

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

January 29, 2013

3:32 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 Hollis French  
Senator Charlie Huggins  
Senator Click Bishop

**COMMITTEE CALENDAR**

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."

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 21

SHORT TITLE: OIL AND GAS PRODUCTION TAX  
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/16/13	(S)	READ THE FIRST TIME - REFERRALS
01/16/13	(S)	TTP, RES, FIN
01/22/13	(S)	TTP AT 3:30 PM BELTZ 105 (TSBldg)
01/22/13	(S)	Heard & Held
01/22/13	(S)	MINUTE(TTP)
01/24/13	(S)	TTP AT 3:30 PM BUTROVICH 205
01/24/13	(S)	Heard & Held
01/24/13	(S)	MINUTE(TTP)
01/29/13	(S)	TTP AT 3:30 PM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

JOE BALASH, Deputy Commissioner  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information related to SB 21.

MICHAEL PAWLOWSKI, Oil & Gas Project Manager  
Department of Revenue  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information related to SB 21.

SCOTT THORSON  
Representing himself  
Network Business Solutions  
Anchorage, Alaska,

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

DAVE CRUZ, CEO  
Cruz Construction  
Palmer, Alaska

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

JEANINE ST. JOHN, Vice President  
Lyndon Logistics  
Anchorage, Alaska

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

ETHAN SCHUTT, Senior Vice President  
CIRI Land and Development  
Anchorage, Alaska

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

JOHN STURGEON, Forest Products

Anchorage, Alaska

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

AVES THOMPSON

Alaska Trucking Association,  
Anchorage, Alaska

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

DEANTHA CROCKETT, Executive Director

Alaska Miners Association  
Anchorage, Alaska

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

BARBARA HUFF-TUCKNESS, Director

Teamsters Local 959  
Anchorage, Alaska

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

JIM SCHERIEBLE, General Manager

Kenworth Alaska and  
President  
Alaska Trucking Association  
Anchorage, Alaska

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

MARTY METIVA, Executive Director

Resource Conservation and Development and  
Alaska Regional Development Organization  
Wasilla, Alaska

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

JOE PASKVAN, representing himself

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 21.

JIM PLAQUEST, Fairbanks Membership and Events Coordinator

Alaska Industry Support Alliance  
Fairbanks, Alaska

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

BRAD CHASTAIN, Vice President

Energy and Natural Resources  
W.H. Pacific

Anchorage, Alaska

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

JOE MATHIS  
NANA Development Corporation  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in support of SB 21.

JERRY MCCUTCHEON  
Alaska Oil and Gas  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

STEVE PLATT, Executive Director  
Consumer Energy Alliance Alaska  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in support of SB 21.

ROD MCCOY, representing himself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

MICHAEL DUNSMORE, representing himself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

GRANT JOHNSON, representing himself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in support of SB 21.

PHILLIS SPENCER-BELZ, representing herself  
Anchorage Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

JERRY AHWINONA, representing himself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

MICHAEL JESPERSON, representing himself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in support of SB 21.

ANDREA LANG, representing herself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

THOMAS DUFFY, representing himself  
Juneau, Alaska,  
**POSITION STATEMENT:** Testified in opposition to SB 21.

DAN KENNEDY, representing himself  
Wasilla, Alaska,  
**POSITION STATEMENT:** Testified in support of SB 21.

MERRICK PIERCE, representing himself  
North Pole, Alaska  
**POSITION STATEMENT:** Testified in opposition to SB 21.

LAURIE FAGNANI, NSI Communications  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in support of SB 21.

DEBORAH BROLLINE, representing herself  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified that SB 21 is a good starting point.

TARA SWEENEY, Senior Vice President  
Arctic Slope Regional Corporation (ASRC)  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified that ASRC is currently doing an analysis of SB 21, but does know that reform is needed.

ABLE BULT-HO, representing himself  
Fairbanks, AK  
**POSITION STATEMENT:** Testified in opposition to SB 21.

LAURA MAKETA, representing herself  
Mat-Su Valley, Alaska  
**POSITION STATEMENT:** Testified in support of SB 21.

#### **ACTION NARRATIVE**

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**CO-CHAIR PETER MICCICHE** called the Senate Special Committee on TAPS Throughput meeting to order at 3:32 p.m. Present at the call to order were Senators Gardner, Fairclough, Co-Chair Dunleavy, and Co-Chair Micciche. Senator McGuire arrived shortly thereafter.

CO-CHAIR MICCICHE noted the presence of Senator Giessel.

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

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CO-CHAIR MICCICHE announced that SB 21 would be the only order of business.

JOE BALASH, Deputy Commissioner, Department of Natural Resources, introduced himself.

MICHAEL PAWLOWSKI, Oil & Gas Project Manager, Department of Revenue, stated that he would walk the committee through SB 21 so that they could understand the language and locations of the provisions in the bill. He reviewed the Governor's principles of SB 21:

- Tax reform must be fair to Alaskans
- Encourage new production
- Simple so that it restores balance to the system
- Durable for the long term

He said when taken together, these guiding principles are intended to create a competitive environment that attracts new investment to the state and grows the economy.

MR. PAWLOWSKI explained that the proposal is built around four core provisions:

- Eliminate progressivity and credits based on capital expenditures
- Reform remaining credits to be carried forward to when there is production
- Establish a "Gross Revenue Exclusion" for newer units and new participating areas in existing units
- Hold Cook Inlet and Middle Earth Harmless

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MR. PAWLOWSKI explained how the bill intends to eliminate progressivity and the credits based on capital expenditures. He turned to Section 26, page 23, line 12 of the bill, which contains the repeal of AS 43.55.011(g), the progressive feature within the current tax system, effective January 1, 2014. When progressivity is repealed, other sections of law must also be addressed.

He turned to Section 1, which goes from page 1, line 12, through page 2, line 7. In this section a fund that provides for community revenue sharing is located. The revenue for that fund came from progressivity monies, therefore, a new source must be found to fund community revenue sharing. On page 2, lines 1 - 7, is an adjustment to the funding mechanism for community revenue sharing that preserves deposits into that fund. Two substantive

changes were made in this section. The first is on page 2, line 2. Under current law, an amount equal to 20 percent of the money received under progressivity goes into the revenue sharing fund. The bill removes that 20 percent cap. The actual amounts going into the revenue sharing fund are found on page 2, line 5, and are maintained with current statute, either \$60 million or the amount that when added to the fund balance on June 30 of the previous fiscal year, equals \$180 million. He emphasized that no change was made to the amount of money going into the revenue sharing fund. The source of the revenue was changed, as shown on page 2, line 3, inserting AS 43.20.030(c), which is the mechanism through which income tax payers in Alaska pay corporate income taxes. The source of revenue sharing moves away from the single tax payer to the broad corporate income tax statutes. The new fund source now comes from general payments under Alaska's corporate income tax statutes.

CO-CHAIR MICCICHE noted the attendance of Senator French.

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MR. PAWLOWSKI said another adjustment was required due to the removal of progressivity from the bill. He said it is found in Section 2, page 2, lines 8 through 18. The language deleted in the current statute is, "the taxes are calculated as the sum of a base tax, plus the progressive tax." When the progressive tax is repealed, the "sum of" language is no longer necessary, because it is now a simple 25 percent net tax rate.

CO-CHAIR DUNLEAVY asked why progressivity was eliminated in total, instead of changed.

MR. PAWLOWSKI replied that progressivity creates a host of issues. The concept of decoupling is a function of progressivity and applies to any high cost resource that is blended with a low cost resource. In the current system, progressivity is highly variable and a concern to many. Also, one of the Governor's core principles is to move to a simple system.

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CO-CHAIR MICCICHE asked about QCE credits.

MR. PAWLOWSKI said QCE is defined as qualified capital expenditure credits.

MR. PAWLOWSKI turned to the conforming sections related to the removal of progressivity. Section 5 begins on page 5, line 27

and runs through page 8, line 25. He explained that progressivity is calculated monthly under the current system. Section 5 eliminates "sum of" language again. On page 7, lines 3 to 5 refer to the exception for the gross revenue exclusion. Because progressivity is being removed, the associated statutes governing how it was to be paid have to be changed.

He noted a similar change in Section 6, page 8, line 25, through page 9, line 11. Under the current system, when there is private royalty, the producers pay the production tax. A conforming change has to be made to recognize that that progressive feature no longer applies.

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MR. PAWLOWSKI addressed changes in Section 22, beginning on page 21, line 10. He said there are exceptions for progressivity for different types of resources, as shown on line 21, such as oil and gas produced from leases or properties north of 68 degrees - the North Slope - before 2022. On page 21, line 24, there is an exception for oil and gas produced in Middle Earth. On page 21, line 31, there is an exception for oil in Cook Inlet produced before 2022, and on page 22, line 2, gas produced in Cook Inlet is also an exception. On page 22, line 5, gas produced before 2022 from each lease or property outside Cook Inlet and used in state, other than the gas subject to AS 43.55.011(p), is an exception. The gas treated under AS 43.55.011(p) had a 4 percent tax put into effect in 2012. The final exception is oil and gas not yet found. He explained that the base 25 percent tax will apply to all resources other than those listed as exceptions. After 2022 the 25 percent will apply to all areas.

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He noted that Section 23 is a conforming section to Section 22.

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MR. PAWLOWSKI defined QCE as qualified capital expenditure credits. He related that Section 8 is the main section that deals with changes to North Slope QCE credits. The information begins on page 9, line 30, and extends to page 10, line 18. He reminded the committee that effective January 1, 2014, no expenditures on the North Slope under SB 21 would qualify for QCE credits. That language is found on page 10, lines 16 to 18.

SENATOR GARDNER asked if a lot of investment is anticipated before January 1, 2014.

MR. PAWLOWSKI replied that DOR has some understanding of what lease expenditures might be, in terms of whether spending might be accelerated. He said he does not have an official position on that.

SENATOR FAIRCLOUGH asked if industry prepares their budgets years in advance and the 2014 date in the bill allows them time to make spending changes.

MR. PAWLOWSKI said that is correct. He said the date of January 1, 2014, was a compromise.

He turned to Section 7, page 9, lines 12 through 29. He said it was important to recognize that a current North Slope QCE credit has to be divided into two certificates and spread out over two years. Section 7, page 9, lines 21 and 22, deletes that requirement. Outside of the North Slope, under AS 43.55.023(m), credits are able to be taken within a single year. Under SB 21 credits just for 2013 on the North Slope can be closed out and taken in the first year.

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SENATOR FAIRCLOUGH recalled that under ACES, one of the provisions was to acquire knowledge regarding oil companies' investment strategies. She inquired if that provision was retained under the proposal.

MR. PAWLOWSKI deferred to Mr. Balash to answer.

MR. BALASH responded that those provisions are specific requests the department may make of taxpayers on their annual filings. Those provisions remain fully intact in SB 21.

MR. PAWLOWSKI turned to Section 11, page 11, line 4 through line 28, a conforming section. On page 11, line 8, the word "certificates" is changed to "certificate" because in 2013 there will be one certificate. Conforming statements on page 11, lines 20 through 28, apply to the one year of capital expenditures moving from a certificate that is divided in two, to closing out the obligation to the state.

He noted that in Section 12, page 11, line 29, to page 12, line 17, tax credits incurred after December 31, 2013, are accepted from the tax certificate section.

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MR. PAWLOWSKI turned to Section 9 to discuss North Slope net operating loss credits beginning on page 10, line 19. Under the current system, on the North Slope there is a combination of the QCE credit, which is 20 percent of a capital expenditure, and a 25 percent credit for a net loss carry forward. A net loss carry forward is when a company does not have revenues, or their spending exceeds their revenues. Under the proposal, on page 10, lines 19 through 29, after December 31, 2013, the new loss carry forward credits are the same calculation as they were under the existing program, but they are no longer allowed to be cashed out. They are subject to new areas of law, referenced on page 10, line 24, and found in Section 15, beginning on page 13.

CO-CHAIR MICCICHE requested further explanation of line 16 on page 10, the administration's concern with allowing refunds as opposed to taking credits against tax liability.

MR. PAWLOWSKI explained that the principles of being fair to Alaskans, encouraging new production, and being durable for the long term, recognize that in the current system when expenditures are made and an obligation to the state treasury is created, those credits create an increasing obligation to the state. Given that the intent of SB 21 is to "grow the state of Alaska", there is a natural tension between the near-term obligations on the credit side to the state treasury with the long term revenues received from production. The balance is to relieve impact on the near-term part of the state treasury and carry forward the credits to offset a tax liability, so there will be revenue to pay for the credits when they are being created.

CO-CHAIR MICCICHE summarized that the administration's concern was, if there was a year with difficult pricings, the state could actually have a liability, as opposed to production revenue.

MR. PAWLOWSKI said that was correct. He added that high cost projects with low prices in the end, given the degree of state participation through the credit program, could lead to the state being "negative" in the long-term revenue of that project.

He stressed that carrying tax credits forward to offset tax revenue encourages new production. That information is found in Section 15, page 13, line 15.

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He explained that new sections of law are found in Section 15. These sections create guidelines to encourage the carry forward for new production.

He related that on page 13, line 16, subsection (p) limits the application of the credit to two or more calendar years later than which the lease expenditures were incurred. On page 13, line 23, it limits the use of that credit to 10 calendar years after it was issued. A credit issued in 2015 would expire after 2025.

He said that subsection (q) creates an important point called "first earned, first used." On page 14, lines 2 through 14, it says the value of the credit will increase at the rate of 15 percent on an annual basis, beginning two years after the credit is issued, compounding until the credit is used. The first credit earned has to be used first.

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He explained that subsection (s) is intended to protect the state in the use of the credits. If a company with a tax liability chooses not to use a credit, which is increasing by 15 percent, the company would not get the 15 percent increase for that year. He termed it a "use it or lose it" provision.

CO-CHAIR MICCICHE inquired if the "first in - first used" credit could encourage a greater cost to the state if the earlier credit was a much smaller sum than the later credit.

MR. PAWLOWSKI explained that the first credit is compounding faster at a 15 percent rate. The point was to keep the first credit from generating a larger amount into the future. He agreed with the idea proposed by Co-Chair Micciche, in that a larger capital expenditure in year two might have a larger credit, but it will also have to be used. If it is not used to offset a tax liability, the state is further protected by not providing the 15 percent increase if the credit could have been used. A company can't just warehouse credits.

REPRESENTATIVE GARDNER asked under what circumstances a taxpayer might forego using a credit.

MR. PAWLOWSKI gave an example of a company that thought it was more beneficial to get the 15 percent value on the credit rather than to use it to offset the tax liability.

MR. PAWLOWSKI turned to page 15, line 15, to explain that under existing law, loss carry forward credits tax can be transferred to another tax payer or turned into the state for cash payment. When credits are transferrable, a company buys a credit from another company and then uses it against their tax liability. What they pay for that tax credit may not be 100 cents on the dollar for the seller. The issue for the state is, whether it reduces the tax liability or the state pays in cash, it has the same impact to the treasury. Subsection (t) prohibits the transfer of the credits on a broad basis. Companies must now carry the tax credit forward until there is production and tax revenue to pay for the credit. There is an exception in subsection (u), page 16, line 3. Because the principle underlying the bill is to encourage new production, a company can buy a lease from a company that accumulated credits and those credits may be transferred, but they may only be used as an offset for tax liability. There is a limitation, on page 16, lines 3 through 25, that says credits may only be used to offset a tax liability to a proportion or extent to which the lease or property purchased goes into production. The state wants to see production before the credits can be used.

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SENATOR GARDNER asked if the original timeline attached to the lease would be in place under those circumstances.

MR. PAWLOWSKI said yes.

He listed the conforming sections related to the changes regarding net operating loss credits: Sections 10, 19, and 20. In Section 10, page 10, line 30, through page 11, line 3, is a provision that does not allow a company to use their credits to reduce their tax liability for a calendar year below zero to a negative number. Section 19 cleans up language that refers to "explorers and producers" throughout the bill.

MR. PAWLOWSKI explained Section 16, page 16, line 26, which refers to the small producer tax credits. He said small producer tax credits cannot be transferred or monetized; they can only be used to offset a tax liability. Under current statutes they are set to expire for production after 2016. In SB 21, that date is extended to 2022 and lasts for nine years.

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CO-CHAIR MICCICHE commented that the "lack of simplicity" as it applies to a tax code is relative.

MR. PAWLOWSKI turned to the gross revenue exclusion (GRE) for newer units and new participating areas in existing units. The information is found in Section 24, page 23, lines 1 through 10. The provision provides an exclusion or allowance for new production, which is defined on page 23, line 4, as "the oil or gas is produced from a lease or property that does not contain land that was within a unit on January 1, 2003." He pointed out that 80 percent of the value of that new oil will be allowed the GRE.

CO-CHAIR MICCICHE stated that the committee is focused on increasing throughput in TAPS. He asked how leveraging the benefits of the GRE's are in comparison with the tax credits in existing law. He inquired if they would increase throughput.

MR. PAWLOWSKI recalled the presentation by Mr. Pulliam which described the effect of the GRE to increase the cash flows for new investments, to decrease government take, to create a competitive environment, in order to drive long-term decision making for new production. He believed the GRE was a material step towards encouraging new production in how it balances with the loss carry forward credits. The GRE, for the targeted resources it has identified, makes a very strong step toward encouraging new production.

He pointed out that areas inside existing units deserve the same treatment that areas outside existing units receive regarding the GRE. The provision on page 23, line 6, provides for that. He said that if "the oil or gas is produced from a participating area established after December 31, 2011, that was within a unit that was formed before January 1, 2003," it qualifies for GRE.

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MR. BALASH explained that DNR and specifically the Department of Oil and Gas, manages oil and gas properties through leases, units, and a participating area (PA). Both leases and units define properties in a two-dimensional way; they are boundaries on a map. A participating area includes a third dimension. Boundaries define ownership interests all the way to the earth's core because oil and gas exist in different horizons or depths. A unit bundles leases together for purposes of production management. A PA defines which leases contribute to production that is occurring. There have been disagreements over lease ownership. The department feels confident that PA's in place today, govern and encompass the parts of the reservoir that are contributing to production today.

CO-CHAIR MICCICHE understood that "by it not containing a reservoir that had previously been in a participating area established before January 1, 2012, a very expensive 'workover' wouldn't qualify in an existing well bore."

MR. BALASH said that was correct. In order for somebody to qualify for the GRE, the working interest owners within the unit would come forward to the department and propose the formation of a new participating area and demonstrate through sound science and geologic information that they are, in fact, going to be drilling to a new location, a new horizon, a new reservoir, that will contribute new production to the state. The state will be able to govern that activity. There are no units that have been formed on non-state land prior to 2003. This approach allows DNR to clearly and confidently tell Alaskans that this particular mechanism is being applied to new oil production.

CO-CHAIR MICCICHE concluded that DNR is guarding against accelerating depletion of existing reserves.

MR. BALASH replied that is an issue that occurs at a number of different levels, but "in essence, yes." He noted he would be interested in exploring further, through the committee process, to identify ways and means to improve recovery factors from existing PA's. He stressed that DNR is very confident in the new PA approach.

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SENATOR FAIRCLOUGH asked if SB 21 passes, if regulations would define or constrain criteria for new PA's. She shared an experience where she was able to watch directional drilling on the North Slope that involved using 3D to watch the process. She wondered how new PA's would be defined.

MR. BALASH said the issue is whether or not the area is already in a PA, or whether it is new production. In the 3D example, the company would have to get a new participating area formed within the unit itself in order to protect the ownership rights of the individual lessees. He noted that the process to do so is already in place.

SENATOR FAIRCLOUGH concluded that there are existing criteria for PA's that would set minimums to help limit producers' liabilities.

MR. BALASH said that was correct. He added that the PA process allows the state to "count barrels" and segregate them from legacy production.

MR. PAWLOWSKI added that the process allows DNR to tell DOR that a certain production qualifies for the GRE because it has been demonstrated that it is new oil. From the DNR's point of view, in counting the barrels and applying a basic reduction in the value of those barrels to start the net calculation, the department no longer has to think about cost allocation and auditing. He emphasized that simplicity is important to competitiveness.

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SENATOR McGUIRE suggested writing a committee letter of intent that includes recommendations for increasing throughput. She thought some latitude should be given for the Division of Oil and Gas to write provisions that could include new technology as it develops. That could make it possible to offer credits to new producers who would like to expand production in a legacy field.

MR. PAWLOWSKI concurred. He related that new production would come from legacy and new units. He suggested the GRE was about identifying what is truly "new production," whether it involves new technology or discrete geological traps, which is what the PA approach does.

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MR. PAWLOWSKI turned to the subject of differing types of tax treatment for gas and oil production. He explained that the section in SB 21 that deals with an exception to the proposed tax is Section 3, page 2, line 23. It resolves a conflict created when the new AS 43.55.011(p) was passed last year. He read, "For the seven years immediately following the commencement of commercial production of oil or gas produced from leases or properties in the state that are outside the Cook Inlet sedimentary basin and that do not include land located north of 68 degrees north latitude." This section applies to "Middle Earth."

He continued, "Where that commercial production began after December 31, 2012, and before January 1, 2022, the levy of tax under (e) of this section may not exceed 4 percent of the gross value at the point of production." He said that language did not distinguish between gas used in state or gas produced. He explained that (p) recognizes the legislature's passage of a different tax ceiling for oil or gas produced from Middle Earth

for the purposes of the "gas used in state" provision that conflicts with that statute as it was passed last year.

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CO-CHAIR MICCICHE recognized the presence of Senator Huggins.

CO-CHAIR DUNLEAVY asked how the bill supports the exploration and production of nonconventional oil.

MR. PAWLOWSKI replied that the bill works in two important ways. The first is through the elimination of progressivity. It returns the profitability of resources, along with price, to the investors and allows the state a consistent share within the tax system at a base 25 percent. It also diminishes the complexity of the decoupling issue and provides GRE to new areas of unconventional production. It allows additional GRE's to be created for unconventional oil. It also provides a simple system to accommodate new types of production.

He concluded that the intent of SB 21 sets a basic architecture around which additional opportunities can be brought into the system in a way that works for the producers and for the state. The base of 20 percent could apply to any of them. He could not speak to the economics of shale oil which has not been produced at this time.

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CO-CHAIR MICCICHE asked about heavy oil in Section 24. He said it seems like an initial investment in heavy oil would be rewarded, but further investment in that reservoir could be challenged.

MR. BALASH suggested thinking about a specific formation, the Ugnu Formation; a deposit that is present, not only in Prudhoe Bay but also in Kuparuk and parts in between. Because Ugnu has not contributed to production previously, it is not within a participating area; therefore, it would qualify for the GRE if it were put into production. As an initial investment by an incumbent producer, they could deduct the cost of that investment against their production tax liability. The production of that heavy oil would be discounted by the GRE for purposes of going into the overall revenue bucket, against which taxes are calculated.

MR. PAWLOWSKI noted that the GRE does not time out. The production going into the future would not have to qualify for another PA within the Ugnu Formation to qualify for the

additional GRE. If the Ugnu itself was defined as a PA, all the production from that formation would get the preferential treatment of the GRE because it is truly new production.

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CO-CHAIR MICCICHE opened public testimony.

SCOTT THORSON, Network Business Solutions, testified in support of SB 21.

DAVE CRUZ, CEO, Cruz Construction, testified in support of SB 21. He shared his experience with oil production in North Dakota and the need to be competitive.

JEANINE ST. JOHN, Vice President, Lyndon Logistics, testified in support of SB 21. She termed it good for Alaskans. She said to make Alaska competitive.

[4:53:38 PM](#)

ETHAN SHUTT, Senior Vice President, CIRI Land and Development, testified in support of SB 21. He encouraged making Alaska a more attractive environment for investment.

SENATOR GARDNER questioned Mr. Shutt's investment success.

MR. SHUTT explained that recent investments have not been that lucrative.

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JOHN STURGEON, Forest Products, testified about the decline of the timber industry. He suggested the state not allow the oil resource to disappear. Instead, the state should act now to prevent the oil industry from disappearing. He testified in support of SB 21.

CO-CHAIR DUNLEAVY asked why the timber industry disappeared.

MR. STURGEON said it was due to litigation.

[4:59:37 PM](#)

AVES THOMPSON, Alaska Trucking Association, testified in support of SB 21. He compared the trucking industry with the oil industry and encouraged the committee to find the right answer to fix the oil tax.

SENATOR GARDNER asked about the number of jobs in the trucking industry.

MR. THOMPSON offered to provide that information.

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DEANTHA CROCKETT, Executive Director, Alaska Miners Association, testified in support of SB 21. She encouraged making the oil investment climate more attractive.

[5:04:53 PM](#)

BARBARA HUFF-TUCKNESS, Director, Teamsters Local 959, testified in support of SB 21. She pointed out that the oil industry provides jobs in many other sectors of Alaska. New production and Alaska hire are important to Alaska.

SENATOR GARDNER agreed that Alaska hire is important. She pointed out that it cannot be required. She asked Ms. Huff-Tuckness for ideas.

MS. HUFF-TUCKNESS suggested encouraging Alaska hire with a tax incentive.

CO-CHAIR DUNLEAVY asked for clarification on her support.

MS. HUFF-TUCKNESS said the Teamsters 959 do support the concept of SB 21.

CO-CHAIR MICCICHE said he has personally asked the Commissioner of Labor for ways to incentivize Alaska hire. He stressed that it should be a driving force. He asked how many teamsters are Alaska residents.

MS. HUFF-TUCKNESS said that all members are Alaska residents.

[5:10:48 PM](#)

CO-CHAIR MICCICHE asked if it was 100 percent compliance.

MS. HUFF-TUCKNESS said that was correct.

[5:11:50 PM](#)

At ease

[5:38:04 PM](#)

CO-CHAIR MICCICHE reconvened the meeting.

JIM SCHERIEBLE, General Manager, Kenworth Alaska and President, Alaska Trucking Association, testified in support of SB 21. He maintained that what is done now will set the standard for business in the future.

MARTY METIVA, Executive Director, Mat-Su Resource Conservation and Development and the Alaska Regional Development Organization, testified in support of SB 21. He likened the tax issue to the controversy over the bed tax. When Governor Parnell reduced the bed tax, the cruise industry returned. He urged the committee to use that model.

[5:43:19 PM](#)

JOE PASKVAN, representing himself, testified in opposition to SB 21. He expressed concern that the production tax in SB 21 may promote a super harvest mode in the legacy fields. The current system has promoted reconstruction of the legacy fields for the future. He voiced concern that the proposed changes in the production credits might promote a super harvest mode because the cost of operation in the legacy fields will be lower now that the infrastructure has been rebuilt.

He referred to information on page 59 of Econ One's presentation on January 24 to support his idea that the net present value (NPV) to the producer is the same for a new development under either the current system or the proposed changed system, even though the producer is getting more gross dollars over time. He maintained that the credits under the current system promote the actual construction of a project by front loading a reward for actual capital spending. Removing capital credits does not change the NPV, making it less likely the project will actually get built and more likely a super harvest mode is advanced by the incumbent producer in legacy fields.

He pointed out that additional major treatment facilities were not built under the current tax system even though the expenses are both deductible and credits were available. There is less reason to build major treatment facilities under the proposed system as credits are taken away. This does promote a super harvest mode for legacy field operation.

He referred to pages 8 and 9 of the Econ One presentation which states that the decline in throughput is a natural decline over time. As more gas and more water needs to be processed, the decline naturally occurs, even though the oil resource remains enormous.

He concluded that SB 21 does not help because the removal of the credits takes away Alaska's participation over the entire spectrum of proposed oil prices. The throughput decline began in 1989 and has nothing to do with tax policy.

[5:46:58 PM](#)

SENATOR GARDNER asked if super harvest means harvesting without reinvesting in facilities and other infrastructure.

MR. PASKVAN said yes.

[5:47:23 PM](#)

JIM PLAQUEST, Fairbanks Membership and Events Coordinator, Alaska Industry Support Alliance, testified in support of SB 21. He maintained that the ACES tax has eliminated the upside of potential in investment and has stifled investment.

[5:49:17 PM](#)

BRAD CHASTAIN, Vice President of Energy and Natural Resources, W. H. Pacific, testified in support of SB 21. He said his company directly supports the oil and gas company and the ability to employ Alaskans is limited without a vibrant oil and gas business in Alaska. He stressed that other states are attracting investments while Alaska is not. He said simplifying the oil tax structure will lead to more investment.

[5:52:17 PM](#)

JOE MATHIS, NANA Development Corporation, testified in support of SB 21. He said NANA was one of the first companies hired on the North Slope. They have expanded to the Gulf of Mexico and Australia. The road to success has been built on partnerships; however, somehow, the partnerships in Alaska became adversarial. He suggested fixing ACES in order to renew those partnerships.

[5:55:17 PM](#)

JERRY MCCUTCHEON, Alaska Oil and Gas, testified in opposition to SB 21. He said ACES is promoting oil and gas development and it has generous tax credits. He stressed that ACES should be allowed to run unchanged for 10 years.

[5:58:30 PM](#)

STEVE PLATT, Executive Director, Consumer Energy Alliance Alaska, testified in support of SB 21. He said that oil production is in a free fall decline of about 5 to 7 percent a year. The current regime creates a disincentive to invest in Alaska and he argued for a more competitive tax structure.

[6:01:13 PM](#)

ROD MCCOY, representing himself, testified in opposition to SB 21. He said there is opportunity for a natural throughput increase. He urged the committee to stand for Alaska, not the oil industry.

[6:04:26 PM](#)

MICHAEL DUNSMORE, representing himself, testified in opposition to SB 21. He said it would be improper to act hastily and change the current tax structure. The state is currently able to save money each year even though the budget has been high. He encouraged maintaining the status quo.

[6:06:31 PM](#)

GRANT JOHNSON, representing himself, testified in support of SB 21. He said that Alaska has lost its competitive edge while other regions are attracting huge investment.

[6:09:13 PM](#)

PHILLIS SPENCER-BELZ, representing herself, said she is an educated shareholder of the Arctic Slope Regional Corporation, testifying in opposition to SB 21. She discussed the Native Claims Settlement Act and said that she had not seen big oil do much for Natives or the state.

[6:12:12 PM](#)

JERRY AHWINONA, representing himself, testified in opposition to SB 21. He said that progressivity reductions would not protect Alaskans. Capital credits eliminate incentives to all but the big three oil companies. He urged the committee to allow ACES to work for a decade.

[6:14:22 PM](#)

MICHAEL JESPERSON, representing himself, testified in support of SB 21. He said the Governor's bill isn't perfect but it's better than doing nothing, as is happening now. He said he wants to be able to pay for college for his kids, but that's not possible now. They'll have to move to the Lower 48 and work to get through school.

[6:17:32 PM](#)

ANDREA LANG, representing herself, testified in opposition to SB 21. She said Alaska's revenue surplus has grown under ACES. She questioned who the Governor and legislature are working for when they give oil companies billions and flat line school budgets.

[6:20:25 PM](#)

THOMAS DUFFY, representing himself, testified in opposition to SB 21. He said he disagreed with the intent if taxes are reduced by half or more even if throughput is increased. It is a zero sum gain. He applauded legislators last year for putting principle before party.

[6:23:31 PM](#)

DAN KENNEDY, representing himself, testified in support of SB 21. He disagreed with leaving ACES in place for 10 years as previously suggested.

[6:25:16 PM](#)

MERRICK PIERCE, representing himself, testified in opposition to SB 21. He said the state isn't taking enough under ACES. There is no evidence that the Governor's bill will increase production. A reasonable discussion is what can be done with \$2 billion per year to increase revenue from the North Slope.

[6:28:12 PM](#)

LAURIE FAGNANI, NSI Communications, testified in support of SB 21. She said she has to be competitive and she expects the state to be as well. It appears that Alaska has lost competitiveness in the global market.

CO-CHAIR MICCICHE said the committee would take a break awaiting additional testimony.

[6:31:32 PM](#)

At ease

[6:53:02 PM](#)

CO-CHAIR MICCICHE reconvened the meeting. He said testimony would be taken until 7:30 p.m.

[6:53:46 PM](#)

DEBORAH BROLLINE, representing herself, said she is not wedded to the Governor's bill, but it is a starting point.

[6:55:27 PM](#)

TARA SWEENEY, Senior Vice President, Arctic Slope Regional Corporation (ASRC), said ASRC is currently doing an analysis of SB 21, but does know that reform is needed. The work that ASRC does on the North Slope returns benefits to shareholders and to Alaska in general.

CO-CHAIR MICCICHE stated that the committee would take a brief break awaiting additional testimony.

[6:58:17 PM](#)

At ease

[7:12:00 PM](#)

CO-CHAIR MICCICHE reconvened the meeting.

[7:12:12 PM](#)

ABLE BULT-HO, representing himself, testified in opposition to SB 21. He said it is a giveaway to oil companies without some commitment that they will increase production. The oil belongs to Alaskans and should benefit Alaskans first.

[7:14:22 PM](#)

LAURA MAKETA, representing herself, testified in support of SB 21. She told the committee that she is a small business owner and mother of two. She said there is excellent research on the negative impact that ACES has had on small businesses, such as hers, and the support industry. She urged the committee to be solution focused.

SENATOR FAIRCLOUGH encouraged testifiers to submit written testimony.

SENATOR GARDNER described the testimony as compelling and articulate.

SENATOR FAIRCLOUGH asked when public testimony would next be taken.

CO-CHAIR MICCICHE stated that the next meeting would be Thursday and the committee would meet from 1:00 p.m. until 7:30 p.m.

[7:20:42 PM](#)

At ease

[7:28:18 PM](#)

CO-CHAIR MICCICHE reconvened the meeting and stated that public testimony was taken from 5:30 to 7:30. There will be a meeting on January 31 and public testimony will be taken from 4:30 p.m. until 7:30 p.m.

SENATOR McGUIRE said Alaskans who cannot be physically present at the Legislative Information Offices can call in using the offnet number or submit written testimony.

CO-CHAIR MICCICHE held SB 21 in committee.

7:30:35 PM

There being no further business to come before the committee, Chair Micciche adjourned the Senate Special Committee on TAPS Throughput at 7:30 p.m.