

SENATE FINANCE COMMITTEE

March 6, 2013

3:05 p.m.

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CALL TO ORDER

Vice-Chair Fairclough called the Senate Finance Committee meeting to order at 3:05 p.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair  
Senator Anna Fairclough, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy

MEMBERS ABSENT

Senator Kevin Meyer, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson

ALSO PRESENT

Valerie Brooks, Self;

PRESENT VIA TELECONFERENCE

Jim Sykes, Self, Palmer; Keith Silver, Self, Anchorage; Steve Pratt, Executive Director, Consumer Energy Alliance Alaska, Anchorage; Brendan Babb, Self, Anchorage; Scott Thorson, Self, Anchorage; Jim Plaquet, Alaska Support Industry Alliance, Fairbanks; Rich Seifert, Alaska Citizenry, Fairbanks; Brad Faulkner, Self, Homer; Wes Newcomb, Self, Homer; Bob Shavelson, Executive Director, Cook Inlet Keeper, Homer; Carl Portman, Deputy Director, Resource Development Council, Anchorage; Tom Maloney, Self, Anchorage; Stephanie MacSwain, Self, Anchorage; Jim Udelhoven, Udelhoven Oil Field Services, Anchorage; Phillip Furbush, Self, Palmer; Mary Toutorghiu, Self, Kenai; Paul Metz, Self, Fairbanks; Jerry Ahiwnona, Self, Anchorage; Tom Lakosh, Self, Anchorage; Cathy Duvburrn, Self, Anchorage; Mike Heiring, Self, Anchorage; Michael Jespersen, Self, Anchorage; Peter Machsey, Self, Anchorage; Dirk Nelson,

Self, Fairbanks; Michele Vasquez, Self, Kenai; Ray Metcalf, Self, Anchorage; Priscilla Simmons, Self, Anchorage; Eli Stine, Self, Anchorage; Andy Rogers, Self, Anchorage; Bill Warren, Self, Kenai; Reed Christensen, Self, Anchorage; Jeff Acton, Self, Anchorage; Val Hanley, Self, Anchorage; Maynard Tapp, Self, Anchorage; Bernie Hoffman, Self, Fairbanks; Peter Stokes, Self, Anchorage; James Price, Self, Kenai; Ben Mohr, Self, Anchorage; Nick Pepperworth, Self, Anchorage; Mary Nanuwak, Self, Anchorage; Nick Moe, Self, Anchorage; Judy Patrick, Self, Wassila; Laura Fagnani, Self, Anchorage; Marleanna Hall, Self, Anchorage; Phillis Spencer-Belz, Self, Anchorage;

#### SUMMARY

SB 21 OIL AND GAS PRODUCTION TAX

SB 21 was HEARD and HELD in committee for further consideration.

#sb21

SENATE BILL NO. 21

"An Act relating to appropriations from taxes paid under the Alaska Net Income Tax Act; 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 values including adjustments based on a percentage of gross value at the point of production from certain leases or properties; making conforming amendments; and providing for an effective date."

Vice-Chair Fairclough OPENED public testimony.

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JIM SYKES, SELF, PALMER (via teleconference), believed CSSB 21(RES) may be successful after the inclusion of several changes. He recommended that the committee reduce the GRE

rate below 20 percent with a 5 or 6 year cap. He opined that the net operating loss interest rate needed to be reduced substantially. He thought the CS would work well for new areas of development; however, he believed the bill needed to be carefully crafted to ensure that maximum profits were not given away to oil companies while the companies continued to make maximum profits on legacy fields. He stressed that the legacy fields were some of the most reliable and profitable fields in the world and that they should remain under the current Alaska's Clear and Equitable Share (ACES) system. He sent in a handout that was passed out to committee members; it showed projections of offshore production that would occur in 8 to 10 years. He believed offshore production would provide a significant amount of oil into the Trans-Alaska Pipeline System (TAPS). He pointed to concerns related to throughput; he believed throughput would increase and come close to levels seen in 1988. He discussed revenue earned by the state at various times. He emphasized the issue was primarily about price. He referenced a book by John Miller titled "The Last Barrel." He asked the committee to consider the amount of state revenue that would be lost under the legislation and how much production would be required to offset the costs. He emphasized that the state deserved to tax its oil at full value; the state should not hope it would get more revenue later based on promises that may or may not materialize. He mentioned Alaska's tax rates could not be reduced enough to stop oil production in other areas of the world.

Vice-Chair Fairclough asked that written comments be provided to Co-Chair Meyer's office.

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KEITH SILVER, SELF, ANCHORAGE (via teleconference), discussed that Alaska had the highest tax rates in the nation. He remarked that corporate capital was limited and only the most profitable projects in a company's portfolio would be funded. He discussed that investors were taking their money elsewhere to receive a greater return. He believed the state needed a new policy that would encourage long-term planning and investment in new production. He emphasized that the amount of throughput in the pipeline did matter; he stated that current level was within 100,000 to 200,000 barrels per day of reaching the practical limit.

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STEVE PRATT, EXECUTIVE DIRECTOR, CONSUMER ENERGY ALLIANCE ALASKA, ANCHORAGE (via teleconference), vocalized support for the legislation. The organization believed the most significant threat to the state was declining TAPS throughput and increased spending. He opined that Americans had an interest in obtaining competitively priced domestic energy and robust economic activity. He stated that at least 30 percent of working Alaskans were dependent on oil and gas exploration and development for employment. He pointed to declining oil production in the state. He believed that Alaska's contribution to the energy supply would continue to decline without changes in state and federal policies. He relayed that increased prices and new technologies had led to substantial increases in oil production in other states. He believed the state needed to be more competitive. He stressed that an increase of throughput to 50 percent of the TAPS capacity would add \$18 billion per year to U.S. economic activity; it would also reduce the export of U.S. money to other nations. He stated that increased economic activity would benefit all Alaskans.

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BRENDAN BABB, SELF, ANCHORAGE (via teleconference), voiced opposition to the bill. He believed the reduced tax rate in the legislation catered to the oil industry. He supported a reduction in tax rates only after oil production increased. He noted that oil companies were some of the most profitable organizations in the world; he believed Alaska needed to provide a more challenging negotiation. He discussed that oil companies could get a \$2 billion profit per year on a \$2 million investment if the tax rate was lowered. He noted that oil fields had been declining since 1988. He stated that ACES had not caused the decline. He pointed to record high employment on the North Slope; he expressed disappointment that 50 percent of the workers were from outside of Alaska. He was in favor of incentives to increase jobs for Alaskans. He supported the current ACES system. He equated reducing the tax rate before production increased to a teenager who never took out the trash asking for an increase in allowance with a promise to start taking the trash out.

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SCOTT THORSON, SELF, ANCHORAGE (via teleconference), pointed to the competitive situation between Alaska and North Dakota. He stated that the 80 percent government take on a \$100 per barrel of oil was high. He discussed the process in North Dakota and stated that it was simple due to privately owned land. He believed the high cost of doing business and the difficulty of accessing resources made Alaska uncompetitive. He believed that the only thing the state could control was the tax environment.

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JIM PLAQUET, ALASKA SUPPORT INDUSTRY ALLIANCE, FAIRBANKS (via teleconference), supported the legislation. He agreed that the government take remained too high under the ACES system. He stated that much oil remained on the North Slope. He opined that high oil prices should spur investments in new oil, but the new investments had not occurred to date. He listed comparisons between Alaska and other states. He stressed that ACES did not incentivize new investment. He reiterated that the high government take would encourage oil production in other areas outside of Alaska. He urged increasing competition.

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RICH SEIFERT, ALASKA CITIZENRY, FAIRBANKS (via teleconference), vocalized opposition to the legislation. He referred to claims that ACES was responsible for a decline in production. He stated that a natural and expected decline had been occurring since 1988. He maintained that unless other oil production came online the legacy fields were the most significant and a source of the easiest oil the state would ever get. He did not believe ACES had a significant impact on the decline. He opined that decisions made by the state would have been much easier if it had audited the process and exercised due diligence in accounting oversight for production. He stressed that it was not possible to know that promises to increase production would actually occur if the tax rate was decreased. He reiterated that a better investment would be auditing production and production costs by company. He believed a better case could be made for making changes to the tax structure if reliable audit data was obtained.

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BRAD FAULKNER, SELF, HOMER (via teleconference), testified in opposition of SB 21. He shared that he had worked in the industry. He opposed any additional tax breaks for new oil pools found in legacy fields. He said that field management was the problem and that there were known reserves of oil that were easily available and surrounded by sufficient infrastructure. He noted that the natural decline had been anticipated. He said that there was untapped oil sitting on the North Slope that no one was recognizing or admitting to that would keep the pipeline full. He mentioned that under the Economic Limit Factor (ELF), 80 percent of the oil leaving Kuparuk and Prudhoe Bay had no production tax.

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WES NEWCOMB, SELF, HOMER (via teleconference), voiced support for SB 21. expressed concern that that the state would fall behind in its fiduciary responsibilities should oil production continue to decline. He understood that Alaska's people, particularly Native Alaskans, depended on oil revenues. He testified in support of further production.

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BOB SHAVELSON, EXECUTIVE DIRECTOR, COOK INLET KEEPER, HOMER (via teleconference), testified in opposition to SB 21. He believed that under the legislation the state would be giving away billions of dollars to the industry while squandering Alaska's finite wealth. He felt that the public deserved a better return on their resources, as well as a better understanding of the fiscal landscape surrounding the issue. He urged for maintaining progressivity in the tax regime. He contended that ACES was creating a renaissance in Cook Inlet of exploration and development that he had witnessed. He believed that Alaska had an obligation to future generations to manage the oil wealth responsibly.

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CARL PORTMAN, DEPUTY DIRECTOR, RESOURCE DEVELOPMENT COUNCIL, ANCHORAGE (via teleconference), spoke in support of SB 21. He believed that there was oil stranded in the ground because the state was looking to maximize short term revenue at the expense of encouraging investment and new

production. He stressed that since 2007 the state had lost over 210 million barrels per day with a point of production gross value of over \$17 billion. He said that if a less aggressive tax regime cut the decline in half it would result in over \$8 billion circulating in the economy. He believed that the state was giving away the future for short term, unsustainable tax revenue. He said that the business community was fearful of what continued declining TAPS throughput would do to the economy as a whole. He expressed support for Governor Parnell's approach. He stressed that there was an urgent need for the state to compete in order to stem the production decline and increase investment. He relayed that the resources were in the ground and that all Alaska needed was the right tax policy to begin production. He encouraged the committee to further hone the legislation to make Alaska even more attractive to the industry.

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TOM MALONEY, SELF, ANCHORAGE (via teleconference), spoke in support of SB 21. He quoted the former Department of Revenue Commissioner Pat Galvin from a 2007 Resource Development Council resource review publication, which spoke to the fact that ACES had not improved the investment climate of the state. He said upon the advent of ACES, the North Slope was producing 739,000 barrels of oil per day. He gave a brief history of the decline over the past 5 years. He stated that in 2012 the highest producing month was lower than the lowest producing month in 2007. He stated that the reduction of production had resulted in massive revenue loss for the state. He added that Alaska needed more jobs for future generations.

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STEPHANIE MACSWAIN, SELF, ANCHORAGE (via teleconference), spoke in support of SB 21. She expressed the myriad of ways that the oil industry had benefited her directly. She expressed concern that the decline in oil production would result in fewer opportunities for future generations. She testified that her friends were relocating to other states because of the waning oil production.

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JIM UDELHOVEN, UDELHOVEN OIL FIELD SERVICES, ANCHORAGE (via teleconference), testified in support of SB 21. He testified that his family and employees had stayed in Alaska, rather than to follow the boom in North Dakota several years ago, out of a belief that production would improve. He said that now, one year later, he was moving employees from Alaska to shale fields in Texas and was negotiating contracts in North Dakota. He stated that every year the tax regime remained the same, change became more and more unlikely.

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PHILLIP FURBUSH, SELF, PALMER (via teleconference), spoke in opposition to SB 21. He stated that the main problem with the Alaskan economy was the lack of economic diversification and irresponsible spending practices. He believed that the non-renewable resources would definitely run out. He stressed that instead of spending billions in the extraction of oil, the state should be investing in more diverse ways. He suggested that the state examine the saving and spending practices of Norway. He believed that the state should examine alternative energy possibilities. He said that the "extract and spend quickly" mentality would bankrupt state.

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MARY TOUTORGHIU, SELF, KENAI (via teleconference), testified in opposition to SB 21. She expressed concern with the spending practices of the state. She stated that the industry was holding back on production in order to get a better deal from the state. She felt that the governor's proposed plan was a giveaway. She noted that the oil companies had not made any promises for the tax breaks. She believed that the proposed legislation offered a donation to industry and not an incentive for production.

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PAUL METZ, SELF, FAIRBANKS (via teleconference), testified in support of SB 21. He referred to previous testimony that related to the high cost for industry to work in the Alaskan terrain. He believed that the tax structure should make the state more competitive with other states. He opined that the state was the highest taxing jurisdiction in the industry.

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JERRY AHIWNONA, SELF, ANCHORAGE (via teleconference), testified in opposition to SB 21. He believed that the industry was "strong arming" the state. He thought that the time spent on the legislation was a waste of legislative time and taxpayer money. He believed that oil companies should have separate accounting rather than global apportionment.

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TOM LAKOSH, SELF, ANCHORAGE (via teleconference), testified in opposition to SB 21. He hoped that he committee would craft policy that avoided exploitation of the state by the oil industry. He felt that the bill was the Alaskan version of the federal sequester legislation, and that the combination of the two would cut the state's budget so severely that recovery and diversification would be impossible. He stressed that the state needed to focus on long-term production of oil, not filling the pipeline for the short-term. He believed that the recession of sea ice on the North Slope would make it easier for the state to ship oil directly from the slope making the pipeline obsolete.

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CATHY DUVBURN, SELF, ANCHORAGE (via teleconference), testified in support of ACES reform and SB 21. She highlighted that ACES had been unsuccessful because throughput had decreased over the past 5 years. She expressed hope that her family would be able to find work in the state and not be forced to move to North Dakota or Texas.

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MIKE HEIRING, SELF, ANCHORAGE (via teleconference), testified in support of SB 21. He stressed that the passage of ACES had created the decline in throughput. He believed that tax reform was necessary in order to ensure the future of Alaska.

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MICHAEL JESPERSON, SELF, ANCHORAGE (via teleconference), testified in support of SB 21. He felt that the state could be more attractive to industry. He thought the cost of doing business in the arctic environment, coupled with the tax system, made the state highly unattractive to the industry. He said that he feared that his family would not be able to find work because of the decline.

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PETER MACHSEY, SELF, ANCHORAGE (via teleconference), expressed support for SB 21. He testified to the lack of public outcry when Alaska's Clear and Equitable Share (ACES) was passed in 2007. He believed that the large investment in infrastructure, and the jobs created in the state had earned the industry a financial return. He queried the manufacturing credit written into the legislation.

Vice-Chair Fairclough stated that Mr. Machsey could submit questions concerning the legislation directly to legislative offices.

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DIRK NELSON, SELF, FAIRBANKS (via teleconference), testified against SB 21. He stated that the cost of doing business on the North Slope was often based on net profits and not gross, and offered that BP was probably looking at net profits also. He pointed out that ConocoPhillips had a profit of nearly \$28 per barrel of oil in Alaska the previous year and opined that this profit margin was higher than anywhere else in North America. He suggested that Governor Parnell was not defending his own legislation. He discussed charts that compared decline in throughput to revenue rates and asserted that there was little correlation between the two. He pointed out that even when 15 out of 19 fields on the North Slope were severance tax free throughput had already been in decline. He wondered why throughput would have been in decline when there was no tax if the problem was revenue. He stated that BP and ConocoPhillips had not "necessarily" been forthright with its position or its finances and that there was no forced disclosure. He discussed a BP memo from 2004 and related that it did not sound like a commitment to reinvest in Alaska. He stated that there was no evidence that SB 21 would increase throughput or revenue. He concluded that he

would like supporters of SB 21 in Juneau to sign contracts that guaranteed that if the bill passed, they would not seek employment with the oil producers for 15 years.

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MICHELE VASQUEZ, SELF, KENAI (via teleconference), expressed strong opposition to SB 21. She offered that larger tax breaks for companies to drill Alaska's oil made no sense. She pointed out that oil companies had made billions off of the state's oil and that they did not need an incentive to do the business that they were in. She stated that Alaska should not give away its oil resources with broader tax breaks and that doing so would take away from other much-needed programs. She supported leaving Alaska's Clear and Equitable Share (ACES) in place.

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RAY METCALF, SELF, ANCHORAGE (via teleconference), testified against SB 21. He related that he had heard testimony, which stated that it was not as profitable to drill and produce oil in Alaska as it was in other places; however, ConocoPhillips reported a \$29 per barrel profit in Alaska the previous year. He offered that neither ConocoPhillips, ExxonMobil, or BP made that much per barrel anywhere else in the world. He discussed the terms for Iraq contracts that BP, ExxonMobil, and Shell Oil had signed in the past two years and related that none of those contracts gave those companies even as little as \$2 per barrel. He mentioned the discussion about losing workers to North Dakota and stated that there were more people employed on the North Slope than there ever had been. He pointed out that tankers were coming back from the West Coast with oil still onboard because they could not unload it; furthermore, BP was currently producing at the rate that its market consumed the oil that it refined and distributed. He offered that there would be no place to put another 100,000 barrels a day in the pipeline. He related that oil companies would produce enough oil from Prudhoe Bay to meet their market share and would continue the same strategy even if the oil was given to them for free. He pointed out that the state should not cater to the oil companies and that Alaska was not the highest taxing entity in the U.S. or the world, but was below the international average.

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PRISCILLA SIMMONS, SELF, ANCHORAGE (via teleconference), expressed support of more jobs. She discussed the oil boom in Texas, through which that state had doubled its oil production since 2010. She shared that Texas had been in the oil production business for decades prior to the Trans-Alaska Pipeline System (TAPS) and that she had witnessed co-workers leaving Alaska for North Dakota and Texas. She wondered why Texas was increasing production and job opportunities while Alaska's production was declining. She offered that Alaskans like herself wanted more opportunities for oil production and expressed disbelief that the Alaska's huge resource base had resulted in about a 26 percent decline, or 200,000 barrels per day, of production over the last five years. She stated that she wanted to stay and live in Alaska. She concluded that Texas had many advantages over Alaska, but that the state should not make job opportunities one of the advantages.

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ELI STINE, SELF, ANCHORAGE (via teleconference), testified in support of more oil and gas production in Alaska. He related that he had recently moved to Anchorage from Colorado because of Anchorage's job opportunities. He discussed the decrease in investment and production in Alaska. He pointed out that over the last five years, the state had seen a 25 percent decline in oil production. He shared that Alaska was partly a great place to be because of its tax revenue from oil production. He related that the state needed to be sure that Alaska and its citizens got their fair share, while still creating an environment that opened competitive opportunities for new investment in the oil and gas industry. He concluded that he was worried about his future in Alaska due to the declining oil production and expressed a desire to stay in the state. He urged the state not to continue down the path it was currently on.

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ANDY ROGERS, SELF, ANCHORAGE (via teleconference), testified in support of SB 21, but offered that it was not competitive enough. He was concerned that younger Alaskans had the same cynical concerns that people over 40 years-old usually had. He discussed the comments of previous

testifiers and expressed concern that several Alaskan employers had stated that they were taking their businesses outside of Alaska. He urged the committee to improve SB 21.

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BILL WARREN, SELF, KENAI (via teleconference), spoke against SB 21 and in favor of "tweaking" Alaska's Clear and Equitable Share (ACES). He stated that there was a lot of "fear based" drama currently going on. He shared that Alaska's economy was cyclical and that he had made a good living in the state. He discussed the legacy fields and offered that if you poured water out of a bucket, it would soon be depleted. He opined that if the "big three" wanted to drill deeper or laterally, the state should let them. He mentioned that the independent oil companies would help "save" Alaska and that the state was currently not competing with North Dakota and Texas. He pointed out that local hires would be a good thing to ask from the "big three" and reported that the North Slope was full of out-of-state workers. He opined that the high aspect of progressivity was set during a period of corruption and concluded that changing the state's oil policy too often would lower its credibility. He was hopeful for Alaska's future and shared that the big oil companies would leave Alaska when Prudhoe Bay was depleted; however, the "independents" would take over and make the state a good living.

VALERIE BROOKS, SELF, expressed support of funding for education. She related that the oil industry in Alaska provided income for many, but that education served everyone in the state. She discussed the benefits of education and offered that Alaskan students had not seen an increase in the base student allocation (BSA) of funds for public education for the prior three years; furthermore, without an increase in the current year, the BSA would remain the same for a fourth year. She contrasted the lack of an increase in student funding to an \$11.9 billion profit that "one oil company" had made several years prior. She offered that the funding that the proposed tax incentives granted big oil companies could be better used to maintain and improve the public education system in the Alaska to the benefit of everyone in the state.

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REED CHRISTENSEN, SELF, ANCHORAGE (via teleconference), testified in support of SB 21, but related that the bill did not go far enough. He urged the need to make Alaska's oil and gas climate more competitive. He shared that he worked for a business that manufactured products for use on the North Slope and stated that the company's business had declined by over 40 percent since Alaska's Clear and Equitable Share (ACES) was passed; furthermore, the alarming downward trend appeared to be continuing. He pointed out that the downturn in production was due, in large part, to the fiscal environment created by ACES. He offered that oil companies could get better returns on their investments in other areas of the world. He expressed that Alaska needed more private sector jobs, investment, and more oil in the pipeline and stated that the pipeline was two-thirds empty. He opined that ACES was accelerating the decline and was bringing the eventual shut down date closer. He urged that ACES should be fixed and shared that the effects of the production decline could be felt in state jobs, education, public services, charities, and construction.

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JEFF ACTON, SELF, ANCHORAGE (via teleconference), spoke in support of SB 21. He discussed the oil boom in Alaska and shared that he had worked 20 years on the North Slope. He stated that in recent years, the oil environment in North Dakota, Texas, and the Gulf of Mexico was similar to the boom that Alaska had experienced. He pointed out that the Alaska's Clear and Equitable Share's (ACES) tax structure had coincided with the steady decline in production and also resulted in fewer capital projects. He offered that Alaska was competing in all corners of the U.S. and the world. He observed that the discussion was different in the Lower 48 than it was in Alaska. He explained that the Lower 48's regimes did not focus on the short-term or tax gimmicks, but had a primary concern of improving the business environment. He offered that without adopting a new policy that promoted the development of resources, the state's production decline would continue.

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VAL HANLEY, SELF, ANCHORAGE (via teleconference), expressed his support for SB 21. He stated that he worked for an oil company in Anchorage and related that he worked human

resources for that company; furthermore, standby employees were asking him when the company would be opening more positions in its Texas branch and when it would go to the Dakotas. He stated that the company he worked for considered itself an Alaskan company and had been in the state since the 1970s; its board members had decided to wait and listen to promises to bring more production to Alaska's oil fields, as well as assurances that Alaska's Clear and Equitable Share (ACES) would be fixed. He stated that the company he worked for was starting to get more contracts in Texas and was now looking at contracts in the Dakotas. He continued to discuss losing standby employees to the Lower 48, but shared that some of them wanted to return to Alaska once more work was available. He urged the state to fix ACES in order to allow private businesses to hire in Alaska and get the state's economy going again.

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MAYNARD TAPP, SELF, ANCHORAGE (via teleconference), expressed his support of removing progressivity from SB 21 and fixing Alaska's Clear and Equitable Share (ACES). He offered that SB 21 should be split into two pieces; one piece would get rid of progressivity and the second piece would fix everything else. He was unsure if the tax system could be fixed in one step and opined that breaking the bill into pieces might help. He stated that Canada, the Gulf of Mexico, and North Dakota were Alaska's real competitors. He offered that it had been proven that money taken from oil companies in the form of taxes had impacted investment for new production. He stated that a 50/50 split seemed fair in terms of total government take. He offered that the state needed to level production at 600,000 barrels per day and limit spending based on a \$100 barrel of oil "to that revenue that comes in." He addressed the comments of earlier testifiers that claimed the state was spending more on capital expenditures and reported that anything that cost over \$2,400 that was not an exact replacement was considered a capital expenditure. He shared that the state had a 30 year-old plant, which was producing mostly water; furthermore, a lot of the capital investments that were currently being made were purposed to handle the water.

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BERNIE HOFFMAN, SELF, FAIRBANKS (via teleconference), testified against SB 21 and pointed out that the audit on Alaska's Clear and Equitable Share (ACES) had not been completed yet. She offered that the ACES audit was needed to determine if the tax system was working or not and observed that good data would lead to good decisions. She pointed out that the oil companies had called SB 21 "a good start" and opined that the companies would want even more in order to incentivize them and accomplish what the state wanted. She offered that ACES was working and that she had not heard convincing evidence that it needed to be fixed. She reported that the state should treat its oil like savings and should not give it away without good, unbiased data to make decisions with. She related that the state needed to diversify its economy and expressed concern that if SB 21 was passed, the state's services would be impacted; as a result, there would be a future possibility of a state-income tax. She opined that the Legislature should go back to a 120-day session.

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PETER STOKES, SELF, ANCHORAGE (via teleconference), urged the passage of SB 21. He pointed out that the bill would allow new investments and would increase production from the North Slope. He stated that Alaska's Clear and Equitable Share (ACES) had resulted in extracting much higher taxes from the oil companies and that Alaska had become very uncompetitive in attracting new oil investment, particularly at higher oil prices. He stated that the CS to SB 21 was good start for achieving new investments and expressed appreciation at the elimination of progressivity. He suggested that a tax rate, with revenue exclusions and credits, to allow for a constant 60 percent to 63 percent government take at all price ranges. He observed that PFC Energy and Roger Marks could work with EconOne, the Department of Natural Resources, and the Department of Revenue. He wanted to incentivize development for new production within existing PAs that would not be recovered until a company spent the new investments. He offered that the existing PAs were the areas where the state could bring the quickest and largest increases in new production for the short-term. He stated that exploration-credit modifications should be left in place to allow new explorers to continue to explore. He concluded that without new exploration and continued development of new production

within the existing PAs, the efforts to lower or flatten the production decline would not occur.

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JAMES PRICE, SELF, KENAI (via teleconference), testified in opposition to SB 21 and in support of Alaska's Clear and Equitable Share (ACES). He pointed out that before ACES, the state had the Economic Limit Factor (ELF). He stated that the ELF was justified by claiming that the producers on the North Slope were economically disadvantaged, but pointed out that oil companies had billions of dollars in profit under the ELF. He offered that ACES was good legislation and that SB 21 was taking us in the wrong direction. He stated that BP had a contract with Iraq for a profit of \$2 per barrel, but that company was making \$28 per barrel in Alaska. He stated that Alaska did not have access to its resources, which needed to be addressed before the state gave oil companies more money. He shared that he did not see how SB 21 would benefit Alaskans. He related that he had worked on the North Slope for many years and that most of the workers there were not from Alaska. He concluded that nothing would be solved by giving Alaskan profit to the producers.

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BEN MOHR, SELF, ANCHORAGE (via teleconference), expressed support of SB 21. He stated that the Alaska needed to "put out a little bit more" in order to have the best "players" come and maximize the returns to the state. He expressed concern that the state's resource management strategy of getting what it could while it could was shortsighted, unsustainable, and was not a good philosophy. He pointed out that the state was managing its oil policy like it was on "life support" and opined that this was not a good way to run a business. He encouraged the committee to action and concluded that the decline rate and the lack of competitiveness would make people leave Alaska. He refuted the testimony of a previous testifier and related that Cook Inletkeeper was an environmental organization that had been trying to shutdown oil and gas development in Cook Inlet for decades.

4:49:24 PM

NICK PEPPERWORTH, SELF, ANCHORAGE (via teleconference), expressed support for SB 21. He discussed his history working and living in Alaska. He believed that Alaska did not have the opportunity to diversify and pointed out that oil was the driver for the budget. He observed that there had not been any school major school projects built in the last few years because there was no money. He mentioned that the military was not spending money in 2013 because of a lack of funding. He read the governor's key principles for tax reform. He discussed North Dakota and related that the infrastructure there could not keep up with the amount of work. He pointed out that there was currently no new production or new wells being drilled on the North Slope. He concluded that the recession was just "catching up" in Alaska and that reform was needed to avoid it. He concluded that some places were offering "craft people" a higher per-hour wage than Alaska was for workers on the North Slope.

[4:53:30 PM](#)

MARY NANUWAK, SELF, ANCHORAGE (via teleconference), testified in support of prioritizing education. She believed that it did not take a "rocket scientist" to get things going and stated that oil affected every aspect of life in Alaska. She pointed out that education would be more likely to solve the state's problems than anything else and related that education should start before preschool. She offered that early education stuck with a person for the rest of their lives and that culture, race, religion, sex, or anything else should not stand in the way of an education because they were impediments to progress. She noted that oil affected every aspect of life in Alaska. She recalled listening to legislative sessions on the radio since she was young and offered that the majority of the unsolved issues that were being discussed were the same. She discussed a testimony the prior day and related that the testifier did not mean to offend anyone; she empathized with the sentiments of the testifier and related that sometimes people got impatient for things to get rolling and solved. She stated that immigrants to the Alaska claimed that a piece of land was theirs, but offered that the whole of Alaska belonged primarily to the indigenous people. She offered that the rules, laws, and regulations that were proposed every year were based on the personal interests of those who passed them. She opined that Native peoples were the smartest people in the world because they did not keep knowledge for their own selfish interests, but

shared what they learned with the world in order to solve problems.

[4:59:36 PM](#)

NICK MOE, SELF, ANCHORAGE (via teleconference), testified against SB 21. He agreed with the governor's principles, but not with the approach to accomplishing them. He related that Alaska needed infrastructure and that funding would be better served for that purpose. He observed that Alaska needed to look at the issue like a business and offered that for every dollar that was given away, the state should demand more than a dollar back. He opined that the state should have a complete picture before making a decision on this legislation. He furthered that a complete audit should be done on Alaska's Clear and Equitable Share (ACES), as well as a complete assessment of what oil resources Alaska had. He observed that the state should know what it was working with in order to plan out its long-term future and make informed decisions. He expressed appreciation for what oil had done for Alaska and pointed out that he did not fault anyone for advocating for the bill. He stated that it was an oil company's job to maximize its profits in Alaska; likewise, it was Alaska's job to keep in mind the best interests of the whole state. He offered that SB 21 had been rushed and that the state should take its time to examine the details of the legislation. He concluded that Alaska needed to diversify its economy.

[5:03:39 PM](#)

JUDY PATRICK, SELF, WASSILA (via teleconference), spoke in support of SB 21 and offered that the state could not continue with Alaska's Clear and Equitable Share (ACES). She stated that the goal was more oil in the pipeline, which would not happen with the state's punitive tax structure. She opined that the state could not wait for another legislative session to take action and that new projects took a long time to sanction. She agreed with the governor's proposed changes and preferred that progressivity be removed from SB 21. She concluded that ACES was not working and encouraged the committee to pass legislation in the current session.

[5:05:22 PM](#)

LAURA FAGNANI, SELF, ANCHORAGE (via teleconference), testified in support of SB 21. She related that oil production levels were directly tied to well-paying jobs in the oil and gas industry. She pointed out that almost all of the state's revenues were tied to oil production; similarly, her employees' futures were tied to production levels in the pipeline. She stated that her company was indirectly reliant on the oil and gas industry. She pointed out that her company received most of its revenue from the oil and gas industry and that the decisions the committee made affected her employees and people across the state. She observed that she operated in a very competitive market place and discussed the nature of staying competitive in business in relation to Alaska's oil issue. She stated that Alaska had a "pricing" problem and that changing ACES was a step in the right direction to increasing production. She opined that Alaska had lost its competitive position in a global playing field and that the state's future relied on taking action now.

[5:08:05 PM](#)

MARLEANNA HALL, SELF, ANCHORAGE (via teleconference), spoke in support of SB 21, but related that it was not enough. She discussed her education in Alaska. She related that her son was currently in public school, which was being subsidized by the taxes paid by the oil industry and pointed out that his future education would be paid for the Permanent Fund Dividend, which was a royalty from oil production. She urged the committee to end progressivity and asked them to encourage investment in the future development of Alaska's natural resources. She concluded that the Alaska needed to keep the locally owned businesses open and expressed that the state needed to consider the long-term over the short-term.

[5:09:24 PM](#)

PHILLIS SPENCER-BELZ, SELF, ANCHORAGE (via teleconference), expressed that the oil belonged to the Inupiat people. She related that she was Inupiat and was a member of the Tribe of Barrow. She pointed out that her tribe had been in the region far longer than statehood or oil production but received very little money from the oil. She pointed out that her tribe did receive money from one oil field; however, they had to give 70 percent of the revenue from that field to other native corporations. She pointed out

that the corporations her tribe gave oil revenue to did not give shares to their children, take care of their elders, and did not have jobs. She discussed the Native homeless situation in Anchorage and related that there were too many dead, homeless Natives who had no disability or dividends. She stated that Alaska's oil came from Inupiat land and that if her tribe had to give 70 percent of its oil revenue to other corporations, the current Native homeless situation should not exist. She observed that three of the Native corporations in Alaska were the largest private land owners in the nation. She relayed that she was for oil production if it was fair, but opined that it was currently not fair. She explained that the oil was from the Inupiat Tribal Region and was not from the other tribal regions. She offered that Alaska did not enforce the Indian Child Welfare Act and stated that there were a lot of low quality schools. She stated that there was a lack of Native hires, Native job training, and Native job respect. She expressed dismay at the treatment of Natives in Alaska. She recalled how Alaska Natives had been forced into boarding schools and that in the schools, the students were forced into sexual slavery, forced to speak English, and endured a number of abuses. She offered that Natives had been taken away from their tribes, cultures, and parents and opined that the generational abuse had gone on to create people that did not know how to manage their own tribes properly. She concluded that without the Arctic Slope Regional Corporation, there would be no oil development in Alaska.

[5:13:47 PM](#)

Vice-Chair Fairclough CLOSED public testimony.

[5:14:04 PM](#)

Senator Bishop expressed appreciation to the testifiers. He acknowledged that most people agreed that something needed to be done, but that some thought ACES was currently working. He discussed the need to diversify Alaska's economy and noted that the comments of testifiers were taken to heart.

[5:14:58 PM](#)

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ADJOURNMENT

The meeting was adjourned at 5:15 p.m.

