

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 4, 2016

3:30 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bert Stedman
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 247

"An Act relating to confidential information status and public record status of certificates from the oil and gas tax credit fund; relating to a minimum for gross value at information in the possession of the Department of Revenue; relating to interest the point of production; relating to lease expenditures and tax credits for municipal applicable to delinquent tax; relating to disclosure of oil and gas production tax credit entities; adding a definition for "qualified capital expenditure"; adding a definition for information; relating to refunds for the gas storage facility tax credit, the liquefied "outstanding liability to the state"; repealing oil and gas exploration incentive credits; natural gas storage facility tax credit, and the qualified in-state oil refinery repealing the limitation on the application of credits against tax liability for lease infrastructure expenditures tax credit; relating to the minimum tax for certain oil and expenditures incurred before January 1, 2011; repealing provisions related to the gas production; relating to the minimum tax calculation for monthly installment monthly installment payments for estimated tax for oil and gas produced before payments of estimated tax; relating to interest on monthly installment payments of January 1, 2014; repealing the oil and gas production tax credit for qualified capital estimated tax; relating to limitations for the application of tax credits; relating to oil and expenditures and

certain well expenditures; repealing the calculation for certain lease gas production tax credits for certain losses and expenditures; relating to limitations for expenditures applicable before January 1, 2011; making conforming amendments; and nontransferable oil and gas production tax credits based on oil production and the providing for an effective date." alternative tax credit for oil and gas exploration; relating to purchase of tax credit

- <PENDING REFERRAL>

SENATE BILL NO. 130

"An Act relating to confidential information status and public record status of certificates from the oil and gas tax credit fund; relating to a minimum for gross value at information in the possession of the Department of Revenue; relating to interest the point of production; relating to lease expenditures and tax credits for municipal applicable to delinquent tax; relating to disclosure of oil and gas production tax credit entities; adding a definition for "qualified capital expenditure"; adding a definition for information; relating to refunds for the gas storage facility tax credit, the liquefied "outstanding liability to the state"; repealing oil and gas exploration incentive credits; natural gas storage facility tax credit, and the qualified in-state oil refinery repealing the limitation on the application of credits against tax liability for lease infrastructure expenditures tax credit; relating to the minimum tax for certain oil and expenditures incurred before January 1, 2011; repealing provisions related to the gas production; relating to the minimum tax calculation for monthly installment monthly installment payments for estimated tax for oil and gas produced before payments of estimated tax; relating to interest on monthly installment payments of January 1, 2014; repealing the oil and gas production tax credit for qualified capital estimated tax; relating to limitations for the application of tax credits; relating to oil and expenditures and certain well expenditures; repealing the calculation for certain lease gas production tax credits for certain losses and expenditures; relating to limitations for expenditures applicable before January 1, 2011; making conforming amendments; and nontransferable oil and gas production tax credits based on oil production and the providing for an effective date." alternative tax credit for oil and gas exploration; relating to purchase of tax credit

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 130

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

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(S)	READ THE FIRST TIME - REFERRALS
01/19/16	(S)	RES, FIN
04/04/16	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JANAK MAYER, Chairman & Chief Technologist
analytica
Washington, D.C.

POSITION STATEMENT: Commented on SB 130 and continued the analytica overview of Alaska oil and gas credits from 4/2/16.

NIKOS TSAFOS, President & Chief Analyst
analytica
Washington, D.C.

POSITION STATEMENT: Commented on SB 130 and participated in the continued analytica overview of Alaska oil and gas tax credits from 4/2/16.

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

POSITION STATEMENT: Commented on SB 130 and continued the DOR overview from 4/2/16.

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

POSITION STATEMENT: Commented on SB 130 and participated in the continued DOR overview from 4/2/16.

JERRY BURNETT, Deputy Commissioner
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Commented on SB 130.

ACTION NARRATIVE

[3:30:17 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Stedman, Micciche, Coghill, and Chair Giessel.

SB 130-TAX;CREDITS;INTEREST;REFUNDS;O & G

[Contains discussion of companion bill HB 247.]

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CHAIR GIESSEL announced consideration of SB 130 and the continuation of enalytica's overview of Alaska's oil and gas tax regime that started on Saturday.

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JANAK MAYER, Chairman & Chief Technologist, enalytica, Washington, D.C., said he would recap the substantial differences between the North Slope and Cook Inlet revenues and credits. The credits for the North Slope are integral to the overall tax system and only two credits are remaining: the dollar-per-barrel credit and the net operating loss (NOL) credit for which producers with less than 50,000 barrels a day can receive cash payments. The dollar-per-barrel credit is a means of shaping the overall tax rates and the NOL credit is a way of deducting costs that are being incurred against revenues when the costs exceed the revenues that exist at the moment. Two things can happen with that: either the costs can be carried forward and be deducted against future revenues or they can be deducted today as a cash payment from the state.

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SENATOR WIELECHOWSKI joined the committee.

MR. MAYER said whether the credits are paid out today or in the future has a fiscal impact on the state, particularly in times of low prices. However, this credit is fundamental to the tax system rather than being some incentive to try to achieve a particular outcome.

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SENATOR STOLTZE joined the committee.

MR. MAYER said the Cook Inlet revenue/credit picture is very different. It has no production tax on oil, a very low fixed gross production tax on gas, and a very substantial credit regime: 25 percent NOL credits, a 20 percent capital credit, and a subclass of capital credit called the well lease expenditure

credit, which goes up to 40 percent for well-related intangible drilling costs.

Slide 6 illustrated the overall picture. One can see that almost all the revenue comes from the North Slope, but only a few credits went to it, but it's exactly the opposite for Cook Inlet. It's hard to see the Cook Inlet regime as sustainable.

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He said slide 14 focused on historical levels of activity in Cook Inlet and showed several cycles of activity since the 1950s and a substantial peak in exploration since 2010. The pace of development drilling activity since the Cook Inlet Recovery Act was passed has picked up substantially, but that success comes at a significant cost, and that is what he would talk about next.

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MR. MAYER said it's important to distinguish between oil and gas production (on slide 15) in Cook Inlet. Oil production peaked at about a quarter of a million barrels a day in 1970 with a very sharp decline going through the 1980s, a shallow drop during the 90s down to very low production in the last decade until in 2009, only 7,500 barrels a day were produced. Since 2010, oil production has substantially rebounded and Cook Inlet is now producing about 18,000 barrels a day.

The gas side of the equation looks very different in terms of a much longer, flatter plateau of gross production through the mid-90s. Some of that gas was reinjected into the Swanson River field and its production resulted in a plateau that went through to the late years of the last decade. The reason for that is even though gross production had started declining substantially a full decade prior, but because no reinjection was happening there, that added to the net amount of production through 2005. Since then there has been a substantial decline, but where oil production turned around, gas didn't. It has stabilized and plateaued at about a quarter of billion cubic feet a day in the last several years.

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MR. MAYER said slide 16 looked a little closer at the drivers that enabled the remarkable turnaround in Cook Inlet. It comes from two different sources: from new wells being drilled and from work-overs on existing wells. The oldest wells are producing more now than they were at the end of the last decade.

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SENATOR MICCICHE asked why the spike in gross oil production by well vintage (1965 through 1978) (slide 15) compared to new production (slide 16) is unusual in its steepness in both directions.

MR. MAYER answered that a couple of big fields were brought on line very quickly, but the decline while it is steep, in general fits a sort of hyperbolic decline curve one would expect with the legacy wells.

NIKOS TSAFOS, President & Chief Analyst, enalytica, Washington, D.C., added that most of the increasing production in the early 70s came from five fields that went from 0 to 30,000 barrels a day at the same time, but McArthur River went from zero to 112,000 barrels a day. And the decline rate isn't unusual with such a steep increase, since no other fields came on line to back-fill the production.

SENATOR MICCICHE asked if he saw any other issues that might be more promising in the future.

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MR. MAYER said the two graphs on slide 17 show gas production by well vintage and by field. The older vintages mostly decline and almost all of the new production is from wells drilled after 2011. So, the plateau in gas production in the last couple of years is from ongoing drilling in the existing fields rather than extensive work-over work one sees on the oil side. The by-field graph indicates that one substantial field has turned around, the Kenai Loop. A few others - Beaver Creek and Swanson River - have smaller amounts of increase, and there may be more production from Furie's Kitchen Lights unit in the future.

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Slide 18 puts that picture in context and has the outlook going forward. An amazing turn around happened on the oil side that went from 7.5 thousand barrels day (mb/d) in 2009 to almost 18 mb/d today, and gas production stabilized in recent years after several years of steady decline. He said the gas market has undergone a major transition in supply, demand, prices, seasonality, competition, and expectations. In particular, prior to the time of this turn around a couple of major established (harvesting mode) players - Marathon and Chevron - exited to a new player, Hilcorp, who is focused on reinvestment and work-over activity and new drilling, a very standard cycle to happen in all hydrocarbon basins all around the world.

A couple of other things were going on at the same time. Cook Inlet used to be a relatively low-priced gas market, particularly compared to Henry Hub - that for a long time was viewed in Alaska as a very premium price that couldn't be paid here. Indeed at that time a Henry Hub pricing case was put to the RCA based on that and it was turned down as being potentially excessive. Now Cook Inlet gas has a much higher price (\$6/mcf going up to much higher levels for certain contracts) both through the consent decree that happened when Hilcorp came in and through subsequent RCA decisions. Now Henry Hub looks low.

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MR. MAYER said the credits have had an extraordinary effect in Cook Inlet on both the oil side and the gas side, but part of the reason is also about broader structural changes that have occurred. The DNR published estimates say about 1.2 tcf is remaining in proven or probable reserves. If one adds in Cosmopolitan and Kitchen Lights (that has seen substantial development on the gas side and is starting to produce at relatively low levels so far) they estimate an additional 400 bcf, therefore 1.6 tcf in total, although there is substantial uncertainty as to the size of the resource.

He explained that instate demand is about 80 bcf/year and the total Cook Inlet gas production is over 100 bcf right now. One might think that is 10 years of gas supply, but the problem with that is that hydrocarbons aren't produced at the same flat rate indefinitely. Fields all go into decline at some point, but with substantial additional drilling and investment one might see the gas plateau extended out another six years. But at some point, there will be a decline again. When that happens the question is what the new resources look like, how well-developed they are, and how well-equipped the companies are to contribute an incremental portion to meet the ongoing gas demand in the region.

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To answer the question of fundamental challenges for keeping the Southcentral gas market well supplied into the future, Mr. Mayer said he did some modeling looking at three different hypothetical fields and assumptions. The first project he modeled was on slide 19, a market-constrained development with large upfront investment. One sees the economics of developing something that would optimally be a much larger development - a large gas resource that could in principle produce 100 bcf/day

of gas for several years at a plateau rate. The problem is there isn't a market at the moment in Southcentral Alaska for that much gas, short of substantial exports or other alternatives.

One can look at the market and see an increase in demand over the next four or five years. So, if one drills wells that produce 15-18,000 million cubic feet a day of gas at a peak rate and then it declines, one could see how a single platform and well could be developed at a time over the course of a decade.

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The problem with having a substantial resource that one is trying to work into a larger-scale gas development is money spent on big facilities. He noted that one producer, in particular, has talked about spending several hundred million dollars on a platform, pipelines, and all the rest - and just looking at the cash flow chart one can tell this is a very challenged development.

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MR. MAYER said slide 20 looks at exactly the same development, but if it weren't subject to the very difficult constraints that the Cook Inlet market is subject to. It would require a change in supply/demand dynamics, which most likely would come from a substantial export customer. If that could be done, one could produce at 100 or close to 140 million cubic feet a day of gas. One could drill three wells a year for the first three years, or drill nine wells in the first three years and then drill another well every year for the next decade to maintain production. This would look like a very different development. The cash flows look more similar to the sorts of cash flows one expects to see on any number of gas developments around the planet. As a result, it is a much healthier development that can exist probably with or without credits.

He modeled a third project using the same assumptions around well productivity, the cost of drilling a well, and the same-type curves, but, if not making that substantial initial investment in upfront facilities, pipelines and all the rest. Here under the current Alaska fiscal regime without the 25 NOL credit (because an existing mature field has enough revenues to not be in an NOL position), but with a 20 percent capital credit and 40 percent credit applying to well-related work, the very minimal initial upfront costs to do that drilling results in a very quick return and correspondingly very high and attractive economics.

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MR. MAYER said slide 22 graphed the three different projects one could imagine either in the real world or in a hypothetical unconstrained world in the Cook Inlet. One can see that even with benefits of essentially no or little tax, 20 percent capital credits, and 40 percent credits for drilling costs, that in the first two cases of a new development by a new company with a 25 percent NOL credit, the economics remain really very strained and difficult to make work (because of the enormous amount of capital required and the small amount of production revenue that comes from it). Internal rates of return (IRR) of 5-15 percent at the very highest gas prices is not particularly desirable economics when one considers the benefits of all those credits. And when one looks at the spilt of value to the company, the federal government and the state, it is nothing but a pure subsidy situation from the state government perspective, even in the highest price gas scenarios.

So, the company with the economics that look great at prevailing Cook Inlet prices of \$6 mcf, with maybe just a little bit of net present value, in an unconstrained environment, looks suddenly very different. The economics are transformed solely by being able to actually develop this field in an optimal manner. The IRR goes from 20 to 40 percent at the same price levels and all of the different players are in positive net present value territory. Companies are doing best here and the state, relatively speaking, is taking the least value of the overall equation, because of the mixture of the 12.5 royalty and a very small gross production tax on the gas.

Looking at the scenario of additional drilling in the mature fields that is even more the case, particularly with the 40 percent well drilling credit, and IRR from 50 to north of 100 percent. The idea here isn't to say that this is a definitive picture of any actual company's economics; it's simply to say that drilling in mature fields is not substantial economic work, especially because with no credits at all, they are looking at 25 to 85 percent ROR. It does seem that drilling in the mature fields is likely to be a substantially economic activity across a wide range of assumptions.

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MR. MAYER said the question then comes back to the big picture of what the aim of the Cook Inlet credit regime is. One possible answer is that it exists as a gas supply to Southcentral Alaska. If that's the case, based on the resource base, it looks like the current plateau can be maintained for another four or five

years at current rates. At some point, though, that will start declining again and new resources will have to be found. Despite very challenged economics, Furie has developed a gas phase at Kitchen Lights with some initial production, and the coming years will reveal a market and the dynamics of a new entrant.

In thinking about the role for state support, Mr. Mayer said, the one thing that is highly challenged to make work is development of substantial new facilities, infrastructure, and entirely new projects given the constraints of the domestic market. There is a role for ongoing targeted support simply to ensure that as mature fields begin to decline there isn't a difficult transition. One could just say leave that to the free market and that might work, but the decline could set in and only at a point the deflected transition would result in the rolling brown-outs of a few years ago. Then one gets to a point, again, where there is enough unmet demand that substantial development of a new project actually looks desirable in terms of economics.

So, he said, to enable a smoother transition, some degree of support might be warranted, but it could look very different and be much more targeted than the credit regime, which covers a wide range of activities. A lot of data is protected by confidentiality, but it seems safe to conclude that a lot of work-over work and new drilling is on-going on the oil side rather than on the gas side, but that won't necessarily put new gas behind pipe any time soon, and it is a small subset of the total piece of work.

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SENATOR STEDMAN said he hoped the committee didn't get enamored with hypothetical projects and doesn't stop to take a look at the state's checkbook, which could very easily be empty in January. It would also be nice to have some cash flow work done on Cook Inlet, so they have a concise view over the next couple of days. He knew that the DOR had created some analytical models of Cook Inlet over the last several years that the committee might see.

CHAIR GIESSEL thanked Mr. Mayer for his presentation and transitioned to the DOR presentation.

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SENATOR COSTELLO joined the committee.

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CHAIR GIESSEL called the meeting back to order and welcomed Department of Revenue Commissioner Hoffbeck to continue his overview of Alaska's oil and gas tax credit system. She noted he would start on slide 20, which was the beginning of a section called "Work Over the Last Interim."

RANDALL HOFFBECK, Commissioner, Department of Revenue (DOR), Juneau, Alaska, said since last session, the Governor vetoed \$200 million in tax credits that created a temporary liquidity crisis within the oil and gas industry that led to him and Director Alper to spending the next month talking to various companies and lending institutions to assure them that all the credits would be paid and that their concern that these credits were not valuable collateral for loans was unfounded. They had over 30 meetings with industry and financial institutions getting a much broader understanding of how credits are used to leverage additional assets versus just being direct reimbursements for work.

He said that multiple hearings were heard over the summer by Senator Giessel's Senate Oil and Gas Tax Credit Working Group that added depth to their knowledge of the issues the state is facing, and creating a basis for today's legislation. The Senate Working Group provided a good anchor for the discussion.

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COMMISSIONER HOFFBECK said the Working Group and the state saw most of the issues in a similar fashion, but maybe some of the solutions not quite exactly the same. The Working Group felt gradual change was the right way to change the oil and gas tax credits and the administration felt more urgency driven primarily by looking at the state checkbook. However, gradual implementation, if it's available, is a better way to make these type of changes, if one has the luxury to do so. The administration felt constrained by how much the credits cost and how much revenue the state had, so they wanted to be more aggressive with implementing changes.

He said the Working Group's report considered timelines and sector impacts very strongly, and while the administration looked at those, they had a different interpretation of where the impacts would be. Because there was a strong statement to protect local vendors in the case of bankruptcy that was not in the original legislation, the bonding component was added in

House Resources, and the administration felt it was a good addition. They both saw the need to protect some form of the minimum tax floor within the analysis and to protect the Frontier Basin tax breaks, because it is still a very immature basin. Finally, they looked at enhanced reporting requirements to have enough transparency to have an open dialogue on some of the issues so that when they are making these tough decisions, everyone can see the data and know what issues need to be addressed.

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COMMISSIONER HOFFBECK said the state put together its thought process on how to deal with the various credit issues cognizant of what they felt were the resources available for offering those credits. It became very clear that they couldn't offer stability to the oil and gas industry if the state couldn't afford its credit program. He added that for the next four years the state will have a substantial draw down on its savings and its ability to fund government services, and a credit program that is costing \$700 million a year is a substantial draw down. They asked themselves how to balance this so that they didn't completely crater the oil and gas industry when they are struggling with low oil prices, as well.

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He said they saw the credits in three different categories. First, the credits that really just didn't work the way they were supposed to. A series of credits weren't even applied for, and it didn't make much sense to leave those on the books, so their legislation proposes repealing those. Another credit was put in place because of energy security issues within Southcentral and focused on developing gas in Cook Inlet, but they were equally applied to oil production, which is where the profits really are long term. And it was the focus of what the Cook Inlet Recovery Act was supposed to do. So, they looked for a way to structure the credits to focus more on the development of gas resources.

COMMISSIONER HOFFBECK said the second category was the credits that did work but had maybe served their purpose. One of the things one sees all across the board within government, and he assumed the same in business as well, is that a program is started and funded; the program gets up and running and it's successful. But then it's hard to determine when it's time to stop. That is may be what is being seen in the credit program: energy security was needed in Southcentral; they put in a very robust credit program in order to obtain that energy security;

and now that has been accomplished. When the credit program was put in place, there was a market looking for gas; and now gas is looking for a market, and the question now is if the Cook Inlet had been incentivized sufficiently to have achieved the goals they had set out to achieve.

COMMISSIONER HOFFBECK said the reality is that the market can be over-incentivized. Enalytica has said in their prior presentations that the price point for gas in Cook Inlet is sufficient to look for and develop gas anywhere in the world. If the market continues to be incentivized and additional gas floods the market, the price will get pushed down more. Then they must incentivize again. He said a second way to over-incentivize is if energy security is their big goal - and it is - is to incentivize projects that can only find a market by exporting. But those are policy questions.

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SENATOR STOLTZE pointed out that Commissioner Hoffbeck referred opaquely to different kinds of useful credits, as well as credits past their useful life. He asked if the department could put out a credit rating score card to help legislators make good decisions.

COMMISSIONER HOFFBECK said DOR doesn't have a report card format, but their presentation talks about those things and he would be happy to provide more context.

SENATOR STOLTZE commented that the public would be better served by an assessment of various credit's usefulness, their ranking in terms of how each credit best serves the state's financial interest.

SENATOR WIELECHOWSKI said the information they are looking for is the rate of return (ROR) and return on investment (ROI) from the credits for the state.

COMMISSIONER HOFFBECK said confidentiality makes looking at specific projects difficult, therefore the department created life cycle models, based on general data not specific to a particular company, that he could provide.

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The last category of credit is the one of credits that should be maintained, primarily the NOL credit that is a playing field leveler, but it's also the hardest one to control. Director Alper would explain the provisions on how to cap some of those.

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KEN ALPER, Director, Tax Division, Department of Revenue (DOR), Juneau, Alaska, said their initial presentation walks through the various components of the bill and how they affect different sectors of the industry, what kind of changes the department was trying to make and the fiscal impacts. The second presentation has the date of April 4 and drills much deeper into the modeling of some specific sections of the bill and deals with some fairly complicated statutory language that he wants the committee to understand. In some ways it answers questions that came up in the first committee of referral in the House. That presentation goes into the life cycle modeling that Commissioner Hoffbeck talked about - how it is now and how it would perform given the changes proposed in SB 130. The third part of the second presentation answers a couple of specific questions that came up in the earlier Senate Resources hearing on Saturday.

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MR. ALPER said slide 23 is the big picture of what the commissioner just said: the process was driven by the understanding that the state no longer has the cash flow to support the credit program as it currently stands. That spend needs to be reduced one way or another. The idea gelled upon the NOL credit as "the mother credit," the one that is the playing field leveler, especially on the North Slope, between the new comer and the incumbent producers that pay a net profits tax and receive value for every dollar they reinvest or spend in Alaska by reducing their taxable net income. Reducing it by a dollar reduces their taxable net income by 35 cents. The NOL credit is how the developer of a new field gets that 35 cent value from the same dollar spent.

The third major theme of the bill is to limit repurchases of credits. That is not quite the same as reducing the cash outlay. Many of the credits were initially designed with the idea of them being intended to be used against taxes or carried forward, to be used against taxes, and only later did they become more of an open-ended repurchase. So they are looking at deferring payments in some cases by rolling them into a future year when the state might have better a fiscal situation to be absorbing them as offsets against taxes.

A fourth component of the bill is strengthening the minimum tax ensuring the state does, in fact, get the value of the statutory floor that was put in place in the PPT regime and has not ever worked to its full intent.

Number five is be more open and transparent to be able to talk about what the state is doing and how state resources are being shared in different development projects. And of course, as changes are made to honor and pay all the credits that are earned to date and through the transition period.

MR. ALPER said the bill also has a fairly large fiscal note of \$900 million to endow a fund to put additional money into the Tax Credit Fund so that should the system face dramatic changes; anything earned before the effective date would be paid and not subject to question.

SENATOR WIELECHOWSKI said the operating budget appropriates \$73 million for tax credits in FY17 and asked if he is advising producers of that.

COMMISSIONER HOFFBECK answered that they are encouraging producers to track the legislation. But if only \$73 million is appropriated, that is all they can spend. However, there is still a ways to go.

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MR. ALPER said the major bill components more thematically deal with exploration credits, the Cook Inlet drilling credits, the repurchase limits and implementation of them, removing certain exceptions and loopholes in existing statute, strengthening the minimum tax, and other provisions on technical language.

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Starting with the exploration credits, he said the administration's policy is to let the exploration credits sunset on their own accord. Specifically, the alternative credit for exploration is scheduled to end on July 1, 2016 in both the North Slope and the Cook Inlet areas. That has been previously extended in the Middle Earth until 2022 in prior legislation and the intension is for that to still happen. They want to get these credits off the table, because they, among other things, have led to some historically very high support. On the North Slope the NOL credit increased to 45 percent from 25 percent for the last two years after the passage of SB 21. Those can now be stacked with an exploration credit of up to 40 percent and there are circumstances, especially for seismic shoots on the North Slope, where the state is actually paying 85 percent of companies' costs in 2014 and 2015.

SENATOR WIELECHOWSKI asked what the success rate is of using credits for jack-up rigs and the Frontier Basins. Did the state get an appropriate return on that investment? Should they expire or will it cause a further crisis in the gas situation?

MR. ALPER answered those two credits, referred to as the super credits, have actually rarely been used. The jack-up rig credit hasn't been claimed and only one or two smaller claims have been made in the Frontier Basin. Producers found that the other credits, especially in Cook Inlet, that were already on the books were more valuable. The 65 percent money was in some ways more valuable than the 100 percent jack-up rig credit that had depth and additional data sharing requirements as well as a paying back of half the credit once they came into production. Producers decided to never apply for it, so there is no downside in letting it sunset. The frontier credit is 80 percent for development drilling costs and 75 percent for seismic, and a 65 percent credit remains in place for normal circumstances in the Middle Earth area. So, there really isn't that much difference between the normal credits and the super credits.

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SENATOR WIELECHOWSKI said a jack-up rig did come to Cook Inlet and asked if that was just a coincidence or did it come up with the intent of being used and then they determined they could get more credits through other means? Are there plans for anyone to apply for a jack-up rig credit?

MR. ALPER answered that he heard that one company may seek that credit, but the work has to be done by July 1, 2016. As for why they came, the jack-up rig credit was part of SB 309 in 2010 that had several credit stimulants in the Cook Inlet area. It happened in some ways as a companion bill to HB 280, known as the Cook Inlet Recovery Act that also passed in the 2010 session. That bill contained the 40 percent well lease expenditure credit.

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SENATOR STEDMAN remarked that when PPT credits escalated beyond 25 percent, consultants were very concerned about getting into goldplating and distorting economic behavior, and asked when the state will face erratic behavior driven by credits versus sound economics.

COMMISSIONER HOFFBECK answered that he wasn't sure he could answer that question without specifics, but they felt there were some largely undercapitalized companies that took advantage of

the high credit regime and came to Alaska and if they found something, they did well; if they didn't, he knew that at least two went bankrupt. The credits probably have incentivized some activity that maybe would not have been otherwise undertaken, but he couldn't say what the goldplating threshold was.

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MR. ALPER continued that an unexpected spike in exploration credit claims came in for last year that might have been for some work that was done in advance of when it otherwise would have been done, but the companies wanted to do it to take advantage of the 85 percent credit that was about to sunset.

He said the exploration sections of SB 130 attempted to clean up a couple of older credits (one that can be taken against royalty) that hadn't been used in decades. The thought was to preemptively repeal them so they don't get resurrected in some way and go against the broader intent of the administration.

MR. ALPER said that within the exploration statutes there is a requirement for data sharing - primarily well bore data - with DNR as a condition of receiving the credits. The state gets great use out of that data to better understand and market the state's resources. They were hoping to reattach that language to the remaining NOL credit by referencing that old language.

[4:44:52 PM](#)

Slide 26 talks about the Cook Inlet drilling credits. SB 130 repeals AS 43.55.023(a), the qualified capital expenditure or 20 percent QCE credit, and .023(l), the 40 percent well lease expenditure or WLE credit. The idea here is during the passage of SB 21, there seemed to be a direction against rewarding spending without production. The spending based credits were repealed on the North Slope and a comparable system was being extended to Cook Inlet and other areas of the state. They also want to make sure especially given the tax caps in Cook Inlet that the producer who is not in a loss situation (simply drilling wells and selling oil and gas and hopefully earning a profit) and not paying tax, is not receiving cash credits for it, which they are under the current system through the 20 and 40 percent credits. They don't feel that is an appropriate use of state funds, especially at this time.

MR. ALPER added that all of this is in some ways temporary, and they understand that the Cook Inlet needs a more comprehensive tax reform between now and 2022. If the tax caps that exist in statute were to sunset tomorrow there is no stable tax regime

underpinning them. They have bits and pieces of different taxes: a 35 percent net tax from SB 21, but not per barrel credit nor GVR benefit, a 25 percent NOL "a little bit of a hodge podge." The House Resource CS has a working group towards that end; it's not in the legislation that is before them now.

In general, Mr. Alper said, their broad goal is to reduce the general level of state support for Cook Inlet from the roughly 50-60 percent that it is now to the 25 percent level through the remaining NOL credit.

[4:46:56 PM](#)

SENATOR STEDMAN said the 25 percent NOL in Cook Inlet has been around for a while and asked if it used to be 25 percent north of 68 and now it's 35 percent.

MR. ALPER said, yes, that's correct.

He said the idea behind the repurchase limits on slide 27 is not what credits are earned but the method by which the state repays those credits. Currently, any company who presents the credit for repurchase is eligible with the exception of those who produce more than 50,000 barrels a day. That has historically meant the three major producers, although now Hilcorp has added themselves to the 50,000 barrel club. The bill adds a couple of restrictions to getting cash for credits. First, if you are a large company (global revenue in excess of \$10 billion) then maybe you can afford to keep those credits on your own books, save them until such time as you have tax liability (when you are producing) and then use those credits to offset your own taxes. For those companies that don't meet that threshold - the great bulk of them - they would institute a cap of \$25 million per company per year, the limit that used to be in place during the 2006 PPT bill that was eliminated with the ACES bill in 2007.

SENATOR MICCICHE asked if he thought about adjusting the \$25 million cap that went away in '07 for inflation or did he think the same cap was an appropriate number.

MR. ALPER answered that they put in the historic number as a starting point expecting that to be part of a robust discussion.

SENATOR STEDMAN asked if any of the non-refundable credits and the NOL credits accumulate any carrying costs to the state.

[4:50:37 PM](#)

MR. ALPER answered that there are no provisions in statute for earning interest or gaining value on credit that are carried forward.

SENATOR STEDMAN said that is a point that hadn't been touched on much and he expected billions of dollars in carry forward costs.

SENATOR COSTELLO asked if other oil-producing regimes have something like the requirement that it applies to any company with a global annual revenue greater than \$10 billion a year. Would it affect investment decisions across projects which normally are reserved for that specific location in investment?

MR. ALPER answered that he didn't know if he could adequately answer that question, but there are very few regimes that offer cash reimbursements the way Alaska does. The idea of putting a cap on large companies was in some ways germinated over a year ago in doing some modeling for the House Resources Committee on a potential ANWR development. They found that no matter how robust it looked to the state, once it was up and going, the first 10 years were potentially catastrophic with \$2 billion a year in credit liability. Realizing that it would be large companies coming in, they had to find a way to protect the state's interest while still allowing projects to go forward. He didn't know if there was anything comparable in other regimes, but they thought internally that there was a difference between the type of smaller independents they were trying to bring to Alaska and the large international companies who already have business in Alaska.

[4:53:05 PM](#)

SENATOR STOLTZE said he wanted a better idea of the team that put this legislation together. Were other departments, such as the Department of Natural Resources involved?

COMMISSIONER HOFFBECK answered that it varied at different times within the process. The initial research on credits was primarily driven by the DOR. They held the meetings and talked to the various players. Then they took the information about the credit liability that the state was facing to the governor as well as some ideas about ways to mitigate it. Involved in that was the governor, the chief of staff, the DNR, and the DOR; a team actually helped formed the entire fiscal plan. It came back to the DOR for refining and then was taken to the Department of Law (DOL) for the language. It was finally brought back to the governor in a room that had almost half the cabinet plus the

governor where the governor said. "That one, that one, that one..."

4:55:16 PM

CHAIR GIESSEL pointed out that she met with Commissioner Hoffbeck early in December to talk about ideas he was considering and recalled that DNR was in that meeting, and DNR said it was the first they had seen of any ideas.

SENATOR STOLTZE said a lot of things that happen on the third floor aren't very public and asked Commissioner Hoffbeck to describe the role of the chief of staff on this. Is he a passive observer or one of the drivers?

COMMISSIONER HOFFBECK replied that he is just one of the voices in the room. The governor wants to hear from all sides of every issue before he makes a decision. He pointed out that DNR Commissioner Myers was in some of those prior meetings.

SENATOR WIELECHOWSKI asked if there were meetings outside of the cabinet - industry or outside organizations - in the crafting of this legislation.

COMMISSIONER HOFFBECK replied not in the crafting of the bill, but they met with all of the players and got their input on what was critical and what areas they thought needed modification. They were open and frank about what they thought was necessary. Structuring of the bill was internal within the state.

COMMISSIONER HOFFBECK apologized and said he had to leave for another meeting.

4:57:47 PM

SENATOR MICCICHE asked if the administration went through the exercise of evaluating what kind of production has been the most beneficial to the people of Alaska and what kind will be most beneficial in the future, because the state has invested a lot of money in credits in companies that are no longer in Alaska, and that is where most of the credit liability lies. Why do they look at big company-good versus little company-bad and try to reward accordingly as opposed to what has the most potential benefit for the general fund (GF).

MR. ALPER said that is a good question. He answered there was no intent to say small companies-good and big companies-bad. This provision is the only place where they made a distinction between the sizes of companies; their modeling showed fairly

little difference in the net effect between the zero limit and the \$25 million limit for the larger fields. They didn't really contemplate the larger companies involving themselves in the smaller fields anyway. Companies have left the state, but in the scope of all of it they are not most of the liability; they are a relatively small fraction. He was more concerned about the companies that stayed and left, because they didn't find anything worth developing. If there is a discovery that is not being developed from some reason, maybe it gets developed in a future era. He hoped there would be some increased interest in Alaska no matter what they do here when the price recovers. It's just hard to develop our "challenged basin" in low prices.

What projects get developed isn't so much a function of the credit system as of the resource, Mr. Alper said. The big fields have been found; they are hoping people will develop the smaller fields that might be a little more challenging. Some needed a little more exploration; some needed to be found. They were not trying to play favorites either in the credit system or in what they are trying to modify it to; they are simply trying to shrink the footprint a little bit.

CHAIR GIESSEL invited Deputy Commissioner Burnett to come to the table and fill in for the commissioner who had to go to another meeting.

[5:00:50 PM](#)

SENATOR MICCICHE repeated his question of whether the administration evaluated what type of production has been the most valuable to the GF in the past, separate from what size company provided that benefit. This was in reference to the graph on slide 27, and how the credits and risk exposure seem to be disproportionately going to smaller, under-capitalized companies.

JERRY BURNETT, Deputy Commissioner, Department of Revenue (DOR), Juneau, Alaska, answered the issue here of limiting credits for companies with a larger amount is to make sure they deal with companies that are not capital constrained differently than companies that were more likely to be capital constrained and he would have to go back and look at that question separately. Historically, smaller companies have provided significantly less money to the GF over time.

[5:02:54 PM](#)

MR. ALPER said there are two additional restrictions: one is tied to the percentage of Alaska resident hire. Conceptually, if

a company has a \$10 million certificate that they are looking for repurchase of and in the previous year they had 80 percent Alaska hire, the state could cash out only \$8 million. The other \$2 million would remain a company asset that they would role forward and use in a future year or against their taxes. Finally, just to protect the state's interest in the long term, those would expire after 10 years.

CHAIR GIESSEL asked if he had conferred with the DOL as to the constitutionality of the provisions in the bill regarding Alaska resident hire.

MR. ALPER answered yes. The DOL was unsure, but believed it is possible, and the main reason is because the state is not taking the credit itself away from them. Everyone will get the full value of their credit. It was just a matter of the policy choices as to whether the state would offer a full amount or a partial amount of cash for it. This is an idea that the governor introduced into the mix, but it will inevitably get a legal challenge if this survives and becomes law.

SENATOR COSTELLO asked industry's response to the local hire part of the bill.

[5:05:19 PM](#)

MR. ALPER answered that industry was dubious as several on the committee are, and it is largely outside of their control, because the way the bill is written, it also extends to their subcontractors, which they have less influence over. All the companies testify that they seek to maximize their state hire, and he takes them at their word. Another issue they had was uncertainty. If they don't know how much of their credit they are going to get paid until a year later, it's harder, for example, to borrow money against that expected payment.

CHAIR GIESSEL asked if the carry forward loss credits apply to cash only or to all the NOL credits.

MR. ALPER replied that the NOL credit is the only one that can be carried forward; all the other cashable credits are either being repealed or are sunseting.

He said slide 28 was about some of the unusual phenomenon they discovered in statute that led to larger credits than should have been going out the door that they want to correct or clarify.

The idea behind the gross value reduction (GVR) for new oil was that the company would earn a production tax value, a profit, and it would be reduced by a percentage of the gross value at the point of production to reduce the taxable profit in a synthetic calculation. Effectively, the same 35 percent tax would be collected but charged to a smaller number. That works fine until the company in question has an operating loss. If the company in question instead of paying taxes is losing money, which could happen in a low price scenario, it could also lose money in a high price scenario, for example, in the early years of operation for a new field if a company is still drilling new wells and building out its infrastructure.

Well, Mr. Alper said, the statute never contemplated how that might play out, and what has happened is one could take a GVR and subtract it from the operating loss and that on paper appears as a larger operating loss, and it earns a 35 percent credit NOL. This has led to credits well in excess of 35 percent and, in a couple of cases, over 100 percent of the amount of the loss. It's completely legal, but DOR feels that was not the intent. So, they are looking to clarify that the GVR, although it can be subtracted from a company's profit, it can't be used to increase the size of its loss.

SENATOR STEDMAN said it would be nice to see what the 35 percent tax would be if there were no GVR to see how it interacts with the minimum tax.

[5:09:32 PM](#)

MR. ALPER said in a little while he would talk about the minimum tax provisions that would touch upon the new eligible oil. In today's price environment it doesn't matter much; the state is not getting a lot of production tax revenue anyway. Should prices recover, 9 percent of production from the North Slope is currently eligible for the gross value reduction (GVR).

SENATOR STEDMAN said the whole mechanism has some peculiarities that weren't recognized at the time. He asked for a quantifiable analysis about what a "medium price range" is for the assessment of the GVR.

MR. ALPER responded that the primary difference today in the revenue received for that 9 percent of the oil on the North Slope versus the other 91 percent is that the legacy fields are paying at the minimum tax level of 4 percent. And the \$8 per-barrel, sliding-scale credit gets cut off once they butt up against the minimum tax - unless it's happening for a second

year in a row and there is an operating loss credit (part of the floor hardening provisions is will review later). Meanwhile the \$5 a-barrel credit can drive the new GVR oil fields down to zero. In 2015 the state got taxes from old oil but none from new oil. In 2016, it's not getting much from either.

CHAIR GIESSEL said that isn't a factor of the tax policy as much as the low price.

MR. ALPER agreed, but added that in 2016 it's a factor of the fact that one or more of the producers in 2015 had an operating loss and that credit could be used to go below the floor beginning in the early months of 2016.

CHAIR GIESSEL said that raises the policy question of if people are losing money, should the state be taxing them.

SENATOR STEDMAN said when they look at the GVR in 2017 that 9.27 percent of the oil at 35 percent credit is more like \$3.9 million. It takes that tax to zero and leaves another \$26 million of the GVR that goes beyond the tax amount. He pointed out by contrast, that in the minimum tax environment, the per-barrel credit listed earlier was a pure mathematical exercise.

MR. ALPER said he wasn't sure what document Senator Stedman was looking at, but he wanted the opportunity to go through it with him to understand what he was saying.

He said the second loophole-type provision SB 130 straightens up is when a municipality owns its own gas field and burns most of it in its own utility, that itself is not a taxable transaction; but there are circumstances where that municipal entity might sell some fraction of its gas to a third party, because they have surplus production. That sale is taxable income, but the question is what the offset is; is it a lease expenditure? Using a literal interpretation of the law are circumstances where companies can subtract all of their expenditures against 2 or 3 percent of their revenue and thus create some fairly synthetic operation losses that qualify for credits. That is not terribly controversial, but it is something that is getting cleaned up in SB 130.

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SENATOR STOLTZE asked what "loophole" means.

MR. BURNETT answered that slide 28 says exemptions/loopholes and some people consider it a "peculiarity." It is a term where no

one is suggesting that there is bad behavior on the part of Municipal Light and Power (ML&P), for example, when they get a cash credit for something that the law allows.

SENATOR WIELECHOWSKI asked how much money has been lost through this loophole.

MR. ALPER replied that he didn't have a number, because very few plausible entities could benefit and the data is confidential. It's not a gigantic portion of the overall pie. Based upon his reading of the legal track record, it appears to be truly an unforeseen circumstance of statute and there is some consensus that it wasn't intended to be written that way.

SENATOR WIELECHOWSKI said it's not a secret that it will impact ML&P, which happens to be in many legislative districts in Anchorage. That will result in an increase in rates, because they would be getting less money back. ML&P has expressed concern to him about this provision and he will be looking at this one carefully to make certain that his rate payers aren't impacted severely.

CHAIR GIESSEL asked where this provision is in SB 130.

MR. ALPER answered that he thought it was in section 27, towards the back of the bill.

SENATOR STEDMAN said the resources are owned by the public and the state is not structured for one particular group to have an advantage over or a first call versus another group, and when they get into the intricacies of this particular exemption/credit, it will be hard for utilities to justify the credits they put in to try to drive more oil production where the state has no ability to recoup. The credits are put in place to move cash flow in time to make marginal projects viable. It's just gotten totally out of hand. He wanted some discussion about the folks in the gas belt versus the folks that are sitting in the oil furnace belt where his constituents heat their homes. He wants to be fair around the state.

CHAIR GIESSEL said she was under the impression that his folks had hydro dams that the state had built for them.

SENATOR STEDMAN responded that about 80 percent of people in his district heat with oil, because electricity too expensive at 12-13 cents a kilowatt.

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MR. ALPER said it was up to the chair how far he would go and the last two portions of the bill are strengthening the minimum tax, which is in several different provisions in SB 130. The main and most important one, the biggest dollar value, is that you can't use an operating loss credit specifically to reduce payments below the 4 percent floor. So, that is the one where the major producers who might have lost money in one year would still have to continue to pay the gross tax the next year, which is comparable to the gross tax paid in other states that have purely a gross tax. Also the exploration credit would not be able to be used to go below the floor for the small producer.

The other provision extends the 4 percent floor to new oil, meaning the cutoff for the GVR (\$5 barrel credit) would also be limited by the 4 percent rather than the zero. They have asked that those two changes and the section that describes them to be retroactive to January 1, 2016, a controversial decision. The idea being because they know of a specific circumstance where an entity with an operating loss is offsetting its taxes this year, but if they truly want to harden the floor, they should begin doing it with the beginning of the present year they are working on. In addition to all the changes to how the floor is treated, they are looking to raise the level of the floor to a flat 5 percent at all price points.

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SENATOR STEDMAN asked what the NOL loss and credit amounts are for north of latitude 68 for major producers in this current fiscal year.

MR. ALPER answered that the tax is a calendar year tax, so part of it would have to be estimated. He wouldn't be comfortable talking about 2015 numbers because it's one, possibly two, companies, whereas in 2016 he expects all three to have a loss. The DOR forecast talks about \$1 to \$1.5 billion of loss: and NOL credits in the neighborhood of \$.5 billion: a couple hundred million of that being used to offset minimum tax liability and the other \$300 million being incremented to the previously carried forward NOLs.

SENATOR STEDMAN said he thought those losses were \$1.9 billion. Isn't the credit 40 percent because of the tail from the transition amount laid out in SB 21, and the NOL calculation straddles two different calendar years with two different rates? It's a significant amount of money.

MR. ALPER said he wasn't certain where the \$1.9 billion figure came from, but he didn't doubt it. He was trying to describe FY2016, which is half in CY15 and half in CY16.

SENATOR STEDMAN said if he is interpreting the Revenue Sources Book correctly it's \$1.9 billion in loss carry forwards and 40 percent credits of \$770 million. It's a significant amount this year. He also wanted a guesstimate of CY16/17 numbers.

CHAIR GIESSEL said they certainly do recognize the magnitude of the numbers as well as the fact that three rigs out of five are being laid down on the North Slope, because they can no longer be supported in this price environment.

SENATOR WIELECHOWSKI said every time he had been involved in oil taxes, they had comparatives with other states and other jurisdictions around world. He hoped to see an overall comparison of how Alaska's tax and royalty structure at current dollars compares with North Dakota, Texas, and Louisiana and other comparable jurisdictions around the world.

MR. ALPER responded that he would provide to the committee the latest Competitiveness Review Board comparison document that compares Alaska with others. It is reasonable to say that in the current price environment Alaska is a very low regime - and it offers credits. It is a system that is designed to collect more money at higher prices with the counterpart to that being getting less at low prices. Now that people are looking at several years in a row of lower prices, that logic is being rethought. One advantage North Dakota and Texas have for their own revenue is a fixed gross tax. They get a certain percent whether the price of oil is high or low; the downside of that is when the price goes to \$100, they aren't capturing all that they could. Part of the balance that has always been before this body is how much can the state can take at the high end in exchange for what it gives back at the low end, and that consensus hasn't been truly reached. Alaska has a kind of hybrid.

CHAIR GIESSEL asked him to highlight the difference in the revenue collection under ACES and SB 21 in this low price environment.

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MR. ALPER responded that the number in June using the best available information was that SB 21 would have been bringing in \$300 to \$400 million a year more, the difference being the minimum tax, itself, based on \$50-odd oil. About \$400 million

would come in the minimum tax whereas under ACES the minimum tax calculation would be offset, effectively zeroed out, by the 20 percent capital credit - based on known amounts of ongoing spending. As the price goes further down, the delta will shrink. In 2015, he would think the difference would be more like \$150 million, because that is about how much production tax revenue the state got. It would be close to the same in 2016 and 2017.

[5:29:22 PM](#)

SENATOR WIELECHOWSKI asked for numbers more or less on what the state would have made if SB 21 was in place during ACES.

MR. ALPER answered that a previous analysis is in memo form and he could forward it to the committee, but over the six years that ACES was in place between FY08 through January 1, 2014, it brought in \$27 billion in net production tax and SB 21 would have brought in about \$18 or \$19 billion. The revenue spikes came from those years of very high prices when ACES had very high progressivity.

CHAIR GIESSEL remarked that Alaskans have been incredibly fortunate: it raised taxes tremendously before the largest oil price spike in history, then instituted a higher base tax with more protection on the downside before one of the most precipitous drops of oil prices in history. "We did well not because of our brains, but because of our good luck."

SENATOR COSTELLO asked in this low commodity price environment is Alaska the only state that is revising its tax credits.

MR. ALPER replied that he didn't know off-hand, and when there was an answer, it wasn't the group Alaska wants to necessarily be associated with. Nigeria and Venezuela are thinking about it now probably. Alaska does have the reputation of doing it more often than other states. However, this bill is not being characterized as a change to the oil taxes; it is considered a reform to some of the excesses of the tax credit regime around the edges of the core tax system that they are trying hard not to get into.

[5:31:52 PM](#)

Slide 30 is a little bit of a catch-all, he said. It includes interest rate reform. A technical error in SB 21 eliminated compound interest and put all assessments on delinquent taxes not just for oil and gas, but for all of Alaska's taxes on a simple interest footing. They are hoping to restore that as well as increase the interest rate to something more akin to what the

state earns on its savings on the Permanent Fund to reflect the opportunity cost involved. If taxes aren't paid one year, but get paid two years later, and the state draws from savings to make up that difference, the state wants to get paid back at the rate that the savings themselves might have earned in the interim.

Next is a confidentiality waiver, a relatively narrow increase but it is important. DOR doesn't want to talk about company profits and how much taxes they pay; they simply want to list the names of companies who receive tax credits and how much they get. Another is that a small and subtle provision that has to do with the gross value at point of production not going below zero has a couple of technical issues as well as some more substantial policy issues.

Finally, Mr. Alper explained, right now if someone owes taxes to the state, at the moment they file to get their tax credit certificate the tax gets paid. The department could effectively hold back credit to pay taxes, but it has found circumstances where a company might not owe taxes but owe to other state departments - a royalty, a lease payment, fines to an agency or something like that - and is trying to broaden in statute their ability to use credit money to satisfy other obligations to the state, not just taxes, before the credit is paid.

CHAIR GIESSEL said currently, transportation costs can't reduce gross value below zero, so as production declines tariffs (transportation costs) will go up and asked if he is saying they can't deduct that any further.

MR. ALPER replied a model of transportation costs across the North Slope indicates they are in the neighborhood of \$10 barrel and that number will go up. But the number varies wildly from field to field depending on how far they are from the center. Her question becomes if one particular field has a well head value of less than zero, can that negative number be used to offset positive numbers coming from other fields for tax purposes, and that is a totally legitimate policy debate that one might disagree with. Although this won't lead to a negative royalty because that is a separate calculation, it doesn't impinge upon the new gross tax on private royalties that are on the books (if someone pays a 5 percent tax based on gross value at the point of production, at the very least the state needs to ensure that can't become a negative number.

CHAIR GIESSEL said she looked forward to discussing that. Finding no further questions for the department, she said the presentation would continue tomorrow beginning on slide 31.

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CHAIR GIESSEL adjourned the Senate Resources Standing Committee meeting at 5:35 p.m.