

SENATE FINANCE COMMITTEE

May 5, 2023

9:02 a.m.

9:02:46 AM

CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Luke Saugier, Senior Vice President, Hilcorp; Todd Griffith, President, ExxonMobile Alaska; Walt Bass, Vice President of IT and Finance, ConocoPhillips Alaska; Barry Romberg, Vice President of Strategy, Commercial and Transportation, ConocoPhillips Alaska; Bill Cline, Executive Director and Senior Advisor, GaffneyCline.

PRESENT VIA TELECONFERENCE

SUMMARY

SB 114 OIL & GAS PRODUCTION TAX; INCOME TAX

SB 114 was HEARD and HELD in committee for further consideration.

SB 122 APPORTION TAXABLE INCOME;DIGITAL BUSINESS

SB 122 was HEARD and HELD in committee for further consideration.

#sb114

#sb122

HOUSE BILL NO. 114

"An Act relating to the definition of 'village' in the Village Safe Water Act."

SENATE BILL NO. 122

"An Act relating to the Multistate Tax Compact; relating to apportionment of income to the state; relating to highly digitized businesses subject to the Alaska Net Income Tax Act; and providing for an effective date."

[9:03:28 AM](#)

Co-Chair Olson relayed that there would be invited testimony from oil and gas producers.

[9:04:00 AM](#)

LUKE SAUGIER, SENIOR VICE PRESIDENT, HILCORP, introduced himself. He read from prepared remarks (copy on file):

Mr. Chairman, committee members, thank you for the opportunity to be here today.

My name is Luke Saugier, and I am Senior Vice President for Hilcorp Alaska. I am proud to be here today representing the more than 1,500 Hilcorp Alaska employees.

I have worked for Hilcorp since 2003 and my family and I have had the privilege of calling Alaska home for seven of the last ten years.

Hilcorp came to Alaska in 2012 as much larger oil and gas producers were exiting Cook Inlet. At the time, the Railbelt was facing a natural gas shortage and preparing for the possibility of brownouts. As major companies such as ConocoPhillips, Marathon, and Exxon exited the Inlet, Hilcorp acquired their oil fields and immediately invested to stabilize natural gas

supply for the Railbelt. Since 2012, Hilcorp has invested over a billion dollars on new projects to produce more than 690 billion cubic feet natural gas in the Cook Inlet and to keep the lights on. We have drilled roughly 90 new wells, completed over 400 well repair projects and introduced innovative technologies, such as new drilling rigs, new onshore and offshore pulling units, and 3D seismic. Hilcorp is proud of the role we have played in keeping the heat and lights on for Alaskans and we look forward to continuing to play an important role in fueling Alaskan homes and businesses.

As Hilcorp has grown, so has our commitment to Alaska. In 2014, we entered the North Slope with the acquisition of Endicott, Northstar and a portion of the Milne Point field. Like the Cook Inlet, Hilcorp made substantial investments and introduced new technologies to the North Slope, particularly polymer flooding and horizontal drilling at Milne Point. And just like in Cook Inlet, production increased as we invested. Since taking over as operator in 2015, Hilcorp has invested more than a billion dollars at Milne Point, drilled more than 100 wells with another 20 wells planned for 2023. As a result, Milne Point production has grown from roughly 18,400 barrels per day in 2014 to more than 41,000 barrels today. And, with continued investment, we expect to see production near 60,000 barrels per day in the next four to five years.

In 2020, Hilcorp made its largest Alaska investment to date with the acquisition of BP's remaining Alaska assets, most notably Prudhoe Bay. Since becoming operator of Prudhoe, we have worked closely with our partners, ConocoPhillips, ExxonMobil and Chevron, to increase investments in this great old field. We are drilling new wells, fixing old wells and repairing and expanding the oil processing facilities. Like Cook Inlet, we have stopped the production decline and delivered two consecutive years of oil growth at Prudhoe Bay. This is a major reversal of the prior two decades of decline, and a big difference from the two percent annual decline projected by DNR in 2019. I am very proud of our team in Alaska and the hard work they put in to make this happen.

[9:07:56 AM](#)

Mr. Saugier continued:

The work Hilcorp has done at various fields across Alaska to grow production and reserves has resulted in significantly more oil in the pipeline, more natural gas for Alaskan homes and businesses, and billions of dollars of additional revenues to the state of Alaska in the form of royalties, production tax and property tax.

Hilcorp has steadily grown our Alaska business to where we're at today: in 2023, Hilcorp approved our largest ever budget for Alaska. And I'm proud to say that today Alaska makes up nearly 60 percent of the company overall.

In the Cook Inlet, over the next five years, we anticipate investing nearly a billion dollars or more on capital projects, such as exploration drilling, new wells at existing fields, and new offshore platforms. In 2023 alone, Hilcorp plans to spend several hundred million dollars in the Cook Inlet, operate four rigs, and drill nearly 20 wells to produce additional natural gas for Alaskans. Hilcorp was also the only bidder in the recent State and Federal Cook Inlet lease sales. And as we look to the future, Hilcorp is working closely with the Railbelt Utilities to find solutions to our natural gas supply challenges. These solutions include significant new capital investments, new commercial arrangements, new Cook Inlet platforms, advancing North Slope natural gas options, and exploring opportunities to repurpose existing infrastructure for renewable energy. Hilcorp remains confident we will find a solution.

On the North Slope, Hilcorp is making substantial investments across our assets, particularly at Prudhoe Bay and Milne Point. At Prudhoe Bay, our plans call for billions of dollars in annual spend, focused on drilling new wells, fixing existing wells, expanding facilities to grow oil production, and increasing optimization across the field.

At Milne Point, our plans call for significant capital investments to grow production, primarily through

continuing to expand development of the Schrader Bluff, and facility upgrades and optimizations. We recently finished constructing the gravel pad at our Raven Pad development - a several hundred-million-dollar investment that we expect to produce an additional 10,000 to 15,000 barrels per day by 2025.

Just last week, Hilcorp finalized an agreement for another drilling rig to be deployed on the North Slope - and we have plans for additional North Slope drilling rigs in the next one to two years. Ultimately, we're hoping to have at least six rigs operating on the North Slope in the coming years. These major capital investments will play a critical role in keeping Alaskans employed, putting more oil in the pipeline and generating revenue for North Slope communities and the State of Alaska.

[9:11:21 AM](#)

Mr. Saugier referenced two slides that showed graphs of Prudhoe Bay Production. He spoke to slide 1, which showed a line graph, "Prudhoe and Satellites Production Forecast - Fall 2019." He identified that the data came from the DOR Fall Forecast 2019. He pointed out that in 2019 production in Prudhoe Bay and satellite fields had been declining and it had been expected the production would continue to decline. He pointed to the second slide, "Prudhoe and Satellites Production Forecast Fall 2019 & Fall 2022." The slide reflected the two years of continuous growth under Hilcorp. He pointed to the green wedge on the slide, which was worth 730 million barrels of additional production to the state.

[9:13:41 AM](#)

Co-Chair Olson thanked Mr. Saugier for the efforts made by Hilcorp.

[9:13:58 AM](#)

Senator Wilson asked whether the wedge shown on the graph could be translated into a dollar amount.

Mr. Saugier replied that he could not provide a dollar amount as he would not know what oil price to use for the assumption.

[9:14:28 AM](#)

Mr. Saugier continued with his prepared remarks:

But, as we think about our future in Alaska, Senate Bill 114 and Senate Bill 122, give us great concern. To be clear, if these bills, or the individual components in them, were to pass, Hilcorp would be forced to scale back in Alaska, especially in the Cook Inlet where the investment and operating environment is more challenged. And because Hilcorp is the operator at Prudhoe Bay, even a narrowly targeted tax on Hilcorp would impact Alaska's largest oil field.

First, let me provide some context on Hilcorp and our business. We are structured as an LLC for a variety of reasons, but most importantly, it is because we are a privately-owned family business. Hilcorp does not have hundreds or thousands of shareholders like a large multi-national public Corporation; we are smaller, nimbler and have fewer resources. Hilcorp is structured the same way in every jurisdiction in which we operate and has been structured this way since we came to Alaska in 2012, including before, during and after the BP acquisition in 2020.

As a smaller, privately owned company, Hilcorp has an efficient management structure and is less susceptible to pressure from those targeting Alaska. Ultimately, we feel Hilcorp aligns very well with Alaskans' long-term interests. For example, as many large multi-national public corporations have made the decision not to invest in Alaska due to pressure from Outside groups, Hilcorp has significantly increased our Alaska investments. While many sponsors decided to no longer support the Iditarod, Hilcorp stepped up and became one of the title sponsors to ensure the race survived. At a time when Hilcorp is being asked to shoulder more of the burden as it relates to Cook Inlet natural gas production and investment, Senate Bill 114 and Senate Bill 122 target Cook Inlet natural gas producers, including Hilcorp. The proposed bills would negatively impact Cook Inlet Producers at a time when new and more investment is needed to bring natural gas to the market.

Small and nimble LLCs and S-Corps are the future of Cook Inlet investment - and Senate Bill 114 and Senate Bill 112 will drive this much-needed investment elsewhere.

There has been discussion about how Senate Bill 114, and now Senate Bill 122, would "level the playing field." This bill would not "level" the playing field; in fact, it would tilt the field against the small, independent companies that the State has been trying for decades to incentivize to come to Alaska. A significant majority of Alaska businesses are S Corporations and to single Hilcorp out, as Senate Bill 114 and Senate Bill 122 do, will treat us differently than more than 55,000 other S Corporations in Alaska.

[9:17:24 AM](#)

Co-Chair Olson asked Mr. Saugier to restate his last point about S Corporations. He asked whether there were other S Corporations on the North Slope.

Mr. Saugier stated that a significant number of S Corporations operated in Alaska and that the proposed legislation would single out Hilcorp unfairly.

Co-Chair Olson asked how many S Corporations were operating in the oil industry in Alaska.

Mr. Saugier replied that he did not know.

[9:18:11 AM](#)

Mr. Saugier continued with his prepared remarks:

The State of Alaska, under three different governors, was fully aware of our structure when it approved each one of our acquisitions. However, now, after Hilcorp has invested billions of dollars, and dramatically increased production on the Slope and in the Cook Inlet, we are being unfairly targeted. Policymakers should focus on ensuring a fair playing field and work to attract more investment from a variety of companies - large and small.

In addition to the income tax targeted at Hilcorp, Senate Bill 114's proposed changes to the sliding

scale credit would also have an immediate and substantial impact to Hilcorp and our partners' North Slope business. Our planned investment levels, including the significant capital we plan to deploy in the years ahead, will be at risk. There will be less capital to invest in long-term, production-adding projects to fill the pipeline and generate royalties and production tax.

As I think about our future as a company, Alaska is a critical pillar of the Hilcorp strategy and we're committed to investing the necessary capital to deliver increased production, new jobs, and a long future in the state. But it's hard to commit long-term dollars when there's continued uncertainty in the fiscal regime - or even worse, when the State threatens to change the rules after we've invested billions of dollars. As a company, all we can do is respond, which, unfortunately, would mean shifting capital investment outside of Alaska.

Hilcorp is excited about our future in Alaska. And we are proud of the work we have done in Alaska over the last eight years and look forward to being an important part of the Alaska economy and community for many years to come.

Thank you, again, for the opportunity to testify before you today.

[9:20:01 AM](#)

Senator Bishop asked where Hilcorp would invest should they decide not to invest capital expenditure in Alaska,

Mr. Saugier informed that Hilcorp worked in nine other states in the country, and there were a number of other investment opportunities they could pursue.

[9:20:56 AM](#)

Co-Chair Stedman thought Mr. Saugier was indicating that SB 122 changed the playing field and put Hilcorp at a disadvantage. He wondered whether Hilcorp had thoroughly reviewed the legislation. He asked whether Hilcorp could provide any guidance as to how to make the bill palatable to industry.

Mr. Saugier replied that Hilcorp had not reviewed the bill but still maintained a general concern about the legislation.

[9:22:32 AM](#)

Co-Chair Hoffman referenced Mr. Saugier's comment that if the legislation passed, Hilcorp would have other areas to invest in drilling. He asked what Hilcorp had done in drilling since it had acquired the assets on the North Slope. He thought the record showed that there had not been exploration by Hilcorp, and he considered the threat by the company to take their drilling dollars elsewhere was without merit. He reminded Mr. Saugier that Hilcorp had an obligation within its existing contract to explore and yet no exploration had been done to date.

Mr. Saugier relayed that Hilcorp was very proud of the work they had done in Alaska. He referenced the company's firm commitment to continue to invest and grow production.

[9:25:01 AM](#)

Co-Chair Hoffman thought Mr. Saugier had not answered his question completely. He referenced Mr. Saugier's comment about wanting to fill the pipeline and wanted to know how many barrels of oil should be expected if the legislation failed to pass. He recalled that there was discussion by industry of a million barrels of oil per day as a result of the of SB 21. He expressed distrust for industry promises.

Mr. Saugier said that the goal was to grow the assets under Hilcorp's control. He thought the difference between Hilcorp and its predecessor was approximately 70 billion of oil per year.

[9:27:47 AM](#)

Co-Chair Hoffman observed that the repeal of SB 21 came with promises from industry that if the repeal did not work to increase production, legislation would be revisited for reinstatement. He pondered reinstatement of a modified version of SB 21 and asserted that SB 114 was "a baby step" in that direction.

Mr. Saugier retorted that Hilcorp was proud of increasing production and thought the data spoke for itself.

[9:28:48 AM](#)

Senator Wilson asked Mr. Saugier to discuss the work in Cook Inlet. He asked Mr. Saugier to identify what the bills might do to jeopardize natural gas production in the area.

Mr. Saugier asserted that Hilcorp was doing everything it could to encourage and advance additional gas development in the inlet. He asserted that all of its investment dollars were being directed at exploring for new gas resources and to maximize recovery from existing gas resources. He added that they were working with partner companies to bring gas resources to market.

Senator Wilson asked what, if any, impact would the two bills have on Southcentral utility rate payers.

Mr. Saugier clarified that Hilcorp was not a public utility and thereby did not have the ability to pass costs onto consumers. He considered that additional taxes would increase costs, which would lead to a higher price for its product. He said that to his knowledge, Cook Inlet natural gas was the most cost-effective product for utilities.

[9:31:33 AM](#)

Senator Bishop asked about unlocking the Ugnu deposits. He asked Mr. Saugier to address the topic.

Mr. Saugier explained that the Ugnu deposit was a thick viscous oil formation that supposedly contained billions of barrels across the North Slope. He said that Hilcorp had begun recovery efforts for the product, and had one producing well, with the expectation of more wells in the future. He was optimistic about the project.

[9:33:16 AM](#)

Senator Bishop thought even a 4 percent recovery rate of the estimated 22 billion barrels of oil in the reserve would benefit the state. He understood that Hilcorp was working with a UAS engineering team.

Co-Chair Olson referenced Hilcorp's takeover of the assets of another producer. He noted that as an S corporation Hilcorp was not subject to the taxes of the previous company. He noted that Alaska did not have a state income

tax. He wondered how he should respond to constituents who believed that Hilcorp was not paying its fair share to the state.

Mr. Saugier rebutted that Hilcorp had paid well over \$1 billion per year in combined taxes.

[9:35:01 AM](#)

Senator Kiehl thought the notion that the current playing field was level amongst producers on the North Slope was questionable. He wondered what kind of tax structure would level the playing field for all producers.

Mr. Saugier thought Senator Kiehl's question was complicated. He shared that he was an engineer and did not have a background in tax laws or tax structure. He reiterated that Hilcorp was proud of the work and money that the corporation contributed to the state.

Senator Kiehl replied that the presence of Hilcorp was a benefit to the state. He asked if Hilcorp could get back to the committee with an answer to the tax questions.

[9:37:13 AM](#)

Co-Chair Stedman wanted to revisit Co-Chair Hoffman's question and put a finer point on the matter. He brought up capital expenditures in Prudhoe Bay, and asked Mr. Saugier to give a brief history and accounting of capital expenditures for Hilcorp. He thought there had been comments at the table that capital expenditures had dropped substantially over the last few years. He suggested that the department assemble information regarding capital expenditures in the fields. He wondered about the industry providing estimated 5-year targets to provide further clarity.

Mr. Saugier could not speak to spending by the field's predecessors. He identified that at the time that Hilcorp took over the lease, there were no drilling rigs in Prudhoe Bay; there were now two drilling rigs in Prudhoe Bay. He said that most of Hilcorp's capital expenditure went toward the drilling of new wells. He said that new and revamped processing facilities had also been established.

[9:39:53 AM](#)

Co-Chair Hoffman relayed that he was on the committee when SB 21 was considered. He cited that he had not voted for the bill because he believed it went too far. He stressed that members had only to look to the Alaska State Constitution to determine whether the state was receiving its fair share for state resources. He identified that the industry was at the peak of its earning power and thought that the state needed to reevaluate whether it was receiving an equitable share. He found it hard to believe that the industry, in the spirit of fairness, could not support the proposed legislation.

[9:42:10 AM](#)

AT EASE

[9:42:24 AM](#)

RECONVENED

TODD GRIFFITH, PRESIDENT, EXXONMOBILE ALASKA, introduced himself and read from prepared remarks (copy on file):

Co-Chair Olson - members of the committee - for the record my name is Todd Griffith - and I am President of ExxonMobil Alaska Production - based n Anchorage.

Thank you for the opportunity to be here today to offer Exxon Mobil's views on Senate Bill 114.

And while I greatly appreciate the invitation to testify, it is troubling that the oil and gas industry is facing a legislative effort to increase industry taxes - especially when Alaska, and more specifically, development in the Alaska Arctic, is facing such strong headwinds.

Alaska has experienced first-hand the pressures that are being brought to bear on financial markets - pressures to not invest in the Arctic. Additionally, the federal government is making lease sales more difficult, permits have become politicized, and litigation is getting even more common by those that oppose development.

Passage of SB 114 to increase oil taxes will not only add to these economic headwinds, but it will also fundamentally change the state's tax policy. Under SB 21 we saw Alaska adopt a tax policy based on guiding

principles. I would like to share now these principles, submitted by Governor Parnell and used during the debate on SB 21:

Guiding Principles (Parnell Administration on SB 21 Governor Transmittal Letter) *Tax policy must be fair to Alaskans. Any changes to oil taxes should, when taken together, be geared to foster new production. Changes should result in a more simple tax system and restore balance to our fiscal system. And, tax policy must make Alaska competitive for the long-term. If these guiding principles are met, I believe we will more fully maximize the benefit of Alaska's oil resources for Alaskans.*

As a longtime investor in Alaska, we see SB 114 as a fundamental change in policy, sending a clear message that we in Alaska will increasingly tax our industry to meet our spending goals.

This proposal has by-passed the Resource Committee and the normal discussions on potential impacts to resource development and seems to be focused solely on meeting a short term revenue goal.

In contrast, the legislative process for SB 21 saw 50 hearings. SB 21 was sent to 3 committees in the Seante alone to fully understand the impact on investment and production.

Consultants ran models considering multiple scenarios - scenarios that asked the question: how will tax changes impact production and investment?

The proposed changes in SB 114 to Alaska's tax policy undermine investor confidence and weakens Alaska's overall investment climate for attracting continued and future industry investment.

To meet the state's goals, the tax policy must be competitive, stable, predictable, and therefore provide confidence to taxpayers and investors alike that the underlying rules of the game will not be changed repeatedly. A tax policy change to one that focuses solely on revenue will not inspire confidence.

[9:46:08 AM](#)

Mr. Griffith continued with his prepared remarks:

Recognize State's Challenge:

ExxonMobil recognizes the challenges you face in finding good solutions to the State's 2-part problem of:

- Providing for a robust PFD; and
- Meeting the State's spending goals

Unfortunately, SB 114 is not a good solution.

This bill is bad for Alaska's oil and gas industry, but more importantly it's bad for Alaska's overall economic performance.....and there are 2 main reasons why:

First, Senate Bill 114 will stop growing momentum in the industry that has and continues to drive Alaska's economy.

Secondly, Senate Bill 114 makes Alaska less competitive to attract and retain investment which is the lifeblood of the State's broader economy and the future of the oil industry.

Senate Bill 114 Stops Growing Momentum in Industry

Alaska's economy thrives on investment in its oil and gas industry.

However, Seante Bill 114 drives a wedge in the system by making the State's fiscal policy unstable and less competitive for attracting investment.

With the change in tax policy from one encouraging investment to one focused on meeting the spending needs of the state, industry will no longer be able to invest based on economic predictions.

and make no mistake - Senate Bill 114 is a significant change in state policy and a significant tax increase.

Senate Bill 21 is working as intended - it has led to more industry investment and more importantly an increase in oil production - this increased investment

and production has led to the payment of taxes and royalties to the state - all of which have been good for Alaska's economy.

Alaska needs to remain globally competitive for critical capital investments - changing Alaska's tax structure again to simply raise taxes on the oil and gas industry to meet state spending will not help Alaskans improve our economic performance - it will just make matters worse.

Instead, we should be looking for ways to incentivize investment, not discourage it.

Enacting Senate Bill 114 will:

- Not lead to more jobs
- Will not lead to more investment
- Will not lead to more production
- Nor will it help the Alaskan economy
- In fact, it only aids those who oppose investment and development in Alaska, and we all know they are active on multiple fronts.

Conclusion

Senate Bill 114 will force companies to reexamine investment plans, which is not consistent with the state's long-term vision of promoting oil and gas development.

Alaska remains an important part of ExxonMobil's world-wide investment portfolio and we look forward to being here for many years to come.

And while ExxonMobil will continue to pursue investment opportunities here in Alaska, if costs are increased due to an increase in taxes under Senate Bill 114 - then such opportunities are diminished.

So Chairmen and members of the Committee - **let me conclude by reiterating** the need for Alaska to maintain a competitive, stable, and predictable tax regime that attracts and encourages ongoing and future investments especially in light of the headwinds facing investment in Arctic Alaska - This is one of

the - if not the most important issue facing the state.

ExxonMobil believes the evidence is clear that Senate Bill 21 is working as it was intended and has provided a more predictable, competitive and stable tax regime since its enactment.

As policy makers, your role is to decide whether Senate Bill 114 is a wise - long-term tax policy that will lead to more jobs - more investment - more production - and long-term sustainable state revenues. Will a bill that increases taxes on the industry, and which will significantly alter Senate Bill 21 and the State policy on oil taxation achieve those things?

Will it help Alaska's economy?
Is Senate Bill 114 a wise tax policy?

We believe the answer is NO

Thank you again Cho-Chairmen and members of this Committee for the opportunity to testify here today.

[9:49:44 AM](#)

Co-Chair Stedman noted that there were two bills before the committee: SB 114 and SB 122. He shared that SB 114 included the matter of the sliding per barrel price, while SB 122 covered the issue of S corporation tax structure. He wondered whether Mr. Griffiths had any comments on the provisions in SB 122. He wondered if ExxonMobil had the opportunity to scrutinize the legislation to a great degree.

Mr. Griffith responded that that S corporation provision singled out the oil and gas industry and, ExxonMobil was not in favor of any policy that singled out the oil and gas industry. He cited that he was not a tax policy expert, but rather an engineer and businessman and that the legislation had not been scrutinized by ExxonMobil.

[9:51:44 AM](#)

Co-Chair Hoffman expressed offense that Mr. Griffith asserted that the reason behind SB 114 was the desire for increased state spending. He emphasized that as a Senator

he had sworn to defend the Constitution of Alaska, which grants that Alaskans receive a fair share for state resources.

Co-Chair Hoffman addressed the issue of SB 21 and recalled that for decades the state did not have a sliding credit. He questioned why the tax structure had to include a sliding credit at any price, when for decades industry had an obligation to produce on their leases. He argued that production had not increased to the level of promised made by the industry during debate on SB 21 and considered that it made sense that the state would revisit implementing a tax structure that had worked for decades before SB 21.

[9:55:34 AM](#)

Mr. Griffiths offered that he had not intended to offend Co-Chair Hoffman. He believed that previous testimony from consultants had stated that Alaska was receiving more than its fair share. He addressed the \$8/bbl. sliding credit and referenced a presentation by Kara Moriarty of the Alaska Oil and Gas Association (AOGA) which he thought indicated that the oil production in Alaska had been in rapid decline under ACES and the passage of SB 21 arrested that decline. He said that a policy that promoted investment was a policy that promoted future revenue generation for the state, which was why SB 21 worked so well for the state.

Co-Chair Olson asked for clarification that SB 21 worked to the benefit of the state.

Mr. Griffiths corrected his previous statement, clarifying that SB 21 worked well for industry.

[9:57:16 AM](#)

Co-Chair Hoffman believed that ACES had gone too far and shared that he had not voted for that legislation. He added that SB 21 had gone too far in the other direction. He thought that Alaska's fair share would be found somewhere between the two pieces of legislation. He reiterated that he was at the table to make sure that Alaskans received their fair share for state resources. He noted that ExxonMobil was currently experiencing historically high earnings.

[9:58:54 AM](#)

Senator Bishop referenced Mr. Griffith's comment regarding ExxonMobil's ideas to stimulate more investment and increase capacity.

Mr. Griffith's said that not passing SB 114 would be a start. He suggested that companies should be allowed to receive credit for all capital investments. He emphasized the importance of a stable, predictable, competitive fiscal regime.

[10:00:13 AM](#)

Senator Kiehl referenced stability and thought it had been clear in the meeting thus far the industry was comfortable under SB 21. He wondered whether the total government take currently was higher or lower than when SB 21 had been enacted.

Mr. Griffiths replied that he did not know. He said that he believed that Alaska's take was higher than other competing states.

Co-Chair Olson suggested that Mr. Griffiths could get back to the committee with the numbers.

Senator Kiehl recalled that when SB 21 passed, the government take was in the 63 percent range, and was not significantly lower. He wanted the numbers for post enactment of SB 21 and the Federal 2017 Tax Bill.

Mr. Griffiths agreed to get back to the committee with the information.

[10:02:06 AM](#)

Senator Bishop requested that Mr. Griffiths get back to the committee with any suggestions to increase production.

[10:02:22 AM](#)

AT EASE

[10:03:03 AM](#)

RECONVENED

WALT BASS, VICE PRESIDENT OF IT AND FINANCE, CONOCOPHILLIPS ALASKA, introduced himself.

BARRY ROMBERG, VICE PRESIDENT OF STRATEGY, COMMERCIAL AND TRANSPORTATION, CONOCOPHILLIPS ALASKA, introduced himself. He relayed that he had come to the state in the 1990s as a United States Coast Guard officer and had transitioned to the oil and gas industry when he worked for Alyeska Pipeline 23 years previously. He had been with ConocoPhillips since 2005.

[10:04:23 AM](#)

Mr. Romberg addressed a presentation entitled "Senate Finance - SB 114" (copy on file). The slide contained a Cautionary Statement.

[10:04:33 AM](#)

Mr. Romberg looked at slide 3, which showed a map of ConocoPhillips activity in Alaska in 2013. He recounted that 10 years ago the industry was transitioning between ACES and SB 21.

[10:05:16 AM](#)

Mr. Romberg spoke to slide 5, which showed the same map but with a different view of the potential longevity and economic health of the state as it included significantly more development. He asserted that the increase in development was due to the stability that resulted from the passage of SB 21.

[10:06:06 AM](#)

Mr. Romberg spoke to slide 5, "SB 21 is Working," and drew attention to a graph on the lower right of the slide. He explained that the blue lines indicated the decline in development before ACES red bars were indicative of the time prior to ACES. He pointed to the green line, which reflected the time after the passage of SB 21, and which he categorized as "remarkable. He remarked that the green line was currently flat but put the industry on a 10-year growth path. He pointed to the cycle illustration in the upper right corner, which suggested that increased production led to lower transportation costs, which led to increased investment.

[10:08:32 AM](#)

Mr. Romberg addressed slide 6, "Willow is an SB 21 Success Story," which offered figures pertaining to expected job creation, planned capital expenditures of \$1 billion to \$1.5 billion from 2024-2028, estimated resources, and planned key construction milestones. He said investment in Willow was based on the premise that SB 21 would last well into the future.

[10:10:26 AM](#)

Co-Chair Hoffman relayed that he, along with members of the Bush Caucus, had traveled to Washington DC to support the Willow Project. He contended that he and his colleagues were not anti-industry. He argued that the green line on the graph on the lower right side of slide 5, which showed production of 600,000/bbl. per day, while "remarkable" to Mr. Romberg, was short of the goal promised by industry during debate on SB 21. He viewed that actions fell far short of the promises that had been made when SB 21 was under consideration. He thought the experiment of SB 21 and promises of more revenue for the state had not materialized. He stressed that the state was not interested in increased revenue only for the sake of spending and reiterated that Alaskans had a right to their fair share when it came to money made off state resources.

Mr. Romberg appreciated Co-Chair Hoffman's comments. He thought everyone wished there was more oil flowing in the pipeline. He commented on the volatility impacting industry cashflow. He thought Willow was a good example and commented that it had taken ten years of permitting to get to this point and it would be several more years until the project was fully functional.

[10:13:22 AM](#)

Co-Chair Stedman wanted to know whether ConocoPhillips had time to analyze the bills in greater detail. He did not think any of the presentations spoke to the intricacies of SB 114 or SB 122.

Mr. Bass relayed that he had a future slide that discussed SB 114 in deeper detail. He acknowledged that he had not had time to read SB 122. He said he was prepared to speak to SB 114.

[10:14:26 AM](#)

Mr. Bass showed Slide 7, "Unconventional North American Fields are Alaska's Competition":

- Enormous resource potential
- Tens of thousands of drilling opportunities
- Lower cost
- Closer to market
- Easier to permit
- Stable, competitive fiscal policies

Mr. Bass discussed Alaska's competition in North America. He pointed to the map on the slide, which indicated enormous resources. He noted the bar chart on the right, which showed operating and transportation costs.

[10:15:39 AM](#)

Mr. Bass showed slide 8, "SB 114 - A Significant Increase in the Cost of Doing Business":

- Alaska is already an expensive place to operate
- A \$3 per barrel tax credit reduction, without reducing the 35% base rate, amounts to a significant tax increase
- Ringfencing credits will discourage spending in new fields compared to SB21
- As drafted, the State Income Tax would double tax any flow through partnership
- Fiscal stability is a critical part of the decision process when long-term investment decisions are made
- Alaska must remain competitive as the world moves toward energy transition (cost, fiscals and cycle time)

He stressed that increasing taxes made Alaska less competitive.

[10:17:56 AM](#)

Co-Chair Stedman noted that Mr. Bass had referenced 18 percent in capital expenditures but had not mentioned profitability of Alaska in ConocoPhillips's portfolio. He asked whether ConocoPhillips was also a gas company that focused heavily on only oil in Alaska.

Mr. Bass affirmed that the company operations in Alaska were mostly oil, whereas operations in other states were oil and gas combined.

Co-Chair Stedman interjected that more profit was made on oil and gas production combined, rather than solely from oil. He referenced the 35 percent base tax, which had negative progressivity embedded to protect the state share when oil prices dropped. He said that the federal corporate tax rate used to be 35 percent and was now 21 percent and he wondered whether that change on the federal level had impacted industry's relationship with the state.

Mr. Bass opined that 35 percent was not a competitive rate. He stressed that ConocoPhillips was working to keep Alaska's tax rate competitive.

[10:20:50 AM](#)

Co-Chair Hoffman commented that the state was glad it had companies interested in coming to the state to make a profit from the state's oil. He pondered that he had voted against SB 21 because he did not think the promises being made by the industry at the time were possible. He thought history would show that the promises had not been kept.

Co-Chair Hoffman thought that prior to SB 21 there was no slider, and pondered what the state's take would be if the slider did not exist in the legacy fields. He had calculated that the figure was approximately \$1 billion annually, to the state - prior to SB 21.

Co-Chair Hoffman agreed that SB 21 was good for industry. He questioned whether the state was getting its fair share.

[10:24:10 AM](#)

Mr. Bass asserted that his argument on behalf of the state would be to remain competitive to increase production.

Co-Chair Hoffman responded that ConocoPhillips had the leases and had the obligation to produce oil and continue to explore.

[10:24:56 AM](#)

AT EASE

10:26:06 AM

RECONVENED

BILL CLINE, EXECUTIVE DIRECTOR AND SENIOR ADVISOR, GAFFNEYCLINE, discussed a presentation entitled "State of Alaska - SB 114" (copy on file).

Mr. Cline showed slide 2, "Scope of Analysis":

- Perspective
- Context
- Likely effects
 - First order
 - Second + order

Mr. Cline discussed his background. He related that due to time constraints he would be limiting his testimony to the allotted 20 minutes. He had not been directly involved in matters in Alaska over the last 30 years but would draw from his overall experience and from materials he had reviewed within the last week. He shared that the overall impact of SB 114 was not something that could be measured or modeled but the "first order" of effects on SB 114 would be decreased revenue to the state and decreased cashflows for investors. He said that the "second order" effects were more complex and included impact of incremental expansion of existing and new developments.

10:29:28 AM

Mr. Cline showed slide 3, "Volatility and Disruption in the Oil & Gas Industry,":

- Up until the last 3 years the oil & gas industry had been battered by deeply disruptive events leading to volatility
 - Volatility impacts long term planning practices
- Investors have demanded better capital discipline, improved financial performance and action on climate change
 - Leading to IOC emphasis on capital discipline and core areas
- Governments that rely upon petroleum related tax revenues face challenges of maintaining tax base while encouraging investment

He noted the graph on the page that charted the bullet points on the slide.

[10:30:26 AM](#)

Mr. Cline turned to slide 4, "Fiscal Comparison":

- Chart illustrates general \$/bbl cash breakdown and tax burden for select jurisdictions over an oil & gas development's life cycle
 - Assumes characteristics with new development in Alaska, including constant cost environment
- In reality each jurisdiction will have numerous unique characteristics (development timeframe, cost environment, infrastructure/market proximity etc.)
- Alaska has relatively high government take compared to select jurisdictions
- Worth noting that some fiscal elements are considered more burdensome than others
 - Non Income based taxes, such as royalty, carry elevated risk to investors because of timing and it is not responsive to development/operating costs
- Many other competing jurisdictions, particularly non western, implement asset level contracts
 - Popular for oil and gas dependent governments
 - Allows for fiscal terms specific to assets and reflecting current economic conditions
 - Often contains various risk mitigations including fiscal stabilization

Mr. Cline mentioned the pointes listed on the overlaid red bar:

The Competitive Environment - not just other producing areas!

The Energy Transition/Green Movement

War in Ukraine

Windfall profits

Cold War Reemergence

New Alliances

The Energy Trilemma - Affordability, Reliability, Sustainability

[10:30:36 AM](#)

Mr. Cline showed slide 5, "Financial Performance by Sector - 10 years," which showed that the energy sector had been the worst performing sector in the stock market over the previous ten years.

[10:30:53 AM](#)

Mr. Cline moved to slide 6, "Financial Performance by Sector - More recently," which provided two-line graphs showing that the energy sector had been the best performer in the stock market; the last two years being particularly successful due to the war in Ukraine.

[10:31:33 AM](#)

Mr. Cline spoke to slide 7, "Alaska Development Scenarios," [Secretary Note: At this point the testimony and the slides presented did not match up. Senator Olson took an "at ease" to address the confusion]

[10:32:53 AM](#)

AT EASE

[10:33:15 AM](#)

RECONVENED

Co-Chair Olson asked Mr. Cline to announce the title of each slide as he moved through the presentation.

Mr. Cline spoke again to slide 4, "Fiscal Comparison."

[10:34:41 AM](#)

Co-Chair Stedman asked to return to slide 4. He noted that the oil price used was \$70/bbl, which was comparable to current prices. He wondered about the numbers at different oil prices.

Mr. Cline replied that the current price had been used for the purpose of illustration. He alluded to a lack of time in crafting the presentation for the use of only the current oil price.

[10:35:35 AM](#)

Mr. Cline advanced to slide 7, "Alaska Development Scenarios,":

- There is strong potential for major new developments, as well as smaller incremental developments built around existing or new infrastructure hubs
- To understand the potential contribution of new investments to Alaska state revenues and to gauge the downside risk if new investments are curtailed, three indicative profiles have been developed representative of Alaska new investment opportunities:
 - A significant new development justifying a new infrastructure hub, similar to the Pikka development.
 - A large new development justifying a new infrastructure hub, similar to Willow.
 - A smaller incremental development tying into an existing infrastructure or infrastructure associated with a new development.
- The evaluation summarizes the estimated 'investor return' and generated 'state revenue' under the current and proposed tax changes as well as under a variety of sensitivities.

[10:36:54 AM](#)

Mr. Cline addressed slide 8, "Pikka Scale Development,":

- Table highlights indicative tax value and contractor return for a major new development
 - Example uses Pikka Ph1 as representative major new development (340MMBbls development)
 - Evaluated on Standalone basis and no further Phase 2 or tiebacks assumed

Mr. Cline discussed the table in the upper right. He noted that the middle two columns showed the expected receipts to the government of \$6.3 billion, from a Pikka-like development, using \$70/bbl, and under current terms. He noted that the far right two columns reflected post SB 114 numbers, which showed a state take of \$7.8 billion, with the trade-off that investor funding dropped. He pointed to the bar chart below that table, which showed an eventual decline in investment.

[10:38:16 AM](#)

Co-Chair Stedman noted that Mr. Cline was running the scenario on the table at an oil price of \$70/bbl. He understood that the financial industry used \$60/bbl and wanted to see projected profitability at that price. He asked for an idea of what the figures might look at with an assumption of \$60/bbl and \$50/bbl, and whether there was an issue surrounding timing of cashflows.

Mr. Cline affirmed that normally GaffneyCline would run the scenario at a wide range of prices. He was not able to do so in the time available to prepare for today's meeting.

Co-Chair Stedman asked about financing costs, and wondered whether the industry was looking at a break-even figure of \$60/bbl.

Mr. Cline thought Co-Chair Stedman's question might be better directed at companies. He believed that they would evaluate the viability of projects by looking at lower numbers.

[10:40:50 AM](#)

Mr. Cline continued to read from slide 8:

- New development generates material new State Revenue, US\$6 8 Billion for this evaluation in 20 years
 - State will also benefit from increased economic activity through value chain
- Assuming \$70/ bbl, the project is expected to still be attractive under the proposed tax change
 - The tax change does impact the project economics but not believed to be to an extent that it would no longer be perceived as financially attractive
- However, there is still a risk that projects may be compromised due to the reduced economic return or perceptions of long term fiscal stability on top of inherent oil and gas development risks

[10:42:20 AM](#)

Mr. Cline referenced slide 9, "Willow Scale Development":

- Based on COP Investor Statements
 - \$8 Bn of total investment and nearly \$6 Bn before production
 - 600MMbbls recovered over life

- Understood to be originally scoped as 80kbpd project but current planning anticipated 160kbpd
 - Capacity increase likely in order to enable additional near field future opportunities
- Over \$7.5Bn State revenue generated under current assumptions and tax law, over \$10.2Bn with changes
 - State total assumed 50% of Royalty
- Largely due to investment prior to production, the rate of return estimated is lower than other examples
 - Understood to not include potential near field incremental developments
 - Does not consider potential impact on TAPS life and tariff

[10:44:00 AM](#)

Co-Chair Stedman referenced slide 9, and asked Mr. Cline to clarify the language, "State total assumed 50% of Royalty."

Mr. Cline responded that 50 percent would go to the state and 50 percent to the federal government because of the location of the Willow development.

[10:44:46 AM](#)

Senator Kiehl asked Mr. Cline to repeat his comments regarding the negative impact of limiting where capital expenditures could be applied and owing to the slider.

Mr. Cline reiterated that 60 percent of value lost to companies was the result of limitations imposed on tax credits.

[10:45:29 AM](#)

Mr. Cline showed slide 10, "Incremental Development Economics,":

- Assumes 100MMBbls over 20 years
 - 30kbpd plateau
 - Could be representative of numerous existing discoveries GMT 2, Fiord West, Nuna, Narwhal, Harpoon, Horseshoe, Quokka, Alkaid, Umiat, Liberty
- Incremental Developments benefit from shorter development periods
 - Assumes reliance on existing infrastructure

- The returns of the assumed incremental development are attractive under current prices, however, many of the discoveries will depend on the infrastructure for larger developments that may not currently exist
 - Material further upside of consolidating tax implications
 - Likely to be less affected by the tax change, however potentially dependent upon timeframe of other infrastructure developed
- Each could add over \$150 MM+ per year in peak years and US\$1.5 Bn of total State Revenue
 - If GMT or other NPR opportunity assumed, half the royalty would be shared with Federal Government

[10:46:40 AM](#)

Mr. Cline showed slide 11, "Second Order Effects,":

- The impact on the perception of Alaska's Investment Environment cannot be measured
 - New major upstream development requires a view of 20-year time horizons.
 - Does increasing the tax burden in order to fund State initiatives suggest to investors that further increases may be likely when further funding is needed?
 - How does this impact investment decisions compared to other jurisdictions that have reduced oil and gas burdens in order to encourage investment?
- To put it in perspective under current assumptions:
 - The Production Credit decrease could potentially add \$400MM/year to state income immediately
 - The incremental State revenue of a single major new development is estimated to add in excess of \$500MM/year during peak production and > >\$6 Billion over a 20-year life
- Does not consider benefit of broader economic activity or potential for further incremental/satellite developments
- Increasing tax burden may put new developments at risk of delay and cancellation
 - Lower economic returns
 - Perceptions of elevated risk of further tax increases during production phase
 - Potential to discourage exploration activity

[10:47:48 AM](#)

Mr. Cline said he would skip forward to slide 12.

[10:48:12 AM](#)

AT EASE

[10:48:25 AM](#)

RECONVENED

Mr. Cline advanced to slide 12, "Tax Stability?" The slide showed a graph that charted UKCS wells drilled between 1970 and 2007. He noted that terms of agreement between parties changed throughout the years. He shared that the red lines indicated negative changes and the green lines indicated positive changes. He spoke to Norway, which had a stable tax regime, with a 78 percent marginal tax rate. He shared that Norway had made changes to its regime in emergency situations - such as the Covid-19 pandemic.

[10:50:09 AM](#)

Senator Bishop asked why Norway had interest in capital investment from major industry players if it had such a large government take as shown on the slide.

Mr. Cline relayed that Norway had a regime that encouraged exploration.

[10:52:02 AM](#)

Mr. Cline continued to address slide 12 and commented that Alaska's biggest competition was the lower 48 states due to investment agility and philosophy. He continued that in the states there was a brief timeframe between investment and project fruition. He said that Alaska was limited by the cost of doing business in the state and the timeframe for return on investment.

[10:53:36 AM](#)

Mr. Cline showed slide 13, "Fiscal Comparison,":

- Chart illustrates general \$/bbl cash breakdown and tax burden for select jurisdictions over an oil & gas development's life cycle

- Assumes characteristics with new development in Alaska, including constant cost environment
- In reality each jurisdiction will have numerous unique characteristics (development timeframe, cost environment, infrastructure/market proximity etc.)
- Alaska has relatively high government take compared to select jurisdictions
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- Many other competing jurisdictions, particularly nonwestern, implement asset level contracts
 - Popular for oil and gas dependent governments
 - Allows for fiscal terms specific to assets and reflecting current economic conditions
 - Often contains various risk mitigations including fiscal stabilization

Mr. Cline detailed the bar graph on the right, "Life Cycle Indicative Value per Barrel Breakdown at \$70/bbl."

[10:55:34 AM](#)

Co-Chair Stedman asked for clarification on the slide. He observed that the graph showed that transportation costs were the same for every jurisdiction.

Mr. Cline clarified that the data imported the fiscal regimes of each jurisdiction to Alaska, rather than exporting the Alaska fiscal regime to other jurisdictions.

Co-Chair Stedman announced that he would research the concept for further clarity.

[10:57:11 AM](#)

Mr. Cline advanced to slide 17, "Concluding Remarks":

- Alaska oil & gas faces many challenges going forward, but it remains an attractive and competitive oil & gas province.
- Going forward tax revenues appear reliant upon new oil & gas developments.

- Proposed tax changes will likely not lead to material reduction of existing production.
- The purely financial impact of the proposed tax change is expected to have a limited impact on current opportunities/investments.
- There is a downside risk if the tax change discourages substantial new developments as the state revenue lost may be materially greater than the incremental tax generated from existing production.

[10:59:49 AM](#)

Co-Chair Stedman wanted to look at isolating the change of the federal corporate tax rate and how it had affected the regime in Alaska.

Mr. Cline agreed to provide the information.

[11:00:19 AM](#)

Senator Kiehl pondered that oil taxation was not binary. He asserted that the bill tried to find the sensitivity point. He looked forward to working with the consultant on additional details.

Senator Olson discussed housekeeping.

#

ADJOURNMENT

[11:01:11 AM](#)

The meeting was adjourned at 11:01 a.m.