

ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE

January 29, 2018

1:10 p.m.

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Harriet Drummond
Representative Justin Parish
Representative Chris Birch
Representative DeLena Johnson
Representative George Rauscher
Representative David Talerico
Representative Chris Tuck (alternate)

MEMBERS ABSENT

Representative Mike Chenault (alternate)

COMMITTEE CALENDAR

HOUSE BILL NO. 288

"An Act relating to the minimum tax imposed on oil and gas produced from leases or properties that include land north of 68 degrees North latitude; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 288

SHORT TITLE: OIL AND GAS PRODUCTION TAX

SPONSOR(S): REPRESENTATIVE(S) TARR

01/16/18	(H)	READ THE FIRST TIME - REFERRALS
01/16/18	(H)	RES, FIN
01/22/18	(H)	RES AT 1:00 PM BARNES 124
01/22/18	(H)	Heard & Held
01/22/18	(H)	MINUTE(RES)
01/26/18	(H)	RES AT 1:00 PM BARNES 124
01/26/18	(H)	Heard & Held
01/26/18	(H)	MINUTE(RES)
01/29/18	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

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

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered questions.

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

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered questions.

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

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered a question.

CARL GIESLER, CEO
Glacier Oil & Gas Corp
(No address provided)

POSITION STATEMENT: Testified in opposition during the hearing of HB 288.

DAMIAN BILBAO, Vice President Commercial Ventures
BP
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered questions.

LEWIS WESTWICK, Vice President Finance
BP
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered questions.

CORY QUARLES, Alaska Production Manager
ExxonMobil Production Company
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition during the hearing of HB 288.

KATE BLAIR, Government and Public Affairs Manager
Andeavor in Alaska
Kenai, Alaska

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered a question.

BENJAMIN JOHNSON, President/CEO and Director
BlueCrest Energy
Fort Worth, Texas

POSITION STATEMENT: Testified in opposition during the hearing of HB 288.

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

POSITION STATEMENT: Testified in opposition during the hearing of HB 288 and answered questions.

KEN ALPER, Director
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Gave remarks during the hearing of HB 288.

ACTION NARRATIVE

[1:10:30 PM](#)

CO-CHAIR GERAN TARR called the House Resources Standing Committee meeting to order at 1:10 p.m. Representatives Tarr, Birch, Parish, Talerico, Johnson, Drummond, and Josephson were present at the call to order. Representatives Rauscher and Tuck (alternate) arrived as the meeting was in progress.

HB 288-OIL AND GAS PRODUCTION TAX

[1:11:01 PM](#)

CO-CHAIR TARR announced that the first order of business would be HOUSE BILL NO. 288, "An Act relating to the minimum tax imposed on oil and gas produced from leases or properties that include land north of 68 degrees North latitude; and providing for an effective date."

[1:12:24 PM](#)

KARA MORIARTY, President/CEO, Alaska Oil and Gas Association, provided a PowerPoint presentation entitled, "HB 288 Testimony," dated 1/29/18. She informed the committee the Alaska Oil and

Gas Association (AOGA) is a private trade organization representing the majority of companies exploring, producing, refining, and transporting oil and gas in Alaska (slide 2). Ms. Moriarty said AOGA members have reported two uninterrupted years of increased production; increases in production have been reported from both legacy fields and newer fields (slide 3).

REPRESENTATIVE PARISH asked for the percentages of the increases reported in [2016 and 2017].

MS. MORIARTY said the increases are 1 percent to 2 percent, following a historical decline of 4 percent to 8 percent annually. She provided forecast information from December 2012, and fall of 2017, and pointed out the more recent forecast is for production of 546,360 barrels per day (bpd), which is over 103,460 bpd higher than the forecast from five years ago. She concluded increases in investment have led to a much better forecast, partly because previous tax systems, Alaska's Clear and Equitable Share (ACES) [passed in the Twenty-Fifth Alaska State Legislature] rewarded spending and Senate Bill 21 [passed in the Twenty-Eighth Alaska State Legislature] incentivized production (slide 4). As a comparison, AOGA reviewed projected state revenue from royalties, production, property tax, and corporate income tax at the original forecast of 442,900 barrels per day, and she noted the state would have received \$300 million less in overall state revenue (slide 5).

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CO-CHAIR TARR asked whether the new model utilized by the [Department of Natural Resources (DNR)] will improve the accuracy of forecasts.

MS. MORIARTY said AOGA relies on the Department of Revenue's (DOR's) published forecasts; AOGA supports forecasts that show a range between 10, 50, and 90 percent probability to give a better average, but AOGA does not have supporting historical data.

CO-CHAIR TARR pointed out (DNR) plans to utilize a ten-year timeframe for a better understanding of events.

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MS. MORIARTY advised AOGA members work with DOR to provide data to support its forecasts.

REPRESENTATIVE PARISH asked for the percentage of the spending incentivized by ACES that was directed toward new investments and future growth.

MS. MORIARTY said to answer she would need additional research. The ACES credit system was based on whether a company spent money but not necessarily upon activities leading to production; however, the per barrel tax credit is based on production. Ms. Moriarty returned to slide 5, which further illustrated what \$300 million in additional state revenue could fund in the current proposed state budget. She stressed increased production helps the legislature appropriate funds for state needs. Further, in fiscal year 2018 (FY 18), oil revenues are projected to represent 75 percent of the state's unrestricted general fund (UGF), and when combined with restricted revenue and property taxes, totals over \$2.4 billion to state and local governments (slide 6). She discussed Alaska's mega resource potential noting the total provided on slide 7 does not include recent discoveries, but does include estimates for the National Petroleum Reserve-Alaska (NPR-A).

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MS. MORIARTY acknowledged oil production in Alaska faces competition from the Lower 48 as the U.S. becomes the world's largest producer. In October 2017, production in the U.S. was over 9.6 million bpd; Alaska is producing 5 percent of the U.S. total. She pointed out Alaska's mega resources will only continue to contribute to increasing U.S. production with investment (slide 8). A DNR forecast from February 2017, illustrated a long-term view of Alaska's declining production through 2069 absent ongoing and increased investment in all fields (slide 9). Although a short-term ten-year forecast showed improvement in production, the long-term outlook remains the same (slide 10). Ms. Moriarty provided a graph, from a presentation by a representative of Wells Fargo Bank, which showed investment in production during the past ten years for Alaska and the U.S. She concluded in 2018 the oil and gas industry in the U.S. will spend \$120 billion in capital expenses, of which less than 2 percent will be spent in Alaska (slide 11). She questioned how Alaska could increase its share of the total amount of money spent by industry on capital investments in the U.S.

MS. MORIARTY cautioned another tax change will not help Alaska attract additional investment; as previous testimony has revealed, there have been eight tax policy changes in the last

thirteen years and six have been opposed by industry (slide 12). Turning to HB 288, she said the bill would negatively impact industry by increasing the cost of the minimum production tax by 75 percent, and would be the third straight increase to production taxes in three years. Increased taxes increase cost, which reduces competitiveness for Alaska's projects when compared to national or worldwide projects. Ms. Moriarty stressed reducing competitiveness for the oil and gas industry affects one-third of all jobs and wages in Alaska along with less production, state revenue, and economic growth (slide 13). She said the industry recognizes the state's fiscal challenge; however, the industry can contribute more by growing oil and gas production. Ms. Moriarty recalled Alaska's Economic Development Strategy contains a section on the resource extraction industry that concluded in order to strengthen resource extraction industries, the state must promote a consistent business environment that includes a stable tax regime. She said AOGA does not envision HB 288 achieving the aforementioned goal (slide 14).

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The committee took a brief at ease.

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SCOTT JEPSEN, Vice President External Affairs and Transportation, ConocoPhillips Alaska, Inc. (ConocoPhillips), provided a PowerPoint presentation entitled, "House Resources Committee HB288," dated 1/29/18. Mr. Jepsen said his presentation would include forward-looking statements and directed attention to a cautionary statement and safe harbor note (slide 2). He turned to ConocoPhillips' projects currently underway on the western North Slope, including Greater Mooses Tooth Unit 1 (GMT1), which may have production by the end of 2018 and peak production of 25,000-30,000 barrels of oil per day. Another project, Greater Mooses Tooth Unit 2 (GMT2), may reach first production in 2021 and is of similar size to GMT1, employing 700 construction jobs. In the [Colville River Alpine] unit, development of Fiord West is now possible through the acquisition of a mobile, extended-reach drilling rig, and first production is expected in 2020. Finally, the Willow Discovery oilfield could produce 100,000 barrels of oil per day, with the earliest production possible in 2023, and is a project that could support thousands of construction jobs and several hundred direct jobs (slide 3).

REPRESENTATIVE PARISH asked how much time would be needed for the projects to reach peak production.

MR. JEPSEN estimated one to two years after initial production [a project reaches peak production]. He said ConocoPhillips is conducting its largest exploration program since 2002, drilling five exploration wells, including wells in Willow, Stony Hill, and Putu. Further, ConocoPhillips is undertaking a 250 square mile seismic program on state land (slide 4).

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REPRESENTATIVE TALERICO asked how many jobs would be generated for the exploration projects.

MR. JEPSEN said approximately 400.

REPRESENTATIVE PARISH asked for the potential royalty share from the Stony Hill development.

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MR. JEPSEN said royalty would be either 12.5 percent or 16.7 percent on state land and there would be a 50/50 split of all federal oil and gas revenues; however, a portion of the revenue would be dedicated to mitigating impacts to villages in the National Petroleum Reserve-Alaska (NPR-A). In further response to Representative Parish's question as to the proportion of revenue dedicated for mitigation, he explained the amount is unknown until grant requests are received from villages within the North Slope Borough, and he described the grant process.

CO-CHAIR TARR suggested information on revenue dedicated for mitigation is detailed in the state budget.

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REPRESENTATIVE BIRCH asked how much it costs to drill a well.

MR. JEPSEN answered the cost of an individual exploration well can be tens of millions of dollars. He then referred to previous testimony by the Department of Revenue stating that the minimum tax does not apply to new oil; however, he said the minimum tax does apply to ConocoPhillips projects because its projects are subject to state severance tax. Slide 5 was a map which illustrated many activities ongoing on the North Slope, including projects by ConocoPhillips and other companies such as

BP, Hilcorp, Repsol/Armstrong, Brooks Range Petro, Caelus, and the Alaska LNG Project. He said the five projects furthest along would spend over \$13 billion in capital expenditures (CAPEX) and cautioned that the facilities at Alpine, Kuparuk, and Prudhoe Bay must have investment in order to provide the infrastructure needed to support new development. He provided a graph that illustrated production forecasts to 2027 as influenced by increased investment: the encircled portion of the graph from 2014 to 2027 contained projections of additional production he attributed to the tax framework of Senate Bill 21. Increased production was indicated in the near-term and in the long-term, including significant revenue and jobs due to a competitive tax framework. Mr. Jepsen said what would have happened without the influence of Senate Bill 21 is unknown; however, he assured the committee the tax regime is a part of investment decisions made by ConocoPhillips (slide 6).

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REPRESENTATIVE RAUSCHER questioned whether there are further impacts of legislation enacted after Senate Bill 21.

MR. JEPSEN said the increases are encircled on slide 6, although subsequent changes have been made regarding tax credits and to "fringes of the core tax structure." He pointed out the forecast was provided by DOR after DOR gathered data from the companies on the North Slope.

REPRESENTATIVE PARISH expressed his interest in a graph that would show investment that has occurred in the past few years. A previous tax system, ACES, encouraged investment and spending, and he questioned where the investment attributed to ACES is shown.

MR. JEPSEN explained he does not have access to all industry data but would supply data for ConocoPhillips' spending profile. He pointed out ACES did not encourage cutting costs because 90 percent of industry savings went to the state. Mr. Jepsen turned to Alaska's oil and gas industry competition from unconventional plays found in the Lower 48, that have enormous resource potential, and which are closer to market, easier to permit and are governed by stable fiscal policies. He said oil and gas plays in the Lower 48 are setting investment costs, especially in Texas. Although - due to its efficiencies and investments - ConocoPhillips in Alaska remains competitive, any increases in tax cost decreases its competitiveness.

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PAUL RAUSCH, Vice President Finance, ConocoPhillips Alaska, Inc., directed attention to the financial aspects of producer and government profit share. As illustrated on slide 8, total net cash flow from the North Slope at various oil prices from \$30 to \$100 per barrel of oil was divided between producers, the federal government, and the state government. The estimates were generated from Fall 2017 Revenue Source Book (RSB) assumptions and a 21 percent federal tax rate for the entire fiscal year. He stressed total Alaska government take is not only production tax but includes income tax, property tax, royalty, and production tax. Mr. Rausch noted total government share is greater than producer share at all prices, and at prices of \$30 to \$35 per barrel of oil, the producers' profit is negative, and an increase in minimum state tax would be particularly difficult.

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MR. JEPSEN turned attention to the impacts of HB 288. Previous DOR testimony was that at \$72 per barrel of oil the equivalent gross tax to Senate Bill 21 net tax is about 7 percent. If oil prices increase, HB 288 would not have much impact; however, HB 288 is a tax increase at low prices thus when industry is losing cash, the legislation would disincentivize investment. Also, the core Senate Bill 21 tax system has been in place for about four years which has been helpful to ConocoPhillips' investment decisions. Mr. Jepsen agreed with earlier industry testimony that investment is a key element to managing the budget gap and more production leads to jobs and state revenue. Finally, he observed the industry on the North Slope is close to significant development, spending, and new production, and he expressed opposition to HB 288.

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CO-CHAIR JOSEPHSON recalled DOR has reported that lease expenditures in some legacy fields have been reduced from \$50 to less than \$30 and he returned attention to slide 11 of the AOGA PowerPoint presentation that showed total capital expenditures in Alaska are lower, but production has increased. He questioned where ConocoPhillips' capital expenditures are reflected in the information that has been provided.

MR. JEPSEN said he has not provided a representation of capital investments; however, if ConocoPhillips had not reduced its

lease expenditures, it would not have invested in Alaska. By increasing efficiencies, ConocoPhillips continued to invest in Alaska during the downturn [of oil prices], and remains competitive. He cautioned that new parties would invest elsewhere. Although he said he did not have information on where all the capital is being spent, over \$400 million in incremental investment has been spent in CD5. Further, advances in technology have brought efficiencies in drilling.

CO-CHAIR TARR related previous testimony that oil production in Alaska requires a lead time of five to ten years, yet ConocoPhillips stated the four-year term of Senate Bill 21 has led to increased production and a positive business environment; she inquired as to the discrepancy between the differing timelines.

MR. JEPSEN said ConocoPhillips makes investment decisions based on assumptions of oil price, costs, tax rates, and reserves; in addition, assumptions about state tax policy are predicted for two years, and all are factors affected by uncertainty. The industry is accustomed to uncertainty, however, stable tax policy is desired.

MR. RAUSCH returned attention to slides 5 and 6, noting that ConocoPhillips projects are long-term, such as the Willow project, and shorter term, such as GMT 1 and GMT 2.

MR. JEPSEN cautioned that ConocoPhillips is not committed to develop Willow and the project will not be pursued under certain circumstances.

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CARL GIESLER, President/CEO, Glacier Oil & Gas Corp (Glacier), stated his intent to provide a small company perspective to the discussion of HB 288. He informed the committee Glacier has small oil operations on the west side of Cook Inlet and gas operations on the Kenai [Peninsula]; on the North Slope, Glacier operates the Badami field, processing plant, and pipeline west of Point Thomson. Also in the Badami field, Glacier is drilling an exploration well, Starfish, which is the first well drilled in that field in more than five years. Mr. Geisler acknowledged the state's budget quandary; however, he said HB 288 is not a good solution at this time due to its substantial harm to the industry and to the state's reputation. The oil and gas sector in Alaska has had recent good news: major discoveries; increased ice road activity; increases to the Trans-Alaska

Pipeline System (TAPS); a purchase by Oil Search Ltd.; rising oil prices; opening of the Arctic National Wildlife Refuge 1002 area. However, for small companies, the foundation of the state's oil and gas ecosystem is eroding due to an exodus of producers and vendors, and less capital and jobs; in fact, the number of entities in the oil and gas sector is declining which means there are fewer service companies and it becomes difficult and costly to get work done. For example, in Cook Inlet, there is only one company left to provide water transportation to the job site for workers.

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MR. GEISLER continued to a second issue which is financial firms and banks have become wary of investing in Alaska; in fact, Alaska banks declined to invest in the Cook Inlet reservoir basin because there are too few producers. Further, thirteen banks in the Lower 48 that were contacted by Glacier were not interested in assets in Alaska because of their perception of [state] policy and the lack of small commercial opportunities. Mr. Geisler said anything that deters new capital and new companies from coming to Alaska is not helpful because of its effect on job growth. He pointed out Alaska's unemployment rate is a percentage point below 49 states, which would not be helped by an increase in the tax rate. Previous testimony has described HB 288 as one change, however, the bill would more likely make two changes: the working group formed last year has not started its work, thus a change made by HB 288 would be followed by further changes from the working group, which would be problematic.

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DAMIAN BILBAO, Vice President Commercial Ventures, BP, provided a PowerPoint presentation entitled, "Testimony before House Resources - HB 288," dated 1/18/18.

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LEWIS WESTWICK, Vice President Finance, BP, provided brief personal background information.

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MR. BILBAO said BP opposes HB 288. He presented slide 2 which included a graph of total worldwide oil demand from 2000 to present - about 92 million barrels per day - and a forecast that

oil demand will peak around 2035-2040. Mr. Bilbao said the world economy drives oil demand, however, increased efficiency, new technologies, and changes such as ride sharing, will lower the demand so that industry will become more competitive than it is today. Also shown on slide 2 was a graph of technically recoverable oil resources of approximately 2.5 trillion barrels worldwide, and oil demand through 2050, which is 1.2 trillion barrels. He cautioned if Alaska's resources are not developed at competitive prices, its oil will remain in the ground as undeveloped resources. He pointed out Alaska produces less than 1 percent of worldwide oil production and less than 5 percent of total oil production in the U.S. Mr. Bilbao said HB 288 makes Alaska less competitive because as costs increase, economics worsen and investment goes elsewhere in the world.

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REPRESENTATIVE BIRCH expressed his understanding North America has more technically recoverable resources than are shown on slide 2.

MR. BILBAO explained 400 billion barrels is a tremendous amount of resource in North America and most production is coming from the U.S.; although the graph shows Central and South America have a greater amount of recoverable resources, in Venezuela, heavier oil does not attract investment due to poor economics and political climate, which illustrates that investment goes to the most attractive resource. He stressed BP wants a higher proportion of U.S. investment in Alaska. In response to Representative Parish's question as to what countries are indicated by CIS, he said the Commonwealth of Independent States (CIS) includes most of the former Soviet Union.

CO-CHAIR TARR asked how the advantages of BP's ownership interest in TAPS influences its investment in Alaska.

MR. BILBAO advised said advantages are a misperception in that BP must pay for pipeline and marine transportation of its products. He explained BP compares its investments in Alaska with opportunities around the world and will always operate responsibly in Alaska and elsewhere.

CO-CHAIR TARR inquired as to whether access to established infrastructure would be a positive factor when BP considers investment decisions.

MR. BILBAO said the final cost of projects is compared and the final cost could include the cost of building new infrastructure; the cost of operating on the North Slope is very expensive without the factors of taxes and increasing taxes.

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MR. BILBAO presented slide 3 which depicted two North Slope decline curves, a 1 percent decline and a 6 percent decline. Using a TAPS throughput indicative point of 300,000 barrels [shown by a dotted line], at which transporting oil through TAPS becomes more expensive, he pointed out at a 6 percent decline rate the indicative point is reached in 10-15 years; at a 1 percent decline, the indicative point is not reached for over 40 years. Also shown was that at a 6 percent decline, tax and royalty to the state is \$11 billion, and at a 1 percent decline, tax and royalty to the state is \$66 billion. He concluded the industry and the state benefit from mitigating oil production decline as does the Senate Bill 21 tax system.

REPRESENTATIVE RAUSCHER asked for BP's response to previous testimony related to \$85 million in profits made by BP.

MR. WESTWICK explained BP's annual report for 2016 indicated \$85 million which represents a "slice of our Alaska business"; in fact, the amount excludes TAPS and marine entities. He said BP in 2016 reported a loss in Alaska of almost \$200 million.

REPRESENTATIVE RAUSCHER referred to an article that reported the state got \$464 million in taxes and royalties in 2016 [document not provided]. He surmised when the industry seeks to increase their profits through technology, the state looks for an additional share.

MR. WESTWICK said BP strives to be as efficient as possible; HB 288 represents an increase in taxes which degrades the profitability of the oil.

REPRESENTATIVE PARISH said the article referred to by Representative Rauscher reported 74 percent of BP's global profits came out of Alaska [document not provided]. He questioned how 74 percent of BP's reported global profits could come only from Alaska's 1 percent of global production.

MR. WESTWICK further explained \$85 million is a portion of BP's Alaska business; the entirety of Alaska's BP businesses lost almost \$200 million in 2016, which is not disclosed in BP's

annual report for legal reasons, and which would not represent 75 percent of its global profits.

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CORY QUARLES, Alaska Production Manager, ExxonMobil Production Company (ExxonMobil), informed the committee his responsibilities as production manager include overseeing ExxonMobil's interests at Prudhoe Bay, Kuparuk, Endicott, and Point Thomson. He acknowledged the legislature's challenge of searching for solutions to the budget shortfall and improving the state's economy; however, ExxonMobil opposes HB 288, which proposes tax increases that are not good for the oil and gas industry or for Alaska's economy. Firstly, HB 288 would stall the industry's growing momentum; he referred to a report published by the McDowell Group that indicated industry indirectly or directly provides about one-third of the jobs in Alaska [document not provided]. Secondly, HB 288 would make Alaska less able to attract and retain investment. Mr. Quarles said Alaska is a resource state with an abundance of oil and natural gas. He directed attention to a diagram on a slide provided in the committee packet entitled, "Working Together for Alaska's Economy." The slide illustrated state and federal governments must work with industry to ensure a healthy economy in a resource state: state and federal governments must provide access to resources and a stable and competitive fiscal policy; industry is responsible for the safe development of resources. He suggested HB 288 would slow and perhaps stop industry's recent momentum. The federal government has piqued interest from the industry by increasing access to ANWR and NPR-A, and by a reduction in federal corporate income tax, but Alaska remains one of the most unstable fiscal environments in the world, based on the changes over the past 12 years. Fiscal policy is a choice of the legislature in what it wants to achieve, the level of competitiveness, and where to compete. The slide also illustrated hypothetical states with various comparisons in the costs of federal tax, state tax and royalty, operations, and development. He concluded states with lower operations costs are more competitive. Mr. Quarles cautioned legislation to raise taxes without an understanding of short- and long-term economics is counterproductive. He advised the purpose of previous legislation was to address the issue of repeated proposals to increase taxes through a working group; ExxonMobil suggests HB 288 and other proposed tax legislation should be evaluated by the working group based on objective data and expert analysis to educate legislators and the general public on

Alaska's tax structure. He restated ExxonMobil's opposition to HB 288.

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KATE BLAIR, Government and Public Affairs Manager, Andeavor in Alaska, formerly known as the Tesoro Corporation. She said Andeavor is not a producer but operates ten refineries in the western U.S. with a combined refining capacity of over one million barrels per day. Andeavor is growing from its first refinery built by Tesoro in Nikiski, employs approximately 250 Alaskans at locations in Nikiski, Anchorage, and Fairbanks, and maintains a greater than 97 percent Alaska hire rate. Further, the Andeavor Foundation invests in community grants and in 2017, the foundation funded over \$700,000 in community grants; in 2018, Andeavor will invest \$900,000 in community programs across the state. Ms. Blair said Andeavor owns a 69-mile pipeline from Nikiski to the Ted Stevens Anchorage International Airport, and to the Port of Alaska, that transports jet fuel, ultra-low sulfur diesel, and gasoline which are stored until further transported by railroad or truck. Andeavor also has terminals in Fairbanks and relies on consistent in-state production to manufacture jet fuel and fuel for cars throughout the state's road system; in fact, Andeavor refines all the oil produced from the Cook Inlet basin and buys additional crude oil from Valdez. She said the increased investment and production since the enactment of the Cook Inlet Recovery Act [passed in the Twenty-Sixth Alaska State Legislature] and Senate Bill 21 has resulted in a stable local supply of 90 percent of the crude purchased by Andeavor. Therefore, declining production in Cook Inlet or on the North Slope would necessitate importing more crude to meet the demands of the Alaska market and make refining in Alaska less economical than importing refined products. Ms. Blair urged the committee to consider how the bill would affect production and thereby affect in-state manufacturing. She agreed with previous testimony that Alaska is a high-cost business market, for example, the cost of natural gas is three times higher in Alaska than for Andeavor's refineries in the Lower 48. She advised that to attain a goal to keep hundreds of jobs in Alaska, and to keep companies investing in communities, the committee should focus on mitigating production decline and to continue current policies that support long-term production and in-state refining.

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REPRESENTATIVE RAUSCHER asked for Andeavor's refining capacity.

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MS. BLAIR said Andeavor's total refining capacity is 1.2 million barrels per day; in Kenai, Andeavor has a refining capacity of 72,000 barrels per day.

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BENJAMIN JOHNSON, President/CEO and Director, BlueCrest Energy, said although BlueCrest only operates in Cook Inlet, it has an interest in HB 288 because the stability of Alaska's taxing regime affects every company operating in the state. He opined HB 288 sends the wrong message and would be detrimental to all. Currently, BlueCrest is developing one field in Cook Inlet; however, its shareholders own oil and gas assets worldwide and BlueCrest seeks to bring more investment to Alaska. He advised the primary consideration of BlueCrest's investors is obtaining the highest return, which is dependent upon the cost of production and is not affected by the large volume of oil Alaska has in the ground. The base cost to develop and produce Alaska's new oil reserves is higher than elsewhere for many reasons and taxes add to the high cost of production. He referred to new shale producers that - due to technology - are now cashflow positive, and reported that U.S. oil production will soon exceed 10 million barrels per day. He acknowledged Alaska has tremendous resources in the ground that can be responsibly developed to secure Alaska's fiscal health; however, the state must create an environment of confidence for global capital markets. Mr. Johnson warned Alaska is known for policies that are detrimental to industry whether oil prices are high or low; for example, billions have been invested in Alaska based on tax laws that subsequently were changed. He restated the need for stability and urged the committee to oppose HB 288.

2:50:40 PM

PAT FOLEY, Senior Vice President, Alaska Operations, Caelus Energy Alaska, spoke in support of earlier testimony and opined the state is in very immediate need of a complete fiscal plan to solve its fiscal problem; however, HB 288 should not be part of that fiscal plan. Mr. Foley reviewed activities by industry on the North Slope and said Caelus has two projects, operating Ooguruk unit - producing about 12,000 barrels of oil - and developing the Nuna Project (Nuna). Nuna is expected to produce first oil late in 2019 after a cost of \$1.3 billion, and at peak will produce 35,000 barrels of oil per day into TAPS. Mr. Foley

said Caelus is encouraged by oil price stabilization at \$70, even though Caelus investors consider the long-term value of projects at oil prices down to \$59-\$60 per barrel. Also, Caelus is encouraged by working with its contractors on pricing and by the administration's efforts to pay outstanding tax credits. Mr. Foley noted that the state owes tax credits of over \$700 million, of which Caelus holds 25 percent, and he expressed hope that the funds would be paid in a timely manner so that Caelus can reinvest the money into Nuna. Or, using the statutory minimum payment, the tax credits would be paid over seven years. He reviewed the state's history of policies that encourage exploration and development, as opposed to HB 288 which is a 75 percent tax increase, and which has ended Caelus's conversations with its investment partners. He said the problem with Alaska's reputation is real because of changes to tax policy that are directed at the oil and gas industry and because of the program that induced new investments by issuing credits that remain unpaid. Shortly, the North America Prospect Expo (NAPE) in Texas will be attended by the Division of Oil and Gas, DNR, and he said he would be surprised if presentations by DNR mention HB 288.

[2:57:13 PM](#)

MR. FOLEY concluded the state should prioritize paying the tax credits and not change the tax if the state seeks oil and gas activity and investments, and to repair its reputational problem. Repayment of the tax credits would allow new projects to advance and create new revenue from royalty and taxes. He pointed out there are only seven operating companies on the North Slope, as compared to hundreds in Texas, and questioned whether Alaska gets its fair share of investment dollars. He said it does not and asked the committee to work with Caelus to find resolution.

REPRESENTATIVE PARISH asked how much Caelus has received in cash subsidies.

MR. FOLEY said Caelus has not received subsidies. In further response to Representative Parish, he said Caelus has received tax credits in an investment bargain in which the state agreed to help Caelus with its early investments in exchange for additional jobs, work, and oil revenues. He stressed the tax credits were earned and resulted in more oil from Oooguruk, a discovery in Smith Bay, and advancement for Nuna.

REPRESENTATIVE PARISH asked how much money Caelus has received from the state.

MR. FOLEY said he did not know.

CO-CHAIR TARR said Hilcorp submitted written testimony that will be provided to the committee. She reviewed questions that would be addressed at subsequent hearings of HB 288.

[3:01:35 PM](#)

KEN ALPER, Director, Tax Division, DOR, said a required annual report of the amounts of cash that companies received was a provision of HB 247 [passed in the Twenty-Ninth Alaska State Legislature] and took effect in 2017; the first report published in [April 2017] reported the total \$74 million paid in calendar year 2016 and to whom. Another report related to cash paid in 2017 will be published in [March or April 2018]; \$77 million was appropriated by the legislature last session and the report will identify each company that was paid.

[HB 288 was held over.]

[3:02:36 PM](#)

CO-CHAIR JOSEPHSON informed the committee he would request that the committee introduce as a committee bill a forthcoming bill entitled, "An Act relating to penalties for discharges of oil and other pollution violations; relating to oil discharge prevention and contingency plans; and for commercial motor vehicles transporting crude oil; and providing for an effective date." He noted penalties for pollution violations have been eroded by inflation and the proposed bill would inflation-adjust the civil penalties for spills, expand certain authorities of the Department of Environmental Conservation (DEC), require spill contingency plans for the transportation of crude oil by truck, and other provisions. He asked whether there was objection to the introduction of the committee bill as proposed.

[3:04:20 PM](#)

REPRESENTATIVE TALERICO objected.

[3:04:26 PM](#)

REPRESENTATIVE BIRCH also objected and stated his preference is for legislation to be sponsored by the Representative who brings the bill forward.

CO-CHAIR JOSEPHSON said the concept of the forthcoming bill was developed in [the fall of 2017] with participation from experts in the administration.

REPRESENTATIVE JOHNSON inquired as to how a bill becomes a committee bill.

CO-CHAIR JOSEPHSON explained a committee bill forms as noted in Mason's [Manual of Legislative Procedure] Section 625 and as described in a memorandum from Doug Gardner, Director, Legislative Legal Services, Legislative Affairs Agency, [dated 1/22/18]. He recalled a past dispute about committee bills and stated his experience "is they would simply be presented, and left unchallenged, largely." He said a committee bill can be formed during a [House floor session] or during a committee meeting and stated his request that the committee support the introduction of the bill.

[3:05:57 PM](#)

CO-CHAIR TARR said the motion would be limited to the introduction of only the aforementioned legislation and would not constitute a broad authority for committee bills.

REPRESENTATIVE JOHNSON asked to see a copy of the bill.

[3:06:43 PM](#)

The committee took a brief at-ease.

REPRESENTATIVE BIRCH pointed out the committee does not have a copy of the bill yet is supposed to vote on its support for the bill. He suggested the process should be that the sponsor or the governor should distribute a bill for review by the public and the committee, rather than introducing a committee bill "as if the entire committee supports it." He stressed it is important to "accept some ownership" by sponsoring a bill and expressed his objection to "this process."

CO-CHAIR JOSEPHSON directed attention to [AS 24.08.060(a) Introduction of Bills]. He noted the committee was notified of the request for permission to entertain the bill on the morning of 1/29/18. He further described aspects of the bill as

follows: inflation has eroded the value of the civil penalties by one-half; DEC responded to 20 spills in fiscal year 2017 (FY 17); penalties would rise with inflation annually; the minimum penalty imposed by a court would be doubled; requires crude oil trucks to file spill contingency plans; would insert produced waters as one of the factors of total spillage.

CO-CHAIR TARR recalled her experience that committee bills are introduced without comment from committee members; she suggested the legislature may revisit this issue and noted past attempts to make the issue less political, however, she said the committee will follow the existing process.

[3:10:39 PM](#)

REPRESENTATIVE BIRCH remarked:

I was asked my opinion as to whether I object or not ... I really can't say as to whether I object or not having not seen, read, or evaluated what the co-chair has proposed. So, I think it's, it's premature to advance it ... but if you're going to ask me my opinion, I would prefer to, to actually review something before I sign on as a co-sponsor through the committee process

[3:11:41 PM](#)

CO-CHAIR TARR made a motion to authorize Representative Josephson, co-chair of House Resources Standing Committee, to introduce as a committee bill an Act relating to penalties for discharges of oil and other pollution violations, relating to oil discharge prevention and contingency plans for commercial motor vehicles transporting crude oil, and providing for an effective date.

CO-CHAIR TARR stated Representative Birch previously objected.

[3:11:48 PM](#)

A roll call vote was taken. Representatives Tuck (alternate), Drummond, Parish, Josephson, and Tarr voted in favor of the authorization. Representatives Johnson, Rauscher, Talerico, and Birch voted against it. Therefore, the authorization passed by a vote of 5-4.

[3:13:03 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:13 p.m.