

**ALASKA STATE LEGISLATURE**  
**SENATE SPECIAL COMMITTEE ON TAPS THROUGHPUT**

January 17, 2013

3:31 p.m.

**MEMBERS PRESENT**

Senator Mike Dunleavy, Co-Chair  
Senator Peter Micciche, Co-Chair  
Senator Anna Fairclough  
Senator Lesil McGuire  
Senator Berta Gardner

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Cathy Giessel  
Senator Johnny Ellis

**COMMITTEE CALENDAR**

OVERVIEW: ORGANIZATIONAL MEETING - DISCUSSION OF COMMITTEE'S OBJECTIVES

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

JOE BALASH, Deputy Commissioner  
Office of the Commissioner  
Department of Revenue  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on the North Slope Oil Production History and Forecast.

MIKE PAWLOWSKI, Special Assistant  
Oil & Gas Development Project Manager  
Department of Revenue  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information on the North Slope Oil Production History and Forecast.

**ACTION NARRATIVE**

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**CO-CHAIR PETER MICCICHE** called the Senate Special Committee on TAPS Throughput meeting to order at 3:31 p.m. Present at the call to order were Senators Gardner, McGuire, and Co-Chairs Micciche and Dunleavy. Senator Fairclough arrived shortly thereafter.

**Organizational Meeting: Discussion of Committee's Objectives**

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**CO-CHAIR MICCICHE** began the meeting by introducing members of the committee and their staff. He announced that the first bill that would come before the committee next week would be SB 21.

He noted the presence of Senator Ellis and Senator Giessel.

**CO-CHAIR MICCICHE** stated that the purpose of today's meeting was to discuss the committee's objectives and to invite Alaskans to hear about the importance of why the committee has been assembled. He stressed that the committee is not an oil tax committee, although it is the first committee of reference for the Governor's SB 21, which will be discussed and passed on to the Senate Resources Committee by February 7.

He invited Mr. Balash and Mr. Pawlowski to present information on the economic decline in Alaska due to the oil production decline in TAPS.

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**JOE BALASH**, Deputy Commissioner, Office of the Commissioner, Department of Natural Resources, Juneau, Alaska, introduced himself.

**MICHAEL PAWLOWSKI**, Special Assistant, Oil & Gas Development Project Manager, Department of Revenue, Anchorage, Alaska, introduced himself.

He noted the arrival of Senator Fairclough.

**MR. PAWLOWSKI** related that the committee requested information from the Department of Revenue (DOR) Revenue Sources Book (RSB), Fall 2012, in the form of graphics and tables illustrating

historic and projected oil production on the North Slope of Alaska (ANS). Also requested were oil revenue projections over the next ten years. He referred to a handout entitled, "North Slope Oil Production - History and Forecast.

MR. PAWLOWSKI began with a graph that showed a look back from 1977 to 2022 of ANS oil production broken out by areas of production as they are aggregated by the RSB. The dotted line at 2012 shows the divide between the historic production record and the future forecasted data. He noted the size and scale of the blue area on the graph which shows the production from Prudhoe Bay. The dark purple area shows the production from the Kuparuk reservoir. He explained that the graph depicts different sources of oil production and the flattening of production from 2001 to 2007. During that time period, oil production from Alpine and Offshore began. Offshore production consists of fields within the state's three-mile limit.

He referred the committee to Chapter 4 in the RSB for more information on the production forecast.

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SENATOR GARDNER requested that Mr. Pawlowski provide the committee with a broad understanding of the tax rate structure and oil prices from 1989 until 2001 and from 2001 to 2004.

MR. PAWLOWSKI said he would be happy to provide that information.

CO-CHAIR MICCICHE agreed that any information committee members wanted would be requested.

MR. PAWLOWSKI presented information on "Forecast Alaska ANS Price, Production, State General Fund Unrestricted Revenues" from two periods - FY 2012 to FY 2017 and FY 2018 to FY 2022. He said that the information was broken up into two periods for presentation purposes. He explained that the first row depicts the forecast ANS West Coast (WC) oil price in dollars per barrel (\$/bbl) that revenue forecasts are based on. Revenues are a function of the combination of price and production.

He said the second row shows the forecast total ANS production, which includes state and federal barrels, based on a thousand barrels per day (ths bbls/day) analysis. For example, in FY 2012 579,100 barrels per day are projected. He stressed that these are an average of total production numbers. He noted the variance in production numbers between summer and winter.

He explained that the third row shows general fund unrestricted revenues in millions of dollars. In FY 2012 the total amount is \$9,485,000,000. He noted the decline in revenue going forward. He stressed the importance of considering price and production lines when considering revenue. He referred the committee to price sensitivity charts located in the RSB.

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MR. PAWLOWSKI concluded that DOR's forecast includes a projected decline in production from 579,100 bbls/day in FY 2012 to 338,500 bbls/day in FY 2022.

CO-CHAIR MICCICHE asked if anyone could doubt that ANS production is in decline based on these numbers.

MR. PAWLOWSKI turned to the production history and forecast graph to point out that from 1988, or the peak in production, there has been a steady decline in ANS production. Based on what is known today, including reasonable projects under development, DOR's current forecast is predicted to decline. He offered to have production forecasters testify before the committee.

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SENATOR GARDNER requested information about the general fund unrestricted revenues under SB 21.

MR. PAWLOWSKI agreed to provide that information. He pointed out that he was requested to only provide the base revenue forecast as published by DOR, including the price of oil.

CO-CHAIR MICCICHE clarified that the purpose of the meeting was to define why the Senate TAPS Throughput Decline Committee was formed.

CO-CHAIR MICCICHE reminded Alaskans that the state receives 90 percent of its revenue from one source - the production of North Slope oil. He further stated that 90 percent of the roads, universities, schools, ferries, and public buildings are funded by the oil business. Ninety percent of every public employee's salary and benefit dollar, public safety, social programs, and education are funded by oil. He suggested until the state is able to diversify the economy, it is in every Alaskan's best interest to flatten the decline of production through TAPS.

CO-CHAIR MICCICHE stated that the committee's primary objective is to stop the decline and eliminate obstacles to increasing

production in the future. He said that the committee would be taking a look at the substantial operational hurdles and cost increases associated with running the system below design.

He pointed in recognition of Alaska's Constitution, in Article 8, Section 1, which requires natural resources to be managed for maximum use consistent with public interest, it is incumbent upon the legislature to assess the reality surrounding the decline of ANS oil production and to take an active role in increasing TAPS throughput by all reasonable means. It is imperative that the legislature manages to the best interest of Alaskans and never to the industry that elects to extract the blessings which are Alaska's natural resources. In order for Alaskan resources to best serve Alaskans, they must be responsibly produced and brought to market. The primary job description of legislators honored to have been sent to represent their constituents is to determine a responsible balance to reach flattened or enhanced levels of ANS oil production.

CO-CHAIR MICCICHE remarked that the Special Committee on TAPS Throughput was formed by resolution with a specific task of defining opportunities designed to flatten the decline or increase the flow through TAPS and to take appropriate action related to increasing TAPS throughput.

CO-CHAIR MICCICHE reviewed the committee's objectives. The first was to increase throughput in TAPS. He emphasized that the committee is not an oil tax committee, even though it is the first committee of reference for SB 21. The committee will continue to work on operational issues associated with obstacles to increasing production, after it passes SB 21 to the Senate Resources Committee.

CO-CHAIR MICCICHE listed operational issues:

- water and gas handling limits to production
- access to existing production and future exploration production locations
- efficient permitting
- protecting the environment without waste and redundancy
- the Alaska Lease Program
- TAPS Tariff and the effects on cost to the state
- leveling the Arctic environment and conditional challenges
- limited available equipment
- workforce and support industry

- limited and aging infrastructure
- TAPS water and wax issues
- the Alaska Severance and Production Tax structure under SB 21
- state and federal regulatory hurdles
- environmental litigation
- narrowing the time between new discoveries and production
- global competition for industry investment capital
- understanding the effects of past incentives and improving future incentives
- the potential for Alaska hire
- Alaska investment performance incentives
- effects of decoupling heavy oil and gas from traditional North Slope oil production
- incentivizing specifically new oil and middle earth exploration and production (south of 68 degrees and north of Cook Inlet)
- investigating AG transitional zone incentives (where the state receives 27 percent in the area 3 to 6 miles offshore)
- the potential for resolving a greater percentage of Outer Coastal Shelf (OCS) revenues more similar to OCS stakes in the Gulf of Mexico

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CO-CHAIR MICCICHE stated that the committee would be operating under a set of tenets. He asked Co-Chair Dunleavy to review them.

CO-CHAIR DUNLEAVY explained that policy must seek a balance between maintaining a competitive economic environment for Alaska and its global industry, while at the same time showing a reliable, long-term revenue stream to fund vital state services. He emphasized that the end goal is to ensure long-term sustainable revenue for Alaska. He reviewed the tenets that the committee will follow while trying to achieve that goal:

- recognition of the history and reality of Alaska being a resource state
- management of Alaska's oil and gas resources for the maximum benefit of the people for today as well as into the future
- recognize and nurture the relationship between the state as an owner and the industry as producers of Alaska's oil and gas resources

- provide consistent sources of revenue to the state over the long term
- increase responsible exploration, development, and production of oil and gas
- promote commercialization of challenged resources - gas, viscous, and heavy oil
- increase jobs for Alaskans
- work to ensure a fair take for Alaskans while competing globally to track industry investment in Alaska
- promote advances in technology efficiency
- respond to environmental conditions and concerns
- secure a future of economic growth, not economic decline
- work to provide predictable terms and rules for industry parks

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CO-CHAIR MICCICHE announced future meeting dates:

January 22 - presentations by the Departments of Revenue and Natural Resources on SB 21

January 24 - continuation of presentations on SB 21 including Barry Pulliam from EconOne

January 29 - invited and public testimony; 3:30 p.m. - 7:30 p.m.

January 31 - invited and public testimony; 3:30 p.m. - 7:30 p.m.

CO-CHAIR MICCICHE noted a key element in that the committee represents all of the people in Alaska and their future. He hoped that the members of the committee could leave party issues aside and make the best choices for moving Alaska forward toward a sustainable economy. He added that another key element is to allow enough time so that all Alaskans have a say in the process. He put forth an open invitation for Alaskans to testify.

He concluded, "We are in the oil business, but we are partners in this business - we are partners with all the people in Alaska."

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SENATOR GARDNER thanked Co-Chair Micciche for his comments. She said she agrees that this is an issue that is of critical importance to the state of Alaska.

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There being no further business to come before the committee, Co-Chair Micciche adjourned the Senate Special Committee on TAPS Throughput Committee at 3:55 p.m.