

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

March 2, 2016

6:02 p.m.

MEMBERS PRESENT

Representative Benjamin Nageak, Co-Chair
Representative David Talerico, Co-Chair
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Andy Josephson
Representative Geran Tarr

MEMBERS ABSENT

Representative Mike Hawker, Vice Chair
Representative Bob Herron

OTHER LEGISLATORS PRESENT

Representative Jim Colver

COMMITTEE CALENDAR

HOUSE BILL NO. 247

"An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease

expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 247

SHORT TITLE: TAX;CREDITS;INTEREST;REFUNDS;O & G

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	RES, FIN
02/03/16	(H)	RES AT 1:00 PM BARNES 124
02/03/16	(H)	Heard & Held
02/03/16	(H)	MINUTE(RES)
02/05/16	(H)	RES AT 1:00 PM BARNES 124
02/05/16	(H)	-- MEETING CANCELED --
02/10/16	(H)	RES AT 1:00 PM BARNES 124
02/10/16	(H)	Heard & Held
02/10/16	(H)	MINUTE(RES)
02/12/16	(H)	RES AT 1:00 PM BARNES 124
02/12/16	(H)	Heard & Held
02/12/16	(H)	MINUTE(RES)
02/13/16	(H)	RES AT 1:00 PM BARNES 124
02/13/16	(H)	-- MEETING CANCELED --
02/22/16	(H)	RES AT 1:00 PM BARNES 124
02/22/16	(H)	Heard & Held
02/22/16	(H)	MINUTE(RES)
02/24/16	(H)	RES AT 1:00 PM BARNES 124
02/24/16	(H)	Heard & Held
02/24/16	(H)	MINUTE(RES)
02/25/16	(H)	RES AT 8:30 AM BARNES 124
02/25/16	(H)	Heard & Held
02/25/16	(H)	MINUTE(RES)
02/25/16	(H)	RES AT 1:00 PM BARNES 124

02/25/16	(H)	Heard & Held
02/25/16	(H)	MINUTE(RES)
02/26/16	(H)	RES AT 1:00 PM BARNES 124
02/26/16	(H)	Heard & Held
02/26/16	(H)	MINUTE(RES)
02/27/16	(H)	RES AT 10:00 AM BARNES 124
02/27/16	(H)	Heard & Held
02/27/16	(H)	MINUTE(RES)
02/29/16	(H)	RES AT 1:00 PM BARNES 124
02/29/16	(H)	Heard & Held
02/29/16	(H)	MINUTE(RES)
02/29/16	(H)	RES AT 6:00 PM BARNES 124
02/29/16	(H)	Heard & Held
02/29/16	(H)	MINUTE(RES)
03/01/16	(H)	RES AT 1:00 PM BARNES 124
03/01/16	(H)	Heard & Held
03/01/16	(H)	MINUTE(RES)
03/02/16	(H)	RES AT 1:00 PM BARNES 124
03/02/16	(H)	RES AT 6:00 PM BARNES 124

WITNESS REGISTER

MARLEANA HALL, Executive Director
Resource Development Council for Alaska (RDC)
Anchorage, Alaska

POSITION STATEMENT: Testified regarding the concerns that her organization has with regard to HB 247.

ROY TANSY, JR., Executive Vice President
Ahtna Netiy'e, Inc.
Ahtna, Incorporated
Chugiak, Alaska

POSITION STATEMENT: During the hearing on HB 247, provided a PowerPoint presentation titled, "Frontier Basins Tax Credits."

JOE BOVEE, Vice President of Land and Resources
Ahtna, Incorporated
Copper Center, Alaska

POSITION STATEMENT: Answered questions related to HB 247 and to Ahtna's PowerPoint presentation on the bill titled, "Frontier Basins Tax Credits."

JIM JANSEN
Chair, Lynden Incorporated
Co-Chair, Keep Alaska Competitive Coalition
Anchorage, Alaska

POSITION STATEMENT: Testified regarding the concerns that his company and his coalition have with regard to HB 247.

MIKE SALZETTI, Manager
Fuel Supply and Renewable Energy Development
Homer Electric Association, Inc. (HEA)
Homer, Alaska

POSITION STATEMENT: During the hearing on HB 247, described the positive effects that Cook Inlet oil and gas tax credits have had on gas supply available to HEA.

ACTION NARRATIVE

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CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 6:02 p.m. Representatives Seaton, Johnson, Olson, Josephson, Tarr, Talerico, and Nageak were present at the call to order. Also present was Representative Colver.

HB 247-TAX;CREDITS;INTEREST;REFUNDS;O & G

[6:03:13 PM](#)

REPRESENTATIVE NAGEAK announced that the only order of business is HOUSE BILL NO. 247, "An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits

for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

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MARLEANA HALL, Executive Director, Resource Development Council for Alaska (RDC), noted she has been with RDC for almost nine years, but this is her first opportunity to testify before the committee. Originally from Nome, she said she is a graduate of the University of Alaska Anchorage. She lives in Anchorage with her husband and son and their hope is live and work in Alaska for the rest of their lives.

MS. HALL related that RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, fishing, and tourism industries. Membership consists of nearly 400 corporate members and hundreds of individuals, and includes 12 land-owning Alaska Native corporations, local communities, organized labor, and industry-support firms across the entire economy, all of which depend on a healthy oil and gas industry. She said RDC's purpose is to encourage a strong, diversified private sector in Alaska and to expand the state's economic base through the responsible development of the state's natural resources.

MS. HALL stated that RDC members are the life-blood of Alaska's economy. The best approach to expand the economy and generate new revenues for the state is to produce more oil, attract more tourists, harvest more fish, and mine more minerals. Increasing taxes on Alaska's natural resource industries will not increase production for the Trans-Alaska Pipeline System (TAPS), will not attract more tourists, will not encourage the development of more mines, and will not increase investment in the fishing industry. Higher taxes in this low-priced commodity environment will likely deter investment and lead to lower state revenues and a weaker private sector in the long run.

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MS. HALL, in regard to HB 247, maintained that raising taxes on companies that are reporting record losses and are in negative cash flow is not sound fiscal policy. According to the Energy Information Administration, oil prices today are not only the lowest seen in a decade, when adjusted for inflation they are the lowest since the mid-1980s. In less than two years oil prices have fallen 70 percent. This has impacted state revenues and also impacted the industry, which receives 100 percent of its revenue based on the commodity price. This is clearly not the time to raise taxes on the primary engine of Alaska's economy. The oil industry is struggling with low oil prices and tight capital markets. Companies are cutting budgets and making tough investment decisions. Increasing taxes on the industry at this time will compound a bad situation and jeopardize new investment, further damaging the state's private sector economy and shrinking the economic pie for everyone.

MS. HALL said the oil industry is the foundation of Alaska's economy, and keeping it strong is key to sustaining the private sector, Alaskan jobs, state government, and the overall economy. A healthy and strong oil and gas industry is also vital to progressing the Alaska liquefied natural gas (LNG) megaproject. To sustain its economy Alaska needs to encourage new investment, jobs, and production by maintaining a stable, competitive tax structure. When something is incentivized, the more it of there will be. The current tax policy has brought new exploration, jobs, and continued investment to the state. It has stabilized North Slope production and has somewhat shielded Alaska from the massive cutbacks that have occurred elsewhere. Following the enactment of the new tax law in 2013, Alaska saw \$5 billion in new investment across the state from legacy companies to new companies that have made big investments in good faith under the current regime. The sudden and dramatic drop in oil prices has slowed progress as companies struggle with low cash flows, but Alaska is in a much better position because of those investments. The tax policy has done what it was supposed to do: increase investment. Conversely, HB 247 would move the state in the wrong direction. It would be Alaska's sixth major tax change in the last eleven years. Raising taxes when prices go up, and then raising them again when prices are down, creates instability and fails to provide investors with fiscal certainty. The bill would make Alaska less competitive for global investment and risks future projects that would put more oil in TAPS, which should be the state's number one goal. Alaska needs a plan that grows the pie bigger for everyone.

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MS. HALL said RDC's members are not only the oil companies that would be directly impacted by HB 247, but also companies in the support industries and Native corporation ventures. Alaska's Native corporations (ANCs) are, and will continue to be, economic engines in Alaska. A large part of the ANC success seen today is a result of purchases or joint ventures of oil and gas support industry companies in Alaska. These investments not only create jobs for Alaska Native shareholders, but often result in job training, education, and opportunities where few others exist. In addition to these benefits, oil production on Native-owned land directly benefits the shareholders of all 12 land-owning ANCs and some 220 village corporations. Other RDC member companies will further explain to the committee the negative impacts that HB 247 would have on their companies. These companies, both big and small, rely on a healthy and stable oil and gas industry.

MS. HALL related that another concern RDC has with HB 247 is that the administration has not conducted a risk analysis on the bill's impact on the oil industry. The effect of this tax proposal must be fully reviewed and unintended consequences, including potential impacts on future investment and production, must be considered. She said RDC's members are not asking for a tax decrease during this time of low commodity prices like other states and countries are considering. But, RDC does request that as the state considers changes to tax policy, it do no harm to the state's largest industry, an industry facing significant economic hardship. Otherwise, it may soon be learned that the more Alaska taxes companies, the less likely a company will invest in the state, and the more likely its limited capital will go to jurisdictions that do encourage investment.

MS. HALL expressed RDC's concern that HB 247, if enacted, would force industry to reduce investments, leading to reduced oil and gas production and ultimately resulting in less revenue to the state, exacerbating the revenue crisis. She concluded by noting it is important to remember that the oil industry is a major revenue producer for the State of Alaska and is the largest producer of revenue for the North Slope Borough, the City of Valdez, and the Kenai Peninsula Borough.

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The committee took a brief at-ease.

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ROY TANSY, JR., Executive Vice President, Ahtna Netiye', Inc., Ahtna, Incorporated, provided a PowerPoint presentation titled, "FRONTIER BASINS TAX CREDITS." He explained that Ahtna Netiye', Inc., is the holding company of Ahtna, Incorporated. Turning to slide 2, "FRONTIER BASINS EXPERIENCE," he expressed Ahtna's concerns in regard to the tax credits in Alaska Statute (AS) 43.55.025(a)(6) and (7), which are currently set to expire on June 30, 2016. Ahtna has ongoing exploration projects on lands adjacent to its lands and is currently using these tax credits for its incentive to do this work. The legislature's intent was to incentivize oil and gas exploration in underexplored basins, reduce the risk of development of local rural energy to Alaskans, create a local energy source for rural residents, and reduce or eliminate the Power Cost Equalization subsidies.

MR. TANSY addressed slide 3, "FRONTIER BASIN TAX CREDITS," noting that under AS 43.55.025(a)(6) the first two exploratory wells drilled inside each of the six Frontier Basins will receive 80 percent credits or up to \$25 million of qualified expenditures. Under AS 43.55.025(a)(7) the first seismic project performed inside each of the six Frontier Basins will receive 75 percent credit or up to \$7.5 million of qualified expenditures. Ahtna has already used the seismic tax credits, about \$2.4 million on a \$3 million seismic tax credit investment. Ahtna would not be actually doing this exploration if the tax credits were not there.

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MR. TANSY displayed slide 4, "SPECIFIC FRONTIER BASIN REGULATIONS." He outlined the specific regulations as follows: pre-qualification approval for seismic and well from the Department of Natural Resources (DNR), Division of Oil & Gas (DOG); various well depths and setbacks from previous wells; submission of all data to DNR prior to credit award; public data disclosure of all data after two years; must provide energy source for rural energy needs; and no stacking of the AS 43.55.025(a)(6) and (7) tax credits as can be done with the AS 43.55.023 credits.

MR. TANSY moved to slide 5, "EXPLORATION PROGRAM HISTORY." He provided a historical review as follows: April 2012 Ahtna applied for a State of Alaska exploration license; May 2012 the

legislature approved Senate Bill 23; and December 2013 Ahtna received the Tolsona exploration license.

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REPRESENTATIVE TARR inquired whether the bill was Senate Bill 23 or Senate Bill 21.

JOE BOVEE, Vice President of Land and Resources, Ahtna, Incorporated, replied Senate Bill 23 [passed in 2012, Twenty-Seventh Alaska State Legislature] was prior to Senate Bill 21 [passed in 2013, Twenty-Eighth Alaska State Legislature].

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MR. TANSY continued the historical review provided on slide 5: June 2014 Ahtna received the DNR commissioner's pre-qualification approval for the seismic. He added that from the very beginning Ahtna has been very diligent in trying to get things going in its region under this program. He continued: December 2014 Ahtna completed 40 miles of two-dimensional seismic over the exploration area; April 2015 Ahtna completed reprocessing of seismic data identifying 12 square miles of potential oil and gas trap; May 2015 Ahtna submitted seismic data to the Division of Oil & Gas; September 2015 Ahtna received the DNR commissioner's pre-qualification approval for a new well, the Tolsona #1 well; February 2016 the majority of the permits had been approved; and March 2016 the final stages of the new well engineering and design are set to be complete.

MR. TANSY brought attention to slide 6, "COPPER RIVER BASIN." He reported that right now Ahtna is looking at a project located on state lands adjacent to Ahtna lands that has a proposed well depth of 4,500 feet to find gas. The targeted area is the structure of the Nelchina sandstone. Eleven wells have been drilled in the basin since the 1960s and all of these wells have had some type of gas showing. At the time these wells were drilled the target was oil, and gas would have been more of a nuisance. In the last 30 years there has only been one exploration development project in the region. That was done on Ahtna lands from 2005-2007 and was called the Ahtna 119 well. Unfortunately the well did not get to the formation; gas was found but the driller was unable to test it. That gas showed at 94 percent methane and Tolsona #1 well has a potential for a great local source of fuel.

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MR. TANSY turned to slide 7, "PURPOSE AND NEED FOR GAS IN COPPER RIVER BASIN," saying that the community and economic development benefits are immense. Benefits include: a huge potential for local employment; expanding local businesses; lowering of the high costs of this rural economy; reducing out-migration; and building infrastructure in the region. Right now, he continued, the region has had a number of schools closed, the majority of shareholders have moved to the Matanuska-Susitna and Anchorage area, restaurants have closed in Glennallen leaving only one restaurant open year round in the entire basin area.

MR. TANSY displayed slide 8, "Project Overview," and elaborated that Ahtna did the 40 miles of new seismic in the winter of 2014/2015. The majority of it is on state land, although some was on private land. The current location includes an easement that goes from south to north. Ahtna is going to expand on that easement and then move off of it to build a pad. The exploration will be on state lands and royalties and production tax will be paid to the state if production is successful. There will be improvement to public access of recreational area.

MR. TANSY drew attention to slide 9, "PROJECT TEAM," specifying that Ahtna subsidiaries will constitute the project team. Ahtna Construction will be playing a major part of the construction; HXR Drilling Services is doing the majority of the engineering; and Restoration Science & Engineering is doing the permitting. Multiple Alaskan companies are lending a hand to the project, and a number of state, local, and federal agencies are partaking in making the project possible. Agency support has been tremendous; for example, the director of DNR's Division of Oil & Gas has visited the region and the project site.

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MR. TANSY showed the project schedule outlined on slide 10, "PROJECT SCHEDULE (Very tight)!" He noted it goes from June 2015 through August 2016 and includes the starting of the pre-drilling program, the procurement process continuing to be ongoing, submitting of the U.S. Army Corps of Engineers 404 Permit and the Plan of Operations Permit. Right now Ahtna is at the beginning of the civil site work and hopes to have the rig there within the next few months to do work. The critical point is July 1 when the Frontier Tax Credits expire.

MR. TANSY ended his presentation with slide 11, "CONCLUSION," saying it is critical to Ahtna's project that the Frontier Basin

Tax Credits in AS 43.55.025(a)(6) and (7) be extended from June 30, 2016, to a future date. He said Ahtna recommends the year 2022 to coincide with other tax credit expiration dates. This would greatly help the Tolsona Project that is underway with a committed investment and a very tight schedule. He added that Ahtna also supports keeping in place the Middle Earth Tax Credits in AS 43.55.023 and .025(a)(1-4) as an incentive to the Frontier Basin exploration and development efforts by the explorers that have taken the risk and committed investment based on these incentives. He displayed slide 12, "THANK YOU TO OUR GOOD PARTNERS," and thanked the committee members for the opportunity to share Ahtna's experience. He also thanked the Alaska State Legislature, Governor Walker and his staff, and the citizens of the state for their support for development of an affordable energy resource in Ahtna's region.

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REPRESENTATIVE JOSEPHSON offered his understanding that there are some situations where pre-qualification is required, but that for most situations it is not. He inquired whether Ahtna has found that to be cumbersome or difficult.

MR. BOVEE responded that there are two different issues with the permitting. One is the actual land use permitting, the regulatory permitting that goes along with any kind of project in the state of Alaska. They are cumbersome and many take up to six months, although some can be done in 30 days. As far a pre-qualification with DNR's Division of Oil & Gas, Ahtna submits its findings, intent, cost schedule, and so forth and usually the division responds with a yay or nay within two or three months; it has been as short as 30 days and as long as 3 months.

REPRESENTATIVE JOSEPHSON related that the intent of HB 247 is to be more conservative and less liberal with credits, but allowed that all things are possible and the committee is here to listen. Regarding the credits set to expire [on June 30, 2016], he asked what would not get done that would have qualified were the credits to expire summer 2017 instead of this coming summer.

MR. TANSY answered that Ahtna would potentially be pushing the deadline to get the rig out into the region. The rig constitutes the majority of the costs for the drilling program, probably \$120,000 a day for rig costs and other essential services. So, if this project gets pushed out to where it sits on top of that July 1 date, anything after that July 1 date is going to be heavily impactful to Ahtna's program. Right now

Ahtna expects a \$9.4-\$10 million investment on this drilling project. With the AS 43.55.025(a)(6) and (7) tax credits Ahtna would receive roughly 73 percent, \$6.9-\$7.3 million, in return in tax credits on that investment.

REPRESENTATIVE JOSEPHSON inquired as to how many of Ahtna's exploration sites are on state land and how many not.

MR. TANSY replied that at this point all of the exploration drilling will occur on state land. He offered his belief that the formation itself is 100 percent under state land.

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The committee took a brief at-ease.

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JIM JANSEN, Chair, Lynden Incorporated; Co-Chair, Keep Alaska Competitive Coalition, related that Lynden is an Alaska truck, marine, and air transportation company that operates throughout Alaska with about 1,000 Alaska employees and hundreds of service partners throughout the state. He explained that the Keep Alaska Competitive Coalition ("Keep") was founded as the Make Alaska Competitive Coalition in 2011 to advocate for change in Alaska's oil tax policy to encourage investment in Alaska. He noted that production declined by more than 200,000 barrels per day under the uncompetitive tax policy of Alaska's Clear and Equitable Share (ACES) [passed in 2007, House Bill 2001, Twenty-Fifth Alaska State Legislature]. Keep is a broad-based group of about 8,000 Alaskans, including Alaska businesses, Native corporations, individuals, and organized labor. Keep receives no funding from the oil industry. After the defeat of the Senate Bill 21 referendum, members thought they could retire the coalition, but here the coalition is - facing another proposed change that would send Alaska backward in oil tax policy.

MR. JANSEN said he came to Alaska in 1967 and Alaska was his home before North Slope oil. He operated a trucking company through the pipeline construction era and has led Lynden since the mid-1980s recession. He and his wife Vicki have lived the dream in this great state from both a business and personal perspective, fueled by a strong economy, driven by the state's resource industries. He is now nearing the end of his working career and spending much of his energy and time working on behalf of future generations of Alaskans. He said he is here today because he is afraid that Alaska may revert to the economy

that he faced in 1967. An economy without the North Slope would be devastating for Alaska and Lynden. Lynden would be forced to make massive layoffs of its outstanding employees as things speeded toward economic ruin. He doesn't scare easily, but he fears for the state and Lynden's people if the legislature tries to solve Alaska's fiscal problems by imposing unreasonable taxes on the state's resource industries. How the state's fiscal challenge is dealt with will determine whether the Alaska enjoyed since development of Prudhoe Bay is retained. Alaska needs to adjust and live within its means, but this cannot be done on the backs of the state's resource industries. Alaskans may have to sacrifice a portion of their permanent fund dividends (PFDs) and may need to pay taxes.

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MR. JANSEN acknowledged the current situation of oil at \$30 a barrel and said everyone knows the size of the current deficit and that it needs to be dealt with sooner rather than later. The state is facing a massive fiscal crisis unseen in more than 30 years. He thanked the legislators and the governor who are willing to put Alaska's long-term economic future ahead of short-term politics. Nothing is more important for the state than to solve the budget deficit and build a sustainable economic future, but it cannot be done on the backs of an ailing industry that already pays most of Alaska's bills. He said he agrees conceptually with much of the governor's plan: use of the permanent fund earnings, reduction of the dividend program, reducing the operating budget, and instituting some new taxes. The part of the governor's plan that concerns him, however, is the proposal for yet another change to oil tax policy.

MR. JANSEN outlined three main points he wants to make this evening. First, increasing oil taxes and reducing credits at a time when the industry is losing money on Alaska production sends the wrong message to an industry that has responded well to the state's desire to see more investment and more production, especially at a time when oil prices have declined. Second, maintaining a healthy oil and gas industry is vital to Alaska's future if it is wanted to keep oil flowing through the pipeline and keep alive any serious prospects for a gasline. Third, as the painful economic transition caused by low prices is dealt with, people need to be mindful to protect the viability of all the state's resource industries as they continue to be the major source of employment and income to Alaskans, not to mention important taxpayers.

MR. JANSEN said the [current] tax structure under Senate Bill 21 does a better job of protecting revenues at low oil prices than would have the prior [ACES] tax structure. However, HB 247 would raise the gross tax from 4 percent to 5 percent and would eliminate loss credits, which would add a burden to the petroleum industry at a time when it is losing approximately \$22 per barrel produced on the North Slope. Changing the credits would effectively be a tax increase. The state wanted industry to produce oil that is expensive to get out of the ground and industry was promised an incentive to do that. And, industry did just that. Despite these sobering times, the industry has upheld the commitment it made when the legislature passed Senate Bill 21. Industry pledged to increase investment and it did, to the tune of \$5 billion. That investment has led to more production and leveling off of the production decline through the pipeline. Industry is still investing substantially more in Alaska than in other regions because Senate Bill 21 encourages investment. Compare Alaska to North Dakota, Texas, Canada, and most other provinces in the world and people can be extremely thankful to be living and working in Alaska today.

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MR. JANSEN asserted that an increased tax on the petroleum industry today would send a terrible message, namely that Alaska is a high-risk tax environment and an unreliable partner that does not live up to its commitments. A natural response from the industry would be to curtail its investments and move them to a more stable and profitable oil province. What would happen if Lynden told an oil company today that it was raising its freight rates by 25 percent? The oil company would shift its business to Lynden's competitors. Alaska, like Lynden, competes for investment and this is the wrong time to increase rates. Passage of HB 247 would mark the sixth major change in taxes in eleven years. Attracting investment requires a fair and stable tax structure. Tax credit policy should not be a whipsaw for filling the budget deficit, it should be a thoughtful approach to a stable and growing economy.

MR. JANSEN noted that Alaska's oil production peaked at over 2 million per day and is now approximately 500,000 per day. To keep a minimum flow in the pipeline, and to obtain the value of what oil remains in the state, there needs to be an industry that continues drilling and investing and that has enough faith in the state as predictable and reliable partners to invest \$50-\$60 billion in a gasline. Continually changing Alaska's tax structure makes the state predictable in the wrong sense. The

oil and gas industry, like the mining and fishing industries, provides a major source of good-paying jobs in the state's economy and hopefully will continue to do so well into the future. The tough choices that need to be made to reduce the state's deficit must be done in a way that minimizes the shock to Alaska's economy in the next several years and must be mindful of the economic base that is needed in the future.

MR. JANSEN said Alaska is fortunate to have almost \$60 billion in savings to help with the transition toward an investment-based budget. He urged that this be started by using earnings of those savings, as suggested by the governor, Senator McGuire, Representative Millett, and Representative Hawker, along with a reduced budget and carefully considered taxes and user fees to close the gap. Everyone knows that taxes on the state's resource industry are politically easier than to tax the state's residents. But the resource industries are the last place that should be looked at for quick tax revenue. Resource industries are the backbone of Alaska's economy and the oil and gas industry is swimming in an ocean of red ink. Raising taxes on resource industries is the surest way to drive away investment, which is the only way that Alaska can grow its economy.

MR. JANSEN said Alaska is fortunate to have the financial resources to survive and to prosper. What is needed now is the courage to responsibly continue to drive down the cost of state government and utilize the permanent fund as intended to fund state services. Residents will need to pay taxes. The last place to look for new revenue is to unfairly tax the very industries that drive Alaska's economic future. If they are pushed away the state's economic future is hopeless. This is the time for Alaskans to support responsible fiscal policy.

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REPRESENTATIVE SEATON offered his appreciation for everything Lynden has done and worked for in the industry. He noted that as currently scheduled, the state will owe \$623 million in refundable cash payments for credits this next year. Reducing each of the 630,000 permanent fund dividends by \$1,000 would come to a total of \$630,000. However, that would not reduce the state's budget at all if there is not some form of HB 247. Therefore, he continued, he is trying to figure out how to do a responsible job of shepherding and reforming the state's budgets if spending at this high rate of tax credits is continued. He asked where to get that money.

MR. JANSEN recognized the difficulty that legislators face and said it is very critical that it be done right. He said he doesn't claim to be an expert on tax credits and cannot tell the committee that every tax credit is appropriate and that members should be looking at some of that. But he urged that members be very cautious of increasing taxes on the industry that is so desperately needed to keep Alaska's economy strong.

REPRESENTATIVE SEATON asked whether Mr. Jansen's part of the service industry considers the tax credits that are paid out in cash as being the same thing as the tax increase included in the bill or whether Mr. Jansen would look at those as two separate portions that should be considered differently.

MR. JANSEN replied he thinks they are separate components within the bill and all components should be looked at. The most important thing to him is to not have increased hard taxes on the producing industry. Tax credits are important, they are an investment, he continued. It is not just throwing money away, the state is investing in future production and legislators must be very careful when talking about eliminating them.

[6:45:56 PM](#)

The committee took a brief at-ease.

[6:46:28 PM](#)

MIKE SALZETTI, Manager, Fuel Supply and Renewable Energy Development, Homer Electric Association, Inc. (HEA), explained HEA provides power to the western half of the Kenai Peninsula. Its service area is a combination of remote communities, industrial complexes, small urban centers, and rural areas. The service area runs south to Port Graham and Seldovia, north to Nikiski, and east to Sterling. Like most Southcentral Alaska utilities, HEA generates about 90 percent of its power via natural gas fired generation. While HEA is working to diversify its generation portfolio with smart renewables, such as its proposed 5 megawatt (MW) hydroelectric project at Grant Lake, the Battle Creek Diversion into Bradley Lake, and potential landfill gas project, the fact is that HEA will continue to rely upon natural gas for a vast majority of its power generation.

MR. SALZETTI reported that HEA recently became its own generation entity. Prior to that, HEA had to design and build a generation portfolio. It was an exciting time at HEA, but a scary time to be entering the Cook Inlet gas market as a buyer.

Gas prices were rising precipitously, the Cook Inlet Natural Gas Storage Alaska (CINGSA) facility was being constructed to help Southcentral gas and electric utilities address deliverability issues and to mitigate risk, and Southcentral utilities were conducting extensive due diligence on the possible importation of LNG to provide for future gas supply needs.

[6:48:30 PM](#)

MR. SALZETTI related that the advent of the Cook Inlet Oil and Gas Production Tax Credits saw a number of new producers and activities in the Cook Inlet. That included Hilcorp Alaska, LLC, Furie Operating Alaska, LLC, BlueCrest Energy, Inc., AIX Energy Inc., NordAq Energy Inc., Cook Inlet Energy, LLC, and Apache Corporation. Southcentral gas and electric utilities were able to sign firm gas contracts through 2018 and beyond. The LNG export facility on the Kenai Peninsula continues to operate, as does the Tesoro refinery. The recent signing of a gas contract between HEA and Furie saw the first significant decline in firm Cook Inlet gas prices in recent history. Contracts for base load gas supply based upon the Hilcorp Consent Decree prices are set at \$7.42 per thousand cubic feet (Mcf) for 2016 [signed November 2012 between State of Alaska and Hilcorp]. When its contract with Furie begins on April 1, HEA will be paying \$6.50/Mcf. Through the term of the contract, HEA will realize a 12-22 percent discount to recently agreed-upon base load gas contracts.

MR. SALZETTI said the Cook Inlet Oil and Gas Production Tax Credits appear to be working. Homer Electric Association encourages policy that ensures a tax regime that provides stability and predictability for Cook Inlet producers and that encourages exploration, development, and production that will ensure a long-term supply of natural gas for the utilities and provide for economic prosperity for HEA's member owners.

MR. SALZETTI concluded by stating that while HEA is excited about the price of \$6.50 for the gas that it will soon be purchasing from Furie, the Henry Hub price for spot market natural gas was \$1.78 per million British Thermal Units (MMBtu). So, there is a long way to go before Southcentral Alaska's gas prices are on par with the Lower 48. He said HEA appreciates the efforts of legislators in achieving a Cook Inlet oil and gas renaissance and looks forward to policy that provides for continued oil and gas activity in the Cook Inlet.

[6:50:56 PM](#)

REPRESENTATIVE SEATON understood the Hilcorp Consent Decree price was \$7.42 for 2016 and that on April 1 HEA's firm contract will go in at \$6.50. He asked whether the April 1 date is 2016.

MR. SALZETTI confirmed it is 2016.

[6:51:36 PM](#)

The committee took a brief at-ease.

[6:52:24 PM](#)

CO-CHAIR NAGEAK announced that this concludes the industry testimony this week and offered the committee's appreciation to the presenters.

REPRESENTATIVE TARR understood the committee is not going to hear presentations from Doyon, Limited, and NANA Regional Corporation, but has letters from both corporations.

CO-CHAIR NAGEAK replied yes, and reaffirmed that members have letters from the two corporations.

[HB 247 was held over.]

[6:53:21 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 6:53 p.m.