HAWKER argued this has nothing to do with credits as stated, but has to do specifically with the GVR/GRE. Amendment 13 would remove part three of the GVR/GRE, which was added after a deliberative committee process. The whole idea is that the GVR/GRE is to provide benefits for new oil and new oil alone; the devil is in the details of defining new oil. Committee debate identified that a significant amount of new oil might come from an acreage that was added to an existing participating area. The language originally drafted in the bill was unclear. [Co-Chair Feige] worked with the agencies to provide a great deal more clarity while still leaving a great deal of latitude with the Department of Natural Resources (DNR) to make the determination that the oil or gas produced was from the added acreage. It is very clear and is an important part of clarifying the intent/applicability of the GVR/GRE. It is absolutely consistent with the intent to provide an extra benefit and incentivize new oil, no matter where it comes from.

[3:59:50 PM](#)

REPRESENTATIVE SEATON supported Amendment 13, saying he does not think part three is clear. A new reservoir or a new reservoir at a different vertical level is clearly a new participating area. Making a determination for acreage that is added to a participating area will add much work for [DNR]. The Prudhoe Bay operator testified it does not foresee using expansion of participating areas. While an effort was made to clean up the language, the demonstration process was not cleaned up.

[4:02:04 PM](#)

CO-CHAIR FEIGE asked whether the administration has a position on Amendment 13.

JOE BALASH, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources (DNR), replied the administration is quite pleased with the current language in Version K. It is much clearer and will be less of a burden on the department's staff to go through these discussions with the operators on whether a given sub-participating area is in fact contributing to production in the main reservoir. Having the bright line of whether the particular acreage is an addition to the existing PA makes it clear. That is just one step. The second step is the one the Department of Revenue will take in determining whether there is a reasonable accounting for production from that addition. Under this language not all expansions of participating areas will qualify for the GVR/GRE because not all will be able to account for the production from the expanded area. Responding further, he confirmed two elements must be proven to both DNR and DOR: 1) the company must prove it is an addition to the existing area, and 2) the company must prove it can be accounted for separately.

[4:03:58 PM](#)

REPRESENTATIVE TARR recalled the deputy commissioner previously stating that he did not expect this part of the GVR/GRE would be widely used, which led her to believe that this was not as important a provision as the first two in terms of determination and help in clarity.

MR. BALASH agreed there will not be many instances in which this would be of benefit. However, he continued, based on the review done and work that is currently out there, it is expected the number of barrels that would be able to take advantage of this is material. Potential examples include "Ipad," expansions at

West Sac, Sharktooth prospect at Kuparuk, and CD-5 at Alpine. These are material and are things the state will want to happen.

MR. PAWLOWSKI added it is important to distinguish between the starting language of this provision versus the current language. The starting language was on an individual well-by-well basis, whereas [Version K] goes back to the actual acreage and the leases and the tracts that are added. That is a material difference from the department's perspectives about how this process might play out. It was heard last night from one of the operators of the non-Prudhoe Bay unit that future opportunities are seen to perhaps use this. He concurred with Mr. Balash that those volumes are currently not being developed and could provide meaningful additions to the state.

[4:06:15 PM](#)

REPRESENTATIVE TARR inquired whether the fiscal impact of the provision has been appropriately assessed in the fiscal note.

MR. PAWLOWSKI replied he believes it has because the majority of these expansions of PAs are prospective going forward, so they are new additions that are not necessarily included in the department's revenue forecasts.

CO-CHAIR FEIGE interjected that any new oil would actually decrease the impact of the fiscal note, which would be good.

REPRESENTATIVE TARR said it is a policy call on where to incentivize activity. Some changes made in the bill have been characterized in the public as a giveaway. There is a question about how much to give and whether the changes are giving opportunities for manipulating the system for production that was already planned.

[4:07:44 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 13.

A roll call vote was taken. Representatives Tarr, Tuck, and Seaton voted in favor of Amendment 13. Representatives Hawker, Johnson, Olson, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 13 failed by a vote of 3-6.

[4:08:34 PM](#)

REPRESENTATIVE TUCK withdrew Amendment 14, labeled 28-GS1647\K.17, Bullock, 4/3/13.

[4:09:13 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 15, labeled 28-GS1647\K.15, Bullock, 4/3/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TARR explained Amendment 15 would protect the state's interests by providing that the state would go back to [ACES] if, by close of the 2017 calendar year, North Slope production does not increase at least 10 percent over 2012 levels. While the state is unable to get any guarantees from the "big three" about what their plans are should this tax change be made, this amendment would give the state some protections to encourage activity to start quickly.

[4:10:55 PM](#)

CO-CHAIR FEIGE noted Amendment 15, page 1, line 16, would amend Version K to make a reference to AS 43.55.011(g). He offered his belief that this subsection pertaining to progressivity has been deleted.

REPRESENTATIVE HAWKER said the conditional effect is about the volume of oil being produced in 2017 that exceeds the volume of oil produced in the 2012 calendar year. However, the issue before the state is about stemming decline. There is a natural decline rate in the fields, so it is an affirmative 10 percent increase over 2012. For this legislation to actually result in more revenue to the State of Alaska, an increase of 40,000 barrels [per day] is needed [3/25/13 PowerPoint testimony by Econ One Research, Inc., slide 20]. Amendment 15 would set a hurdle of 10 percent more than the 2012 calendar year and putting in this kind of artificial hurdle is exactly what is wrong. This short timeframe and sort of absolute are not going to result in any increased investment and will probably decrease investment because this is all about aggregate production across the North Slope. When the majority of that production likely has to come from legacy producers, or one small guy hitting the mega-find, it is discriminatory. It does not represent how to incentivize and create a balanced and durable incentive program across all tranches of people the state wants working on the North Slope. The objective is to recognize market forces and

the laws of economics, and put in place what is believed to be an economic environment that will result in the desired increase in production across all spectrums. Another legislature will be sitting here in 2017 and if it does not like what it sees it can make changes.

[4:14:53 PM](#)

REPRESENTATIVE TARR, addressing Co-Chair Feige's earlier statement regarding Amendment 15, page 1, line 16, explained that that language needs to be included in the amendment because if the tax regime reverts back to the ACES structure then that language will be relevant. Responding further, she said additional language related to this provision is on page 16 of the amendment. She reminded members that today's meeting was delayed while Legislative Legal and Research Services prepared the amendments, so she was unable to proof this amendment prior to the start of the meeting, which is one of the problems with a rushed process. If the amendment is incorrect, she continued, she can offer a conceptual amendment.

[4:19:09 PM](#)

The committee took an at-ease from 4:19 p.m. to 4:21 p.m.

[4:21:36 PM](#)

REPRESENTATIVE TARR noted Amendment 15 has a drafting error and moved to adopt Amendment 1 to Amendment 15:

Page 1, line 16, following "AS 43.55.011":  
Delete "(g)"  
Insert "(q)"

The language on line 16 would therefore read: "during the previous calendar year under AS 43.55.011(q) ...". There being no objection, the Amendment 1 to the Amendment 15 passed.

REPRESENTATIVE TARR said Amendment 15 would provide a timeline to prove that there is new production. She agreed another legislature could come back, but said she would not rely on that given the amount of time it has taken this legislature to get this far. She stressed she is getting dozens of e-mails that the proposed bill is a giveaway with no guarantee of any new production. The public would be much more comfortable if the bill included a timeline and performance expectations, she stressed, since the legislation gives up nearly \$1 billion [in

revenue] which could result in Alaskans making sacrifices due to lack of funding for schools, roads, and public safety.

[4:24:10 PM](#)

REPRESENTATIVE P. WILSON disagreed, saying Version K, pages 17 and 24, provide that no allowances are given unless there is production; thus, something is being done to ensure production.

REPRESENTATIVE JOHNSON recounted when ACES was first passed it was thought to be the best thing that had ever happened to the state; only about 12 people in the House said it was not. The next year a bill was introduced and about 14 people said ACES was not what it was supposed to be. Today, nearly everyone says ACES either needs to be tweaked or totally disregarded. It is almost universally recognized that ACES is flawed. To return to what is, in his opinion, the most flawed tax plan on the planet is unconscionable. He recalled his reference to ACES on the House floor when it first passed as being a hurricane that would devastate Alaska's economy and said he believes that is where the state is now.

[4:26:19 PM](#)

REPRESENTATIVE TUCK argued the change proposed by Amendment 15 promotes more production, but provides protection should that not happen by returning to the system that protected Alaska during a time when the rest of the U.S. was going through a recession. There are more jobs and more players on the North Slope. Referring to statements that the fastest way to making more production happen is to make it happen on existing fields, he said he has not seen where any existing fields have had their declines reversed. While natural decline can be slowed, it will take new oil from other areas. Amendment 15 is a safeguard for the state's future.

[4:28:12 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 15.

REPRESENTATIVE TARR, responding to Representative P. Wilson's earlier comment, drew attention to the bill's fiscal note which has one portion tied to new production through the \$5 credit. She said this pales in scale to the loss of the progressive portion of the tax and this give away of hundreds of millions of dollars with no guarantee of production is of concern to the public. The public expects the legislature to play hardball

like the industry does in its board rooms to advance its interests; therefore, it is not inappropriate to put some expectations in place. The state will be taking a budget hit of nearly \$1 billion [per year] at least through fiscal year 2019. It will take the state's savings in its statutory budget reserve, which is from the ACES tax, to get through this time period. The people of Alaska are being asked to shoulder the burden of a tax break for the most profitable oil companies in the world.

[4:30:33 PM](#)

A roll call vote was taken. Representatives Tuck and Tarr voted in favor of Amendment 15. Representatives Hawker, Johnson, Olson, Seaton, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 15 failed by a vote of 2-7.

[4:31:17 PM](#)

REPRESENTATIVE TUCK moved to adopt Amendment 16, labeled 28-GS1647\K.16, Bullock, 4/3/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TUCK explained Amendment 16 deals with Section 11 and, as heard from the administration, Section 11 would include both Prudhoe Bay and Kuparuk. The proposed legislation would reduce government take at high oil prices where things tend to be most profitable. Amendment 16 would protect the state at low prices by putting in a floor of 10 percent of gross value at the point of production and this would apply to the legacy fields.

[4:32:33 PM](#)

REPRESENTATIVE HAWKER said Amendment 16 repeals and reenacts AS 43.55.011(f), which is the minimum tax subsection that applies to all oil and gas produced north of 68 degrees North latitude other than oil and gas production that is essentially a private royalty interest. It would eliminate the minimum tax provisions on everyone except Prudhoe Bay and Kuparuk, although Kuparuk would soon not be subject to this minimum tax because of its production decline. Thus, the minimum tax level on Prudhoe Bay will be raised to 10 percent. Lines 12-14 make no sense. It is not good public policy to increase the minimum taxes on, essentially, only Prudhoe Bay, and to remove the minimum tax levels on all other producers today and in the future.

REPRESENTATIVE TUCK added Amendment 16 attempts to ensure that the state does not go into negative production tax after credits when oil prices dip to roughly \$65 per barrel. It would protect the state's interests by ensuring revenue at low prices.

[4:35:28 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 16.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 16. Representatives Johnson, Olson, Hawker, Seaton, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 16 failed by a vote of 2-7.

[4:36:25 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 17, labeled 28-GS1647\K.8, Nauman/Bullock, 4/2/13, which read:

Page 24, line 22:  
Delete "2014"  
Insert "2017"

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE TARR stated she has had trouble with application of the GVR/GRE - what it would apply to, when it would not apply, and whether it should apply in circumstances where it is oil that is already in the plans for the next few years. The legislature is basing a lot of its decisions on the revenue forecasts, so there is some idea of the plan development in the near term. Amendment 17 would delay implementation of part three of the GVR/GRE from 2014 to 2017, which would increase her comfort level in regard to ensuring it is really new activity and new production that is being incentivized and not just things that were going to happen in the next couple years.

[4:38:06 PM](#)

REPRESENTATIVE HAWKER said he does not understand why it would be wanted to delay someone wishing to pursue an addition to an existing participating area - an addition that must be approved by, and demonstrated to, the Department of Natural Resources that it results in production from that added acreage. This is a "slow-it-down" amendment, he argued, because if he were a producer he would ensure that his decisions and determinations

were slowed down until 2017 rather than pursuing them immediately. He said he opposes Amendment 17 because it is immediate and expeditious results that are wanted from the bill.

CO-CHAIR FEIGE agreed with Representative Hawker, saying this would be for new oil and new oil is exactly what is trying to be found. If a producer adds to an existing participating area, that is an additional reservoir that will have production. There will be natural logistical challenges to increasing the activity on the North Slope, but it should not be the legislature's objective to put an artificial limit on that by having an effective date for this GVR/GRE of three more years into the future.

[4:40:10 PM](#)

REPRESENTATIVE TARR argued it depends on how one feels - whether one is "comfortable with a substantial giveaway to the most profitable companies ... in the world for work that they were already going to do." She said this is an area for which she is receiving much constituent communication - people uncomfortable about the idea of the state not getting anything new for what is being given away. Amendment 17 would take into account that producers have already planned what they will be doing for the next few years. Incentive would still be provided for producers to continue doing work that would qualify for parts one and two of the GVR/GRE. She allowed that in practical terms it may not have an impact because of the time it would take for the application process to add acreage to a participating area. It is a policy call on whether to give a tax break for work that was already going to be done in addition to a tax break with no guarantees or whether to incentivize new efforts.

CO-CHAIR FEIGE posited that lowering the tax rate makes it possible for an investment to go forward and this is investment that would be new oil.

[4:42:32 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 17.

A roll call vote was taken. Representatives Tarr and Tuck voted in favor of Amendment 17. Representatives Johnson, Olson, Seaton, P. Wilson, Hawker, Saddler, and Feige voted against it. Therefore, Amendment 17 failed by a vote of 2-7.

[4:43:14 PM](#)

CO-CHAIR FEIGE recessed the meeting to a call of the chair.

7:33:53 PM

CO-CHAIR FEIGE called the meeting back to order at 7:33 p.m. Representatives Seaton, P. Wilson, Tuck, Hawker, Johnson, Saddler, and Feige were present at the call back to order. Representatives Olson and Tarr arrived as the meeting was in progress.

7:33:58 PM

REPRESENTATIVE SEATON moved to adopt Amendment 18, labeled 28-GS1647\K.29, Nauman/Bullock, 4/2/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected for discussion purposes.

REPRESENTATIVE SEATON explained Amendment 18 addresses the need on the North Slope for investment opportunities for getting production in the pipeline. Brooks Range Petroleum Corporation has spoken about staying on track with production coming on line of 15,000 barrels a day, the first new oil the state would have. Last year the committee heard a presentation regarding the Alaska Industrial Development and Export Authority (AIDEA) having the ability to loan money at terms that would make money for the state. An interest rate of 10 percent for 10 years was discussed for up to \$200 million on production facilities. Those production facilities were intended to be constructed within Alaska and trucked to the North Slope. Amendment 18 is an amendment the committee included in last year's bill. It would accelerate production, increase jobs in Alaska and, at 10 percent interest, would make more money than the state's other investments. It is for production facilities and is applicable to many of the small producers.

7:37:36 PM

REPRESENTATIVE HAWKER said he has some trepidation about the amendment because this issue may have been largely resolved by other bills that have moved through the committee this session. He has some worry about expanding the scope of a production tax revision bill, but is comfortable when looking at it through the ultimate objective, which is to increase production without placing the state's treasury at undue risk. He said he will

therefore remove his objection to the amendment when that opportunity comes.

REPRESENTATIVE JOHNSON liked the concept, but questioned whether Amendment 18 would positively or negatively affect someone's ability to raise capital given that money is usually raised in the private market. Responding to Co-Chair Feige, he agreed the state might be competing with the private sector and said he would like to talk with someone who has tried to raise money as to whether the amendment would be of help.

[7:39:57 PM](#)

REPRESENTATIVE HAWKER shared that when talking with folks interested in this sort of legislation he was not excited about the idea of AIDEA getting involved in oil and gas field finance. However, after thinking about it he has become comfortable with the concept and has a bit different stand. Because the bill will receive a thorough financial review in the finance committee, he will support the amendment. It is a good policy statement from this committee that helping develop facilities could be as helpful in increasing production as an appropriate economic fund.

CO-CHAIR FEIGE noted the amendment includes a title change, so a title change resolution will be required.

REPRESENTATIVE JOHNSON concurred it would require a title change. In further response, he said the House would have to vote for the change and then the Senate would need to do the same. He confirmed it would take a majority vote to accept.

[7:41:48 PM](#)

REPRESENTATIVE SADDLER asked whether the intent of Amendment 18 is to eliminate bottlenecks for small or for large producers.

REPRESENTATIVE SEATON replied there would be no restriction on this money for naming participants or the size of participants. Members were approached last year by producers that were trying to rapidly move forward with production into the pipeline. The Brooks Range project will come on line long before Point Thomson or any of the other major projects. The bottlenecks that occur in the production facilities of gas and oil handling can be significant and challenging to work out, so this would be an alternative method. Getting production into the Trans-Alaska Pipeline System (TAPS) is not just the fiscal system. While the

fiscal system is a challenge for some, it is the regulatory system that is a challenge for others and this amendment would help with that bottleneck.

[7:43:24 PM](#)

CO-CHAIR SADDLER recalled industry cautioning that legislators should try not to drive from the back seat. He inquired what assurance the maker of the amendment has that this is the exact place where this money will be most efficacious in eliminating bottlenecks. He further inquired whether the fund should be made available to any purpose and let people borrow and spend as they will.

REPRESENTATIVE SEATON responded this is an identified bottleneck that would accelerate production getting into TAPS and the state would make money doing it. He said he does not support the state loading money to be used for anything. This discussion was had last year with AIDEA and with producers; the amendment was not crafted at the last minute, it is basically what the committee had last year. It would move the state toward its goal of production. He agreed with Representative Hawker that the finance committee could remove the provision if that committee dislikes it.

CO-CHAIR FEIGE asked whether AIDEA is currently able to do this.

REPRESENTATIVE SEATON answered AIDEA does not currently have specific authority for oil and gas production facilities, so Amendment 18 would allow that. He further noted that AIDEA has a \$400 million bond limit.

[7:46:09 PM](#)

REPRESENTATIVE SEATON, responding to Co-Chair Saddler regarding Amendment 18, page 3, lines 9 and 17, he explained \$400 million is AIDEA's bonding limit currently, so taking up to \$200 million out of AIDEA's current authority for economic development would be problematic. Amendment 18 would put [a limit] of \$200 million so it does not restrict or take away from AIDEA's current ability.

CO-CHAIR SADDLER therefore understood it is not a per bond issue, but is the entire bonding authority. He requested elaboration on how the flow of money would go through the financing and why that would be savings to the state.

REPRESENTATIVE SEATON explained last year's negotiations were in the range of 10 percent interest over a 10 year period for pay back. Currently, the state is not making near 10 percent on most of the things that it is investing. The facilities would be built in Alaska so the jobs would be in Alaska. While the facilities could still be built in Alaska using someone else's money, this amendment would assure that the facilities are built in Alaska. Responding further, he said if AIDEA made a loan of, say, \$100 million, it would negotiate for 10 percent interest with a 10-year payback. Originally, the company that came to the committee was willing to do a much shorter time, but AIDEA said it wanted a longer duration at that interest rate, and that was acceptable to everybody.

[7:49:04 PM](#)

CO-CHAIR FEIGE requested the administration to comment on Amendment 18.

MR. PAWLOWSKI noted AIDEA has broad powers currently to engage in financing, development, and infrastructure in the state. The administration is trying to understand the section of the amendment on page 2, lines 12-28, about the actual separate establishment of an oil and gas infrastructure fund within AIDEA itself and the relationship of that to the bond authorizations. Being unable to consult directly with AIDEA, he offered his belief that AIDEA is already engaged in conversations and has stepped forward in regard to the aforementioned project. Without input from AIDEA, the administration is relatively uncomfortable with understanding the difference between the fund and the bond authorizations and the total project. However, because it is the will of the committee, the administration will continue working with members on all of these issues.

REPRESENTATIVE SEATON explained it was brought up during discussions with AIDEA that the legislature may not necessarily want AIDEA to sell bonds and might instead prefer depositing money into a fund that AIDEA could loan because the state is not making 10 percent money in its statutory budget reserve nor its other accounts. While AIDEA is using some of its money for helping in the construction of that road and pad, AIDEA has said it does not have authority to do oil and gas production facilities without a change in statute. If the legislature did not appropriate money into the fund, AIDEA would use the bonding authority being grant to it.

[7:52:38 PM](#)

REPRESENTATIVE TUCK supported Amendment 18, saying that even if AIDEA could do this already it would be nice to have it in the regulations and laws for oil and gas so people are aware of it. The processing facilities could potentially be a bottleneck on the North Slope if a small producer cannot get a facility sharing agreement with a big producer. This would allow a small producer to build its own facilities or would allow a big producer to expand its facilities.

CO-CHAIR FEIGE drew attention to Amendment 18, page 2, lines 21-24, which read "the state or a political subdivision of the state may levy a tax or special assessment on an oil or gas processing facility ...." He asked what would be the purpose of the tax.

REPRESENTATIVE SEATON replied the language is to make it clear that just because the state is participating in the financial arrangement in these facilities, the facilities do not then escape property tax. There became this question of at what point in the financing does it become a state facility and then escape tax. There is no intent to have the state's financing ability change the property tax status.

MR. PAWLOWSKI understood that AIDEA's statutory problem in being involved in the proposed North Slope project, at least initially, is really related to page 3 of the amendment - the authorization to issue the bonds. Currently, AIDEA has a broad range of statutory ability to be involved in different projects, but AIDEA does not have the actual authorization to issue that large amount of debt to go into a project. That typically goes to the AIDEA board for review and then it is released to the legislature for approval; it is the legislature that authorizes the issuance of that debt. He said would need to talk to the department and to AIDEA to understand their feelings on the creation of the fund.

[7:55:56 PM](#)

The committee took an at-ease from 7:55 p.m. to 7:58 p.m.

[7:58:16 PM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 18. There being no further objection, Amendment 18 passed.

[7:58:44 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 19, labeled 28-GS1647\K.27, Nauman/Bullock, 4/2/13, which read:

Page 1, lines 2 - 4:

Delete **"providing a tax credit against the corporation income tax for qualified oil and gas service industry expenditures;"**

Page 4, line 5, through page 5, line 11:

Delete all material.

Renumber the following bill sections accordingly.

Page 29, line 5:

Delete "Section 13"

Insert "Section 12"

Page 29, line 6:

Delete "sec. 31"

Insert "sec. 30"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"

Insert "Sections 17 and 19 - 22"

Delete "sec. 18"

Insert "sec. 17"

Page 29, line 9:

Delete "Section 19"

Insert "Section 18"

Page 29, line 20:

Delete "sec. 36"

Insert "sec. 35"

Page 29, line 24:

Delete "Sections 13, 20 - 23, 28, and 37"

Insert "Sections 12, 19 - 22, 27, and 36"

Page 29, line 25:

Delete "sec. 18"

Insert "sec. 17"

Delete "sec. 31"

Insert "sec. 30"

REPRESENTATIVE HAWKER objected.

7:59:16 PM

REPRESENTATIVE SEATON explained Amendment 19 would delete the section providing a tax credit against the corporation income tax for qualified oil and gas service industry expenditures. He said the problem is that there are other tax credits for workforce development and educational purposes. It really does not have anything to do with the production of oil and gas; it is service companies. While the fiscal note says a maximum of \$25 million, a good number was not available. In the last 10 years the maximum paid was about \$10 million for the entire oil and gas service industry sector. Thus, this 10 percent or \$10 million per company would probably eliminate all of the corporate income tax. There is also a five-year carry forward provision. The committee has looked at trying to stimulate oil and gas production workforce training. "Processing tech facilities" can be done through the state's universities and colleges. Amendment 19 would have no effect on the bottom line of the producers or anybody that is going to be putting oil in TAPS. Responding to Co-Chair Feige, he confirmed the section that would be deleted was added to the bill in the Senate Resources Committee by Senator Bishop.

8:01:51 PM

CO-CHAIR SADDLER requested clarification on whether Amendment 19 would eliminate or supplant the workforce development and educational tax credits.

REPRESENTATIVE SEATON responded if there is no corporate income tax liability for any of these companies then there is absolutely no tax credit that they can take by doing educational tax credits. Educational tax credits are 50 percent of the first \$100,000 and 100 percent of the second \$100,000 and 50 percent of the amount up to \$5 million. That upper amount has not been used, but smaller amounts have. If there is no tax liability there is no incentive to earn a tax credit to do workforce development issues because 100 percent of the money would be taken out of the corporation rather than diverting tax money that would have been paid to the state to an educational institution. Therefore, the tax incentive goes away.

8:03:10 PM

REPRESENTATIVE P. WILSON commented the training is used by the mining companies to ensure there are people who are qualified

and trained before hire. The companies donate to the three or four schools in the state that provide this training.

MR. PAWLOWSKI called attention to the fall 2012 Revenue Sources Book, page 113, which describes the credits that are applicable under multiple programs. The education credit in particular is applicable to the corporate income tax, he said. Other taxes having a credit for education are the fisheries business tax, fishery resource landing tax, insurance premium tax, title insurance premium tax, mining license tax, oil and gas production tax, and oil and gas property tax. The total amount used in 2012 was \$4 million. Recognizing that a healthy service industry supports a healthy oil industry, this provision was added in the Senate to provide incentive for work being done within the state that does not necessarily have to be done here, which is the manufacture and modification of tangible personal property that then is used in the oil and gas and exploration industry. The administration has supported the intent of this provision, as well as the provision, throughout the process. The education credit can be taken against lots of other taxes, and the importance of this to the overall perspective is a key part of building a vibrant oil and gas industry in Alaska.

[8:05:44 PM](#)

CO-CHAIR FEIGE understood this credit would enable a service company to put in a lower bid and improve its competitiveness against outside suppliers of those manufactured items.

MR. PAWLOWSKI concurred, saying the intent behind the provision is to improve the economics for the type of work being done in state. Manufacturing and modification companies testified before other committees that this would be a valuable credit to them in their ability to compete against infrastructure that is built out of state and shipped here.

[8:06:24 PM](#)

REPRESENTATIVE HAWKER pointed out the language being proposed for removal from statute is that \$10 million credit, but it is against Chapter 20, the Alaska Net Income Tax Act, so it is the corporate income tax. He said he was concerned when the Senate first included this section because he was uncomfortable with going that far down into the economy when he really thought this legislation should be specifically looking at the upstream oil and gas economy. However, after thinking about it, he came to see it as an equalizer or leveling of the playing field. For

example, limited liability corporations and S corporations enjoy the benefits of legal protection of corporations but yet any tax liability flows to the individual. Because Alaska has no personal income tax it is extremely advantageous to organize a business as a tax pass-through entity. This provision is a tax equalizer for regional and Native-owned corporations and others that are C corporations because C corporations cannot avail themselves of the ability to organize in a tax pass-through entity. Testimony regarding the state's perceived exposure indicated this provision would not be a threat to the treasury but would aid in the long-term and overall objective of creating an economic environment across the state to facilitate and increase oil and gas production. Reiterating that he has worked his way from not liking this section in the bill to liking it, he said he will maintain his objection to the amendment.

[8:10:22 PM](#)

CO-CHAIR FEIGE allowed he had not thought about the equalizing between C corporations and S corporations; rather he had been thinking about it from the viewpoint of Alaskans versus Outside and anything that gives Alaska businesses an advantage to get more business, especially the increase in business that should come as a result of this bill lowering taxes. In the end the revenue from the corporate tax, even with the 10 percent deduction, may still exceed what the state is receiving under its current tax regime. He said he would therefore like to keep Section 8 in the bill.

REPRESENTATIVE TUCK said he would like to ensure that as much of the new investment on the North Slope is built in Alaska as is possible. The aforementioned provision is an opportunity to offer credits for value-added industries within the state.

REPRESENTATIVE SEATON, in response to Representative P. Wilson, said the definition of "qualified" oil and gas service industry expenditures is found in Version K, page 5, beginning on line 7.

[8:13:04 PM](#)

REPRESENTATIVE SEATON stated if the committee's mood is to make C corporations on par with limited liability corporations it can do that. This is the only tax that C corporations have to receive that tax credit. According to Version K, page 5, lines 10-11, components or equipment used for or in the process of manufacturing are not included, meaning welding equipment is not included but pipe that is welded would be included. Inventory

activities would also not be included. It appears from the modification language in Version K, page 5, line 3, that most things will be included because almost everything has a useful life of three years. Given the will of the committee to not move this way, he withdrew Amendment 19.

[8:14:52 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 20, labeled 28-GS1647\K.30, Nauman/Bullock, 4/2/13, which read:

Page 1, line 11, following "**properties**;"

Insert "**relating to the additional conservation surcharge on oil**;"

Page 25, following line 20:

Insert a new bill section to read:

"\* **Sec. 33.** AS 43.55.300(a) is amended to read:

(a) Every producer of oil shall pay a surcharge of **\$.07 for each** [\$.04 PER] barrel of oil produced from each lease or property in the state, less any oil the ownership or right to which is exempt from taxation."

Renumber the following bill sections accordingly.

Page 29, line 20:

Delete "sec. 36"

Insert "sec. 37"

Page 29, line 24:

Delete "37"

Insert "38"

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE SEATON explained Amendment 20 deals with the spill prevention account. He provided a two-page handout from the House finance subcommittee's 2/7/2013 overview of the Department of Environmental Conservation (DEC). He noted the graph in the handout shows this account will become bankrupt in fiscal year 2015. At the current surcharge of \$.04 per barrel for this account, the projected annual revenue in fiscal year 2018 is \$8,800,000 and the expenses are projected at \$15,455,000. Amendment 20 would increase the surcharge to \$.07 per barrel to ensure the spill prevention and response fund has funding for the future and provides for a safe industry.

8:17:55 PM

CO-CHAIR FEIGE noted there are two surcharges: the one under AS 43.55.300 that would be affected by Amendment 20, and the one under AS 43.55.201 that is a levy of \$.01 per barrel.

REPRESENTATIVE SEATON said the response fund [AS 43.55.201] is capped at \$50 million and right now it is capped, so the \$.01 is not being charged. Amendment 20 applies to the prevention account [AS 43.55.300], which includes inspection activities.

8:18:55 PM

CO-CHAIR FEIGE understood the account under [AS 43.55.201] is money in the bank to cover an event, and the account that Amendment 20 would apply to [AS 43.55.300] runs the operations of that division of DEC.

REPRESENTATIVE SEATON answered correct, saying [AS 43.55.300] runs all of the activities for spill prevention and response oversight and it is running dry.

CO-CHAIR SADDLER observed that in fiscal year 2013 the category of cost recovery/fines/penalties was at \$976,400, but in fiscal year 2014 it jumps to \$11,500,000.

REPRESENTATIVE SEATON said this is from a lawsuit settlement with a company coming due.

8:20:54 PM

REPRESENTATIVE P. WILSON recalled that when she was on the finance subcommittee there was discussion about increased ship traffic due to the Arctic Ocean opening up and concern was expressed about spills, having to cover more territory, and running out of money.

REPRESENTATIVE HAWKER recounted his experience on the finance committee was that this fund was always said to be out of money. The fund was examined and some of the applications of the money were questioned. He maintained it is a management issue and said the surcharge ultimately gets transferred and can be used under AS 46.08.040, which is "the oil and hazardous substance release prevention ... mitigation account." The statute includes two pages of what this money can be used for. A lot of good is intended here, but it is a shadow appropriation, it is

unaccountable money. Statutorily, so much latitude has been granted that these funds can be used in far too many ways that are not necessarily directly related to the oil and gas producers. A larger question, in his opinion, is about how the prevention and response accounts are established in statutes, and he is unsure he wants to give more money that is not accountable to the legislature. When money is needed for one of these purposes, the agency can come to the legislature and ask for it through appropriations.

REPRESENTATIVE P. WILSON said the agency did ask for this money but the money was not given.

REPRESENTATIVE HAWKER maintained that that is the proper way for a funding request to occur; so, if it was not honored, he is not sure he wants to second guess the budgeting decisions that were made in the budgeting process.

[8:25:19 PM](#)

CO-CHAIR FEIGE pointed out the penny per barrel tax goes to the [response fund] that is capped at \$50 million and is for an event. Looking ahead to, hopefully, increases in production, exploration in other areas, and development in some of the offshore areas, he posited it might be prudent to consider increasing the amount in the response fund. Rather than changing the penny per barrel, the cap on the fund could be raised. Responding to Representative P. Wilson, he disagreed with removing the cap. He requested Mr. Pawlowski to comment.

MR. PAWLOWSKI, referring to the second page of Representative Seaton's handout, noted the prevention account balance starts off at \$7 million in fiscal year 2014 and declines to \$4.7 million in fiscal year 2022, while expenditures are flat. The \$.04 per barrel is based on production and the bill, at its root, is about increasing production. So, that increase in production will increase the revenues at \$.04 per barrel, which will therefore do something to support this program. Regarding the bigger question about changing the rate, he said he is not sure he can comment at this point.

[8:27:36 PM](#)

REPRESENTATIVE SEATON stressed the importance of ensuring that facilities are well-kept and that one would think the companies should do that on their own without oversight. However, industry does require some oversight. Numerous companies will

hopefully come on to production and it should be ensured that they are all using best practices. He concurred there are a number of statutory uses for this money, but pointed out that this year there were no increases in DEC's budget for this or for anything else. While the state is hoping to increase production, just stemming the decline will take a while to do. In the meantime, it can be seen what is happening with the state's liability. Through this fund, this committee has the ability to ensure the state protects itself from liability and protects the way things are done across the entire state.

REPRESENTATIVE TUCK supported Amendment 20, citing the decline of the fund's revenues. Alaska is unique because of its short construction seasons on the North Slope, its logistics, and its supply-chain issues. It takes many years for projects to get off the ground and for oil to get on line, so it may be quite some time before increased production is seen. Even if the decline is stopped and flat-lined, the fund will go backwards.

[8:31:21 PM](#)

REPRESENTATIVE JOHNSON understood this is not out of the oil companies' pockets, but rather is something that comes out of the state's treasury. However, it looks like fuel storage and other things are being carried on the back of one industry. He posited it might be appropriate to add a penny per ton of ore delivered or three cents per fish since spills happen everywhere, not just in the oil industry.

CO-CHAIR FEIGE said Representative Johnson's suggestion has merit, given the many different applications both inside and outside of the oil industry that the fund may be used for. For example, there have been fuel truck incidents along the state's highways that have drawn from the fund for cleanup.

REPRESENTATIVE JOHNSON interjected there is also marine shipping and the railroad for which this fund is used.

CO-CHAIR FEIGE, continuing, said it does not strike him as being fair to put this increase squarely on the backs of the oil producers and not necessarily the spillers of the oil.

[8:33:39 PM](#)

REPRESENTATIVE SEATON noted the bill will be going on to the House Finance Committee, so this provision could be broadened in that committee when time allows it to consider what proportion

for other industries would be appropriate. He therefore urged that the committee go forward with this mechanism at this time.

REPRESENTATIVE JOHNSON said he is confident the finance co-chair will be happy to add a commercial fish tax under this. He said he opposes Amendment 20, however, because he thinks this is budgetary and should be done through the budgeting process. If the amendment passes, he advised he will pursue adding other industries for contributing to this fund.

CO-CHAIR FEIGE inquired whether Representative Johnson would consider raising the total amount of the fund.

REPRESENTATIVE JOHNSON replied he would have no problem with that, but said Amendment 20 does not apply to the \$50 million.

[8:35:54 PM](#)

REPRESENTATIVE P. WILSON supported Amendment 20, saying she thinks it is appropriate. She added she would be willing to reduce it from the \$.07 and said the committee should consider that it is not going to get funded any other way. Other industries already tax themselves to take care of things; for example, commercial fishers tax themselves 3 percent to provide money for other things. This is important and is something the state has to do whether or not it likes it.

CO-CHAIR SADDLER understood money from other sources, such as federal funds and penalties, can be put into this fund. He asked whether this tax is the only source of money for the fund or could money be directly appropriated from general funds.

MR. PAWLOWSKI responded the \$.04 surcharge is not the only revenue that goes into the fund. He recounted that in his previous work he was involved in some appropriations directly to this account at the finance committee level to help carry the fund through. In further response, he said that appropriation was in response to declining revenues due to declining production and to increasing expenditures.

[8:38:29 PM](#)

CO-CHAIR FEIGE inquired whether Representative Seaton has any data on how much of the fund has been spent on issues created by the oil industry versus issues created by other industries.

REPRESENTATIVE SEATON answered he does not have a breakdown, but most all of the designations that he is aware have gone to fuel clean up, whether processed or bulk fuel; for example, the Exxon Valdez. Tankers have rolled over, which is a fuel spill that is not a crude oil spill. The purpose of this prevention account is to protect the State of Alaska and to protect its resources. If the committee desires it can decide to let it go so the fund does not have money to operate, but this is what has been established in statute as the funding mechanism. He said the committee does not have the ability through any other bills to ensure that this fund is stable and protects the State of Alaska and the industry.

[8:40:47 PM](#)

REPRESENTATIVE HAWKER contended this is not an account into which money just goes and then gets paid out in the event of an oil spill. Generally the spiller of crude oil has some depth of pocket and assets. The State of Alaska does not just step up and remediate a spill without wanting to be reimbursed. Under AS 46.08.075 the state can put a lien against the spiller's assets. Under AS 46.08.070 the commissioner must promptly seek reimbursement of any funds spent from the account for spills by a major oil producer in the state. The good and noble reason for establishing the account was to ensure the state could have an immediate emergency response to a circumstance and the state intends to bill and collect those costs back. It is his opinion that over time this has become a slush fund for DEC and DEC uses it for far more than what he believes it should, although, he allowed, there is that broad statutory authority. There has been tax creep and the burden of supporting DEC's slush fund activities is on the oil industry, so he is hesitant to raise the amount of money given to DEC's slush fund.

[8:44:02 PM](#)

REPRESENTATIVE P. WILSON recounted that during [finance] subcommittee deliberations, it was brought up that lots of oil has been spilled by the federal government. Responding to Co-Chair Feige, she confirmed she is talking about legacy wells. She added those wells are all over the North Slope and the state does not have the money.

REPRESENTATIVE TARR stated she sat on the DEC budget subcommittee and she believes there is some confusion about this. As far as the spill prevention and response, only 1 percent of this funding goes to staffing, so she does not think

it can be considered a slush fund for DEC. The rest goes to contaminated sites, of which there are thousands yet to be cleaned up. The cost of cleaning them up far exceeds what has been brought into the fund even though DEC has been diligent in its actions. Referring to a letter from the Senate Rules Committee chairman, she said she is concerned that failing to address the coming shortfall threatens to undermine the state's reputation as a diligent regulator of the oil and gas industry. The estimated fiscal impact will be at least \$6 million out of the general fund for next year. She noted that the big deposit [in fiscal year 2014] is coming from spills in 2006 by BP, so there is quite a lag in time for collecting the money despite the state's efforts. She referenced a letter from the Office of Management & Budget (OMB) which discusses the legislative intent of the fund.

[8:47:56 PM](#)

REPRESENTATIVE TUCK said he sees the fund as an insurance policy for the State of Alaska. It protects the state's reputation and shows the world the state is doing it right. The state needs to be able to act quickly if there are mistakes and this fund allows that to happen, rather than relying on court proceedings.

REPRESENTATIVE SEATON listed some of the outstanding open balances for the fund: River Terrace Laundromat - \$391,000; U.S. Department of Transportation for Forest Service road 3030 - \$284,000; ConocoPhillips Alaska, Inc. for CPADS1L22 - \$35,000; BP Exploration (Alaska) Inc. for Lisburne common line release - \$24,000; Flint Hills Resources for the North Pole refinery - \$792,000; BP Exploration (Alaska) Inc. for ES1L11 - \$25,000; Repsol for Q2 shallow gas kick - about \$1,000; BP Exploration (Alaska) Inc. for BPXAL1 - \$17,000; Oil Spill Liability Trust Fund for St. Lawrence oiled wildlife - \$19,000; oil spill liability for a drill rig on the Kulluk - \$175,000. He said most of these have to do with oil and gas production, although not all. About \$2 million is owed to the fund because it takes a long time to collect.

[8:50:32 PM](#)

CO-CHAIR SADDLER argued this appears to be a hard dedication of money which violates the intent of the constitution. The system is predicated on the legislature having the power to appropriate general funds with maximum flexibility. The course is either to eliminate all hard dedications like this fund or more fairly allocate the costs amongst all the spillers. He said he must

oppose Amendment 20 on principle of legislative discretion as opposed to dedication of funds.

REPRESENTATIVE OLSON opposed Amendment 20, saying he sat on the DEC budget subcommittee for six years and two notable groundings occurred up north: a ship full of soybeans that was rotting and a ship full of king crab that was rotting. Virtually all of the money that came out of this fund went into cleaning up the cargo, not petroleum leakage. An underground storage leak at a mini-mart in Sterling was over \$1 million, but those funds may have been recovered. Another problem is foreign-flagged vessels in that the state has never recovered anything from foreign vessels. He understood DEC has used the fund for training purposes for spill cleanup as well as other purposes unrelated to the fund, such as travel.

CO-CHAIR FEIGE opined it is a fairness issue. The surcharge puts the financial burden on one particular industry while the expenses are being distributed throughout all the industries. The revenue for the fund should be across a broader range of industry.

[8:54:20 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 20.

A roll call vote was taken. Representatives Seaton, P. Wilson, Tarr, and Tuck voted in favor of Amendment 20. Representatives Olson, Hawker, Johnson, Saddler, and Feige voted against it. Therefore, Amendment 20 failed by a vote of 4-5.

The committee took a brief at-ease.

[8:56:19 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 21, labeled 28-GS1647\K.31, Nauman/Bullock, 4/2/13, which read:

Page 24, line 13, following "section,":

Insert "for the first five years immediately following the commencement of production subject to tax under AS 43.55.011(e),"

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE SEATON explained Amendment 21 would sunset the GVR/GRE five years after production begins. Since the purpose

of the GVR/GRE is to enhance the economics of a project for new oil, it will mostly be going to where facilities and pipelines need to be built. Because production declines, a significant portion of the production will have occurred five years after production was begun. The costs will have been recovered during this time and from there onward the wells are much more profitable because those capital expenses are no longer being written off. Amendment 21 would ensure that new oil is not new oil forever. After receiving a tax break that succeeded in bringing that new oil on line, it will at some point become old oil. If there is not a change, then over time everything is going to become new oil and the state will have a tax system that no longer has a balance of old and new oil. Revenue analyses have not included what revenues are going to look like to the state or to the companies after the capital expenditures are all paid off and also what happens over time when the majority of production becomes new oil.

[8:58:37 PM](#)

REPRESENTATIVE HAWKER spelled out his concern with sunseting the GVR/GRE. He noted the GVR/GRE is structured with parts one, two, and three that are intended to be new oil, places that do not contain a reservoir that has been previously participating. The statement that this will ultimately transition the state's entire future to new oil seems to contradict the statement that has been heard over and over from industry and state agencies that the best place to find oil is in an oil field, and that is why there is the old oil classification. The majority of future oil will continue to come from those older legacy-producing areas. Enhancing future and new production is what is wanted. He also cited his concern about the sunset's application. For example, if somebody has a lease that was not in a lease on January 2003 - it was new - he asked whether that means it sunsets after the very first day that a well starts producing in the area that qualifies. He further asked about the next several wells that were developed and whether this is essentially a reinstallation of the metering and measuring requirement that the committee discussed as being an unworkable requirement. The premise of sunseting one of the most fundamental aspects of this legislation, which is to create a long-term and durable incentive for companies to invest and create new oil, is troublesome, let alone the question of interpretations. He further noted that he has had some great disagreements with DOR's and DNR's interpretation of statutes via regulation. Unless the legislature ties it down absolutely rock solid and clear, something that is as vague a qualification

as in this amendment is of concern. He maintained his objection to Amendment 21.

[9:01:29 PM](#)

REPRESENTATIVE SEATON reiterated that under Amendment 21 there would be five years of gross revenue exclusion after a new well begins production. Due to production decline, most of the oil from a well is produced in the well's first five years. The companies would know there is a transition after those five years. Metering from well expansions or expansions of participating areas would be no more of a challenge than currently. It makes sense to give a leg up for new production because there are new facilities and many things that need to be paid for, but when the capital costs are recovered then it should be just like any of the other old oil that has the production facilities paid off. Any company will know how to gauge this and how to analyze the field. This would make the tax system more durable because the legislature will not have to come back and re-do the tax system because of a transition to more and more oil that is taxed forever at less value.

[9:04:00 PM](#)

CO-CHAIR SADDLER requested an estimate as to what the fiscal impact might be of Amendment 21.

MR. PAWLOWSKI replied that off the top of his head he does not have a concept of the fiscal impact of the limitation. The impact of the gross revenue exclusion throughout the [current] fiscal note is in the range of \$25-\$50 million because this is geared toward the definitively new oil that is not currently in the forecast. The fiscal impact of limiting it is less concerning to the administration than the actual impact of the limitation in and of itself; it is an issue that has been debated throughout the process of this legislation.

[9:05:35 PM](#)

CO-CHAIR FEIGE inquired whether the administration believes there would be a behavior change on the part of the investors if this five-year limitation was put on the GVR/GRE.

MR. BALASH confirmed that the administration has concerns in terms of the distortions it would have and the impacts it would have on drilling behavior. If it is going to be triggered by the first production that comes from a given well, it has "some

real hair on it" in terms of the incentive it would create for a company to game the system by shutting in a particular portion of a well or well bore. It would potentially result in inefficient behavior that would not be in the state's interest and would not achieve what is trying to be done with the GVR/GRE.

MR. PAWLOWSKI interjected that another concern is Version K steps away from the well-by-well analysis and the five-year time limit is based on the unit itself. [Page 24, lines 15-16,] state "(1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit ...", so it is linking back to the actual property itself. The concern is the duration of time it takes to actually develop that lease or property, how long it can take to drill all of the wells in a fashion to actually develop them. Additionally, removing the gross revenue exclusion during a period in the well's productive life is essentially a tax increase on that well, specifically as it is becoming less productive. It would change the economic equation precisely when that well is becoming more expensive to operate and may encourage the shutting in of production before it would naturally be necessary.

[9:08:05 PM](#)

REPRESENTATIVE HAWKER said a foundational premise underlying the entire development of this legislation is the need to rebalance Alaska's tax system from giving too much upfront and taking too much at the end. Alaska is not looking at its fields and development as lifecycle economics the way that industry does. Alaska is providing benefits and taxing in a manner that is incongruent with the natural economics of development. There has been some hollering about taking away all those frontend credits, but the decision being made here is to lower those frontend benefits and spread them out over the lifecycle economics of the entire development. Passing Amendment 21 would again impose an element of additional frontend short-term benefits that do not aid the state in its long-term objective of creating better lifecycle economics and attracting the needed investment for increased sustained production.

[9:10:05 PM](#)

REPRESENTATIVE SEATON disagreed about the lifecycle economics. Credits are not being given upfront, he said, it is changing those economics and then going to the base case, the reduced tax rates in this bill. The GVR/GRE is an additional help for

starting out because of capitalization costs. Amendment 21 would apply to all three kinds of new oil [in the GVR/GRE]. It would limit the state's liability to the base case plus five years of gross revenue exclusion on new oil. The lifecycle economics are totally calculable by the oil industry under this. It sounds as if people are saying that the base case is no good, as if there is massive progressivity back in the bill, which is not the case at all. The reversion after five years would be to the base case that has been brought forward for the oil fields. Over time the state will be transitioning to more and more new oil because it is always going to be new oil, even though after 30 years it should be old oil at the base case. The committee has never received an analysis for what it will look like when there is 50 percent new oil, despite it being asked for long ago. The state needs to protect itself and ensure the system is durable over time.

[9:12:30 PM](#)

REPRESENTATIVE TARR asked how to resolve the issue being raised by Representative Seaton - that at some point all oil is going to be new oil and the GVR/GRE will apply to everything.

MR. BALASH responded the discovered and in-place reserves in North Slope legacy fields, and the smaller fields surrounding them, are estimated at 3.3 billion barrels. If they are proven reserves they probably should be in the participating areas and part of the reserve reports. Additionally, the estimate for undiscovered resource is about 3 billion barrels. Existing production, existing reserves, are expected to continue to be an enormous portion of the production going forward for the foreseeable future. As additional resource is proven up, brought into production, eligible for the GVR/GRE, it will become a bigger and bigger fraction over time, but it will still be a fraction over that time.

[9:14:25 PM](#)

REPRESENTATIVE TARR offered her appreciation for the intent of Amendment 21. She asked whether the time period in the amendment should be changed or does the administration believe the fraction will not be a large enough problem to address.

MR. BALASH recounted that similar angst came up about this mechanism in a previous stage of the process - a different committee was heading toward some kind of time limitation for the reasons expressed by Representative Seaton. An illustration

was presented by the administration to those members that suggested making the GVR/GRE smaller rather than to truncate its application. After the administration laid out the economic case and showed the potential unintended consequences of having a cutoff, the decision was made to reduce the GVR/GRE from 30 percent to 20 percent, rather than having a time limitation.

MR. PAWLOWSKI called attention to the Revenue Sources Book, page 43, which talks about currently producing and new oil. Based on the fiscal note and the revisions made to the gross revenue exclusion by this committee, very little of that risk-adjusted new oil counts for the gross revenue exclusion looking forward. Even by 2022, if all of it counted, which in the fiscal note it does not, 75 percent of the oil production would still be from the legacy fields. Under the proposed committee substitute before the committee, very little of the new oil within the next decade, or very little of the oil within the revenue forecast over the next decade, will be eligible for the gross revenue exclusion. He added the administration will work on getting the requested information to members.

[9:17:39 PM](#)

REPRESENTATIVE TUCK stated he is concerned about all oil being considered new oil. The bill is a significant investment for Alaska and therefore the state should expect some rate of return on its investment. He supported Amendment 21, saying it ensures the state some sort of rate return. By spelling it out now, it further ensures changes will not be made down the road.

CO-CHAIR FEIGE, voicing his opinion on the amendment, said the gross value reduction is an attempt to grow the pie. It is oil the state does not have in production currently and oil that the state is not really counting towards the bill's fiscal note. So, if it is discovered, it is a sizeable return to the state. This is an outstanding rate of return for the State of Alaska because the state is not investing in anything, yet the state will reap the benefits of taxable revenue on that new production for a long time into the future. He said he views the proposed five-year limitation on the GVR/GRE as a disincentive for trying to find new oil and looking for new production.

REPRESENTATIVE SEATON, regarding the statement on distortion of behavior about drilling new wells into a reservoir, maintained that that has been taken care of because it must be expansion of participating areas. New wells could not just be drilled into a reservoir and others closed in.

[9:20:47 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 21.

A roll call vote was taken. Representatives Seaton, Tarr, and Tuck voted in favor of Amendment 21. Representatives P. Wilson, Hawker, Johnson, Olson, Saddler, and Feige voted against it. Therefore, Amendment 21 failed by a vote of 3-6.

[9:22:04 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 22, labeled 28-GS1647\K.32, Nauman/Bullock, 4/2/13, which read:

Page 11, line 10, following "**AS 43.55.160(f)**":  
Insert "**or (g)**"

Page 24, following line 27:

Insert a new subsection to read:

"(g) In the calculation of an annual production tax value of a producer under (a)(1) of this section, the gross value at the point of production of oil or gas produced from a shale formation from a lease or property in the state is reduced by 20 percent for the first three years immediately following the commencement of production subject to tax under AS 43.55.011(e). A reduction under this subsection may not reduce the gross value at the point of production below zero."

Reletter the following subsection accordingly.

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE SEATON provided a handout depicting the decline curves of shale oil that were included in the response he received to a question he put forth to PFC Energy. Noting that 50 percent of the oil in shale is recovered in the first three years, he explained that Amendment 22 would provide a three-year sunset on the GVR/GRE. He withdrew the amendment given the previous amendment, but said he wanted the committee to have the information that went along with this amendment.

[9:23:17 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 23, labeled 28-GS1647\K.33, Nauman/Bullock, 4/3/13, which read:

Page 11, line 10, following "AS 43.55.160(f)":  
Insert "or (g)"

Page 24, following line 27:

Insert a new subsection to read:

"(g) In the calculation of an annual production tax value of a producer under (a)(1) of this section, the gross value at the point of production of oil or gas produced from a shale formation from a lease or property in the state is reduced by 10 percent. A reduction under this subsection may not reduce the gross value at the point of production below zero."

Reletter the following subsection accordingly.

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE SEATON explained Amendment 23 also deals with the shale situation but in a different light on the GVR/GRE. The amendment is an idea for providing protection by reducing the GVR/GRE for shale to 10 percent because those wells will be different as has been seen in the Bakken and Eagle Ford plays. Saying the committee has not had enough analysis on different rates of GVR/GRE, he withdrew the amendment.

[9:25:02 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 24, labeled 28-GS1647\K.28, Nauman/Bullock, 4/2/13, which read:

Page 1, line 5, following "**state;**":  
Insert "**relating to the taxation of certain natural gas that is reinjected;**"

Page 12, following line 31:

Insert a new bill section to read:

**\* Sec. 16.** AS 43.55.020(f) is amended to read:

(f) If oil or gas is produced but not sold, gas is produced but is stored in a gas storage facility, or oil or gas is produced and sold under circumstances where the sale price does not represent the prevailing value for oil or gas of like kind, character, or quality in the field or area from which the product is produced, the department may require the tax to be

paid upon the basis of the value of oil or gas of the same kind, quality, and character prevailing for that field or area during the calendar month of production or sale. If an economic sale is available for gas and the producer determines it is in the best interest of the producer to reinject rather than sell the gas, the producer shall pay the tax on the volume of gas reinjected."

Renumber the following bill sections accordingly.

Page 29, line 6:  
Delete "sec. 31"  
Insert "sec. 32"

Page 29, line 7:  
Delete "18 and 20 - 23"  
Insert "19 and 21 - 24"  
Delete "sec. 18"  
Insert "sec. 19"

Page 29, line 9:  
Delete "Section 19"  
Insert "Section 20"

Page 29, line 20:  
Delete "sec. 36"  
Insert "sec. 37"

Page 29, line 24:  
Delete "20 - 23, 28, 37"  
Insert "21 - 24, 29, 38"

Page 29, line 25:  
Delete "sec. 18"  
Insert "sec. 19"  
Delete "sec. 31"  
Insert "sec. 32"

REPRESENTATIVE HAWKER objected.

[9:25:24 PM](#)

REPRESENTATIVE SEATON explained Amendment 24 deals with gas sales agreements. In the time since the Alaska Stranded Gas Development Act, many producers have consistently said there must be fiscal certainty for a gas sales agreement to happen.

By definition, this means that a gas sales agreement would have to have a long-term contract guarantee that the state will reimburse the gas producers for any future legislature increasing either gas or oil tax, something he does not think should be done. Even if the state itself builds a gas line to the North Slope and the gas could be sold economically, the condition could well be put on that the producer will not sell the gas until the state agrees to fiscal certainty - and that would be fixing oil and gas tax rates for 35 years because that is what it was during the stranded gas act. There has never been any indication that the producers would take anything less than 35 years. Amendment 24 provides that if a gas pipeline is built, and if there is an economic sale, and if the producers will not sell the gas without entering an agreement of fiscal certainty, then the gas will be declared produced at that time, just like a lease says that a producer must produce and sell if it is economic. Amendment 24 would ensure the state is not "over the barrel" by requiring that if the producer will not sell natural gas in an economic sale, then it will be assumed to have been produced gas if it is reinjected for storage. However, this will not apply to gas reinjected for the recovery of oil.

[9:28:39 PM](#)

CO-CHAIR SADDLER requested Representative Seaton to restate his point about long-term fiscal certainty.

REPRESENTATIVE SEATON replied fiscal certainty was defined by the producers as a long-term contract guarantee that if a future legislature changes oil or gas taxes the state will guarantee through the gas sales contract that it will take money out of the treasury and reimburse producers for any difference from the tax rate at the time of the gas contract. Responding further, he agreed it would be a make-good-by-contract basis. A legislature cannot constitutionally prevent a future legislature from changing a tax rate. Fiscal certainty says the state will reimburse the producer if a future legislature changes the tax rate. The link between this and Amendment 24 is the amendment prevents producers from deciding that they will not sell the gas unless the state gives them 35 years of fiscal certainty.

[9:30:11 PM](#)

REPRESENTATIVE HAWKER opposed Amendment 24 as currently constructed, cautioning that producers have people who will interpret the words as they see them on paper and not

necessarily how legislators had intended. These words would not accomplish the same thing as the sponsor says. The amendment would be in the section that states if oil or gas is produced but not sold, is produced but stored in a storage facility, or produced and sold in circumstances where the price did not meet prevailing value, then the department may require that tax be paid based on the value of oil or gas of the same kind, quality, and character in the prevailing area. Thus, the state can force the taxes to be paid. The language that Amendment 24 would add to this section does not say anything about a pipeline or gas that was stored. It simply says, "If an economic sale is available for gas", but the definition of economic is unknown. The amendment goes on to state that the only qualification is "the producer determines it is in the best interest of the producer to reinject rather than sell the gas", but the amendment does not state for what purpose it is being reinjected instead of sold. So, if the gas is reinjected rather than sold, then the producer must pay the tax on the volume of gas. In his opinion, that says if there was the ability to sell that gas but the producer made a business-based decision to reinject that gas for the purposes of further oil recovery, then the producer would be taxed on that gas. While he heard what the sponsor intends, he said he does not believe the amendment accomplishes that. Continuing, Representative Hawker said there may be an issue with entering in the third part of regulation. If an economic sale is available and a producer determines it is in its best interest to reinject, the Alaska Oil and Gas Conservation Commission (AOGCC) could say the producer cannot offtake and he would argue that it is in the best interest of a producer to comply with rulings of the AOGCC.

[9:34:22 PM](#)

CO-CHAIR FEIGE inquired what scenario the maker of the amendment envisions where a producer would determine that it is in its best interest to reinject the gas and not sell it, and why take it out of the ground in the first place.

REPRESENTATIVE SEATON related that during stranded gas hearings the legislature's attorney on lease terms, Spencer Hosie, talked about the duty to produce under the Division of Lands 1 Lease Form (DL1). Discussion was about the state being a partner in a pipeline and the big conundrum was the duty to produce and whether the state could be held "over the barrel" and required to give 35 years of fiscal certainty before producers would sell the gas. If AOGCC were to direct it be reinjected to maintain well pressure, then that is not gas for sale, that is part of

the lease terms. The problem the state has run up against in the past and could run up against in the future is the resistance to have a gas sale unless there is fiscal certainty. Amendment 24 says that gas from an economic sale cannot be withheld and reinjected until the state gives in and signs fiscal certainty for oil and gas, thereby binding future legislatures in a way that is marginally within the constitution because the legislature can offer contracts but cannot bind future legislatures. Legislative Legal and Research Services was requested to draft this amendment around the exact provision of an economic sale that is included in the DL1. In further response, he explained DL1 leases were designed for North Slope oil and gas and their terms include an assumed duty to produce - the state's resources cannot be warehoused.

[9:37:48 PM](#)

CO-CHAIR FEIGE pointed out that currently tax must be paid if a product crosses a unit boundary.

REPRESENTATIVE SEATON responded the gas can be reinjected; there is not a sale for it. Also, it cannot be sold unless AOGCC determines that it can be taken off without leaving petroleum product behind.

CO-CHAIR FEIGE outlined a potential scenario: Pt. Thomson is developed and approved for blow down. Part of the considerable quantity of gas goes into a pipeline, but the operators of Pt. Thomson and Prudhoe Bay conspire to inject the surplus gas into the Prudhoe Bay reservoir. He asked whether Amendment 24 would hinder doing that.

REPRESENTATIVE SEATON answered he does not believe it would be a hindrance because it is different operators at the two places. The gas going to Prudhoe Bay for reinjection would be sold, not given away.

[9:39:51 PM](#)

CO-CHAIR FEIGE requested DNR's position on Amendment 24.

MR. BALASH replied [DNR] is opposed to Amendment 24. He offered his belief that a variety of things are not being completely understood in the types of events that occur when a lease boundary is crossed. For royalty purposes, there is a royalty event when a boundary is crossed. That is not necessarily the case in a tax setting; they are basically different mechanisms.

With regard to clarity, the proposed language would appear to pay a tax on the entire volume, not just the volume being requested for sale. An enormous volume of gas, 8 billion cubic feet, is injected every day at Prudhoe Bay. Would an offer to buy 10 million cubic feet of gas a day trigger a tax on the entire 8 billion cubic feet? He said Amendment 24 would function much like the reserves tax that was soundly defeated at the polls not so long ago.

[9:42:17 PM](#)

REPRESENTATIVE SEATON disagreed that Amendment 24 is the same as a reserves tax that does not involve a sale. The language "reinject rather than sell the gas" does not mean all the gas, it means the gas that was economic to sell and was for sale. He offered his belief that the language "shall pay the tax on the volume of gas reinjected" is the gas that is being offered for sale as allowed by AOGCC. He argued the committee needs to address in this tax bill the circumstances the state may find itself in in the future because it is the only way available to protect the legislature.

REPRESENTATIVE JOHNSON ventured the state can very quickly get out from being "over the barrel" given it took 30 days to pass ACES from start to finish.

REPRESENTATIVE TUCK said his concern is that rights to leases are being bought on the North Slope and those rights are not being exercised; it is a commodity that can be owned and that can increase in value. It is the state's best interest to see production, even gas production. Gas has dual purposes, selling or reinjecting, and he wants to ensure that gas is not going to be stored under the name of reinjecting. He supported Amendment 24, saying he shares the same concern for ensuring the ability to enforce the duty to produce. Resource developers oftentimes do not want to develop some resources because it would compete against the developers' interests elsewhere, and he does not want that to be the case here.

[9:44:56 PM](#)

REPRESENTATIVE OLSON said his recollection of fiscal certainty is it was more of a request from the producers for protection from the tax regime changing every year or two or being adjusted if gas came on, rather than as described by the maker of the amendment. He inquired whether his recollection is correct.

MR. BALASH responded the form with which any sort of fiscal arrangement might come is probably not predictable at this point in time. Things that were attempted in years past would attempt to do something Representative Olson described, but a fiscal arrangement for gas could be as simple as landing a methodology for valuing the state's royalty before the sales contracts are entered into. It could be as simple as limiting the state's rights to switch from in-kind to in-value or vice versa. Fiscal terms, fiscal certainty, fiscal stability get balled up into a bogey man, but in peeling apart the pieces they are not as bad as they maybe could be, but they are all elements that fold into the concerns expressed by various parties along the way. He proffered the state is looking for some fiscal certainty in any sort of gas deal; otherwise, why do it?

REPRESENTATIVE OLSON further recalled the term was dropped in less than a year and was changed to fiscal stability, which was a little more encompassing of the direction that producers were looking for. He said there may have been a third term that he cannot remember at the moment.

[9:47:37 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 24.

A roll call vote was taken. Representatives Tuck, Seaton, and Tarr voted in favor of Amendment 24. Representatives Hawker, Johnson, Olson, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 24 failed by a vote of 3-6.

[9:48:47 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 25, labeled 28-GS1647\K.1, Nauman/Bullock, 4/3/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE SEATON noted that "(g)" on page 1, line 16, of the amendment should be corrected to read "(q)". He said the entire amendment is really on page 16, the rest is revisionary language for how things go. He drew attention to page 16, lines 18-19, of the amendment which state "the volume of oil production for the calendar year 2018 does not exceed the volume of oil produced for the 2013 calendar year." This provides a five-year sunset clause if this amount of investment and production does not, at the least, have the state stay stable at

the 2013 level. If it does not happen, there will be a one-year timeframe for a sunset to the state's previous provisions. Testimony has indicated there will be investment in three to four years and then production.

[9:50:31 PM](#)

REPRESENTATIVE SEATON called attention to an affidavit prepared by William Van Dyke, PE, Petrotechnical Resources Alaska, entitled "Report on the Estimated Life of the Alaska North Slope Proven Oil Reserves" dated March 7, 2011. He read from page 17 of the affidavit: "It is important to again emphasize the earlier comments on 'the timing of production' and 'the estimated life of TAPS.' Future North Slope oil production is not a question of 'if' but of 'when.'" He then read from page 18 of the affidavit: "This metered pace of development, at times, frustrates Alaska state officials and other oil and gas lessors, but it is a deliberate and very well-managed process. For better or worse, it is how many multi-billion dollar companies run their businesses. Projects and project phasing are optimized for maximum profit and efficiency."

[9:54:35 PM](#)

REPRESENTATIVE SEATON then referred to a chart appended to the affidavit prepared by AOGCC and entitled, "Development & Service Wells and Wellbores Drilled (1998-2012\*), North Slope Oil and Gas Only\*\*", by ConocoPhillips Alaska, Inc." He explained the chart represents the strategic build out of this system across the North Slope as talked about by Mr. Van Dyke. The number of wells is basically the same going across the entire time span. It did not matter what the price or tax rate was. He offered his concern about whether the state will get what it is expecting out of this [proposed] tax regime. According to testimony, in three to four years the state will get a lot of investment based on its new regime. The state has had ACES for five years and it is being said it did not work. There are more employees and wells being drilled by non-legacy producers. Some new fields are coming on. But the question is whether the state is going to get the expected bump. He said he is worried about the gas contract and this is another way of doing that. If there is production that at least maintains the level of 2013, then this provision would go away and the state will have had success with its program. The amendment's intent is to ensure the state has success; things will be revisited if there is not success in five years. Representative Seaton provided another handout entitled, "Alaska oil production changes over time:

(1995 to 1998) and (2009 to 2012)." Reading from the handout he noted that from 1995-1998, oil production declined by 309,000 barrels, a 28 percent decrease, and from 2009-2012, oil production declined by 119,000 barrels, an 18.4 percent decrease. Amendment 25 is not punitive, he said, its purpose is to ensure accomplishment of the bill's goal.

[9:58:17 PM](#)

CO-CHAIR FEIGE asked what happens if in 2018 production is just one barrel below 2013.

REPRESENTATIVE SEATON answered if the state is below the level of 2013 it means production has not increased sufficiently to reach the state's goal. In fact, the state is counting on an increase of 40,000 barrels per day. The goal of this bill is to arrest decline and to increase production. If it is found that by 2018 production did not increase, even by one barrel over 2013, then it would go to the sunset provision. This sunset provision provides a good incentive to ensure that production does move forward across the North Slope.

CO-CHAIR FEIGE recalled that the figure of 44,000 barrels more per day was the amount needed to make up the revenue that would be foregone by lowering the tax rate. However, that is relative production - it is 44,000 [barrels] a day more than what has been forecast. What is still forecast is a decline, pending development in the new fields and pending additional technology in existing fields. While he is not saying it is impossible, it could be interpreted by industry as a sunset on the provisions of the tax code and, he presumed, a rollback to ACES.

REPRESENTATIVE SEATON replied correct, adding that that is a pretty good incentive.

[10:00:52 PM](#)

CO-CHAIR FEIGE posited a future legislature could at the time make the determination as to whether the tax system is working.

REPRESENTATIVE SEATON responded Amendment 25 is also the backup for the problem of gas sales contract. If a gas sales contract is undertaken that locks in fiscal terms, this is a fiscal term. It says that if there is a gas sales contract but oil production is not increased at least to the level had in 2013, then these are going to be the terms. It is a way to protect the state for the future. All of the industry's news releases state it will

require fiscal certainty; they do not say fiscal durability. This is a way to ensure that if fiscal certainty is locked in there will at least be oil production to the level of 2013, which would accomplish the bill's goal. He has heard no one say the goal is to let production continue to decline and it is just a change in the tax rates.

CO-CHAIR FEIGE inquired whether Representative Seaton is assuming a gas pipeline sending gas to Valdez by 2018.

REPRESENTATIVE SEATON responded he is assuming there will be a gas contract before a gas pipeline is started to be built because he does not think a gas pipeline will be built until there are agreements for a gas sales agreement. That is one of the precedent agreements that will have to occur before building of pipeline is started.

[10:03:07 PM](#)

REPRESENTATIVE HAWKER opposed Amendment 25, saying it is a slight variation on Amendment 15, which was defeated, and anything entered into that debate is applicable to Amendment 25. This amendment is the "punish the new producers amendment for the sins of the old producers," he argued, in that if the current large volume producers do not increase production or do not mitigate their declines sufficiently, the benefits of this tax provision are taken away from everyone. Amendment 25 treats production on the North Slope as if it is one entity rather than multiple entities each making their own decisions and the state encouraging each company individually without holding any investor responsible for the action of other investors.

CO-CHAIR SADDLER noted current production on the North Slope is not guaranteed either. If there was some way to guarantee oil production by government action, then he would think every law book in the world would have it. He offered his belief that there is no language in the current law of ACES stipulating that if ACES does not succeed then the tax law reverts to PPT.

[10:05:40 PM](#)

REPRESENTATIVE TARR supported Amendment 25, saying it gives some expectations of a timeline in which activity would increase. When this would kick in, the fiscal impact will have already been in the range of \$4 billion and at that time it could be too late if the legislature is unable to act quickly, given it takes a long time to make substantial changes.

CO-CHAIR FEIGE interjected that ACES took 42 days.

REPRESENTATIVE TARR pointed out that that was just the special session. She added that Amendment 25 would encourage producers to move quickly to maintain the change in the tax structure. The windfall profits in the state's savings account could be used up, making it even harder in the future when the state is forced to act.

[10:07:39 PM](#)

REPRESENTATIVE TUCK supported Amendment 25, concurring with the aforementioned reasons. The amendment would make it easier for producers to meet some goals and not just a flat line decline curve from 2013. The tax changes that are being made acknowledge what was heard from the industry and others that ACES needs to be refined or changed. Amendment 25 provides that these changes be tried for a bit and if they do not work the tax regime then returns to the starting base to begin refining ACES. He referred to a chart that shows how production is carried out for the maximized benefits and profits of the oil industry, not necessarily maximizing the benefits of Alaskans. If the state is going to be more of a partner with the industry, he said, it must have some sort of rate of return, some sort of guarantee when moving forward. The only guarantee the state has is that industry is going to spend its money elsewhere when it gets windfall profits. He said he does not want to see those windfall profits go away in trying something new without setting some benchmarks.

[10:09:29 PM](#)

CO-CHAIR FEIGE opposed Amendment 25, stating the outcome in 2018 will be dependent on many variables, including oil taxes, geologic and political risk, and things beyond anyone's control, such as an earthquake on the North Slope. Putting such a hard line on comparing 2018 production to 2013 production is arbitrary. Many different rabbit trails have been run down in looking for different ways to incentivize the desired behavior of more production on the North Slope. It is very difficult to create an incentive that does not create a disincentive somewhere else. The tax rate is an incentive that affects each of these producers relatively equally. A disincentive of this amendment is that no one producer has the ability to totally affect that 2018 number and make sure it is higher than 2013, which means all the producers have to depend on each other

somehow and he does not expect that to occur. Companies will act on their own behalf for in their own interests. While they will be able to work together if it is in their best interest, he will not depend on them to work together as part of a tax policy. The Oil and Gas Competitiveness Review Board, as provided in the bill, will meet and report to the legislature regarding how well the tax rates, gross value reductions, and other incentives are working. Future legislators will take that information and do with it as they see fit.

[10:12:41 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 25.

A roll call vote was taken. Representatives Seaton, Tarr, and Tuck voted in favor of Amendment 25. Representatives Hawker, Johnson, Olson, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 25 failed by a vote of 3-6.

[10:13:34 PM](#)

The committee took an at-ease from 10:13 p.m. to 10:24 p.m.

[10:25:04 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 26, labeled 28-GS1647\K.35, Nauman, 4/3/13, which read:

Page 17, line 28, through page 18, line 28:

Delete all material and insert:

"(j) For each month of the calendar year for which a producer's average monthly gross value at the point of production of a barrel of taxable oil and gas is less than \$150, a producer may apply against the producer's tax liability for the calendar year under AS 43.55.011(e) a tax credit in the amount specified in this subsection for each barrel of taxable oil under AS 43.55.011(e) that does not meet any of the criteria in AS 43.55.160(f) and that is produced during a calendar year after December 31, 2013. A tax credit under this section may not reduce a producer's tax liability for a calendar year under AS 43.55.011(e) below zero. The amount of the tax credit for a barrel of taxable oil subject to this subsection is

(1) if the producer's average monthly gross value at the point of production of a barrel of

taxable oil and gas is less than or equal to \$100, \$5 for each barrel of taxable oil; or

(2) if the producer's average monthly gross value at the point of production of a barrel of taxable oil and gas is more than \$100 and less than \$150, \$5 for each barrel of taxable oil, reduced by one-tenth of the difference between that average monthly gross value at the point of production of a barrel of oil and \$100."

REPRESENTATIVE HAWKER objected for the purpose of discussion.

[10:25:23 PM](#)

REPRESENTATIVE SEATON directed attention to the PFC Energy PowerPoint presentation entitled, "Alaska Fiscal System Discussion Slides," dated April 2, 2013. He pointed out on page 5, the graph entitled, "Credit level under Step versus Linear Function" showed "a smooth line going up" and a stair step function resulting from an increase of \$1 per barrel credit for every \$10 increase in ANS West Coast price. The amendment accomplishes the smooth line by taking \$0.1 of \$1, which prevents stair step increases and the high marginal rates as shown on the graph entitled, "Marginal Rate under Step versus Linear Function," also found on page 5. Additionally, the amendment directs that after per barrel credits increase to \$5, the level is maintained at \$5 instead of going up to \$6, \$7, and \$8 at the lower prices. He said \$6, \$7, and \$8 levels result in a great deal of liability to the state when prices are low. The two purposes of the amendment are to maintain the level at \$5, and smoothly decrease, instead of by stair steps, down to \$150.

REPRESENTATIVE HAWKER agreed that attempting to smooth the curve gets around the stair step issue, but creates another complexity and another detail in the calculation. He said he was comfortable with the stair step approach as has been presented, and which has been evaluated by the committee.

REPRESENTATIVE TUCK recalled testimony that was heard during the committee meeting of 4/2/13, regarding smoothing out the stair steps. He advised the amendment would smooth out the marginal rates that could jump from \$35 to \$135 as prices change. He expressed his support for the amendment.

[10:28:58 PM](#)

CO-CHAIR FEIGE ascertained from the identified slide that for prices below \$100, the per-barrel credit stays the same at \$5.

REPRESENTATIVE SEATON said yes. Directing attention to page 2 of the same presentation, he noted "you'll see that \$5 is graphed on there and gives you the tax rate."

CO-CHAIR FEIGE observed that currently in Version K of the bill, the per barrel exclusion rises up to \$8 in a stair step fashion on the downside, which greatly improves the economics for projects in the \$70-\$90 per barrel range. Previous testimony has revealed that the \$70-\$90 per barrel range is the range upon which companies base their investment decisions. He concluded that the change would make the state less competitive in that price range.

REPRESENTATIVE SEATON stated that the question is whether the state intends to be at zero production tax when the ANS West Coast price is \$60, or at 10 percent as shown on page 2. He acknowledged this is a policy call and given that the state is losing progressivity, he urged for a bill that provides some protection on the low side, as was provided in the Senate bill. He opined the fiscal impact of \$8 at an ANS West Coast price of \$90 or below is a big liability for the state. This liability, and to prevent stair steps and high marginal rates, are the reasons for the amendment.

[10:31:26 PM](#)

REPRESENTATIVE HAWKER maintained his objection.

A roll call vote was taken. Representatives Seaton, P. Wilson, Tarr, and Tuck voted in favor of Amendment 26. Representatives Hawker, Johnson, Olson, Saddler, and Feige voted against it. Therefore, Amendment 26 failed by a vote of 4-5.

[10:32:20 PM](#)

CO-CHAIR FEIGE moved to adopt Amendment 27, labeled 28-GS1647\K.36, Nauman/Bullock, 4/3/13, [text provided at the end of this document].

REPRESENTATIVE HAWKER objected for the purpose of discussion.

CO-CHAIR FEIGE told the committee Amendment 27 affects the portion of the bill pertaining to the reports prepared by the Oil and Gas Competitiveness Review Board (review board). On

page 1, line 5, of the amendment, January 31, 2015, is established as the due date for a report from the review board, followed by the details the report is to contain and the subject of the report. On page 1, line 18, January 31, 2021 is established as the due date for a second report, followed by the details of its tasks. The second date was chosen because at the end of 2022, there are many elements in the state's current tax and incentive system that are expiring; thus, those issues must be dealt with by the legislature at that time. Finally, page 2, line 9 sunsets the review board one month after the final report is due to the legislature.

[10:34:26 PM](#)

REPRESENTATIVE HAWKER expressed his concern about the review board as established by the bill. He said a review board institutionalizes a "culture of uncertainty" into the tax regime. However, he said he would support the amendment.

REPRESENTATIVE P. WILSON asked what changes the amendment makes in the review board's tasks.

CO-CHAIR FEIGE advised the amendment details the subjects that will be included in the review board's reports. In further response to Representative P. Wilson, he said each report covers separate items. The first report is a review of the state's regulatory environment, permitting structure, changes that would be conducive to increased investment, the state's resident labor pool, related infrastructure, and the competitiveness of the state's fiscal tax regime compared with those of other entities. The report due in 2021 will cover the state's fiscal regime, alternative means to attract and maintain investment, a review of the current and future effectiveness of related provisions that may be expiring at that time, and a review of renewed or newly enacted oil and gas tax legislation.

[10:39:31 PM](#)

REPRESENTATIVE TARR asked why a sunset clause in 2021 was added.

CO-CHAIR FEIGE responded that the sunset clause in 2021 is logical because there will be a general review of oil tax laws at that time; however, the review board can be retained by a future legislature if desired.

REPRESENTATIVE TARR suggested the sunset date may interfere with the completion of the review board's work.

CO-CHAIR FEIGE pointed out the sunset date is one month after the final report is due.

REPRESENTATIVE TUCK said he will not oppose Amendment 27 but questions the need for the review board since there are consultants and state agencies that can be relied upon to provide accurate information.

[10:41:34 PM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 27. There being no further objection, Amendment 27 was adopted.

[10:41:56 PM](#)

REPRESENTATIVE P. WILSON moved to adopt Amendment 28, labeled 28-GS1647\K.2, Nauman/Bullock, 4/2/13, [text provided at the end of the document].

REPRESENTATIVE HAWKER objected for the purpose of discussion.

REPRESENTATIVE P. WILSON referred to previous testimony, explaining that the public may view the members of the review board as "slanted over to the oil side." Amendment 28 would add an ex-officio, nonvoting legislator from each body to the review board. The review board at-large members include a petroleum engineer, a geologist, and a financial analyst, but the review board is directed to give financial advice and technical advice can be gleaned from testimony before the legislature. She cautioned against the perception of bias because of the membership of the review board.

[10:44:27 PM](#)

REPRESENTATIVE HAWKER said the intent was to separate the review board from the legislature and its political process. He stated his concern about removing public members with professional qualifications; in fact, public members that are appointed by the governor do not slant the board, but create a knowledgeable board. He described the members of the board: trade association members representing the oil and gas industry; the chair of the Alaska Oil and Gas Conservation Commission; the commissioner of the Department of Environmental Conservation; the commissioner of the Department of Natural Resources; and the commissioner of the Department of Revenue. These members will be appointed by the governor and confirmed by the legislature,

and will bring a level of state governance to the board. He pointed out that the three commissioners represent the administration and reiterated that knowledgeable public members, such as a petroleum engineer, a geologist, and a financial analyst, will provide a high level of technical expertise.

[10:47:45 PM](#)

REPRESENTATIVE TARR appreciated the amendment and supported adding members from the legislature. She agreed the public may perceive that the work product from the review board is biased.

REPRESENTATIVE P. WILSON pointed out the review board can invite expert testimony from the oil and gas industry if needed. She remarked:

One of the problems that Alaska's faced in developing its oil and gas policies over the last several years is the lack of forum for developing a broad public understanding and consensus on the nature and depth of the problems that Alaska faces in competing for investments.

CO-CHAIR FEIGE observed that nonvoting members from the legislature would give the public "some comfort perhaps." Although the board may ask for information, review board members must be knowledgeable. In addition, the three public members were designated in a way that will prevent a rogue governor from appointing his "political cronies." And those members with specialties will guarantee the review board can interpret the testimony it hears.

[10:52:10 PM](#)

REPRESENTATIVE HAWKER pointed out an error, noting that page 1, line 18, of the Amendment 28 reads "Page 2," but should probably read "Page 27,".

REPRESENTATIVE P. WILSON concurred it is an error.

CO-CHAIR FEIGE said he will direct Legislative Legal and Research Services to make this technical change.

[10:53:13 PM](#)

REPRESENTATIVE SEATON proposed a friendly amendment to Amendment 28 to delete page 1, lines 10-12, which read:

Page 26, lines 26 - 28:

Delete ", including one member who is a petroleum engineer, one member who is a geologist, and one member who is a financial analyst"

REPRESENTATIVE SEATON explained this would make the number of people on the review board eleven, with one person from the House and one from the Senate, while retaining the expertise of the petroleum engineer, geologist, and financial analyst.

REPRESENTATIVE P. WILSON said that change defeats the purpose of the amendment. She stressed the importance of having a variety of financial experts on the board.

REPRESENTATIVE SEATON noted the review board has other duties as well as analyzing the competitiveness of fiscal terms, such as understanding relative geology and the types of oil under production.

CO-CHAIR SADDLER agreed with Representative Seaton.

REPRESENTATIVE TUCK suggested an economist should take the place of the financial analyst.

REPRESENTATIVE P. WILSON recalled the bill calls for expert testimony before the review board. She said she would agree to the proposed amendment to Amendment 28.

[10:56:48 PM](#)

CO-CHAIR FEIGE moved to adopt Conceptual Amendment 1 to Amendment 28 to delete [page 1,] lines 10-12. There being no objection, it was so ordered.

REPRESENTATIVE TARR expressed her concern about a review board member who has a clear or perceived financial conflict of interest which may discredit the work of the review board.

CO-CHAIR FEIGE opined the remedy for that concern rests with the governor.

[10:58:59 PM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 28, as amended. There being no further objection, Amendment 28, as amended, was adopted.

[10:59:41 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 29, labeled 28-GS1647\K.6, Nauman/Bullock, 4/2/13, which read:

Page 1, lines 11 - 12:

Delete "establishing the Oil and Gas Competitiveness Review Board;"

Page 25, following line 20:

Insert a new bill section to read:

"\* **Sec. 33.** AS 43.55.180(b) is amended to read:

(b) The department shall prepare a report on or before the first day of the 2016 [2011] regular session of the legislature on the results of the study made under (a) of this section, including recommendations as to whether any changes should be made to this chapter. The department shall notify the legislature that the report prepared under this subsection is available."

Page 26, line 16, through page 28, line 29:

Delete all material.

Renumber the following bill sections accordingly.

Page 29, lines 16 - 21:

Delete all material.

Renumber the following bill section accordingly.

REPRESENTATIVE TARR objected for the purpose of discussion.

REPRESENTATIVE HAWKER continued discussion on the Oil and Gas Competitiveness Review Board, stating he is troubled by establishing a board that is complex and difficult to define. Because a review is valuable, Amendment 29 deletes the review board and reverts the bill's language to the original production profits tax (PPT) language requiring that DOR prepare a report on the results of a study of the tax regime, and recommending changes. Unlike the review board, DOR has access to confidential taxpayer information and is in the best position to prepare a report to the legislature in 2016 on the results of implementing the proposed tax changes. After the report is issued, the legislature can assess its content, which is a better approach toward a stable and durable tax structure.

11:03:40 PM

REPRESENTATIVE P. WILSON asked whether the original report that was due in 2011 was issued.

REPRESENTATIVE HAWKER indicated yes, adding that the legislature reviewed the report, disagreed with its findings, and began revising ACES. He concluded that this mechanism worked.

REPRESENTATIVE SEATON asked whether the report required by the amendment would be out of DOR.

REPRESENTATIVE HAWKER said yes.

REPRESENTATIVE SEATON endorsed DOR's experience providing information to the legislature, and said he supports the amendment.

REPRESENTATIVE TARR asked whether all of the provisions of AS 43.55.180 are being repealed in other parts of the bill.

REPRESENTATIVE HAWKER said he did not believe so.

11:07:16 PM

REPRESENTATIVE TARR questioned the accuracy of the amendment. She read from AS 43.55.180(a)(1) and (2), stating that other sections of the statute are ACES provisions. Reading from AS 43.55.180 (b), she suggested additional amendments may be required to include the statutory references that are necessary, and asked whether some of the above provisions have been repealed.

CO-CHAIR FEIGE said no, stating that AS 43.55.011 is production tax, AS 43.55.023-025 pertain to credits, and AS 43.55.160-170 pertain to calculations.

REPRESENTATIVE HAWKER agreed there have been changes, but assured the committee the bill revisor will make conforming amendments to correct any inaccuracies. The point is the effective date of the bill is the coming year, and there will be elements of current provisions deleted in statute, but not the entire section. The report encompasses the entire state, not just the North Slope, and the intent is to be as comprehensive as possible and transcend all timelines in the history of the state's development of production taxes.

REPRESENTATIVE TARR gave the example of the previously discussed new credit related to in-state work that is a new section of statute. This new section is a provision that the report should encompass.

[11:10:38 PM](#)

REPRESENTATIVE HAWKER, regarding the required report, read from AS 43.55.180, which is written as follows:

- (a) The department shall study
  - (1) the effects of the provisions of this chapter on oil and gas exploration, development, and production in the state ...

REPRESENTATIVE HAWKER emphasized the statute specifically left those references from the previous report as linkage to assure time transcendence.

REPRESENTATIVE TARR restated her concern that the amendment, as written, does not specify all of the sections desired for the study. She further inquired as to the shortcomings of the 2011 study.

REPRESENTATIVE HAWKER clarified that he disagreed with the 2011 report.

[11:12:16 PM](#)

CO-CHAIR FEIGE supported some aspects of the review board. First, the board is comprised of nine members, five from outside government and four inside, giving the public a bias. Second, the review board's tasks are to address a wider range of subjects than the report sought by Amendment 29. Third, the review board is also tasked in its final report to evaluate provisions of law that will possibly expire in 2022.

REPRESENTATIVE TARR maintained her objection, further suggesting the information from the report should be modified to that which was required from the review board.

[11:15:43 PM](#)

A roll call vote was taken. Representatives Tuck, Hawker, Johnson, Olson, and Seaton voted in favor of Amendment 29. Representatives P. Wilson, Tarr, Saddler, and Feige voted

against it. Therefore, Amendment 29 was adopted by a vote of 5-4.

[11:15:46 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 30, labeled 28-GS1647\K.3, Nauman/Bullock, 4/2/13, which read:

Page 6, line 8:  
Delete "35"  
Insert "30"

Page 10, line 17:  
Delete "35"  
Insert "30"

Page 11, line 1:  
Delete "35"  
Insert "30"

Page 11, line 14:  
Delete "35"  
Insert "30"

Page 11, line 23:  
Delete "35"  
Insert "30"

Page 15, line 10:  
Delete "35"  
Insert "30"

REPRESENTATIVE TARR objected.

REPRESENTATIVE HAWKER urged the committee to consider reducing the base rate in the bill from 35 percent to 30 percent. After hearing consultant and industry testimony, he is concerned about what the legislature has done in recent years to the state's global competitiveness. It is most important to make meaningful change in the tax structure, and while the bill is well-crafted, the legislature has "not moved the needle far enough." The state is approaching a middle range of competitiveness in the world, but testimony indicates that robust fiscal terms must be offered, and he opined Alaska is still marginally higher than it ought to be. He said a change to 30 percent would move from average fiscal terms to robust fiscal terms in order to attract investment. Production decline in the state is its single

greatest challenge to "getting our fair share." As this is the committee of first referral, the committee has an opportunity to make a statement for a robust tax regime, and then let the public and legislative processes further review and evaluate the impact of the change.

[11:22:47 PM](#)

BARRY PULLIAM, Managing Director, Econ One Research, Inc., speaking as a consultant to the administration, understood the amendment would reduce the tax rate from 35 percent to 30 percent, and would not alter the credits that are in Version K of the bill. He provided a slide entitled, "Average Government Take For All Existing Producers (FY2015-FY2019)," but noted the effects of the specific structure of Amendment 30 are not modeled in this slide. To obtain an estimate, he suggested looking at the following data: column (5), which models the system in Version K, which is a 35 percent base rate with a sliding scale [credit] starting at \$8 and phasing out; column (7), which models a 35 percent base rate with \$5 credit; and column (11), which models a 30 percent base rate with \$5 credit. The differences between columns (7) and (11) reduce government take by about 2.5 percent at each price point; thus, to estimate under the sliding scale mechanism, subtract 2.5 percent from column (5) for a rough estimate of government take at 30 percent with a sliding scale. For example, at \$100 per barrel West Coast ANS price, the government take is about 62 percent, and at \$150 per barrel West Coast ANS price, the government take is about 64.5 percent.

REPRESENTATIVE HAWKER surmised a 5 percent reduction makes a significant difference to the investment dynamics of the affected industry.

[11:26:20 PM](#)

DAN STICKLE, Assistant Chief Economist, Anchorage Office, Tax Division, Department of Revenue (DOR), provided a slide entitled, "Provisions in HCS CSSB21(RES) and their Estimated Fiscal Impact as compared to Fall 2012 Forecast (\$millions)." He drew attention to line 2, which gives the estimated increase in revenue resulting after moving from 25 percent to 35 percent base rate. An increase of 5 percent would be one-half of what is shown on line 2; for example, in 2015, the increase would be a little less than \$550 million. Furthermore, there would be a \$20 million increase in appropriations for the conforming net

operating loss credits after a change from 25 percent to 30 percent base rate.

MR. PAWLOWSKI added that to "work down through the table" one would take one-half of the projection on line 2, and subtract that from the numbers in yellow [Total Fiscal Impact].

CO-CHAIR FEIGE inferred that for FY 2015, the state would see a change from negative \$1 billion to negative \$1.15 billion.

MR. PAWLOSKI said yes.

REPRESENTATIVE HAWKER responded to the aforementioned estimates of the future by noting that every producer testified that the base rate is still an issue, and that a lower base rate would create greater impetus for them to make investments. Greater investment equals greater production, and "there is no correct answer here." However, a lower base rate is an objective number to maximize future production. He informed the committee that major tax regimes around the world are reducing their taxes to attract industry because industry cannot be taxed into productivity. A certain business risk is inherent, but - based on testimony from the industry - the state has not reached the right base rate.

[11:30:57 PM](#)

REPRESENTATIVE TARR cautioned that reducing the base rate to 30 percent and adjusting the net operating loss (NOL) seems to disadvantage small producers, because their only credit is NOL credit, while benefitting large producers that are in production. The previous proposals struck a balance, but adjusting the NOL credit downward severely disadvantages explorers.

MR. PAWLOWSKI reminded the committee that the aforementioned fiscal impact is a rough estimate without the consideration of production scenarios; any illustration without additional production should be taken with a grain of salt. Representative Tarr brings up an important issue: Studying the full lifecycle economics around the proposal is the method analysts use to find a balance between the credits and the overall take. Gross value reduction, per barrel credit, and upfront credit, viewed together, create an opportunity for investment that can outweigh losses upfront, particularly with the addition of the authority of AIDEA, the impact of which is unknown at this time.

11:32:55 PM

CO-CHAIR SADDLER said he has supported lowering the tax rate and government take for the oil industry, but has concerns with the significance of the change proposed by Amendment 30. He suggested changing to a 33 percent base rate.

REPRESENTATIVE P. WILSON agreed that a 33 percent base rate would make a difference and she would feel comfortable if Alaska were "in the middle of the pack" worldwide. She inquired whether Representative Hawker would accept a friendly amendment to the amendment.

REPRESENTATIVE HAWKER indicated no.

REPRESENTATIVE JOHNSON recalled testimony that 62 percent total government take [when oil is priced at \$100 per barrel] "is the winner." He reviewed the difficulties the industry faces when conducting business in Alaska, and said he is not happy in the middle of the pack; in fact, to ensure the future for Alaska, Alaska needs to lead. He supported Amendment 30, saying that it would put Alaska near the front of the pack.

11:37:26 PM

REPRESENTATIVE TUCK opposed Amendment 30. He recalled testimony last year and said it is difficult to compare one oil field with the next due to different construction environments, especially regarding the time needed for new investments to pay off. In addition, the difference between the production of conventional oil and nonconventional oil is significant. In North Dakota, the production costs of oil developed by "fracking" are between \$40 and \$60 per barrel; however, because production is not seasonal, the rate of return is about 18 months, rather than 10 years as in Alaska. As stated in testimony, Alaska is resource-rich, which is attractive to investors. In addition, Pedro van Meurs' comparisons between Alaska's tax rate and that of other shallow-water oil areas are comparable, and his analysis indicated that HB 110 [offered during the 27th Legislative Session] reduced government take from 72 percent to 65 percent. The current proposal reduces government take to 62 percent when oil prices are \$110 per barrel. Representative Tuck referred to favorable reports in the past two years from the governor and DOR, even in the case of a failed well. For example, on an unsuccessful development project, the state share is 76 percent and an existing producer's share is 15 percent. Furthermore, Alaska's tax credit system is the most competitive in the world.

He mentioned ongoing projects on the North Slope, and urged that legislators fulfill their roles and negotiate with the oil industry instead of against each other.

[11:42:26 PM](#)

REPRESENTATIVE JOHNSON emphasized that not a single new production project on the North Slope would have been sanctioned under ACES tax policy. He said that is a fallacious argument and the record should be set straight: ACES would not have generated the competition that is there now - it happened because of a previous regime.

REPRESENTATIVE TUCK stressed the Department of Labor & Workforce Development reported employment on the North Slope climbed to an all-time high in 2012; if these statistics are debatable, the amendment is premature.

CO-CHAIR SADDLER inquired as to DOR's position on Amendment 30.

[11:45:01 PM](#)

MR. PAWLOWSKI responded that making Alaska competitive is one of the goals of the governor and the administration. The governor's legislation is focused on creating a long-term environment with four principles: fair to Alaskans; durable; balanced; and simple. As Version K is in flux, he reserved comment other than to assist the committee in its efforts.

REPRESENTATIVE TARR maintained her objection.

REPRESENTATIVE HAWKER disputed the statistics that the labor boom on the North Slope is from new oil production, arguing it is due to increased maintenance on existing facilities; oil revenue is metered and every barrel of oil production is counted. If ACES was working as was represented when it passed, production would not be in decline. He gave examples of new oil production in other areas of the world, and urged for the adoption of Amendment 30, saying it would signify meaningful change towards Alaska's fair share.

[11:49:03 PM](#)

A roll call vote was taken. Representatives Hawker, Johnson, and Olson voted in favor of Amendment 30. Representatives Tarr, Tuck, Seaton, P. Wilson, Saddler, and Feige voted against it. Therefore, Amendment 30 failed by a vote of 3-6.

11:50:09 PM

REPRESENTATIVE HAWKER moved to adopt Amendment 31, labeled GS-1647\K.4, Nauman/Bullock, 4/2/13, [text provided at the end of the document].

REPRESENTATIVE TARR objected.

REPRESENTATIVE HAWKER said Amendment 31 addresses another problem for taxpayers caused by the enactment of ACES. Amendment 31 will provide legislative guidance and clarity to state taxing agencies regarding the determination of wellhead value as the basis for production tax. He explained that wellhead value is the value one sells the oil for, less the cost of transportation, and the problem is with how DOR auditors determine the cost of transportation. Prior to ACES, a taxpayer deducted its actual costs of transportation unless the following three circumstances existed: the shipper is affiliated with the transportation carrier; the transportation contract was not at arm's length; and the methods or terms of transportation were not reasonable in light of alternative transportation. Furthermore, DOR had discretion to apply a "reasonableness" standard if those same circumstances existed. He characterized this provision as successful for many years until the ACES legislation made a number of statutory changes. Following those statutory changes, DOR developed new regulations that have garnered complaints. The complaints charge that DOR calculates what it considers reasonable by regulation, and also calculates actual costs that really are not actual. Representative Hawker said this issue arose "through that rather indecipherable regulation making arguments that actual transportation costs are not really what we want to consider actual and fair." The current regulations defer to DOR's discretion in calculating both actual and reasonable transportation costs, and require that the lesser amount is used.

11:53:46 PM

REPRESENTATIVE HAWKER remarked:

What the amendment before us does, is simply restores the language in Section 43.55.150 which is ... the section of statute on determining the gross value at the point of production, basically the allowable transportation costs. This amendment simply restores the language that existed before ACES passed, when it

was fairly clear, the regulations worked, and we did not have this circumstance which I believe has resulted in the department taking a regulatory position that is inconsistent with what I believe would be good legislative intent: That what you pay for transportation is what you pay, unless those three qualifications are met, and then there's a different standard applied.

REPRESENTATIVE HAWKER further explained Amendment 31 is one of two amendments he is offering to address unintended - or intended but inappropriate - consequences of changes made in the ACES legislation.

REPRESENTATIVE SEATON was unsure whether the aforementioned changes were the result of ACES or the result of the tariff settlement and lawsuit related to actual transportation [costs] for intrastate transportation. He estimated the calculation difference for that settlement was about \$6 billion over the lifetime, and questioned whether returning to calculations that were inaccurate, or that were a basis for a legal settlement, would be good for the state. At this point there is no time to review the amendment or for research to confirm his recollection.

[11:56:23 PM](#)

CO-CHAIR FEIGE directed attention to the 2013 edition of Alaska Oil and Gas Laws and Regulations Annotated, page 186, and said Representative Hawker was correct on the effect of the amendment.

REPRESENTATIVE SEATON pointed out the footnotes that reference the lawsuit and settlement made by the Knowles Administration; although he did not remember the exact terms, he said that was the reason for the language. He asked for a response from DOR.

REPRESENTATIVE TARR agreed with Representative Seaton that there was litigation to protect the state. She requested clarification from DOL as to her understanding that "these provisions are the result of some of this activity in the past."

MS. POLLARD said she is unable to give detailed advice on the methodology related to the TAPS tariff settlement in 1985. However, in 2007, there was testimony on the reasons supporting restoring the statute that existed in 2006, which is the intent of Amendment 31. She recalled the testimony was before the

Senate Judiciary Standing Committee in October of 2007 and discussed an alternative deduction for tax reasons. Ms. Pollard was unable to say which tariff issues were directly discussed.

MR. PAWLOWSKI said DOR's understanding of the amendment is that its language restores what was, at the time, a certain legislative direction. He solicited additional comments from the Tax Division.

[See April 4, 2013, minutes and audio for the continuation and conclusion of this meeting.]

Following is the text for Amendments 2, 3, 4, 5, 15, 16, 18, 25, 27, 28, and 31.

**Amendment 2, labeled 28-GS1647\K.20, Nauman/Bullock, 4/2/13:**

Page 1, lines 2 - 11:

Delete "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; relating to the determination of annual oil and gas production tax value including adjustments based on a percentage of gross value at the point of production from certain leases or properties;"

Page 5, line 27, through page 12, line 31:

Delete all material and insert:

"\* **Sec. 11.** AS 43.55.011(g) is amended to read:

(g) For each month of the calendar year for which the producer's average monthly production tax value under AS 43.55.160(a)(2) of a [PER] BTU equivalent barrel of the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of this section is determined by multiplying the monthly production tax value of the taxable oil and gas produced during the month by the tax rate calculated as follows:

(1) if the producer's average monthly production tax value of a [PER] BTU equivalent barrel of the taxable oil and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value of a [PER] BTU equivalent barrel and \$30; or

(2) if the producer's average monthly production tax value of a [PER] BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between the average monthly production tax value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined under this paragraph may not exceed 30 [50] percent."

Renumber the following bill sections accordingly.

Page 14, line 13, through page 16, line 9:

Delete all material.

Renumber the following bill sections accordingly.

Page 16, lines 11 - 12:

Delete "of this section"

Page 16, line 12:

Delete "former"

Page 16, line 26, through page 25, line 20:

Delete all material.

Renumber the following bill sections accordingly.

Page 28, line 30, through page 29, line 15:

Delete all material.

Renumber the following bill sections accordingly.

Page 29, line 20:

Delete "sec. 36"

Insert "sec. 16"

Page 29, lines 22 - 26:

Delete all material.

Amendment 3, labeled 28-GS1647\K.21, Nauman/Bullock, 4/3/13:

Page 6, line 6:

Delete "(g)"

Insert "(g)(1) [(g)]"

Page 6, line 7, following "2014,":

Insert "

(A)"

Page 6, line 9, following "percent":

Insert "; and

(B) the sum, over all the months of the calendar year, of the tax amounts determined under (g) of this section"

Page 6, following line 9:

Insert a new bill section to read:

"\* **Sec. 12.** AS 43.55.011(g) is amended to read:

(g) For purposes of (e) of this section, the tax amount is determined by multiplying the monthly production tax value of the taxable oil and gas produced during the month by the tax rate calculated as follows:

(1) before January 1, 2014, for [FOR] each month of the calendar year for which the producer's average monthly production tax value under AS 43.55.160(a)(2) of a [PER] BTU equivalent barrel of the taxable oil and gas is more than \$30, [THE AMOUNT OF TAX FOR PURPOSES OF (e)(2) OF THIS SECTION IS DETERMINED BY MULTIPLYING THE MONTHLY PRODUCTION TAX VALUE OF THE TAXABLE OIL AND GAS PRODUCED DURING THE MONTH BY] the tax rate calculated as follows:

(A) [(1)] if the producer's average monthly production tax value of a [PER] BTU equivalent barrel of the taxable oil and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value of a [PER] BTU equivalent barrel and \$30; or

(B) [(2)] if the producer's average monthly production tax value of a [PER] BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between the average monthly

production tax value of a [PER] BTU equivalent barrel and \$92.50, except that the sum determined under this paragraph may not exceed 50 percent;

(2) on or after January 1, 2014, for each month of the calendar year for which the producer's average monthly production tax value under AS 43.55.160(a)(2) of a BTU equivalent barrel of the taxable oil and gas is more than \$55, the tax rate calculated by multiplying by 0.2 the number that represents the difference between that average monthly production tax value of a BTU equivalent barrel and \$55, except that the tax rate determined under this paragraph may not exceed 15 percent."

Renumber the following bill sections accordingly.

Page 10, line 17:

Delete "35 percent"

Insert "the sum of 35 percent and the tax rate calculated for the month under AS 43.55.011(g)"

Page 11, line 1:

Delete "35 percent"

Insert "the sum of 35 percent and the tax rate calculated for the month under AS 43.55.011(g)"

Page 11, line 14:

Delete "35 percent"

Insert "the sum of 35 percent and the tax rate calculated for the month under AS 43.55.011(g)"

Page 11, line 23:

Delete "35 percent"

Insert "the sum of 35 percent and the tax rate calculated for the month under AS 43.55.011(g)"

Page 12, lines 13 - 31:

Delete all material.

Renumber the following bill sections accordingly.

Page 13, line 25, through page 14, line 12:

Delete all material.

Renumber the following bill sections accordingly.

Page 28, line 31:

Delete "43.55.011(g)"  
Insert "43.55.011(g)(1)"

Page 29, line 1:

Delete "AS 43.55.020(d), 43.55.023(i),  
43.55.023(p), 43.55.160(a)(2), and 43.55.160(c)"  
Insert "43.55.023(i), and 43.55.023(p)"

Page 29, line 5:

Delete "Section 13"  
Insert "Section 14"

Page 29, line 6:

Delete "sec. 31"  
Insert "sec. 30"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"  
Insert "Sections 17 and 19 - 22"  
Delete "sec. 18"  
Insert "sec. 17"

Page 29, line 9:

Delete "Section 19"  
Insert "Section 18"

Page 29, line 20:

Delete "sec. 36"  
Insert "sec. 35"

Page 29, line 24:

Delete "Sections 13, 20 - 23, 28, and 37"  
Insert "Sections 14, 19 - 22, 27, and 36"

Page 29, line 25:

Delete "sec. 18"  
Insert "sec. 17"  
Delete "sec. 31"  
Insert "sec. 30"

**Amendment 4, labeled 28-GS1647\K.25, Nauman/Bullock, 4/3/13:**

Page 1, line 4:

Delete "**rate**"  
Insert "**rates**"

Page 6, line 8:  
Delete "35"  
Insert "50"

Page 6, following line 9:  
Insert a new bill section to read:

"\* **Sec. 12.** AS 43.55.011(f) is amended to read:

(f) **Before January 1, 2014, the** [THE] levy of tax under this section for oil and gas produced north of 68 degrees North latitude, other than oil and gas production subject to (i) of this section and gas subject to (o) of this section, may not be less than

(1) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$25;

(2) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$20 but not over \$25;

(3) two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$17.50 but not over \$20;

(4) one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$15 but not over \$17.50;  
or

(5) zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is \$15 or less."

Renumber the following bill sections accordingly.

Page 7, following line 1:  
Insert new bill sections to read:

"\* **Sec. 15.** AS 43.55.011 is amended by adding a new subsection to read:

(g) On and after January 1, 2014, except for oil and gas subject to (i) of this section and gas subject

to (o) of this section, the provisions of this subsection apply to oil and gas produced from each lease or property within a unit or nonunitized reservoir that has cumulatively produced 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent calendar year and from which the average daily oil and gas production from the unit or nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU equivalent barrels. Notwithstanding any contrary provision of law, a producer may not apply tax credits to reduce its total tax liability under (e) of this section for oil and gas produced from all leases or properties within the unit or nonunitized reservoir below 10 percent of the total gross value at the point of production of that oil and gas. If the amount of tax calculated by multiplying the tax rates in (e) of this section by the total production tax value of the oil and gas taxable under (e) of this section produced from all of the producer's leases or properties within the unit or nonunitized reservoir is less than 10 percent of the total gross value at the point of production of that oil and gas, the tax levied by (e) of this section for that oil and gas is equal to 10 percent of the total gross value at the point of production of that oil and gas."

Renumber the following bill sections accordingly.

Page 10, line 15:

Delete "AS 43.55.011(f)"  
Insert "AS 43.55.011(q)"

Page 10, line 17:

Delete "35"  
Insert "50"

Page 10, line 25:

Delete "AS 43.55.011(f)"  
Insert "AS 43.55.011(q)"

Page 10, lines 27 - 31:

Delete all material and insert:

"(ii) 10 percent of the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated; or "

Page 11, line 1:

Delete "35"

Insert "50"

Page 11, line 14:

Delete "35"

Insert "50"

Page 11, line 23:

Delete "35"

Insert "50"

Page 15, line 10:

Delete "35"

Insert "50"

Page 17, line 21:

Delete "new subsections"

Insert "a new subsection"

Page 17, line 23:

Delete "\$5"

Insert "\$12"

Page 17, line 24:

Delete "that meets one or more of the criteria in AS 43.55.160(f) and"

Page 17, line 28, through page 18, line 28:

Delete all material.

Page 29, line 5:

Delete "Section 13"

Insert "Section 14"

Page 29, line 6:

Delete "sec. 31"

Insert "sec. 33"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"

Insert "Sections 20 and 22 - 25"

Delete "sec. 18"

Insert "sec. 20"

Page 29, line 9:

Delete "Section 19"  
Insert "Section 21"

Page 29, line 20:  
Delete "sec. 36"  
Insert "sec. 38"

Page 29, line 24:  
Delete "Sections 13, 20 - 23, 28, and 37"  
Insert "Sections 14, 22 - 25, 30, and 39"

Page 29, line 25:  
Delete "sec. 18"  
Insert "sec. 20"  
Delete "sec. 31"  
Insert "sec. 33"

**Amendment 5, labeled, 28-GS1647\K.24, Nauman/Bullock, 4/3/13:**

Page 1, line 4:  
Delete "**rate**"  
Insert "**rates**"

Page 6, line 8:  
Delete "**35**"  
Insert "**45**"

Page 6, following line 9:  
Insert a new bill section to read:  
"**\* Sec. 12.** AS 43.55.011(f) is repealed and reenacted to read:  
(f) Except for oil and gas subject to (i) of this section and gas subject to (o) of this section, the provisions of this subsection apply to oil and gas produced from each lease or property within a unit or nonunitized reservoir that has cumulatively produced 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent calendar year and from which the average daily oil and gas production from the unit or nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU equivalent barrels. Notwithstanding any contrary provision of law, a producer may not apply tax credits to reduce its total tax liability under (e) of this section for oil and gas produced from all leases or properties within the unit or nonunitized reservoir below 10

percent of the total gross value at the point of production of that oil and gas. If the amount of tax calculated by multiplying the tax rates in (e) of this section by the total production tax value of the oil and gas taxable under (e) of this section produced from all of the producer's leases or properties within the unit or nonunitized reservoir is less than 10 percent of the total gross value at the point of production of that oil and gas, the tax levied by (e) of this section for that oil and gas is equal to 10 percent of the total gross value at the point of production of that oil and gas."

Renumber the following bill sections accordingly.

Page 10, line 17:

Delete "35"

Insert "45"

Page 10, lines 27 - 31:

Delete all material and insert:

"(ii) 10 percent of the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated; or"

Page 11, line 1:

Delete "35"

Insert "45"

Page 11, line 14:

Delete "35"

Insert "45"

Page 11, line 23:

Delete "35"

Insert "45"

Page 15, line 10:

Delete "35"

Insert "45"

Page 17, line 21:

Delete "new subsections"

Insert "a new subsection"

Page 17, line 23:

Delete "\$5"  
Insert "\$10"

Page 17, line 24:

Delete "that meets one or more of the criteria in  
AS 43.55.160(f) and"

Page 17, line 28, through page 18, line 28:

Delete all material.

Page 29, line 5:

Delete "Section 13"  
Insert "Section 14"

Page 29, line 6:

Delete "sec. 31"  
Insert "sec. 32"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"  
Insert "Sections 19 and 21 - 24"  
Delete "sec. 18"  
Insert "sec. 19"

Page 29, line 9:

Delete "Section 19"  
Insert "Section 20"

Page 29, line 20:

Delete "sec. 36"  
Insert "sec. 37"

Page 29, line 24:

Delete "Sections 13, 20 - 23, 28, and 37"  
Insert "Sections 14, 21 - 24, 29, and 38"

Page 29, line 25:

Delete "sec. 18"  
Insert "sec. 19"

**Amendment 15, labeled 28-GS1647\K.15, Bullock, 4/3/13:**

Page 1, line 4:

Delete "**rate**"  
Insert "**rates**"

Page 1, line 12:

Delete the second occurrence of "and"

Page 1, line 12, following "amendments":

Insert "; and providing for an effective date"

Page 2, following line 13:

Insert a new bill section to read:

"\* **Sec. 3.** AS 29.60.850(b), as amended by sec. 2 of this Act, is amended to read:

(b) Each fiscal year, the legislature may appropriate to the community revenue sharing fund an amount equal to 20 percent of the money received by the state during the previous calendar year under AS 43.55.011(g) [AS 43.20.030(c)]. The amount may not exceed

(1) \$60,000,000; or

(2) the amount that, when added to the fund balance on June 30 of the previous fiscal year, equals \$180,000,000."

Renumber the following bill sections accordingly.

Page 6, following line 9:

Insert a new bill section to read:

"\* **Sec. 13.** AS 43.55.011(e), as amended by sec. 12 of this Act, is repealed and reenacted to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), (o), and (p) of this section, the tax is equal to the sum of

(1) the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

(2) the sum, over all months of the calendar year, of the tax amounts determined under (q) of this section."

Renumber the following bill sections accordingly.

Page 7, following line 1:

Insert new bill sections to read:

"\* **Sec. 16.** AS 43.55.011(o), as amended by sec. 15 of this Act, is amended to read:

(o) Notwithstanding other provisions of this section, for a calendar year before 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin and used in the state [, OTHER THAN GAS SUBJECT TO (p) OF THIS SECTION,] may not exceed the amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

\* **Sec. 17.** AS 43.55.011 is amended by adding a new subsection to read:

(q) For each month of the calendar year for which the producer's average monthly production tax value under AS 43.55.160(a)(2) of a BTU equivalent barrel of the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of this section is determined by multiplying the monthly production tax value of the taxable oil and gas produced during the month by the tax rate calculated as follows:

(1) if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value of a BTU equivalent barrel and \$30; or

(2) if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between the average monthly production tax value of a BTU equivalent barrel and \$92.50, except that the sum determined under this paragraph may not exceed 50 percent."

Renumber the following bill sections accordingly.

Page 12, following line 12:

Insert a new bill section to read:

"\* **Sec. 19.** AS 43.55.020(a), as amended by sec. 18 of this Act, is repealed and reenacted to read:

(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f), (h), (i), (p), or (q) shall pay the tax as follows:

(1) an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) for oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin but not subject to AS 43.55.011(o) or (p), other than leases or properties subject to AS 43.55.011(f), the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(q) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil and gas produced from all leases or properties during the month for which the installment payment is calculated; or

(iii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(q) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for those leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced

from those leases or properties during the month for which the installment payment is calculated;

(C) for oil and gas produced from each lease or property subject to AS 43.55.011(j), (k), (o), or (p), the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(q) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 for oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

(2) an amount calculated under (1)(C) of this subsection for oil or gas produced from a lease or property

(A) subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

(B) subject to AS 43.55.011(p) may not exceed four percent of the gross value at the point of production of the oil or gas;

(3) an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of

(A) the applicable tax rate for oil provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the oil taxable under AS 43.55.011(i) and produced from the lease or property during the month; and

(B) the applicable tax rate for gas provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the gas taxable under AS 43.55.011(i) and produced from the lease or property during the month;

(4) any amount of tax levied by AS 43.55.011(e) or (i), net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production."

Renumber the following bill sections accordingly.

Page 12, following line 31:

Insert a new bill section to read:

"\* **Sec. 21.** AS 43.55.020(d), as amended by sec. 20 of this Act, is repealed and reenacted to read:

(d) In making settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes due to the amount of the tax paid. If the total deductions of installment payments of estimated tax for a calendar year exceed the actual tax for that calendar year, the producer shall, before April 1 of the following year, refund the excess to the royalty owner. Unless otherwise agreed between the producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e), (f), and (q) on taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or right to which constitutes a landowner's royalty interest, is considered to be the gross value at the point of production of the taxable royalty oil and gas produced during the calendar year multiplied by a figure that is a quotient, in which

(1) the numerator is the producer's total tax liability under AS 43.55.011(e), (f), and (q) for the calendar year of production; and

(2) the denominator is the total gross value at the point of production of the oil and gas taxable under AS 43.55.011(e), (f), and (q) produced by the producer from all leases and properties in the state during the calendar year."

Renumber the following bill sections accordingly.

Page 15, following line 2:

Insert a new bill section to read:

"\* **Sec. 25.** AS 43.55.023(a), as amended by sec. 24 of this Act, is amended to read:

(a) A producer or explorer may take a tax credit for a qualified capital expenditure as follows:

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that expenditure; **however, not more than half of the tax credit may be applied for a single calendar year;**

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2) [;

(3) A CREDIT FOR A QUALIFIED CAPITAL EXPENDITURE INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE MAY BE TAKEN ONLY IF THE EXPENDITURE IS INCURRED BEFORE JANUARY 1, 2014]."

Re-number the following bill sections accordingly.

Page 15, following line 15:

Insert a new bill section to read:

"\* **Sec. 27.** AS 43.55.023(b), as amended by sec. 26 of this Act, is amended to read:

(b) **A** [FOR LEASE EXPENDITURES INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED SOUTH OF 68 DEGREES NORTH LATITUDE, A] producer or explorer may elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss. [FOR LEASE EXPENDITURES INCURRED AFTER DECEMBER

31, 2013, TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE, A PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 35 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS.] A credit under this subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of this subsection, a carried-forward annual loss is the amount of a producer's or explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a previous calendar year that was not deductible in calculating production tax values for that calendar year under AS 43.55.160."

Renumber the following bill sections accordingly.

Page 16, following line 9:

Insert a new bill section to read:

"\* **Sec. 29.** AS 43.55.023(d), as amended by sec. 28 of this Act, is repealed and reenacted to read:

(d) A person that is entitled to take a tax credit under this section that wishes to transfer the unused credit to another person or obtain a cash payment under AS 43.55.028 may apply to the department for transferable tax credit certificates. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 120 days after the latest of the following: March 31 of the year following the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; the date the statement required under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; or the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant two transferable tax credit certificates, each for half of the amount of the credit. The credit shown on one of the two

certificates is available for immediate use. The credit shown on the second of the two certificates may not be applied against a tax for a calendar year earlier than the calendar year following the calendar year in which the certificate is issued, and the certificate must contain a conspicuous statement to that effect. A certificate issued under this subsection does not expire."

Renumber the following bill sections accordingly.

Page 16, following line 25:

Insert a new bill section to read:

"\* **Sec. 31.** AS 43.55.023(g), as amended by sec. 30 of this Act, is amended to read:

(g) The issuance of a transferable tax credit certificate under (d) or (p) of this section or former (m) of this section or the purchase of a certificate under AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines, as a result of the audit, that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased under this subsection, the increase bears interest under [AS 43.05.225(a) BEFORE JANUARY 1, 2014, OR UNDER] AS 43.05.225(b)(1) [ON AND AFTER JANUARY 1, 2014,] from the date the transferable tax credit certificate was issued. For purposes of this subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e)."

Renumber the following bill sections accordingly.

Page 17, following line 8:

Insert new bill sections to read:

"\* **Sec. 33.** AS 43.55.023(n), as amended by sec. 32 of this Act, is amended to read:

(n) For the purposes of (l) and (p) of this section, a well lease expenditure incurred in the

state south of 68 degrees North latitude is a lease expenditure that is

(1) directly related to an exploration well, a stratigraphic test well, a producing well, or an injection well other than a disposal well, located in the state south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure and an intangible drilling and development cost authorized under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well includes an expenditure for well sidetracking, well deepening, well completion or recompletion, or well workover, regardless of whether the well is or has been a producing well; or

(2) an expense for seismic work conducted within the boundaries of a production or exploration unit.

\* **Sec. 34.** AS 43.55.023 is amended by adding a new subsection to read:

(p) For a lease expenditure incurred in the state south of 68 degrees North latitude after December 31, 2018, that qualifies for tax credits under (a) and (b) of this section, and for a well lease expenditure incurred in the state south of 68 degrees North latitude that qualifies for a tax credit under (l) of this section, the department shall issue transferable tax credit certificates to the person entitled to the credit for the full amount of the credit. The transferable tax credit certificates do not expire."

Renumber the following bill sections accordingly.

Page 21, following line 13:

Insert a new bill section to read:

"\* **Sec. 41.** AS 43.55.028(e), as amended by sec. 40 of this Act, is amended to read:

(e) The department, on the written application of a person to whom a transferable tax credit certificate has been issued under AS 43.55.023(d) or (p) or former AS 43.55.023(m) or to whom a production tax credit certificate has been issued under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to purchase, in whole or in part, the certificate if the department finds that

(1) the calendar year of the purchase is not earlier than the first calendar year for which the credit shown on the certificate would otherwise be allowed to be applied against a tax;

(2) the applicant does not have an outstanding liability to the state for unpaid delinquent taxes under this title;

(3) the applicant's total tax liability under AS 43.55.011(e), after application of all available tax credits, for the calendar year in which the application is made is zero;

(4) the applicant's average daily production of oil and gas taxable under AS 43.55.011(e) during the calendar year preceding the calendar year in which the application is made was not more than 50,000 BTU equivalent barrels; and

(5) the purchase is consistent with this section and regulations adopted under this section."

Renumber the following bill sections accordingly.

Page 21, following line 23:

Insert a new bill section to read:

"\* **Sec. 43.** AS 43.55.028(g), as amended by sec. 42 of this Act, is amended to read:

(g) The department may adopt regulations to carry out the purposes of this section, including standards and procedures to allocate available money among applications for purchases under this chapter and claims for refunds and payments under AS 43.20.046 or 43.20.047 when the total amount of the applications for purchase and claims for refund exceed the amount of available money in the fund. The regulations adopted by the department may not, when allocating available money in the fund under this section, distinguish an application for the purchase of a credit certificate issued under AS 43.55.023(p) or former AS 43.55.023(m), or a claim for a refund or payment under AS 43.20.046 or 43.20.047."

Renumber the following bill sections accordingly.

Page 22, following line 5:

Insert a new bill section to read:

"\* **Sec. 45.** AS 43.55.030(e), as amended by sec. 44 of this Act, is amended to read:

(e) An explorer or producer that incurs a lease expenditure under AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar year but does not produce oil or gas from a lease or property in the state during the calendar year shall file with the department, on March 31 of the following year, a statement, under oath, in a form prescribed by the department, giving, with other information required, the following:

(1) the [EXPLORER'S OR] producer's qualified capital expenditures, as defined in AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other payments or credits under AS 43.55.170; and

(2) if the explorer or producer receives a payment or credit under AS 43.55.170, calculations showing whether the explorer or producer is liable for a tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount."

Renumber the following bill sections accordingly.

Page 24, following line 10:

Insert a new bill section to read:

"\* **Sec. 47.** AS 43.55.160(a), as amended by sec. 46 of this Act, is repealed and reenacted to read:

(a) Except as provided in (b) of this section, for the purposes of

(1) AS 43.55.011(e), the annual production tax value of the taxable oil, gas, or oil and gas subject to this paragraph produced during a calendar year is the gross value at the point of production of the oil, gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil and gas, as applicable, produced by the producer from leases or properties, as adjusted under AS 43.55.170; this paragraph applies to

(A) oil and gas produced from leases or properties in the state that include land north of 68 degrees North latitude, other than gas produced before 2022 and used in the state;

(B) oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68

degrees North latitude; this subparagraph does not apply to

(i) gas produced before 2022 and used in the state; or

(ii) oil and gas subject to AS 43.55.011(p);

(C) oil produced before 2022 from a lease or property in the Cook Inlet sedimentary basin;

(D) gas produced before 2022 from a lease or property in the Cook Inlet sedimentary basin;

(E) gas produced before 2022 from a lease or property in the state outside the Cook Inlet sedimentary basin and used in the state;

(F) oil and gas subject to AS 43.55.011(p) produced from leases or properties in the state;

(G) oil and gas produced from a lease or property no part of which is north of 68 degrees North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of this paragraph;

(2) AS 43.55.011(q), the monthly production tax value of the taxable

(A) oil and gas produced during a month from leases or properties in the state that include land north of 68 degrees North latitude is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(C) oil produced during a month from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the oil taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil produced by the producer from that lease or property, as adjusted under AS 43.55.170;

(D) gas produced during a month from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the gas taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the gas produced by the producer from that lease or property, as adjusted under AS 43.55.170;

(E) gas produced during a month from a lease or property outside the Cook Inlet sedimentary basin and used in the state is the gross value at the point of production of that gas taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to that gas produced by the producer from that lease or property, as adjusted under AS 43.55.170."

Renumber the following bill sections accordingly.

Page 25, following line 20:

Insert a new subsection to read:

"(h) Notwithstanding any contrary provision of AS 43.55.150, for purposes of calculating a monthly production tax value under (a)(2) of this section, the gross value at the point of production of the oil and gas is calculated under regulations adopted by the department that provide for using an appropriate monthly share of the producer's costs of transportation for the calendar year."

Page 29, following line 2:

Insert a new bill section to read:

"\* **Sec. 55.** AS 43.55.020(1), 43.55.024(i), 43.55.024(j), 43.55.160(f), and 43.55.160(g) are repealed."

Page 29, line 5:

Delete "Section 13 of this Act and AS 43.55.160(a)(1)(E), as amended by sec. 31"

Insert "Section 15 of this Act, AS 43.55.160(a)(1)(E), as amended by sec. 46 of this Act, and AS 43.55.160(f) and (g) as enacted by sec. 48"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"

Insert "Sections 24, 28, 30, 32, and 35"

Delete "sec. 18"

Insert "sec. 24"

Page 29, line 9:

Delete "Section 19"

Insert "Section 26"

Page 29, following line 10:

Insert a new subsection to read:

"(d) AS 43.55.160(h), enacted by sec. 48 of this Act, applies to the transportation of oil and gas produced on and after the effective date of sec. 13 of this Act."

Page 29, line 20:

Delete "sec. 36"

Insert "sec. 52"

Page 29, line 24:

Delete "Sections 13, 20 - 23, 28, and 37"

Insert "Sections 15, 28, 30, 32, and 53"

Page 29, following line 26:

Insert new bill sections to read:

**\* Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT. Sections 3, 13, 16, 17, 19, 21, 25, 27, 29, 31, 33, 34, 41, 43, 45, 47, and 55 of this Act, and AS 43.55.160(h) in sec. 48 of this Act take effect only if the volume of oil production for the calendar year 2017 does not exceed the volume of oil produced for the 2012 calendar year by more than 10 percent. The commissioner of natural resources shall notify the lieutenant governor and the revisor of statutes before January 1, 2018, or as soon as

practicable thereafter, if the volume of oil production for the calendar year 2017 is greater than the volume of oil produced during the 2012 calendar year.

\* **Sec. 61.** If secs. 3, 13, 16, 17, 19, 21, 25, 27, 29, 31, 33, 34, 41, 43, 45, 47, and 55 of this Act, and AS 43.55.160(h) in sec. 48 of this Act take effect under sec. 59 of this Act, they take effect January 1, 2018."

**Amendment 16, labeled 28-GS1647\K.16, Bullock, 4/3/13:**

Page 1, line 4:

Delete "**rate**"

Insert "**rates**"

Page 6, following line 9:

Insert a new bill section to read:

"\* **Sec. 11.** AS 43.55.011(f) is repealed and reenacted to read:

(f) Except for oil and gas subject to (i) of this section and gas subject to (o) of this section, the provisions of this subsection apply to oil and gas produced after December 31, 2013, from each lease or property within a unit or nonunitized reservoir that has cumulatively produced 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent calendar year and from which the average daily oil and gas production from the unit or nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU equivalent barrels. Notwithstanding any contrary provision of law, a producer may not apply tax credits to reduce its total tax liability under (e) of this section for oil and gas produced from all leases or properties within the unit or nonunitized reservoir below 10 percent of the total gross value at the point of production of that oil and gas. If the amount of tax calculated by multiplying the tax rates in (e) of this section by the total production tax value of the oil and gas taxable under (e) of this section produced from all of the producer's leases or properties within the unit or nonunitized reservoir is less than 10 percent of the total gross value at the point of production of that oil and gas, the tax levied by (e) of this section for that oil and gas is equal to 10

percent of the total gross value at the point of production of that oil and gas."

Renumber the following bill sections accordingly.

Page 10, lines 27 - 31:

Delete all material and insert:

**"(ii) 10 percent of the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated; or"**

Page 11, line 8:

Delete "a 20 percent"

Insert "an"

Page 29, line 5:

Delete "Section 13"

Insert "Section 14"

Page 29, line 6:

Delete "sec. 31"

Insert "sec. 32"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"

Insert "Sections 19 and 21 - 24"

Delete "sec. 18"

Insert "sec. 19"

Page 29, line 9:

Delete "Section 19"

Insert "Section 20"

Page 29, line 20:

Delete "sec. 36"

Insert "sec. 37"

Page 29, line 24:

Delete "Sections 13, 20 - 23, 28, and 37"

Insert "Sections 14, 21 - 24, 29, and 38"

Page 29, line 25:

Delete "sec. 18"

Insert "sec. 19"

Delete "sec. 31"

Insert "sec. 32"

Amendment 18, labeled 28-GS1647\K.29, Nauman/Bullock, 4/2/13:

Page 1, line 11, following "properties;":

Insert "allowing the Alaska Industrial Development and Export Authority to issue bonds for an oil processing facility; creating a fund to finance construction or improvement of an oil or gas processing facility"

Page 28, following line 29:

Insert new bill sections to read:

"\* **Sec. 37.** AS 44.88.140(a) is amended to read:

(a) Except as provided in AS 29.45.030(a)(1) **and AS 44.88.168**, the real and personal property of the authority and its assets, income, and receipts are declared to be the property of a political subdivision of the state and, together with any project or development project financed under AS 44.88.155 - 44.88.159 or 44.88.172 - 44.88.177, and a leasehold interest created in a project or development project financed under AS 44.88.155 - 44.88.159 or 44.88.172 - 44.88.177, devoted to an essential public and governmental function and purpose, and the property, assets, income, receipts, project, development project, and leasehold interests shall be exempt from all taxes and special assessments of the state or a political subdivision of the state, including, without limitation, all boroughs, cities, municipalities, school districts, public utility districts, and other taxing units. All bonds of the authority are declared to be issued by a political subdivision of the state and for an essential public and governmental purpose and to be a public instrumentality, and the bonds, and the interest on them, the income from them and the transfer of the bonds, and all assets, income, and receipts pledged to pay or secure the payments of the bonds, or interest on them, shall at all times be exempt from taxation by or under the authority of the state, except for inheritance and estate taxes and taxes on transfers by or in contemplation of death. Nothing in this section affects or limits an exemption from license fees, property taxes, or excise, income, or any other taxes, provided under any other law, nor does it create a tax exemption with respect to the interest of any business enterprise or other person,

other than the authority, in any property, assets, income, receipts, project, development project, or lease whether or not financed under this chapter. By January 10 of each year, the authority shall submit to the governor a report describing the nature and extent of the tax exemption of the property, assets, income, receipts, project, development project, and leasehold interests of the authority under this section. The authority shall notify the legislature that the report is available.

\* **Sec. 38.** AS 44.88 is amended by adding a new section to read:

**Sec. 44.88.168. Oil and gas infrastructure fund.**

(a) The oil and gas infrastructure fund is established in the authority. The oil and gas infrastructure fund consists of money appropriated to the authority for deposit in the fund, and money deposited in the fund by the authority. The fund is not an account in the revolving loan fund established in AS 44.88.060, and the authority shall account for the fund separately from the revolving fund. Money in the fund may be used to finance the construction and improvement of an oil or gas processing facility on the North Slope and flow lines and other surface infrastructure for the facility.

(b) Notwithstanding AS 44.88.140, the state or a political subdivision of the state may levy a tax or special assessment on an oil or gas processing facility, flow lines, and other surface infrastructure for the facility financed by the oil and gas infrastructure fund.

(c) In this section, "North Slope" means that area of the state lying north of 68 degrees North latitude."

Renumber the following bill sections accordingly.

Page 29, following line 21:

Insert a new bill section to read:

\* **Sec. 44.** The uncodified law of the State of Alaska is amended by adding a new section to read:

LEGISLATIVE APPROVAL; NORTH SLOPE OIL OR GAS PROCESSING FACILITY. (a) The Alaska Industrial Development and Export Authority may issue bonds to finance the construction and improvement of an oil or gas processing facility on the Alaska North Slope and flow lines and other surface infrastructure for the

facility. The processing facility, flow lines, and other surface infrastructure for the facility shall be used to secure bonds issued under this section. The principal amount of the bonds provided by the authority for the facility, flow lines, and other surface infrastructure may not exceed \$200,000,000 and may include the costs of funding reserves and other costs of issuing the bonds that the authority considers reasonable and appropriate. Notwithstanding AS 44.88.140, an oil or gas processing facility, flow lines, and other surface infrastructure for the facility constructed or financed by the oil and gas infrastructure fund are subject to taxes and special assessments of the state or a political subdivision of the state.

(b) This section constitutes the legislative approval required by AS 44.88.095(g) and 44.88.690.

(c) The prohibition on the issuance of bonds in an amount exceeding \$400,000,000 under AS 44.88.095 does not apply to bonds issued under this section, and the principal amount of bonds issued under this section may not be considered in determining whether the limit in AS 44.88.095 has been reached."

Renumber the following bill section accordingly.

Page 29, line 24:  
Delete "37"  
Insert "39"

**Amendment 25, labeled 28-GS1647\K.1, Nauman/Bullock, 4/3/13:**

Page 1, line 4:  
Delete "**rate**"  
Insert "**rates**"

Page 1, line 12:  
Delete the second occurrence of "**and**"

Page 1, line 12, following "**amendments**":  
Insert "**; and providing for an effective date**"

Page 2, following line 13:  
Insert a new bill section to read:  
"**\* Sec. 3.** AS 29.60.850(b), as amended by sec. 2 of this Act, is amended to read:

(b) Each fiscal year, the legislature may appropriate to the community revenue sharing fund an amount equal to 20 percent of the money received by the state during the previous calendar year under AS 43.55.011(g) [AS 43.20.030(c)]. The amount may not exceed

- (1) \$60,000,000; or
- (2) the amount that, when added to the fund balance on June 30 of the previous fiscal year, equals \$180,000,000."

Renumber the following bill sections accordingly.

Page 6, following line 9:

Insert a new bill section to read:

**"\* Sec. 13.** AS 43.55.011(e), as amended by sec. 12 of this Act, is repealed and reenacted to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), (o), and (p) of this section, the tax is equal to the sum of

- (1) the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and
- (2) the sum, over all months of the calendar year, of the tax amounts determined under (q) of this section."

Renumber the following bill sections accordingly.

Page 7, following line 1:

Insert new bill sections to read:

**"\* Sec. 16.** AS 43.55.011(o), as amended by sec. 15 of this Act, is amended to read:

(o) Notwithstanding other provisions of this section, for a calendar year before 2022, the tax levied under (e) of this section for each 1,000 cubic feet of gas for gas produced from a lease or property outside the Cook Inlet sedimentary basin and used in the state [, OTHER THAN GAS SUBJECT TO (p) OF THIS SECTION,] may not exceed the amount of tax for each 1,000 cubic feet of gas that is determined under (j)(2) of this section.

\* **Sec. 17.** AS 43.55.011 is amended by adding a new subsection to read:

(q) For each month of the calendar year for which the producer's average monthly production tax value under AS 43.55.160(a)(2) of a BTU equivalent barrel of the taxable oil and gas is more than \$30, the amount of tax for purposes of (e)(2) of this section is determined by multiplying the monthly production tax value of the taxable oil and gas produced during the month by the tax rate calculated as follows:

(1) if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is not more than \$92.50, the tax rate is 0.4 percent multiplied by the number that represents the difference between that average monthly production tax value of a BTU equivalent barrel and \$30; or

(2) if the producer's average monthly production tax value of a BTU equivalent barrel of the taxable oil and gas for the month is more than \$92.50, the tax rate is the sum of 25 percent and the product of 0.1 percent multiplied by the number that represents the difference between the average monthly production tax value of a BTU equivalent barrel and \$92.50, except that the sum determined under this paragraph may not exceed 50 percent."

Renumber the following bill sections accordingly.

Page 12, following line 12:

Insert a new bill section to read:

"\* **Sec. 19.** AS 43.55.020(a), as amended by sec. 18 of this Act, is repealed and reenacted to read:

(a) For a calendar year, a producer subject to tax under AS 43.55.011(e), (f), (h), (i), (p), or (q) shall pay the tax as follows:

(1) an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; except as otherwise provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar

year, but the amount of the installment payment may not be less than zero:

(A) for oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin but not subject to AS 43.55.011(o) or (p), other than leases or properties subject to AS 43.55.011(f), the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(q) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil and gas produced from all leases or properties during the month for which the installment payment is calculated; or

(iii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(q) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for those leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from those leases or properties during the month for which the installment payment is calculated;

(C) for oil and gas produced from each lease or property subject to AS 43.55.011(j), (k), (o), or (p), the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for the month under AS 43.55.011(q) multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 for

oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

(2) an amount calculated under (1)(C) of this subsection for oil or gas produced from a lease or property

(A) subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

(B) subject to AS 43.55.011(p) may not exceed four percent of the gross value at the point of production of the oil or gas;

(3) an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of

(A) the applicable tax rate for oil provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the oil taxable under AS 43.55.011(i) and produced from the lease or property during the month; and

(B) the applicable tax rate for gas provided under AS 43.55.011(i), multiplied by the gross value at the point of production of the gas taxable under AS 43.55.011(i) and produced from the lease or property during the month;

(4) any amount of tax levied by AS 43.55.011(e) or (i), net of any credits applied as allowed by law, that exceeds the total of the amounts due as installment payments of estimated tax is due on March 31 of the year following the calendar year of production."

Renumber the following bill sections accordingly.

Page 12, following line 31:

Insert a new bill section to read:

"\* **Sec. 21.** AS 43.55.020(d), as amended by sec. 20 of this Act, is repealed and reenacted to read:

(d) In making settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes due to the amount of the tax paid. If the total deductions of installment payments of estimated tax for a calendar year exceed the actual tax for that calendar year, the producer shall, before April 1 of the following year, refund the excess to the royalty owner. Unless otherwise agreed between the producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e), (f), and (q) on taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or right to which constitutes a landowner's royalty interest, is considered to be the gross value at the point of production of the taxable royalty oil and gas produced during the calendar year multiplied by a figure that is a quotient, in which

(1) the numerator is the producer's total tax liability under AS 43.55.011(e), (f), and (q) for the calendar year of production; and

(2) the denominator is the total gross value at the point of production of the oil and gas taxable under AS 43.55.011(e), (f), and (q) produced by the producer from all leases and properties in the state during the calendar year."

Renumber the following bill sections accordingly.

Page 15, following line 2:

Insert a new bill section to read:

"\* **Sec. 25.** AS 43.55.023(a), as amended by sec. 24 of this Act, is amended to read:

(a) A producer or explorer may take a tax credit for a qualified capital expenditure as follows:

(1) notwithstanding that a qualified capital expenditure may be a deductible lease expenditure for purposes of calculating the production tax value of oil and gas under AS 43.55.160(a), unless a credit for that expenditure is taken under AS 38.05.180(i), AS 41.09.010, AS 43.20.043, or

AS 43.55.025, a producer or explorer that incurs a qualified capital expenditure may also elect to apply a tax credit against a tax levied by AS 43.55.011(e) in the amount of 20 percent of that expenditure; **however, not more than half of the tax credit may be applied for a single calendar year;**

(2) a producer or explorer may take a credit for a qualified capital expenditure incurred in connection with geological or geophysical exploration or in connection with an exploration well only if the producer or explorer

(A) agrees, in writing, to the applicable provisions of AS 43.55.025(f)(2); and

(B) submits to the Department of Natural Resources all data that would be required to be submitted under AS 43.55.025(f)(2) [;

(3) A CREDIT FOR A QUALIFIED CAPITAL EXPENDITURE INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE MAY BE TAKEN ONLY IF THE EXPENDITURE IS INCURRED BEFORE JANUARY 1, 2014]."

Renumber the following bill sections accordingly.

Page 15, following line 15:

Insert a new bill section to read:

"\* **Sec. 27.** AS 43.55.023(b), as amended by sec. 26 of this Act, is amended to read:

(b) **A** [FOR LEASE EXPENDITURES INCURRED TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED SOUTH OF 68 DEGREES NORTH LATITUDE, A] producer or explorer may elect to take a tax credit in the amount of 25 percent of a carried-forward annual loss. [FOR LEASE EXPENDITURES INCURRED AFTER DECEMBER 31, 2013, TO EXPLORE FOR, DEVELOP, OR PRODUCE OIL OR GAS DEPOSITS LOCATED NORTH OF 68 DEGREES NORTH LATITUDE, A PRODUCER OR EXPLORER MAY ELECT TO TAKE A TAX CREDIT IN THE AMOUNT OF 35 PERCENT OF A CARRIED-FORWARD ANNUAL LOSS.] A credit under this subsection may be applied against a tax levied by AS 43.55.011(e). For purposes of this subsection, a carried-forward annual loss is the amount of a producer's or explorer's adjusted lease expenditures under AS 43.55.165 and 43.55.170 for a previous calendar year that was not deductible in calculating production tax values for that calendar year under AS 43.55.160."

Renumber the following bill sections accordingly.

Page 16, following line 9:

Insert a new bill section to read:

"\* **Sec. 29.** AS 43.55.023(d), as amended by sec. 28 of this Act, is repealed and reenacted to read:

(d) A person that is entitled to take a tax credit under this section that wishes to transfer the unused credit to another person or obtain a cash payment under AS 43.55.028 may apply to the department for transferable tax credit certificates. An application under this subsection must be in a form prescribed by the department and must include supporting information and documentation that the department reasonably requires. The department shall grant or deny an application, or grant an application as to a lesser amount than that claimed and deny it as to the excess, not later than 120 days after the latest of the following: March 31 of the year following the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; the date the statement required under AS 43.55.030(a) or (e) was filed for the calendar year in which the qualified capital expenditure or carried-forward annual loss for which the credit is claimed was incurred; or the date the application was received by the department. If, based on the information then available to it, the department is reasonably satisfied that the applicant is entitled to a credit, the department shall issue the applicant two transferable tax credit certificates, each for half of the amount of the credit. The credit shown on one of the two certificates is available for immediate use. The credit shown on the second of the two certificates may not be applied against a tax for a calendar year earlier than the calendar year following the calendar year in which the certificate is issued, and the certificate must contain a conspicuous statement to that effect. A certificate issued under this subsection does not expire."

Renumber the following bill sections accordingly.

Page 16, following line 25:

Insert a new bill section to read:

"\* **Sec. 31.** AS 43.55.023(g), as amended by sec. 30 of this Act, is amended to read:

(g) The issuance of a transferable tax credit certificate under (d) or (p) of this section or former (m) of this section or the purchase of a certificate under AS 43.55.028 does not limit the department's ability to later audit a tax credit claim to which the certificate relates or to adjust the claim if the department determines, as a result of the audit, that the applicant was not entitled to the amount of the credit for which the certificate was issued. The tax liability of the applicant under AS 43.55.011(e) and 43.55.017 - 43.55.180 is increased by the amount of the credit that exceeds that to which the applicant was entitled, or the applicant's available valid outstanding credits applicable against the tax levied by AS 43.55.011(e) are reduced by that amount. If the applicant's tax liability is increased under this subsection, the increase bears interest under [AS 43.05.225(a) BEFORE JANUARY 1, 2014, OR UNDER] AS 43.05.225(b)(1) [ON AND AFTER JANUARY 1, 2014,] from the date the transferable tax credit certificate was issued. For purposes of this subsection, an applicant that is an explorer is considered a producer subject to the tax levied by AS 43.55.011(e)."

Renumber the following bill sections accordingly.

Page 17, following line 8:

Insert new bill sections to read:

"\* **Sec. 33.** AS 43.55.023(n), as amended by sec. 32 of this Act, is amended to read:

(n) For the purposes of (1) and (p) of this section, a well lease expenditure incurred in the state south of 68 degrees North latitude is a lease expenditure that is

(1) directly related to an exploration well, a stratigraphic test well, a producing well, or an injection well other than a disposal well, located in the state south of 68 degrees North latitude, if the expenditure is a qualified capital expenditure and an intangible drilling and development cost authorized under 26 U.S.C. (Internal Revenue Code), as amended, and 26 C.F.R. 1.612-4, regardless of the elections made under 26 U.S.C. 263(c); in this paragraph, an expenditure directly related to a well includes an expenditure for well sidetracking, well deepening,

well completion or recompletion, or well workover, regardless of whether the well is or has been a producing well; or

(2) an expense for seismic work conducted within the boundaries of a production or exploration unit.

\* **Sec. 34.** AS 43.55.023 is amended by adding a new subsection to read:

(p) For a lease expenditure incurred in the state south of 68 degrees North latitude after December 31, 2018, that qualifies for tax credits under (a) and (b) of this section, and for a well lease expenditure incurred in the state south of 68 degrees North latitude that qualifies for a tax credit under (1) of this section, the department shall issue transferable tax credit certificates to the person entitled to the credit for the full amount of the credit. The transferable tax credit certificates do not expire."

Renumber the following bill sections accordingly.

Page 21, following line 13:

Insert a new bill section to read:

"\* **Sec. 41.** AS 43.55.028(e), as amended by sec. 40 of this Act, is amended to read:

(e) The department, on the written application of a person to whom a transferable tax credit certificate has been issued under AS 43.55.023(d) or (p) or former AS 43.55.023(m) or to whom a production tax credit certificate has been issued under AS 43.55.025(f), may use available money in the oil and gas tax credit fund to purchase, in whole or in part, the certificate if the department finds that

(1) the calendar year of the purchase is not earlier than the first calendar year for which the credit shown on the certificate would otherwise be allowed to be applied against a tax;

(2) the applicant does not have an outstanding liability to the state for unpaid delinquent taxes under this title;

(3) the applicant's total tax liability under AS 43.55.011(e), after application of all available tax credits, for the calendar year in which the application is made is zero;

(4) the applicant's average daily production of oil and gas taxable under

AS 43.55.011(e) during the calendar year preceding the calendar year in which the application is made was not more than 50,000 BTU equivalent barrels; and

(5) the purchase is consistent with this section and regulations adopted under this section."

Renumber the following bill sections accordingly.

Page 21, following line 23:

Insert a new bill section to read:

"\* **Sec. 43.** AS 43.55.028(g), as amended by sec. 42 of this Act, is amended to read:

(g) The department may adopt regulations to carry out the purposes of this section, including standards and procedures to allocate available money among applications for purchases under this chapter and claims for refunds and payments under AS 43.20.046 or 43.20.047 when the total amount of the applications for purchase and claims for refund exceed the amount of available money in the fund. The regulations adopted by the department may not, when allocating available money in the fund under this section, distinguish an application for the purchase of a credit certificate issued under **AS 43.55.023(p)** or former AS 43.55.023(m), or a claim for a refund or payment under AS 43.20.046 or 43.20.047."

Renumber the following bill sections accordingly.

Page 22, following line 5:

Insert a new bill section to read:

"\* **Sec. 45.** AS 43.55.030(e), as amended by sec. 44 of this Act, is amended to read:

(e) An explorer or producer that incurs a lease expenditure under AS 43.55.165 or receives a payment or credit under AS 43.55.170 during a calendar year but does not produce oil or gas from a lease or property in the state during the calendar year shall file with the department, on March 31 of the following year, a statement, under oath, in a form prescribed by the department, giving, with other information required, the following:

(1) the [EXPLORER'S OR] producer's qualified capital expenditures, as defined in AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other payments or credits under AS 43.55.170; and

(2) if the explorer or producer receives a payment or credit under AS 43.55.170, calculations showing whether the explorer or producer is liable for a tax under AS 43.55.160(d) or 43.55.170(b) and, if so, the amount."

Renumber the following bill sections accordingly.

Page 24, following line 10:

Insert a new bill section to read:

"\* **Sec. 47.** AS 43.55.160(a), as amended by sec. 46 of this Act, is repealed and reenacted to read:

(a) Except as provided in (b) of this section, for the purposes of

(1) AS 43.55.011(e), the annual production tax value of the taxable oil, gas, or oil and gas subject to this paragraph produced during a calendar year is the gross value at the point of production of the oil, gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil and gas, as applicable, produced by the producer from leases or properties, as adjusted under AS 43.55.170; this paragraph applies to

(A) oil and gas produced from leases or properties in the state that include land north of 68 degrees North latitude, other than gas produced before 2022 and used in the state;

(B) oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude; this subparagraph does not apply to

(i) gas produced before 2022 and used in the state; or

(ii) oil and gas subject to AS 43.55.011(p);

(C) oil produced before 2022 from a lease or property in the Cook Inlet sedimentary basin;

(D) gas produced before 2022 from a lease or property in the Cook Inlet sedimentary basin;

(E) gas produced before 2022 from a lease or property in the state outside the Cook Inlet sedimentary basin and used in the state;

(F) oil and gas subject to AS 43.55.011(p) produced from leases or properties in the state;

(G) oil and gas produced from a lease or property no part of which is north of 68 degrees North latitude, other than oil or gas described in (B), (C), (D), (E), or (F) of this paragraph;

(2) AS 43.55.011(q), the monthly production tax value of the taxable

(A) oil and gas produced during a month from leases or properties in the state that include land north of 68 degrees North latitude is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(B) oil and gas produced during a month from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, is the gross value at the point of production of the oil and gas taxable under AS 43.55.011(e) and produced by the producer from those leases or properties, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil and gas produced by the producer from those leases or properties, as adjusted under AS 43.55.170; this subparagraph does not apply to gas subject to AS 43.55.011(o);

(C) oil produced during a month from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the oil taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the oil produced by the producer from that lease or property, as adjusted under AS 43.55.170;

(D) gas produced during a month from a lease or property in the Cook Inlet sedimentary basin is the gross value at the point of production of the gas taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to the gas produced by

the producer from that lease or property, as adjusted under AS 43.55.170;

(E) gas produced during a month from a lease or property outside the Cook Inlet sedimentary basin and used in the state is the gross value at the point of production of that gas taxable under AS 43.55.011(e) and produced by the producer from that lease or property, less 1/12 of the producer's lease expenditures under AS 43.55.165 for the calendar year applicable to that gas produced by the producer from that lease or property, as adjusted under AS 43.55.170."

Renumber the following bill sections accordingly.

Page 25, following line 20:

Insert a new subsection to read:

"(h) Notwithstanding any contrary provision of AS 43.55.150, for purposes of calculating a monthly production tax value under (a)(2) of this section, the gross value at the point of production of the oil and gas is calculated under regulations adopted by the department that provide for using an appropriate monthly share of the producer's costs of transportation for the calendar year."

Page 29, following line 2:

Insert a new bill section to read:

"\* **Sec. 55.** AS 43.55.020(1), 43.55.024(i), 43.55.024(j), 43.55.160(f), and 43.55.160(g) are repealed."

Page 29, line 5:

Delete "Section 13 of this Act and AS 43.55.160(a)(1)(E), as amended by sec. 31"

Insert "Section 15 of this Act, AS 43.55.160(a)(1)(E), as amended by sec. 46 of this Act, and AS 43.55.160(f) and (g) as enacted by sec. 48"

Page 29, line 7:

Delete "Sections 18 and 20 - 23"

Insert "Sections 24, 28, 30, 32, and 35"

Delete "sec. 18"

Insert "sec. 24"

Page 29, line 9:

Delete "Section 19"  
Insert "Section 26"

Page 29, following line 10:

Insert a new subsection to read:

"(d) AS 43.55.160(h), enacted by sec. 48 of this Act, applies to the transportation of oil and gas produced on and after the effective date of sec. 13 of this Act."

Page 29, line 20:

Delete "sec. 36"

Insert "sec. 52"

Page 29, line 24:

Delete "Sections 13, 20 - 23, 28, and 37"

Insert "Sections 15, 28, 30, 32, and 53"

Page 29, following line 26:

Insert new bill sections to read:

**\* Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT. Sections 3, 13, 16, 17, 19, 21, 25, 27, 29, 31, 33, 34, 41, 43, 45, 47, and 55 of this Act, and AS 43.55.160(h) in sec. 48 of this Act take effect only if the volume of oil production for the calendar year 2018 does not exceed the volume of oil produced for the 2013 calendar year. The commissioner of natural resources shall notify the lieutenant governor and the revisor of statutes before January 1, 2019, or as soon as practicable thereafter, if the volume of oil production for the calendar year 2018 is greater than the volume of oil produced during the 2013 calendar year.

**\* Sec. 61.** If secs. 3, 13, 16, 17, 19, 21, 25, 27, 29, 31, 33, 34, 41, 43, 45, 47, and 55 of this Act, and AS 43.55.160(h) in sec. 48 of this Act take effect under sec. 59 of this Act, they take effect January 1, 2019."

**Amendment 27, labeled 28-GS1647\K.36, Nauman/Bullock, 4/3/13:**

Page 28, lines 3 - 14:

Delete all material and insert:

"(6) make written findings and recommendations to the Alaska State Legislature before

(A) January 31, 2015, or as soon thereafter as practicable, regarding

(i) changes to the state's regulatory environment and permitting structure that would be conducive to encouraging increased investment while protecting the interests of the people of the state and the environment;

(ii) the status of the oil and gas industry labor pool in the state and the effectiveness of workforce development efforts by the state;

(iii) the status of the oil-and-gas-related infrastructure of the state, including a description of infrastructure deficiencies; and

(iv) the competitiveness of the state's fiscal oil and gas tax regime when compared to other regions of the world;

(B) January 31, 2021, or as soon thereafter as practicable, regarding

(i) changes to the state's fiscal regime that would be conducive to increased and ongoing long-term investment in and development of the state's oil and gas resources;

(ii) alternative means for increasing the state's ability to attract and maintain investment in and development of the state's oil and gas resources; and

(iii) a review of the current effectiveness and future value of any provisions of the state's oil and gas tax laws that are expiring in the next five years."

Page 29, following line 2:

Insert a new bill section to read:

"\* **Sec. 39.** AS 43.98.040, 43.98.050, 43.98.060, and 43.98.070 are repealed February 28, 2021."

Re-number the following bill sections accordingly.

**Amendment 28, labeled 28-GS1647\K.2, Nauman/Bullock, 4/2/13:**

Page 26, lines 21 - 23:

Delete all material and insert:

"(1) one ex officio nonvoting member from the senate, selected by the president of the senate;

(2) one ex officio nonvoting member from the house of representatives, selected by the speaker of the house of representatives;"

Renumber the following paragraphs accordingly.

Page 26, lines 26 - 28:

Delete ", including one member who is a petroleum engineer, one member who is a geologist, and one member who is a financial analyst"

Page 27, line 5:

Delete "(b)(1) and (3)"

Insert "(b)(4)"

Page 2, line 11:

Delete "(b)(1) and (3)"

Insert "(b)(4)"

Page 29, line 21:

Delete "AS 43.98.040(b)(1) and (3)"

Insert "AS 43.98.040(b)(4)"

#### **ADJOURNMENT**

[This meeting continued through to April 4, 2013, and thus the remainder of the audio and minutes can be found in the document and audio for that date.]