

SENATE FINANCE COMMITTEE
May 13, 2022
1:11 p.m.

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CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 1:11 p.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Natasha von Imhof (via teleconference)
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Donny Olson

SUMMARY

SB 107 OIL and GAS PRODUCTION TAX; CREDITS

SB 107 was HEARD and HELD in committee for further consideration.

#sb107

SENATE BILL NO. 107

"An Act relating to the oil and gas production tax; relating to credits against the oil and gas production tax; relating to payments of the oil and gas production tax; relating to lease expenditures and adjustments to lease expenditures; making public certain information related to the oil and gas production tax; relating to the Department of Revenue; and providing for an effective date."

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SENATOR BILL WIELECHOWSKI, SPONSOR, introduced himself.

Senator Wilson wondered how much of the bill was similar to the Ballot Measure 1, which failed in the last election cycle in 2020.

Senator Wielechowski replied that it was very similar, if not identical.

Senator Wilson expressed caution about taking up a subject that failed by over 70 percent in his district. He was concerned about the subject matter considering most of Alaska voted against it.

Co-Chair Stedman remarked that the bill was complex, and could be amended and changed within the legislative process.

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Senator Wielechowski stated that he was very involved in the initiative process, and stated that many of the opponents of the ballot initiative agreed that the oil tax structure was broken. He shared that the opponents stressed that the structure should not be fixed by the initiative process, but rather the legislative process.

Co-Chair Bishop stressed that it was important to put the subject on the record, rather than share hearsay.

Co-Chair Bishop discussed the presentation, "SB 107 Oil Subsidy Reform" (copy on file). He looked at slide 2:

"The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

-Article 8, Section 2, Constitution of Alaska

Senator Wielechowski pointed to slide 3, "Production Revenues Before Credits 2007-2021." He noted that the most recent restructuring had negatively affected the state's revenue, because of the oil tax credits that are paid and promised to oil companies. He remarked that there was a dramatic drop off in revenue after that restructuring.

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Senator Wielechowski discussed slide 4, "Production Revenues Before Credits 2007-2021." He noted that in 2009, the state's share was \$12.09 per barrel of oil. He remarked that, in 2019, the price of oil was a dollar higher, but the state only receive \$3.14 per barrel of oil.

Senator Wielechowski displayed slide 5, "Comparative Production Tax Revenue." He continued to note the stark difference in the state's revenue between before SB 21, and after SB 21.

Senator Wielechowski highlighted slide 6, "Production Tax Revenue After Credits." He stressed that there was money that the state should have received for its resource, and was not yet receiving.

Senator Wielechowski discussed slide 7, "Alaska is Consistently the Most Profitable Region in the World for ConocoPhillips."

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Senator Wielechowski addressed slide 8, "Alaskans Recover Too Little Under Low Oil Prices":

- When prices dropped 62 percent a few years ago, Alaska's share of revenue fell 109 percent.
- During 2016 and 2017, when oil prices were lower, ConocoPhillips lost \$4.6 billion worldwide while making \$1.8 in Alaska.
- Producers can adjust project timing, budgets, and costs and should bear some of the downside risk at low prices.

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Senator Wielechowski discussed slide 9, "Alaskans are Compensated for Our Oil In Two Ways":

- Royalties are the compensation the producer pay to Alaska as the landowner.
- Production taxes are what Alaska receives as the sovereign owner of the resource.

Senator Wielechowski highlighted slide 10, "Producers pay less in royalties and taxes in Alaska Legislature":

- In Alaska, the average royalty is only 12.5 percent and the average SB 21 production tax is 4 percent, for a total Alaskan share of 16.5 percent
- In North Dakota, the average royalty is 18.7 percent and the average production and severance is 10 percent of the gross, for a 28.7 percent total

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Senator Wielechowski pointed to slide 11, "SB 107 Makes Four Modest but Needed Reforms":

- Creates transparency by giving legislators and the public the information we need to evaluate our oil tax policies
- Closes a loophole that allows producers to deduct expense from different fields
- Establishes a true minimum tax rate and adds slight progressivity
- Eliminates the unnecessary deductible production tax credits

Senator Wielechowski discussed slide 12, "SB 107 Only Applies to Large Established Fields":

New and developing fields would not be impacted by this bill.

Only applies to fields that produced an average of 40,000 barrels a day in the last calendar year and over 400 million barrels over the life of the field

The only fields this would currently apply to are the Prudhoe Bay Unit, Kuparuk River Unit, and the Colville River Unit (aka Alpine)

Senator Wielechowski addressed slide 13, "Prudhoe, Kuparuk, and Alpine are Low Cost, High Profit Fields":

- 2018 data showed that at \$63/barrel, Prudhoe has a profit margin over costs of \$40 per barrel
- Operating, capital, and transportation costs were only \$25/ barrel
- Legislative Research Services analysis of ConocoPhillips annual reports have shown that they

made twice as much per barrel on these three fields as they did anywhere else in the world

Senator Wielechowski discussed slide 14, "SB 107 makes Two Reforms to the Current Net Calculation":

- Eliminates the \$8 per barrel credit.
- Raises the net profits tax by 15 percent above \$50 per barrel.
- The first \$50 of production tax value per barrel would be taxed at the current 35 percent rate and anything above that would be taxed at a 50 percent rate.
- These reforms only apply to the three legacy fields.

Senator Wielechowski pointed to slide 15, "The \$8 Per Barrel Credit is Unnecessary for the Profitable Legacy Fields":

- In 2018, these credits cost Alaska \$742 million from Prudhoe Bay alone.
- Producers have a legal duty under their leases to invest in and produce oil from these fields without incentives.
- The producers would continue to produce without these credits, because they have done so for decades and the profit margins in these fields are among the highest in the world.
- No new investment or production has ever been linked to the per barrel credits.

Senator Wielechowski discussed slide 16, "Capital Investment in Prudhoe Bay has Plummeted from \$826 million in 2013 to Only \$86 Million in 2021." He stated that the report showed what was happening with the tax credits and the behavior on the North Slope.

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Co-Chair Bishop wondered whether the year with asterisk was affected by COVID-19.

Senator Wielechowski replied that the producers would need to answer that question. He noted that there was a downward trend even before 2020.

Senator Wielechowski pointed to slide 17, "Oil Industry Investment In North Slope Oil Fields." He noted the changing investment on the North Slope displayed on the graph.

Senator Wielechowski addressed slide 18, "From FY 2014 - FY 2022, we have lost \$6.1 Billion to the Per-Barrel Credit, while receiving just \$5.2 Billion in Production Tax Revenue."

Senator Wielechowski looked at slide 19, "From FY 2023 - FY 2031, we will lose another \$11.0 Billion to the Per-Barrel Credit, while receiving just \$8.9 Billion in Production Tax Revenue."

Senator Wielechowski highlighted slide 20, "SB 107 Closes a Loophole by Requiring Each Field be Treated Separately":

Current law allows producers to use expenses from more expensive fields to lower their tax rates on the highly profitable legacy fields.

This bill requires that oil and gas production taxes be calculated separately for these three major fields.

Sound policy and common sense dictate that the production taxes for our largest and most profitable fields should be based on the actual costs of producing oil from each of those fields.

Senator Wielechowski discussed slide 21, "NPR-A Development is Reducing Alaska's Production Revenue":

- ConocoPhillips is currently developing on federal lands in the NPR-A and deducting these costs from their production taxes on the legacy fields.
- If this loophole is not closed, it would likely cost Alaska \$300 million per year over the next decade.
- Alaska is subsidizing fields that we will receive little royalties or production taxes on.
- This loophole creates a competitive disadvantage for new producers, since unlike their competitors they do not have other Alaskan fields, they can deduct their expenses from.

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Senator Wielechowski pointed to slide 22, "SB 107 Reforms the Alternative Gross Minimum Tax":

- Currently this is based on the greater of the alternative gross minimum tax calculation or gross calculation (percentage of wellhead value), or the tax on production tax value or net calculation (percentage of profits).
- SB 107 maintains this basic structure, while reforming it to be fairer for Alaskans

Senator Wielechowski looked at slide 23, "Reforming the Alternative Gross Minimum Tax":

- SB 107 raises the minimum rate from 4 percent to 10 percent and raises this floor by 1 percent (to a maximum of 15 percent) for every \$5 dollars over \$50/barrel oil price
- The current 4 percent minimum is a "soft" floor and producers argue it can be less. SB 107 makes the minimum rate a true minimum.

Senator Wielechowski discussed slide 24, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

Senator Wielechowski displayed slide 25, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

Senator Wielechowski pointed to slide 26, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

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Senator Wielechowski addressed slide 27, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

Senator Wielechowski looked at slide 28, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

Senator Wielechowski addressed slide 29, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

Senator Wielechowski discussed slide 30, "Profitability on the Average Barrel of Oil Produced from Prudhoe Bay in FY 2018: Order of Operations."

Senator Wielechowski displayed slide 31, "SB 107 Provides Much Needed Transparency":

- Requires filings and supporting information for producers in the three legacy fields to be made public.
- Alaska owns the land and oil being produced and have invested billions in subsidies for these fields. It is only fair that Alaskans have the information needed to see if these investments are wise.
- Without having access to the true revenues, costs, and profits of each producer of these three major fields, legislators are left to make oil policies based on fear and misinformation.

Senator Wielechowski looked at slide 32, "Our Own Consultants Have Advised Us to Improve Transparency."

Senator Wielechowski discussed slide 33, "Alaskans Have Heard a Lot of Promises About Alaska's Oil Tax Law."

Senator Wielechowski pointed to slide 34, "Oil Production is Quite Insensitive to the Tax Structure."

Senator Wielechowski displayed slide 35, "Under Our Old System of Extremely Low Taxes (ELF), Production Declined Dramatically at Kuparuk and Elsewhere."

Senator Wielechowski highlighted slide 36, "The SB 21 Referendum was held on 8/19/14":

Oil jobs peaked at 15,300 in August 2014, the month of the Referendum On September 15, 2014, the front page of the Alaska Dispatch News.

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Senator Wielechowski pointed to slide 37, "Alaska Oil and Gas Jobs 2013-2021." He remarked that the price of oil was very high, but oil jobs had a significant decrease.

Senator Wielechowski discussed slide 38, "Production Has Risen Across the Country While Falling in Alaska." He remarked that there was less production in Alaska than almost every other state.

Senator Wielechowski looked back to slide 34. He stressed that slide showed a report that stated, "oil production is quite insensitive to the tax structure." He remarked that tax structure could have some impact in the first few years, but it "bounces out" after roughly a decade.

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Senator Wielechowski stressed the legislature needed to follow the constitutional mandate to get the maximum value of its oil. He questioned whether the legislature was following that mandate when there were massive amounts of tax credits.

Co-Chair Stedman asked about the transition of the reflection point from the gross tax to net tax.

Senator Wielechowski said he could provide the information.

Co-Chair Stedman understood that the bill would remove the per barrel reduction, leaving the 35 percent base tax.

Senator Wielechowski agreed.

Senator von Imhof spoke of earlier presentations from Gaffney Cline. She offered several takeaways from those discussions. She asserted that SB 21 had helped with the decline and that Gaffney Cline had showed that it had stabilized the taxes.

Senator Wielechowski responded that Alaska was one of the most complicated tax structures in the world. He recalled that Gaffney Cline had testified in the House Finance Committee about lowering the deductible tax credits from \$8 to \$5, and they indicated that it would not have a significant impact on investment.

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Senator Wielechowski said that DOT had testified before the committee that tax credits could be lowered with no impact on investment. He agreed that taxes should not be changes hurriedly, but argued that the bill needed to be moved as quickly as possible. He further argued his point.

Senator von Imhof reminded the committee and listening audience that the ballot measure had failed and that the rewriting statute in 5 days would be foolish.

Senator Hoffman agreed and pointed out that although SB 21 passed by 62 percent vote, all of the problems presented by Senator Wielechowski were still present. He was open to discussing the concept of adjusting the slider.

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Senator Wielechowski responded that the \$5 slider had been debated and passed by the body in the past. He stressed that more production and investment had been promised and had not been delivered. He spoke to the position of the Chamber of Commerce and disagreed that changes would hurt investment.

Co-Chair Stedman recalled that during SB 21 discussions the Senate had passed the bill to the House with a \$5 slider, but was returned to the Senate with an \$8 slider, and the Senate concurred with changes and was not discussed in committee or on the floor.

Senator Hoffman pointed out that once the bill came back to the Senate there was no discussion regarding a conference committee, and there was not an opportunity to discuss the impacts of that change.

Co-Chair Bishop recalled the changes that took place in the committee process with SB 21, and expressed his consternation with the changes.

SB 107 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

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The meeting was adjourned at 2:12 p.m.