

**ALASKA STATE LEGISLATURE  
HOUSE RULES STANDING COMMITTEE**

May 11, 2016  
9:08 a.m.

**MEMBERS PRESENT**

Representative Craig Johnson, Chair  
Representative Kurt Olson, Vice Chair  
Representative Mike Chenault  
Representative Bob Herron  
Representative Jonathan Kreiss-Tomkins  
Representative Chris Tuck  
Representative Charisse Millett

**MEMBERS ABSENT**

Representative Mike Hawker

**OTHER LEGISLATORS PRESENT**

Representative Dan Ortiz  
Representative David Guttenberg  
Representative Andy Josephson  
Representative Louise Stutes  
Representative Paul Seaton  
Representative Harriet Drummond  
Representative Geran Tarr  
Representative Dan Saddler  
Representative Les Gara  
Representative Adam Wool  
Representative Laura Reinbold  
Representative Sam Kito III  
Representative Matt Claman  
Representative Ivy Spohnholz

Senator Cathy Giessel

**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) Heard & Held  
03/02/16 (H) MINUTE(RES)  
03/02/16 (H) RES AT 6:00 PM BARNES 124  
03/02/16 (H) Heard & Held  
03/02/16 (H) MINUTE(RES)  
03/07/16 (H) RES AT 1:00 PM BARNES 124  
03/07/16 (H) Heard & Held  
03/07/16 (H) MINUTE(RES)  
03/07/16 (H) RES AT 6:00 PM BARNES 124  
03/07/16 (H) Heard & Held  
03/07/16 (H) MINUTE(RES)  
03/08/16 (H) RES AT 1:00 PM BARNES 124  
03/08/16 (H) Heard & Held  
03/08/16 (H) MINUTE(RES)  
03/09/16 (H) RES AT 1:00 PM BARNES 124  
03/09/16 (H) Heard & Held

03/09/16 (H) MINUTE(RES)  
03/11/16 (H) RES AT 1:00 PM BARNES 124  
03/11/16 (H) -- MEETING CANCELED --  
03/14/16 (H) RES AT 1:00 PM BARNES 124  
03/14/16 (H) Heard & Held  
03/14/16 (H) MINUTE(RES)  
03/14/16 (H) RES AT 6:00 PM BARNES 124  
03/14/16 (H) Heard & Held  
03/14/16 (H) MINUTE(RES)  
03/16/16 (H) RES AT 1:00 PM BARNES 124  
03/16/16 (H) Scheduled but Not Heard  
03/18/16 (H) RES AT 1:00 PM BARNES 124  
03/18/16 (H) Scheduled but Not Heard  
03/19/16 (H) RES AT 1:00 PM BARNES 124  
03/19/16 (H) Heard & Held  
03/19/16 (H) MINUTE(RES)  
03/21/16 (H) RES AT 1:00 PM BARNES 124  
03/21/16 (H) Heard & Held  
03/21/16 (H) MINUTE(RES)  
03/21/16 (H) RES AT 6:00 PM BARNES 124  
03/21/16 (H) -- MEETING CANCELED --  
03/22/16 (H) RES AT 1:00 PM BARNES 124  
03/22/16 (H) Heard & Held  
03/22/16 (H) MINUTE(RES)  
03/22/16 (H) RES AT 6:00 PM BARNES 124  
03/22/16 (H) Moved CSHB 247(RES) Out of Committee  
03/22/16 (H) MINUTE(RES)  
03/23/16 (H) RES RPT CS(RES) NT 5DP 1DNP 1NR 2AM  
03/23/16 (H) DP: CHENAULT, OLSON, JOHNSON, NAGEAK,  
TALERICO  
03/23/16 (H) DNP: TARR  
03/23/16 (H) NR: HERRON  
03/23/16 (H) AM: SEATON, JOSEPHSON  
03/23/16 (H) RES AT 1:00 PM BARNES 124  
03/23/16 (H) <Bill Hearing Canceled>  
03/24/16 (H) FIN AT 9:30 AM HOUSE FINANCE 519  
03/24/16 (H) Heard & Held  
03/24/16 (H) MINUTE(FIN)  
03/25/16 (H) RES AT 1:00 PM BARNES 124  
03/25/16 (H) <Bill Hearing Canceled>  
03/31/16 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
03/31/16 (H) Heard & Held  
03/31/16 (H) MINUTE(FIN)  
03/31/16 (H) FIN AT 5:00 PM HOUSE FINANCE 519  
03/31/16 (H) Heard & Held  
03/31/16 (H) MINUTE(FIN)  
04/01/16 (H) FIN AT 1:30 PM HOUSE FINANCE 519

04/01/16 (H) Heard & Held  
 04/01/16 (H) MINUTE(FIN)  
 04/01/16 (H) FIN AT 5:00 PM HOUSE FINANCE 519  
 04/01/16 (H) Heard & Held  
 04/01/16 (H) MINUTE(FIN)  
 04/02/16 (H) FIN AT 8:30 AM HOUSE FINANCE 519  
 04/02/16 (H) -- Continued from 4/1/16 --  
 04/02/16 (H) FIN AT 2:00 PM HOUSE FINANCE 519  
 04/02/16 (H) -- Public Testimony --  
 04/04/16 (H) FIN AT 8:30 AM HOUSE FINANCE 519  
 04/04/16 (H) Heard & Held  
 04/04/16 (H) MINUTE(FIN)  
 04/04/16 (S) RES AT 3:30 PM BUTROVICH 205  
 04/04/16 (S) <Pending Referral>  
 04/05/16 (H) FIN AT 8:30 AM HOUSE FINANCE 519  
 04/05/16 (H) Heard & Held  
 04/05/16 (H) MINUTE(FIN)  
 04/05/16 (S) RES AT 3:30 PM BUTROVICH 205  
 04/05/16 (S) <Pending Referral> -- Invited Testimony  
 Only --  
 04/06/16 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/06/16 (H) Heard & Held  
 04/06/16 (H) MINUTE(FIN)  
 04/06/16 (S) RES AT 3:30 PM BUTROVICH 205  
 04/06/16 (S) <Pending Referral> -- Invited Testimony  
 Only --  
 04/07/16 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/07/16 (H) <Bill Hearing Canceled>  
 04/07/16 (S) RES AT 3:30 PM BUTROVICH 205  
 04/07/16 (S) <Pending Referral> --Invited Testimony  
 Only--  
 04/08/16 (H) FIN AT 8:30 AM HOUSE FINANCE 519  
 04/08/16 (H) -- MEETING CANCELED --  
 04/08/16 (H) FIN AT 1:30 PM HOUSE FINANCE 519  
 04/08/16 (H) Moved CSHB 247(FIN) Out of Committee  
 04/08/16 (H) MINUTE(FIN)  
 04/08/16 (S) RES AT 3:30 PM BUTROVICH 205  
 04/08/16 (S) <Pending Referral> --Invited Testimony  
 Only--  
 04/09/16 (H) FIN RPT CS(FIN) NT 1DP 4DNP 2NR 4AM  
 04/09/16 (H) DP: THOMPSON  
 04/09/16 (H) DNP: PRUITT, WILSON, KAWASAKI, GATTIS  
 04/09/16 (H) NR: SADDLER, NEUMAN  
 04/09/16 (H) AM: GARA, GUTTENBERG, EDGMON, MUNOZ  
 04/09/16 (S) RES AT 9:00 AM BUTROVICH 205  
 04/09/16 (S) <Pending Referral> --Invited Testimony  
 Only--

04/09/16 (S) RES AT 2:30 PM BUTROVICH 205  
 04/09/16 (S) <Pending Referral> --Invited Testimony  
 Only--  
 04/11/16 (S) RES AT 3:30 PM BUTROVICH 205  
 04/11/16 (S) <Pending Referral> -- Invited Testimony  
 Only --  
 04/13/16 (H) BEFORE HOUSE IN THIRD READING  
 04/13/16 (H) RETURNED TO RLS COMMITTEE  
 04/13/16 (S) FIN AT 1:30 PM SENATE FINANCE 532  
 04/13/16 (S) <Pending Referral> Invited Testimony  
 04/13/16 (S) FIN AT 5:00 PM SENATE FINANCE 532  
 04/13/16 (S) <Pending Referral> Invited Testimony  
 04/14/16 (S) FIN AT 8:00 AM SENATE FINANCE 532  
 04/14/16 (S) <Pending Referral>  
 04/14/16 (S) FIN AT 1:30 PM SENATE FINANCE 532  
 04/14/16 (S) <Pending Referral>  
 04/14/16 (S) FIN AT 5:00 PM SENATE FINANCE 532  
 04/14/16 (S) <Pending Referral>  
 04/20/16 (H) RLS AT 2:00 PM GRUENBERG 120  
 04/20/16 (H) -Postponed to a Call of the Chair on  
 4/21/16 TBD-  
 04/21/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/21/16 (H) -Postponed to a Call of the Chair on  
 4/22/16 TBA-  
 04/22/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/22/16 (H) -Postponed to a Call of the Chair on  
 4/23/16 TBA-  
 04/23/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/23/16 (H) -Postponed to a Call of the Chair on  
 4/24/16 TBA-  
 04/24/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/24/16 (H) -Postponed to a Call of the Chair on  
 4/25/16 TBA-  
 04/25/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/25/16 (H) -Postponed to a Call of the Chair on  
 4/26/16 TBA-  
 04/26/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/26/16 (H) -Postponed to a Call of the Chair on  
 4/27/16 TBA-  
 04/27/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/27/16 (H) -Postponed to a Call of the Chair on  
 4/28/16 TBA-  
 04/28/16 (H) RLS AT 0:00 AM GRUENBERG 120  
 04/28/16 (H) -- Meeting Postponed to 5/2/16 --  
 05/02/16 (H) RLS AT 9:30 AM BELTZ 105 (TSBldg)  
 05/02/16 (H) -- Meeting Postponed to 5/3/16 at 9:30  
 a.m. --

05/03/16 (H) RLS AT 9:30 AM BELTZ 105 (TSBldg)  
05/03/16 (H) -- MEETING CANCELED --  
05/10/16 (H) RLS AT 9:30 AM BILL RAY CENTER 208  
05/10/16 (H) Heard & Held  
05/10/16 (H) MINUTE(RLS)  
05/11/16 (H) RLS AT 9:00 AM BILL RAY CENTER 208

**WITNESS REGISTER**

RANDALL HOFFBECK, Commissioner  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Made opening comments and introduced Ken Alper to give a presentation related to HB 247.

KEN ALPER, Director  
Tax Division  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Offered a PowerPoint Presentation regarding HB 247.

KARA MORIARTY, President/CEO  
Alaska Oil and Gas Association (AOGA)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented information regarding the possible effects on the oil and gas industry from "Version D" - a proposed committee substitute for HB 247.

DAN SECKERS, Tax Counsel  
ExxonMobil Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

PAT FOLEY, Senior Vice President  
Caelus Energy Alaska, LLC  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247, with focus on the North Slope.

SCOTT JEPSEN, Vice President  
External Affairs and Transportation  
ConocoPhillips Alaska, Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** During the hearing on HB 247, gave a PowerPoint presentation regarding Tax Credits and their applicability to ConocoPhillips Alaska, Inc.

PAUL RUSCH, Vice President  
Finance  
ConocoPhillips Alaska, Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

BILL ARMSTRONG, President  
Armstrong Oil & Gas  
Denver, Colorado

**POSITION STATEMENT:** Testified during the hearing on HB 247.

BENJAMIN JOHNSON, President/CEO  
BlueCrest Energy, Inc.  
Dallas, Texas

**POSITION STATEMENT:** Offered a PowerPoint presentation during the hearing on HB 247.

JOE REESE, Senior Managing Tax Counsel  
BP Exploration (Alaska) Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Provided BP Alaska's views on tax policy during the hearing on HB 247.

DAVID WILKINS, Senior Vice President  
Hilcorp Energy  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

RENA DELBRIDGE, Staff  
Representative Mike Hawker  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Placed on the record a document, titled "Answers to questions on Rules CS," during the hearing on HB 247.

ALLISON BARNWELL  
Seward, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247 and in opposition to Version D.

NORMAN VAN VACTOR  
Dillingham, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

WILLIAM JOHNSON

No address provided

**POSITION STATEMENT:** During the hearing on HB 247, testified in opposition to the state's paying of tax credits.

ANN RAPPOPORT

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of the governor's original version of HB 247 and in opposition to tax credits proposed under Version D.

DIANNE MACRAE

Kasilof, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247 and in opposition to Version D.

DAVE HANSON

No address provided

**POSITION STATEMENT:** Testified in support of the original version of HB 247 and in opposition to Version D.

TRISTAN GLOWA

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D and in support of the original version of HB 247.

JAMES JACOBSON

Kodiak, Alaska

**POSITION STATEMENT:** During the hearing on HB 247, testified against giving tax credits to oil and gas companies.

STEVEN SUTHERLIN

Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247 to encourage the state and the industry to work together.

ANDY BOND

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

JEANIE PIERCE

Kasilof, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D to HB 247.

JAMES SQUYRES

Rural Deltana, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

WILLIAM JOHN NEUMEISTER

Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

BRAD FLUETSCH

Douglas, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

MARLEANNA HALL, Executive Director

Resource Development Council for Alaska, Inc. (RDC)

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

CARL PORTMAN

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

ROY J. TANSY, JR., Executive Vice President

Ahtna Netiy'e', Inc.

Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

MARK MORRIS

Juneau, Alaska

**POSITION STATEMENT:** During the hearing on HB 247, testified in opposition to the elimination of tax credits.

DOUG WOODBY

Juneau, Alaska

**POSITION STATEMENT:** Testified to ask the committee to return to the original version of HB 247 as a starting point.

JUDY CRONDAHL

Juneau, Alaska

**POSITION STATEMENT:** Testified in support of Governor Walker's original proposal on tax credits during the hearing on HB 247.

JOHN SONIN

Juneau, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

RICHARD STEELE  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of returning to the original version of HB 247.

BILL WARREN  
Nikiski, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

GEORGE PIERCE  
Kasilof, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247 and in opposition to Version D.

DAVID OTNESS  
Cordova, Alaska

**POSITION STATEMENT:** Testified about his concern over Alaska's financial future during the hearing on HB 247.

DANIEL K. DONKEL  
Donkel Oil and Gas, L.L.C.  
Daytona Beach, Florida

**POSITION STATEMENT:** Testified during the hearing on HB 247.

BOB SHAVELSON, Executive Director  
Cook Inletkeeper  
Homer, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

PAMELA THROOP  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the governor's bill, HB 247.

MERRICK PEIRCE  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

KATI CAPOZZI  
Eagle River, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247, including the original version and all the proposed committee substitutes to date.

MICHAEL JEFFERSON  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247 in all its forms.

WILLIAM TOPEL  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

LISA HERBERT, President/CEO  
Greater Fairbanks Chamber of Commerce  
North Pole, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

ROBERT BULMER  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247 to encourage incentives and discourage taxation.

STUART COHEN  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of the governor's original version of HB 247.

CURTIS THAYER, President/CEO  
Alaska Chamber  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of a long-term, stable tax policy instead of passing HB 247.

PAM GOODE  
Rural Deltana, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 247.

TIM ROBINSON  
Wasilla, Alaska

**POSITION STATEMENT:** Testified during the hearing on HB 247.

HAROLD BORBRIDGE  
(No address provided)

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

SCOTT KANYA

Anchorage, Alaska

**POSITION STATEMENT:** During the hearing on HB 247, recommended the State of Alaska adjust to the current economic climate and lower the tax credits to oil companies.

LYNNETTE CLARK

Fox, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

CARLY DENNIS

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of the governor's version of HB 247.

CATHY WALLING

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

MICHELLE WILSON NORDHOFF

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to Version D of HB 247.

EMILY FERRY

Juneau, Alaska

**POSITION STATEMENT:** Testified in support of the original version of HB 247.

LOIS EPSTEIN

Juneau, Alaska

**POSITION STATEMENT:** Testified in support of the governor's original version of HB 247.

PAMELA MILLER

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of the governor's original version of HB 247 and in opposition to Version D.

#### **ACTION NARRATIVE**

[9:08:19 AM](#)

**CHAIR CRAIG JOHNSON** called the House Rules Standing Committee meeting to order at 9:08 a.m. Representatives Chenault, Olson, Herron, Millett, Kreiss-Tomkins, Tuck, and Johnson were present at the call to order. Other legislators present were Representatives Ortiz, Guttenberg, Josephson, Stutes, Seaton, Drummond, Tarr, Saddler, Gara, Wool, Reinbold, Kito III, Claman, and Spohnholz, and Senator Giessel.

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

[9:08:43 AM](#)

CHAIR JOHNSON announced that the only order of business would be 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."

[9:08:50 AM](#)

CHAIR JOHNSON reminded the committee that pending from the prior day's meeting was a motion by Representative Olson to adopt the committee substitute (CS) for HB 247, Version 29-GH2609\D, Nauman/Shutts, 5/6/16, as a working document, with objection made by Chair Johnson. Chair Johnson removed his objection.

[9:09:00 AM](#)

REPRESENTATIVE TUCK objected, then removed his objection. There being no further objection, Version D was before the committee as a working document.

[9:10:20 AM](#)

The committee took a brief at-ease at 9:10 a.m.

[9:10:31 AM](#)

CHAIR JOHNSON announced that the committee would hear from the Department of Revenue.

[9:11:01 AM](#)

RANDALL HOFFBECK, Commissioner, Department of Revenue (DOR), stated that much had been learned over the last four months about Governor Bill Walker's proposal [the original version of HB 247], especially regarding prolonged oil prices, the impact of carrying over losses, and the long-term viability of the current tax structure. He opined that HB 247 proposes a great deal to rectify many of those long-term issues associated with the "carry forward" of net operating losses. Regarding concern over revenue forecast, particularly as it relates to operating costs and capital expenditures associated with cuts and costs made by the industry in a low-price environment, he noted that the department had provided a document to the committee comparing forecasted expenditures to actual expenditures. He said it shows the forecast was in line with expectations; the forecast was for a reduction in costs, and the operating expenditures match the forecast, at least through March, while the capital expenses are a little higher than what was forecasted. He said DOR knows there would be substantial changes made in the next few months, and the department would need to continue to update the legislature on those.

COMMISSIONER HOFFBECK said the price per barrel of oil (bbl) is higher than forecasted. The forecasted price for 2016 was

\$40/bbl, but right now prices are in the \$44-\$45/bbl range. He said there would be a price higher than \$40 for fiscal year 2016 (FY 16) short something catastrophic happening in the next two months. He stated, "That is not insignificant, because ... around that \$45 price point is where we start seeing where there are actually losses to carry forward or not, and so we're kind of teetering back and forth on that price point." He reiterated that the forecast and the reality are relatively consistent.

[9:14:12 AM](#)

COMMISSIONER HOFFBECK stated another topic of concern that has been brought up is how to deal with carry forwards in relation to a net tax. He said he heard discussions about what Australia, Norway, and the United Kingdom (U.K.) do in terms of "allowing these to be carried forward in their tax structure," but he warned that isolating one component of a tax structure is "fraught with peril." He recommended looking at information in a report generated last January by the Oil & Gas Competitiveness Review Board, beginning on page 73, which compares and highlights the complexity of tax regimes of the U.S., Australia, Norway, and the U.K.

COMMISSIONER HOFFBECK, regarding the carry forward, stated the following:

This is not an income tax; it is a severance tax; and by definition severance taxes are different than income taxes. We have chosen to calibrate our severance tax using that income, but that does not turn it into an income tax, and therefore we do not have to follow [Internal Revenue Service] (IRS) rules or state rules as far as how we treat the severance tax. We do have a corporate income tax in the state of Alaska; we do have a separate oil and gas income tax. Those losses are available to be carried forward under the income tax regime, but this is a severance tax, and a severance tax is a tax imposed on the removal of a nonrenewable resource from the taxing jurisdiction. And ... it's the opinion of the administration that that ... simply should not go below zero; that we should not be able to carry forward losses on the severance tax portion of our tax structure.

[9:16:30 AM](#)

KEN ALPER, Director, Tax Division, Department of Revenue (DOR), stated that as not all members of the House Rules Standing Committee had heard the bill previously, the first few slides in the presentation reflect basic facts and figures. Following those, he indicated, would be the specific provisions under and pros and cons of Version D, along with Governor Walker's concerns with that version. He stated his concurrence with the idea that "this is a severance tax and we do not want it to go below zero."

MR. ALPER directed attention to slide 2, titled "Major Bill Concepts in Governor's Proposal." He said the governor supports the sunset of exploration credits, which for the most part were already scheduled to sunset, and a transition into a post exploration support environment. The governor also supports: phasing out of the Cook Inlet drilling credits; putting a cap on the amount of repurchase to "limit the open-endedness of the current system"; the removal of exception and loopholes that lead to unintended consequences in existing law; strengthening of the minimum tax to ensure that the small revenue the state got at low prices is protected; the increase of the minimum tax rate to 5 percent; other technical language cleanup; transparency; interest rate reform; and "lots of other doo-dads." He said the governor's bill is a complex bill, and Version D remains complex, as well.

[9:18:38 AM](#)

REPRESENTATIVE MILLETT recalled that Governor Walker had talked about not changing Senate Bill 21. She said it would be helpful if Mr. Alper would point out any changes that had been made to that previous piece of legislation.

MR. ALPER responded that HB 247 was constructed to "dance around the edges" of Senate Bill 21, but not to "get into the meat of it." He stated that for the most part, the tax system predated Senate Bill 21; it was part of Alaska's Clear and Equitable Share (ACES). The core provisions of the tax system put in place in 2013 - the 35 percent flat tax, the per-barrel credit, and the new oil provision for the gross value reduction (GVR) - were not touched in the governor's proposed bill. He stated, "The bill has evolved in that now the ... [gross value reduction] we're talking about sunseting or graduating new oil into old - that is probably the most overt imposition on the core provisions of Senate Bill 21 you'll see anywhere, in this bill or any other version of the bill."

[9:20:12 AM](#)

MR. ALPER continued to slide 4, titled "FY 2007 thru 2015, \$7.4 Billion in Credits." He stated that from FY 07, which saw the passage of production profits tax (PPT) and the transition to a net profit-based tax system, through the end of FY 15, the State of Alaska put \$7.4 billion in tax credits. Mr. Alper said that is a little misleading, because more than half, \$3.3 billion, are North Slope credits against tax liability. He said, "Strictly speaking, those are subtractions from the tax that we never see, and in most cases those are baked into the tax system." He said ACES had a high tax, with a 20 percent capital credit, which adds up to about \$4.3 billion. He said Senate Bill 21 has a high base rate of 35 percent with the per-barrel credit. He added, "That per-barrel credit is in there." He stated that DOR believes that if those credits had not existed, "the underlying tax probably would have been lower in the legislative consensus of that time," so, "we kind of set that \$4.3 billion aside and talked about the other \$3 billion in credits - ... the refunded credits: \$2.1 [billion] refunded on the North Slope for the new producers and the explorers developing new fields; \$900 million in non-North Slope, primarily Cook Inlet; and another \$100 million ... credits used against tax liability ... in Cook Inlet ...."

MR. ALPER said under statute there are tax caps in place for Cook Inlet. The \$100 million in credits, shown on slide 4, reflects the small producer credit used against small gross taxes that exist in Cook Inlet. Further, there are \$500-\$800 million in taxes that were not received. He said, "We've tried to calculate a value to those tax caps that were put in place in Cook Inlet."

[9:22:08 AM](#)

REPRESENTATIVE CHENAULT asked what was paid out of the \$4.3 billion under ACES versus under Senate Bill 21.

MR. ALPER said he could get that information. He said almost all of it is under ACES, because 2014 and 2015 are the years for Senate Bill 21. He said there were about \$600 million in the per-barrel credit in FY 14 and much less than that for FY 15, because the numbers were already declining. He concluded that fewer than \$1 billion of the \$4.3 billion was paid under Senate Bill 21.

[9:22:58 AM](#)

REPRESENTATIVE TUCK asked, "Was that due primarily because of prices or because of structure?"

MR. ALPER answered that the structure of Senate Bill 21 is a sliding scale credit that tends to increase as the price of oil decreases until about \$80, and then it tends to decrease again, "because the minimum tax gets in the way and cuts off the ability of companies to use the per-barrel credit." He said in FY 14, based on the approximate \$100 price of oil at the time, there were about \$600 million of per-barrel credits used, at roughly \$4-\$5 per-barrel credit; by FY 15, prices were dropping to where companies might be earning \$8 but were only able to claim \$2 or less, depending on what point in the fiscal year it was. He concluded, "So, it's a little bit of both, I guess."

9:24:06 AM

MR. ALPER directed attention to slide 5, titled "Total Petroleum Revenue FY 2007 thru 2015." He stated that the petroleum revenue that came in while the state spent the aforementioned \$7.4 billion is over \$61 billion. The largest feature of that amount, he said, was the [\$32.8 billion] production tax for the North Slope. Also from the North Slope, the state got \$15 billion in unrestricted royalties; \$4.7 billion in other general fund (GF) revenue, which is corporate income tax and property tax from oil; and \$8.7 billion in restricted revenue, the great majority of which is 25 percent or more of royalties that go into the Alaska permanent fund principal. For the Cook Inlet [and Middle Earth], the amount was \$1 billion [and was made up of <\$0.1 billion in production tax, \$0.5 billion in unrestricted royalties, \$0.3 billion in other GF revenue, and \$0.2 billion in restricted revenue.]

MR. ALPER moved on to slide 6, titled "Statewide Tax Credits and Unrestricted Petroleum Revenue." He drew attention to the red box, which highlights unrestricted petroleum revenue for FY 15, FY 16, and FY 17. He said the bar on the left indicates the revenue before any credits used against liability; the middle bar indicates the actual revenue that shows in the reports; and the dark red bar on the right indicates the revenue after subtracting the refundable tax credits paid to the oil and gas industry. The latter number has shrunk and, in FY 17, has gone below zero. He confirmed that in FY 17 the state was paying out more in tax credits than its total unrestricted gas revenue.

MR. ALPER emphasized the importance of broadening "the context in time" to understand "why this all exists." He pointed to the left of the bar chart that shows that in FY 07 the tax credits were a much smaller offset of a much larger revenue system. He said when the state was receiving between \$4 billion and \$9 billion a year in oil and gas revenue, it was logical to invest a few hundred million dollars in its future to "encourage tomorrow's oil today." What has happened, though, is that "the cost of this has stayed the same or even increased, while our revenue has decreased, and it's gotten to become a much larger part of the pie as the credits themselves." Mr. Alper said more troubling is the chart at FY 18 and beyond, where DOR's forecast shows an oil and gas revenue of less than \$2 billion per year, with the credits maintaining so that there is not that much revenue to offset.

MR. ALPER noted that the blue line on the chart shows the carry forward net operating loss (NOL) credits, which is something that came to be with the spring forecast. He explained that DOR started to see for the first time major producers having operating losses that are not cashable because of the way Alaska's current law is written: if a company produces more than 50,000 barrels a day, it can't get cash for its credits. He said, "So, we have to track those separately. Those are built up over the next couple years and then used up in the years after that offsetting companies' taxes as the price starts to recover."

[9:27:08 AM](#)

MR. ALPER directed attention to slide 7, which shows that the governor, through his line item veto, capped the FY 16 fiscal appropriation to \$500 million. Of that, \$473 million has been paid out to date; about \$200 million to the North Slope and \$273 million to non-North Slope, primarily Cook Inlet and Middle Earth. There are \$27 million left in the fund, with \$4 million in-process claims, which means by the time all those go through there will be about \$23 million left. Meanwhile, he continued, there are \$675 million in applications at DOR, which will be reviewed by the Tax Division and issued over the summer. He said the \$675 comprises [\$10 million] in older NOL credits; [\$22 million] in older explorations credits; \$552 million in 2015 spending credits - operating loss credits on both the North Slope and Cook Inlet, and the capital and well lease expenditure credits, which are Cook Inlet and Middle Earth credits that will be issued in July. He named the remainder: \$60 million in 2015 exploration credits and \$31 million expected

[via amended returns]. He said DOR forecasts \$775 million in actual spending for FY 17. He said based on preliminary information from producers, \$120 million is needed and would come from some of the first and second quarter capital and low-lease expenditure credits in Cook Inlet, but the bulk of it would be exploration credits. He said there are large exploration projects, the exploration credit system will sunset on July 1, 2016, and "we're seeing a couple of circumstances where companies are spending a bunch of money on exploration projects that might be a little premature for their own business need, but because we're paying, in some cases, 85 percent of the cost, it's in their interest to get that work done now before ... those credits sunset."

[9:29:41 AM](#)

REPRESENTATIVE MILLETT asked Mr. Alper to clarify if he was saying that companies are out spending money because the credits are going away or that they are making poor business decisions.

MR. ALPER responded that he was not saying businesses are making poor business decisions, but rather that they are making business decisions in their own best interest. He continued:

From the point of view of the company, on the North Slope, say, the operating loss credit's 35 percent. In 2015, it was 45 percent. There's also a 40 percent exploration credit for expenses that meet that definition. That is a limited duration credit that's scheduled to sunset in 2016. So, if a company sees a possibility - if they own an asset that they want to drill some exploration wells - it might not fit into their production plans for a decade or more. We don't know. But you might be seeing people doing the exploration drilling now simply because they can get an 85 percent credit on it, whereas if they waited one year longer, they'd only be getting a 35 percent credit on it.

MR. ALPER said, for example, that Caelus Energy Alaska, LLC, ("Caelus") has its Smith Bay asset 60 miles west of Alpine, far out into the National Petroleum Reserve - Alaska (NPR-A), with no infrastructure or possibility in the short term of building a pipeline that would bring oil back to pump station one, but Caelus embarked upon a drilling exercise last year at an expense of approximately \$100 million. He said that is not oil that is

likely to be seen for a decade or more, but the money was spent in 2015 because of the 85 percent credit.

REPRESENTATIVE MILLETT offered her understanding that during the time of ACES and Senate Bill 21, the whole idea behind having credits was to encourage exploration and get more oil in the pipeline. She continued, "And so, now, we're blasting folks for going out and doing exactly the behavior that we wanted to invest in and wanted to encourage so we could take [the Trans-Alaska Pipeline System] (TAPS) and have ... a longer lifespan."

[9:32:24 AM](#)

COMMISSIONER HOFFBECK responded that "we're not blasting anybody" for making good business decisions based on the available tax regime that was in place. He explained that increased activity around the expiring of a credit is a good business decision and was mentioned just as a point of reference.

[9:33:12 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked for an historical context of credits over the last three or four years compared to what DOR is observing now that the sunset date is approaching.

[9:33:49 AM](#)

MR. ALPER said table 8-4, in the spring update of the Revenue Sources Book, shows the history of the different sub-types of credits each year. He recollected that DOR has paid out \$25-\$50 million a year in exploration credits, which have been a small but steady component of the "overall credit spend" over the years. He said DOR anticipates an expense in FY 17 that could approach \$100 million because of the last-minute exploration credits.

[9:34:22 AM](#)

CHAIR JOHNSON asked if there are companies that are "accelerating" with the visible result of more production.

COMMISSIONER HOFFBECK answered yes.

CHAIR JOHNSON suggested that the situation is like a double-edged sword. He surmised that in order to get production on

line sooner, "we have to sort of pay for it, but we get that oil in the pipeline to get royalties or wherever it's coming from."

COMMISSIONER HOFFBECK responded, "That's correct."

MR. ALPER added, "Implicit in all of this was ... a desire to bring new companies to Alaska and diversify the players on the North Slope, and that has been somewhat successful - ... in some ways too successful, and now we can't afford it anymore, and that's why we're here."

[9:35:19 AM](#)

REPRESENTATIVE TUCK asked for confirmation that the expiring credits being referred to are ones that were already set to expire - that there is nothing in Version D that would change that.

COMMISSIONER HOFFBECK answered that's correct.

MR. ALPER, in response to a follow-up question from Representative Tuck, stated that the exploration credit structure predates PPT and ACES; it goes back to 2003. He said it was a percentage of expenditures that were "layered in there on top of [the economic limit factor] (ELF), in 2003," and have been extended from its original five-year sunset. The most recent extension moved the sunset to July 1, 2016. He said if Alaska's fiscal system was in a different position, the legislature might be considering another extension, but DOR has not seen disagreement over the plan to let the credits sunset this year.

[9:36:23 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked for clarification that sometimes the credits result in 85 percent reimbursement in capital expenditure.

MR. ALPER responded:

Only in 2014 and 2015. The exploration credit has always peaked out at 40 percent. ... They are so-called, "stackable," meaning you could earn that credit and also earn a net operating loss credit. The operating loss credit on the North Slope during the ACES arrow is 25 percent. During the first two years of Senate Bill 21, that was bumped up to 45 percent.

So, there's this unique two-year historical moment where there was actually 85 percent support of exploration on the North Slope.

[9:37:12 AM](#)

REPRESENTATIVE TUCK said the exploration credits brought exploration as intended, but did not necessarily bring development. Now Alaska gives deductions not only for exploration, but also for capital and operating expenditures. He said he thinks the state has already done a lot in this arena. He said the big question regarding operating credits is whether it is necessary to give them when "that might be stuff that they might be doing anyway." He surmised that that is why it is difficult to make decisions without accurate information. He stated another big question is what the return on Alaska's investments is.

[9:38:46 AM](#)

REPRESENTATIVE KREISS-TOMKINS said he approaches this issue "from a vantage of economic agnosticism." He said the state has a finite number of dollars and is trying to create jobs, tax revenue, and royalty revenue, while getting the greatest return for those dollars. He said the state has put \$100 million into exploration credits and \$700-\$900 million into oil and gas tax credits in sum. He questioned how that return could be compared with other uses of the money, for example, if someone was given an 85 percent capital subsidy to "prospect a heli-skiing operation" or if the Alaska Mental Health Trust was given the same to "explore the Icy Cape prospect." He opined that an 85 percent reimbursement of capital is a huge subsidy for any economic sector, and he said he wants to know what the return on that investment is.

[9:40:57 AM](#)

COMMISSIONER HOFFBECK said he thinks there were several policies in play. First, the high rate of incentives was driven by the fact that the oil and gas industry was Alaska's bread and butter - it was paying 90 percent of the state's bills. He indicated that the economics do not compare to running a heli-skiing operation. He said the state wanted people looking for oil and gas, because that was the state's revenue stream. He said he thinks anyone looking back would not choose to put an 85 percent credit in place, but it was one that developed over multiple tax regimes, and some were slated to expire. He said he thinks

having multiple tax regimes over a short period of time "created a ... circumstance that maybe wasn't fully anticipated."

9:42:21 AM

CHAIR JOHNSON said that pertains to the past and he thinks an effort is being made to introduce legislation to fix the problem in the future. He asked that the focus be on "where we're going from here" rather than "how we messed up."

9:42:46 AM

REPRESENTATIVE TUCK asked how much credit savings would result from focusing only on exploration and well work, without "the operating loss and everything else."

9:43:12 AM

MR. ALPER answered that it depends on "how Cook Inlet gets measured out in what you're describing there." He said on the North Slope 90 percent of credit spending traditionally has been on operating loss, while 10 percent has been on exploration credits. For Cook Inlet, the split is closer to 50/50, because it's an ACES-based regime where the state is paying credits on well drilling and qualified capital expenditures. He said, "If we kept that and got rid of the operating loss, we'd probably take out about half." To Chair Johnson, he said:

You're absolutely right, and we're looking at a high point. Historically, the \$775 million we're anticipating paying that would be paid given the full appropriation in the FY 17 budget - that is ... based on expenditures that have already occurred. This is from 2015, which was the peak year of the 45 percent NOL credit, which had the last year of the exploration credit, which also has some credits that rolled from the prior vetoes. There's a little bit of the perfect storm before you on this slide here, and we openly and freely admit to that.

MR. ALPER said DOR expects to see this year the first claims for the refinery credit that was enacted under legislation in 2014 that gave capital credits to instate refineries, who apply for the credits when they pay their corporate income taxes. He said the first corporate income tax filings after the effective date will be in October 2016.

[9:44:58 AM](#)

MR. ALPER moved on to slide 8, which parses out where the \$3 billion in state-refunded credits went through the end of FY 15: \$1.45 billion to six North Slope projects that now have production; [\$650] million to 13 North Slope projects that do not have any production, some of which are in process or have been abandoned; and half of the remaining \$900 million to six projects in Cook Inlet that have production, while the other half went to eight non-North Slope projects that do not have production. He reported that of the \$1.45 billion toward the six projects on the North Slope, DOR is able to discern 38.5 million barrels of production through the end of FY 18, which equals a cost of \$37.30 per barrel. He explained that that sum is a little inflated, because the money has already been spent, the oil is producing, and the fields are operating, so every additional barrel will dilute or reduce the per-barrel subsidy over time. He said those projects had \$4.9 billion in total costs in lease expenditures, meaning that "our \$1.45 billion in credit refund refunded them for 29 percent of their cost." He added, "That's about our portion of a ... typical, functional development project on the North Slope over the last ten years."

REPRESENTATIVE TUCK asked Mr. Alper to confirm that the six [North Slope] projects were not producing prior to the credits being given.

MR. ALPER answered yes. He added, "This is new oil."

MR. ALPER directed attention to slide 10, titled "Cook Inlet Refundable Credits." He stated that of the \$450 million that were spent on six projects, DOR was able to discern a 55.9 million barrel of oil equivalent (BOE). He said most of the production in Cook Inlet is gas; therefore, BOEs must be used to calculate a definable number. He said, "If you turn all that to oil, it's \$7.80 per barrel; if you look at it at gas, where there's roughly 6,000 cubic feet of natural gas per barrel of oil, that's about \$1.30 per [thousand cubic feet] (Mcf) - the state's share through the credit system towards underwriting that new production. And, of course, like with the other, the state's share will decrease over time as ongoing production dilutes our prior investment." He said lease expenditures on that production were a little less than \$1.1 billion, so the state is into these projects for about 40 percent compared to 29 percent on the North Slope. He said, "... That does roughly parallel the nature of our tax system. We do have a more aggressive tax credit support or subsidy system in Cook Inlet,

primarily driven by the higher credits put in place by the 2010 Cook Inlet Recovery Act."

MR. ALPER directed attention to slide 11, titled "Cook Inlet Tax Caps." He stated that the tax rate in Cook Inlet is effectively zero; the tax rate on gas is 17 cents per Mcf. He said, "Had that gas and oil been paying taxes at the underlying tax rate, they would have paid between \$550 and \$850 million over the ... seven years between 2007 and 2013, so roughly \$700 million over a seven-year period are the taxes forgone due to those statutory tax caps, which are another advantage - another subsidy." He said the approximate volume of oil and gas produced over that time period was about 132 million BOE, which means about another \$5.30 per barrel or another 88 cents per Mcf of support through the tax caps in Cook Inlet.

[9:49:31 AM](#)

CHAIR JOHNSON said that because the [overall subject of this part of the presentation] is about credit cost, he wanted to clarify that "the cap is not a credit." He then asked, "Doesn't this expire in ... '22 and then the working group is supposed to work on that?"

MR. ALPER answered yes. He said the Cook Inlet tax caps were put in place under the PPT bill during a special session in 2006. He said it is a 15-year tax cap - a benefit that will expire on January 1, 2022, regardless of what the legislature does. He said the bill before the committee, and many previous versions of it, introduced the idea of a working group that will come up with a new tax system for Cook Inlet and other areas of the state outside of the North Slope to replace that. He said currently there is no good tax system ready to "step in place" in 2022. Refocusing on slide 11, he said the sum of the credits and tax caps put the state "into Cook Inlet gas" for roughly \$2.18 per Mcf.

CHAIR JOHNSON asked, "What other benefits did that have in Cook Inlet?"

MR. ALPER answered that additional gas was discovered, creating supply certainty for utilities in Southcentral Alaska. He said there had been significant concern about shortages and brownouts a few years ago. He said another benefit might be in keeping down the price of gas for consumers in Southcentral Alaska.

CHAIR JOHNSON began, "In terms of jobs and the economy..."

MR. ALPER proffered, "Without question. I've been out North Kenai Road; ... it was quite booming a couple years ago compared to a few years before that."

CHAIR JOHNSON said he just wanted to point out that "sometimes these investments don't always pay off back to dollars into the treasury."

MR. ALPER responded that's correct.

[9:51:31 AM](#)

MR. ALPER stated that the next slide, titled "Response to Rules Committee Substitute," begins discussion of Version D, first with an introduction, followed by positive features and concerns, and ending with a summary regarding fiscal impact. As shown on slide 13, he stated that Version D makes significant progress in meeting several goals of the administration, such as reducing future spending by rolling back credit programs, providing some strengthening of the minimum tax floor, and moving toward transparency, with greater availability of information to the public. Highlighting points on slide 14, he noted that Version D maintains several features of previous versions of HB 247, including: the inability to increase an operating loss using the GVR; substantial ramp down of Cook Inlet credits, which currently pay up to 65 percent of development costs; restoration of compound interest, with rate increase, for delinquent taxes; municipal utility lease expenditure pro-rationing; the repeal of certain dormant programs and obsolete sections in statute; surety bonding to offer some protection to local vendors in the event of bankruptcy, which has been a problem - especially in the Homer area; and local hire repurchase priority, wherein those companies that get the state's limited dollars are the ones with the most aggressive Alaska hire programs.

[9:54:01 AM](#)

REPRESENTATIVE TUCK, regarding local hire, asked how DOR would assign preference if the State of Alaska did not have enough money for repurchasing some of the tax credits and there may be companies "a little bit over the map on their local hire."

MR. ALPER responded that Version D would amend statute to require [DOR] to write regulations to determine what to do if there is not enough money. He called it a "first in - first

out" regulation, wherein "the oldest applications get paid first once the new money comes in, say in the next year." He further explained that DOR is now adding a new requirement, which would give priority to companies that have at least 80 percent Alaska hire - they would be paid first. He indicated that DOR had discussed variations on that regulation idea, such as having a more complete rank ordering related to local hire. He said there is also an open question as to whether that language could be extended to include contractors and subcontractors.

MR. ALPER, in response to a request for clarification from Representative Tuck, restated that the first in - first out regulation was created by DOR several years ago, and the aforementioned level of 80 percent Alaska hire is in Version D. He offered further detail about the process.

REPRESENTATIVE TUCK encouraged the department to "put as much weight as possible in those percentages going forward."

[9:56:28 AM](#)

MR. ALPER moved on to slide 15, which lists major and minor concerns with the structure of Version D, including: the maintaining of large future liability through carried-forward lease expenditures, because that has a similar net result in terms of reduction of future taxes for the state; a shift in favor of incumbent producers; an ongoing liability without any state pre-approval or other filter; a delay in GVR "graduation," when new oil becomes old oil, because the time is being changed from 5 years to 10; an inadvertent capital expenditure (CAPEX) tax cut, although that is going to be amended; and technical language changes that could have unintended consequences.

[9:58:13 AM](#)

REPRESENTATIVE HERRON, regarding the delay in GVR graduation, asked what number DOR would prefer and why it would be a positive choice for the state.

COMMISSIONER HOFFBECK answered that the administration favors a five-year graduation, because it would allow a field to ramp up adequately and be under production while still under the new oil provisions, without extending into "the more robust time frame." He said most of the small fields will peak in less than 10 years and be on the decline. He added, "And quite frankly we think that 10 year[s] is too long of a time frame." He said even a 5-year new oil provision is substantially longer than what is seen

in other tax regimes in the Lower 48. He said this issue is not one that was in the original version of HB 247, but was something that was discussed and flagged as a major issue, and the provision that was brought forward by the legislature is seen [by the administration] as critical.

REPRESENTATIVE HERRON remarked that there has been debate in the legislature as to whether there should be a period of time where new oil graduates to mature oil. He said [the administration] did not support that idea at first, but now is supporting a five-year period. He questioned, "Is that something that is good for the state and the industry?"

COMMISSIONER HOFFBECK responded that any time the state pulls back its support, the industry will view that as bad, because it would like new oil to stay new oil forever, as would he if he were in the same position. He opined that the number needs to be balanced in terms of what also benefits the state and works within its balance sheet and brings the expected amount in a severance tax when a nonrenewable resource is severed. He said internal discussions included consideration of a five-year sunset. He said he is unsure whether the discussion the legislature had regarding the five-year time frame was a result of [the administration's] consideration of it or was totally independent of it, but "we saw five years as something that allowed us to get through the startup period but not take all the way through the ... highest producing years of oil." He reiterated that [the administration] thinks [five years] is a good balance.

[10:01:35 AM](#)

REPRESENTATIVE TUCK commented that the testifiers had said that "these are some of the highest production years." Regarding five years versus ten, he said he would like to know what the state will lose by not capturing those severance taxes from day one.

[10:02:09 AM](#)

MR. ALPER noted that further slides may expound on the concerns listed [on slide 15]. He noted that in his presentation yesterday, Janak Mayer of analytica, Inc., presented slides, which showed high impacts under certain price scenarios, and to whatever extent the state is harming the industry, it is - in the reverse - benefiting itself. Therefore, there needs to be a balance. He said the companies currently receiving the GVR have

been getting it for about 2.5 years, because Senate Bill 21 took effect on January 1, 2014. He said if the term of five years is chosen, that is five years from the effective date; therefore, those companies would be getting that GVR for eight years, because they would have already received it for three years before the new legislation would take effect. He concluded, "To the extent we're impacting long-ago investment decisions, it's a much smaller impact on those fields currently receiving the GVR."

REPRESENTATIVE TUCK surmised that he would have to invert a chart that had been shown by Mr. Mayer the day before in order to see the impact to the state.

MR. ALPER replied that is a reasonable statement.

[10:03:49 AM](#)

CHAIR JOHNSON asked if the five years would give a company the opportunity to plan and spur development and increase oil production.

MR. ALPER answered that the GVR certainly is an incentive to make an investment, especially with smaller fields. He said part of the benefit is the ability to pay back the capital costs by making a higher profit in the early years. Apparent on all of the charts is the crossover point whereupon the company is in positive cash flow. He said, "Once they're in positive cash flow, it's just a question of the split, and what we're looking to do is increase the state's share of that cash flow in ... the later years, once ... they've crossed back over the zero line."

CHAIR JOHNSON asked for confirmation that the governor's version of HB 247 had no limit on the GVR.

MR. ALPER answered that current law had no limit on GVRs. [Having a limit] was discussed in the development of HB 247, but the governor did not want to "get too close to Senate Bill 21" and "that was perceived as being that." He said once the legislature "opened the door," the governor frankly admitted he wanted to [have a GVR limit] but had not wanted to put one in the first version of the bill.

[10:05:18 AM](#)

REPRESENTATIVE TUCK said currently the state is giving credits toward all qualifying capital and operating expenses, which is a

lot of money being given up front. He questioned when Alaska would see a return on those investments. He indicated he would understand giving a GVR if the state was not investing so much up front, "so a company has some look forward." He said a balance is needed so that if the state is giving so much up front, it gets a little more on the back end as companies start producing. He stated, "If we're not going to give a whole lot up front, then maybe we should give some sort of credit ... to get them to recover a little bit."

[10:06:10 AM](#)

MR. ALPER directed attention to slide 16, titled "Positive Features." He stated that Version D has a \$75 million per-company, per-year cap for transition years limited to small producers or developers. He said the idea is that there will be no repurchases after 2020, Cook Inlet credits will be eliminated in 2019, and - at full implementation in FY 21 - there would be about \$300 million in savings to the state. He said, "Between additional revenue through the hardened floor, as well as savings through reduced spending on tax credits, this is a substantial piece of legislation." He said the extended transition period could lead to large credit liabilities, but that would be somewhat limited by the per-company, per-year cap.

[10:07:37 AM](#)

REPRESENTATIVE KREISS-TOMKINS, referring to the prior slide, said currently the state is operating a \$700-\$900 million subsidy or incentive program, which everyone agrees is unsustainable in Alaska's current fiscal environment; therefore, the question is: "With a baseline of zero dollars, how much does this bill ... create in terms of fiscal exposure for the State of Alaska? What would the subsidy or incentive program ... cost the State of Alaska per year in full implementation in ... [FY 21]?"

MR. ALPER reiterated that "the \$775" is "an aberration - a historical high point - in our tax credit system." He said [DOR's] forecasts tend to decline in the out years, because "we don't know what companies are going to be doing; we only know what they tell us." He said the forecasted numbers by 2021-2023 are approximately \$250 million in total credit support. He said, "Based on that and based on the fiscal notes of this bill, the state will be paying out a number fairly close to zero - certainly less than \$50 million a year in tax credits in the out years."

REPRESENTATIVE KREISS-TOMKINS clarified he wants to know what the fiscal impact would be of carrying out lease expenditures, which he said he understands are substantially similar to the concept of net operating loss tax credits.

MR. ALPER said they are. He gave an example of a company that loses \$100 million developing a project in Alaska. At a 35 percent NOL credit, there would be a \$35 million credit. A large company would have to carry that forward and use it against future taxes; a small company would apply for and eventually receive a check [from the state] for \$35 million. Under [Version D], the 35 percent credit goes away, but the \$100 million lease expenditure carries forward. So, in some future year, when the price of oil goes up and there is a lot of revenue, that revenue can be offset by that \$100 million that was carried forward from the last year. The net result, he said, would be the same: a savings on \$35 million on the tax, because there is \$100 million less in income that will not be subject to the 35 percent tax. Mr. Alper said in terms of actual numbers, and as shown in the fiscal note, at the end of 2025, there will be \$716 million of future taxes that would be offset through the carry forward lease expenditures. He said that number is elastic because of the price of oil and company spending. He said roughly every dollar shift in the price of oil impacts company profitability by about \$180 million. Given that there are about 180 million barrels produced in a year with a 35 percent NOL credit, there is about \$60 million in NOL credit equivalent per dollar in the price of oil per year. He concluded, "So, we're talking about a nine-year forecast and widely varying price of oil. It's very hard to pin down that number, but based on our baseline forecast - based on the spring projection - there will be \$700 million-worth of these so called accrued offsets for future years at the end of 2025."

[10:11:46 AM](#)

CHAIR JOHNSON asked committee members to here-on-out save their questions to the end of Mr. Alper's presentation.

[10:11:56 AM](#)

MR. ALPER turned to slide 17, regarding the limited strengthening of the minimum tax floor. He said the original version of HB 247 called for a full strengthening of the floor and would have been a retroactive change, so that the 5 percent floor would be applicable back to January 2016. He said the

main concern with legacy oil was regarding the carried forward NOLs. For example, he said if a company lost money in 2015, it could use its NOL credit in 2016 to go below the minimum tax. He stated, "Because there isn't going to be a credit anymore, ... they will be paying the minimum tax, and four of those major producers will be getting the 4 percent payment." He said the \$0-\$8 per-barrel credit, which is currently limited by the floor, would, [under Version D], become a hardened limit, because the NOLs cannot go below that. Mr. Alper offered a caveat:

Before the effective date of the bill, they expect to see a moderate amount of NOL credits from those companies that had losses in the past - 2015 and then in the current year, 2016 - presuming the price of oil stays about the same. It will take ... three full years for those NOL credits to be used up, so the floor payments for FY 17, 18, and 19 will be zero, because of old NOLs that will be able to be used to go below them, and we won't actually see a fiscal impact from that specific change until FY 20.

MR. ALPER said one other issue is that the governor's original bill had sought to further harden the floor for new oil, meaning that the \$5 per-barrel credit for GVR eligible oil could not go below that amount. He said there is nothing comparable in Version D. He said the small producer and exploration credits, until they sunset, could be used to go below the floor. He explained that even though the small producer credit has expired - it had to be claimed by May 1, 2016 - once claimed, a company can get the credit for nine consecutive years. Therefore, those companies that waited until the last possible moment will continue to enjoy the up to \$12 million a year credit for the next nine years.

[10:14:15 AM](#)

COMMISSIONER HOFFBECK interjected:

We think as a severance tax, there shouldn't be a carry forward. But if there is a carry forward, this does have a significant benefit over the net operating loss, in that the net operating loss would allow a tax to go ... from 4 percent to zero. If you use ... these excess operating costs' carry forward, ... they would have no real value to the companies until oil exceeded the minimum tax, so you'd be in a \$75 price

point or higher. So, this would allow them to drive their tax to the minimum ... at higher prices 'til they use it up, but there would be no circumstance where they could drive the price to zero. So, that is a significant benefit from switching to the ... carry forward.

10:15:03 AM

MR. ALPER next directed attention to slide 18, which addressed "Transparency." He said Version D would allow the state to make public the name of each person or company that receives cash credit each year and the total amount repurchased, which is a component of what was originally proposed in the governor's version of the bill back in January 2016. He said there are some other pieces missing that [the administration] would like to see. For example, Version D does not require information about the purpose for which the credits were used; it is written to exclude the so-called corporate income tax credits, with no transparency related to who is getting the gas and LNG storage credits; and because credit repurchases are going to end in three years, "this transparency section is of limited duration and somewhat limited value, because we're only going to get information for a couple years"; and although it would be "outside the box," [the administration] would like a mechanism in place to enable the reporting of the amount of carried forward lease expenditures that companies take with them from one year into the next, as a comparable feature of the credits, which are going to end.

10:16:14 AM

MR. ALPER addressed [slides 19-24], which list [the administration's] concerns with Version D. As stated by Commissioner Hoffbeck, Mr. Alper relayed that although the issue was not in the original bill, because [the administration] was not aware last fall of the extent to which the major producers might have losses, there is increasing concern with the size and duration of operating losses and concurrent operating loss credits from the major producers - hundreds of millions of dollars in credits that would be carried forward into future years to offset future-year taxes. He said there was substantial discussion on how to reduce or even eliminate the NOL credit from the 35 percent level. He noted there had been an amendment made on the House floor to HB 247 that would have reduced the amount to 25 percent, but the amendment failed by a single vote. He said the issue has been sidestepped by Version

D, because eliminating the NOL credit and turning it into an offset against future revenue secures the 35 percent value of those losses through the lease expenditure process and moves away from any discussion about reducing the number in some manner. Mr. Alper, adjusting his previous estimate [given in response to Representative Kreiss-Tomkins], said at the end of FY 26, producers will hold losses that will offset \$715 million in future taxes. He added, "In other words, if the price of oil rebounds in 2026 to where we would be expecting \$715 million-worth of production taxes above the minimum tax, we would only be getting the minimum tax; all of that could be offset by those carried forward lease expenditures."

MR. ALPER stated that a second concern is regarding the shift in favor of incumbent producers and away from support for independents. He said this is because the independents are currently able to get cash for their credits. Eliminating that support after 2019 would mean they would be in a position where they are carrying forward their lease expenditures until they have production, which is different economically for the new company versus the older company. He explained that "the older company's only really holding it until the price of oil goes up." A major producer, thus, may have a loss, but the following year if the price of oil goes back to \$80-\$100, would be able to capture that value and offset its taxes. Conversely, companies building major new oil field projects on the North Slope might be forced to hold that operating loss for five to eight years until the fields come into production, which diminishes the companies' economics and could create incentives for them to sell off their assets to the major producers. Mr. Alper said [the administration's] modeling showed that its initial proposal of \$25 million per company, per year cap was a manageable number for the smaller projects, but probably inadequate for a large project, because that cap would dramatically impact the economics of a company that is spending hundreds of millions of dollars a year. The administration was looking at ways to address that issue for large projects. He said [Version D] goes in the opposite direction by reducing cash support to zero for a large project, and he said he is curious to hear the industry's upcoming testimony. He clarified that the difference is that incumbent producers will be able to monetize their losses as soon as prices recover, whereas independents must wait for production.

[10:20:08 AM](#)

MR. ALPER stated that there is no limit [on potential state liability]. He said although the state is an investor and partner in these projects, it has no decision-making power and cannot determine "who goes ahead." He said, "To a certain extent, this is fixed by the plan of development filter that's been added for the transition period. We are looking and have put together some language towards a pre-approval process or state loan mechanism where the state could step in and say, 'No, we are not' or 'Yes, we are going to support this project; we believe it's in the state's best interest.'" He said the plan of development language in [Version D] is broad enough to include plans of exploration, which might actually unnecessarily broaden ... the list of potential applicants. He said, "We'd be a little more comfortable if it were just developers rather than explorers." He used the example of Smith Bay, which was a \$100 million exploration project in a remote location that the state may not be in the best economic position to be supporting at the present time.

MR. ALPER talked about a problem with a conforming amendment in the bill that deleted AS 43.55.165(e)(18). He continued:

This is what's known in the trade as "the hair cut." The first 30 cents of capital expenditures are not deductible. This is supposed to be proxy for the cost of routine maintenance - keeping the pipes clean and not rusty - and that ... the legislature determined 10 years ago should not be deductible lease expenditure. Because we're eliminating the capital expenditure credit - all references to capital expenditures were also repealed - we need to put in a definition of capital expenditures for a couple of technical reasons, including this one. Otherwise, ... eliminating that 30 cent restriction will cost the state \$15-\$20 million a year in a sort of phantom tax cut once the price of oil recovers, and I understand it's not the committee's intent to do that, but that's the way the CS is currently written.

MR. ALPER, regarding GVR graduation, talked about the prior debate during discussion of Senate Bill 21 in 2013 being in the five- to seven-year range; the ten-year concept is new to the bill and would greatly reduce the benefit to the state. As he recollected Representative Tuck had remarked, he said, "Fields are already declining and we're going to be capturing a higher share of a declining resource at that point, and it is in many ways the inverse of enalytica's analysis: the longer-term

benefit has a minimal impact on the producers [and] by extension, it's also of minimal benefit to the state." He said [the administration] thinks five years is an appropriate number; seven would not [elicit a big objection from the administration]; but ten "seems unnecessarily generous."

MR. ALPER addressed new and technical language changes under Version D. He said there is language broad enough in Version D such that it would allow credits to be earned in the three-year transition period by any company, including major producers. He stated his belief that the intent was to include only non-producers. He explained the danger of including the major producers is that it would wipe out the benefit of hardening the floor. Mr. Alper next remarked that the use of the term "regular production" for the time clock to graduate the GVR is unusual and comes from Alaska Oil and Gas Conservation Commission (AOGCC) statutes. He suggested the term "sustained production" or "commercial production" might be more appropriate. He added, "There is some concern that you can game the clock a little bit by calling something pre-regular - a pilot production for a couple of years - and the clock doesn't stop until you meet some ... fairly arbitrary trigger of regular production. We have some suggested language that could change the definition and change ... the reference point as to where the clock should start."

MR. ALPER, regarding carry forward lease expenditures, relayed that currently taxes are paid by segment: first, North Slope; second, Cook Inlet oil; third, Cook Inlet gas; fourth, Middle Earth; and fifth, gas used in state. Version D would have no language to characterize carried forward lease expenditures by segment, and he said he was assured by committee staff that "the way the bill was written, only lease expenditures from ... the North Slope will be able to be carried forward anyway." He said if that is the case, "this is less of a concern"; however, the idea is to ensure that those lease expenditures are limited to be able to offset only North Slope taxes, and he is not sure if that is adequately handled in the language of Version D.

MR. ALPER stated that the carry forward expenditure language in 43.55.160(a) is a section that is in effect only through 2022. He said this is a provision that dates back to Senate Bill 138, the AKLNG bill of 2014, which brought a 13 percent gross gas tax separate from the net profit tax on oil, and it rejiggered some of the conforming language about how lease expenditures are treated. He said, "We simply need to duplicate this language for carry forward lease expenditures in the post 2022 section,

so that should it remain in effect in 2022, ... the ability to carry forward lease expenditures would remain functional the way it's intended."

[10:26:20 AM](#)

MR. ALPER directed attention to slide 25, which gives a summary of fiscal impact in a side-by-side comparison, for the years FY 17 through FY 20, of the governor's original version of HB 247, the version that passed out of the House Finance Committee and was amended on the House floor, and Version D currently before the House Rules Standing Committee. He said the governor's bill is aggressive in the immediate term, largely because of the retroactivity of the hardening and increase of the minimum tax to January 1, 2016; there is no comparable feature in any other version. He said, "In the absence of that, it's nearly impossible to have a large impact on 2017 spending." He called 2017 spending "water under the bridge," because it is tied to company activity in 2015, thus involves credits that have already been earned and the state must pay one way or the other.

MR. ALPER remarked that the slide shows strong parallels in FY 17, FY 18, and FY 19, between the bill out of the House Finance Committee and Version D, but a major diversion in FY 20. He explained what happens in FY 20 is that many of the delayed features of Version D would kick in: the elimination of the refunded credits and the hardening of the floor through the running through of old NOLs against the floor. The impact in FY 20 is \$310 million versus a much smaller impact in the prior years. He said the last line in the analysis is the NOL carry forward value, and it is apparent that the governor's original version of HB 247 had the highest number, and that is because "while keeping the 35 percent NOL, we were hardening the floor, and all those credits going back to 2017 - all of those credits that were not being used to go below the floor - were being added to the stack." He said that was part of the reason [the administration] realized it needed to reduce the NOL credit. He said Version D falls somewhere between what the House Finance Committee did and what the governor did. He stated that the fiscal note is complicated, and slide 25 provides the fiscal information in a more simplified manner. Mr. Alper announced that he had completed his presentation and was available to answer questions.

[10:28:55 AM](#)

COMMISSIONER HOFFBECK recollected that a concern had been raised as to why the restricted monies deposited into the permanent fund were not included on slide 5. He stated the reason was that "we don't have those to pay the credits." He explained that the slide shows only "where we had cash in hand to pay the credits."

10:29:32 AM

REPRESENTATIVE MILLETT said that had been her question, and she said she still would like to receive information from the department regarding [the permanent fund money] from FY 07 - FY 15.

MR. ALPER told Representative Millett that the figure of \$8.7 billion, labeled "Restricted Revenue," is the permanent fund share of royalties. He said, "You could take that \$8.7 [billion] and the \$0.2 [billion] on the non-North Slope - that's \$8.9 [billion] - subtract that \$9 billion from the [\$62 billion] and we have about \$53 million in unrestricted petroleum revenue over that time period."

10:30:17 AM

REPRESENTATIVE TUCK directed attention to slide 17, regarding the minimum tax floor, and offered his understanding that by [eliminating] the net operating loss credits, "they won't be able to go below ... production taxes - the severance taxes - ... and offset any revenue that the state may give if you go below zero." He asked for clarification regarding the floor and whether the forecasted year would be 2020, "based on how much we may expect to see the existing net operating losses continue to go on."

MR. ALPER prefaced his answer by stating that during ACES and PPT, when the floor was put in place, the tax was 4 percent of the gross, but credits could go below that. Back then there was a big, 20 percent capital credit on the North Slope, so effectively there was no floor, because everyone had enough spending to "off" the minimum tax. He added, "The price never got low enough during that era where the floor kicked in." With the elimination of the capital credit under Senate Bill 21, "we thought the floor was hardened." The per-barrel credit is what is limited by the floor; "they have to pay the 4 percent from legacy production on the North Slope - from old fields." He continued:

What we learned was credits can still go below it, but we didn't think the majors would be earning any credits. The credit ... they could still earn is this operating loss credit. If they have a loss in one year, they could use that credit to offset their minimum tax from the next year. So, we started seeing - beginning in 2016 and through FY 21 - very, very low production taxes under status quo because of operating loss credits going below the floor.

So, what this bill does is, it says, "You're not going to earn any more operating loss credits. By carrying forward your lease expenditures, you're not turning them into a credit, and therefore, you can't turn them into something that you can go below the floor with." But before the effective date, which is January 1, 2017, you have any operating loss credits that you might have already had by that point. Now, based on our estimates, that number is \$500-\$600 million, something like that. So, that \$500-\$600 million will be enough to use up three years' worth of floor payments, and that's how you get ... [to] 18, 19, and into FY 20 before they use them up.

So, based on the forecast, yes, it's 2020. The reality is that comes down to what's the price of oil for the rest of 2016. And if the companies don't have losses this year - actually make a couple of dollars - then that number's going to be much smaller and, in effect, will have a hard floor in 2017. But if we have a few hundred million dollars in losses this year, then that'll delay the hard floor for another one, two, or three years.

[10:33:46 AM](#)

REPRESENTATIVE TUCK asked Mr. Alper to describe the main differences between the governor's hard floor at 5 percent and that in Version D, and how the price of oil may affect those numbers.

MR. ALPER answered that the governor's hard floor maintained the existence of 35 percent NOL credits, so companies that had losses would earn the credit, but could not use that credit to go below the floor, but instead must carry it forward and "build up a taller stack of credits." Under the governor's plan there is an increase in the carry forward numbers over the status quo,

because the companies are not "using up their NOLs going below the floor." He continued:

So, that's the one difference is that the ... NOL credit had to be carried forward and used into the future, and that was immediate. Whereas, using the lease expenditure model, there's the delay, because all the old NOL credits could go below the floor for so long as they can.

MR. ALPER said another major change [in the governor's original version] was the hardening of the floor against other credits. He explained he was talking about the \$5 per-barrel for new oil - the GVR oil - that under current law can go to zero. He added, "And there's no change in this bill; that could still go to zero." He said there is a small producer flat credit of up to \$12 million per producer, which could go below the floor under current law. He said, "There's no change to that in this bill." He explained, "So, the governor was hardening the floor against some of these secondary credits, as well as the NOL, and it was immediate." He continued:

The committee substitute is just against what amounts to the NOL, but it does so by ... eliminating the NOL and ... moving it into the future. ... It retains the ability of using existing NOLs against the floor. The issue there is there's only so many of them; eventually they're going to get used up, and at that point the floor kicks in.

REPRESENTATIVE TUCK surmised that the NOL was "just kind of halfway discovered" and the impacts were not [anticipated]. He asked, "When did the administration discover this, and ... would the governor have done something differently with his first proposal on HB 247?"

MR. ALPER answered that the concept of operating losses has been in existence since PPT, since the day the state first talked about switching to a net profits tax. He continued:

In general those were used by companies that were in development - that didn't have production yet. We never really contemplated people actively producing oil all year and losing money at the act of doing so. ... That is a relatively new concept, given the low prices we're in right now and, frankly, ... the higher costs that companies are experiencing because of cost

inflation over the last few years and declining production.

So, we didn't see substantial numbers of major producers having losses until ... we started working on the spring forecast in February and March of this year - well into the legislative session. At that point, we started seeing the preliminary numbers and kind of had a "holy heck moment," like this is much different than anything you've seen before. ... Suddenly the universe of NOLs has increased by a factor of 10. It's not just about new guys in development; it's about our major legacy producers that produce all of our oil and all of our revenue. If they're suddenly having quite possibly billions of dollars in losses turning into many hundreds of millions of dollars of operating loss credits, how does that build up and how does that affect our ... future revenues? And that's why, in March, you started seeing the commissioner and the governor and others talking about the need to change the nature of the NOL credit itself.

MR. ALPER concluded that if the fall forecast had looked like the spring forecast, he would have expected the original bill version to look different; [the administration] would have been seeking to modify the NOL credit initially.

[10:38:10 AM](#)

REPRESENTATIVE TUCK directed attention to the comparison chart on slide 25 and remarked, "It doesn't sound like ... doing anything with the NOLs really is a Senate Bill 21 change, since that was something that we've always had under PPT."

MR. ALPER responded that NOLs have been around since PPT. The NOL credit usually has been tied to the base rate of tax, but not universally. He said under the PPT, the base rate was 22.5, with progressivity on top of that. The NOL was actually 20 [percent], and ACES base rate and NOL was 25 percent. When Governor Sean Parnell introduced Senate Bill 21, it was a 25 percent flat tax, with a 25 percent NOL - there was no progressivity. He continued:

The decision was made in committee to go to that 35 percent tax, with a per-barrel credit. ... That was a revenue neutral decision. At the expected prices, we

were going to get the same amount of money from 35 minus 5 as we were from the 25 percent. The difference was a little bit of progressivity, meaning a little bit more revenue at the high end, a little bit less revenue at the low end, and that was the desired decision. But there was no real need at that moment to bump up the NOL credit rate to 35 percent. That just sort of was carried along for the ride with the change to 35/5. In that there was no revenue benefit to the change in tax, why did we need to change the credit? That was the realization we had, and that's why it was fairly easy for us to come around and say, "Well at [the] very least, we should reduce the NOL rate down to 25 percent."

... Since then the conversation's gone ... in more aggressive directions, talking about a ... sliding scale or an elimination of carry forwards and that kind of thing.

REPRESENTATIVE TUCK, referring to the chart with the summary analysis of the bill versions, asked how much of a factor the elimination of the NOLs would have been to the governor's numbers for FY 17-20.

MR. ALPER answered that the change would have been minimal to "the dollar value of the bill." Where the change would have made an impact would be the bottom line - the carry forward number, which represents an off-set against future taxes; once the prices go up, that number would decrease dramatically.

[10:41:15 AM](#)

REPRESENTATIVE KREISS-TOMKINS offered his understanding that Mr. Alper had said that with [Version D], there is a potential for major producers to accumulate a small fortune in NOL credit subsidies, which would effectively wipe out any production tax liability through approximately 2020. He asked what the price forecasting was when [the administration] came up with "that \$500- to \$600-million figure." He said he also would like to know the relationship between the quantity of NOL tax credit subsidies and projected production tax liability "over those three years." He emphasized his conviction in ensuring that the state does not lose money on its oil resource through any tax credit mechanism but, in this case, specifically through the NOL tax credits.

MR. ALPER responded that the spring forecast for oil price is about \$39 from now through the end of FY 17. He offered his recollection that the FY 18 amount is \$43, while the number for FY 19 is about \$48, and there is a big difference between those numbers, because the break-even price is about \$46. He explained that is the moment where companies stop accumulating losses. He said there is another slide, which he had not included, which tracks carry forward losses and credits through multiple years and addresses the statutory minimum credit repurchase. The take-away from that slide, he said, is that in FY 19, 20, and 21, the price of oil is well above the break-even price, such that companies would have a tax liability in the hundreds of millions of dollars. However, the state's production tax revenue during those years was de minimis at \$10-\$15 million. He said the reason was that all of the carry forward losses from FY 16-18 were offsetting the forecasted taxes that were due in FY 19-21.

[10:44:25 AM](#)

COMMISSIONER HOFFBECK added, "We are really at that ... breaking point on whether the carry forwards will occur or not based on oil price." He mentioned an article in Bloomberg about producers, at a \$50 price point, being able to get their prices down and worldwide "stop bleeding red" and "start turning production back on." He said if that is the case, "we are going to be hovering around this territory for quite some time." He continued, "Regardless of whether we're going to be above or below that threshold in that coming year, I think we still need to ... the dynamics of what happens when we fall below it and so I think we need to correct the issue, whether we have the carry forward issue or not; in the coming year ... I think we need to put something in statute so it lets everybody know what happens if we fall back below that line again."

[10:45:29 AM](#)

REPRESENTATIVE KREISS-TOMKINS, regarding the subject of preapproval and incentive applications, mentioned the \$100 million in exploration credits coming in under the wire and other credits for speculative investment. He said the state is subsidizing the industry and wants a return on such an investment, and he opined that a clear return needs to be demonstrated when using public dollars. He expressed interest in what DOR's thinking has been in terms of "how that filtering or approval process might work." He said farmers and fishermen in Alaska don't get automatically approved for financing; they

get denied if they are not credit-worthy. He asked what DOR's conversations have been in terms of creating a return to the State of Alaska and "the people who are financing, subsidizing, or incenting this development."

COMMISSIONER HOFFBECK answered that that was exactly the conversation held when considering whether to include a preapproval process in the original legislation. He said, "We left the NOLs in as kind of a playing field leveler between the independents and the producers - again because of kind of teetering on ... [Senate Bill] 21 - and went maybe a step too far." The discussion included consideration of whether to replace the other credits with some kind of preapproved credit process "where we could be much more surgical in where we would spend our money" and look at the long-term benefits of a Smith Bay project, for example. He said, "There may be some reason that we would want to be involved in a project like that, because it may be pushing the horizons out to some place that we think they should be." He said another view is to consider the net present value of the return to the state and whether "X" amount of dollars invested into a project would ultimately result in a return in a certain period of time. He said, "We really wanted to ... make it more of a business decision on the credit structure than what we have now. I think there is still a place for the state to be involved in exploration and development, but I think we need to do it very project-specifically with a much more surgical form in place ... for approval." He mentioned a film tax credit that was cut last year, which had a very specific approval process, including a committee that reviewed the proposal and approved a "specific amount of credit for a specific project for a specific period of time," and he said he thinks that is [a method] that could be duplicated for the oil and gas tax credits so that Alaska could participate without such an open-ended system as it does currently.

[10:49:13 AM](#)

The committee took an at-ease from 10:49 a.m. to 11:02 a.m.

[11:02:00 AM](#)

CHAIR JOHNSON announced that the committee would next hear a presentation from the Alaska Oil and Gas Association related to HB 247.

[11:02:20 AM](#)

KARA MORIARTY, President/CEO, Alaska Oil and Gas Association (AOGA), noted that her ensuing testimony was supported unanimously by AOGA members. She paraphrased the first segment of her written testimony, which read as follows [original punctuation provided]:

We recognize that many of you are looking for ways to fill the state's budget gap and see increasing taxes on the oil industry as part of the solution. However, to be completely candid, the CS in question will result in disastrous long-term economic consequences to our state that will far outweigh the temporary and modest short term gains.

Before I get into more detail about how this bill will unquestionably have a negative impact on Alaska, let me first lay the foundation for those comments. I begin by asking you, our state lawmakers, what is your vision for Alaska? With that in mind, how can this proposed legislation serve your ultimate endeavors? What will the bill do to production and how will state revenues be impacted by this bill next year or even five years from now? What will Alaska's economy look like following the adoption of this bill?

More to the point, is the CS likely to increase or even provide stable throughput in the Trans-Alaska Pipeline System, "TAPS"? Will the CS incentivize workovers and production from more mature fields, or encourage new companies to invest here? Will the CS increase the diversity of companies operating in Alaska? Perhaps your vision is a stampede of new activity on the North Slope, where companies compete fiercely for acreage and resources as they forge ahead with multi-million and even multi-billion dollar projects? Or perhaps you are focused on Cook Inlet and your CS is designed to provide energy security for South Central Alaska by encouraging increased investment and production in Alaska's first oil basin? I would imagine that increased production and a healthy economy are the foundation of your long-term vision for Alaska, which is why it is paramount that I advise you that the CS will drastically undermine those goals and jeopardize Alaska's future.

As we read through this latest CS, it is unfortunate, but very clear that the CS does create new principles for Alaska. Those principles include eliminating refundable tax credits, which were the catalyst for several companies investing in Alaska. Those credits have provided, and continue to provide, a strong return for the state's investment. Another newfound principle appears to be to raise taxes on an industry that is already losing money in the state, regardless of the consequences to not only that industry but also the Alaskan economy. This CS is a flagrant money grab that will, without question, lead to less oil production, less investment, fewer Alaskans working, and ultimately, and somewhat ironically, less revenue for the State.

We understand the politics associated with this issue are challenging. We get it. And yet, to my member companies, the politics are largely irrelevant to the core of what drives decision-making, and that is economics. My member companies will not pursue projects that don't pencil out. They will not keep more Alaskans on the payroll when the State decides to take an even bigger bite out of the bottom line, which, at the moment, for some companies, is awash in red ink. The industry, recognized in the state's own data, does not have the current revenue to pay their daily bills, and it will be forced to constrict even more if a bill like this becomes law. This inevitable result will not be based on emotions or politics. It is simply a mathematical calculation. Numbers dictate investment, and a bill like this makes the numbers worse. End of story.

Ironically, with this CS, the State actually is setting the stage for an inevitable loss of revenue regardless of what credits it removes or taxes it raises. Getting back to the economics, the barrels of oil that remain in legacy and new fields, which we know are there for the taking, but require significant capital investment to recover, would lead to greater revenue to the State. And yet, instead of trying to facilitate the recovery of those volumes, this CS will raise the production tax, thus making those barrels less likely to be produced when oil prices inevitably come back up.

Again, here's the irony: Under this CS, the State will see lower oil and gas production, which will then drain State finances.

[11:08:28 AM](#)

MS. MORRIARTY drew attention to a couple PowerPoint slides she had provided. The first slide shows projected production decline curves. She said the numbers shown were sourced from recent, publicly available data. She continued to paraphrase her written testimony, which read as follows [original punctuation provided]:

For example, the owners of Prudhoe Bay just updated their plan of development and have estimated that production will decline 20,000 - 60,000 barrels per day due to the shut-down of 3 rigs and less well workovers being completed due to the low price environment. This lost drilling time could result in a 10-30% decline in Prudhoe Bay alone, which is in line with what industry has often said that the natural decline is about 10-15% without increased investment. The tax increase proposed by this CS will not help turn this around.

MS. MORIARTY referred again to the slide and stated that by using both DOR's production and price forecast, AOGA charted declines of 7, 10, 15, and 20 percent [shown alongside 4 percent], which she explained is the current forecast, even with hoped for investment. All these percentages are calculated to show production decline from 2016 to 2021. She said a 10 percent decline results in about 300,000 barrels per day in five years. She stated, "If you look at the cumulative reduction in royalty values under those same percentages, you will see that this chart highlights the possible ramification of ... [exacerbating] production decline. So, a 10 percent decline every year for the next five years would result in just under \$800 million less in royalties alone, and a 20 percent decline in production will result in a very dramatic and terrifying loss of almost \$2 billion in royalties alone."

MS. MORIARTY returned focus to production decline curves and continued to paraphrase her written testimony, which read as follows:

Adding insult to injury in this scenario, the technical aspects of operating TAPS are made more challenging because of those lost barrels, and thus

more expensive. Alyeska as stated that TAPS faces a significant operational obstacle at throughputs at around 300,000 barrels per day. Despite some of the best and most innovative people in the industry focused on this scenario, an operational solution has not yet been identified to sustain TAPS operation at this level.

The other unfortunate irony is that this resulting loss of production would come on the heels of the first year-over-year increase in oil production we've seen in 15 years. Under this ... [CS], Alaska throws out that progress with the bathwater.

So again, I ask all of you, what is your policy? In years past, focus was placed on several key components of a balanced oil and gas tax structure, including production, predictability, certainty, and competitiveness. From our view, this CS **negatively impacts every company in Alaska and violates every one of those tenets**. In addition, it has the dubious distinction of making a bad situation worse by bringing in even less long-term revenues to the state.

Alaska has been focused on increasing production on the North Slope and Cook Inlet and for good reason, because the state needs its economic engine to be successful. More production means more jobs and revenue for the state.

[11:13:08 AM](#)

This CS is a dramatic shift in Alaska's policy as it essentially eliminates key tax credits within the next 2-3 years and adversely changes some of the key elements of the existing production tax system. After weeks and weeks of analysis and examination, this committee substitute makes yet again more drastic alterations. The rapid tax credit sunset will surely have major adverse impacts to projects currently under development, and discourage others from ever seriously considering investment in Alaska in the future. The change in the application of future potential net operating losses represents an immediate tax increase and devaluation of this essential element of a net based tax system.

Alaska is the only state in the nation considering increasing taxes or eliminating incentives at this time of low price. This CS will require an even higher oil price for companies to invest in Alaska, especially for companies that are looking to explore in Alaska's very high cost environment.

If Alaska wants to retain the strong benefits it receives from the industry that develops its resources and provides over 80% of the state's revenues, there needs to be confidence that the underlying tax structure is stable and predictable. This CS certainly does not promote the stability that will encourage industry to continue investing in Alaska. In fact, it sends a strong signal to the world that Alaska is constantly changing tax policies, regardless of oil price, and regardless of the economic condition of the industry.

As an example of instability, the CS creates a new policy regarding Alaska resident hire. Let me be clear, the industry strongly supports hiring as many Alaskans as we can. It makes economic sense for the industry to do so. The current language of this provision is unclear [and] creates questions of retroactivity and questions of implementation, all of which creates additional uncertainty for industry.

In closing, the industry is not asking for a tax decrease or for tax or royalty relief while we struggle though extraordinarily low prices, and we have asked that you proceed with caution when changing tax policy.

It is my job to let you, our elected officials, know what impacts your decisions will have.

- The CS will not increase production from the Slope or Cook Inlet.
- It will not encourage new companies to invest in Alaska.
- It will not lead to more long-term revenues for the state.

- It will not increase the number of companies operating in Alaska, and will likely drive some companies out of the state.
- It will not lead to a stampede of new activity.
- It will not provide long-term energy security.

All this CS will do is provide a small amount of short-term revenue for the state, while significantly jeopardizing Alaska's long-term future.

[11:16:46 AM](#)

MS. MORIARTY offered to answer questions from the committee.

[11:17:01 AM](#)

REPRESENTATIVE HERRON asked if Ms. Moriarty could name anything good about Version D.

MS. MORIARTY answered that unfortunately none of the changes proposed in any iteration of HB 247 would provide anything positive to the industry, and ultimately that would not be positive for Alaska.

[11:17:51 AM](#)

REPRESENTATIVE KREISS-TOMKINS said that as he read through written testimony, "the language of money grabs" seems strong. He asked whose money is being grabbed. He offered his understanding that currently Alaska is subsidizing the industry with \$775 million, which Mr. Alper said is a temporary rise that will drop to about \$500 million in future years "if nothing changes." He observed that it is the state's money, yet "there's an assumption that it's your money that we, the State of Alaska, are grabbing." He asked Ms. Moriarty to comment.

[11:19:15 AM](#)

MS. MORIARTY responded that from AOGA's perspective, the state is collecting more revenue from the industry as a whole than the industry receives in credits, whether refundable or not. For example, over the past eight years, the state has generated \$61 billion from the industry while paying out approximately \$8 billion. She said that is a policy that the state created and to which the industry responded. She explained that the reason for characterizing this as a money grab is that the state is looking for additional money - whether in the form of less

credits given, which will affect investments, jobs, and production, or through increased taxes - for an industry that is losing money today. If prices stay at \$40, the state is forecasting that the industry is going to lose over \$1 billion this year, yet the state is looking to generate more money from the industry "in that scenario." She concluded, "That's why we think it's money grabbing."

REPRESENTATIVE KREISS-TOMKINS questioned who the owner of the resource is. He pointed out that while oil prices were high, there was a "sharing of that huge windfall that occurred." He said, "You noted it's simply a mathematical calculation where companies invest their dollars, and similarly, to me, it should be a mathematical calculation how the State of Alaska incents or subsidizes certain industries to get a maximum return on its dollars." He asked Ms. Moriarty if she had any thoughts regarding Mr. Alper's or Commissioner Hoffbeck's suggestion that the state should use a filtering or preapproval process to determine a demonstrated return on investment when it incents or subsidizes the industry and whether she sees that mathematical calculation working in both directions.

MS. MORIARTY responded that she is hesitant to remark on a preapproval process before seeing what it would look like; however, AOGA has always suggested it is dangerous to establish a policy in which winners and losers are chosen. She said AOGA believes the tax policy should work regardless of company, size of project, or whether that project is for exploration or development. Further, she said AOGA has long-felt that even though its members did not agree with every component of Senate Bill 21, the current structure is a solid tax policy that allows for any company to know what the rules are and to be successful in Alaska. Regarding whether the mathematical equation is fair, she emphasized that it is up to the state whether to change its policy to get more money from the industry or provide less credit to the industry, but doing so will result in a change in the industry's behavior leading to less activity, fewer jobs, and a decline in production.

REPRESENTATIVE KREISS-TOMKINS, regarding winners or losers, indicated that deferring exploration and capital costs is essentially an upfront grant for development. He mentioned again other industries, such as agriculture and fishing, which deal with revolving loans, for which they either are approved or rejected. Those other industries must prove they are worthy of receiving the money from the State of Alaska. He said, "In a certain sense, it's picking winners or losers. I think in a

more accurate sense, it's vetting ... [which] operations are economic and going to provide a safe and reasonable investment and which operations are not." He said if the State of Alaska approved every revolving loan fund application, which he offered his understanding would be similar to the tax credit system, then there would be a lot more jobs and more investment, but it would be a "paper industry" that cannot sustain itself because it relies on subsidies to exist.

MS. MORIARTY responded, "These are not grants up front." She said the companies do not apply for the credit, get the credit, and then go spend the money. The companies spend the money and create the jobs first, then apply for the credit, which may or may not be redeemed, and then get reimbursed 18-24 months later. She emphasized that this is not the same concept as a loan or grant program. The credit that is applied for after the expense is incurred is, when received, put right back into the business. She suggested that the upcoming testifiers from the industry could offer further information regarding the use of the credits. She said changing from a credit program to a loan program completely shifts the economics and feasibility of the projects.

[11:27:41 AM](#)

REPRESENTATIVE TUCK stated his belief that there are few places where the industry "has it any better" than in Alaska. He said he finds the idea of Alaska as a money grabber problematic, because the state has been reimbursing the industry and doing a good job in partnering with it. He said during ACES and when the price of oil was high, not only was Alaska able to put money in savings, but the industry made record profits. He said "we" have been preparing for a rainy day, and he speculated that the industry has done the same. He said Version D suggests a reduction in some of the cash payments. He said [the State of Alaska] jump started the industry in Cook Inlet. He noted that Mr. Mayer had testified that Cook Inlet is profitable at anywhere between \$5 and \$7 per Mcf. The state knows that what it did to give incentives and get fields into production and have sustainable gas was successful. Now the state is not collecting anything in terms of corporate or production taxes. He spoke of the promise of Senate Bill 21, the announcement by BP of a 40,000 barrel a day reduction, and the layoffs that have been taking place in spite of everything the state has been giving to the industry. He questioned how much more money the industry needs from the State of Alaska to prevent those layoffs and the 40,000 barrels per day reduction.

MS. MORIARTY replied that the industry is not asking for any more money from the State of Alaska, royalty relief, a tax deduction, or a tax deferral. She said those changes that are happening on the [North] Slope are a condition of a low-price environment. She said AGOA is saying that in that environment, increasing taxes or the removal of incentives will increase the time it takes to bring the rigs back on line. She recollected the news had reported that Prudhoe Bay may not see those rigs come back on line until 2018. Adding additional cost, she said, will increase that timeline. She further noted that at the current price environment, the government is currently at "100 percent government take." She questioned how much higher the government should go, in terms of that take, in the current price environment. Finally, she said she does not believe the million barrels a day was ever a promise by the previous administration; she recollected that it was a goal, which included not only production from state land, but also federal outer continental shelf (OCS), "which we see now will be at least another generation before we see that come on line."

[11:32:12 AM](#)

REPRESENTATIVE KREISS-TOMKINS stated that he thinks [HB 247] is a modest proposal; therefore, he is incredulous about and finds troubling Ms. Moriarty's reaction to it. He recounted that Ms. Moriarty had said she is not asking for more money from the State of Alaska, but he said it sounds like she would like the same amount of money to continue to be given. He discussed the changes in focus and price environment over the years. He asked, "Is the only acceptable scenario, to you, the status quo - that we don't change anything?"

MS. MORIARTY answered that production has increased from last calendar year to this calendar year; the production has been stemmed and is holding steady; and the decline rate for the next five years is a reflection of an improved environment before Senate Bill 21. Referring to the projected production decline curves slide again, she highlighted that back in 2013, the forecast for 2020 was about 400,000 barrels a day. She said the blue line at the top of the chart, at 2020, shows more than about 50,000 barrels per day, more than the forecast was back in 2013, before Senate Bill 21 was passed. She pointed out that that forecast had about a \$50 higher oil price than is seen today. She said, "So, Senate Bill 21 is giving you a more competitive environment than you saw previously - even at lower prices."

MS. MORIARTY confirmed that AOGA supports the status quo, because it is important to have a stable tax environment. She reiterated her warning that tax increases or the elimination of incentives or credits would have a negative impact on activity, jobs, production, and royalties. She indicated she had not intended to be a source of incredulity, but was just stating, as the responsible head of the trade association for the industry, "how the industry will be impacted by the policy change proposal in front of you."

CHAIR JOHNSON asked that the discussion maintain focus on Version D of HB 247 rather than wandering back to the PPT, ELF, or Senate Bill 21.

[11:36:57 AM](#)

CHAIR JOHNSON announced that the committee would hear next from Dan Seckers of the ExxonMobil Corporation.

[11:37:31 AM](#)

DAN SECKERS, Tax Counsel, ExxonMobil Corporation, stated that ExxonMobil Corporation supports Ms. Moriarty's testimony that while Version D is an improvement over the governor's original bill, it still is troubling legislation. He explained that Version D would make changes to existing production tax that would raise the tax in the future, and for that reason ExxonMobil Corporation opposes Version D. He stated that every time the State of Alaska responds to market fluctuations or needs money, it targets the industry to raise taxes, which creates further instability in Alaska's investment climate and undermines the economics of investments made in the past and those being considered for the future. Further, he said Version D would devalue a number of the key components of the tax structure.

MR. SECKERS said the structure the state has had since PPT is a net-based tax, not a gross tax. One of the key components of a net-based system is the balancing of revenues and expenses. Version D would take the critical NOL tax credit and turn it into an NOL loss. He continued:

Now, while this concept is consistent with most net-based tax systems, this change would represent a significant and substantive change to the current Alaska system, because it would disallow or prevent

those losses from going into credits to be carried forward and used against the minimum tax. This would represent an immediate and significant tax increase. By preventing companies from realizing the true economics of their investments, by disallowing ... or deferring their ability to recover operating losses against future tax liabilities, penalizes those companies that made prior year investments when the companies were losing money, and would penalize those companies that are considering making investments today, tomorrow, and into the future.

Such a provision and such a change would significantly and negatively impact Alaska's investment climate and the perception of Alaska's investment climate to any investor by announcing to the world that Alaska is willing to adversely affect the economics of past and essential future investment solely for short term revenue needs.

[11:40:41 AM](#)

MR. SECKERS stated that another problem with the proposed legislation is the increase in the interest rate. He said ExxonMobil Corporation believes that increasing the interest rate by going to 5 percent over the federal discount rate, with added compounding, will address the symptom, but will not solve the problem. He indicated that ExxonMobil Corporation thinks the problem is the length of time it takes the Department of Revenue to audit production tax returns. He illustrated that point by emphasizing that ExxonMobil Corporation received its 2009 production tax assessment six years to the day after filing it, with "interest tolled that entire time." He added that that interest is not abatable under Alaska law.

MR. SECKERS stated that Version D would increase taxes at a time when industry is losing money, and it would increase taxes on the very activity on which the industry is losing money. He questioned the soundness of such a tax policy. He asked the committee, "Is it your belief as policy makers that increasing taxes on an industry that's losing money making investments that we all need ... [will] lead to more production, more jobs, more investment, more long-term, sustainable revenues?" He concluded that in ExxonMobil Corporation's view, it will not.

[11:42:51 AM](#)

CHAIR JOHNSON announced that the committee would next hear from Pat Foley, of Caelus Energy Alaska, LLC.

11:43:02 AM

PAT FOLEY, Senior Vice President, Caelus Energy Alaska, LLC, acknowledged the daunting task of the legislature to find solutions for Alaska's fiscal crisis and reconsider changes to the tax policy. He said Caelus Energy Alaska, LLC, ("Caelus") operates exclusively on the North Slope. He said he would speak to three items in Version D: cashable credits, the GVR, and the tax reporting and disclosure requirements in Section 9.

MR. FOLEY said it seems like the conversation is focused on the cashable net operating loss credits, while not being focused on "the avoided tax liability that other companies have." He said it troubles him that people refer to a cashable credit as a subsidy, because that is not what it is. He said an exploration incentive credit could be characterized that way, but a refundable NOL is not a subsidy or incentive, but was designed solely to level the playing field between a new investor and current legacy producers, by allowing the new investor to make lease expenditures that would result in a loss, and the state would pay that investor at 35 percent to that loss in the form of a refundable tax credit. He clarified that he is not saying that "you should tax them and not tax me," but rather that "some elements of this bill are very negatively discriminatory against new, small companies trying to incubate their business up here."

MR. FOLEY said he heard someone say that the legislature is doing its best to protect new buyers and projects, but he opined that in reality the state has not accomplished that goal. He said, "If there's a window with a \$75 million cashable credit, and it's phased out after three years, it is helpful for a project like Oooguruk or (indisc.) activity - it allows us to kind of safely unwind that business - but it does nothing to safeguard a project like Nuna or Smith Bay or a large exploration block off to the east." He reminded the committee that Alaska North Slope projects have a long cycle time from exploration drilling to first oil, typically between 5-10 years. He said when Caelus made the commitment to explore Smith Bay and to buy leases east of Prudhoe Bay and shoot a high resolution three-dimensional (3D), Caelus did so with the expectation of fiscal tax stability for the life of the project - not for three years.

11:47:40 AM

MR. FOLEY stated that a small company, such as Caelus, needs to "go Outside" for capital from large lending institutions, and to obtain that capital, it must have good prospects, a great track record, good relationships with regulatory agencies and contractors, and - most importantly - fiscal stability. He said he has heard people say that Alaska cannot afford the credits, but he maintained that the state cannot afford to discontinue North Slope cashable credits. He said he thinks North Slope oil operations have been the lifeblood of Alaska's economy for over 40 years, and he hopes that it continues to be for many years to come. He reiterated the role of cash credits to new operators. He stated, "A high volume producer takes those same lease expenditures, and that results in immediate tax liability reduction."

MR. FOLEY opined that through its tax policy of the last several years, the state got exactly what it hoped for, which was to attract independent companies committed to explore, develop, and produce. He relayed that Caelus developed its Oooguruk leases. He stated that Nuna is a project that is just waiting on a little oil price recovery; it should have first oil two years from price recovery. He said two exploration wells were drilled this year at Smith Bay, and Caelus made \$120 million-worth of expenditures. In the east, Caelus has a large block of leases that were shot at 3D, at a cost of \$40 million. All of that was with an expectation that Caelus would continue to earn credits throughout the life of development. He continued:

If you look to our neighbors just to the west, with Armstrong and Pikka, they, too, were exactly the kind of company that I believe the State of Alaska intended its tax policy to attract. My fear is that if you change that tax policy, you're going to destroy all the value that was created by the past tax policy and you're going to chase the new investors away. So, I believe if you eliminate the North Slope tax credits, you will discriminate against the new players, you'll advantage the current, large high volume producers, and will discourage new companies from making investments. And my biggest fear is it's going to re-concentrate North Slope operations to the big three legacy producers.

[11:50:46 AM](#)

MR. FOLEY next addressed the issue of the GVR. He said currently a project like Oooguruk qualifies for a 20 percent GVR, and there is conversation about limiting the duration of that GVR. He continued:

To me, I think it is simply a re-trade of all the past fiscal policies; it does nothing to address the current tax problem. And I think the ... fiscal problem is a result of low oil price. So, as you seek solutions, find solutions that fix the problem in a \$30, \$40, \$50 oil world, but don't make changes that destroy the attractiveness of the state to make investments at higher prices.

MR. FOLEY noted that Section 9 of Version D would require any company that receives a tax credit certificate to make certain disclosures regarding its operations.

So, right now I think ... under the bill it would be limited to companies like Caelus, Armstrong, Repsol, perhaps [the Arctic Slope Regional Corporation] (ASRC), perhaps Servant. And honestly, I'm totally fine with the transparency of this, but the provision does nothing to shed light on other companies that take lease expenditures and transfer those into a tax avoidance.

MR. FOLEY, in closing, encouraged committee members to take a long, long view and to not worry so much about today's oil price, but instead to find a way to not destroy the healthy North Slope environment when prices recover. A new company like Caelus has limited capital and is able to take the credits that it earns and make more swift investments, faster development, and faster production, and eliminating the cashable credits will result in reduced investments, jobs, productions, and state revenue. He urged the committee to support the continuation of North Slope cashable credit program in order to be in the best position to "take advantage of price recovery once it happens."

[11:52:57 AM](#)

REPRESENTATIVE TUCK asked how the length of the GVR affects royalty reductions.

MR. FOLEY answered that Caelus has two royalty reductions: one is at Oooguruk and the other is at Nuna. He said, "The one at Nuna will be expiring by its own terms, because we will have

failed to have started production as required under that royalty modification."

REPRESENTATIVE TUCK asked about the definition of new and old oil and whether that has any effect on royalty reductions.

MR. FOLEY answered yes, adding that "Oooguruk in its total, so Oooguruk (indisc.) production, and Nuna would qualify as new oil and they both qualify as GVR."

REPRESENTATIVE TUCK asked, "So, that will have an effect on you one way or another?"

MR. FOLEY answered yes.

[11:55:04 AM](#)

The committee took a brief at-ease at 11:55 a.m.

[11:55:55 AM](#)

CHAIR JOHNSON announced that the committee would next hear from Scott Jepsen of ConocoPhillips Alaska, Inc.

[11:56:04 AM](#)

SCOTT JEPSEN, Vice President, External Affairs, ConocoPhillips Alaska, Inc., directed attention to a PowerPoint presentation and listed positive things that had happened since the passage of Senate Bill 21, as shown on slide 3, including: the addition of two rigs to the Kuparuk River Unit ("Kuparuk") fleet; two new-build rigs ordered for 2016; the approval and construction of the first new drill site in Kuparuk in the last 13 years; the expansion of viscous oil operations in Kuparuk at drill site (DS) 1H; approval of new development of Greater Mooses Tooth 1 (GMT1), in the National Petroleum Reserve - Alaska (NPR-A); permitting underway for Greater Mooses Tooth 2 (GMT2); and an active exploration program, with two wells drilled in 2014 and the acquisition of GMT1 seismic in 2015. Mr. Jepsen stated that none of the new production brought on by ConocoPhillips Alaska, Inc., qualifies for the GVR. He clarified that some of it could have qualified, but based on cost, a decision was made not to pursue it for those particular operations.

[11:58:02 AM](#)

MR. JEPSEN indicated that ConocoPhillips Alaska, Inc., has had as many as six rigs running between Kuparuk and Alpine, but currently has four, with two rigs running in the Lower 48. He said that what drives investments include a positive investment climate, and it takes more time to ramp up production in Alaska than it does to ramp it down. He said ConocoPhillips Alaska, Inc., is investing in the future and hopes for a stable tax climate in Alaska, but he said if that changes, the company can "ramp stuff down at a fairly rapid basis," although it hopes it will not have to do so.

MR. JEPSEN next offered information regarding "how much we're investing in Alaska compared to our corporation." He said in 2014 his company's corporate capital spend peaked at about \$17 billion; currently the latest estimate for the entire corporation is about \$5.7 billion. He estimated that ConocoPhillips Alaska, Inc., would spend about a billion dollars in 2016 and would "maintain that course," unless there are negative changes made relating to taxes.

MR. JEPSEN said one thing to consider is that the State of Alaska "always has positive revenue." He said, "The State of Alaska collects royalties, severance taxes, property taxes, [and] income taxes, and some of that - like royalties - is completely price independent." He continued as follows:

Even down to \$30 a barrel, using data from the 2016 Revenue Sources Book [(RSB)] for fiscal year 2017, we estimate the State of Alaska taking about \$1.2 billion. Investors on the North Slope ..., at that price, using the ... 2016 RSB assumptions, would lose about \$2 billion. As prices go up, the state is always in a better position than the investors.

MR. JEPSEN said investors are losing money, and increasing costs will have a negative impact on investment opportunities and actions.

[12:01:00 PM](#)

MR. JEPSEN directed attention to the slide titled, "Tax Credits and Applicability to COP." He said the slide highlights activity pertaining to tax credits, because it is not always clear where the benefits go. He said large producers, such as ConocoPhillips Alaska, Inc., receive very little of "the tax credits that have been so much a part of the conversation." He directed attention to the column marked, "Tax Credit Type,"

which lists: [net operating loss, exploration, small producer, per-barrel production credit, and Cook Inlet and Middle Earth]. He said column [2] summarizes all the FY 17 tax credits, as estimated by DOR to be approximately \$908 million. Following that is [column 3], titled, "total reimbursable," the sum of which is \$772 million. Of that, he said, large producers, like ConocoPhillips Alaska, Inc., are eligible for zero, [as shown in column 4]. He said column 5 describes the total used against severance tax liability. He said the first item [82] relates to the NOL, which he acknowledged had been the subject of much discourse previously in the hearing.

MR. JEPSEN said that to-date, ConocoPhillips Alaska, Inc., has not incurred a net operating loss credit. He said, "It's possible for 2016, because they've seen some very low prices in the ... first part of the year. Whether or not we incur one is going to be dependent upon price and how well we control our costs." He continued:

The other thing about net operating losses is that they are self-correcting. We're not in the business of operating at a loss; we don't try to accumulate losses so that we can apply them against future tax liability. So, that [if] we end up with a long period of time - a long period to me is two years or so of low oil prices - we ... invariably will take action to make sure we get back the cash flow and make sure that we're cash flow positive.

MR. JEPSEN offered his understanding that the number used against severance tax liability for exploration is zero, because those tax credits expire at the end of June; however, [as shown in column 6], he said it is possible ConocoPhillips Alaska, Inc., may take some tax credits on new wells it drills in 2016. ConocoPhillips Alaska, Inc., is not eligible for the small producer credit. The per-barrel production credit is dependent upon price and costs, he said, but "if any part of that materializes, we're going to be a pretty small part of it." Regarding the Cook Inlet and Middle Earth credit, he said if ConocoPhillips Alaska, Inc., is successful in divesting its remaining assets there, then it will not qualify for those credits. He reiterated that the number of tax credits that pertain to ConocoPhillips Alaska, Inc., is minimus. He said the point he would like to make is that producers such as ConocoPhillips Alaska, Inc., are really not part of the problem; they have continued to pay taxes, as he indicated was predicted to happen at the passage of Senate Bill 21.

MR. JEPSEN directed attention to the bottom of the slide, which summarizes the obligations ConocoPhillips Alaska, Inc., has incurred to the State of Alaska in 2015: Approximately \$660 million in obligations for royalties, property taxes, severance taxes, and income taxes, and with a negative cash flow in excess of \$100 million. In the first quarter of 2016, ConocoPhillips Alaska, Inc., incurred obligations of approximately \$77 million, and - because of extraordinarily low prices - a negative cash flow of about \$100 million. He stated that negative cash flow numbers are not the same as net operating losses: not everything spent to support the operations of ConocoPhillips Alaska, Inc. is eligible for deduction for NOL purposes.

MR. JEPSEN said the point he wants to make is that ConocoPhillips Alaska, Inc., is still a severance tax payer, is still continuing to invest, and - if significant changes in the tax framework are made - will have to take action to get back into a positive cash flow position, which means less investment and production on the North Slope.

[12:05:37 PM](#)

PAUL RUSCH, Vice President, Finance, ConocoPhillips Alaska, Inc., said his comments would cover both the original bill version of HB 247 and Version D and the adverse impacts on the corporation's investments in Alaska. He said his comments pertain primarily to slides 7 and 8 of the PowerPoint presentation begun by Mr. Jepsen. He stated that the increase in the minimum tax from 4 percent to 5 percent proposed in the original bill version represents a 25 percent increase in the minimum tax during periods of low prices, while the industry is in a negative cash flow position. He said that increase would have a chilling effect on the industry and future investment in Alaska. He said hardening of the minimum tax floor, particularly by taking away the ability to recover losses, also effectively serves as a tax increase, with the potential to lead to reduced expenditures on drilling and other similar activities in producing fields during periods of low prices, and this could negatively impact future production, he warned.

MR. RUSCH said Version D improves this by allowing the recovery of any losses that may be incurred in 2016; however, ConocoPhillips Alaska, Inc., would like to see this extended to 2019 "for consistency with the treatment of NOLs for the smaller producers." He said ConocoPhillips Alaska, Inc., does not expect to be in a long-term loss position, but would like to

ensure it has the time necessary to react to price changes and adjust its spending accordingly.

MR. RUSCH referred to slide 19, from DOR's presentation, which showed that in FY 26, producers will be holding losses at \$715 million in future taxes. He offered his understanding that in the matter of gross total, the industry would experience \$2 billion in losses over the next 10 years. He said the industry would not likely operate at such a loss for that many years; therefore, "that number is likely exaggerated." He suggested that if the committee believes that number, then this would be the time to question an increase in taxes.

MR. RUSCH said ConocoPhillips Alaska, Inc., shares the same view as expressed by ExxonMobil Corporation regarding interest rates being increased while DOR takes such a long time to complete audits, which are often followed by a lengthy appeals process. He said this process can take 9 to 10 years, and because of the long time period, the interest component of the assessment often can exceed the underlying principal amount. He stated that in previous testimony, ConocoPhillips Alaska, Inc., had recommended improvements in the audit process prior to increasing the interest rates, and he noted that this issue has not been addressed in Version D. He said the 10-year limit for DVR incentives included in Version D would make any new oil developments less competitive. He said as was highlighted in the testimony by analytica yesterday, this could reduce the project net present value (NPV) by up to 20 percent, which Mr. Rusch said could be significant enough to drive investment to other regions.

MR. RUSCH stated that two final concerns ConocoPhillips Alaska, Inc., had regarding the original bill have been addressed in Version D; however, he said he would bring them up in order to ensure they would not return. First, he said ConocoPhillips Alaska, Inc., does not agree with DOR's previous portrayal of "migrating tax credits across months." He said production tax is an annual tax with monthly payments that represent an estimate of the annual obligation. Second, the disclosure requirement in the original bill had the potential to violate Securities Exchange Commission (SEC), IRS, and other taxpayer confidentiality regulations. He said Version D resolves this concern by limiting disclosure to reimbursable tax credits only, including the company and the amount.

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MR. JEPSEN stated that overall ConocoPhillips Alaska, Inc., thinks Version D is a significant improvement over the original bill version introduced by the administration. He said what concerns him and could jeopardize future investment in Alaska is "that we continue having this conversation." He said there have been numerous tax changes over the last 11 years; it has only been 20 months since voters ratified Senate Bill 21; and the conversation continues today. He said ConocoPhillips Alaska, Inc., will make changes to its investment plans according to significant and impactful changes made to the tax framework. He expressed his hope that the corporation could instead maintain its momentum in Alaska.

[12:11:12 PM](#)

REPRESENTATIVE HERRON noted that Mr. Rusch's testimony is consistent with that of others regarding the six-year wait for the audits with which DOR is involved. He asked how long a wait ConocoPhillips Alaska, Inc., would find acceptable.

[12:11:43 PM](#)

MR. RUSCH answered that three years would be reasonable and give DOR the time it needs to review the information.

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REPRESENTATIVE KREISS-TOMKINS asked Mr. Jepsen if he had experienced the same length of turnaround time as had been mentioned by the representative from ExxonMobil Corporation.

[12:12:21 PM](#)

MR. JEPSEN deferred to Mr. Rusch.

MR. RUSCH said yes: a turnaround of six years and three months, based on tax filing.

MR. JEPSEN offered his understanding it was 2006.

MR. RUSCH confirmed that "2006 is the last year that we closed out completely."

MR. JEPSEN said it took about 10 years for the 2006 tax audit to be closed out. He said once the findings are received from DOR, the company goes through "a series of negotiations and protests"

before arriving at the final amount that may be owed in addition to what was already paid.

REPRESENTATIVE KREISS-TOMKINS expressed his appreciation of slide 7, which showed how ConocoPhillips Alaska, Inc., related to the tax credit program. He referred to the slide with "net operating loss tax credits" in "the top line," and recollected that Mr. Jepsen had testified that ConocoPhillips Alaska, Inc., "is a big goose egg, a zero, not eligible." He then directed attention to the slide that stated a \$100 million negative cash flow in 2015 and the first quarter of 2016. He stated his understanding that ConocoPhillips Alaska, Inc., would be eligible to claim net operating loss or negative cash flow. He asked, "How did those two ... statistics jive with each other and, I guess more pointedly, has ConocoPhillips Alaska, Inc., claimed any net operating loss tax credits thus far, to date?"

MR. JEPSEN answered that having negative cash flow does not equate to net operating loss. He explained the reason is that there are significant costs that ConocoPhillips Alaska, Inc., incurs in the running of its business in Alaska that are not deductible from the severance tax calculation. He estimated there was an excess of \$115 million that were not deductible, "if those still go toward the negative cash flow calculation for us." He said his time and the money the corporation spends on AKLNG are examples of that which is not deductible, and "there are a number of other statutory areas that are not deductible from a severance tax calculation." He said, "So, that's why you can end up with a net cash flow that's negative, that's still not incurring net operating loss." He said to date ConocoPhillips Alaska, Inc., has not taken advantage of any NOL credits, and whether or it does in 2016 will depend upon how well the corporation can control its costs and what the price of oil is.

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REPRESENTATIVE OLSON noted that several months ago the director of the Tax Division indicated that the interest for the 2006 close out was about \$100 million. He asked if that was correct.

MR. JEPSEN answered that he would have to take a look at the context of [the director's] comment. Notwithstanding that, he surmised that that number had to relate to the industry as a whole.

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CHAIR JOHNSON offered his understanding that the director of the Tax Division, who was present in the room, had nodded his head to affirm that that number pertained to the industry as a whole.

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REPRESENTATIVE HERRON remarked that the House is trying to get [HB 247] passed out of its body, but the issue of the GVR is a sticking point. He asked if 10 years is doable or if ConocoPhillips Alaska, Inc., is opposed to it.

MR. JEPSEN answered that any time there is a change in tax framework that reduces various economic metrics considered when making investment decisions, the competitiveness of the project is reduced. He said at 10 years probably 100 percent of the benefit of the GVR is preserved; however, at 5 years there is a significant hit on the competitiveness of a project.

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REPRESENTATIVE KREISS-TOMKINS, regarding net operating losses or the carrying forward of lease expenditures, said, "It seems like a tradeoff." He said the point has been made by industry members that "this is a really tough time" and cash flow is not always positive. He said he can empathize with that. He stated that currently the state is subsidizing those losses to a certain extent. He said the question may be more palatable if "on the upside we're also sharing ... in windfall profits." He said with the conversion - Senate Bill 21 - "we ... effectively eliminated that provision." He stated that he struggles with the notion that the State of Alaska needs to take a hit on the losses, as well, "if we don't have that upside." He concluded, "And, to me, that's the balance or the partnership that ... we've got."

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REPRESENTATIVE TUCK asked where the largest investments of ConocoPhillips Alaska, Inc., are currently going.

MR. JEPSEN said he would have to obtain the latest report, but looking at the total cap of expenditure for 2016, the Alaska operation represents about 18 percent of the corporation's total capital expenditures. He said that certainly is a disproportionate size when considering the rest of the corporation's worldwide operations.

12:21:50 PM

CHAIR JOHNSON announced that the committee would hear next from Mr. Armstrong of Armstrong Oil and Gas.

12:22:17 PM

BILL ARMSTRONG, President, Armstrong Oil and Gas, expressed his love for Alaska, in which he has been working for the last 15 years, and said his company and the state have worked well together. He stated his and his shop in Denver's involvement in the inception of Ooguruk Field, which he said became the sixth largest operating field on the North Slope. He said the second ever independently operated field on the North Slope is Nikaitchuq Field - also started by his company. Mr. Armstrong indicated his partner company is a Spanish company called Repsol and together they made "a spectacular new discovery up on the North Slope," and the former head of the Department of Natural Resources, Mark Myers, was the only person outside of his company and Repsol that knew about it. He offered his understanding that Mr. Myers had said publicly that the new discovery may be the second biggest find ever discovered on the North Slope, second only to Prudhoe Bay.

MR. ARMSTRONG emphasized the great potential [for oil discovery] still left in Alaska. He recognized the constant bombardment of negativity related to Alaska's best days being in the past because the state's industry is waning, but stated that he is "the living, breathing, hardworking testimonial that that view is absolutely, 100 percent false." He opined that the state's best days are to come. He further emphasized the importance of making Alaska an appealing place in which to do business. He estimated that in the 15 years in which he has worked in Alaska, he has experienced and had to adjust to five or six tax laws. He opined that Senate Bill 21 was arguably one of the best tax laws in the world, because it "hit the perfect balance" between the oil companies, which he described as "the risk takers," and the State of Alaska, which he called "the landlords." He said both parties had a winning hand under Senate Bill 21, and the tax regime was working, as evidenced, he maintained, by what has been happening with ConocoPhillips and Caelus, and his company with Repsol. He said he knows the debate is now about HB 247, and he reminded the committee that during a previous hearing on the bill, he had shared that his company's nickname for the proposed legislation is: "Hell-bent 24/7 on kicking everybody off the North Slope." He said based on Version D, he would now

change the nickname to: "Hell-bent 24/7 on kicking all the new players off the North Slope." He explained that Version D is "heavily stacked" to benefit the three existing large producers on the North Slope. He concluded that if the goal of the state is to have a monopoly or oligopoly, then Version D will serve that purpose.

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REPRESENTATIVE TUCK expressed appreciation for Mr. Armstrong's description of the effects of Version D on independents and new competition on the North Slope, and he remarked that Mr. Armstrong was not the first person to have expressed that opinion.

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CHAIR JOHNSON invited Mr. Seckers back to the witness table to answer a question.

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REPRESENTATIVE KREISS-TOMKINS said the testimony he heard from ConocoPhillips Alaska, Inc., prompted him to query whether ExxonMobil Corporation has, to date, claimed any NOL tax credits.

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MR. SECKERS answered that although that is a valid question, ExxonMobil Corporation is not authorized to disclose its tax return information or what credits it can or cannot claim or has claimed. He underscored that DOR's information is correct that companies are losing money and that it is possible for ExxonMobil Corporation to have an NOL this year depending upon how prices proceed. He indicated concern that it is understood what an NOL is. He explained that it easy to "throw around" that topic and to suggest getting rid of them. He said that as ConocoPhillips Alaska, Inc., mentioned, nobody wants to be "in a loss." He stated that "this is not a credit that is ordinarily given to ... a net operating system," but rather is a loss to report, and that is not a source of pride. He opined that to suggest getting rid of [NOL credits] because "the industry doesn't need them" would result in "a tremendous change in the substance of the law."

MR. SECKERS indicated that every time the state makes these changes - whether reducing a credit or taking away a deduction, for example - it is migrating its system to a gross tax. He said that may sound reasonable, but he asked the committee to consider that the current tax rate in Alaska is 35 percent, which is almost three times the next highest severance tax production rate, which he said he understood to be 12.5 percent in Louisiana. Therefore, he said every time Alaska limits deductions and takes away credits, it raises the industry's tax hugely relative to Alaska's competitors. He continued as follows:

Subsidies and credits are two distinctly different things. So, again, it's your policy. If you want to, you know, address some of that, we get that, and, as Ms. Moriarty indicated, you know, the industry will take whatever actions needed. But you're ... taking away what is a cornerstone of a net-based system, and that is the ability to recognize revenues and expenses by limiting the revenues; you're in effect migrating away from the core tax that you currently have in place.

[12:31:18 PM](#)

REPRESENTATIVE TUCK noted Pat Foley of Caelus Energy Alaska, Inc., had talked about credits versus subsidies. He asked Mr. Seckers to describe the main difference between the operations of the two.

MR. SECKERS prefaced his answer by suggesting the question would be better asked of the state's consultant. He then stated his view from a tax perspective. He said a subsidy generally is a redistribution of money from a government to individuals. Tax credits, he said, are just a way to calculate a tax: "They are a reduction of the tax liability a company or person provides to the tax authority that then redistributes by virtue of subsidies." He said hearing the two terms used together "as equals" makes him cringe. He said social security and the permanent fund dividend arguably are subsidies.

REPRESENTATIVE TUCK asked, "Is it safe to say that both of them have something to do with changing behavior - activity?"

MR. SECKERS answered, "Absolutely, without question." He said, as Ms. Moriarty had alluded, there is the question of which comes first. He said a subsidy is usually given before an

activity is undertaken or for no activity at all, "just as a benevolent action of a taxing authority, so to speak." He said a credit usually requires qualification, with the exception of an NOL credit, for which, he maintained, no one wants to qualify. He said, "To me, it's just a question of which is the intent behind the action being taken." He said there are numerous ways to structure a tax regime. He compared Alaska's production tax rate to that of a federal income tax rate - both being extraordinarily high.

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CHAIR JOHNSON recessed the House Rules Standing Committee meeting to a call of the chair, which he estimated would be 30 minutes after the end of the House floor session.

[2:43:38 PM](#)

CHAIR JOHNSON called the House Rules Standing Committee back to order at 2:43 p.m. Present at the call back to order were Representatives Olson, Chenault, Herron, Kreiss-Tomkins, and Johnson. Representative Tuck arrived as the meeting was in progress.

[2:43:59 PM](#)

BENJAMIN JOHNSON, President/CEO, BlueCrest Energy, Inc., prefaced his testimony by stating BlueCrest Energy's support of the testimony given previously by AOGA. He said he would speak to issues particular to the Cosmopolitan Unit. He recalled that during previous testimony, the committee had heard that what is bad for the oil companies is good for the state. He emphasized that with regard to what BlueCrest Energy is doing in Cook Inlet, the tax credit program is an extremely good investment for the state. He called it "a win-win situation for Alaskans." He explained that the state's investment in Cosmopolitan, through the credit program, will provide significant future, positive value to the state, even at low oil prices.

MR. JOHNSON directed attention to his PowerPoint presentation, to slide 2, titled "Cosmopolitan Project Area." He relayed that the Cosmopolitan Unit is located about three miles off shore in Cook Inlet, just a few miles north of Anchor Point. He said all the productive area in the unit is on state leases. Turning to slide 3, titled "Cosmopolitan Unit Development," he said the unit consists of two separate development projects: productive gas zones directly above underlying oil zones. He said the gas

reservoirs are not connected to the oil reservoirs. He said BlueCrest Energy has not yet begun development of the off-shore gas zones; that development is currently on hold because of uncertainty surrounding long-term stable demand and future tax credits. He said the development of the deeper oil reservoirs is more straightforward, and two years ago BlueCrest Energy committed to development of the oil reserves.

MR. JOHNSON directed attention to slide 4, titled "Cosmopolitan Progress as of 05/10/2016." He said the company essentially has completed the construction process and is continuing to run final operational tests. He said BlueCrest Energy will have the most powerful drilling rig in Alaska ready to begin drilling the new wells by July 2016. Turning to slide 5, titled "Tangible Results," he stated that just last month BlueCrest Energy "began the very first sales of oil from a new Cook Inlet field in 15 years." He said the company is currently producing from an existing exploratory well, but the main production will come when it brings on the new wells and begins drilling in the second half of 2016.

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MR. JOHNSON turned to slide 6, titled "Continuation of Cook Inlet Credits," and he spoke of the value that Alaska could receive from the Cook Inlet tax credits. He first emphasized that the value resulting from new Cook Inlet oil production should not be discounted. He explained that because of the lower infrastructure costs and the fact that all Cook Inlet oil is used within the state, it offers higher royalty values than most North Slope production. He said the importance of the tax credits here is that they allow [BlueCrest Energy] to continue to drill at lower oil prices. Continuation of the existing well lease expenditure (WLE) credit would mean that the company could keep bringing its new wells "at \$10 lower oil price than without." He said if oil prices stay low and the credits are substantially reduced next year, BlueCrest Energy will probably be forced to suspend drilling, which would result in the loss of roughly 300 Alaskan jobs. He asked the committee to keep in mind that starting a drilling program is expensive and requires even higher oil prices to justify the wells.

MR. JOHNSON stated that the bottom line is that the state receives tremendous investment returns if [BlueCrest Energy] can keep on drilling. He said the wells represent low risk and high reward for the state. He drew attention to slide 7, titled "State's Investment Return through Royalties from Each New

Cosmopolitan Well," which he said shows the calculation of expected return to the state for each new well, as a result of retaining the WLE credit into the future. He said, assuming a \$40 million well cost, a 40 percent WLE credit would amount to about \$15 million per well. He asked the committee to keep in mind that the state can receive the benefits from this well only if the company can drill it. He said the slide shows that at any oil price above \$24, the state makes a profit off the tax credits, and the state's royalties - not even including future production taxes that may occur in Cook Inlet and at a lifetime oil price average of about \$60 - would be approximately \$38 million. He said that is a return of about 250 percent, which he opined is "not bad economics."

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MR. JOHNSON turned to slide 8, titled "Per-Company Limits for Cash Payments." Regarding tax credit purchases, he emphasized how important it is to BlueCrest Energy's survival that it receive the money - at least for investments to which it has already committed based on existing law. He said if the repurchase limits apply to the company's spending for future time periods, it will have to adjust; but it has already entered into contracts and commitments through at least the end of 2016.

MR. JOHNSON moved on to slide 9, titled "Effective Date." He said most important to BlueCrest Energy is the timing of the implementation of any changes, whatever they may be. He stated that this project was a large one for the company, which carefully mapped out a plan for how it would pay for development. He said BlueCrest Energy figured that it would take approximately \$525 million to reach that point of self-sufficiency, thus, it made certain that it would, under the laws current at that time, have enough funds to complete construction of the drill site and reduction facilities, to bring in the most powerful drill in Alaska, and to use that rig to drill at least the first two new oil wells. He said that drilling cannot start until the second half of 2016. He said the table on slide 9 shows how the company planned the complete funding before it ever started. Further, he said it shows that the tax credits are a critical component, "making up just under 30 percent." He said it is now May, and the proposed changes in the original version of the proposed HB 247 were supposed to take effect on July 1, 2016. He noted that [Version D] would move that date back, which he said helps, but may not solve the problem. He said BlueCrest Energy spent a lot of money to get to the point of drilling, and an abrupt termination of the tax credits, on

which the company based its entire financial planning, would be devastating. He said any failure to receive those payments for the credits for the company's spending to at least early 2017 could trigger the end of the benefits that Alaska would receive "from Cosmopolitan's future."

MR. JOHNSON reiterated that his company has done a lot of work and spent considerable money and is relying on the existing credits based on the laws that were in place when it entered into its financial commitment. In conclusion, Mr. Johnson drew attention to slide 10, and he reemphasized the importance of phasing into any changes over a reasonable time period. He said, "We'll deal with whatever changes may come in the future." However, he also urged the committee not to ignore the large future benefits the state would receive from future credits. He opined that most importantly, the state should not "kill the projects that are underway now" and risk "greater long-term loss to the state."

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REPRESENTATIVE KREISS-TOMKINS referred to slide 7 and expressed keen interest in the benefit to cost ratio. He said if a well costs \$40 million and the State of Alaska chips in \$15 million in credits, it would get \$38 million over the life of the project. He said that seems like "a pretty favorable return on investment." He asked Mr. Johnson, "Could you get [the Alaska Industrial Development and Export Authority] (AIDEA) financing to ... finance a well like this, given 5 million barrels at \$40 well cost?" He said those numbers seem "pretty positive."

MR. JOHNSON answered, "Not now." He stated that AIDEA is not loaning money for oil development, for drilling. He said BlueCrest Energy has secured about \$150 million in loans for the facilities and the drilling of the first few wells, but that loan amount was difficult to obtain. He explained that until wells are producing, it is difficult to get a loan for drilling. He said since BlueCrest Energy has already secured the loans, it would be very difficult to go back and ask for more money for each well, because the entire loan program was based upon the assumption of the tax credits in place.

REPRESENTATIVE KREISS-TOMKINS offered a scenario in which BlueCrest needed \$15 million in capital and, instead of getting it in credits, received it as a revolving loan fund. He said the state would get back \$38 million in royalties. He said his calculations show that the company would be getting a lot of

money over the lifetime of the well. He asked if the company would have the ability to repay the loan with interest through a revolving loan fund. He clarified, "Is there potential to convert a tax credit system to something that's more sustaining and offers ... loan-based financing?"

MR. JOHNSON answered that at some point in the future a loan program or "some type of reasonable investment fund" could work; however, BlueCrest Energy has already committed to drilling the first few wells, so "it practically couldn't happen in time." He asked Representative Kreiss-Tomkins to remember that anyone from whom the company borrows money has to have the first lien on all the reserves; therefore, it does not work to have two different vendors - one with the first lien and one with the second. He said, "We would have to be able to finance the entire program through that, and ... that's a large amount."

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REPRESENTATIVE CHENAULT congratulated Mr. Johnson on the event of the first production from the Cosmopolitan Unit, which he noted went to the Tesoro refinery. He asked about the output.

MR. JOHNSON answered that the company's first well is exploratory and "choked back." It is being produced gradually in order to test all the equipment. He added, "It's several hundred barrels a day right now."

REPRESENTATIVE CHENAULT, regarding the initiation of financing for exploration wells, asked, "Are all of them productive?"

MR. JOHNSON told Representative Chenault that that is a good question. He stated there is a huge difference between exploratory wells and development wells. The development wells are "a very high chance factor"; they are "pretty much proven," and the money has to be spent to complete the wells. He said 90 percent of exploratory wells, on average, are "dry holes." He added that in North Dakota, that percentage of success is higher, because "it's a different type of program."

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CHAIR JOHNSON announced that the committee would next hear from Joe Reese of BP.

[2:57:54 PM](#)

JOE REESE, Senior Managing Tax Counsel, BP Exploration (Alaska) Inc., provided BP Alaska's views on tax policy related to HB 247, "in particular, the committee substitute, draft M." He said BP operates the Prudhoe Bay Unit, is a member of AOGA, and supports the testimony given previously today by AOGA. He said the success of Alaska's oil and gas policy is critical to BP. He mentioned the AKLNG project and said many Alaskans benefit directly and indirectly from the successful exploration, development, and production of the state's gas. He said a durable, predictable, and administrable oil and gas tax policy must be in place to unlock those benefits.

MR. REESE said BP interprets durable as meaning something that will be the same tomorrow as it is today. He said predictable means that BP can accurately model the tax policy and make an investment decision based on that. He stated that administrable means that BP can file its tax returns when they are due.

MR. REESE said BP is committed to maintaining a safe and compliant business in Alaska that is sustainable. He said in 2015 BP paid \$263 million in royalties and taxes, which resulted in a financial loss of \$194 million. He said under current market conditions, BP Alaska is spending more cash than it brings in, which is not sustainable. As a result, BP Alaska has undertaken an approximate 17 percent reduction in its workforce, and the Prudhoe Bay working interest centers have reduced activity levels.

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MR. REESE indicated that Prudhoe Bay economics are at a point where further tax increases in the cost structure would result in even lower activity levels and would be detrimental to BP Alaska's business in the state. For example, he said an increase of 1 percentage point to the minimum tax is equal to about six months of Prudhoe Bay rig work. He said operating on a predictable, durable, and administrable oil and gas tax policy is essential to maintaining the activity level at Prudhoe Bay and the long-term viability of an AKLNG project. He stated that BP Alaska is committed to complying with the tax laws in a responsible manner and having open and constructive relationships with the tax policy makers.

MR. REESE relayed that one of the major costs to BP's business in Alaska is oil production tax. He said while the company is currently "cash flow negative," its oil production taxes are not zero or negative, because certain cash costs, such as the

investment AKLNG project and other specific excluded costs, are not deductible for production tax purposes. He said, "At current prices, Prudhoe Bay production does not attract oil production tax credits."

MR. REESE said just as the industry is struggling to make ends meet, the state is also facing severe budget shortfalls. He opined that although reasonable people have worked to suggest a new tax policy, now is not the time to make those changes, because [those changes] would increase taxes and further inhibit BP Alaska's ability to maintain the activity level at Prudhoe Bay.

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MR. REESE next made comparisons between the original bill version proposed by the governor and Version D. He said the original bill version proposes an increase in the minimum tax, which for BP of Alaska would mean an increase of 25 percent, and the increase would come at a time when the company needs its cash to maintain its activity level. He reiterated that the increase would equal about six months of rig work at Prudhoe Bay. He said Version D would leave the rate unchanged, which he said would be helpful. Next, he said the administration proposed a material increase to the interest rate on tax over payments and under payments. He said that as ConocoPhillips Alaska, Inc., testified, BP Alaska also experienced the six-year lag in receiving the assessment from DOR on its oil production tax payments. He said increasing that rate of interest would only serve to benefit DOR's delay in providing the industry with those assessments.

MR. REESE stated that the administration has proposed limitations on the use of the NOL credit. He said BP Alaska is in favor of the tax policy that was provided under Senate Bill 21 and does not recommend any changes to it. He said, "We believe that the net operating loss credit provides a matching of ... expenses to revenue and that that should be allowed to be taken in the future when ... they're available." He said the administration also proposed "an erosion of taxpayer confidentiality." He mentioned "the basic principles of a self-reporting tax, like the production tax," and he said BP Alaska does not support any erosion of the confidentiality of taxpayer information.

MR. REESE said the administration has proposed retroactive changes, which BP Alaska does not support because it is neither

predictable nor administrable to make changes after investment decisions have already been made and dollars have already been spent.

MR. REESE concluded by stating that HB 247 would increase taxes, and increased taxes mean less money available for investment.

[3:04:06 PM](#)

REPRESENTATIVE KREISS-TOMKINS asked Mr. Reese to confirm that he had said that even though BP Alaska currently is cash flow negative, because some expenses are nondeductible, at this time BP has not claimed any NOL tax credits.

MR. REESE answered that there are actually a couple calculations. The first, he said, is a financial book loss, which for BP Alaska is currently \$190 million. He explained that is not production tax. From a cash flow perspective, which pertains to "the dollars we take in versus the dollars we spend," BP Alaska is also negative, which means the company is spending more money than it makes. He continued:

However, from a production tax perspective, we are not in a net operating loss, and the reason for that is certain of our expenditures that ... drive us negative (indisc. -- coughing) purposes and for cash flow purposes are not deductible for production tax purposes. And therefore, we are not in a net operating loss.

[3:05:41 PM](#)

CHAIR JOHNSON announced that the committee would hear from David Wilkins of Hilcorp Energy.

[3:05:58 PM](#)

DAVID WILKINS, Senior Vice President, Hilcorp Energy, said he had testified numerous times over the past few months on the governor's oil and gas industry tax bills. He stated Hilcorp Energy's strong support of the testimony given today by Ms. Moriarty of AOGA and its message to protect the future of the oil and gas industry and Alaska. He said in Alaska Hilcorp Energy operates in both Cook Inlet and the North Slope; therefore, the company is "in the unique situation of being on both sides of the debate on credits and tax increases." He related that just over 500 full-time employees support Hilcorp

Energy's operations in Alaska, and he expressed his pride that nearly 90 percent of those are Alaska residents. He said the company operates approximately 53,000 gross barrels of oil per day and sells 150 Mcf of gross gas per day from approximately 500 producing wells, for a total net production of approximately 57,000 barrels of oil equivalent per day. He stated that from Hilcorp Energy's perspective, the credits in question - both refundable and those credits against tax liability - have resulted in more investments and more production in Alaska, both on the North Slope and Cook Inlet basins.

MR. WILKINS, regarding Cook Inlet, stated that it is no secret that Hilcorp Energy has been a big part of reviving energy security in Southcentral Alaska. He said since the company came to Alaska in 2012, it has invested over \$1 billion in projects and has drilled over 50 wells in the Cook Inlet area. The result for Alaska has been threefold, he said. First, there is more oil refined and used in Alaska at the Tesoro refinery. He said Hilcorp Energy has doubled oil production in four years, through hundreds of drill wells through its smaller scale projects, and this has resulted in more near-term and long-term oil royalty going to the state. He said some estimates indicate that 20 to 30 million more barrels of oil will be produced over the next few decades - oil that would have been "plugged and abandoned forever" if Hilcorp Energy did not do these projects. He said 100 percent of Cook Inlet oil is refined by Tesoro in Nikiski.

[3:08:59 PM](#)

MR. WILKINS said the second benefit for Alaska is more jobs for Alaskans. He said the company's activity in the state has supported thousands of jobs for those in Alaska. In 2015 alone, the company's operation supported nearly 3 million man hours, which in total equates to more than 1,400 full-time positions.

MR. WILKINS stated that the third benefit is energy security for Alaska's largest population hub. Because of Hilcorp Energy's success over the past four years in the Cook Inlet area, it is now making gas supply commitments with local utilities into 2023, "at lower prices to our customers than when we first entered into Alaska." He said the company made a commitment to Alaskans' energy needs first, and it stands by that commitment. He said his team works hard every day to ensure a reliable and affordable energy source for this largest population hub.

MR. WILKINS emphasized that developing oil and natural gas in the Cook Inlet Basin requires a high cost of production and investment, coupled with decline rates that vary from 15 to 50 percent annually, depending on the field. He said, "We can't declare victory in the Cook Inlet; we need to continue to invest in projects to offset these high declines. In fact, I would say we need to work on increasing the supply and the demand market and benefit more Alaskans going into the future."

MR. WILKINS warned that North Slope oil production is also at risk without continued investment. Hilcorp Energy has increased production from its North Slope asset since it came on to the slope in 2014. Without significant spending in the fields that it operates on the North Slope, he explained, the company anticipates an average decline of 13 percent. On the North Slope alone that would mean nearly 2 million barrels less per year, which would mean less oil to tax, upon which to collect royalty, and to go into TAPS. He said, "It's not a small number, although it's a small fraction of the total loss the state is likely to see overall, as a result of less investment from the other producers. The simple fact is that if we're not spending money on projects that bring on new production, we cannot bring on new production, we cannot curb these declines." He stated it is the belief of Hilcorp Energy that it is in both its own and the state's best interests to continue to spend dollars in the effort to produce more oil and gas. He said the only way to do that is to have a system in place that is stable and predictable, and one that incentivizes - not jeopardizes - continued investments.

MR. WILKINS acknowledged that Hilcorp Energy is not alone in facing difficult decisions and realities during this difficult time. He further recognized that members of the House Rules Standing Committee and the legislature have much to consider regarding what is best for Alaska's future. He asked the committee to consider the uncertainty that is created by change and the effect that uncertainty has as a deterrent on investment and jobs. He opined investment, whether for exploration or development, is the only way to increase production, and "increased production is the only way we can help you to get out of this situation." He posited that the proposed bill before the committee will not help "achieve any of this." Conversely, Hilcorp Energy estimates that the proposed legislation will add tens of millions of dollars to the industry's tax burden over the next five years.

[3:13:00 PM](#)

MR. WILKINS described what Hilcorp Energy would do as a result of HB 247. First, he said the company would cut its Alaska investments. He said the company would spend what is required to meet its commitments to local utilities and maintain safe operations; however, investment beyond that is likely to see a significant cut. He said Hilcorp Energy will be forced to cut costs, which will mean less contract labor and fewer jobs for Alaskans. He said Hilcorp Energy will produce less oil and gas compared to what its production would be under a stable and fair tax regime. He said that the company would look for other places to invest many of its dollars that might otherwise be invested in Alaska. He asked the committee to trust that he wants to keep Alaskans working and to increase production in the state, and he wants Hilcorp Energy to be Alaska's long-term partner. He said the company simply is not going to continue to invest hundreds of millions of dollars in the state every year, especially if the price environment and fiscal structure continues to change and "aims to kick while we're down."

[3:14:22 PM](#)

REPRESENTATIVE KREISS-TOMKINS, regarding lease expenditures in Cook Inlet, stated that the turnaround that Hilcorp Energy had effected there is "pretty impressive," as are the company's operations throughout the state. He asked what the cumulative rate of tax credits are from those lease expenditures.

MR. WILKINS responded that Hilcorp Energy has invested a billion dollars, doubled the oil production, and added a lot of gas production going into the Southcentral market. In terms of the return to the state on that investment, he said, "In our view, we've done exactly what the state intended to do." He reiterated that solely from the oil increases, the company has added 20 to 30 million barrels of recoverable reserves over the next few decades, which will well exceed any of the tax credits that were put in place to spur activity. He said the company views that Alaska has benefited much and seen positive results.

REPRESENTATIVE KREISS-TOMKINS questioned of that billion dollars, "how many tax credits are in there?"

MR. WILKINS said he did not have that number in front of him, but he does know that the royalties and property taxes the state has collected from the activity, plus the jobs that have been created, equal multiple returns on the state's incentive program. He added that before Hilcorp Energy came to Alaska,

contracts in the Anchorage market were short-term and short-lived, and people were buying generators because of the threat of brownouts. He said, "So, the longevity of the oil and gas situation in the Cook Inlet was ... very much in question." Now, he said, Hilcorp Energy is signing contracts for long-term gas commitments in Southcentral Alaska.

[3:18:17 PM](#)

CHAIR JOHNSON announced that the committee had heard all the invited testimony for the day, and he asked Ms. Delbridge to speak.

[3:18:33 PM](#)

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, placed on the record a document, titled "Answers to questions on Rules CS," which was prepared by enalytica and is included in the committee packet. She said enalytica was forwarded questions related to comparing and understanding different net profit systems around the world, and in the handout articulates some of the differences between various net profit systems, including the differences between income taxes or specific petroleum taxes. She recollected there had been some discussion earlier in today's meeting about that. She said enalytica points out the one example of a net profit system it is aware of that "for one small component does not allow carry forward of expenses." Further, enalytica articulates that in the petroleum profits tax, it finds few, if any, instances in which carry forward losses might be limited. In particular, enalytica cites systems similar to Alaska's, in which an escalator is provided on the carry forward or some additional benefit is added to it.

MS. DELBRIDGE next explained why Version D proposes a shift to a system of lease expenditure deductions as a means to carry forward losses. She said that started with a policy discussion related to eliminating NOL credits. She reviewed that a credit essentially implies "an immediate obligation to the state," while "still years away from actual production that the credit is designed to incentivize ...." She said in eliminating the credit, there was still a desire to find a way to allow companies to recover losses, as in any net profit system - in particular a net profit petroleum system - therefore, Version D would allow that those lease expenditures that are eligible expenses exceeding revenue can be carried forward and applied against future revenue.

MS. DELBRIDGE continued, as follows:

The policy intent was largely to provide that relatively stable playing field for ... an incumbent or a new developer. The state has had the ability and has chosen to use the policy of providing cash up front for that new developer, and certainly than there's been this discussion going on through the session as to whether the state can afford to do that and in what context. Everyone, whether you're a new developer or incumbent producer, would have the ability to carry forward your lease expenditures for use against your future liability.

Part of the policy decision that went into this was ... in a sense making sure that the system's beneficial to any company - allows every company the same opportunity, but also starts ... to fence off some of the risk that the state has in ... putting out an upfront credit, absent ... the actual behavior that has been incentivized. Once that behavior, that production, occurs, then this company can fully use that ... lease carry forward against its production tax revenue.

[3:22:20 PM](#)

CHAIR JOHNSON recessed the House Rules Standing Committee to 4:00 p.m.

[4:02:20 PM](#)

CHAIR JOHNSON called the House Rules Standing Committee back to order at 4:02 p.m. Present at the call back to order were Representatives Olson, Herron, Kreiss-Tomkins, and Johnson. Representatives Chenault and Tuck arrived as the meeting was in progress.

CHAIR JOHNSON opened public testimony on HB 247.

[4:02:50 PM](#)

ALLISON BARNWELL testified that she is a young person who grew up in Alaska and remained in the state. She expressed concern over Alaska's fiscal crisis and the state's continued practice of giving more to oil companies than it does to its own

Department of Public Safety and University of Alaska system combined. She acknowledged that Alaska's infrastructure was built with revenue from the oil and gas industry, and she said she is grateful for that; however, she advised the need to be realistic about the negative effects [the continued use of] oil and gas has on climate change and to recognize the tremendous potential in renewable energy and the boost that can be given to local economies by investing in those renewable resources. She encouraged the state to put its focus on renewable energy instead of paying more to oil companies, which may never be able to pay back the money they owe the state. Ms. Barnwell opined that the state cannot afford to pay out over \$700 million to companies. She emphasized her desire for Alaska to have a sustainable future. She urged the committee to "take up the original bill that the governor introduced" and reject [Version D].

[4:04:46 PM](#)

NORMAN VAN VACTOR said he has "a deep sense of optimism about the future of the state." He urged the committee to support the original version of HB 247. He opined that everyone should pay his/her fair share; the state cannot hand out checks to any industry while slashing the basic services to its citizens. He opined that when considering all the options, a comprehensive (indisc.) solution has to be put in place. He indicated solutions may include initiating a state income tax, and dealing on some level with the permanent fund dividend (PFD), but first the discussion must be about what the state is giving away to "the industries." He expressed frustration that the date is already May 11 and "we" still have not addressed a comprehensive budget solution.

[4:06:27 PM](#)

WILLIAM JOHNSON began his testimony by mentioning the passage of Senate Bill 21. He then stated that Alaska is paying \$775 million in credits to the richest corporations in the world, which have been on an 8- to 10-year run of the highest oil prices in the world. He said even under ACES, with the highest oil taxes, the oil companies were still making more money in Alaska than anywhere else in the world - especially compared to what they made in the Lower 48. He opined that for those reasons, the state should discontinue paying the companies tax credits, because it cannot afford to do so. He further opined that the oil companies are gouging the citizens and do not need \$775 million, which he called "chump change." He said if the

state is serious about raising revenue, it needs to do away with its tax policy that allows the oil companies to write off their losses in other parts of the world against their operations in Prudhoe Bay. He recommended going back to a (indisc.) and getting away from a net [operating] loss system.

MR. JOHNSON related that he was born in the Territory of Alaska and helped build the Haul Road and the Trans-Alaska Pipeline System, which he said was supposed to last 30 years. He indicated that was 38 years ago. He said three-quarters of the oil has been taken, and at one point 2.1 million barrels of oil a day was being extracted. He said that would never be seen again unless the Arctic National Wildlife Refuge (ANWR) is opened. He reiterated that the state should not be paying credits to the richest corporations in the world.

4:09:36 PM

ANN RAPPOPORT testified that she has lived in Alaska for 37 years and has two grown children in their 20s, who are out of state for school, and whom she wishes will have the opportunity to return. She expressed concern that the actions of the legislature will affect the state, because she thinks the legislature has cut essential services - such as education, senior support, health care, public safety, and local government - too deeply. She opined it is time to focus on raising revenue to offset Alaska's budget crisis, and that includes looking at oil tax credits.

MS. RAPPOPORT expressed disappointment in the legislature's recent amending of the proposed HB 247, because she said she thinks the proposal in the governor's original version to eliminate approximately \$800 million in tax credits is reasonable and responsible. She said, "I think everybody's going to have to start paying now." She said Alaska has become an entitlement state, wherein everyone thinks that oil will pay for everything, but she opined that that is not realistic, because oil is not a renewable resource and there are other types of energy sources that could better address climate change.

MS. RAPPOPORT suggested the state may need an income tax, so that those who make more would pay more. She further stated that Alaska may need to have a sales tax, which she suggested could be higher in the summer when there are visitors to the state, because "we all pay taxes when we go visit them." She asked the legislature to revisit HB 247 first and eliminate the

oil tax credits and then consider adding taxes on some of Alaska's other industries so that "everybody pays a little something to help us through this crisis."

[4:11:30 PM](#)

DIANNE MACRAE testified that she thinks consideration needs to be made that oil companies' focus is on making money. She said, "The fact that they need to be so subsidized is a concern to me." She said she feels oil companies are profitable. She said "they made out like a bandit" when the Exxon Valdez oil spill occurred, while other people "had to suck it up, deal with it; some committed suicide." She continued:

This is not the end of the world for them not to get all that money. They can pay their fair share; they're making money hand over fist ... throughout the nation and throughout ... the world. I think that it ... almost seems like nepotism, sort of - cronyism. Why are we so afraid that they're going to bolt up and leave? They're not going to. The oil's there; they'll get it; they'll make money; they just won't make as much money.

MS. MACRAE recommended that the committee abandon Version D and return to the original version of HB 247 presented by the governor.

[4:12:59 PM](#)

DAVE HANSON testified that he is a fiscal conservative, who has been a resident of Alaska for 40 years. He opined that Alaska cannot afford the oil production tax credit program. He stated opposition to Version D and expressed support for the governor's original version of HB 247, which he said is generous and provides a balance between the needs of the people of Alaska and the oil industry. He noted that the representatives of the oil industry were given hours in which to communicate with the legislature, and he asked the committee to remember that [legislators] represent "all the people of Alaska" and all the interests of those people.

MR. HANSON posited that the credit program is not an effective way to increase oil production. He said there is no prequalification of projects that get to receive credits. He said, "Due to the program's confidentiality, we do not know who gets the credits, how they use the money, how many Louisiana

jobs are funded, or how many Alaska dollars end up in Texas." He also noted that oil companies are already being given a huge tax break, because if the price of oil is under \$73 per barrel, the industry is not even paying a production tax credit. He continued:

That's why they're concerned about taking their credits. They're not even paying taxes to do credit against. And that's why they all want it to be rolled forward. We should realize there's two kinds of incentives [that] were given: One we've already got, with no production taxes; the second one we should cut way back on and definitely not roll it forward to burden our future.

MR. HANSON said Hilcorp Energy is an example of the need for tax credits to be tied to a requirement that a corporation must meet all requirements in order to receive the credits. He said recently Hilcorp Energy was noted by the Alaska Oil and Gas Commission as being in "endemic disregard for Alaska regulations" and was fined \$20,000. He said Hilcorp Energy has had over 25 regulatory transgressions in the last few years. Mr. Hanson stated, "Obviously, this should be a requirement that you obey the law if you're going to get any of this help money from us." He wished the committee luck and asked that it return to the original bill version.

[4:15:53 PM](#)

TRISTAN GLOWA testified that he would like the committee to stop working on Version D and return to the original version of HB 247. He said he is a student, a young person, and a community organizer in Fairbanks, and he works with young people who are trying to plan for their future in Alaska. He said cuts to public schools and universities are being made, without "leaving much room for sharing the sacrifice here." He related that he grew up in Fairbanks, studied Outside, and had been taking time off school, and he had initially thought he could return to school in Alaska, while serving his community, but that dream has been "snuffed out," because immense cuts to the university have ended programs through which he would have continued his community service. Mr. Glowa said, "So, the sacrifice is ... hitting ... my generation very hard, and here you are proposing to benefit these ... corporations more." He opined that the state cannot afford to do so.

MR. GLOWA called Alaska "a textbook petro state," and he indicated that Alaska needs to be diversifying its economy and revenue stream; it needs a tax base that is independent of the oil and gas industry. He said the first step should be to stop giving money to the corporations, which he said are driving climate change. He stated the need for Alaska to have a stable economy. He stated, "It's incredibly irresponsible at this point for ... you as our legislator to be ... proposing to continue to subsidize these oil and gas corporations." He opined that the committee should return to the original bill version proposed by the governor, because "that's the kind of leadership that we need" for a sustainable fiscal [plan]. He expressed his hope that the committee will listen to what its constituents are saying and not just be listening to the oil and gas industry.

[4:18:46 PM](#)

JAMES JACOBSON testified that he has lived in Alaska for 50 years, and he opined that providing any credits to oil and gas companies, whether large or small, is akin to former Governor Sean Parnell's years-long push to replace ACES with Senate Bill 21. He continued:

One might just as well throw a pocket full of money into a wind storm [and] expect or hope that some of the bills will blow back to the buttoned pocket. It ain't going to happen. It doesn't make economic sense at all. When the oil and gas marked their (indisc.) that Alaska's petroleum products are financially feasible to drill and pump, rest assured the oil companies will be seeking them, with or without credits from the state - hopefully without.

Oil and gas companies are cutting back on their efforts and expenses. That makes sense. The State of Alaska should do the same, and we should not underwrite or insure their oil and gas company business adventures.

MR. JACOBSON offered his understanding that if the annual tax credit is exceeded by a company, the overage can be carried forward to a future year. He said this serves to give the oil companies a throttle hold on Alaska's petroleum products, which he opined is unacceptable because the overall fiscal health of Alaska is suffering needlessly from oil and gas credits. He added, "So, stop that, and bring the audits of the oil companies

up to date." He posited that because the legislature cannot predict the future of a complex international petroleum situation, it should cease gifting the state's money to the oil companies. He concluded, "We're not partners with oil and gas companies. Remember Amerada Hess [Corporation]."

[4:20:24 PM](#)

STEVEN SUTHERLIN testified that he appreciates the concern about the state's budget, but said it seems the idea is that there needs to be a change regarding tax credits or that the PFD needs to be accessed. He indicated that [the oil and gas industry] is a "long-term business," and he said he thinks [the legislature] sometimes takes heat for taking the time to try to make a careful adjustment on tax credits. Regarding drilling in Alaska, he said it sometimes can take 10 years to bring product on line; therefore, he said he thinks care needs to be taken when cutting out credits. He offered his understanding that some of the early credits during ACES were a kind of "payback ... to try to make less of a bitter pill out of some ... bonding requirements and regulatory ... roadblocks that sometimes get in people's way."

MR. SUTHERLIN encouraged [the state] to work with the industry. He opined that if there is a price war with the Saudi Arabians, then "we need to fight for our own share - whatever that is." He reiterated his caution to "keep a steady hand on the till" and take care in how quickly changes are made. He remarked that there have been some large fields discovered by smaller companies. He mentioned an environmental impact statement being done for (indisc.) well project up north where there is a great deal of oil and gas that will "provide more money for everything later."

MR. SUTHERLAND relayed that he is a graduate of the University of Alaska Anchorage (UAA), and he thinks that the University of Alaska needs to take a look at whether it is monetizing its land resources as well as it can. He indicated that he helped to establish a preservation bank at UAA. He said it hurts him to see budget cuts, and he indicated that care must be taken not to kill off the business.

[4:24:28 PM](#)

ANDY BOND testified that he has worked in the Alaska oil business for 30 years, and he related the benefits that his family has reaped from the industry, including a comfortable

existence and school tuitions. He said he would love for his grown children to return to Alaska after college to raise their own families; however, he said the future looks bleak, and he warned that another tax change will greatly hamper the future of the oil industry. He said the state cannot survive without a healthy oil industry that is investing massive amounts of capital. Mr. Bond stated that the recent downturn in oil prices has caused huge layoffs in the oil industry across all companies; capital investments for Alaska oil exploration and development have been slashed; and he has seen many friends lose jobs over the last few months. He warned that additional taxes to the oil industry will further reduce investments and require higher oil prices.

MR. BOND stated that he has seen many changes over the years of tax policies, companies, and oil prices, and many times the changes appear to be knee-jerk reactions to oil price changes or "other factors."

MR. BOND stated his opposition to "the changes represented in HB 247," because he said they will not result in more investment, jobs, or new oil in Alaska. He opined that Senate Bill 21 was beneficial for Alaska, because it attracted new investments over the last few years, and tax credits have supplied Southcentral Alaska with gas for many years in the future, which was something unexpected years ago. He said, "Tax credits counter Alaska's high-cost environment and allow the state to compete with other international oil investments." He said higher taxes will discourage future investment. Further, he said companies are also nervous about another change to the tax structure; tax stability is a key factor for companies, and another change may cause them to look elsewhere to make investments. He opined that tax stability will encourage more investment, which in turn will get more oil into the pipeline.

MR. BOND opined that the state needs to reduce the deficit first by making substantial cuts to state government and services; it needs to react as the private sector does during difficult fiscal times. He said state spending has gotten out of control over the last few years. Mr. Bond posited that the next source of savings should come from the many savings accounts that the state has, because he said that was the design of those accounts. He stated that all those sources should be exhausted first, and the state should examine whether there has been a recovery in oil prices before even considering any additional taxes on the oil industry or individual income or sales taxes.

MR. BOND urged the committee to reject HB 247 completely and continue with the balance that was struck with Senate Bill 21, which he said would give Alaska the best chance to recover from the price downturn and get investments going again to fill the pipeline.

[4:27:13 PM](#)

JEANIE PIERCE testified in opposition to Version D. She opined that the legislature should call a special session to debate this issue between everybody. Regarding the 4 percent production tax floor under Senate Bill 21, she said [the public] was misled that "it was not going to get underneath there." She then stated, "All the taxes get underneath there but a few." Ms. Pierce continued:

We give an 85 percent reimbursement for capital expenses. That's a huge subsidy, and we aren't even partners. I mean, you guys call us partners, but I haven't seen anything written in paper. What kind of partner pays 85 percent? That's called a sucker. ... Under the version, ... it's not even vetted by a bankruptcy attorney. This is an old pattern of you guys. You guys need to return to the ... table again and readdress these things - revisit what you did. ... All these things getting underneath here - ... this is bad policy.

... The operating loss on the North Slope: 90 percent of the credit is used as a loss; 10 percent for exploration credits. Does anybody think there's something wrong with this picture here?

MS. PIERCE expressed her hope that the Democrats, Independents, and moderate Republicans would "just say no" to this bad deal that will favor the oil companies again, which the state cannot afford. She questioned whether the state's paying out more than it is receiving in production tax was "a head scratcher" for any legislators, because she posited that "it sure was to Alaskans." She implored [the legislature] to do things right, to "start representing Alaskans, not your back pocket." She said the state has a good governor, whom she called "a rock star," who the people of Alaska like, because they know he makes good choices. She stated that she thinks the people of Alaska want the legislature to "come on board with him."

[4:29:40 PM](#)

JAMES SQUYRES testified as "an Article 1, Section 2 Alaskan" opposed to Version D. He noted that he is also a certified public accountant (CPA). He called the proposed CS "a budget buster" and implored the committee to get the credits down to where the overall budget is "\$4.5 billion total spend," which closely aligns with the Institute of Social and Economic Research (ISER) Goldsmith economic plan - one of two he said does not include an income tax or recalculation of the PFD. Mr. Squyres opined that \$4.5 billion is a serious goal worth obtaining. He stated that the oil and gas credits by themselves are the crux of the issue: because less aggressive cuts were taken elsewhere, the legislature has "painted" itself "into a corner." He continued:

I understand [the] Wilson/Seaton proposal brings us much closer to where we need to be, and I support and applaud their effort, although it may still not be enough. This unlikely coalition should be a clear indicator to those on this committee of how far off this current CS is.

Continuing the oil and gas program and not stopping the accrual sooner rather than later, while it may benefit some, likely comes at the expense of the overall Alaska economy. If the subsidies require new revenue, the overall Alaska (indisc.) will contract as a result, and it's a clear violation of the last phrase in Article 1, Section 2, that you swore to uphold, and it's not the desired direction for an overall economy already in an oil and gas recession.

I understand the CS already puts the handwriting on the wall for oil and gas companies in 2020. Why wait? Stop the accruals of fiscal year 2017. This version is bad trade if you're seriously entertaining a change to the calculations of [the] PFD; it not only drops the PFD by \$1,000, but catches all the future appreciation of the dividend forever. The time [of] these credits ... [has] passed and [they] are expenses that Alaska can no longer afford. They should be terminated sooner rather than later. Keep the budget at 4.5 or less.

[4:31:54 PM](#)

REPRESENTATIVE KREISS-TOMKINS expressed his appreciation of Mr. Squyres' testimony that "it's a zero sum game" and the means to balance the budget "doesn't come from here," it will be from a tax or income tax "or something."

[4:32:11 PM](#)

WILLIAM JOHN NEUMEISTER testified that he has been following legislative proceedings on the television. He related that back in 1975, during an oil embargo, The Flying Tigers sued an oil company over the price of jet fuel at the Anchorage International Airport. He said, "That oil company lost; the airline prevailed; they're still here doing business in Alaska." He related that his father used to be an auditor for the Public Utility Commission in Pennsylvania, and "they asked him to change numbers," to which his father replied, "No, I don't work for them, and I don't work for you; I work for the people of this great state." Mr. Neumeister concluded by thanking legislators for the hard work they do.

[4:33:27 PM](#)

BRAD FLUETSCH mentioned a media report, and he stated his understanding of the report is that the legislature approved tax credits between 2006 and 2014 totaling \$7.4 billion. He said if that is true, then 2015 and 2016 would bring the total to \$8.5 billion in tax credits in the last decade. He remarked that production barely increased. He opined that currently Alaska's economy is overly concentrated in oil and gas, and he said he speculates what \$8.5 billion could have done to diversify the state's economy if Alaska had "used those funds more appropriately." He stated his belief that the State of Alaska should cease 100 percent of all oil and gas subsidies, because he said it is ridiculous to pay to have oil pumped and receive no revenue. He said "most of us" cut production when prices drop and increase it when they rise. He expressed admiration for Governor Walker, whom he indicated talked about Alaska being an owner state. He questioned what happened to the Republican Party and asked what happened to the honest, hard-working values of Governor Hickel's administration. He concluded:

And so, I'm very disturbed that you want to reach in to the Alaskans' pockets and take \$1,000 ... [from] every man, woman, and child and just hand it over to the oil and gas industry. You should be ashamed of yourselves. ... This is just unbelievable. I hope you reconsider this. I hope you cut oil and gas

subsidies to zero this year, in this budget, because no one takes you seriously in any other budget this session.

[4:35:47 PM](#)

MARLEANNA HALL, Executive Director, Resource Development Council for Alaska, Inc., (RDC), paraphrased from her written testimony, which read as follows [original punctuation provided]:

Good afternoon. My name is Marleanna Hall, and I am the executive director of the Resource Development Council. RDC is a statewide trade association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, fisheries and tourism industries. RDC members are truly the life-blood of Alaska's economy. We believe 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.

With regard to Committee Substitute HB 247, raising taxes on companies that are reporting record losses and are in negative cash flow is not sound fiscal policy.

Increasing taxes on our natural resource industries will not increase production for the Trans Alaska Pipeline System, it will not encourage the development of new mines in Alaska, it will not attract more tourists, and it 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 over the long run.

As you're aware and have heard over and over today and the last four months, 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 jeopardize new investment, further damaging our private sector economy.

This morning, Kara Moriarty with AOGA asked the questions that should be asked: Will the CS increase

investment, jobs, energy security, production? Because that is what is vital to Alaska's future. Changing the tax regime now will make a bad situation worse.

When you incentivize something, you get more of it. We need to incentivize the industry to drill more, create more wealth, create more activity, and aim for next year's production to be even higher than this year's.

The current tax policy has brought new exploration, jobs, and continued investment to the state. The oil industry is truly the foundation of Alaska's economy and keeping it strong is the key to sustaining the private sector, Alaskan jobs, state government, and the overall economy.

Conversely, this bill moves us in the wrong direction. It represents the sixth major tax change in Alaska in the last 11 years. Make no mistake, this CS fundamentally changes the entire tax system again.

My members are not asking for a tax decrease during this time of low commodity prices like other states and countries are considering, but we do request that as the state considers changes to tax policy, it do no harm to the state's largest industry.

I thank you for the opportunity to offer RDC's perspective on CS HB 247 today and urge you to reject this legislation.

[4:39:00 PM](#)

CARL PORTMAN testified that he does not support increasing taxes on the oil and gas industry, as proposed under Version D. He said Alaska cannot increase oil production by raising taxes, especially considering that North Slope oil is selling for less than it costs to produce. He stated that the industry is losing hundreds of millions of dollars annually and is being forced to cut jobs and expenses; therefore, any tax increase will have a direct impact on future investment in Alaska and future production. He said the current oil tax policy is working: it has encouraged new industry investment in the state, which has "stabilized a long, steep slide in production." He said production is up 1 percent in the past 12 months, which is the first increase since 2002. He stated that is significant.

MR. PORTMAN said some legislators say the oil tax bill is necessary because "the oil industry needs to have skin in the game and feel the pain like everyone else." He continued:

... Such thinking ignores the fact that the industry already has skin in the game. For decades it has accounted for over 80 percent of the state's unrestricted general fund revenues. It also ignores the fact that the industry is feeling the pain, projected to lose a billion dollars in Alaska this year from low oil prices.

MR. PORTMAN opined that passage of HB 247 would not encourage future investment, but would instead do just the opposite. He said the bill would not result in new production, either, because with less investment comes less production and less state revenue over the long term to fund education and public services. He warned that increasing taxes and costs on the oil industry will make matters worse on both the private and public sectors. He predicted that while Version D may provide a small amount of short-term revenue for Alaska, it would be at the cost of jeopardizing Alaska's economy over the long term. He urged the committee to reject Version D.

[4:41:36 PM](#)

ROY J. TANSY, JR., Executive Vice President, Ahtna Netiy'e', Inc., testified that he is a shareholder who is requesting that the Middle Earth Frontier Basin tax credits, which are due to expire June 30, 2016, be extended to at least the end of December 2016. He continued:

Ahtna wants the opportunity to conduct and complete an exploratory well on state land near Glennallen. Ahtna has endured some significant setbacks recently. These include two outside investors pulling entirely out of the project and Ahtna assuming 100 percent ownership of Tolsona. The most recent hurdle was just last month when the Cook Inlet drill rig we were about to use became unavailable. The reason being that this contractor party decided to drill another well. The Saxon drill rig, which is part of our entire permitting process was based upon, will not become available until approximately July 1, 2016.

We are currently in the unfortunate position of evaluating whether or not to go forward, based on tax

credits and other major expenditures for seismic, engineering, permitting, and permanent construction that have already been completed.

Ahtna is utilizing the Middle Earth ... and Frontier Basin tax credits to promote local economic development and long-term (indisc.) for local residents.

If our finds prove to be significant, it could ... change the direction of energy development in Interior Alaska. One line in Ahtna's vision statement is: "Our land sustains us." We believe that our land truly takes care of us, whether it's for hunting, shelter, or to provide a mineral, earth, energy, or timber resources we need in order to survive.

I know you've all been immersed in the legislative session since January, and I can't (indisc.) strongly enough how heartwarming it is to see the thousands of truckloads haul gravel in the Ahtna region to build the pad on the (indisc.) land. The people are working. This is economic development activity. The civil construction of the road being completed by our new construction company, with two-thirds of the employees being Ahtna shareholders.

... The (indisc.) started by (indisc.) approved exploration license and application (indisc.). Our shareholders live in a remote and beautiful region and believe in hard work, ingenuity, and prayer. We are the perfect example of an Alaska region that is trying to develop a local natural resource to meet our energy needs, and we have the pioneer spirit [and] strength within us, and we are committed to the program, which would not be possible without the development incentives of the Middle Earth/Frontier tax credits. We're trying to do our part as Alaskans to be self-sufficient.

Energy resource development such as the Tolsona program that we are heavily invested in is Ahtna's commitment to a long-term energy solution. It could have great local impact in terms of energy relief, and it could have an even larger significance to the state if it proves to be substantial. The point is we are

doing something for Alaska. We are not wringing our hands hoping...

[Because of technical difficulties, the remaining portion of Mr. Tansy, Jr.'s testimony was not recorded.]

[4:45:34 PM](#)

The committee took a brief at-ease at 4:45 p.m. to address technical difficulties.

[4:46:02 PM](#)

MARK MORRIS paraphrased his written testimony, which read as follows [original punctuation provided]:

This is a time of great turmoil, great difficulty, and a time of great sacrifice. This is a time when true leadership is indispensable. Our state faces great financial trouble. Short term solutions that compromise our long term fiscal health are very tempting, **but we must not take that road!**

Tax credits to developers of our State's North Slope resources are a tried and true investment that produce revenue to our State in our future. I am not writing to address Cook Inlet tax credits.

The pipeline (TAPS) is approximately  $\frac{1}{4}$  full. It used to be full. All Alaskans have benefited from our State's vast oil reserves when they have been converted to revenue by the oil companies; big and small.

But we face a perilous future.

The oil decline in TAPS must be stopped and better yet, reversed. If it isn't, the difficulties we face now will pale in comparison to what we will face in our future. Our State Government is dependent upon the revenues we receive when our oil is converted to revenue by oil companies; big and small.

The small oil companies need financing to convert our oil reserves into revenue. We split the financial gains with approximately  $\frac{2}{3}$  going to our State & Federal Government and  $\frac{1}{3}$  going to the oil companies.

That is a great investment! Tax credits are used as guaranteed returns to help the small oil companies receive financing from out of state banks. This sends money into our State to convert the oil reserves we own into revenue for our State.

Fiscal year 2015 data for the North Slope shows a total "Government Take" of approximately \$2.2 Billion dollars, while spending \$0.2 Billion (\$224 Million) dollars in credits. (source: enalytica. See attached)

The tax credits we provide are an investment that provides revenue to our State for many decades.

Our oil reserves have provided the revenue our State Government has used to help our local communities:

- maintain roads and airports
- build water systems for safe drinking water
- build wastewater collection and treatment systems to protect our health
- assist with funding our schools
- build new schools
- provide health and social services to Alaskans in need
- build and renovate our harbors
- reduce the cost of heating oil and electricity where it is very high and other great programs.

We have built great university and vocational training and then we have assisted our children in attending these schools and other post secondary education with loans and other State programs.

**All of this is at great risk if we fail to continue converting our oil resources into revenues.**

Tax credits work! Small oil companies have a track record in both finding and developing our oil reserves as well as taking older developments that bigger companies have developed and re-working them to produce more oil.

However, we need tax credits to work for all oil companies, big and small. We have much more oil that has not been developed into revenue. We need to invest in the development of this oil to secure a

bright future for Alaska. Tax credits do that. They are an investment in our future.

These are the "Jay Hammond" days again. By that I mean decisions face Alaska's leaders that can provide another 30-40 years of prosperity for our State. But to do that sacrifices have to be made as they did then through Gov. Hammond and the Alaska Legislature's leadership.

We each individually, and together, have to make concessions to provide a bright future for our children.

Let's come together to do this. **Leave North Slope tax credits alone.** They work for our future; both individually and collectively.

Thank you for your time. Make good decisions.

[4:50:59 PM](#)

DOUG WOODBY testified that his wife is a teacher, and he has a son who works in town and another son who is away, but whom he hopes can return to Alaska and be employed in a sustainable economy. He said his family is prepared to pay income tax and do without the majority of its PFD, if that is what is necessary to help the state maintain its governmental services; however, he said they are not willing to see the revenue they would contribute to the state transferred over "to subsidize the wealthiest corporations in the world." For that reason, he said he is requesting that the committee return to the governor's original proposal in HB 247 to use that as a starting point.

[4:52:07 PM](#)

JUDY CRONDAHL testified that she has lived in Alaska for over 50 years, which she said is long enough to know "some of the giants that were instrumental in putting together the Alaska Constitution" and the governorship of Jay Hammond, whom she said did not "roll over to the oil companies." She recollected when Alaska did not have big oil companies and when she paid a state income tax. She said she lived in Alaska through "the big money," and she speculated that she would live here during a time when there is not so much money. Ms. Crondahl emphasized the need to protect Alaska, and she opined that Governor Walker is "every bit the giant that Jay Hammond was." She said

Governor Walker put together a budget that will get Alaska through lean times, and she encouraged the return to his original proposal on the oil tax credits.

MS. CRONDAHL encouraged legislators to be brave enough to adopt a state income tax, so that those who can afford to pay can make that sacrifice. She included herself, the legislators, and the oil companies in the list of those who could make that sacrifice. She talked about the cuts in services to schools, social services, and senior programs, while money is being spent on "a great big legislative office in Anchorage," oil tax credits, and an extended legislative session. She opined that it is time for the legislature to show the same courage shown by Governor Walker and make tough decisions, because if it does not make them this year, the decisions will grow increasingly tougher each year.

[4:54:39 PM](#)

JOHN SONIN testified that he is a 15-year resident of Alaska who is taken aback by the legislature's persistence in "demeaning the quality of life for us Alaskans in the face of profit." He opined that priorities are skewed when people are being made to "endure the stress of companies ... maximizing the profit." He mentioned the loss of money for seniors and education, and he stated that he would gladly give up his entire PFD if he knew the money would go to education, because children are the future of the world. He questioned having a 10-year forecast for maximizing a budget when it could ruin opportunities in the future. He said, "We all know that oil is not going to go on; you have to stop here before we run out." He said the oil belongs to [Alaskans], who should be receiving the maximum benefit from it. He said he had nothing else to say, because previous testifiers were so "on the mark." He asked the committee to consider the owners before making it easier on the producers of the oil to reap "the benefits of our wealth."

[4:57:29 PM](#)

RICHARD STEELE testified that he is a retired teacher, who has lived in Alaska since 1979 and would like the committee to return to the governor's original version of HB 247 and lower the tax credits to oil companies. He opined that Alaska needs the money more than the oil companies do.

[4:58:10 PM](#)

BILL WARREN testified that he is a 65-year resident of Alaska. He also relayed that he is a member of Local 367 Pipefitters, who welded on TAPS from Ketchikan to Barrow. He stated support for the governor's version of HB 247 as a balanced approach to the crisis in which the state finds itself currently. He said he sides with the Democrats and moderates, although he is Non-partisan. He opined that Alaska is the best place in the world to live. He said he got through the depression of the mid-'80s and is stronger for it. He opined that [the legislature] "really screwed up" when it did not align with the Alaska Natural Gas Development Authority (ANGDA) and get the natural gasline back in 2002, and he indicated that with that, the state would not have to worry about instate energy "and all this hassle."

MR. WARREN said he supports the gross barrel tax and letting the federal government "worry about all the write-offs, welding rods, et cetera ...." He stated, "You guys have it so complicated, nobody can figure things out. Get it simple." He recommended that if the state is going to spend money, it should "get a payback for it." He said he would support the Agrium deal if it would mean work for Alaskans and would be "a bona fide deal." Further, he indicated he would support Donovan Mine. He mentioned Richfield and said, "They found oil in Swanson River and they found oil in Prudhoe Bay, and they didn't have any handouts. And consequently, they've all made billions of dollars - billions of billions - and we come out pretty good, too. But we're in a tough spot now." Mr. Warren said we all need to get through this as Alaskans, and he opined that the state needs to diversify as the governor desires. He continued:

I don't know what kind of agenda the House majority's pulling off here, but all I know is when pipefitters make a mistake repeatedly, they get laid off. ... You guys have got to get off the dime here and do something. And I think you guys carry too much baggage with the oil companies; I think you guys have got a lot of campaign contributions, et cetera, et cetera, so, ... let's go for Alaskans.

MR. WARREN opined that there was a lot of good testimony given - most of it from Alaskans who believe in the state - and he asked the committee to take it to heart and do its job and move Alaska forward.

[5:01:37 PM](#)

GEORGE PIERCE observed that committee members who had been present to hear from all the big oil companies had disappeared now that it was time to hear the public's testimony. He said, "Shame on you." He then told the Democrat members of the committee to stand their ground, because they are the only ones who can "stop this giveaway." He admonished the committee to keep their hands off his PFD, which he said comes from his resources. He indicated that if the oil companies cannot produce "with all these giveaways," they should get out of Alaska, and [the state] should end all the credits and subsidies. He said legislators are "in bed" with the oil companies and should get out, because legislators are supposed to represent Alaskans - not oil companies.

MR. PIERCE stated that the Republican-led legislature has had six oil and gas tax changes in the past eleven years, and he said the state cannot afford it. He opined that the oil companies got themselves into "this mess" and should get themselves out of it. He said Senate Bill 21 was a giveaway that promised more production and more hiring, but neither one happened. He said the legislature continues to extend oil and gas tax credits - for up to eight years - and wants to take his PFD right now. He stated, "We see who you cater to." Mr. Pierce urged legislators to vote against "this heavily gutted HB 247," which he said looks nothing like the governor's original bill version, which would recoup lost revenue for the state.

MR. PIERCE referred to the promised 4 percent production tax floor, and he said credits dip below that, because there are endless credits, which include those for net operating loss, small producers, various exploration credits, and per taxable barrel credits. There are also subsidies, he added. He stated, "Stop giving Cook Inlet credits and subsidies." He said Alaska gives corporation welfare subsidies in the billions of dollars: up to 75 percent of the cost to develop a well and 65 percent for new oil development. He said he has heard the word "partner" thrown around, but emphasized, "These companies are not our partners."

MR. PIERCE, in response to Chair Johnson, said he would wrap up his testimony, but commented that he wished the same had been asked of those testifying for the oil companies. He continued:

But anyway, you guys have to stop what you're doing. We've got an \$8 billion resource, and we've got \$1.2 billion, and we get to pay oil companies subsidies out of our money. You guys need to get out of what you're

doing. Do us a favor and quit your job and let somebody else get in.

CHAIR JOHNSON reminded Mr. Pierce that everyone gets the chance [to vote for candidates] every two years.

[5:05:55 PM](#)

DAVID OTNESS testified that as a third - out of five - generation Alaskan, who has lived in the state for 65 years, his concern runs deep for the future of the state. He related that he had worked on the pipeline and all over the state, from Ketchikan to Barrow to Prudhoe Bay. He expressed his hope that the legislature would consider that it is making history through its decisions, while also considering the result of former policies. He emphasized that Alaska is hurting while there is an insistence on giving out credits egregiously in the face of the state's financial downfall. He spoke of all the years that money was coming in when the state should have had its financial plan in order, but "here we are just sort of wobbling around looking towards any way out of the water." He expressed his hope that "sane heads prevail," realize that "we're doing this to ourselves at this point and it's really wrong," and have a change of heart.

[5:08:16 PM](#)

DANIEL DONKEL, Donkel Oil & Gas, indicated that he first leased in Cook Inlet in 1983, had his first production (indisc.) at Soldotna, (indisc.) Marathon. He opined that Alaska is one of the most wonderful states in the Union. He stated his belief that Alaska could fill the Trans Alaska Pipeline, and that the Cook Inlet could "go back to the highs of 270,000 barrels a day." He said he has met geologists that work for the major oil companies. He said that in 1973, Cook Inlet held the highest average well rate in the nation of 14 (indisc.) barrels a day. He opined that Cook Inlet is amazing and is the most underexplored basin in the country. He said, "I'd go out in Apache; I sold them 200,000 acres in 2000." He quoted Bill Armstrong as saying that [Alaska] has it made, because there is more oil under its ground than Saudi Arabia and many of the other Middle East countries combined. He posited, "Alaska's problem isn't the resources. You've got so much oil every one of you should be extremely wealthy." He said he thinks a lot of Alaskans know that the state is two and half times the size of Texas. He said, "Your (indisc.) sales are killing you. Your (indisc.) is killing you." He questioned what store owner, who

cannot sell a product, would increase the price of the product by 18 percent. He mentioned there were no bidders in the Beaufort Sea last year, and he said he sent a letter to the then acting director a year ago regarding the high price of acreage rental.

MR. DONKEL recommended the legislature soften the monopoly to allow in more independent producers. He said, "If you go back to the way the rules were when (indisc.) drilled, you would fill the pipeline. And you need to change the rules. ... And you wouldn't need any of these credits or these incentives, and you would have a lot of money in royalty income."

[5:12:57 PM](#)

BOB SHAVELSON, Executive Director, Cook Inletkeeper, testified that he is representing over 1,200 Alaskans. He said he likes what Mr. Warren from Nikiski said about the need to simplify, because as the state continues to take money away from its agencies, it diminishes its capacity to stand toe to toe with the oil and gas industry. He encouraged the committee to return to the governor's original bill version of HB 247, because if it does not, it will be "staring at close to \$800 million in refundable cash credits to the oil companies in fiscal year 2017, and that doesn't even include the credits deducted from the tax liabilities."

MR. SHAVELSON stated that having looked at Cook Inlet for over 20 years, he sees a zero production tax on oil and a close to zero production tax on gas. He said recently there was a jack up rig in Homer, and everyone on the rig was from Louisiana. He added that they were independent contractors not getting worker's compensation, and "local guys were getting pushed out." He said there was some revenue coming into the community, but certainly not as talked about during discussion of Senate Bill 21, where "production and jobs were going to go through the roof."

MR. SHAVELSON stated that the oil and gas industry is a boom or bust industry; the resource is a finite one being taken out of the ground. He said if Alaska truly wants a sustainable economy, it better consider renewable energy. He said Cook Inlet offers renewable energy options, including volcanoes geothermal and the second-highest tides in North America [for hydro power]. He stated that Alaska is standing on the frontlines of rapid climate change, and it is not diversifying its energy sources as it should. Instead, he said, the state is

"going all-in on the same things that have failed us in the past." He expressed his hope that the state can present a bright future for its future generations.

5:15:28 PM

PAMELA THROOP testified that she has lived in Fairbanks for almost 41 years and is self-employed as a commercial real estate broker. She stated support for the governor's original version of HB 247. She expressed her belief that the state cannot continue to give away its money to legislators and its wealth to the oil companies. She said, "We should all be ashamed of ourselves; we were spending like drunken sailors. The party is over." She said she feels like the state has "taken all the diamonds out of the ground" and is now just "scratching." Ms. Throop described the cuts being made to every agency and department in the state while not one bit is being cut from the oil and gas credits as "absolutely astounding and appalling." She said she wants her extended generations to live in Alaska if they want to do so. She said she did not support Senate Bill 21. She said about three or four weeks after the bill [was enacted] ConocoPhillips Alaska, Inc., laid off "a ton of people" and BP closed down two or three out of five of its rigs on the North Slope. She said none of the giveaways of oil, resources, and money have gained the state anything. As a business person, who deals with other business people, she emphasized the importance of running the State of Alaska as a business. She said she doesn't know anyone who "pays for ... the business to come in the front door." She expressed her hope that the legislature will have the courage to make the tough decisions. She emphasized that she does not want the PFD touched. She said people are struggling in Fairbanks as it is, and losing money from the PFD would take too much from the economy. She said Jay Hammond was an incredible statesman and governor, and she stated her belief that Governor Walker is as capable and as much a visionary as former Governor Hammond was. She continued:

I think that all of us ... have to make these tough decisions. If the oil companies can't make money here, then they can't make money here. It will equalize at some point. I would rather it equalize and be real than equalize and be unreal and we all continue to live in a false economy.

25 percent of our budget this year, if you give away that money, will be spent on that \$800 million - nearly a billion - \$8 billion in the last several

years. My God, what we couldn't have done with that for business development in this state.

MS. THROOP reiterated that she would like the committee to return to the original bill version and "take out all the giveaways to the oil and gas companies."

[5:19:21 PM](#)

MERRICK PEIRCE testified that he likes the original version of HB 247, submitted by the governor, and he does not support "the watered down version of this legislation." He said the state has a crippling deficit that is about to destroy the Alaska economy, and he does not think the legislature is fully comprehending the magnitude of the deficit the state faces if it does not have legislation in place "to fix what's been going on with these liable, generous credits and subsidies that don't exist in any other country in the world." He said the state will never get on top of the \$4 billion deficit if the subsidies, which are almost a billion a year, are not stopped.

MR. PEIRCE asked the committee to consider that the subsidies paid to date failed to demonstrate any real benefit to the state. He said some estimates are that the state has paid over \$3 billion in subsidies for Cook Inlet development. He opined that Alaska should have the lowest cost energy in the United States - in the world - but it does not. He said the wholesale price of gas in Cook Inlet is \$6-\$8 per one million British thermal units (MMBtu), whereas the Henry Hub price for gas in Louisiana, where there are no subsidies in play, is less than \$2. The consequence for the community of Fairbanks is that gas cannot be delivered there for a price that is comparable to firewood or fuel oil. He asked the committee to consider the difference that would be made if the Interior Energy Project was able to buy gas at the Henry Hub price versus the \$6-\$8. He surmised that price difference may make all the difference in allowing the project to succeed. Conversely, because of the disproportionality of the way the subsidies are being paid, "we're not seeing (indisc. -- shuffling papers) to Alaskans."

MR. PEIRCE mentioned secrecy in the manner in which credits are paid. He continued:

I think it opens the possibility for legislators to bribes (indisc.) being employed by a certain company that I'm aware of that disconnected the amount of money that we paid out in subsidies to proportionality

for the benefit gained. For example, as I mentioned before, the Henry Hub price of natural gas is about \$2. With federal developments in the Cook Inlet, the amount of money that we've paid out could result in the cost of gas paid for by the state over \$50 per MMBtu. And we don't even own the gas at the end of the day. We're practically the only region in the world where we own the oil and the gas, we pay up to 85 percent subsidies to develop the well, and at the end of the day, we don't have any ownership interest in the well. That doesn't make the slightest bit of sense.

[5:22:40 PM](#)

KATI CAPOZZI testified in opposition to HB 247, including the original version and all the proposed committee substitutes. She said she thinks changing the tax structure on any industry or business six times in eleven years hurts that business. She urged the committee to "do no further harm to an industry that is operating at a loss and making painful, necessary cuts that go along with periods of low revenue." She opined that a vote for HB 247 is a vote for job losses for Alaskans.

[5:23:23 PM](#)

MICHAEL JEFFERSON testified in opposition to HB 247 in all of its forms. He stated that changing the tax structure six times in eleven years is bad, not only for the oil and gas industry, but all industries that consider operating in Alaska. He opined at a time when the economy is bad and the deficit is huge, the state should be looking for ways to cut the budget, while at the same time "getting more businesses up here to employ people." He posited, "The best way to cut the budget is to not have people need those state services, and the best way to do that is to give them good paying jobs." He predicted that HB 247 will reduce oil and gas work in Alaska - some of the best paying jobs available. He said while neither he nor likely his children will ever work for an oil company, he wants those jobs there, because he makes money off the people who work for the oil companies. He explained that he is in the service industry, thus he needs [the oil and gas industry] to have good jobs so he can keep his job. He implored the committee not to pass HB 247 in any of its iterations.

[5:24:58 PM](#)

WILLIAM TOPEL testified as a fiscal conservative and resident of Alaska since 1966 in opposition to Version D of HB 247. He said the state needs innovation to get through its fiscal crisis. He posited that that innovation is a sustainable budget, macro-economic approach conceived by Professor Scott Goldsmith of ISER, "with no need for taxes or a cut to the PFD or a change to the permanent, while giving our permanent fund investments as part of our revenue stream." He continued:

The legislature can stay at \$4.5 billion for FY 17 and our vision is intact. The legislators' vote in March did that. The continued tinkering with Governor Walker's original HB 247 has resulted in about a \$700 million budget busted overage and a continuation of the oil and gas tax credits program that originated with ACES under former Governor Palin.

Your (indisc.) for HB 247 are not much better. The current version's still [a] budget buster that continues for four more years. That program has cost the state about \$3-\$8 billion or more, with little benefit to Alaska, except to some oil companies. That program is the only one of its kind in the whole world for the oil and gas industry. The program may have been a good idea at one time, but we can't afford this program any more. It needs to be ended, as the original HB 247 recommended. Since the original bill also allowed for a transition time to pay for existing accrued credits earned, so the state can honor its previous legal commitment subject to appropriation.

If you don't leave this tax credits program now, there'll be increased pressure to tax Alaskans or to cap the PFD, which was structured as a permanent fund, or to increase oil taxes. Those are not necessary if you continue to control spending along a sustainable budget path, as outlined by several economists now.

I want the entire Alaska economy and oil companies in the private sector to flourish - not just some and not just the public sector. If you continue with this credits program, you are subsidizing some in Alaska while threatening a majority of Alaskans. While the state cuts back on programs and services, but continues to pay some oil companies to do business in Alaska, that's no different to an ROI - a return on

investment - and an average voter will see the unfairness in what you are doing.

MR. TOPEL concluded by urging the committee to discard Version D and restore the original bill version.

[5:28:01 PM](#)

LISA HERBERT, President/CEO, Alaska Chamber, expressed appreciation for the efforts of the legislature. She testified that the chamber is aware of the administration's efforts to find revenue to fund state government, including increasing taxes on oil production and removing tax credits on oil and gas exploration. She said the chamber is concerned that many of the proposals are shortsighted and will discourage investment, stifle economic activity, and reduce jobs. She said the chamber thinks that the future of Alaska lies in finding and developing more oil - not taxing it more. She said in general the chamber believes it is unwise to force any industry to pay more taxes when it is losing enormous amounts of money. She indicated that broad-based taxes when necessary, instead of targeted measures, are more balanced, may be better received by investors, and do not "pit the industry against one another." Notwithstanding that, she said the chamber further believes that before turning to taxes, the state must reduce spending to an affordable level and use permanent fund earnings, neither of which has been done yet.

MS. HERBERT said modifying the NOL carry forward, the gross value reduction, and the gross minimum tax that will increase the effective tax rates on North Slope producers should not be adopted. She said Senate Bill 21 made substantial changes to oil and gas taxes roughly two years ago. She offered her understanding that recent evidence indicates that North Slope oil production is "up," which she said is "positive news in an otherwise gloomy industry picture." She said the existing incentives for oil and gas exploration were effective in generating exploration and contributed to the resurgence of Cook Inlet production; however, the credits are a significant cost of state treasury. She stated that the chamber supports the state's review of exploration credits and encourage changes to those credits that are not efficient, no longer necessary, or do not produce the desired result. Nevertheless, she said state should pay for credits already incurred, because "a deal is a deal" and stability is an essential part of a tax policy that has attracted investment to Alaska. She said the Alaska Chamber encourages the legislature to continue its efforts to reduce the

cost of government. She added that until it does so, tax increases are premature.

[5:30:33 PM](#)

ROBERT BULMER testified that he was born in Alaska, and he asked why Alaska's government would want to change its tax policy at this time. He stated that many more taxes will decrease the oil industry capability and desire to produce more oil. He asked the committee to consider the trials and costs the oil industry is facing with the drastic reduction of the value of oil today compared to what it was in the past. He questioned why, with the greater demand put upon the oil industry and the price of oil today, the industry would want to produce at all. He said, "Give oil a break. We need more oil - not less. We need incentive - not more taxations. My company does no business for the oil industry."

[5:31:47 PM](#)

STUART COHEN testified that as a business owner of about 30 years, who imports and sells between many countries of the world, he understands what it is like to have good times and bad times. He acknowledged that sometimes it is necessary to invest during the bad times; however, he stated that when he makes decisions about investments, they are based on whether it is feasible to get a return on the money invested. He questioned whether, with current prices and production rates, the state can actually see a return on its tax credit investments. Mr. Cohen surmised that if the state is underwriting, for example, 60 percent of development and 85 percent of some of the other costs, not only may it not get equity, but it may not even get interest on equity. He said he does not understand that.

MR. COHEN said he hears people talk about the need to have a stable tax regime, but he does not recollect hearing that sentiment during the three years former Governor Sean Parnell was attempting to get taxes lowered. He opined, "Taxes are just what you pay to live in a modern, democratic society, and we're going to have to pay them and oil companies also have to pay them." He said he understands that the state does not want oil companies to leave the state, because they have generated a lot of wealth for Alaskans; however, he said he thinks things have changed, the credits being paid are excessive, thus he supports Governor Walker's original version of HB 247.

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CURTIS THAYER, President/CEO, Alaska Chamber, relayed that the Alaska Chamber represents over 700 companies that employ over 100,000 Alaskans. He opined that Senate Bill 21 effectively incentivized more oil exploration and discovery. He said ConocoPhillips Alaska, Inc., increased investment on the North Slope; ExxonMobil Corporation is producing now out of Point Thomson; and there are new companies involved in the last five years, such as Hilcorp, Caelus, Armstrong, and BlueCrest. He said all those companies moved to Alaska because of the reformed tax environment. He added that in the last 10 years "we" have received over \$50 billion in revenue to the state, which he said is "a pretty good return on investment" with tax credits of \$700 million.

MR. THAYER recollected that a previous testifier had stated that [his company] has a project under the current tax regime that can add 120,000 barrels of oil a day to the pipeline. He said that is 44 million barrels a year and 88 in two years. He warned that if the state changes its tax policy, it might be 2024 before that oil comes on line. Mr. Thayer emphasized that the government's take on 88 million barrels is huge. He said the state must realize that it is in a partnership with the industry and, with that, it gets royalties, production tax, property taxes, and corporate income taxes that are the highest in the country. He told the committee that the question to ask when considering the tax policy in HB 247 is whether it will increase production on the North Slope, encourage new companies to invest in Alaska, and be a long-term revenue solution for the state. He posited that the answer to all those questions is no.

MR. THAYER said HB 247 attempts "to do a mathematical equation to fix a budget cap by our overspending over the years," rather than having a long-term, stable tax policy on which the State of Alaska, the industry, and the people of Alaska can rely. He stated that keeping the current tax structure in place is good for business. He stated the need to look to the future and to not be short-sighted on this issue. He said the legislature needs to deal with the state's spending problem and industry needs a tax policy and there needs to be an end to daily layoffs of people from their jobs, which he indicated is caused by low oil prices and high taxation.

[5:37:28 PM](#)

PAM GOODE testified:

Woe to you politicians, who continue to spend money we don't have and continue to make promises you can't keep. I oppose this bill. I don't like it. I don't like the way it was constructed.

MS. GOODE stated that the legislature's number one task this session was to achieve a \$4.5 billion budget, and now the legislature [has extended the length of the regular session] and is "wasting more of the people's money that we don't have, because you couldn't figure it out earlier." She opined that if the tax credits are so important, then the legislature should have "cut somewhere else," but it chose not to do so. She stated that "the second-most important task of this year" was for the legislature not to do anything that it would regret - anything that would prevent achieving a budget next year of \$4.3 billion or less. She said, "We've got to get the spending down to at a reality. We're not there yet."

MS. GOODE recommended cancelling all future oil and gas tax credits, sticking to a \$4.5 billion budget this year, and using the "ISER Goldsmith Kingsley" model. She concluded, "Do not touch the PFD calculations. Do not touch the income from sales tax."

[5:39:06 PM](#)

TIM ROBINSON quoted [Abraham Lincoln], whom he said tried to ensure the survival of America's representative democracy, that the "government of the people, by the people, and for the people shall not perish from this earth." He asked the committee to remember the people's connection to the government. He expressed appreciation of Mr. Warren's and Mr. Peirce's testimony and knowledge of the industry. The tax credit adjustments, he said, are being contested by the oil companies and their contractors. He said approximately three weeks prior he had heard a representative of an oil company testify to beg the legislature not to take away the tax credits, because his company had been losing money for eight years drilling oil in Alaska. Mr. Robinson said he is flabbergasted that someone would remain in business for eight years when losing money that entire time. He questioned how many of the committee members would remain in a business with that much loss or if they lost money for each year they served in the legislature.

MR. ROBINSON recollected testimony today from an oil exploration company from Colorado, in which the testifier said the tax atmosphere in Alaska currently was the best in the world. He

recounted that the next testifier from ExxonMobil Corporation stated that Alaska taxes the highest. Mr. Robinson questioned which testifier was being honest. He said ExxonMobil Corporation made a \$16.2 billion profit last year, and although he predicted the company would not make that kind of money next year, he said it would still make billions of dollars. He said he cannot comprehend why "people are running around saying they're losing money" when it is "only on paper that they're losing money." He stated, "Every one of you in that room that are in business knows what it means to lose money on paper. Tax credits help you lose money on paper."

MR. ROBINSON related that he has lived in other states where oil companies have existed. He said those companies negotiate with landowners to drill, and when they want to stop production, they sit on that well and pump again when the price of oil goes back up. He said, "They're not losing a penny by sitting on that oil, but Alaska is." He said the companies all flooded into Alaska because they saw an opportunity to get oil cheaply, without having to pay Alaska its fair share.

MR. ROBINSON recalled that the testifier from [AOGA] had talked about oil producers starting to shut down production if the tax credits do not remain. He said this is a similar situation to that of the private land owner and the shutting down of production when there is no money in it. He continued:

If they don't think they're making enough money, then let's get somebody else in there to operate those wells. This is Alaska's oil; it's Alaska's money. They don't care about Alaska or Alaskans, and if they did, they'd hire more Alaskans, but they don't. They need to pump our oil and turn the contract over to someone else if they don't want to.

[5:43:04 PM](#)

HAROLD BORBRIDGE testified in support of the governor's original version of HB 247. He said when the tax credits were formulated several years ago, nobody predicted that the price of oil would be fluctuating so much. He said there has to be a return on investment for the money that the state spends. He encouraged the legislature to "revisit this" and set a reasonable level of credits for oil companies, "so that they can weather the storm, so to speak, and address the budget crisis that faces Alaska."

[5:45:02 PM](#)

SCOTT KANYA testified that he is a small family business owner who was "not very well represented by Mr. Thayer and the Chamber in his very un-businesslike recommendation." He indicated that in response to money loss or [a declining] economic climate, his business is "battening down the hatches" and is witnessing people spending less discretionary dollars, which impacts his business. He expressed fear that the legislature's response to the present fiscal crisis could make the situation worse. He said there is an analysis that says if the legislature taps the PFD, a recession will occur, which would cost the most impact to jobs and the private sector economy. He urged the committee to "axe these oil tax credits." He said he would like to see a change in oil tax revenues that would get Alaska its fair share. He described his amazement that since Governor Jay Hammond, he cannot think of anybody who has done more for Alaska than Governor Sarah Palin. He said she put "a couple ten billion dollars" in the bank by adjusting oil taxes. He said the state would have been broke a couple years ago if she had not done so.

MR. KANYA opined that "we" need to do what is right for Alaska and "what is going to take care of our house." He said the credits need to be brought down to \$70 million through low-interest loans or - as he recollected some people from the industry were suggesting - an equity investment on behalf of Alaska, which would spur additional investment and exploration. Mr. Kanya stated that oil companies made "a shift" right after Senate Bill 21 [was enacted] by giving pink slips to "our fellow Alaskans and other oil patch workers ...." He said the companies are making adjustments to the new economic climate, and he opined that the state needs to do the same. He said he does not understand what's taking so long. He said, "It's just ... business." He added, "And ... we can't afford \$700 million at this point."

[5:47:57 PM](#)

LYNNETTE CLARK testified that she came to Alaska as a child in 1951 and settled in the Interior in 1975. She said that as the chair of the Alaska Independence Party, she represents close to 15,000 Alaskans, whom she said believe in independence rather than the dependence offered by HB 247. She cited Article VIII, Section 2, of Constitution of the State of Alaska, which read as follows:

The legislature shall provide for the utilization, development, and conservation of all natural resources

belonging to the State, including land and waters, for the maximum benefit of its people.

MS. CLARK opined that HB 247 will violate that promise of the constitution, which she reminded committee members they all took an oath to defend. She said she thinks the bill should not be passed. She specified that she does not even like the governor's version of HB 247, although she suggested perhaps the committee could incorporate portions of the governor's original bill to craft a better piece of legislation. She said she looks at what has come out of the House Rules Standing Committee and "it's like reading hieroglyphics." She stated, "We need to stick to what was committed by this House and the Senate ... in March ... [to] hold the overall spending to \$4.5 billion." She indicated she wants neither the permanent fund touched nor an income tax nor "any of the obscene sales taxes that are coming down the pike" instated. She opined there are programs that are pet projects that need to be cut. She further opined that the legislature needs to "clear the deck or Alaskans are going to clear it for you in November." She spoke of repealing Senate Bill 21 and getting the state back on firmer foundation for the maximum benefit of the people of Alaska.

MS. CLARK continued:

I just don't believe that we're in the dire straits that we're in, by people that call themselves fiscal conservatives when they went down... [to] Juneau. I think we have gotten - across the aisle - "Republicrats" and "Demrepublicans" playing a political game instead of standing firm and standing up for the citizens, the people of this state. I'm committed to ask you to please listen to us - not the chamber of commerces, not the lawyers of Exxon, not any of those people. The testimony you're getting is overwhelming against this bill. I thank you for your time; I know you're committing a lot of effort to it; but I don't think you're doing a good job.

[5:50:59 PM](#)

CARLY DENNIS testified that she is a junior at Chugiak High School who supports the governor's original version of HB 247. She opined that it is time for the state to solve its fiscal crisis rather than reducing budgets from places that cannot afford to have them reduced, such as schools. She said as a student, she finds it painful to watch great school teachers and

programs being cut, while oil companies continue to receive so much money. She said that is one reason "all these oil subsidies really need to go away."

MS. DENNIS relayed that she works closely with Alaska (indisc.) Environment. She continued:

And so, I think this bill would be a really - (indisc.) - would be a really great step in happily (indisc.) the budget problem, as well as (indisc.). I think it was the man from Homer, Bob, who (indisc.) diversify our energy, and that's ... a great point. We can't keep relying on oil as our main source of revenue, because it's bad for the budget and the economy, but it's also bad for the climate. And so, I think if you get rid of these subsidies, that would be a really great step in diversifying that energy and moving toward renewable energy, and I know it would make a lot of people in my community really happy.

MS. DENNIS concluded by imploring the committee to stop paying oil companies so much money.

[5:52:56 PM](#)

CATHY WALLING testified in support of the original version of HB 247. In response to previous testimony, she emphasized the importance of investing the state's money in "renewables" and not giving tax credits, which she opined the state cannot afford, particularly in light of the state's multi-billion dollar deficit. She said she is not aware of any other place in the world that allows such huge tax credit subsidies in comparison with the oil revenue received. Further, she said she is not aware of empirical proof that the credits are incentivizing investment in Alaska by the oil companies. Conversely, she said oil companies invest mostly based on the oil prices and the quality of the oil reserves. She said she is "thinking of \$800 million next year alone," and it strikes her that that ends up being the equivalent of each Alaskan giving up \$1,000 of his/her PFD.

MS. WALLING urged the committee to work to reduce the state's budget deficit. She offered her understanding that it cannot happen with cuts alone. She said she would choose to give \$1,000 of her PFD to support education and other [programs] that support quality of life in Alaska. She further urged the committee to look at the big picture and to be bold and tough

enough to make the big decisions. She said each year that goes by will be harder. She thanked the committee for its work and encourage its members to make the courageous moves that are not necessarily popular and to put the good of the state above the focus on [how a decision may affect getting reelected]. She said that kind of action from a legislator is what inspires her, and she hopes to see more of it.

[5:56:23 PM](#)

MICHELLE WILSON NORDHOFF testified in opposition to Version D. She said her biggest concern is that the climate crisis is not being addressed, including the fires in Alberta, Canada. She said, "We're not drawing these links." She said that discussion is not happening while the focus is on funding the oil industry in the state. She opined that it is outrageous to be giving so many millions of dollars to the most highly profitable industry on the planet. She opined that [the oil companies] will do fine, but money is needed for education, health care, and so many other applications throughout the state. Ms. Wilson Nordhoff said she feels like ExxonMobil Corporation is a bully, and she wants the legislature to create a new path with the industry and cease giving handouts.

[5:57:34 PM](#)

EMILY FERRY testified that her kindergarten twins told her they aspire to go to the University of Alaska Southeast in Juneau when they grow up, and she said it made her proud that there is a university system in the state that her children aspire to attend. She said she would like it to stay that way, but as it stands now, the state is going to give more money to the oil and gas industry than it is going to put into its university system. She said that does not bode well for the future of her children. She said she supports the legislature in "doing the difficult work" it is doing in "taxing the oil and gas industry" and repealing those subsidies. She said, "We all need to pay our fair share, and I'm one of the many, many, many Alaskans that feel that we can and should have an income tax and that Alaskan citizens also need to be a part of this equation in paying into our government, having an ownership stake in what happens here in Juneau." She encouraged the committee to return to the governor's original version of HB 247.

[5:59:07 PM](#)

LOIS EPSTEIN prefaced her testimony by relating that she has been an engineer working on oil and gas issues for 25 years, 15 of them in Alaska. She indicated that she is a licensed engineer, who has sat on several federal advisory committees for three different federal agencies, doing work related to refineries, oil pipelines, and offshore operations. Her most recent experience related to the BP spill in the Gulf of Mexico. Ms. Epstein said she would offer some general principles she thinks are important for the committee to consider while developing any legislation related to oil and gas taxes and credits.

MS. EPSTEIN said she thinks it makes sense to eliminate all oil and gas credits. She said the price of oil is, by far, the greatest driver of the industry's decisions. She said, "I think we've seen a lot of that in action in the past year or so, as the price of oil has gone down so dramatically it really affected our production. So, what we're doing here is really working at the margins." She said a second principle she supports is the elimination of any oil taxes based on net profits. She said she does not believe the state has or will ever have the resources to fully audit the industry in the way it needs to for that approach. She said short of redoing the whole structure, she would say that the best option would be to support the governor's original version of HB 247.

[6:01:42 PM](#)

PAMELA MILLER testified in support of the original version of HB 247 and in opposition to Version D. She opined that from everything she has read, it is not in the state's best interest to "continue the status quo with the subsidies." She indicated that a change to the industry "taking that money out forward instead of today" is a balancing of the books of state government that is misleading to the public. She said she thinks "the amendments that have been proposed" will not bring new revenue to the State of Alaska. She added, "And we're really not talking about new revenue; we're talking about a program that is relatively recent in its full construction of how many tax credits and subsidies are offered to the oil and gas industry." She continued:

It's kind of the approach of if we build these ... ways that they have less of their own risk that they'll come. There's no proof that that'll happen. There's no empirical evidence of the effectiveness of it. What we know is that state revenues would not

come in that are ... deserved to the people of Alaska and that that amount of total subsidies is roughly the ... equivalent to \$1,000 per year per Alaskan. It's a very big amount of money.

MS. MILLER questioned why the state is contemplating the continuation of unproven subsidies now when the price [of oil] is so low and when decades from now, "if you were going to pursue oil, that oil that then would be produced might actually bring in some revenue to the State of Alaska." She questioned whether all Alaskans would be getting their fair share from the oil produced in Prudhoe Bay over the next 50 years.

MS. MILLER stated that she does not think the original version by the governor goes far enough; however, she asked that the committee step back and not approve [Version D]. She concluded, "We need to deal with industry paying its fair share first before we ask Alaskans to provide the income tax, which I would support."

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CHAIR JOHNSON closed public testimony on HB 247.

[HB 247 was held over.]

[6:05:20 PM](#)

#### **ADJOURNMENT**

CHAIR JOHNSON recessed the House Rules Standing Committee meeting to 9:30 a.m. on 5/12/16.