

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 24, 2023

1:01 p.m.

MEMBERS PRESENT

Representative Tom McKay, Chair
Representative George Rauscher, Vice Chair
Representative Kevin McCabe
Representative Dan Saddler
Representative Stanley Wright
Representative Jennie Armstrong
Representative Donna Mears
Representative Maxine Dibert

MEMBERS ABSENT

Representative Josiah Patkotak

COMMITTEE CALENDAR

CONFIRMATION HEARING(S) :

Board of Game

David Lorrington - Fairbanks

- CONFIRMATION(S) ADVANCED

PRESENTATION(S) : COOK INLET UPDATE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAVID LORRING, Appointee
Board of Game
Fairbanks, Alaska

POSITION STATEMENT: Testified as appointee to the Board of Game.

DAN STICKEL, Chief Economist

Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Gave the Cook Inlet Update presentation.

ED KING, Staff
Representative Tom McKay
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Gave clarification to the committee regarding the constitutionality of a production sharing agreement.

ACTION NARRATIVE

[1:01:55 PM](#)

CHAIR TOM MCKAY called the House Resources Standing Committee meeting to order at 1:01 p.m. Representatives Saddler, Wright, Mears, Armstrong, Dibert, McCabe and McKay were present at the call to order. Representative Rauscher arrived as the meeting was in progress.

CONFIRMATION HEARING(S) :
Board of Game

[1:02:50 PM](#)

CHAIR MCKAY announced that the first order of business would be consideration of the governor's appointee to the Board of Game.

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DAVID LORRING, Appointee, Board of Game, Testified as appointee to the Board of Game. He began his remarks by providing his background and credentials in wildlife conservation and management. He read from a prepared testimony [included in committee packet] which explained his qualifications as an appointee of the Board of Game and his history in Alaska.

[1:08:11 PM](#)

REPRESENTATIVE MCCABE asked what kind of falcon Mr. Lorrington has.

MR. LORRING said he has a Peregrine falcon, a Gyrfalcon, and a Merlin falcon.

REPRESENTATIVE MCCABE asked Mr. Lorring if he hunts with his falcons.

MR. LORRING said he hunts with them and has been practicing falconry since high school.

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REPRESENTATIVE SADDLER asked Mr. Lorring what issues he thought he might see during his possible term on the Board of Game.

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MR. LORRING replied that the management of the Nelchina Caribou herd is something that he foresees as a possible issue during his possible term and added his opinion that the management of game that crosses through federal lands could be an issue.

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CHAIR MCKAY opened public testimony on the confirmation hearing for the governor's appointee to the Board of Game. After ascertaining that there was no one who wished to testify, He closed public testimony.

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CHAIR MCKAY moved to advance the confirmation of David Lorring, Board of Game, to the joint session for consideration. He reminded the committee that signing the reports regarding appointments to boards and commissions in no way reflects individual members' approval or disapproval of the appointee, and the nominations are merely forwarded to the full legislature for confirmation or rejection.

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The committee took an at-ease from 1:13 p.m. to 1:15 p.m.

PRESENTATION(S) : COOK INLET UPDATE

[1:15:04 PM](#)

CHAIR MCKAY announced that the final order of business would be the Cook Inlet Update presentation.

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DAN STICKEL, Chief Economist, Tax Division, Department of Revenue (DOR), began the Cook Inlet Update presentation on slide 2, which gave a list of acronyms [and initialisms] that would be used throughout the duration of the presentation. Slide 3 gave an overview of the topics that the presentation would be addressing. He continued to slide 4, which acknowledged that the presentation would be "boiling down" the complex nature of Alaska's oil and gas tax system. He moved to slide 5, which described Alaska's primary sources of oil and gas revenue. Slide 6 displayed a spreadsheet that outlined Alaska petroleum revenue by land type.

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CHAIR MCKAY asked whether most of the oil and gas production in the Cook Inlet Region is done on state lands.

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MR. STICKEL answered that the majority of oil and gas production in the Cook Inlet Region is done on state lands while some production occurs on federal lands.

[1:22:01 PM](#)

REPRESENTATIVE RAUSCHER shared his understanding that the total tax on an oil companies revenue would be 48 percent and asked for confirmation whether that was a true understanding.

[1:22:28 PM](#)

MR. STICKEL clarified that the federal corporate income tax rate is 21 percent and explained that that rate applies only to income that is left over after royalties are calculated.

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REPRESENTATIVE SADDLER asked what the term "apportionment factor" means in the context of state oil and gas revenue.

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MR. STICKEL answered that a company determines its Alaska-taxable income by apportioning its worldwide income to Alaska based on the share of its production that came from Alaska.

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MR. STICKEL moved to slide 7, which displayed a spreadsheet that outlined the Cook Inlet production tax before and after January 1, 2022.

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REPRESENTATIVE SADDLER asked whether the Cook Inlet production tax would stack up with other state production taxes.

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MR. STICKEL affirmed that the Cook Inlet production tax is in a separate fiscal regime from the North Slope production tax.

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REPRESENTATIVE SADDLER asked how the taxation of oil production in Alaska changed after 2006.

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MR. STICKEL explained that both oil and gas were under a gross tax regime in 2006 and that the average tax rate on oil produced in Alaska in 2006 was 0 percent.

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CHAIR MCKAY reviewed the passage of Senate Bill 138 by the Twenty-Eighth Alaska State Legislature and explained how that bill influenced the taxation of the oil and gas industry in Alaska.

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MR. STICKEL clarified that the 35-percent tax rate outlined in Senate Bill 138 was based off of the net profits of an oil company.

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MR. STICKEL resumed his reading of slide 7. In response to Representative Saddler, he stated that most of the repeals and expirations of the tax credits enacted under Senate Bill 138 were brought about under House Bill 247 [passed during the Twenty-Ninth Alaska State Legislature]. He resumed the

presentation on slide 8, which displayed a spreadsheet that compared the current year of Oil revenue with the two previous years and the two projected years of income.

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CHAIR MCKAY asked whether there were any oil fields in the Cook Inlet Region that have a reduced or zero royalty rate.

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MR. STICKEL answered that there are some oil fields in the Cook Inlet Region that have a reduced rate of 5 percent. He continued to slide 9, which displayed a graph that gave a history and forecast of oil and gas prices in Alaska. He moved to slide 10, which displayed a graph that gave a history and forecast of oil and gas production in Alaska.

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CHAIR MCKAY asked why slide 8 forecasted an increase in gas production while slide 10 forecasted a decrease in production.

MR. SICKEL explained that slide 8 described a "modest increase" in gas production between Fiscal Year 2023 (FY 23) and FY 25.

CHAIR MCKAY gave his understanding that the Railbelt region would need 70 billion cubic feet (Bcf) per year to maintain current operation.

MR. STICKEL said that the gas forecast provided by the Department of Natural Resources was based on a decline-curve analysis that was performed for existing oil fields.

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MR. STICKEL resumed the presentation on slide 11, which displayed a graph that outlined the costs incurred by a company doing business on the North Slope.

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REPRESENTATIVE SADDLER asked why there was a brief rise in the graph during 2024.

MR. STICKEL said that the graph reflects a brief rise in investment in the North Slope.

REPRESENTATIVE SADDLER asked whether the graph is inflation adjusted.

MR. STICKEL said that the graph is displayed in nominal dollars, consistent with DOR's revenue forecast.

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REPRESENTATIVE RAUSCHER asked whether companies that choose to either invest or divest in Cook Inlet explain their decision to the Department of Revenue.

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MR. STICKEL confirmed that DOR does meet with the operators as part of its revenue forecast.

REPRESENTATIVE RAUSCHER asked whether DOR shares the revenue forecast with the legislature.

MR. STICKEL responded that the economics of the Cook Inlet Region are challenging because it is a mature basin.

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MR. STICKEL continued to slide 12, which displayed a bar graph that depicted tax credits that Alaska has awarded to producers doing business elsewhere in the state than the North Slope.

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CHAIR MCKAY asked how much money Alaska has to pay off in its tax credits.

MR. STICKEL explained that the estimated appropriation for 2023 was \$312 million to pay off its oil and gas tax credits.

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MR. STICKEL moved to slide 13, which elaborated on the tax credits that Alaska has awarded to producers doing business elsewhere in the state than the North Slope by giving a list of related statistics. He continued to slide 14, which described the correlation between Alaska's oil and gas tax credits and company activity in the State. He moved to slide 15, which illustrated the production tax calculation in the Cook Inlet

Region and how it interacts with oil producers and their product in the region.

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REPRESENTATIVE WRIGHT asked what the royalties that an importer of liquified natural gas (LNG) might have to pay to the state are.

MR. STICKEL answered that an importer of LNG would not have to pay royalties; in the state of Alaska, royalties are paid only on the production of oil and gas.

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CHAIR MCKAY compared the spreadsheets displayed on slide 8 and slide 15 and asked why the numbers displayed are different.

MR. STICKEL explained that the numbers are different because the spreadsheets are referring to different sectors of the oil and gas industry.

CHAIR MCKAY asked whether there is a production tax on oil and gas produced in the Cook Inlet Region.

MR. STICKEL answered that a state royalty tax would apply and added that the production tax in the Cook Inlet Region is effectively zero.

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REPRESENTATIVE SADDLER asked what the term "tax ceiling" is referring to on slide 15.

MR. STICKEL explained that the term "tax ceiling" applies to the taxing practices in the Cook Inlet Region. In response to a follow-up question, he further explained that the production tax on oil produced is 35 percent before the tax ceiling is reached and emphasized that the net profit calculation on oil is zero because all of the lease expenditures may be deducted against the oil tax.

[2:01:05 PM](#)

MR. STICKEL resumed the presentation on slide 16, which displayed a spreadsheet that described the gas tax in the Cook Inlet Region.

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MR. STICKEL moved to slide 17, which displayed a spreadsheet that outlined the total tax calculations made between oil and gas in the Cook Inlet Region.

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REPRESENTATIVE SADDLER shared his understanding of how the state collects royalties from oil and gas production tax.

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MR. STICKEL affirmed Representative Saddler's understanding of gas production tax in Alaska.

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MR. STICKEL continued to Slide 18, which described how profits that Alaska has gained from the oil and gas royalties are distributed among the state's finances. He moved to slide 19, which displayed two, three-dimensional cylinders depicted as graphs used to explain the distribution of oil royalties with and without a corporate income tax.

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REPRESENTATIVE SADDLER asked what value per barrel was being used on slide 19.

MR. STICKEL said that the graph used a barrel value of \$63.39 per barrel.

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CHAIR MCKAY asked whether the barrel value was consistent throughout the entire presentation.

MR. STICKEL clarified that the presentation uses the same barrel value throughout.

MR. STICKEL resumed the presentation on slide 20, which displayed two, three-dimensional cylinders depicted as graphs used to explain the distribution of gas royalties with and without a corporate income tax.

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CHAIR MCKAY asked whether the corporate income tax was being displayed because of a current controversy surrounding it.

MR. STICKEL answered that the tax is being displayed because some companies producing oil and gas in Cook Inlet are subject to corporate income tax and some are not.

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MR. STICKEL continued to slide 21, which displayed two, three-dimensional cylinders depicted as graphs used to explain the distribution of oil and gas royalties per barrels of oil equivalent with and without a corporate income tax.

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REPRESENTATIVE SADDLER asked whether the graph accounts for the federal government's tax on oil and gas production.

MR. STICKEL answered that the 21 percent federal corporate income tax would apply to royalties regardless of whether they have already been subject to a certain tax. He moved to slide 22, which listed a history of the tax incentives that the State of Alaska has offered to oil producers in the state.

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CHAIR MCKAY asked for the definition of the [initialism] "NOL."

MR. STICKEL answered that "NOL" meant "net operating loss."

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REPRESENTATIVE DIBERT asked for the definition of the [initialism] "PPT."

MR. STICKEL answered that "PPT" meant "petroleum profits tax."

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REPRESENTATIVE RAUSCHER asked whether the state has paid off its NOL tax credits.

MR. STICKEL answered no.

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REPRESENTATIVE MCCABE asked whether the state could sell off its NOL tax credits and further questioned how the NOL tax credits work.

MR. STICKEL replied that the State of Alaska could not sell its NOL credits and explained that the NOL credits are meant to reduce a company's tax liability and to level the playing field for new companies trying to enter the oil and gas industry in Alaska.

REPRESENTATIVE MCCABE asked whether Alaska's Clear and Equitable Share (ACES) was good for Alaska's oil and gas industry.

MR. STICKEL explained that there could be correlations made between the revenue and production at the time and emphasized that the answer was most likely political.

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MR. STICKEL continued the presentation on slide 23, which outlined the current series of tax incentives that the State of Alaska is offering to oil and gas companies doing business in Alaska. He moved to slide 24, which described a list of potential avenues the state could take in its tax incentive strategy.

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REPRESENTATIVE MCCABE asked for confirmation that his understanding of the term "ring fencing" was correct.

MR. STICKEL confirmed it was.

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REPRESENTATIVE SADDLER asked if the suggestions on slide 24 are ranked by efficacy.

MR. STICEKL clarified that the list on slide 24 is more the result of brainstorming and does not represent a hierarchical list of taxation strategies that the state could enact. In response to a follow-up questions, he said ranking the proposed taxation strategies would depend on the situation.

REPRESENTATIVE SADDLER shared his opinion that the most efficacious way to get production out of the Cook Inlet Region would be to fund loan guarantees for current discoveries in the region.

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REPRESENTATIVE RAUSCHER pointed to the first bullet point on slide 24 and asked how much money each scenario listed below the said bullet point would cost the state.

MR. STICKEL explained that there is more context to each bullet point on slide 8.

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REPRESENTATIVE MEARS asked whether the State of Alaska has been asked specifically to enact any specific fiscal strategy toward the oil and gas industry.

MR. STICKEL explained that DOR's role in fiscal strategy is to provide a baseline revenue forecast off which the legislature can base its decisions.

REPRESENTATIVE MEARS asked whether the suggested taxation strategies were assumed to be necessary to oil and gas companies in the Cook Inlet Region.

MR. STICKEL responded that Hilcorp is the main producer in Cook Inlet and the State of Alaska would need to seek council from Hilcorp to move forward.

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CHAIR MCKAY observed that Indonesia utilizes a production sharing agreement (PSA), which allows reimbursement of all costs of initial development in exchange for a shared revenue on production.

MR. STICKEL remarked that the state has a limited ability to sign a long-term agreement.

CHAIR MCKAY then pointed out that the Alaska Constitution does not allow for PSAs.

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ED KING, Staff, Representative Tom McKay, Alaska State Legislature, gave clarification to the committee regarding the constitutionality of a PSA.

[2:37:46 PM](#)

MR. STICKEL thanked the committee and said that DOR's contact information could be found on slide 25.

[2:38:13 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:38 p.m.