ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
March 6, 2017
6:33 p.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Dean Westlake, Vice Chair
Representative Harriet Drummond
Representative Justin Parish
Representative Chris Birch
Representative DeLena Johnson
Representative George Rauscher
Representative David Talerico

MEMBERS ABSENT

Representative Mike Chenault (alternate)
Representative Chris Tuck (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 111
"An Act relating to the oil and gas production tax, tax payments, and credits; relating to interest applicable to delinquent oil and gas production tax; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 111
SHORT TITLE: OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS
SPONSOR(s): RESOURCES

02/08/17	(H)	READ THE FIRST TIME - REFERRALS
02/08/17	(H)	RES, FIN
02/08/17	(H)	TALERICO OBJECTED TO INTRODUCTION
02/08/17	(H)	INTRODUCTION RULED IN ORDER
02/08/17	(H)	SUSTAINED RULING OF CHAIR Y23 N15 E2
02/08/17	(H)	RES AT 1:00 PM BARNES 124
02/08/17	(H)	Heard & Held
02/08/17	(H)	MINUTE(RES)
02/13/17	(H)	RES AT 1:00 PM BARNES 124
02/13/17	(H)	Heard & Held

02/13/17	(H)	MINUTE(RES)
02/17/17	(H)	RES AT 1:00 PM BARNES 124
02/17/17	(H)	Heard & Held
02/17/17	(H)	MINUTE(RES)
02/20/17	(H)	RES AT 1:00 PM BARNES 124
02/20/17	(H)	Heard & Held
02/20/17	(H)	MINUTE(RES)
02/22/17	(H)	RES AT 1:00 PM BARNES 124
02/22/17	(H)	Heard & Held
02/22/17	(H)	MINUTE(RES)
02/22/17	(H)	RES AT 6:30 PM BARNES 124
02/22/17	(H)	Heard & Held
02/22/17	(H)	MINUTE(RES)
02/24/17	(H)	RES AT 1:00 PM BARNES 124
02/24/17	(H)	Heard & Held
02/24/17	(H)	MINUTE(RES)
02/27/17	(H)	RES AT 1:00 PM BARNES 124
02/27/17	(H)	Heard & Held
02/27/17	(H)	MINUTE(RES)
02/27/17	(H)	RES AT 7:00 PM CAPITOL 106
02/27/17	(H)	Heard & Held
02/27/17	(H)	MINUTE(RES)
03/01/17	(H)	RES AT 1:00 PM BARNES 124
03/01/17	(H)	Heard & Held
03/01/17	(H)	MINUTE(RES)
03/01/17	(H)	RES AT 6:00 PM BARNES 124
03/01/17	(H)	Heard & Held
03/01/17	(H)	MINUTE(RES)
03/06/17	(H)	RES AT 1:00 PM BARNES 124
03/06/17	(H)	RES AT 6:30 PM BARNES 124

WITNESS REGISTER

BRAD FAULKNER
Homer, Alaska
POSITION STATEMENT: Testified in support of HB 111.

JERA STEPHENS
Juneau, Alaska
POSITION STATEMENT: Testified in support of HB 111.

PAMELA THROOP
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 111.

ANDY BOND
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 111 and HB 133.

CAROL FRASER, Regional Director of Sales and Marketing
Aspen Hotels of Alaska
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

MIKE MILLIGAN
Kodiak, Alaska
POSITION STATEMENT: Testified in support of HB 111.

BOB SHAVELSON
Homer, Alaska
POSITION STATEMENT: Testified in support of HB 111.

LUKE HOPKINS
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 111.

BRYAN CLEMENZ, Spokesman
Bristol Bay Industrial
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

AVES THOMPSON, Executive Director
Alaska Trucking Association
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

RANDALL AKERS
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

JOHN STURGEON
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

RACHEL DISMY
Juneau, Alaska
POSITION STATEMENT: Testified in support of HB 111.

PAMELA MILLER
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 111.

TERESA IMM, Director, Resource Development

Arctic Slope Regional Corporation
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

PAUL D. KENDALL
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

ADAM TROMBLEY
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

LINDA FEILER
Anchor Point, Alaska
POSITION STATEMENT: Testified in support of HB 111.

KEN HALL
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

PETE STOKES
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

TOM WALSH, Managing Partner
Petrotechnical Resources of Alaska, LLC (PRA)
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

ROBERT GORDON VERNON
Homer, Alaska
POSITION STATEMENT: Testified in support of HB 111.

J.R. WILCOX, Chairman
Alaska Chamber of Commerce
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

SCOTT HAWKINS, President/CEO
Advanced Supply Chain International (ASCI)
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

SUE CHRISTIANSEN
Homer, Alaska
POSITION STATEMENT: Testified in support of HB 111.

MERRICK PEIRCE
Fairbanks, Alaska
POSITION STATEMENT: Testified in support of HB 111.

MIKE SALLEE
Ketchikan, Alaska
POSITION STATEMENT: Testified in support of HB 111.

REED CHRISTENSEN, President
Dallinbach Corporation
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

GEORGE PIERCE
Kasilof, Alaska
POSITION STATEMENT: Testified in support of HB 111.

DEBORAH BROLLINI
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

BRENDA DOLMA
Homer, Alaska
POSITION STATEMENT: Testified in support of HB 111.

LISA HOUGHTON
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

LAURIE FAGNANI
Anchorage, Alaska
POSITION STATEMENT: Testified in opposition to HB 111.

ACTION NARRATIVE

6:33:31 PM

CO-CHAIR GERAN TARR called the House Resources Standing Committee meeting to order at 6:33 p.m. Representatives Tarr, Birch, Parish, Talerico, Rauscher, Drummond, Westlake and Josephson were present at the call to order. Representative Johnson arrived as the meeting was in progress.

HB 111-OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS

[Contains discussion of HB 133]

6:33:49 PM

CO-CHAIR TARR [announced that the only order of business would be HOUSE BILL NO. 111, "An Act relating to the oil and gas production tax, tax payments, and credits; relating to interest applicable to delinquent oil and gas production tax; and providing for an effective date."]

6:35:25 PM

BRAD FAULKNER stated support for HB 111, and explained that he has followed the evolvement of the oil tax structure intently since 1973, following what became known as the sellout session. He said, "I think this is a good bill, it just doesn't go nearly far enough." Bumping the minimum from 4 percent to 5 percent simply isn't enough. The oil taxes in Alaska have always been written by the oil companies, he opined, and said the bill allows for interest free loans after three years, which is a provision that is hard to understand. The state is in crisis mode and the bill merely tweaks something that should have an axe taken to it. He reviewed the credits exchange from the Point Thomson site and said that the state spent about $1.5 billion, which, at 5 percent, represents $75 million per year of forgone interest to the state on that project alone. He suggested that the money would be better invested if left in the bank.

6:37:44 PM

REPRESENTATIVE PARISH asked why Mr. Faulkner has followed the oil tax structure.

MR. FAULKNER answered that working on the Trans-Alaska Pipeline System (TAPS) was how he paid his way through Harvard University to earn a degree in economics. The elephant in the room has been and continues to be the oil tax structure, he opined and expressed concern that the legislature has always been for sale, cheap. He maintained, "We're given them billions and billions of dollars of public resource and we're being sold down the river for bags of peanuts."

6:39:10 PM

JERA STEPHENS stated support for HB 111, and agreed with the previous speaker that the tax measure doesn't go far enough. It's a step in the right direction, she opined.

6:40:44 PM

PAMELA THROOP stated support for HB 111, and said the state has never received the money that it should from oil taxes. The credits don't make business sense, and never have. She cited the report submitted by Robin O. Brena [titled "Presentation to House Resources Committee (Alaskans' Fair Share)," presented to the committee 2/3/17] and expressed 100 percent support for its content. A tax on the gross production would be most appropriate and would also simplify the audit process. As a real estate broker in Fairbanks she reported that sales are down by 30 percent. The real estate devaluation is only just beginning, she cautioned, and said this downturn feels worse than the last one. It feels like Alaska is a banana republic, with the majority of the populace poor and the rich people walking out with the state's oil resources and money dripping out of their pockets. Underscoring that banana republic is a derogatory term she said Alaska fits the description exactly, and offered:

> In political science, the term banana republic is a pejorative descriptor for a servile dictatorship that abets or supports, for kickbacks, the exploitation of large-scale plantation agriculture, especially banana cultivation. That's where it started. More generally, it is a derogatory term for a country that is considered to have a weak economy, a dishonest or cruel government, and public services that do not work. In economics, a banana republic is a country operated as a commercial enterprise for private profit, effected by a collusion between the State and favored monopolies, in which the profit derived from the private exploitation of public lands is private property, [while the debts incurred thereby are a public responsibility.]

6:44:32 PM

ANDY BOND stated opposition to HB 111 and HB 133, and said he has worked as an engineer in the Alaska oilfields for 30 years, but may need to relocate should the industry suffer a downturn. The shale oilfields in the Lower 48 are in direct competition with Alaska projects, which represent more of a challenge than the southerly undertakings. The potential tax increases being considered contribute to the challenge, and put a chill on investment dollars being directed to the state. Current tax rates should be maintained, along with the tax credit structure that has been in place. With that type of encouragement, the industry will remain, he opined, and said he looks forward to his children working in Alaska's oil industry one day. Retaining the oil industry is critical for Alaska's long term future and viability, he finished.

6:47:28 PM

CAROL FRASER, Regional Director of Sales and Marketing, Aspen Hotels of Alaska, stated opposition to HB 111, and said Aspen is in the process of building its seventh hotel in the state. The company tracks its annual clientele and, speaking specifically about the Kenai Aspen Hotel, the oil industry has been a primary support for the last nine years; however, the oil company business has recently dropped by 52 percent and cannot be supplanted by other activities such as tourism. She reported that, for the first time in the 19 years of operation in Alaska, the Aspen hotel chain is laying off employees. Many efficiency measures are being taken and discount web site markets are being utilized to offset losses; all measures save raising room rates. Increasing oil taxes at this time would be akin to Aspen raising room rates, with nothing gained and much lost in the competitive, global market place. She opined that HB 111 is a jobs bill - a jobs reduction bill.

6:49:57 PM

MIKE MILLIGAN stated support for HB 111 and said he's followed this and other oil issues for 25 years. He pointed out that whenever Texas and North Dakota oilfields are mentioned it is worth remembering that most of the development in those locales is not on government but rather private land. Thus, in addition to a [state] tax structure there are leases [to private landowners]. He reported that only 25 percent of areas on earth are open to the oil companies, which should be kept in mind whenever the topic of the companies going elsewhere is brought up. The limiting factor to development in Alaska is access to TAPS. If Alaskans want to develop their oil on state lands, it would be important to ensure access to TAPS. The two most stable places on the planet for oil development are Saudi Arabia and Norway, he reported and suggested that Alaska adopt similar tax structures.

6:52:23 PM

BOB SHAVELSON stated support for HB 111, and said it will save Alaska money, help to cut the deficit, and redirect Alaska's wealth. Alaska is still a rich state and redirecting the money is the real problem that needs to be solved, such as support for schools, roads, seniors, that will create jobs. He explained that, for the last 22 years, he has observed the tax incentives and rollbacks in the Cook Inlet area, which bring to mind the saying, "free markets are a wonderful thing, we should try them sometimes." The subsidies and un-level playing field created in the inlet have distorted the free market and resulted in bad economic outcomes for the state. Having followed the legislative presentations provided by industry, and others, he said that Robin Brena put it right in his report [titled "Presentation to House Resources Committee (Alaskans' Fair Share)," presented to the committee 2/3/17], to the effect: "The way you know Alaska's production tax needs to be reformed is because the industry says it's working." The industry comes from a self-interested position and Alaska needs to move beyond what the bill provides, as suggested by Mr. Faulkner's previous testimony that pushing the minimum tax to 5 percent is not enough. The bill is a start, he said, and urged passage.

6:54:46 PM

LUKE HOPKINS stated support for HB 111, and said many changes in the bill will support the small explorers; although they haven't received recent payments due to the governor's veto. A primary concern is the outstanding obligations owed on the legacy fields, and the effort to achieve a 5 percent tax floor, which are important factors. The current structure, requiring large credit and production tax payments, is not sustainable. He opined that it's a complicated bill and urged that both bodies concur on the proposed changes, as well as provide a workable fiscal date. It will be important for the new, smaller exploration companies to receive some payments in order to keep investments leveraged, which will allow them to make new discoveries.

6:59:18 PM

BRYAN CLEMENZ, Spokesman, Bristol Bay Industrial (BBI), stated opposition to HB 111, and said BBI is the parent company for five other companies across the state, operating as service providers and contractors to the North Slope fields. Since 2015, reductions have occurred in the areas of revenues received and employees hired, which in turn has had a significant impact on the state economy, he reported, and said this represents a loss of "tens of millions of dollars that would have gone into the pockets of Alaskans." The bill has been crafted to fill a budget gap and will not encourage responsible resource development. It is reactionary and does not represent good policy, he maintained, and predicted that exploration and production will be stopped, by passage of HB 111.

7:01:34 PM

AVES THOMPSON, Executive Director, Alaska Trucking Association, stated opposition to HB 111, and said increasing taxes will not increase oil production. The state cannot tax away the industries incentive to invest and still expect to have a sustainable economy, he opined. The bill will make Alaska ventures less competitive on the global market. Additionally, changes this year may be a harbinger of changes next year and an image of instability will be perceived. Alaska realizes more dollars from a barrel of oil than do the producers, he said, and suggested that Senate Bill 21 [passed in the 28th Alaska State Legislature] encouraged increased oil production and has performed as expected. He urged that the tax structure not be changed again.

7:02:46 PM

RANDALL AKERS stated opposition to HB 111, and opined, "To take our spending woes and simply pass them onto our most valued business and resource is not only wrong [but] it's quite foolish." The ongoing oil price decline has already taken a toll on jobs and income in the state, and to consider that it would be sound legislation to tax the oil and gas industry further is the wrong thing to do at this juncture. He reviewed the changes in the tax structure and found that it has been altered 7 times in 12 years. It would be difficult for anyone to make future plans under similarly changing conditions, he opined. Following the passage of Senate Bill 21 [passed in the 28th Alaska State Legislature], a slight revitalization was experienced in the oil and gas sector. Now the proposal is to once again change the structure and it should be considered what message that sends to prospective investors, companies looking to enter Alaska, and those already invested in the state. It is not the time to introduce a bill that will send such a message, nor hamper/hinder or otherwise erode oil and gas sector businesses. Trying to fill the deficit hole with oil is not what is needed, he maintained, and finished by urging the committee to reject HB 111.

CO-CHAIR TARR referred to the number of tax changes mentioned and clarified that HB 111 is introducing the seventh restructure.

7:06:15 PM

JOHN STURGEON stated opposition to HB 111, and said the multiple changes made to the tax structure sends a bad signal. Such changes can have a chilling effect on those who want to invest in an industry, he said, and offered an analogy to banks needing more money and invoking similar changes to mortgages; people would be put off. Although it seems that whatever the state does, the oil companies will remain, he said when he first arrived in the state the timber industry was king - as the second largest industry hosting 6,000 good paying jobs - and today only a shell of what was remains, due to government policy, he opined.

7:09:43 PM

RACHEL DISMY stated support for HB 111, and said it's ridiculous to consider raising taxes on the citizens before taxing those who take the resources out of our state and make a profit. The state should do everything it can to hold onto the oil earnings, she finished.

7:10:43 PM

PAMELA MILLER stated support for HB 111, and said the bill is necessary to make changes that will allow for the development of the most important future state resource: Alaska's children and their education; as well as sustainable resources. The bill doesn't go far enough, she opined, and suggested that the oil production taxes need to be recalibrated to correct the mistakes that were previously made and to align with the current, relatively low oil prices. The low price scenario was neglected and not incorporated in the early models. Under Alaska's Clear and Equitable Share (ACES) [passed in the 25th Alaska State Legislature] there was a straight line of oil revenue. Prudhoe Bay and the satellite fields should not be considered as new and, as such, require no incentives for continued development. The 5 percent gross value tax should be a minimum regardless of the per barrel price. Further, tax credits should not be transferable, she noted, and said it is appalling that $35 million in tax credit certificates can be transferred to another profitable company in order to further reduce the taxes paid to the state. She suggested subsidies for broadband [communications] would be a better investment for the state's future.

7:13:20 PM

TERESA IMM, Director, Resource Development, Arctic Slope Regional Corporation (ASRC), stated opposition to HB 111, paraphrasing from a prepared statement, which read as follows [original punctuation provided]:

ASRC has serious concerns with the impacts this bill will have in its current form. ASRC is the largest Alaskan-owned company with approximately 10,000 employees nation-wide, with nearly half of those employees in Alaska. ASRC was established pursuant to the Alaska Native Claims Settlement Act in 1971 as a for-profit business to utilize our natural resources to provide for the economic and social well-being of our Iñupiat shareholders. ASRC has a shareholder base of approximately 13,000.Iñupiat. My testimony today will address how ASRC sees HB 111 impacting our businesses, investments, and shareholders.

ASRC is in a unique position as the largest locally owned Alaskan business; we are an ANCSA Corporation, land owner, a lessor, a producer, and an explorer. Because of our various ties to the industry, HB 111 impacts us in several ways. Like the State of Alaska, the majority of ASRC's revenue base and investments are associated with the oil and gas industry. We feel the impacts to changing oil price, production outputs, TAPS throughput, and exploration investments just as the State of Alaska does. These impacts ripple through the Alaskan economy. We all know the statistics on TAPS throughput and declining production—this is a topic that is always on the forefront of my mind as I'm sure it's on yours. We are at a critical time where we must reinvigorate the industry that we all depend on, not further burden it with taxes. This uncertainty creates a high-risk, unstable business environment in Alaska. . With current production boons in the Lower 48, Alaska must remain competitive and attractive to industry; we cannot achieve this with a fickle tax structure and high-cost exploration and production. It is time for us to start managing Alaska's financial affairs like a business and not based on emotions or misguided ideology.

If the legislature fails to take a pragmatic approach to providing fiscal certainty for the state's dominant industry, our financial woes will continue to conflict spiral. This reckless behavior must stop. As an Alaskan-based company, ASRC will always operate in Alaska; this is our home and the home of our shareholders. The Iñupiat thrived on the North Slope long before the discovery on Prudhoe Bay—and ASRC will continue to invest in Alaska and our region.

However, even companies like ASRC who are committed to operating in Alaska will have to reconsider our investments with the current form of HB 111 in mind. Rather than penalizing companies committed to Alaska who are riding out the current economic downturn, the legislature should work to create a tax system that stimulates investments, encourages business, and works to brings jobs and production back up.

Alaskan companies, like ASRC, should not be disadvantaged for our commitment to the State's welfare and to the well-being of our shareholders. Instead, we should work together to create a fair and balanced structure which incentivizes companies and spurs increased production and exploration. Complicating and increasing the current tax structure does nothing to benefit the State of Alaska, the Alaskan economy, ASRC, Alaskans. Rather, it sends a chill over the economy which reverberates across the State.

This inconsistent, unpredictable, and ever-changing tax structure in Alaska is incredibly short-sighted and will result in additional lay-offs, reduced drilling rigs, limited capital investment. Companies with the ability to invest elsewhere will do so. Meanwhile, nothing will be done to repair our fiscal gap, promote increased production, and increase throughput into TAPS—which we all rely on as the artery of the Alaskan economy.

Simply put, it is bad policy to keep changing the oil tax regime. There have been three changes to Alaska's oil tax regime since 2013, seven in the last 12 years. These frequent changes are reactionary and do not provide the stability companies need to make long-term investment in our State. ASRC specifically will be impacted by yet another change to the oil tax policy in several ways.

First, HB 111 would implement a Gross Minimum Tax of 5% for all production, this in an increase from 4%. This 25% hike in tax will impact capital reserved for future investments and particularly impact small businesses. With no option for a Small Producer Credit or credits for New Developments, this tax structure discourages exploration, investment, small businesses, and entrepreneurship. The erosion of these credits does not benefit the State in the long term. It will impact first and foremost Alaskan businesses like ASRC who are putting money into our economy and exploring new opportunities for the State.

Secondly, Net Operating Loss, or NOL credits will be reduced from 35% of loss to 15% of loss and will not be eligible against the Gross Minimum Tax. With current oil price environment, frozen investments, shut down rigs, and thousands of Alaskans out of work, it is nonsensical to reform a system which alleviates losses the industry is currently facing. For ASRC, NOL credits can be a determining factor as to whether a project proceeds, and with respect to the Gross Minimum Tax—a producer could be losing money and would still need to pay the Gross Minimum Tax. The changes to the NOL credits eliminate the mechanism Alaskan businesses like ASRC use to continue to invest in a low-price environment where companies will most certainly incur a loss. To ASRC and other companies working in Alaska, this sends a message that when times are tough, the State is no longer a partner.

Thirdly, the State purchase of NOL credits will be reduced from $70 million per year to $35 million per year, with eligibility diminished from those producers with less than 50,000 BOPD to those that produce less than 15,000 BOPD. With the recent influx of independents and small businesses investing in Alaska's oil and gas industry, as well as Native Corporations like ASRC who are beginning to take a more active role, the State's shift in policy is unsustainable for small companies and will significantly impact Alaska Native Corporations. The lack of certainty in Alaska's tax regime is bad business and disproportionately impacts small businesses and companies attempting to ride out the economic downturn in the industry.

Lastly, HB 111 impacts the per-barrel tax credits which were designed to be a progressive "credit" tied to oil price. HB 111 would not allow the per-barrel tax credit against the Gross
Minimum Tax and would alter the current structure for "Old Oil." Previously, the per barrel tax credit was

linked to the price of oil in order to provide relief for industry in low-price environment. By altering this credit, the State is eliminating mechanisms which encourage production and investments at any price.

More instability to the oil tax regime, more burdensome taxes to the oil and gas industry, and reduction in credits to Small Businesses, Net Operating Loss, and other credits will not result in more jobs, more investment, increase production, increased throughput to TAPS, or offset Alaska's fiscal deficit. On the contrary, it will most certainly result in continued job loss, reduced investment, production, and exploration, and further suffocate an already struggling industry—an industry we ALL rely on. For these reasons, ASRC does not support HB 111. We support sound tax policy and a healthy industry which promote responsible exploration, production and incentives to spur additional investment throughout the State.

ASRC encourages the Committee and the legislature to consider our concerns and engage with ASRC and others in the industry to construct a fair and balanced tax structure that works for all Alaskans. Through collaboration with Alaska businesses, we can address the fiscal deficit and stimulate growth without sacrificing the lifeblood of our economy. HB 111 does not accomplish this, it would be one step forward and five steps back for Alaska's economy, at the expense of Alaskan businesses and industry partners. We cannot control the price of oil, but we can determine what kind of business environment Alaska will have and what kind of partner the State of Alaska will be—both of these factors are significant considerations that will drive investment regardless of the price environment.

7:17:06 PM

CO-CHAIR TARR pointed out that the bill doesn't address small producer credits.

7:17:25 PM

PAUL D. KENDALL stated opposition to HB 111, and suggested what measures need to occur, opining: seal up the Permanent Fund and dividends; move the state capital from Juneau; and invite the companies to be the state's partners in revenue generation. Situating the state capital in Anchorage will provide opportunities for productive discussions he suggested, and said that state management of other resources would also be better served by a legislative relocation.

7:23:50 PM

ADAM TROMBLEY stated opposition to HB 111, and said companies need stability in order to do business. There are two major factors by which companies abide: the price at which they can sell their product or service, and the cost of doing business. Oil is based on world markets which makes the cost of doing business the important factor. The oil taxes have changed 6 times in 12 years, causing a difficulty, especially for smaller companies endeavoring to obtain capital on the open market for exploration and production purposes. By continually changing the game for industry, we're damaging the ability for smaller companies to push their projects to those who provide funding. Not all oilfields are created equal, he said, and large companies don't produce particular fields because it may not prove profitable. However, it may be profitable for the smaller oil and gas companies to develop the same field and fill TAPS.

7:25:33 PM

LINDA FEILER stated support for HB 111 and said the reforms are important, and although the changes won't solve the state deficit they make sense. Passing comprehensive oil tax reforms will bolster other fiscal reform efforts. She said, "How can you ask Alaskans to pay an income tax, or a statewide sales tax, or lose their dividend, so that they can help pay for millions of dollars in direct cash payments to a for-profit company, undertaking normal, for-profit business operations." All Alaskans have a right and duty to "tweak the instruments of oil taxation." The laws count and must be constantly adapted to changing prices and political situations. Further, she noted that not too many oil companies have gone out of business in Alaska, if they were initially well-established prior to arrival. The bill will help to decrease the existing fiscal liabilities and is a step in the right direction. The bill could be made stronger she suggested. As a business owner, there were times when she took a cut in her salary or borrowed money from employees, but the oil companies are not taking similar measures.

7:28:20 PM

KEN HALL stated opposition to HB 111, and said it will not help to increase oil production. The bill is totally baffling, he opined, and said it only serves to create instability. The current government take of about 50 percent appears to be appropriate, he opined, based on the numbers he calculated; the state may be the greedy party. A radical change in the price of oil may not be forthcoming but oil needs to be in TAPS, which HB 111 will not accomplish. He agreed the subject is complicated and credits do work, as demonstrated in Cook Inlet.-

7:32:08 PM

PETE STOKES stated opposition to HB 111, and reported that, as a licensed petroleum engineer, he's worked for 30 years in the global oil and gas industry. Currently, he works for an Alaskan-owned consulting firm, which has had to lay off about 40 percent of its professional staff, due to the downturn in oil prices. The trend can be turned around, if the oil prices turn around and a stable oil tax environment is available. The number of fiscal changes made to Alaska's oil tax structure is unprecedented, he opined. Increasing the taxes and eliminating the credits, given the current economic climate, will serve to drive away investments and major new developments. The possibilities for future projects needs to be ensured, as they represent jobs for the next generations of Alaskans. The passage of Senate Bill 21 [passed in the 28th Alaska State Legislature] provided attractive fiscal terms and resulted in a period of increased production in 2016.

7:34:52 PM

TOM WALSH, Managing Partner, Petrotechnical Resources of Alaska, LLC (PRA), stated opposition to HB 111, paraphrasing from a prepared statement, which read as follows [original punctuation provided]:

> I am a geophysicist and managing partner of Petrotechnical Resources of Alaska, or PRA, an Alaskan oil and gas consulting company founded 20 years ago in Anchorage. PRA employs a broad cross section of very talented and respected oil and gas experts, and our clients include major oil companies, independent oil companies, small E&P companies, federal, state and local agencies, and Alaska native corporations. Early last year, PRA employed over 100 consultants, and since early 2016 we have downsized 40-50% due to low oil prices, and diminished activity.
>
> While the oil and gas industry in the lower 48 is rapidly recovering, with rig count climbing, and production on the rise, we Alaskans are still in the grip of a recession. Our major fields are naturally declining, and our exploration and development opportunities are far more expensive than those of our competitors in the lower 48 and elsewhere. We have rejoiced in the welcome news of new discoveries on the North Slope this year, but development of those resources is extremely expensive, and commercial decisions regarding their development require tight cost controls at every level of planning and development. Changes in tax structure are not typically treated as variables in commercial modeling, but perhaps they should be, based on the history of our ever-changing taxation of the oil industry.
>
> We Alaskans are extremely dependent on the revenue from oil production, and we act as though these resources and the revenue they generate are dials we can turn up when we need cash. Unfortunately, we are now at a decision point at which we can turn the screws tighter on the oil industry and drive ourselves out of business, or we can think longer term and take action to accelerate our recovery from the price collapse. Please ask yourselves if we really want to be the only government in the world foolish enough to increase taxes on a challenged industry, one which has provided 80-90% of our general fund revenue for decades.

7:37:26 PM

ROBERT GORDON VERNON stated support for HB 111, and said the oil companies spent $200 million to get the tax structure they wanted passed under Senate Bill 21 [passed in the 28th Alaska State Legislature], but still one-third of oil industry workers are out of work, which can be attributed to the price of oil not the tax structure. He maintained that there are negative outcomes often created by tax credits, when fly-by-night operations are attracted to the state, which can easily fold to the detriment of all involved, and he provided an example of an Australian firm. Companies should be carefully vetted before being allowed entrance, he said and suggested that the tax credit money could be better spent by hiring public safety officers, medical workers, and other areas of employ that contribute directly to the needs of Alaskan communities.

7:42:48 PM

J.R. WILCOX, Chairman, Alaska Chamber of Commerce, stated opposition to HB 111, and acknowledged the hard times that the state is under and the difficulties being faced by the 30th Alaska State Legislature regarding the need to find ways and means for stabilizing the budget. Oil tax raises are a uniquely destructive way to raise revenue, he opined, and said the production tax method should not be changed, as future production is directly based on today's tax structure. He suggested that a punitive tax structure was adopted under Alaska's Clear and Equitable Share (ACES)[passed in the 25th Alaska State Legislature], resulting in less oil in TAPS today and contributing to the dire fiscal situation. Continuing to raise or adjust the production tax system is likely to discourage investment decisions and mark Alaska as a risky place to do business. The business community in general is suffering under the current economic climate and injecting uncertainty into the production tax structure is the last thing that should happen; investments need to be encouraged to turn the situation around and fill TAPS. He urged the committee to leave the tax system in place and close the fiscal gap by other measures.

7:45:47 PM

SCOTT HAWKINS, President/CEO, Advanced Supply Chain International (ASCI), stated opposition to HB 111, and said ASCI provides services to the oil and gas sector. Like many other companies, significant reductions are being experienced both in service activity and employment numbers; perhaps 20 percent down in Alaska operations and continuing to decline. The only recent industry growth has been in the regions of North Dakota, Texas, and Pennsylvania. Despite previous comments, he opined, oil and gas companies have many options for optimal operation locations outside of Alaska. Alaska's economy is in a recession, experiencing a loss of 10,000 jobs in the last 18 months. The bill will exacerbate all of Alaska's economic issues, he said and urged rejection of HB 111 in order to send a positive message to industry.

7:48:24 PM

SUE CHRISTIANSEN stated support for HB 111, and said she has worked in Alaska's oilfields for many years. She underscored the need to stop paying millions of dollars in direct cash payments to businesses operating with losses. Oil companies make big profits and can afford to be taxed, she assured the committee. The average oilfield worker making $150,000 per year generally lives Outside, and the average working Alaska resident makes about $50,000. The bill leaves a generous tax structure in place, she opined and suggested that, if anything needs to do more and be stronger.

7:51:00 PM

MERRICK PEIRCE stated support for HB 111, and said it's a good start in reforming Senate Bill 21 [passed in the 28th Alaska State Legislature] to provide a fair return on the state oil resources. The state budget cannot be fixed as long as a fair return is not required and corporate welfare continues. The 5 percent floor is not nearly enough, especially for legacy fields where the infrastructure is established and TAPS costs have been paid. The myth of oil prices can be countered by recalling that at one time a barrel of oil was worth $10.00. Having oil prices at $50.00 per barrel represents $28 million of oil leaving the state every day, $800 million per month, and $10 billion per year. He pointed out Norway has very high oil and gas taxes and has almost $900 billion in its sovereign wealth fund. The bill provisions regarding interest on delinquent taxes is an important reform aspect to allow a higher rate than the currently imposed zero percent rate. Alaska's long term obligations, such as retirement fund liabilities, will not be met if the decision is to continue to give away the oil, he maintained, and urged passage of HB 111.

7:53:40 PM

MIKE SALLEE stated support for HB 111, and said it could be made stronger. The oil companies and subcontractors make profits off of Alaska's oil resources that are among the highest in the world and obtained under safe conditions. A recent British Petroleum (BP) promotional video highlighted that the company operates happily in Iraq, where the proceeds are divided at a rate of 2 percent and 98 percent, respectively. Seeing that type of contrast, he said doesn't instill confidence in the complex, confusing, and convoluted explanations by the oil industry in Alaska. The oil belongs to all Alaskans, and all Alaskans have the right to see appropriate rates collected on sales. Lucrative profits should not be provided to any company. He suggested that there is no harm in allowing TAPS to slow to a trickle until oil prices improve, as the oil is safe in the ground. There are costs held by the public common that remain unaddressed by the oil companies, which include: growing CO_2 levels in the atmosphere, the health cost of pollution, and climate change. He urged passage of HB 111.

7:56:39 PM

REED CHRISTENSEN, President, Dallinbach Corporation, stated opposition to HB 111, and said two years ago Dallinbach had 32 employees but today there are only 26. Due to the current economic situation some are now part-time workers, while others are on a reduced work week of 32 hours. Now is not the time to increase taxes on the oil industry as it doesn't make economic sense, he said. It's expected that the new federal administration will reduce regulation, promote responsible resource development, and reduce taxes to bolster the economy across America, he pointed out and said Alaska should be following that example to bring optimism and jobs back to the state. The focus should be to identify means for increasing oil production and to align with the producers and developers, in order to ensure economic health.

8:00:18 PM

GEORGE PIERCE stated support for HB 111, and said the legislature changed the oil tax structure at the request of the oil industry. He said, "When is enough, enough?" Further, he thanked the current members for authoring the bill, rather than allowing it to be written by the oil industry. It represents a good start, but it's not enough. The last tax policy was modeled on oil selling at $100 per barrel and doesn't reflect the current situation. Even though the price began falling in 2013, nothing's been done to curb the "giveaways." The current production tax and large cash payments have crippled the state, representing nothing more than a redistribution of money, rather than gains. Raising the tax from 4 to 5 percent will actually only serve to recoup lost revenue accrued under the stackable credits, which, he opined should be removed. He suggested that the tax floor be set at a minimum of at least 8 percent. Alaska's oil industry has become a welfare recipient with the state paying 35 percent to 85 percent of costs for new exploration and development, respectively. The state tax director estimates that the credits equal at least $24.00 per barrel, making the state better off if funds were invested in the stock market.

8:05:37 PM

DEBORAH BROLLINI stated opposition to HB 111, and opined that Alaska's future is in increased oil production. She related a history of testifying on the past oil tax reform bills, before the various committees. Following the previous oil crash, her career entailed foreclosing on homes and in today's economic downturn, the situation is beginning to be repeated. Alaska is still a world class oil producing area, she said and urged partnering with the oil producers. The proposed bill will lead to more layoffs in the oil industry and end the six figure salaries that are currently flowing into Alaska's economy. Alaska needs more oil flowing through TAPS, she finished.

8:07:37 PM

BRENDA DOLMA stated support for HB 111, and said, "It is time that oil pays their fair share." She opined that Alaska industry should be further diversified, renewable energy sources explored, and the oil kept in the ground with the expectation that its value will increase in the future. The bill will end corporate welfare, and serve to protect the state, she said and urged passage of HB 111. She restated her support for diversifying the economy to create more jobs in other industries.

8:10:55 PM

LISA HOUGHTON stated opposition to HB 111, pointing out that Prudhoe Bay is celebrating 40 years of operation, which is 10 years beyond the lifespan predicted at startup. The major fiscal problem Alaska is facing requires more than the short term fix that the bill represents via imposing taxes. Higher taxes will not increase oil production, jobs, or create an economic boost. She suggested passage of the bill would derail a number of economic possibilities, such as additional oil discoveries, and business startups. People will lose jobs, and families will be forced to leave the state, she predicted. The preservation of continued oil investment and a good working climate for doing business is important through a stable price environment. Alaska needs to be viewed as the best place for oil companies to invest, she stressed, and urged rejection of HB 111.

8:13:59 PM

LAURIE FAGNANI stated opposition to HB 111, and said the company she owns employs 23 Alaskans whose jobs dependent on a healthy oil and gas economy. The company is down about 20 percent this year, and the profit margins have been drastically reduced in the oil and gas sector. The bill will jeopardize the recent up-tick in production levels to TAPS, and discourage investment by producers in the North Slope, she opined. This is an important time to partner with and incentivize companies, and not to impose punitive taxes, she said, and urged rejection of HB 111.

8:15:49 PM

CO-CHAIR TARR announced HB 111 was held over, with public testimony open.

8:17:08 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:17 p.m.