

ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990  
5990 HOUSE RESOURCES

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REVENUE COLLECTION. ABOVE ALL, ALASKA MUST REMAIN COMPETITIVE IN THE  
QUEST FOR FUTURE INVESTMENT DOLLARS.

THIS CONCLUDES MY TESTIMONY. WE APPRECIATE THE OPPORTUNITY TO PRESENT OUR  
VIEWS THIS AFTERNOON ON THIS CRITICAL ISSUE.

GHS/cjs/117

02/10/89

D R A F T

TESTIMONY OF E. H. PETE NELSON  
TEXACO USA  
BEFORE THE HOUSE RESOURCES COMMITTEE  
CONCERNING ELF MODIFICATIONS (HB 118)

FEBRUARY 11, 1989

GOOD AFTERNOON. MY NAME IS ETHEL H. "PETE" NELSON. I AM THE SENIOR LAND REPRESENTATIVE FOR TEXACO USA.

TEXACO APPRECIATES THE OPPORTUNITY TO COMMENT TODAY ON HB 118 WHICH WOULD REVISE THE ECONOMIC LIMIT FACTOR WHICH WOULD IN EFFECT SUBSTANTIALLY INCREASE TAXES ON THE PETROLEUM INDUSTRY.

WHILE WE CAN APPRECIATE THE FACT THAT STATE GOVERNMENT HAS BEEN HIT HARD BY THE DECLINE IN OIL PRICES OVER THE PAST THREE YEARS, THE INDUSTRY WAS HIT EVEN HARDER. THE DIFFERENCE IS, INDUSTRY HAS TAKEN THE NECESSARY STEPS TO COUNTER THE ADVERSE AFFECTS OF LOW OIL PRICES. WE HAVE RESTRUCTURED AND STREAMLINED OUR OPERATION TO REDUCE OPERATING COSTS.

THE OIL INDUSTRY IS NOT THE ONLY SEGMENT OF THE ECONOMY AFFECTED BY DECLINING OIL PRICES. ALASKAN BUSINESSES SUCH AS CONSTRUCTION COMPANIES, GROCERY STORES, RESTAURANTS, HOTELS AND SCORES OF OTHERS HAVE HAD TO BITE THE BULLET AND SCALE DOWN OPERATING COSTS IN ORDER TO SURVIVE.

THIS IS NOT THE TIME TO FURTHER BURDEN INDUSTRY WITH INCREASED TAXES. THE PRICE OF OIL HAS INCREASED SLIGHTLY IN THE PAST FEW MONTHS, SHAKY AS IT IS. AS A RESULT, WE HAVE SEEN A SLIGHT INCREASE IN EXPLORATION AND DEVELOPMENT THIS WINTER, WHICH HAS INCREASED THE NUMBER OF JOBS AVAILABLE, WHICH HAS

INCREASED THE AMOUNT OF PRIVATE SECTOR SPENDING, WHICH HAS IMPROVED THE GENERAL ECONOMY OF THE STATE.

THE PASSAGE OF HB 118 WOULD SIGNIFICANTLY INCREASE INDUSTRY'S OIL AND GAS TAX BURDEN AND CAUSE A DECLINE IN EXPLORATION AND DEVELOPMENT ACTIVITIES IN ALASKA.

INDUSTRY'S MANAGEMENT SIMPLY IS NOT GOING TO LOOK FAVORABLY AT REQUESTS FOR EXPLORATION DOLLARS FOR ALASKA WHEN THEY ARE ALSO CONSIDERING REQUESTS FOR EXPLORATION DOLLARS FOR STATES WHICH ARE OFFERING INCENTIVES RATHER THAN DETERRENTS TO OIL AND GAS EXPLORATION (WYOMING & LOUISIANA).

IN CONCLUSION, TEXACO OPPOSES THE PROPOSED MODIFICATIONS TO THE ECONOMIC LIMIT FACTOR AND URGES YOU TO NOT PASS HB 118.

AGAIN, WE THANK YOU FOR THE OPPORTUNITY TO SHARE THESE VIEWS WITH YOU TODAY.

P7/118

TESTIMONY BEFORE HOUSE RESOURCES COMMITTEE  
ON OIL AND GAS TAXATION -- HB-118  
FEBRUARY 15, 1989  
KENNETH W. GRIFFIN

I am here today to speak out in opposition to the proposed changes in oil and gas taxation, and to encourage limiting the size and extent of state government and restraint in state spending. Lately much has been made by administration officials that the state owns Alaskan oil reserves and the oil industry is simply a contractor to the state. This distinction is an oversimplified half-truth which distracts attention from the true issues of today. The fact is, the industry has made and is making enormous investments in Alaska based on the existing tax environment. The industry has shouldered the entire financial risk -- and the cost -- of finding and developing extremely remote resources. And yes, the proceeds from those investments and risks are large. But the state's share of the proceeds is also already high, and it is essentially "off the top". However, out of their share of the proceeds, the industry pays back their capital, they pay all the operating costs on the oil fields, they pay salaries and wages to Alaskans, they pay a return to those outsiders whose money has been invested in Alaska, and they make the investments for future expansions of existing fields and for the chance of finding more. Prudhoe Bay presently operates under one of the highest tax burdens of any oil field in the country. And Alaska's nominal severance tax rate is the highest in the nation. Personally, I find further increases in such high tax rates unconscionable; particularly during a depressed economy when the economics of future projects are already marginal. Industry spokesmen, I'm sure, have already described those figures. As a private citizen whose livelihood is wrapped up in the success of Alaskan business, I am extremely concerned with several impacts which I see the proposed tax changes causing:

- 1) further depressing the existing Alaskan oil industry and support industries -- the source of 85% of state revenues,
- 2) lowering the level of future investments which would maintain and increase recoveries from existing oil fields,

- 3) cutting industry resources and incentives with which to make large capital investments in undeveloped marginal oil fields,
- 4) reducing the willingness of other businesses to invest in an Alaska with a continually changing tax policy,
- 5) and causing a long term ripple-down effect, further depressing the entire Alaskan economy -- both in the cities and in the Bush.

I believe these tax changes will exacerbate and prolong for the foreseeable future the slowdown in the Alaskan economy.

I am extremely frustrated with the pro-business/anti-business rhetoric emanating from Juneau and other parts of the state. A responsible pro-business tax and governmental policy is pro-Alaskan, pro-jobs, pro-family. Stable, reasonable taxes are a critical part of such a governmental policy.

All businesses have a limited pool of money for investment. This money is invested carefully based on the expected return from that money. Alaska competes with many parts of our nation and of the world for those investment dollars -- both from the oil industry and from other existing and potential industries. High tax burdens reduce Alaska's ability to compete for these investment funds. Changing tax policies increase the risk that industries may not get the return on their money that they expect -- again encouraging business to go elsewhere with their investments. In both cases, the loss of investment dollars in Alaska translates to losses in jobs and income for Alaskan workers and their families.

The profits from these businesses represent investments, spending, salaries, and wages in Alaska. Even the money going to out-of-state corporations is a return to the outside investors who have committed their money to the development and growth of the Alaskan economy. This growth in the Alaskan economy represents jobs and higher standards of living for us and our families -- and future jobs which will provide opportunities for our children in this great state.

I urge each of you to meet the challenge of preparing for the future by endorsing stable tax policies, by encouraging business to invest in Alaska, and by paring down the existing state government to a responsible level which is sustainable by the private sector. Entitlements across the state which, in the past, were funded by ample proceeds from Alaskan resources can no longer be sustained at current levels without industry tax increases and personal taxes transferred from those of us who work and pay the bills to subsidize both an overgrown state government and the chosen subsistence lifestyles of some.

The major problem, as I see it, concerning severance taxes and the economic limit factor is that there is a very limited constituency in this state which actually understands these issues, their impact upon the major industry in the state, their eventual impact upon the state itself, and their ultimate impact on our families and our futures. I urge you to look past the shortsighted goals, biased perspectives, and limited understanding presented by a few vocal voices and defend the economic future and wellbeing of our state and of all Alaskans.

ADDRESS: 121 W FIREWEEED, STE 207  
ANCHORAGE, AK 99503

Testimony of the  
Alaska Oil and Gas Association  
before the  
Alaska State House of Representatives  
Resources Committee  
on  
HB 118, An Act Relating to the  
Oil and Gas Properties Production Tax

February 13, 1989

My name is Gerald Serena and I am a tax lawyer with Exxon Company, U.S.A. I am here today to present testimony of the Alaska Oil and Gas Association (AOGA). AOGA is a trade association whose member companies account for the majority of oil and gas exploration, production and transportation activities in Alaska.

AOGA believes that it is in Alaska's best interest to encourage responsible exploration and development of its hydrocarbon resources. We oppose the tax increases included in HB 118 since its passage would act to discourage continued development in Alaska's larger fields. In general, marginal developments in these fields that are already at risk due to soft crude price forecasts would be further burdened by the proposed tax increases. Increasing taxes on existing fields, after significant investment decisions have been made under the existing tax structure, is counterproductive to the complete development of these vast resources. In general, changes in the tax structure will require different risk analysis techniques, which could be a hindrance to future exploration and development.

Alaska's current tax structure has our industry paying higher taxes in this state than in any other. As you are probably aware, the production tax rate is the highest in the country, peaking at 15 per cent on gross production value. Taxes and royalties have provided 80 to 90 per cent of the state's unrestricted revenues in recent years and created the \$10 billion Permanent Fund. Surely oil and gas is paying its fair share by any measure.

Turning to the oil industry for more tax revenues would not be an effective approach to solving revenue problems brought on by crude price volatility, and which will be exacerbated in the near future with production declines from the major fields. This would only increase the State's enormous dependence on oil revenues while not addressing the long term problem of state spending levels.

In conclusion, AOGA strongly opposes the increased taxes in HB 118. Passage would unreasonably increase an already high tax burden, and would increase the state's dependence on volatile crude price swings.

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HB 118 testimony

THANK YOU MR. CHAIRMAN AND COMMITTEE MEMBERS:

MY NAME IS NORMA JOHNSON. I'M THE EXECUTIVE DIRECTOR OF COMMON SENSE FOR ALASKA. I AM A LIFELONG RESIDENT OF ALASKA, BORN AND RAISED IN CORDOVA.

COMMON SENSE FOR ALASKA RECOMMENDS THAT NO NEW OR INCREASED TAX MEASURES BE ENACTED UNTIL STATE GOVERNMENT SIZE AND SPENDING ARE REDUCED TO A REASONABLE AND SUSTAINABLE LEVEL. OPERATIONAL STATE SPENDING HAS INCREASED AT A NECK-BREAKING SPEED SINCE COMMON SENSE ISSUED ITS 1986 STUDY, WHICH THEN SHOWED TOTAL CAPITAL AND OPERATING PER-CAPITA STATE SPENDING AT 5 TIMES THAT OF THE NATIONAL AVERAGE.

INDIVIDUAL ALASKANS AND ALASKA'S BUSINESSES DESIRE AND NEED A STABLE TAX SYSTEM. INCREASING THE STATE REVENUES THROUGH REIMPOSING THE STATE PERSONAL INCOME TAX, ENACTING A STATE SALES TAX, USE OF THE PERMANENT FUND, INCREASING THE STATE'S GASOLINE TAX, OR INCREASING THE TAX BURDEN ON THE OIL INDUSTRY SHOULD NOT RECEIVE THE ATTENTION, NOR DISCUSSION, IT IS CURRENTLY GETTING. THE STATE DOES NOT HAVE A REVENUE PROBLEM AT ALL, IT HAS A SPENDING PROBLEM.

USING 500 THOUSAND RESIDENTS, CURRENT ALASKA PER-CAPITA STATE SPENDING IS OVER \$4,600.00 IN JUST OPERATING GENERAL FUND EXPENDITURES ALONE. WHEN FEDERAL FUNDS AND CAPITAL DOLLARS ARE ADDED, TOTAL STATE SPENDING IN ALASKA COMES TO \$6,480.00 PER-CAPITA. THE STATE OF WASHINGTON, WITH A TOTAL ANNUAL BUDGET OF \$5.1 BILLION AND A POPULATION OF 4.3 MILLION, REPRESENTS \$1,173.00 IN TOTAL PER-CAPITA STATE SPENDING. IF WASHINGTON STATE GOVERNMENT WERE TO SPEND WHAT ALASKA DOES ON A PER-CAPITA BASIS, WASHINGTON WOULD HAVE TO SPEND \$28 BILLION ANNUALLY. CALIFORNIA SPENDS \$2,246.00 ANNUALLY, PER-CAPITA----WERE THEY TO TAX AND SPEND WHAT OUR STATE DOES, CALIFORNIA'S BUDGET WOULD HAVE TO BE \$181 BILLION ANNUALLY, WHICH WOULD MEAN A REVENUE INCREASE OF \$118 BILLION.

ACCORDING TO THE STATE DEPT. OF LABOR, ALASKA'S PER-CAPITA INCOME WAS \$18,489.00 IN 1985, AND \$17,969.00 IN 1986, A SHARP DROP OF \$520.00 IN JUST THAT ONE YEAR ALONE. THE DEPARTMENT DOES NOT HAVE MORE CURRENT PER-CAPITA INCOME THAN WHAT IS RECORDED FOR 1986; HOWEVER, IN DISCUSSION WITH ONE OF THE DEPARTMENT'S ANALYSTS, THE 1986 FIGURE OF \$17,969.00 IS EXPECTED TO SHOW FURTHER DECLINES. COMPARATIVELY, THE STATE OF WASHINGTON'S PER-CAPITA INCOME FOR 1986 IS \$14,979.00. WHILE ALASKA STATE GOVERNMENT SPENDS UPWARDS OF 5 AND A HALF TIMES THAT OF WASHINGTON STATE GOVERNMENT, PERSONAL INCOME IN ALASKA IS ONLY 1 AND A FIFTH TIMES THAT OF THE WASHINGTON PER CAPITA WAGE EARNER.

COMPOUNDING THIS SPENDING PROBLEM IS THE INCREASED RATE OF INDEBTEDNESS THAT STATE GOVERNMENT HAS INCURRED OVER THE PAST FEW YEARS. THE STATE'S PER-CAPITA DEBT IS NOW SOMEWHERE IN THE AREA OF 12 AND A QUARTER TIMES THE NATIONAL AVERAGE. ALASKA STATE GOVERNMENT IS THE NATION'S HIGHEST PER-CAPITA STATE SPENDER AND, EXCLUDING LOCAL GOV'T DEBT, ALASKA TAKES FIRST PLACE IN THE NATION IN STATE PER-CAPITA INDEBTEDNESS.

ACCORDING TO A RECENT ANALYSIS BY A LOCAL ECONOMIST, IN FY'86, COLUMN ONE IS THE PERCENT OF TOTAL STATE EXPEDITURES IN CAPITAL OUTLAY. COLUMN TWO IS THE PERCENT OF TOTAL STATE .PENDITURES IN COMBINED CAPITAL OUTLAY AND DEBT PAYMENTS.

1.	2.
AK 11%	28%
OK 10%	15%
TX 12%	14%
WY 15%	20%
US. AVG. 8%	12 TO 13%

ALASKA HAS FOUR TIMES THE NATIONAL AVERAGE IN STATE EMPLOYMENT. THE U.S. AVERAGE IS 120 STATE GOVERNMENT JOBS PER A POPULATION OF 10,000. IN ALASKA, STATE GOVERNMENT JOBS RUN 400 PER A POPULATION OF 10,000. WHEN STATE AND LOCAL EMPLOYMENT ARE COMBINED, THE U.S. AVERAGE IS 435 GOVERNMENT POSITIONS PER POPULATION OF 10,000. ALASKA'S COMBINED STATE AND LOCAL GOVERNMENT POSITIONS ARE OVER 900 PER POPULATION OF

10,000. BEAR IN MIND THAT REVENUE SHARING AND MUNICIPAL ASSISTANCE AND GRANTS PAY FOR MUCH OF ALASKA'S LOCAL GOVERNMENT WORK FORCE.

IN PAYING FOR THIS WORK FORCE, NOT ONLY ARE STATE SALARIES MUCH HIGHER THAN WILL BE FOUND IN COMPARABLE PRIVATE SECTOR POSITIONS BUT, IN ADDITION, THE HOURS WORKED WEEKLY ARE LESS, AND THE TOTAL PAID TIME OFF, SICK DAYS, AND BENEFITS ARE MUCH HIGHER THAN WILL BE FOUND IN THE PRIVATE SECTOR.

AS AN EXAMPLE, MEDICAL COVERAGE AT 100% AVERAGES \$435.00 PER EMPLOYEE, PER MONTH, OR APPROXIMATELY \$105 MILLION FOR THIS FISCAL YEAR ALONE. THIS SMALL PORTION OF THE OVERALL BENEFITS PACKAGE IS RESPONSIBLE FOR BETWEEN 17 AND 22 MILLION DOLLARS OF THE TOTAL BUDGET SHORTFALL FOR THIS CURRENT FISCAL YEAR. THIS BUDGET SHORTFALL REPRESENTS APPROXIMATELY HALF OF WHAT WILL BE NEEDED TO SUPPLEMENTALLY FUND OUR CURRENT FISCAL YEAR. THE SHEER NUMBER OF POSITIONS, EXORBITANT SALARIES, AND LUCRATIVE BENEFITS FOR ALASKA'S GOVERNMENT WORKFORCE ONLY SERVES TO INFLATE THE COST OF LIVING IN THE 49TH STATE.

NEW AND INCREASED LEVELS OF TAXATION ONLY SERVE TO RETARD ECONOMIC GROWTH, AND SERVE TO DISCOURAGE CURRENT AND FUTURE INVESTMENT. HOUSE BILL 118 IS NO EXCEPTION.

**ENSR**

RECEIVED FEB 20 1988

Formerly ERT

February 17, 1989

Representative Cliff Davidson  
Chairman, Resources Committee  
House of Representatives  
P.O. Box V  
Juneau, Alaska 99811

ENSR Consulting  
and Engineering

750 West Second Avenue  
Suite 100  
Anchorage, AK 99501  
(907) 276-4302

Re: HB-118

Dear Representative Davidson:

I appeared before your committee on February 13, 1989 and presented a brief statement concerning my opposition to HB-118. I was unable to present my full prepared statement due to the time constraints which you imposed. I have attached a copy of the testimony I had intended to present and formally request that it be included in the hearing record.

I also want to go on record as protesting the manner in which the hearing was conducted. By your conduct you were clearly biased toward those who favor HB-118. The time constraints you imposed on testimony were more stringent on those who opposed the bill. You really watched the clock in our case but became quite lax on time when a proponent was testifying. In addition, your blatant attempt to equalize testimony during the early stages of the hearing was a total disregard of the purpose of a public hearing.

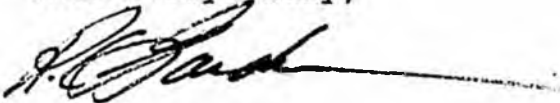
You personally paid little or no attention to the testimony being presented and in several instances distracted the proceedings by conversing audibly with your staff. Fortunately, several members of the committee did pay close attention to the testimony, and I thank them for their interest and consideration.

**ENSR**

Representative Cliff Davidson  
February 17, 1989  
Page 2

I came to Juneau rather than teleconference my testimony from Anchorage because I thought an appearance before the Resources Committee was justified by the magnitude of the issue. While it is certainly your right not to agree with my position, I do believe that I have the right as a private citizen to present my testimony to committee members who 1) are in attendance and 2) have the common courtesy to listen.

Yours very truly,



R. C. Gardner  
Manager, Alaska Operations

RCG/rm

Attachment

cc: Governor Steve Cowper  
Representative Sam Cotton  
Representative Curt Menard  
Representative George Jacko  
Representative Mike Davis  
Representative Richard Foster  
Representative Mike Navarre  
Representative Walt Furnace  
Representative Bill Hudson  
Representative Bert Sharp

Feb. 13, 1989

House Resources Committee

Testimony of Robert C. Gardner in opposition to House Bill 118. "An Act Relating to the Oil and Gas Properties Production Tax."

Members of the Committee, Ladies and Gentlemen:

My name is Robert C. Gardner. I am employed by ENSR Consulting and Engineering in Anchorage in the capacity of Alaska Operations Manager. ENSR may be an unfamiliar name to some of you and perhaps you are better acquainted with our previous name, NORTEC/ERT. The ENSR name change reflects both an internal reorganization as well as the acquisition of NORTEC by a national company. As an operating group, the key staff here in Alaska have worked together as engineering and environmental consultants to the natural resources industries since 1977. Our Alaska office presently employs 30 people, which is an increase of 5 over 1986 when our firm felt the maximum impact from the collapse of oil prices. In 1988, 85% of our gross revenue was derived from work for oil and gas companies.

I am appearing before you today to voice my strong opposition to House Bill 118 which, if enacted, would alter the way in which the Economic Limit Factor (ELF) is calculated. This proposed modification of the ELF would have two almost immediate effects:

- 1) An additional approximately 130 million dollars would flow into the State Treasury during the next fiscal year alone from the collection of increased production taxes, principally from Prudhoe Bay and Kuparuk fields. This figure could be much greater if the change in the ELF is made retroactive as proposed by the Governor's office. While the prospect of this increase in revenue brings smiles to the faces of many state bureaucrats, a much more important and negative effect needs to be considered;
- 2) There will be a major change in the way that oil companies do business in this state, particularly by BP, ARCO and Exxon, who hold majority working interests in Prudhoe Bay and Kuparuk. These operators will definitely reduce future investments in Alaska, as well as reduce their present commitments to current projects. This will obviously further erode job opportunities for those of us in the private sector who have chosen to live and work in this marvelous state.

In addition to these two immediate effects, the long term or downstream effects are perhaps even more thought provoking:

- 1) HB-118 will remove the main incentive to extend production further into the decline curve. Wells will reach their economic limit sooner under the proposed legislation, and therefore we can expect to see earlier plugging and abandonments of declining wells. This translates into more oil left in the ground and the commensurate long term loss of royalty and production tax revenue to the state.
  
- 2) Also, the additional tax burden imposed by House Bill 118 will severely diminish future secondary and enhanced oil recovery projects in Prudhoe Bay and Kuparuk fields. These kinds of projects are expensive and require a stable tax climate in order to be economically justifiable. Obviously, secondary and enhanced oil recovery projects mean more long term royalty and tax income to the state, and more jobs for Alaska citizens. In other words, a better return to both the public and private sectors from the extraction of our oil and gas resources.

The method that HB-118 uses to calculate the ELF appears flawed to me. It looks like the authors of this bill, no doubt coached by the Department of Revenue, decided how much of an impact they wanted to have on Prudhoe Bay and Kuparuk and then "backed into" the exponent used to calculate the ELF. In addition, HB 118 changes the application of the ELF from lease or property specific to field specific; all the more damaging to Prudhoe Bay and Kuparuk. All wells decline no matter what field they are located in, and this attempt to penalize two large fields by assuming they are each one large reservoir is without economic or engineering justification.

There seems to be a prevailing opinion among certain legislators, the Department of Revenue, and the Governor's office that the oil industry in Alaska can absorb whatever tax burden the State wants to impose with little or no trickle-down effect felt by the remainder of the private sector. This philosophy says get everything we can now, maintain state spending at the current unreasonable levels and build an ever larger state bureaucracy. This may look like long term job security to a state bureaucrat, but to me in a private sector oil industry support role it looks like disaster. Our employees also need job security, professional challenge and a good quality of life. We have endured salary cuts, loss of jobs and a less than exciting business climate as a direct result of the collapse in oil prices a few years ago. Our firm, and many others like us, have made the necessary adjustments to

continue our operations in a down economy. In other words we have learned how to live within our means. We welcome the return of some stability, albeit at lower oil prices, within the petroleum industry.

House Bill 118 will only serve to undermine what progress the oil companies as well as the support industries have made since the catastrophic drop in oil prices. More specifically, it will result in fewer work opportunities for firms such as ours. I can assure you of at least 30 angry voters if the legislature makes the wrong choice between supporting and improving the business climate in the private sector or maintaining the present bloated State operating budget.

I suggest that this committee focus its attention on another perspective. Like it or not this is pretty much a one-industry state. The only reason we have been able to sustain State government at the existing level has been because of revenues derived from the oil industry. Instead of continually harassing our main source of State revenue through unstable tax policies I think it would be in all of our best interests to explore ways to encourage them to make even greater commitments in Alaska. Further investment in exploration and development projects within the present tax framework will ultimately produce more revenue to the State through royalties, production taxes, lease bonuses, etc. than can ever be realized by modifying the ELF. For example, I suggest

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we consider the long term beneficial effects to both the public and private sectors by re-enacting the discovery royalty. Our state lands contain some excellent exploration targets, and of course there is ANWR somewhere in the future. Much oil remains to be recovered in Prudhoe Bay and Kuparuk through secondary and enhanced oil recovery projects if the tax climate will support these investments. Let us therefore send a positive statement to the oil industry; We want you here, we encourage your investment through stable tax policies and we want others like you.

The oil and gas operators, and those businesses which support them, have been consistently among Alaska's best corporate citizens. In addition to funding 85% of State government, this industry supports numerous community programs including the United Way, Boys and Girls Clubs and many more. Oil industry individual employee as well as corporate commitments to the arts are unexcelled. I challenge State employees to demonstrate a similar level of civic commitment. Do you, as elected officials, want to jeopardize this community commitment for the short term gain HB-118 provides? In short, if I don't have a job I can hardly contribute to community programs.

This State does not have a revenue problem, it has a government spending problem. Modification of the ELF through HB-118 solves nothing. It only provides a temporary revenue band aid over a wound that requires major sutures. In the interests of the greater good for the State of Alaska, and specifically the health of our private sector economy I urge you to give HB-118 a deep burial.

Thank You.



# Alaska State Legislature

Please enter into the record my testimony to the House Resources  
 committee name  
 committee on Oil & Gas Properties + Prod. Tax, dated 2/13/89  
 bill/subject

I am sorry I am unable to speak to you through the teleconference.

I believe it is very important to have an effective tax rate which will be fair to all and not give an advantage to the oil companies.

Oil has become too powerful a tool in this state - dictating policy & controlling legislation to the detriment of all Alaskans.

I support HB 118 & hope our representatives in Juneau will do likewise.

Signed: Marian Kawanan  
 Testifier

Representing (Optional)  
35985 Pioneer Dr - Soldotna, AK 99669  
 Address

262-5993  
 Phone No.

(1)

FAX MESSAGE TO: House Resources Committee

DATE: 2/13/89 TIME: 4:50 PM

FAX NUMBER: 463-2718

NUMBER OF SHEETS IN MESSAGE: 2  
(INCLUDING COVER SHEET)

FROM: STP - Sam Kelly / Halford

FAX NUMBER: 6940509

Attn: Rep Davidson

HB118 Teleconference 2/3/89

Follow up testimony of Donnette Rupprecht,  
who could not wait ~~part~~ part 4:00 o'clock to  
testify.

HB118 Revis.

2/13/89

Donnette Rupprecht, chair, (Barnes) Council  
(Testify as individual - NOT FOR COUNCIL)

Want to amend HB 118 - so that  
it may also be passed by as  
any of the same time should same tax  
be given to the committee (including fees)



# Alaska State Legislature

Please enter into the record my testimony to the House Resources  
committee name

committee on HB 118 Oil & Gas, dated 2-13-89  
bill/subject

Our natural resources should benefit all Alaskans. HB 118 would benefit Alaskans and not harm the Oil companies as they claim. I would hope that our representatives in Juneau would support the Governor in this bill and help Alaska through this time of economic hard times.

Signed: Richard Waisanen  
Testifier

Representing (Optional)

35985 Pioneer Drive, Soldotna

Address

2625983

Phone No.

(2)

February 13, 1989

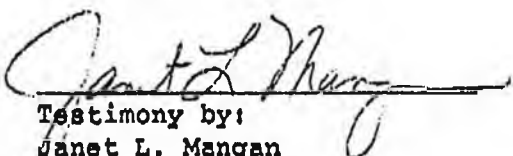
I have been an Alaska resident since 1980. Upon moving to Alaska, I found a job in the oil industry. I have been through four company re-organizations and reductions in force. In addition, I know a number of people in the service companies, and a number of people who have lost their jobs in reorganizations due to the drop in the price per barrel of oil.

As a research analyst, I have read a great deal, pro and con about the Economic Limit Factor. I do not believe that changing the ELF should even be an issue before our State. A well-considered contract was made between the State and the PBU and that contract should be honored. I believe the State Government's credibility will suffer a great deal if a decision is made to change the ELF. The oil industry had to make major cuts and reorganizations in order to live within their reduced budgets - the State of Alaska is going to have to do the same.

The State of Alaska already collects more than half of all the revenues generated from oil. Some people have the perception that there is no bottom to the pocket of the oil industry. That is unrealistic, perhaps wishful thinking. If Alaska changes the ELF, industry will have to cut back its development. That will cost current jobs, future projects, and in the long run, it will cost the State of Alaska.

There are some logical solutions to the State Government's money problems. They include more creative things such as working with Congress to lift the ban on the sale of North Slope oil in foreign commerce, which would in turn increase the State's income. Alaskans need to be realistic about personal taxation and the Permanent Fund - in turn, the public would probably be more open to those options if they believed that the State Government spending level was justified.

The issue around changing the ELF should not be taking the State's time and money. The State should be working on more logical and long term efforts to strengthen Alaska.

  
Testimony by:  
Janet L. Mangan  
1512 Kepner Drive  
Anchorage AK 99504  
(907) 337-3655



Greater Fairbanks

**Chamber**

of Commerce

P.O. Box 74446

709 Second Avenue

(907) 452-1105

Fairbanks, Alaska 99707

February 13, 1989

RECEIVED FEB 16 1988

The Honorable Cliff Davidson  
House of Representatives  
Co-Chairman, Resources Committee  
P.O. Box V  
Juneau, AK 99811

Dear Representative Davidson:

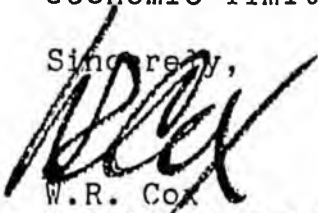
The Greater Fairbanks Chamber of Commerce has consistently opposed any legislative initiative to unduly increase taxes on individuals or businesses. Specifically, we have opposed modification of the Economic Limit Factor to increase the severance tax oil producers pay since that strategy has emerged.

With increasing frequency, we see demonstrations that ELF is fulfilling its intended purpose. Oil company investment is stimulated. Jobs are on the increase. Enhanced recovery methods are employed to maximize production. Planned capital programs are moving forward. All this because ELF is working.

When oil prices decline; when significant growth in administration staffing occurs; when new social programs are proffered or existing programs expanded; when the basis of revenues to support the budget is not sufficiently diversified; mature government must prevail. Tough decisions are required. Demand efficient cost effective operation. Vigorously negotiate expiring labor contracts. Implement a reduction in force. Courses of action to reduce cost of government are many, with services still provided.

Responsible and mature government recognizes that to retain or attract industry a stable tax philosophy must prevail. Industry should be able to expect that. We oppose House Bill No. 118 and any other legislation which would modify the current structure of the economic limit factor.

Sincerely,

  
W.R. Cox  
President and CEO

WRC:ldm

Gary E. Light  
8211 Summerset Dr.  
Anchorage, AK 99518

February 14, 1989

RECEIVED... 20 1988

House of Representatives  
Resources Committee  
P. O. Box V  
Juneau, AK 99811

RE: HB 118 - The ELF Bill

Dear Chairmen Davidson and Menard:

I would like to first thank your committee for holding public hearings on the subject proposed bill. I believe that it is important to hear from as many knowledgeable people on this topic as possible. Unfortunately, it can be a challenge to determine who the knowledgeable people are versus the merely emotional people. Any time money is involved, especially when it's tight, emotions can run high. Whether it's personal, municipal, state, or federal money we are talking about, money, by itself, seems to raise the level of emotions. Thus, I will attempt to be as factual as possible with the balance of my discussion.

While I applaud your efforts to hear all of the facts surrounding this issue, I am concerned about statements made by the chairmen of this committee regarding HB 118 in a memorandum dated February 3, before any testimony had even begun, addressing the question, "Why should the legislature pass the ELF bill?" Without attacking individuals or personalities, I would like to present objective facts regarding each of the statements made in the memorandum that I trust will be considered objectively before decisions are made regarding this bill.

STATEMENT (1): The oil industry is making substantial profits on Alaska's oil -- as of February, 1988, oil companies were making more than \$6 million each day in profits on North Slope oil.

FACT: We all know that the major oil fields on the North Slope are the two largest in the nation and, as a result, generate large revenues and profits, but these revenues are shared with the state and, to a lesser extent, the federal governments. As oil companies' profits increase, so do the state's. Oil companies' profits stimulate our overall state economy by providing additional capital for new investments, jobs, and taxes.

Additionally, the amount of profit is not as good a measure of

prosperity as is the return on investment. If I put \$5 in my bank account and my bank pays me \$100 per day, I am doing quite well. If, however, I have to put \$5 billion in the bank to get \$100 per day, that return is noncompetitive. If companies doing business in Alaska cannot get a competitive return on their investment here, they will invest elsewhere. By reducing return on investment, you reduce investment in the state and, thus, the state's economy.

STATEMENT (2): The oil resource is Alaska's resource, not the oil companies. . . . . The only way for Alaskans to benefit from the resource is to make the oil companies pay for the resource.

FACT: From 1980 through 1986 alone, the oil companies had already paid the state in excess of \$26 billion and annually fund 80% - 90% of the state's general budget. When the current ELF provisions were written in 1981, then Governor Hammond stated as a state policy objective to collect 30% of the net value of the oil as state revenue. According to Alaska Department of Revenue reports, for Fiscal Years 82 - 87, the state has collected from 33.8% up to 52.35% of the profits. And for FY 88 - 91, the DOR projects to collect 57% to 67% at \$15 to \$16 oil prices and 79% to 103% at \$13 to \$14 oil prices with the current version of ELF. Those projections average more than twice the state's stated "fair share" of 30% and the 103% projection means that the state would make money while the oil companies lost money.

STATEMENT (3): Since 1987, the oil companies have been able to avoid paying the full amount of the statutory nominal tax rate for the resource because of loopholes in the tax laws . . . . .

FACT: Actually, the oil companies have not paid the full statutory tax rate (currently highest in the nation) since the ELF was instituted and applied in 1977. However, the ELF provision is not a loophole, it is a provision of tax code that offsets the regressive nature of a gross production tax to prevent the premature cessation of oil production as oil company margins decline. When the maximum IRS personal income tax rates were 50%, did any of you on this committee pay this rate of your total taxable income? No, neither did anyone else. This is because of the progressive structure of the tax rates. The ELF provides for the same thing in severance tax rates.

STATEMENT (4): Alaska receives less in oil tax revenue than virtually every other oil-producing nation in the world.

FACT: Alaska is not a nation. Rather, we are one of fifty states, and we are the state with the highest statutory nominal severance tax rate of 15%. According to the U. S. Department of Energy Technical Report titled "Energy Severance Taxes 1972 - 1987", the total of all states' severance collections averaged less than 5% of value. Actual severance tax collections

per barrel produced in 1987 were \$0.88 in Alaska (second highest) versus a US average of \$0.53 and for the five years 1983 - 1987 they were \$1.81 in Alaska (the highest) versus a US average of \$0.87.

STATEMENT (5): In order to balance the budget and provide vital services to all Alaskans, Alaska must raise millions of dollars in revenue. Alaska must choose between either taxing the most profitable oil fields or taxing struggling Alaskans to balance the budget . . . .

FACT: There is another side of a balanced budget equation; it's called reducing the spending. When the "struggling Alaskans" run out of money, they quit spending. When the oil companies run out of money, they quit spending. Alaska's per capita spending currently exceeds more than twice the number two state in per capita spending and it is more than four times the national average. We do have a cost of living differential here, but it is not 100% or more. State government needs to learn to do as the private sector has already done, tighten your belts and do more with less.

STATEMENT (6): . . . If the modified ELF were to be first applied back on June 20, 1987, when the 10-year rounding rule expired for Prudhoe Bay, this bill would raise, through fiscal year 1990, over \$397 million more than would be raised under the current ELF. In the long term, this bill would raise more than \$2 billion . . . .

FACT: The more money government extracts from the private sector, the less the private sector can, or is willing to, spend in that economy. Given that the private sector spends dollars more efficiently than the public sector, the transfer of additional money from the private to the public sector is a negative for the economy. In reference to even the consideration of a retroactive date for a tax increase, how would any of you on the committee feel if the IRS decided this year to raise personal tax brackets effective two years ago? This is the same situation and it's definitely not good business practice.

STATEMENT (7): There will be no jobs lost to Alaskans as a result of this ELF bill being adopted. . . . Because the savings from the ELF tax cut was not spent to create jobs, elimination of the tax cuts will have no impact on Alaskans' jobs.

FACT: Following the June, 1987, application of the ELF at Prudhoe Bay, several additional drilling rigs were added there, resulting in several hundred positions being employed. Jobs are funded by money. The more money the government takes from the private sector, the less is available to be spent on jobs.

STATEMENT (8): The oil companies that will have an increase in taxes from the ELF bill have poor records in local hire and for purchase of Alaska materials, contributing to the outflow of money from the state. . . .

FACT: ARCO is the largest private employer in the state. Virtually 100% of ARCO's employees that work in the state of Alaska are Alaskan residents. The oil companies' business does not result in an outflow of money from the state, just the opposite. The oil is exported from the state and sold to consumers outside for dollars that are imported to the state and used to pay wages, operating costs, taxes, and capital investment; thus, stimulating the economy. This is called a positive balance of trade. For the state's economy to have a negative cash flow, we would have to be a net importer of products. This is not the case, we are a net exporter of products and a net importer of cash.

STATEMENT (9): The ELF bill only raises taxes on the two most productive oil fields, Prudhoe Bay and Kuparuk, which are making substantial profits. All the smaller oil fields are actually given tax cuts by this bill. . . . These tax cuts are designed to encourage continued or additional production, which will promote economic development and create jobs.

FACT: See the first FACT regarding profits versus rate of return. Also, it should be pointed out that field size and production levels are not indicators of field profitability. The Kuparuk River field (not only the second largest in Alaska, but also the second largest in the US) has a negative profit, or loss, at \$14 market prices with the current ELF and severance tax structure. Higher taxes on this field will mean greater losses. How can this be an economic stimulus?

In addition, this ELF bill will not accomplish the stated objective to "encourage continued or additional production" for two reasons. First, by taking more money away from the investors in the two largest fields, these investors have less money available to develop other fields, even with tax reductions at the other fields because, as is stated in STATEMENT (6), this bill will cost the oil industry more than \$2 billion over the next 20 years, net of any savings in smaller fields. Secondly, there are projects within the Prudhoe Bay and Kuparuk fields that are marginal, but that could actually contain more oil for sales, royalties, taxes, and jobs than all of the smaller fields combined. Raising the "economic limit" for our state's two largest fields will leave marginal projects in these fields undone and oil unproduced; the opposite effect of economic development and creation of jobs.

STATEMENT (10): The ELF tax cut was only intended to be applied to the smaller, less profitable oil fields. Thus, Prudhoe Bay and Kuparuk should never have been allowed these tax cuts in the first place.

FACT: When the stair-step severance tax rates were replaced with the flat nominal rate of 12.25% in 1977, the original ELF was implemented and Prudhoe Bay was producing oil. Prudhoe Bay was not only not specifically excluded from the ELF provisions, but it was not intended to be

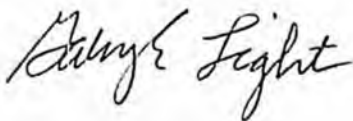
excluded either. In 1981, when the nominal severance tax rate was raised to 15%, the ELF provisions were modified and the 10-year rounding rule was implemented for ELF's greater than .7. This rule was intended to cover Prudhoe Bay specifically. Other changes were intended to cover Kuparuk specifically. Given that the current ELF provisions include specific coverage for both Prudhoe Bay and Kuparuk, the statement that the ELF was never intended for Prudhoe Bay and Kuparuk is false.

STATEMENT (11): The 1981 ELF was not intended to last forever. It was designed to expire because it was assumed that the legislature would step in prior to its expiration to reassess the ELF and make appropriate changes. Governor Hammond clearly indicated that when he signed the bill into law in 1981.

FACT: The current ELF law has no expiration provisions. If it had been intended to expire, it would have so stated. The above statement is false, including the reference to Governor Hammond's intent. The former governor has recently stated that he is being misquoted with this statement (public radio program February 13 and other forums) and that the current level of taxation on the oil industry in Alaska is at least what was intended in 1981.

I do hope that these facts will be objectively considered and that they will alleviate the bias, intended or not, of your committee's statements presented to other Alaskan representatives and the Alaskan public. While I have attempted to be factual, I have also been as brief as possible. I would be happy to expound upon any or all of these facts and the answers to your questions. I would welcome the opportunity to discuss these with you individually or as a committee. My office telephone number is 265-6044. Please call to discuss or to schedule meeting time.

Again, I appreciate your attempts to gather all of the facts and I trust that they will all be considered before this bill is voted on.



Gary E. Light

xc: Representative Larson, Cochair, House Finance Committee  
Representative Hoffman, Cochair, House Finance Committee  
Senator Binkley, Cochair, Senate Finance Committee  
Senator Uehling, Cochair, Senate Finance Committee  
Senator Pearce, Chair, Senate Oil & Gas Committee  
Governor Cowper

RECEIVED FEB 20 1988

To: Rep. Sam Cotten - Speaker of the House  
Rep. Cliff Davidson - Cochairman House Resources Committee  
Rep. Curt Menard - Cochairman House Resources Committee  
Rep. George Jacko - House Resources Committee  
Rep. Mike Davis - House Resources Committee  
Rep. Richard Foster - House Resources Committee  
Rep. Mike Navarre - House Resources Committee  
Rep. Walt Furnace - House Resources Committee  
Rep. Bill Hudson - House Resources Committee  
Rep. Bert Sharp - House Resources Committee  
Rep. Alyce Hanley  
Rep. Loren Leman  
Sen. Drue Pearce - Chairman Senate Oil and Gas Subcommittee  
Sen. Pat Rodey

From: Kenneth W. Griffin  
8231 Summerset Dr.  
Anchorage, AK 99518  
(907) 349-7259

Date: February 15, 1989

Re: The Conduct by Rep. Cliff Davidson  
of the February 13 Public Hearings on HB-118.

I am protesting the manner in which the above hearing was conducted by Rep. Davidson. I was in attendance at the afternoon meeting until 5 PM, at which time family obligations required that I leave. Several actions by Rep. Davidson while conducting those hearings were designed to deny a large portion of the public the opportunity to speak to an issue which will eventually affect us all. First, Rep. Davidson refused to take speakers from the Anchorage LIO in the order in which they were signed up. All of those signed up were opposed to oil and gas tax law changes. After two speakers, Rep. Davidson stated that he would not allow subsequent speakers from Anchorage unless they were speaking on the side he personally supports -- ie. favoring the tax law changes. In doing so he skipped over at least 30 signed up speakers and took a speaker that was not even signed up at all. After asking for someone from Anchorage to please testify on his side, Rep. Davidson allowed a total of two speakers -- while ignoring a total of 60 persons now in the room wishing to speak against the tax law change. Regardless of perspectives on this issue, Rep. Davidson's actions were blatant efforts to deny Anchorage residents the right to speak to issues of critical importance to our futures. These are reprehensible actions coming from an elected representative sworn to uphold the constitutional rights which protect us all. Rep. Davidson has demonstrated a total disregard for these rights.

Further concerns about the conduct of this meeting:

The afternoon public testimony period was advertised as running from 3-5 PM. Rep. Davidson cut this period in half, dedicating the second hour to elected officials. I checked with the LIO both before and after the hearing. They were not aware this change would occur. Obviously, in his letter on the hearing, neither was the governor. I submit that this appears as yet another attempt to reduce the opportunity for the public to provide testimony which heavily opposed Rep. Davidson's preference. That became more apparent when he allowed the elected officials to ramble on at length with unprepared, non-substantial statements, while large public crowds sat around the state expecting to be allowed to speak to both sides of the issue.

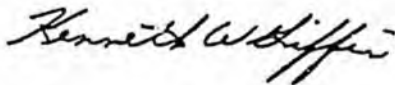
I further resent Rep. Davidson's accusations that testimony from Anchorage was due to an organized campaign by big oil. The people who finally were able to speak against the tax changes identified themselves variously as a private accountant, an advertiser, small business owners, personnel/ placement worker, trucker, construction company manager, support industry employees, oil industry employees, and others. All of these people realize that the proposed tax law changes will indeed affect their opportunities and economic future in Alaska. Again, I resent my perspective being discounted so readily.

A final concern is the propriety of holding such hearings, ostensibly for the purpose of gauging public opinion and gathering input prior to making a decision, when, in fact, the Chairman and the committee have already clearly stated that they have a position and do not intend to change. It is obvious that Rep. Davidson does not clearly understand the impact of oil and gas taxation changes on not only the industry but on the future of the state as a whole. Nevertheless he clearly communicates the message that he does not care to understand nor is he willing to listen to the arguments from those of us who are going to have to carry the burdens he lays upon this state.

The issue aside, Rep. Davidson has demonstrated extreme disregard for the public he has sworn to serve. I call on Speaker Cotten and the entire House of Representatives to communicate clearly to Rep. Davidson, and others if need be, that such high-handed actions as those taken this week are unacceptable and will not be tolerated within this body.

Thank you for your attention to this and your willingness to serve the interests of Alaskans.

Sincerely,



Kenneth W. Griffin



# STATE OF ALASKA

HOUSE OF REPRESENTATIVES

Box V, Juneau, Alaska 99811

(907) 465-2487 • 465-2498

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REPRESENTATIVE CLIFF DAVIDSON • DISTRICT 27 • Box 746, Kodiak, Alaska 99615 • (907) 486-8250

February 24, 1989

Ken W. Griffin  
8231 Summerset Drive  
Anchorage, Alaska 99518

Dear Mr. Griffin,

Thank you for your memo of February 15, 1989. It is always good to receive criticism, whether constructive or otherwise, after conducting a statewide teleconference. Any tax policy is a complex issue. Alaskan oil and gas production tax policy on state properties is especially complex, because it is historically difficult to "puzzle" together.

The key phrase is "tax policy." Policy, to my mind, implies a process and this in turn means "ongoing." So, while you may profess to know my innermost thoughts and understanding of this difficult state policy process, I myself would not presume to decide the issue until after it is examined and re-examined in the light of new numbers (world oil prices, costs of production, profitability, ownership share, etc.); determination as to whether the public policy objectives were met as intended or anticipated; and other considerations too numerous to list in this letter. That is why we are having extensive hearings -- to fully cover the many and varied perspectives on this complex issue.

Your memo is accurate on one point, and for that I extend my apologies: in my first statewide teleconference, I did take testimony from four people out of the order in which they had signed in (two in Anchorage and two in Fairbanks). Due to the large number of persons who had signed in to testify, thus knowing beforehand that not everyone who signed up would get the opportunity to testify, it was my judgement call that a balance of views, for and against and from different geographic areas, all be heard. Additional public testimony was taken after the dinner hour on Monday, as well as on the following Wednesday. All individuals who "stuck it out" were able to be heard.

As in many such events, the first hour was the most hectic, and that is, unfortunately, where most of your criticism is directed and I accept that. However, on all your other negative points, I must respectfully disagree.

As regards the "lengthy testimony" I allowed elected officials and past-elected officials who were speaking on behalf of large constituencies, only seven such individuals (six

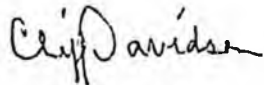
for and one against) chose to testify on HB118. None spoke for the measure for over five minutes and the individual who spoke against chose to use less than two minutes. A maximum of 32 minutes was reserved for elected officials out of a total of 440 minutes of public testimony. By over two to one, the number of persons testifying against the bill out-numbered those who favored the bill.

I truly appreciate and respect all publicly offered testimony, including that offered by elected officials. Additionally, I have a high regard for any individual who offers to serve the public as an elected official in any office, regardless of partisan or philosophical stripe.

You will find in the public record that members of the committee stated that they felt I had tried to hold the hearings fairly. Further, I have been complimented for my fairness in the hearings by oil industry lobbyists, most of whom I hold in high regard, as well as oil executives from within Alaska and several who came to the hearings from "Outside."

Again, thanks for your memo. Your comments are always welcome.

Sincerely,



Representative Cliff Davidson

CD/eed

cc: House Resources Committee members  
Representative Sam Cotten  
Representative Alyce Hanley  
Representative Loren Lemman  
Senator Drue Pearce  
Senator Pat Rodey

Feb 17 1989

Rolan Ruoss  
Box 1371  
Kodiak, AK 99615

Rep. Cliff Davidson

RECEIVED FEB 22 1989

Juneau, Alaska

....

Dear Cliff,

I found this curious piece of public education in the newspaper this evening. My gut feeling is that the people at ARCO are trying to sway public opinion with an emotional appeal, maybe presenting the facts to shed favorable light on their position.

Do they have their facts right? Can you print a reply to their facts in the paper to help us keep a clear view of the situation?

Personally, I'm not convinced that ARCO is motivated by civic spirit; the oil industry is heavily invested in the profitable Alaskan fields and will likely spend considerable money on lobbyists, lawyers, and advertising to maintain their profits.



Based on what I know, I support HB118.

Please don't let us be buffeted by specially tailored "facts".

Sincerely,

Rolan Ruoss

ARCO Alaska, Inc.

External Affairs Dept.  
P.O. Box 100360  
Anchorage, AK 99510

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: EMILY MCALISTER  
 TITLE:  
 ADDRESS: 3504 WILLOW ST.  
 CITY: ANCHORAGE  
 PHONE: 248-5494

ZIP: 99517

BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: I STRONGLY SUPPORT REPEALING ELF. LOCAL OIL COMPANIES ARE AGAIN MAKING RECORD PROFITS WHICH ARE PASSED ON TO OUT OF STATE STOCKHOLDERS. OIL COMPANIES FOOLED STATE IN 70'S: INSTEAD OF WHINING AND THREATENING JOBS, THEY SHOULD CUT SPENDING, IMPROVE MANAGEMENT JUST LIKE THEY URGE STATE TO DO.

POMID: 03143856

DATE: 02/14/89

TIME: 14:38:56

LIONAME: ANCHORAGE LIO

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BARNES  
 BOYER  
 CATO  
 COTTEN  
 DAVIS, M.  
 ELLIS  
 FURNACE  
 GRUENBERG  
 HANLEY  
 HUDSON  
 KOPONEN  
 LEHAN  
 MARTIN  
 MILLER  
 PETTYJOHN  
 RIEGER  
 SHULTZ  
 SWACKHAMMER  
 ULMER /  
 ZAHAC%I

BOUCHER  
 BROWN  
 COLLINS  
 DAVIS, C.  
 DONLEY  
 FOSTER  
 GOLL  
 GRUSSENDORF  
 HOFFMAN  
 JACKO  
 LARSON  
 MACLEAN  
 MENARD  
 NAVARRE  
 PHILLIPS  
 SHARP  
 SPOHNHOLZ  
 TAYLOR  
 WALLIS

ADAMS  
 BINKLEY  
 COGHILL  
 DUNCAN  
 ELIASON  
 FAHRENKAMP  
 FAIKS  
 FISCHER  
 FRANK  
 HALFORD  
 JONES  
 KELLY  
 KERTTULA  
 PEARCE  
 POURCHOT  
 RODEY  
 STURGULEWSKI  
 SZYMANSKI  
 UEHLING  
 ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: GARY E. LIGHT  
 TITLE:  
 ADDRESS: 8211 SUMMERSET DRIVE  
 CITY: ANCHORAGE  
 PHONE: 344-2218

ZIP: 99518

BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: AS WAS POINTED OUT IN THE PUBLIC TESTIMONY REGARDING HB 118, THE ANCHORAGE TURNOUT FOR THIS HEARING WAS 60+ AGAINST HB 118 AND 2 FOR. DID YOU CONSIDER "BALANCED" TESTIMONY WHEN YOU HEARD FROM THE ADMINISTRATION ON THURSDAY AND FRIDAY? DID YOU CONSIDER THAT TESTIMONY BALANCED WHEN YOU HEARD FROM THE OIL INDUSTRY ON SATURDAY?

POMID: 03155222

DATE: 02/13/89

TIME: 15:52:22

LIONAME: ANCHORAGE LIO

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MENARD  
 JACKO  
 FOSTER  
 NAVARRE  
 FURNACE  
 SHARP  
 HUDSON  
 DAVIS, M.

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: ROB AUSTIN

TITLE:

ADDRESS: P.O. BOX 425

CITY: JUNEAU

ZIP: 99802

PHONE: 780-6058

BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: I SUPPORT THE ELF LEGISLATION BECAUSE THE GOVERNOR SAYS "IT WILL BE GOOD FOR THE ECONOMY AND IT WILL CREATE JOBS."

POMID: 00145949

DATE: 02/14/89

TIME: 14:59:49

LOCATION: JUNEAU LIO

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MENARD  
JACKO  
FOSTER  
NAVARRE  
FURNACE  
SHARP  
HUDSON  
DAVIS, M.

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: TOM KANE

TITLE:

ADDRESS: BOX 520989

CITY: BIG LAKE

ZIP: 99652

PHONE: 892-7289

BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: I'M AGAINST HB 118. LEAVE ELF ALONE, CUT GOVERNMENT SERVICES AND BUREAUCRACY.

POMID: 03082106

DATE: 02/14/89

TIME: 08:21:06

LOCATION: ANCHORAGE LIO

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MENARD  
JACKO  
FOSTER  
NAVARRE  
FURNACE  
SHARP  
HUDSON  
DAVIS, M.

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: KEN HIGGINS

TITLE:

ADDRESS: 1730 RIERIE

CITY: ANCHORAGE

ZIP: 99507

PHONE: 562-0760

BILL NO: HB 118

SUBJECT: OIL &amp; GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: I WORKED IN PRUDHOE FROM 1975 TO 1985, I FIND A LARGE PROPORTION 60  
70 PERCENT NON RESIDENT HIRE BY ARCO AND SOHIO SUBCONTRACTORS. I SUPPORT  
MOVING THE ELF, THEY DON'T HIRE ALASKAN RESIDENTS. I WOULD EVEN SUPPORT A  
GHER TAX ON THE OIL COMPANIES. PLEASE DON'T SELL OUT YOUR VOTE LIKE JAN  
IKS.

POMID: 03091321

DATE: 02/14/89

TIME: 09:13:21

LOCATION: ANCHORAGE LIO

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DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MENARD	KERTTULA
MILLER	NAVARRÉ	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGULEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: THOMAS WOOD

TITLE:

ADDRESS: BOX 0014

CITY: EAGLE RIVER

ZIP: 99577

PHONE: 694-9430

BILL NO:

SUBJECT: ELF

MESSAGE: INTELLIGENCE NOT PAMDERING IDIOCY. DO NOT TINKER WITH ELF, CUT THE  
INCOMPETENCE AND DROANS FROM THE BLOATED STATE BUREAUCRACY.

POMID: 03150612

DATE: 02/14/89

TIME: 15:06:12

LOCATION: ANCHORAGE LIO

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DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MENARD	KERTTULA
MILLER	NAVARRÉ	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGULEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: BOB MITCHELL  
 TITLE:  
 ADDRESS: 212 W 9TH STREET  
 CITY: JUNEAU ZIP: 99801  
 PHONE: 465-4803  
 BILL NO:  
 SUBJECT: ELF REPEAL  
 MESSAGE: REPEAL ELF? OF COURSE!

POMID: 00080310  
 DATE: 02/14/89  
 TIME: 08:03:10  
 LIONAME: JUNEAU LIO

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BARNES	BOUCHER	ADAMS
BOYER	BROWN	BINKLEY
CATO	COLLINS	COGHILL
COTTEN	DAVIS, C.	DUNCAN
DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MENARD	KERTTULA
MILLER	NAVARRE	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGULEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: DALLAM MASTERSON  
 TITLE:  
 ADDRESS: 13001 GALVESTON CIRCLE  
 CITY: ANCHORAGE ZIP: 99516  
 PHONE: 345-4699  
 BILL NO:

SUBJECT: ELF AND OTHER TAXES  
 MESSAGE: IT'S OUTRAGEOUS THAT GOVERNOR COWPER PROPOSES TO INCREASE TAXES WITHOUT FIRST CUTTING STATE SPENDING. HERE IN ANCHORAGE, A STATE EMPLOYEE TELLS ME THAT A NEW HIRE IN HIS GROUP DOESN'T HAVE ENOUGH TO DO! DO SOME HOUSE CLEANING, AND STOP TRYING TO SQUEEZE MORE BLOOD OUT OF THE TAXPAYERS TURNIP!

POMID: 03162003  
 DATE: 02/13/89  
 TIME: 16:20:03  
 LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

BARNES	BOUCHER	HALFORD
BROWN	COLLINS	PEARCE
COTTEN	DONLEY	POURCHOT
ELLIS	FURNACE	KELLY
GRUENBERG	HANLEY	KERTTULA
LEMAN	MARTIN	RODEY
PETTYJOHN	PHILLIPS	STURGULEWSKI
ZAWACKI	MENARD	SZYMANSKI
JACKO	FOSTER	UEHLING
NAVARRE	SHARP	FAIKS
HUDSON	DAVIS, M.	

CURTIS W. FOSTER  
9621 SPRING HILL DRIVE  
ANCHORAGE, AK. 99507-4374

RECEIVED FEB 13 1988

February 10, 1989

Representative Cliff Davidson  
Co-Chairman: House Resources Committee  
Pouch V  
Juneau, AK. 99811

Representative Curt Menard  
Co-Chairman: House Resources Committee  
Pouch V  
Juneau, AK. 99811

Dear Representatives Davidson and Menard:

In regard to the current hearings in your House Resources Committee regarding modifications to the Economic Limit Factor (ELF), I am opposed to any modification to the ELF. The proposed changes, as put forth by the administration, are a tax increase in simple terms and are totally un-justified.

To further tax the one industry that fuels the state's economy as a trade-off for short-term infusions for increased state spending is a course for fiscal disaster. Where would the money have come from for establishment of a sound economic base which has lasted for decades, if States such as Texas, Oklahoma and Louisiana had practiced the current administration's philosophies. In those States, after finding the large fields that became the catalyst for infra-structure and capital, a momentum developed whereby new fields were developed with the support of tax policy and agency assistance-not an adversarial relationship!

In fact, in several of the Lower 48 producing states, production taxes are being lowered, not raised, to more appropriately reflect the current economic climate of the oil markets. Perhaps Alaska should be considering this versus raising taxes. As stated by several oil industry executives, Prudhoe Bay is in decline and future development is dependent on marginal economics; no different than Niakuk or other marginal projects.

KEEP TAXES STABLE, the in-efficient state spending and bloated budget must be addressed before any taxes are added.

I look forward to hearing from you on this subject.

Sincerely,



Curtis W. Foster

cc: Governor Steve Cowper  
House Resource Committee members  
Representative Steve Rieger  
Representative Fritz Pettyjohn



# Alaska State Legislature

Please enter into the record my testimony to the HOUSE RESOURCES  
 committee name  
 committee on HB 118, dated 2-13-89  
 bill/subject

The oil belongs to the people, I feel  
 we get the best deal by keeping  
 it REALLY marginal fields operational  
 but the others should pay the full  
 tax -

I support the Governor's position.

Signed: Wm P. Christenson  
 Testifier  
For the Love in ELR  
 Representing (Optional)  
PO Box 799  
 Address  
Sitka AK 99835  
 Phone No.  
907-747-8682 or 742-5833

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: JOY PRICE  
 TITLE:  
 ADDRESS: PO BOX 1948  
 CITY: FAIRBANKS ZIP: 99707  
 PHONE: 451-0484  
 BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: THIS IS IN ADDITION TO MY LETTER OF 2/8/89 IN SUPPORT OF HB 118.  
 WE FEEL HB 118 IS A BEGINNING TO A WAY TO PROVIDE MORE OPTIONS FOR OUR  
 CHILDREN AND ALL OTHER INDIVIDUALS IN ALASKA. AGAIN, I BELIEVE WE SHOULD  
 NOT WASTE OUR VERY VALUABLE RESOURCES. AFTER ALL OUR CHILDREN AND OUR  
 PEOPLE ARE OUR VERY VALUABLE RESOURCE. EOM/MJO

POHID: 07082259  
 DATE: 02/23/89  
 TIME: 08:22:59  
 LIONAME: FAIRBANKS LIO

COPIES: REPRESENTATIVES SENATORS

BOYER	FAHRENKAMP
DAVIS, M.	FRANK
KOPONEN	COGHILL
MILLER	
SHARP	
MENARD	
JACKO	
FOSTER	
NAVARRE	
FURNACE	
HUDSON	

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: DENNIS REIMERS  
 TITLE:  
 ADDRESS: PO BOX 875571  
 CITY: WASILLA ZIP: 99687  
 PHONE: 376-0184  
 BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: I SUPPORT THE CURRENT ELF FACTOR. THE PUBLIC OPINION POLLS HAVE  
 REPEATEDLY SHOWN THAT MOST ALASKANS ARE IN FAVOR OF REDUCING STATE SPENDING.  
 BEFORE ADDITIONAL TAX REVENUES ARE GENERATED THE STATE SHOULD CONTROL THEIR  
 SPENDING. THE ELF WOULD DEFINITELY RECOVER MORE MARGINAL OIL FROM ANY OF THE  
 LARGER ALASKA FIELDS.

POHID: 03111330  
 DATE: 02/23/89  
 TIME: 11:13:30  
 LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES

MENARD  
 JACKO  
 FOSTER  
 NAVARRE  
 FURNACE  
 SHARP  
 HUDSON  
 DAVIS, M.

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: KEN HIGGINS

TITLE:

ADDRESS: 1730 RIERIE DRIVE

CITY: ANCHORAGE

PHONE: 562-0760

ZIP: 99507

BILL NO:

SUBJECT: ELF

MESSAGE: I SUPPORT REPEAL OF THE ELF. MY REASON IS ARCO'S FAILURE TO ENCOURAGE LOCAL HIRE ON THEIR SUBCONTRACTING. I WOULD SUPPORT THE STATE OF ALASKA IN PUTTING ON TV COMMERCIALS IN OPPOSITION OF ARCO'S ADS.

POMID: 03095236

DATE: 02/17/89

TIME: 09:52:36

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

BARNES	BOUCHER	ADAMS
BOYER	BROWN	BINKLEY
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COTTEN	DAVIS, C.	DUNCAN
DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MEHARD	KERTTULA
MILLER	NAVARRE	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SCHNOLZ	STURGULEWSKI
SHACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: LUCILLE JOHNSTON

TITLE:

ADDRESS: 7815 JEWEL LAKE ROAD

CITY: ANCHORAGE

PHONE: 243-3621

ZIP: 99502

BILL NO: HB 118

SUBJECT: OIL &amp; GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: I AM OPPOSED TO THIS BILL.

POMID: 03093150

DATE: 02/23/89

TIME: 09:31:50

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES

MEHARD  
 JACKO  
 FOSTER  
 NAVARRE  
 FURNACE  
 SHARP  
 HUDSON  
 DAVIS, M.

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: WILLIE LEWIS, PRESIDENT  
 TITLE: LABORERS' LOCAL 942  
 ADDRESS: 315 BARNETTE STREET  
 CITY: FAIRBANKS ZIP: 99701  
 PHONE: 456-4584  
 BILL NO: HB 118

SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: THANK YOU FOR HOLDING THE PUBLIC HEARING. HOWEVER, IT APPEARS ONLY THOSE COACHED BY THE OIL COMPANIES UNDERSTOOD THE BILL. THE COMMITTEE NEEDS TO MAIL OUT INFORMATION EXPLAINING THE FORMULA, THE 300 BARRELS AND THE COST TO ALASKANS BEFORE ANOTHER HEARING IS HELD. LOCAL 942 IS BEHIND YOU ALL THE WAY.

POMID: 07094920  
 DATE: 02/15/89  
 TIME: 09:49:20  
 LIONAME: FAIRBANKS LIO

COPIES: REPRESENTATIVES SENATORS

DAVIS, M.	COGHILL
BOYER	FAHRENKAMP
SHARP	FRANK
MILLER	
KOPONEN	

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: CAROLYN & RICHARD REICHMANN  
 TITLE:  
 ADDRESS: P.O.BOX 2633  
 CITY: FAIRBANKS ZIP: 99707  
 PHONE: 451-7467  
 BILL NO: HB 118  
 SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: WE STRONGLY URGE YOU REPEAL THE ELF.

POMID: 07100618  
 DATE: 02/15/89  
 TIME: 10:06:18  
 LIONAME: FAIRBANKS LIO

COPIES: REPRESENTATIVES

MENARD  
 JACKO  
 FOSTER  
 NAVARRE  
 FURNACE  
 SHARP  
 HUDSON  
 DAVIS, M.

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: RICHARD CLAUSEN  
 TITLE:  
 ADDRESS: 5520 OLD STEESE  
 CITY: FAIRBANKS ZIP: 99712  
 PHONE: 474-5580  
 BILL NO: HB 118  
 SUBJECT: OIL & GAS PROPERTIES PRODUCTION TAX -ELF  
 MESSAGE: I SUPPORT REVISION OF ELF THAT WILL BRING IT MORE IN LINE WITH ITS ORIGINAL INTENT. I RELY ON YOUR EXPERTISE TO DETERMINE IF HB118 OR SB97 IS THE BETTER APPROACH TO A FAIR TAXATION THAT ELF WAS ORIGINALLY MEANT TO PROVIDE. ELF SHOULD ONLY APPLY TO MARGINAL FIELDS.

POMID: 07095855  
 DATE: 02/15/89  
 TIME: 09:58:55  
 LIONAME: FAIRBANKS LIO

COPIES: REPRESENTATIVES SENATORS

MENARD	PEARCE
JACKO	ADAMS
FOSTER	FISCHER
NAVARRE	HALFORD
FURNACE	KELLY
SHARP	
HUDSON	
DAVIS, M.	

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: MRS. WALTER STEPHEN  
 TITLE:  
 ADDRESS: P.OB.OX 112114  
 CITY: ANCHORAGE ZIP: 99511  
 PHONE: N/R-  
 BILL NO:  
 SUBJECT:  
 MESSAGE: 1. PLEASE, PLEASE, PLEASE KEEP ELF THE WAY IT IS. GOVERNOR IS OUT OF TOUCH WITH MAINLINE ALASKANS. THE OIL COMPANIES MADE US, KEEP THEM HEALTHY.  
 2. DON'T RAISE ANY TAXES OR MAKE ANY NEW ONES, INSTEAD CUT STATE GOVERNMENT.  
 3. DON'T USE THE PERMANENT FUND FOR EDUCATION. 4. DON'T FUND WOMENS COMMISSION. 5. DON'T PASS THE SEAT BELT LAW.

POMID: 03104514  
 DATE: 02/15/89  
 TIME: 10:45:14  
 LIONAME: ANCHORAGE LIO

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BARNES	BOUCHER	ADAMS
BOYER	BROWN	BINKLEY
CATO	COLLINS	COGHILL
COTTEN	DAVIS, C.	DUNCAN
DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MENARD	KERTTULA
MILLER	NAVARRE	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGULEWSKI
SHACKHAMMER	TAYLOR	SZYMAWSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: DON BURLEY  
 TITLE:  
 ADDRESS: PO BOX 876151  
 CITY: WASILLA ZIP: 99687  
 PHONE: N/R-  
 BILL NO: HB 124

SUBJECT: INCREASE SPORT FISHING/HUNTING LIC. FEES  
 MESSAGE: I STRONGLY DISAGREE WITH HB124 THAT RAISES THE SPORT, HUNTING AND TRAP  
 FISHING LICENSE FEES. WE NEED TO INSTITUTE OTHER MEANS OF INCOME, SUCH AS ZAPPING  
 IT TO COMMERCIAL LICENSES. ALASKA STATUTES FISH AND GAME SEC. 16.43.160 SECTION  
 3 IS A GOOD PLACE TO START.REPLY REQUESTED.

POHID: 14112827  
 DATE: 02/21/89  
 TIME: 11:28:27  
 LIONAME: MAT-SJ LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

LARSON	MENARD	KERTTULA
HOFFMAN	SWACKHAMMER	SZYMANSKI
WALLIS	KOPONEN	
ULMER	BROWN	
SHULTZ	RIEGER	
PHILLIPS	BARNES	
JACKO	FOSTER	
NAVARRÉ	FURNACE	
SHARP	HUDSON	
DAVIS, M.	GRUSSENDORF	
CATO	COTTEN	
DONLEY	MARTIN	
TAYLOR		

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: JOHN D. RILEY  
 TITLE:  
 ADDRESS: P.O.BOX 110512  
 CITY: ANCHORAGE ZIP: 99511  
 PHONE: 345-1719  
 BILL NO:

SUBJECT: BUDGET REVENUES AND COSTS  
 MESSAGE: OPPOSED TO ANY CHANGE IN ELF, ANY TAMPERING WITH RAILBELT ENERGY  
 FUND, OR PERMANENT FUND EARNS DISTRIBUTION. SUGGEST, INSTEAD, DRASTIC  
 CUTS IN STATE BUREAUCRACY.

POHID: 03104753  
 DATE: 02/21/89  
 TIME: 10:47:53  
 LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

BARNES	BOUCHER	ADAMS
BOYER	BROWN	BINKLEY
CATO	COLLINS	COGHILL
COTTEN	DAVIS, C.	DUNCAN
DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MENARD	KERTTULA
MILLER	NAVARRÉ	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGUŁEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

NO RESPONSE REQUIRED

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: KEN GRIFFIN

TITLE:

ADDRESS: 8231 SUMMERSET

ZIP: 99518

CITY: ANCHORAGE

PHONE: 349-7259

BILL NO:

SUBJECT: TAXATION

MESSAGE: I HEARTILY SUPPORT GOVERNOR COMPER'S RECOMMENDATION TO THE GOVERNORS OF FEDERAL TAX CREDITS FOR OIL EXPLORATION AS A MECHANISM TO HELP REDUCE OUR INCREASING DEPENDENCE ON FOREIGN OIL. OF COURSE, THE SAME LOGIC WOULD SUGGEST NOT CHANGING THE ELF FORMULA - WHICH ITSELF IS NOTHING MORE THAN ANOTHER TAX INCREASE.

POMID: 03145026

DATE: 03/03/89

TIME: 14:50:26

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

BARNES	BOUCHER	ADAMS
BOYER	BROWN	BINKLEY
CATO	COLLINS	COGHILL
COTTEN	DAVIS, C.	DUNCAN
DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MENARD	KERTTULA
MILLER	NAVARRE	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGULEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAHACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: PHILLIP GUY

TITLE:

ADDRESS: BOX 80

ZIP: 99621

CITY: KWETHLUK, ALASKA

PHONE: 757-6613

BILL NO: HB 99

SUBJECT: MINING CLAIMS, LEASES, RENTS &amp; ROYALTIES

MESSAGE: THE LANGUAGE IN THIS BILL IS VERY BRIEF AND THE RECLAMATION LANGUAGE NEEDS TO BE INCLUDED. WE DO NOT WANT TO SEE ANOTHER SITUATION, LIKE THE ONE TULUKSAK EXPERIENCED, HAPPEN AGAIN. RECLAMATION LANGUAGE WILL MAKE IT VERY CLEAR TO ALL MINERS. THANK YOU.

POMID: 05091020

DATE: 02/21/89

TIME: 09:10:20

LIONAME: BETHEL LIO

COPIES: REPRESENTATIVES SENATOR

HOFFMAN	BINKLEY
MENARD	
JACKO	
FOSTER	
NAVARRE	
FURNACE	
SHARP	
HUDSON	
DAVIS, M.	

DEAR: REPRESENTATIVE DAVIDSON

NAME: DON CHANCEY

TITLE:

ADDRESS: 12840 SUMMER DRIVE

CITY: ANCHORAGE

PHONE: 345-3659

ZIP: 99516

BILL NO: HB 118

SUBJECT: OIL &amp; GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: I OPPOSE PASSAGE OF HB 118. THIS BILL WOULD INCREASE THE SEVERANCE TAX WHICH IS ALREADY THE HIGHEST TAX IN THE COUNTRY. TAXES ARE ALSO THE HIGHEST EXPENSE OF OPERATING AN OILFIELD IN ALASKA. IT IS TIME TO CUT STATE EXPENSE BUDGET.

POMID: 03160656

DATE: 02/24/89

TIME: 16:06:56

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES

PETTYJOHN  
MENARD

DEAR: REPRESENTATIVE DAVIDSON

NAME: JOHN STALLONE

TITLE:

ADDRESS: PO BOX 201172

CITY: ANCHORAGE

PHONE: 243-2192

ZIP: 99520

BILL NO: HB 118

SUBJECT: OIL &amp; GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: THE ELF TAX SHOULD BE LEFT ALONE. IT WAS A GOOD PLAN WHEN ENACTED AND STILL IS. ECONOMICALLY, I SEE THE BENEFITS DAILY. TAXATION SHOULD BE FAIR AND STABLE. WHY NOT LOOK AT OTHER REVENUE SOURCES BESIDES TAXES LIKE LEGALIZING GAMBLING OR ENHANCING OUR FISHERIES FOR THE SPORTSMAN.

POMID: 03100219

DATE: 02/28/89

TIME: 10:02:19

LIONAME: ANCHORAGE LIO

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BOYER	BROWN	BINKLEY
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COTTEN	DAVIS, C.	DUNCAN
DAVIS, M.	DONLEY	ELIASON
ELLIS	FOSTER	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FISCHER
HANLEY	HOFFMAN	FRANK
HUDSON	JACKO	HALFORD
KOPONEN	LARSON	JONES
LEMAN	MACLEAN	KELLY
MARTIN	MEHARD	KERTTULA
MILLER	NAVARRE	PEARCE
PETTYJOHN	PHILLIPS	POURCHOT
RIEGER	SHARP	RODEY
SHULTZ	SPOHNHOLZ	STURGULEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: DANA LINDQUIST

TITLE:

ADDRESS: 9140 CATHEDRAL PLACE

CITY: ANCHORAGE

ZIP: 99507

PHONE: 349-2590

BILL NO: HB 118

SUBJECT: OIL &amp; GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: I'M OPPOSED TO HB 118 BECAUSE IT PROVIDES ONLY A SHORT-TERM REVENUE BOOST TO COVER OUT OF CONTROL GOVERNMENT SPENDING AT THE EXPENSE OF LONGTERM OIL INDUSTRY GROWTH AND DEVELOPMENT. I SUGGEST WE WORK AT REDUCING SPENDING BEFORE WE INCREASE TAXES ON AN INDUSTRY WHICH GENERATES 80% OF STATE REVENUES.

POMID: 03092139

DATE: 02/24/89

TIME: 09:21:39

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVE

MENARD

## PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE DAVIDSON

NAME: SCOTT WILSON

TITLE:

ADDRESS: 11240 STROGOMOF DR

CITY: ANCHORAGE

ZIP: 99516

PHONE: 346-2679

BILL NO: HB 118

SUBJECT: OIL &amp; GAS PROPERTIES PRODUCTION TAX -ELF

MESSAGE: HB188 IS UNFAIR TO ALASKANS. IT TELLS INDUSTRY THAT THE STATE OF ALASKA WILL TAKE WHATEVER IT WANTS WITHOUT HELPING SHOULD THE BURDEN ITSELF. WHY HAS STATE FUNDING INCREASED WHILE THE PRIVATE SECTOR HAS BEEN CUT TO THE BONE. HB118 IS SETTING UP ALASKANS FOR A BIG FALL.

POMID: 03135809

DATE: 02/24/89

TIME: 13:58:09

LIONAME: ANCHORAGE LIO

COPIES: REPRESENTATIVES REPRESENTATIVES

BARNES	BOUCHER
BOYER	BROWN
CATO	COLLINS
COTTEN	DAVIS, C.
DAVIS, M.	DONLEY
ELLIS	FOSTER
FURNACE	GOLL
GRUENBERG	GRUSSENDORF
HANLEY	HOFFMAN
HUDSON	JACKO
KOPGREN	LARSON
LEMAN	MACLEAN
MARTIN	MENARD
MILLER	NAVARRE
PETTYJOHN	PHILLIPS
RIEGER	SHARP
SHULTZ	SPOHNHOLZ
SWACKHAMMER	TAYLOR
ULMER	WALLIS
ZAWACKI	

### Full story on ELF

Feb. 17, 1989  
1358 Carat Loop  
North Pole, AK 99705

To the editor:

It was a mere 10 months ago that the liberal press, liberal politics, state and local government workers and the government worker's union leaders from the Laborers, Teamsters, Operators, and the IBEW were literally screaming for a public hearing on the ELF.

Well, finally a statewide hearing on the ELF took place on Monday, February 13, for more than four hours. Given the fevered "Public Hearing! Public Hearing!" chant of last spring and the importance of the ELF issue to the future of Alaska I believe the public unable to attend the hearing's deserved more than the very short Page 2 story "Old ELF arguments recited" run in the Feb. 14 News-Miner.

For their benefit, then:

1. The count was two to one against ELF modification, 50 persons spoke against HB118, 25 spoke in favor.
2. Those speaking against HB118

were predominantly private sector—oil industry employees, Chamber of Commerce members and staff, businessmen, and businesswomen. Those speaking in favor of HB118 were predominantly public sector—state and local government employees and their spouses, government employee union leaders, union members, local government elected officials, and AKPIRG. It became quite clear the ELF is a public sector vs. private sector issue.

3. House Resources Chair, Cliff Davidson (D-Kodiak), in an unprecedented maneuver, required people to declare whether they were either for or against HB118, before they were called to testify. Davidson's stated intention was to hold a "balanced hearing" by calling to testify an equal number "for" or "against." As noted above, even with the chair's maneuver, the count was two to one against ELF modification.

Kenneth D. Corbet

*From the Fairbanks  
Daily News-Miner  
2/26/89*

February 13, 1989

To: Members of the House Resources Committee

From: Kristine Funk  
PO Box 940  
Sitka, AK 99835

My name is Kristine Funk and I have been a resident of Sitka and Alaska for 10 years.

I believe that increased taxation of the oil industry should be considered only if you believe that there should be no limits on state spending and if you believe that our state government has the right to spend every dime of revenue and demand more when that runs out.

It is my opinion that the oil industry is paying its fair share of taxes and I do not support changes to the ELF equation. Our state government made a commitment to the oil industry when an agreement on the Economic Limit Factor was enacted. It is my position that a deal is a deal and state government has no business trying to renege on the agreement now which would send a signal to other industries and foreign corporations to beware of Alaska because they make deals and don't honor them.

We see the same thing happening to the timber industry in Southeast Alaska. Deals made between the federal government and the industry with government not honoring the deal. Deals broken will cost Alaskans jobs.

I oppose changes to the ELF.

Thanks for your consideration on this matter of grave importance to all of us in Alaska.

cc: Senator Dick Eliason  
Representative Ben Grussendorf

RECEIVED FEB 17 1988

Opposition testimony to House Bill 118

February 13, 1989

My Name is Megan Woods. I represent Norgasco, Inc. of 8740 Hartzell Road, Anchorage, AK 99507. We are a natural gas utility serving the Deadhorse area.

Passage of House Bill 118 will guarantee price increases for Norgasco and therefore prices for their customers will likewise rise. I estimate each customer will pay an additional \$16,000 a year (on average) as result of increased severance tax alone.

\$16,000 seems rather a small pot of coffee in light of the current deficit situation. Multiplied by 30 customers over 10 years it boils up to over 5 million dollars that the bill will suck out of our customers. Such increases are translated into higher operating costs.

These increase can only cripple industry's efforts at recovery. Norgasco, too will suffer more directly from these high rates as our customers may decrease their use of gas.

This is not the basis for economic recovery. Norgasco does not consider increased taxes an alternative to the State's revenue deficiencies until its operating budget is reduced to realistic and sustainable levels.



# Alaska State Legislature

HOUSE OF REPRESENTATIVES  
COMMITTEE ON RESOURCES

POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-3718

## MEMORANDUM

TO: House Resources Committee members

FROM: Representative Cliff Davidson  
Representative Curt Menard  
Co-Chairs, House Resources Committee

DATE: February 27, 1989

SUBJECT: ELF Questions

Attached are answers to 26 questions concerning HB 118 (ELF) that have been provided to the Committee by the following:

- 1) Department of Revenue
- 2) BP Exploration (Alaska), Inc.
- 3) Exxon Company USA
- 4) ARCO Alaska, Inc.

## ELF QUESTIONS

### I AMOUNT OF OIL EXTRACTED

(1) The ELF is designed to provide production incentives for wells in "marginal" oil fields. Which oil fields are considered "marginal" in Alaska?

(2) How many barrels per day are extracted from the most productive oil field in Alaska that will be allowed tax cuts under this ELF bill?

(3) How many barrels per day are extracted from Prudhoe Bay? from Kuparuk?

(4) How many barrels per day are extracted from wells in the most productive oil fields in the various lower 48 states? What is the greatest barrels-per-day extraction considered marginal and provided tax cuts for production incentive in the various lower 48 states?

(5) Which oil companies have the greatest lease interests in Prudhoe Bay and Kuparuk oil fields and what is the percentage of their lease interests?

(6) Oil Companies: How much oil did you extract world wide in 1976? How much of that was from Alaska? (Prudhoe Bay?)

(7) Oil Companies: How much oil did you extract world wide in 1988? How much of that was from Alaska? (Prudhoe Bay?)

### II TAXES PAID

(8) Which oil fields will receive tax breaks from this ELF Bill? Which oil fields will receive tax increases from this ELF bill?

(9) Can the ELF raise the amount that would be paid for severance taxes above the statutory nominal rate of 15% for any oil field or any oil company? So this ELF bill can't do this either, right?

(10) Will this ELF bill raise the rate that would be paid for severance taxes for Prudhoe Bay above the rate that was paid by oil companies at Prudhoe Bay prior to June 20, 1987?

(11) How much is being paid to the State of Alaska in severance taxes each year?

(12) How does the amount that Alaska receives in severance taxes compares to the amount that other oil-producing states and nations receive? How much would the

fields in the lower 48 pay if they were placed under the Alaska tax structure?

(13) Oil Companies: Do you have North Sea productions? If so, what percent of the total economic rent do you realize from your Alaska production and what percent do you realize from your North Sea production?

### III PROFITS

(14) Oil Companies: How much profit is being made off of the most productive oil fields in the lower 48 states?

(15) Oil Companies: How much profit is being made off of the most productive oil fields in other oil-producing countries?

(16) How much profit is being made off of Prudhoe Bay and Kuparuk oil fields each day?

(17) Does this include TAPS? If not, what is the profit on TAPS?

(18) What public sources corroborate this? Would you provide materials proving this? Would you provide a detailed list of your revenues and expenses?

(19) How much profit is made from refined products from Alaskan oil?

(20) What did the oil companies of Prudhoe Bay do with the savings made as a result of the tax break occurring on June 20, 1987?

(21) What percent of money grossed by Alaska's oil in Prudhoe Bay and Kuparuk is reinvested in Alaska? How much money is sent outside?

### IV IMPACTS ON ALASKANS

(22) How many jobs are involved in starting up a small oil field? How many jobs are involved in maintaining a small field?

(23) How many Alaskans were employed by the oil companies of Prudhoe Bay prior to June 20, 1987 when the tax cut kicked in? How many Alaskans are employed by the oil companies of Prudhoe Bay now?

(24) What is the long-term effect on Alaskan jobs in Prudhoe Bay and Kuparuk oil fields as a result of this ELF bill?

(25) How many Alaskans are employed by the oil companies of the marginal oil fields now? How many Alaskans are likely

to be employed by the oil companies of existing marginal oil fields and in developing other oil fields as a result of this ELF bill?

(26) What is the long-term effect on Alaskan jobs in the smaller oil fields as a result of this ELF bill?

ANSWERS TO QUESTIONS

DEPARTMENT OF REVENUE

Department of Revenue

February 21, 1989

Response to Questions from House Resources Committee - HB 118

I. Amount of Oil Extracted

1. Marginal fields are fields with either relatively low per well productivity or relatively low daily production. These are indicative of the economic well being of the field. Production is significant because of the considerable economies of scale that accompany large fields. For example, the consultants report for the U.S. Minerals Management Service estimated the production platform capital cost per barrel for a 300,000 barrel per day field to be approximately 60% of that of a 100,000 barrel a day field. Attachment 1 displays economies of scale for production platform costs. There are numerous precedents for taxing on the basis of field size. For example, see Attachment 2, which shows higher royalties for larger fields in Norway. In Alaska the marginal fields are the six Cook Inlet fields (Beaver Creek, Middle Ground Shoals, Granite Point, McArthur River, Swanson River, and Trading Bay), Milne Point, Lisburne, Endicott, Niakuk, West Sak, Point Thomson, Seal Island, and probably any other field that will be discovered in Alaska.

2. There are two factors that will affect the size of field that will have reduced taxes under the bill. The first factor is the change in the formula itself. Because of this fields that produce less than approximately 115,000 barrels per day will have reduced taxes under the bill. The second factor is the elimination of the "rounding rule." Under current law fields whose ELF is greater than 0.7 must raise the ELF up to 1.0 for the first ten years of the field, making the severance tax rate equal to that set in the law (12.25% for the first 5 years, then going to 15%). This provision is eliminated under the bill. Thus fields that produce more than 115,000 barrels per day could benefit from the bill by eliminating the rounding provision. The most productive oil field in Alaska that will have reduced taxes under the bill is currently Endicott, which produces approximately 100,000 barrels per day.

3. Prudhoe Bay produces approximately 1,500,000 barrels per day. Kuparuk produces about 320,000 barrels per day.

4. The most productive fields in the lower 48 produce less than

100 barrels per well per day. (Prudhoe Bay produces over 20 times that much.) Alabama, for example, gives tax relief for wells producing less than 25 barrels per day.

5. BP owns approximately half of Prudhoe Bay with the remainder split approximately in half between ARCO and EXXON. There are eight other minor owners. ARCO/BP have an approximate 60/40 split of Kuparuk. There are four other minor owners.

## II. Taxes Paid

8. Milne Point, Lisburne, Endicott, Niakuk, Point Thomson, and Seal Island would receive tax breaks under the proposal. Cook Inlet and West Sak pay no severance tax under current law and would not pay any under the proposal. Prudhoe Bay and Kuparuk would have increased taxes under the proposal.

9. Neither the current nor the proposed ELF could raise the effective severance tax rate over the statutory nominal rate.

10. This ELF bill would result in a lower effective severance tax rate for Prudhoe Bay than was in effect on June 20, 1987.

11. The State received \$819 million from severance taxes in FY 88. Attached is a table for other prior years.

12. For 1987, the last year where we have comparable data, Alaska ranked 8 out of the top 10 producing states in severance tax payments per barrel (where 1 would be the highest payment). (See Attachment 3.) Texas received \$529 million more in severance taxes (55%) than Alaska, whereas its production was only six percent higher. ( Texas got \$1.55 per barrel, Alaska got 91 cents per barrel ). Virtually every field in the lower 48 (except one) would pay no severance tax if put under either Alaska's present or the proposed severance tax structure under HB118.

## III. Profits

16. The Administration testimony of February 10, 1989 showed that producers made \$3.46 per barrel in profit from Alaska North Slope operations in February 1988. This is \$7 million a day. TAPS accounted for \$1.15 of this. The remainder (\$2.31) is attributable to production. Also according to PIW (see Attachment 4), average production profits worldwide were \$0.87 per barrel. This is derived by dividing total production profits by oil production.

17. See #16 above.

18. See #16 above. Also the State is currently developing an

extensive analysis of the profitability of North Slope fields.

19. Because the refining segment is more concentrated than the producing segment, and thus less competitive, when crude prices (upon which State revenues are based) are low, refining profits are high since the lower price does not have to be passed on directly to consumers, and because demand increases. In the third and fourth quarters of 1988, for example, petroleum earnings were very high because of this. For example, ARCO's fourth quarter 1988 earnings set a record of a 15 percent increase. Their refining and marketing segments were up 76 percent. (See Attachment 5.)

20. Well drilling was only increased slightly. The average well count at Prudhoe Bay increased by 60 in 1986 and by 67 in 1987. See #21 below.

21. Based on the PIW data and the announced spending figures of the producers (\$750 million), it is estimated that approximately 15% of cash flows (profit plus depreciation - this is discretionary income) are reinvested in Alaska. (See Attachment 6.) The other 85% leaves the State. Note, however, that even the investment that stays in Alaska does not create income indigenous to Alaska. For instance, the amount invested in a gas plant is invested where the plant is manufactured. e.g., Texas), not where it is erected. (See Attachment 7.)

#### IV. Impacts on Alaskans

22. The start-up and maintenance of small fields, that might otherwise not occur without HB 118, could create in excess of 1,000 jobs. (See Attachment 8.)

23. Department of Labor data suggests that employment on the North Slope has not increased over the period. (See Attachment 9.)

24. #23 above suggests that HB 118 would not affect employment at Prudhoe Bay and Kuparuk. Also note that the bill will result in lower severance tax rates than current law even on those fields in the long run.

25. It is difficult for the State to get a field by field breakout of employment. This bill could cause fields to come on line that otherwise might not. Since the bill reduces severance taxes on the marginal fields, the Department of Revenue estimates that the bill would reduce the threshold start-up price on the marginal fields by approximately \$2 a barrel. As stated above, each new field that comes on line could create in excess of 1,000 jobs.

26. See #25 above.

## Attachment 1

TABLE 4.2-5

PRODUCTION PLATFORM TOPSIDES CAPITAL COST - ARTIFICIAL ISLAND

	<u>Cost. MMS</u>		
	<u>100,000 BPD</u>	<u>200,000 BPD</u>	<u>300,000 BPD</u>
Management and Engineering	34	40	41
Drilling Equipment	17	34	34
Production and Other Equipment	99	156	210
Module Fabrication	95	165	180
Transport and Installation	130	200	260
Certification and Insurance	<u>5</u>	<u>5</u>	<u>5</u>
Total Cost	400	600	730

TABLE 4.2-6

PRODUCTION PLATFORM TOPSIDES CAPITAL COST - BOTTOM FOUNDED

	<u>Cost. MMS</u>		
	<u>100,000 BPD</u>	<u>200,000 BPD</u>	<u>300,000 BPD</u>
Management and Engineering	34	40	41
Drilling Equipment	17	34	34
Production and Other Equipment	99	156	210
Below Deck Equipment	10	10	10
Module Fabrication	115	165	180
Transport and Installation	20	35	40
Certification and Insurance	<u>5</u>	<u>5</u>	<u>5</u>
Total Cost	300	445	520

Source: Han-Padron Assoc., Beaufort Sea Petroleum Technology Assessment  
 Technical Report No. 112, prepared for Minerals Management Service, Alaska  
 Outer Continental Shelf Region, Leasing and Environment Office, Social and  
 Economic Studies Unit, March 1985.

an oil purchaser and trader to the until 1985, when the corporation is Agency was set up to maintain oil but these rights are not being by no government participation is

tionary fiscal power which it can marginal fields. The Department here it is convinced that the couraging the development of a onment to be considered. The 'PRT and corporation tax (i.e., no s payable, even though royalties these two taxes). To date several es have been made, but none has

offshore petroleum in Norway is t of 1963, the Royal Decree of n Activities Law of 1985. In t the Crown. Licensing is done by including technical and financial vegian economy (in particular the ial growth and development), overnment participation offered. i petroleum exploitation, namely,

royalty is part of the licence. The s at the production-area point of ore December 1972, the rate is 10 e December 1972, a progressive s shown in Table 3.4. The rates ield. The tax is thus applied on a

The rules also state that when e royalty rate will fall as well, t it may not fall below 12 per cent. t per cent. Section 26 of the Royal government the power to fix lower ty per well, or other conditions so no reductions in royalty rates. yable by all companies operating at the rate of 27.8 per cent; and cent. With regard to petroleum,

the Municipal Tax is collected and utilized not by the local governments but centrally. In 1975 the Norwegian government introduced a tax package on North Sea operations which maintained the royalty provisions described above but substantially changed income taxation.

Table 3.4  
Royalty Rates on Oil Production in Norway

Average Field Production (barrels per day)	Rate of Royalty (%)
Under 40,000	8
40,000 and under 100,000	10
100,000 and under 225,000	12
225,000 and under 350,000	14
350,000 and above	16

The 1975 act introduced allowances which apply equally to both income taxes. Deficits accumulated over the previous 25 years are deductible as losses, although there is a restriction on the rate at which such losses can be deducted. The deduction in any one year is limited to one third of the total deficit in the previous 15 years, so that the total deductions have to be distributed over a minimum of 3 years. Eligible costs include exploration costs, various licence fees, and royalties. Only 50 per cent of losses incurred from other (non-Continental Shelf) activities in Norway may be deducted from Shelf income. Had the 1975 act not stipulated this restriction, companies would have an incentive to invest in non-Shelf activities, and tax revenues from North Sea oil exploitation would be postponed. The provision means, in effect, that 50 per cent of non-Shelf operating losses may be set against Shelf income, as can 50 per cent of the costs of investing in, say, a refinery or marketing facilities. On the other hand there is no restriction on the ability to set losses incurred in Shelf operations against income from other activities in Norway. Thus, there are still advantages to be obtained from integrated operations in Norway. However, losses or deficits incurred abroad are not allowed as deductions against North Sea income in Norway.

The 1975 act also introduced special depreciation provisions for North Sea operations. The normal depreciation allowances were considered too restrictive for the size of the investments and risks

Source: Kemp, Alexander, Petroleum Rent Collection Around the World, The Institute for Research and Public Policy, Halifax, 1987

**Table 3**  
**HISTORICAL PETROLEUM REVENUES**  
(Millions of Dollars)

FY	Corporate		Oil/Gas	Property	Reserve	Fed. Min.		Rents	Royalties	Oil/Gas	Total	Total G.F.	% of Total
	Non-Petroleum	Petroleum	Severance			Tax	Tax			Rents & Bonus	Royalties (1)	Special	Petroleum
			Tax	Tax	Tax	Royalties (1)	Sales	(1)	(1)	Settlements	Revenues	Revenues	Revenues
59	1.4					3.1					3.1	25.4	12
60	1.7					5.8	4.0	.1			9.9	48.0	21
61	1.4					2.4	1.6	.2			4.2	40.5	10
62	1.8		.2			4.5	20.3	1.0			26.0	68.9	38
63	2.2		.3			8.6	17.9	1.0			27.8	71.6	39
64	1.8		.3			8.7	4.7	1.2			14.9	67.0	22
65	1.9		.3			8.3	5.9	1.9	.1		16.5	83.0	20
66	4.1		.3			7.7	10.8	2.5	.3		21.6	86.5	25
67	3.5		.5			7.7	8.6	2.8	1.9		21.5	86.6	25
68	3.8	.1	1.2			7.5	21.8	2.9	9.5		43.0	112.7	38
69	4.2	.1	5.6			7.8	.8	3.3	16.9		34.5	112.4	31
70	4.9	.4	7.9			8.2	900.0	3.1	19.3		938.9	1067.3	88
71	5.2	.9	10.5			8.6	.2	2.9	23.9		47.0	220.4	21
72	5.3	1.2	11.4			7.9	.3	3.0	24.6		48.4	219.2	22
73	5.9	.9	12.0			6.7	3.8	3.4	23.5		50.3	208.2	24
74	7.0	1.2	14.8			7.1	24.8	3.6	28.7		80.2	254.9	31
75	14.8	2.5	26.6	6.6		9.8	1.0	3.9	40.0		90.4	333.4	27
76	26.2	4.9	28.0	83.4	223.1	5.1		3.7	43.3		391.5	709.8	55
77	30.8	5.0	23.8	139.1	270.6	2.0*		2.8*	34.3*		477.6*	874.3	55
78	25.1	8.4	107.7	173.0		1.0*		1.8*	149.6*		441.5*	764.9	58
79	24.8	232.6	173.3	163.4		1.0*		1.6*	249.2*		821.6*	1133.0	73
80	17.9	547.5	506.5	168.9		1.2*	342.4*	1.8*	688.2*		2256.5*	2501.2	90
81	34.8	860.1	1170.2	143.0		1.2*	7.6*	3.7*	1118.5*		3304.3*	3718.2	89
82	34.8	668.9	1581.7	142.7		17.1*	5.0*	2.1*	1157.3*		3574.8*	4108.4	87
83	30.1	236.0	1493.7	152.6		27.2*	36.2*	2.5*	1078.4*		3026.6*	3631.0	83
84	39.5	265.1	1393.1	131.0		11.0*	10.1*	3.8*	1047.5*		2861.6*	3390.1	84
85	36.0	168.6	1389.4	128.4		8.2*	11.5*	3.4*	1034.0*		2743.5*	3260.0	84
86	11.2	133.9	1108.4	113.5		14.3*	34.7*	4.2*	856.1*	392.8*	2657.9*	3075.5	86
87	20.5	120.4	648.5	102.5		11.0*	.5*	3.8*	439.3*	68.5*	1394.5*	1799.4	77
88	23.4	158.0	818.7	96.2		8.7*	5.6*	5.7*	694.8*	161.9*	1949.6*	2305.8	85

\* Net of Permanent Fund contribution.

(1) These categories are primarily composed of oil/gas revenues; however, includes some additional revenues from other minerals (mostly coal).

## Attachment 3

Comparative Severance Tax Payments  
1987 Production and Collections  
10 Top Oil Producing States

	Production <sup>1</sup> (1000's of bbls)	Severance Tax <sup>2</sup> (1000's of \$)	\$/Bbl	Severance Tax Rank
Texas	760,145	1,178,052	1.55	6
ALASKA	715,855	648,500	0.91	8
California	364,572	14,600	0.04	10
Louisiana	173,409	439,237	2.53	4
Oklahoma	132,970	372,883	2.80	2
Wyoming	112,597	138,915	1.23	7
New Mexico	71,533	262,290	3.67	1
Kansas	59,120	159,952	2.71	3
North Dakota	41,351	90,665	2.19	5
Utah	35,477	22,781	0.64	9

<sup>1</sup> Source: Department of Energy

<sup>2</sup> Source: Petroleum Independent, September 1988

Chart 1

# In February 1988, A Barrel of Oil at Valdez Was Worth \$11.93.

This is how the \$11.93 Was Divided:

Costs of Production  
and Pipeline Operations  
\$1.44

36%

\$3.46 Profit

U.S. Income Tax  
\$1.40  
~31%

Severance \$0.99

Property Tax \$0.46

Royalty \$1.10

State Income Tax  
\$0.12 34%

Depreciation & Other Cash  
\$2.96

Costs of Operations    To the Feds    To the State    To the Oil Companies

Attachment 4

Photocopied by permission of Petroleum and Energy Intelligence Weekly.

## WHAT'S NEW AROUND THE WORLD

### GENERAL

**OPEC** — The first meeting of the ministerial-level monitoring committee is scheduled for March 29-30 in Vienna. Ministers from Saudi Arabia, Kuwait, Nigeria, Algeria, Indonesia, Venezuela, Iran and Iraq will gather as agreed at the full ministerial meeting last November. The panel's official brief includes review of progress toward the group's \$18 price target, quota compliance, and longer-term issues, such as permanent output quotas for members.

**TANKERS** — A shortage of available tonnage sent spot freight costs soaring in December despite a drop in single-voyage chartering. Following extremely high levels of listings in October and November, average spot rates in December for all vessel sizes rose by over 40% from the previous month, according to London tanker brokers Howard Houlder. Overall, spot chartering in December fell over 10-million tons to 44.3-million tons.

Reflecting higher volumes of oil afloat, tonnage employed as floating storage rose almost 2-million tons in December to 13.5-million tons, mostly in the US Gulf. Tankers in lay-up in December fell to a rock-bottom level of 2.5-million tons, with

most of the remaining vessels probably only suitable for scrap. Following are per-bbl freight costs for specific voyages.

Spot Freight Costs for Key Cruises (\$/bbl):

Voyage	1,000 dwt	Dec.	Nov.
Arab Lt.-N. Europe	250	\$1.31	\$1.40
Arab Lt.-Singapore	220	0.77	0.53
Nigeria-US Gulf	125	1.22	0.90
UK Brent-US Gulf	80	1.25	0.98
Venezuela-US Gulf	50	1.17	0.69
Libya-Italy	80	0.64	0.36
Indonesia-Singapore	80	0.23	0.19

**INDUSTRY RESTRUCTURING** — In what may be the last step of a major restructuring plan, Texaco has agreed to sell its 78% interest in Texaco Canada to Imperial Oil, Exxon's Canadian subsidiary, in a deal valued at \$4.15-billion. The acquisition solidifies Imperial's position as Canada's biggest oil company, though the deal is subject to regulatory approval. Imperial may be forced to sell some marketing assets, as the combined companies would have 36% of total oil sales in Canada.

Gas pipeline firm Texas Eastern is fighting Coastal's \$2.5-billion tender and may seek another suitor, make a leveraged buyout or undertake a major asset sale. Securing a toehold in the expanding Spanish market, British Petroleum has an option to

buy 8%-15% of refiner Petromed, which operates a 120,000 b/d refinery at Castellon de Plana. BP also plans to sell another \$1-billion in non-US assets as part of its plans to reduce debt. Conoco has purchased a 31.25% interest in the undeveloped UK Anglia gas field from Lasmo for an undisclosed amount. Arco realized \$1.22-billion from the stock sale of roughly half its interest in Lyondell.

### COUNTRIES

**AUSTRALIA** — Lukewarm oil company reaction to Canberra's latest excise tax proposal minimizes chances for a significant production increase in Australia's largest oil field. The country's two largest oil producers, BHP and Exxon, reacted unenthusiastically to a newly drafted sliding-scale excise tax. The companies contend that the latest government proposal still does not provide adequate tax relief for operating older, marginal fields discovered in the Bass Strait before 1979.

Shut-ins by the two companies have trimmed production by more than 65,000 b/d (PIW Nov.21.p7).

**BRUNEI** — Reflecting the sharp upturn in the spot market, the sultanate retroactively boosted crude oil export prices

## Record Refining And Chemical Earnings Boost Company Profits In 1988

Record refining and chemical earnings for many oil companies more than offset steep declines in upstream profits and pushed total 1988 profits for seven major US companies up sharply. Total profits for the seven companies of \$15.3-billion during 1988 were almost 30% above earnings in 1987, after excluding extraordinary charges of nearly

\$5-billion by Texaco in 1987 to settle litigation and for restructuring.

Total profits for the group in the fourth quarter of \$3.3-billion declined by 8% from a year earlier, despite huge downstream earnings for many companies. Combined refining and marketing earnings of \$1.3-billion were almost 120% above like 1987 results, while

chemical earnings of \$1.2-billion showed an increase of 35% and exceeded upstream profits. Exploration and production profits fell 68% to just under \$780-million in the fourth quarter.

Annual 1988 profits are shown in million dollars, with percent changes from 1987. Oil volumes are in 1,000 b/d, and gas is in million cu ft/d.

	Exxon		Mobil		Chevron		Texaco		Amoco		US Shell		Arco	
	1988	% Chg.	1988	% Chg.	1988	% Chg.	1988	% Chg.	1988	% Chg.	1988	% Chg.	1988	% Chg.
Profits: Oil & Gas	2,508	-30.8	894	-42.7	655	-38.3	814	-40.8	631	-21.1	326	-55.5	542	-35.1
Production	829	-37.1	95	-20.4	16	-95.8	151	-32.5	383	+0.8				
United States	1,779	-27.3	799	-25.8	639	-7.3	463	-43.1	248	-41.0				
Foreign	1,304	+254.4	996	+329.3	622	+225.7	1,116	+758.5	897	+315.3	519	+131.7	368	+145.3
Refining & Mktg.	669	+1,990.6	554	+350.4	571	+288.0	651							
United States	1,125	+137.9	442	+305.5	51	+31.1	465	+180.1						
Foreign	4,412	+3.2	1,890	+5.4	1,277	+1.3	1,730	+48.2	1,528	+50.4	845	-11.7	910	-7.6
Total Petroleum	1,309	+74.5	631	+110.3	391	+62.9	245	+214.1	684	+60.2	553	+32.9	-929	+73.3
Chemicals	-461		-427		100		-671		-149		-194		-256	
Other	5,260	+8.7	2,094	+55.3	1,768	+41.3	1,304		2,063	+51.7	1,239	+0.7	1,583	+29.3
Total Profits														
OPERATING STATISTICS														
Oil Production	1,919	+4.6	855	+4.0	1,309	-2.2	990	-6.3	809	+0.9	595	-2.3	738	+1.4
Refinery Runs	3,041	+2.0	1,653	+5.8	1,907	+1.5	1,977	-0.8	944	+5.5	999	-2.0	704	+5.1
Product Sales	4,206	+4.0	2,281	+4.9	2,422	+3.7	2,787	+1.9	1,133	+11.0	1,314	-2.5	669	-1.6
Raw Gas Prod.	5,192	-0.7	4,747	+3.5	2,732	+2.4	2,235	+10.2	3,151	+5.0	1,613	-11.4	1,543	+7.5
Prod. Per Barrel	\$3.42	+4.3	\$2.51	+47.8	\$2.09		\$1.58		\$4.97	+36.2	\$2.58	+3.6	\$6.47	+31.2

\* Not meaningful. † Includes \$225-million profit from 1988. ‡ Includes \$2.796-billion for the Pennzoil settlement and \$2.056-billion in restructuring.

Wall Street  
Journal

## Arco's Earnings Set a Record; Amoco Net Falls

By FREDERICK ROSE

Staff Reporter of THE WALL STREET JOURNAL  
Atlantic Richfield Co., boosting its quarterly dividend, reported record fourth-quarter profit and announced an indefinite extension of a stock-purchase program.

Separately, Amoco Corp. said its fourth-quarter net income declined less than 1% to \$375 million, or \$1.45 a share, as increased profit from refining and marketing operations was offset by declining results from crude oil and natural gas production.

Los Angeles-based Arco's quarterly dividend increase, to \$1.125 a share from \$1, is

the company's first boost since 1955, when it undertook a massive recapitalization and cost-cutting program that trimmed its common stock by more than 25%, slashed costs and boosted the dividend at that time to \$1 from 75 cents.

The latest increase had been expected but came earlier and at the high end of analysts' forecasts. Analysts said yesterday's announcements underscore the effectiveness of Arco's 1955 recapitalization, which was widely questioned when it was announced. "They have been vindicated," said Eugene Nowak, an analyst at Dean Witter Reynolds Inc.

The increased dividend will be paid March 30 to stock of record Feb. 17. Arco and Amoco shares both fell yesterday amid a broad slide of oil stocks on news of declining oil prices. Arco was off 12.7 cents, at \$85 a share. Amoco dropped \$3, to \$75.625 a share. The shares of both companies are quoted on the New York Stock Exchange.

Arco's fourth-quarter net income rose

15%, to \$391 million, or \$2.22 a share, from \$340 million, or \$1.86 a share, a year earlier. The latest quarter was Arco's highest ever. Revenue declined 1.6%, to \$4.54 billion from \$4.62 billion. The average shares outstanding declined 3.6%, to 176.9 million from 183.5 million a year earlier.

Contributing to the earnings increase, after-tax profit from Arco's refining and marketing operations jumped 76%, to \$88 million from \$50 million. Profit at the company's Lyondell Petrochemical Co. unit, currently the subject of an initial public offering that will reduce Arco's stake to just under 50%, was nearly trebled at \$151 million compared with \$56 million a year earlier. These increases and others were countered in part by a 38% drop in the company's after-tax profit from crude oil and natural gas production, to \$95 million from \$154 million in the year-earlier quarter.

Arco's indefinite extension of its stock buy-back continues a program started in 1985, under which the company purchased 62.6 million shares—or about 26% of the

amount previously outstanding—at an average price of \$63.47 a share. Analysts said they expect the company to continue the purchases at about the recent rate of its buy-back, which, since November 1987, has brought in 7.6 million shares at an average of \$77.01 a share.

Arco's net income for the year rose 29%, to \$1.58 billion, or \$8.78 a share, from \$1.22 billion, or \$6.68 a share, a year earlier. Revenue increased 7.9%, to \$18.32 billion from \$16.98 billion. The average number of shares outstanding declined 1.6%, to 180.4 million from 183.3 million.

Separately, Chicago-based Amoco reported fourth-quarter net income of \$375 million, or \$1.45 a share, compared with \$377 million, or \$1.47 a share, a year earlier. Revenue climbed 4.3% to \$6.19 billion from \$5.94 billion.

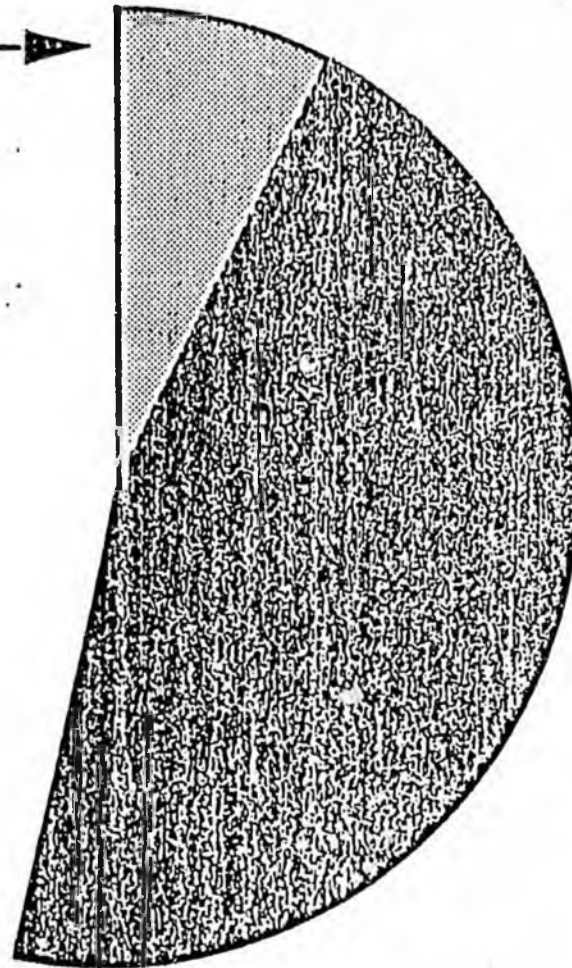
Amoco's net income for 1988 totaled \$2.06 billion, or \$8.01 a share, a 52% increase from \$1.36 billion, or \$5.31 a share, a year earlier. Revenue increased 6.6%, to \$23.93 billion from \$22.46 billion.

1/24/89

Chart 3

# How Much Money Do The Oil Companies Reinvest in Alaska?

Reinvested in Alaska  
(Per Barrel)  
\$.96



Removed from Alaska  
(Per Barrel)  
\$5.46

Attachment 7

## ALASKAN OIL IS VITAL TO NORTHWEST

Oil from Alaska is vital to the Pacific Northwest's economy.

Between 1980 and 1986, over \$10 billion was spent nationwide on oil activities for Alaska's North Slope. Of that, more than one billion dollars was spent in the Seattle, Tacoma and Portland areas.

From 1970 to 1975, the volume of cargo passing through the ports in Washington bound for Alaska tripled.

Virtually all members of Washington's congressional delegation are undecided about their position on oil exploration of the Coastal Plain of Alaska's Arctic National Wildlife Refuge (ANWR).

Congress is expected to decide this year whether to open ANWR to oil exploration and development or designate it a wilderness area.

# OIL DEVELOPMENT IN ALASKA BENEFITS EVERY STATE IN U.S.

Oil development on the Coastal Plain of Alaska's Arctic National Wildlife Refuge (ANWR) could provide economic benefits to all 50 states.

Since 1974, companies operating in Alaska's North Slope oil fields have pumped more than \$36 billion into oil development which has impacted every state.

Between 1980 and 1986, North Slope development accounted for approximately \$10.5 billion in hard goods alone, according to North Slope producers ARCO Alaska, Inc., Standard Alaska Production Company and Conoco. An additional \$7 billion was spent on labor and engineering and design services.

ANWR development is expected to generate tens of thousands of new jobs

across the nation, according to Resource Development Council president Joseph Henri. As many as 250,000 jobs could be created by the year 2005, producing over \$6 billion in annual salaries. Development of the Coastal Plain has the potential to enable the North Slope to continue providing an alternative to imported oil.

On the eve of the 1973 Arab oil embargo, the U.S. was importing 35 percent of its oil. Today, imports represent 45.6 percent of the nation's total consumption.

However, imports are expected to reach 52 to 53 percent of the country's total oil supply by the year 2000, according to the American Legislative Exchange Council.

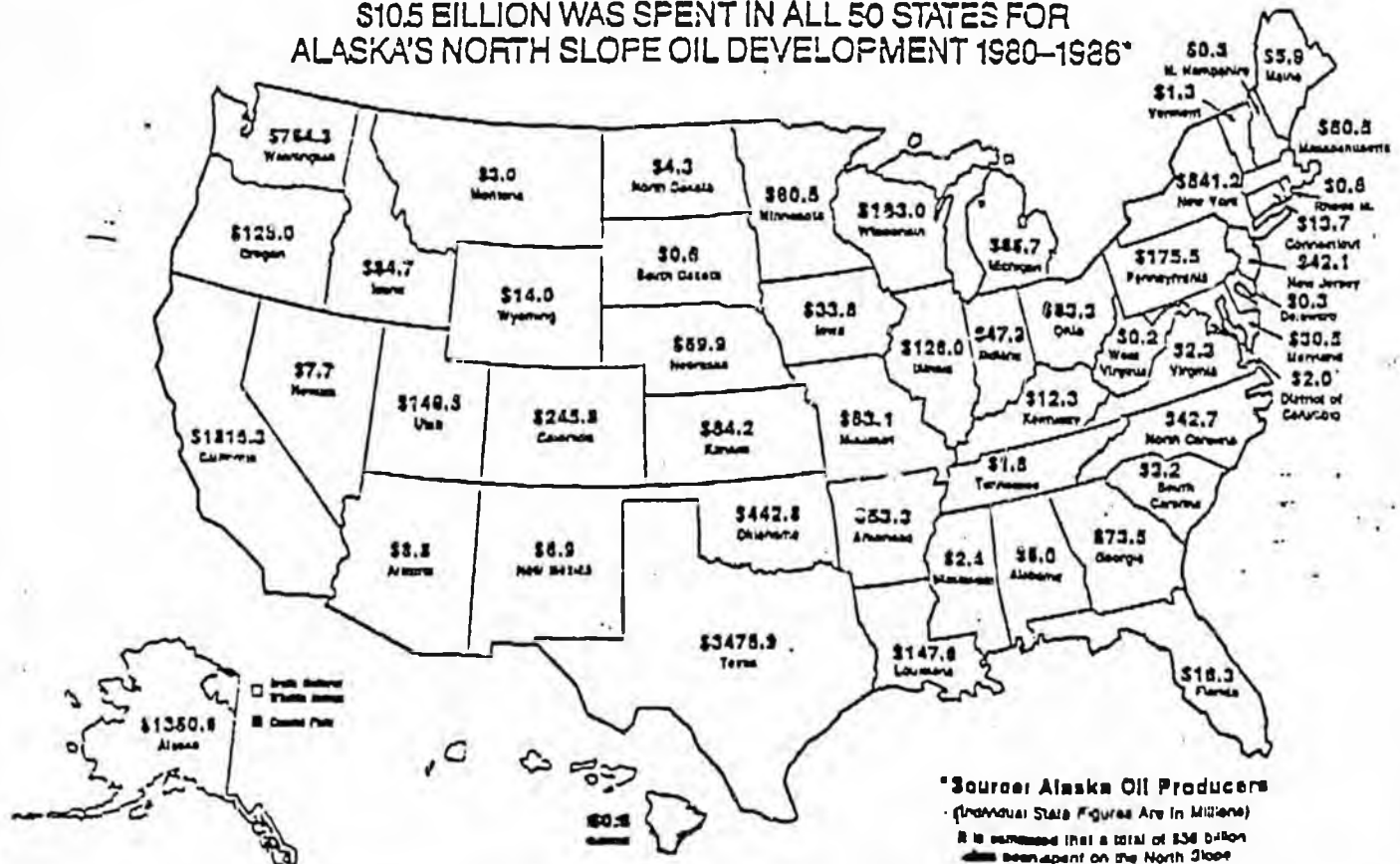
Even exploration of

ANWR's Coastal Plain were to begin immediately, actual oil production on the Coastal Plain could not take place until close to the year 2000. Such long lead times are dictated by the remoteness of the area, arctic weather conditions, regulatory requirements and insuring that development is compatible with the natural environment.

Even while oil exploration and development declined in the U.S. in 1986, consumer demand for oil has increased. This situation has resulted in a rise in imported oil of one million barrels a day.

U.S. domestic production fell by more than nine percent in 1986, while consumer demand increased by three percent, says the American Legislative Exchange Council.

\$10.5 BILLION WAS SPENT IN ALL 50 STATES FOR ALASKA'S NORTH SLOPE OIL DEVELOPMENT 1980-1986\*



Attachment 9

Jobs from a Small Offshore Oilfield

I. Exploration

Drilling	285
Island Construction	480
Transportation Support	150
Base Camp	<u>150</u>
Total	1065

II. Development

Drilling	300
Island Construction	480
Transportation Support	75
Base Camp	<u>240</u>
Total	1095

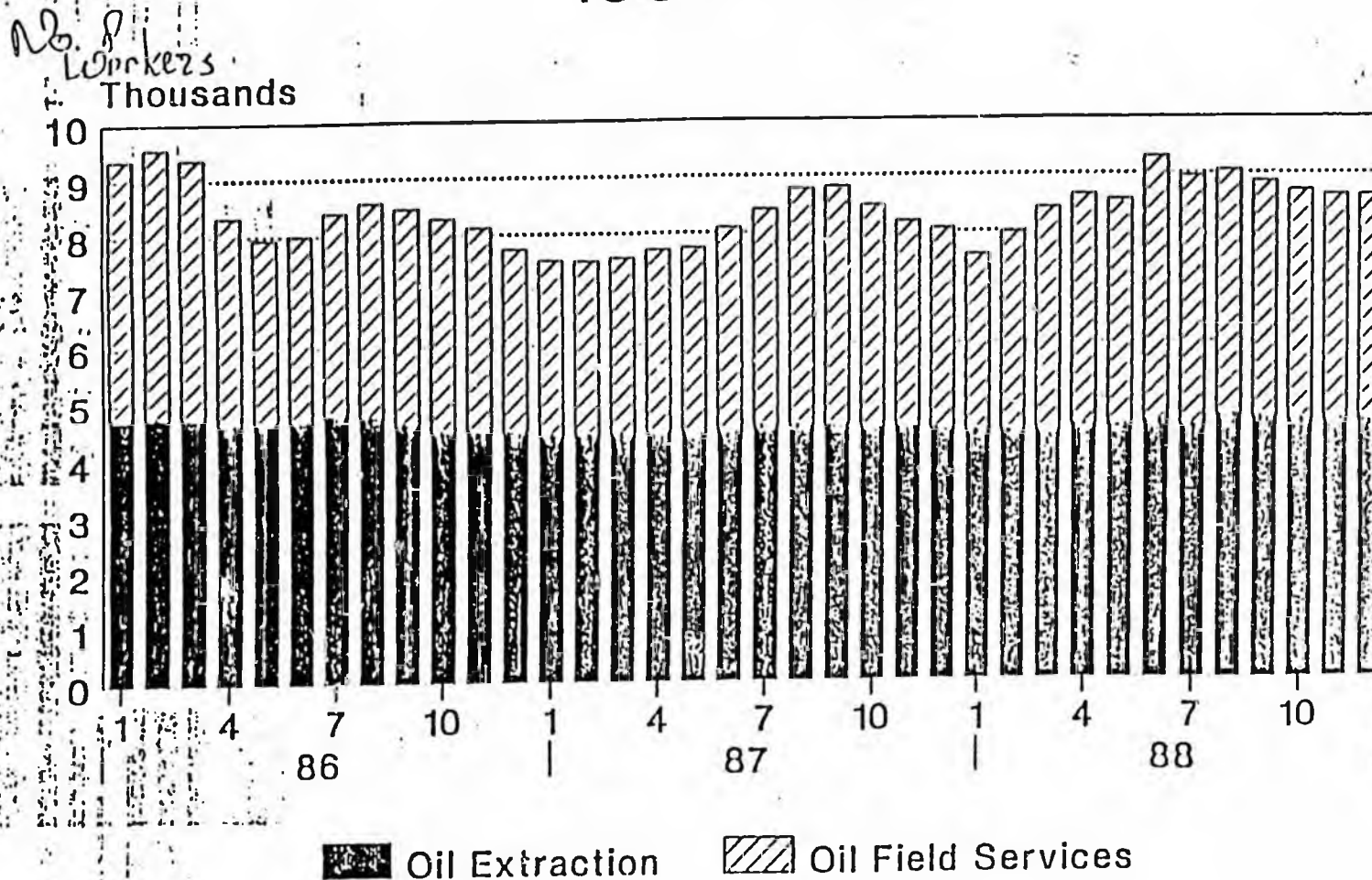
III. Production

Production	450
Island Maintenance	330
Transportation Support	75
Base Camp	240
Pipeline Maintenance	<u>75</u>
Total	1170

Assumes two twelve hour shifts with a two week on / one week off rotation.

Source: Abstracted from Han-Padron Associates, Beaufort Sea Petroleum Technology Assessment, Technical Report No. 112, prepared for Minerals Management Service, Alaska Outer Continental Shelf Region, Leasing and Environment Office, Social and Economic Studies Unit, March 1985.

# Alaska Oil Industry Employment 1986-1988



Source: Alaska Dept. of Labor  
BLS 790 Survey

ANSWERS TO QUESTIONS

BP EXPLORATION (ALASKA), INC.



BP EXPLORATION

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February 22, 1989

Representative Cliff Davidson, Co-Chair  
Representative Curt Menard, Co-Chair  
House Resources Committee  
Alaska State Legislature  
Pouch V  
Juneau, AK 99811

Re: Your "ELF Questions"

Dear Representatives Davidson and Menard:

Set out below are the 26 questions regarding the ELF that you distributed at your Committee's hearing on House Bill No. 118 on February 10, 1989. Following each question is BP Exploration's answer.

(1) The ELF is designed to provide production incentives for wells in "marginal" oil fields. Which oil fields are considered "marginal" in Alaska?

Answer: The question misstates the purpose and function of the ELF. The ELF was designed to provide incentives for the full development of all fields. It does this by adjusting the tax rate for each field so that it is based on that field's own degree of profitability. As a profitable field starts becoming marginal, the ELF automatically responds by lowering the tax rate; but while the field is very profitable, the ELF keeps the tax rate high.

The idea behind the ELF is simple -- the more profitable a field is, the more tax it can afford to pay. Although it looks complicated, the ELF formula simply asks what percentage of the current production from a field is needed to cover the basic costs of getting that production out of the ground. The rest of the production is treated as representing profit. The larger the percentage of profit, the more tax the field can afford to pay. Thus, the larger the percentage of production that is deemed to represent profit, the higher the ELF is. In fact, for gas the ELF is precisely equal to this percentage of deemed profit. The

oil ELF formula is similar, except that the percentage is modified somewhat by the present exponent.

Every field eventually becomes marginal. Usually this is a very gradual process, instead of one that happens over night. There is no identifiable point at which a field suddenly becomes "marginal." Thus, to the extent one sees the ELF to be "designed to provide production incentives for wells in 'marginal' fields," the ELF provides such incentives for every field in Alaska.

(2) How many barrels per day are extracted from the most productive oil field in Alaska that will be allowed tax cuts under this ELF bill?

Answer: By "this ELF bill" in this and other questions you have posed, we assume you mean House Bill No. 118. As you have been told, the present formula in HB 118 is flawed and does not work the way it has been described as working. However, it appears that the formula in HB 118 -- whether it stays as written or whether it is corrected to work as intended -- would reduce the rate of production tax for the Endicott field because the ELF for Endicott is currently being "rounded" to one. According to data provided by the Administration to your Committee, Endicott produced an average of 98,099 barrels a day during November 1988.

(3) How many barrels per day are extracted from Prudhoe Bay? from Kuparuk?

Answer: According to the same data provided by the Administration for November 1988, Prudhoe Bay produced 1,526,932 barrels a day that month and Kuparuk River produced 320,685 barrels a day.

(4) How many barrels per day are extracted from wells in the most productive oil fields in the various lower 48 states? What is the greatest barrels-per-day extraction considered marginal and provided tax cuts for production incentive in the various lower 48 states?

Answer: BP does not have extensive holdings in the Lower 48 states and therefore does not have direct, first hand information available to answer these questions.

(5. Which oil companies have the greatest lease interests in Prudhoe Bay and Kuparuk oil fields and what is the percentage of their lease interests?

Answer: Both Prudhoe Bay and Kuparuk River have been unitized, and hence each company's working interest in either field is

determined under the unit agreement for that field. The following shows each company's present working interest in each field.

	<u>Prudhoe Bay</u>		<u>Kuparuk River</u>
	<u>Oil Rim</u>	<u>Gas Cap</u>	
BP Exploration	50.6848339%	13.8398950%	38.756%
ARCO	21.7799635	42.5649413	56.301
Exxon	21.7776490	42.5647901	0.218
Mobil	1.8915771	0.2843666	0.366
Phillips	1.8805235	0.2629370	--
Chevron	0.6717745	0.4830700	0.109
Texaco	0.5484215	--	--
Amerada Hess	0.5379191	--	--
Shell	0.1375744	--	--
Marathon	0.0499044	--	--
Louisiana Land	0.0397591	--	--
Unocal	--	--	4.250

(6) Oil Companies: How much oil did you extract world wide in 1976? How much of that was from Alaska? (Prudhoe Bay?)

Answer: BP had worldwide oil production of 3.5 million barrels a day in 1976. The Standard Oil Company (SOHIO) produced 41,927 barrels a day worldwide in 1976. BP and SOHIO had no commercial production in Alaska in 1976. The Prudhoe Bay field came into production in June 1977.

(7) Oil Companies: How much oil did you extract world wide in 1988? How much of that was from Alaska? (Prudhoe Bay?)

Answer: BP had worldwide oil production of 1.45 million barrels a day in 1988, of which 0.86 million barrels a day was from Alaska.

(8) Which oil fields will receive tax breaks from this ELF bill? Which oil fields will receive tax increases from this ELF bill?

Answer: It appears that HB 118 is intended to reduce taxes for the Endicott and Lisburne fields. It also appears that the bill is intended to increase substantially the production tax for the Prudhoe Bay and Kuparuk River fields. Intended or not, HB 118 would increase the tax for Milne Point, which was zero when the field was shut in. The rate for Milne Point would be low under HB 118, but it would not be zero. No other producing oil fields

would be affected because the present ELF already reduces their effective tax rate to zero.

(9) Can the ELF raise the amount that would be paid for severance taxes above the statutory nominal rate of 15% for any oil field or any oil company? So this ELF bill can't do this either, right?

Answer: Wrong. HB 118 would increase the tax rate for fields as they get larger. So if a 1,000 barrel-a-day well were drilled in a 100,000 barrel-a-day field, that well would increase the rate of tax on the first 100,000 barrels a day as well as increase it for its own additional production. The effective rate of tax on the new production from this well could easily exceed the nominal statutory rate of 15 percent.

The following example illustrates this negative effect of HB 118. Suppose a field produces 100,000 barrels a day from 100 wells, and the wellhead price of the oil is \$7.00 a barrel. The State has a one-eighth royalty in the production. Suppose a new well can be drilled, and it will produce 1,000 barrels a day. Under the ELF formula in HB 118, the tax on the present production of 100,000 barrels a day would be \$1,418,644 a month (30 days). If the 101st well were drilled and produced 1,000 barrels a day, the value of the additional taxable production would be \$183,750 a month. The tax on 101,000 barrels a day would be \$1,447,312 for the month. This is an increase of \$28,668 in tax for an extra \$183,750 worth of taxable production, giving an effective tax rate of 15.60 percent. Here are the details of these calculations.

TAX ON EXISTING PRODUCTION (100 wells)

$$\begin{aligned} \text{"A"} &= (1 - [\text{PEL}/\text{TP}]) & \text{"B"} &= [150,000 / (\text{TP}/\text{Days})] \\ &= (1 - [(300 \times 100) / 100,000]) & &= [150,000 / (100,000)] \\ &= 0.700000 & &= 1.500000 \end{aligned}$$

$$\begin{aligned} \text{"C"} &= [(460 \times \text{WD}) / \text{PEL}] \\ &= [(460 \times \text{WD}) / (300 \times \text{WD})] \\ &= [460 / 300] \\ &= 1.533333 \end{aligned}$$

$$\begin{aligned} \text{ELF} &= \text{A}^{\text{B}^{\text{C}}} \\ &= 0.700000^{(1.500000^{1.533333})} \\ &= 0.700000^{(1.862115)} \\ &= 0.514701 \end{aligned}$$

$$\begin{aligned}\text{Tax} &= (7/8) * (100,000 \text{ B/D}) * (30 \text{ days}) * (\$7.00) * (\text{ELF}) * (15\%) \\ &= \$1,418,644\end{aligned}$$

TAX WITH 101 WELLS PRODUCING

$$\begin{aligned}\text{"A"} &= (1 - [\text{PEL}/\text{TP}]) & \text{"B"} &= [150,000 / (\text{TP}/\text{Days})] \\ &= (1 - [(300 * 101) / 101,000]) & &= [150,000 / (101,000)] \\ &= 0.700000 & &= 1.485149\end{aligned}$$

$$\begin{aligned}\text{"C"} &= [(460 * \text{WD}) / \text{PEL}] \\ &= [(460 * \text{WD}) / (300 * \text{WD})] \\ &= [460 / 300] \\ &= 1.533333\end{aligned}$$

$$\begin{aligned}\text{ELF} &= \text{A}^{(\text{B} * \text{C})} \\ &= 0.700000^{(1.485149 * 1.533333)} \\ &= 0.700000^{(1.833920)} \\ &= 0.519903\end{aligned}$$

$$\begin{aligned}\text{Tax} &= (7/8) * (101,000 \text{ B/D}) * (30 \text{ days}) * (\$7.00) * (\text{ELF}) * (15\%) \\ &= \$1,447,312\end{aligned}$$

EFFECTIVE TAX RATE ON THE ADDITIONAL 1,000 B/D PRODUCTION

$$\begin{aligned}\text{Rate} &= (\text{Change in Tax}) / (\text{Value of Additional Taxable Production}) \\ &= (\$1,447,312 - \$1,418,644) / [(7/8) * (\$7.00) * (1,000) * (30)] \\ &= (\$28,668) / (\$183,750) \\ &= 15.60\%\end{aligned}$$

(10) Will this ELF bill raise the rate that would be paid for severance taxes for Prudhoe Bay above the rate that was paid by oil companies at Prudhoe Bay prior to June 20, 1987?

Answer: Yes, for new production that is added by further development of the field, the effective rate of tax under HB 118 could exceed the 15% rate that was in effect prior to June 20, 1987. The answer to the preceding question applies here. The following hypothetical case illustrates how, for example, the effective tax rate could be 15.04% on additional production from Prudhoe Bay.

Suppose it is some time in the future and Prudhoe Bay is in its decline, producing 1,400,000 barrels a day from 700 wells. To offset the decline partially, another well could be drilled that would produce 2,000 barrels a day. The wellhead price is \$7.00 a barrel, and the State has a 1/8 royalty.

TAX ON PRODUCTION WITHOUT THE 701st WELL (1.4 MMB/D)

$$\begin{aligned} \text{"A"} &= (1 - [\text{PEL}/\text{TP}]) & \text{"B"} &= [150,000 / (\text{TP}/\text{Days})] \\ &= (1 - [300 \cdot 700 / 1,400,000]) & &= [150,000 / 1,400,000] \\ &= 0.850000 & &= 0.107142 \end{aligned}$$

$$\begin{aligned} \text{"C"} &= [(460 \cdot \text{WD}) / \text{PEL}] \\ &= [(460 \cdot \text{WD}) / (300 \cdot \text{WD})] \\ &= [460 / 300] \\ &= 1.533333 \end{aligned}$$

$$\begin{aligned} \text{ELF} &= \text{A}^{(\text{B} \cdot \text{C})} \\ &= 0.850000^{(0.107142 \cdot 1.533333)} \\ &= 0.850000^{(0.032554)} \\ &= 0.994723 \end{aligned}$$

$$\begin{aligned} \text{Tax} &= (7/8) \cdot (\$7.00) \cdot (1,400,000 \text{ B/D}) \cdot (30 \text{ days}) \cdot (\text{ELF}) \cdot (15\%) \\ &= \$38,383,884 \text{ per month} \end{aligned}$$

TAX WITH 701 WELLS PRODUCING (1.402 MMB/D)

$$\begin{aligned} \text{"A"} &= (1 - [\text{PEL}/\text{TP}]) & \text{"B"} &= [150,000 / (\text{TP}/\text{Days})] \\ &= (1 - [300 \cdot 701 / 1,402,000]) & &= [150,000 / 1,402,000] \\ &= 0.850000 & &= 0.106990 \end{aligned}$$

$$\begin{aligned} \text{"C"} &= [(460 \cdot \text{WD}) / \text{PEL}] \\ &= [(460 \cdot \text{WD}) / (300 \cdot \text{WD})] \\ &= [460 / 300] \\ &= 1.533333 \end{aligned}$$

$$\begin{aligned} \text{ELF} &= \text{A}^{(\text{B} \cdot \text{C})} \\ &= 0.850000^{(0.106990 \cdot 1.533333)} \\ &= 0.850000^{(0.032483)} \\ &= 0.994735 \end{aligned}$$

$$\begin{aligned} \text{Tax} &= (7/8) \cdot (\$7.00) \cdot (1,420,000 \text{ B/D}) \cdot (30 \text{ days}) \cdot (\text{ELF}) \cdot (15\%) \\ &= \$38,439,163 \text{ per month} \end{aligned}$$

EFFECTIVE TAX RATE ON PRODUCTION FROM THE 701st WELL

$$\begin{aligned} \text{Rate} &= (\text{Change in Tax}) / (\text{Value of Additional Taxable Production}) \\ &= (\$38,439,163 - \$38,383,884) / ((7/8) \cdot \$7.00 \cdot 2,000 \cdot 30) \\ &= (\$55,279) / (\$367,500) \\ &= 15.04\% \end{aligned}$$

(11) How much is being paid to the State of Alaska in severance taxes each year?

Answer: According to the Alaska Department of Revenue's latest revenue forecast, the following severance taxes have been paid to the State of Alaska since FY 82 (in millions of dollars):

FY82	\$1,581.7
FY83	1,493.7
FY84	1,393.1
FY85	1,389.4
FY86	1,108.4
FY87	648.5
FY88	818.7

Under the "Mid Case Scenario" in that forecast, severance taxes this fiscal year (FY 89) will be \$547.35 million, and next year will be \$484.47 million.

(12) How does the amount that Alaska receives in severance taxes compare to the amount that other oil-producing states and nations receive? How much would the fields in the lower 48 pay if they were placed under the Alaska tax structure?

Answer: Among oil-producing states, only Louisiana has a severance tax rate approaching Alaska's base rates of 12.25 and 15 percent.

Comparisons between Alaska and oil-producing nations are inappropriate for several reasons. First, foreign nations have greater sovereign powers than Alaska has, and their institutions regarding the ownership of property and natural resources often vary considerably from those in the United States and Alaska.

Second, foreign nations often grant concessions to large areas of land, instead of making it available in much smaller, leased parcels as Alaska does.

Third, the regime in many foreign nations allows the oil company to recover its exploration costs and some or all of its development costs before the host government starts taking its share. This is very different from leasing on a bonus-bid basis, which has been the method primarily used by Alaska.

Fourth, the lifting costs for Alaskan oil, particularly on the North Slope, are significantly higher than for large fields in many other countries. In addition, in none of the foreign countries does the oil have to be transported over 800 miles by pipeline to an ocean port. Moreover, unlike foreign oil, Alaskan North Slope production must go only to U.S. ports, which means more expensive Jones Act tankers have to be used instead of low-

cost foreign-flag ships. This combination of greater costs of producing and transporting the oil to market makes it extremely difficult to draw any meaningful comparisons between Alaskan oil and that of the foreign nations you seem to be referring to.

(13) Oil Companies: Do you have North Sea production? If so, what percent of the total economic rent to you realize from your Alaska production and what percent do you realize from your North Sea production?

Answer: To compare Alaska with the North Sea at any given moment is like taking a single frame from Gone with the Wind and a frame from Star Wars and asking which is the better movie. You have to know the whole story before any meaningful comparison can be made.

In the North Sea, the oil company gets to recover its costs of exploring and developing the resource, before the high tax rate begins. Depending on whether these costs have been recovered or not, the government's share of the "economic rent" is either very small or very large.

The most nearly comparable situation in Alaska is its net profits share leases. Under those leases, the State's net profits share does not start to be paid until the lessee has recovered its developments costs, plus a reasonable rate of return on its investment. The rate of return was specified by the State when it put the lease up for bid. For one lease at Endicott, SOHIO and three Alaska Native Regional Corporations bid a net profits share of over 79% for the State. Once the development costs and return are recovered, the State's share of the "economic rent" from this lease will be very comparable to that of the United Kingdom for properties in the North Sea that have similarly paid off their investments.

(14) Oil Companies: How much profit is being made off of the most productive oil fields in the lower 48 states?

Answer: Because BP's interests in the Lower 48 are somewhat limited, we are unable to answer this question.

(15) Oil Companies: How much profit is being made off of the most productive oil fields in other oil-producing countries?

Answer: Either BP does not have access to this information, or if it does, the information is proprietary.

(16) - (18) - How much profit is being made off of Prudhoe Bay and Kuparuk oil fields each day?

Does this include TAPS? If not, what is the profit on TAPS?

What public sources corroborate this? Would you provide materials proving this? Would you provide a detailed list of your revenues and expenses?

Answers: The State of Alaska's most recent revenue forecast is the Department of Revenue's Revenue Sources - Fall 1988 dated December 16, 1988 (hereinafter cited as Revenue Sources). The "Mid Case Scenario" in that forecast assumes an average wellhead value of \$7.36 a barrel on the North Slope during FY 89 (Revenue Sources, p. 21). It also assumes production will average 1.97 million barrels a day (id.), or 719.05 million barrels during the year. The following table shows the potential production profits from the North Slope based on an average wellhead price of \$7.36 a barrel.

	<u>\$ millions</u>	<u>\$/barrel</u>	
Total Revenue	5,292.2	7.36	
Production Costs	(2,158.0)	(3.00)*	
Net Revenue	<u>3,134.2</u>	<u>4.36</u>	100%
To Alaskan Government			
Royalty - Unrestricted	469.8	0.65	
Royalty - Perm. Fund	178.7	0.25	
Production Tax	547.4	0.76	
Property Tax	214.0	0.30	
Income Tax	<u>111.8</u>	<u>0.16</u>	
TOTAL	1,521.7	2.12	49%
To Federal Government	548.2	0.76	17%
To Industry	1,064.2	1.48	34%

\* See the discussion in the first two full paragraphs on the next page.

This is how the numbers in the table have been calculated. In the first line, the \$7.36 figure is taken from Revenue Sources, page 21 ("Wellhead Value" - "Mid" case). The yearly figure of

\$5,292.2 million equals \$7.36 a barrel times the annual production of 719.05 million barrels.

The information in the second line is based on BP Exploration's audited financial statements for 1988. The composite production cost is for depreciation and lifting expenses; it was \$3.43 a barrel for our working-interest oil on the North Slope. (The figure of \$3.39 that was previously given to your Committee represented our actual cost experience through only the first 11 months of 1988.) We are enclosing a copy of a letter from our independent auditors, Ernst & Whinney, confirming the \$3.43 figure in our financial statements for these costs during 1988.

These production costs are not borne by the State's royalty interest; hence, in grossing up to the annual production cost figure in the table above, we have multiplied \$3.43 a barrel times 7/8 of 719.05 million barrels. When these costs are averaged over 8/8 of production, the average cost is \$3.00 per barrel (\$2,158.0 million divided by 719.05 million barrels). The table previously provided to your Committee erroneously deducted a per-barrel cost of \$3.39 for the working-interest barrels, as if it had been the cost per barrel for 100% of the production.

The data in the third line (Net Revenue) are obtained by combining lines one and two.

The figure of \$469.8 million for unrestricted royalty revenue is taken from Revenue Sources, p. 24 ("Mid" case). The per-barrel amount is found by dividing by the annual production of 719.05 million barrels.

The figure of \$178.7 million for royalties contributed to the Permanent Fund is taken from Revenue Sources, p. 39, column 18 ("Perm Fund Contri"). Again, the per-barrel amount is found by dividing by the annual production figure.

The figure of \$547.4 million for production tax is taken from Revenue Sources, p. 24 ("Mid" case for "Severance Tax"). Dividing by 719.05 million barrels yields the per-barrel amount in our table.

The figure of \$214.0 million for property tax equals 20 mills times our estimate for the 1989 assessed value of property taxed under AS 43.56 within the North Slope Borough, excluding the Trans Alaska Pipeline System (TAPS). The actual assessment roll will not be issued by the assessor until March 1, 1989. Dividing by 719.05 million barrels equals the per-barrel amount.

Next is the corporate income tax on the industry. Taxable Alaskan income is determined by a modified three-factor formula under AS 43.02.072, based on the ratios of Alaskan property, sales and production to worldwide property, sales and production. We have compared our apportioned Alaskan income under the modified formula, using first the factors including our interest in TAPS, and then without TAPS. Based on this analysis and on public information about Arco and Exxon, we estimate that about 14%, or nearly one seventh, of the taxable Alaskan income is attributable to the inclusion of TAPS in the companies' apportionment factors. This reflects the heavy emphasis on production under the modified apportionment formula in AS 43.20.072.

The Department of Revenue predicts a total of \$130.0 million in petroleum income tax for this fiscal year; Revenue Sources, p. 24 ("Mid" case for "Corporate Petroleum" tax). Deducting 14% of this, or \$18.2 million, as income tax due to TAPS leaves us with \$111.8 million as the portion of the petroleum income tax attributable to production. This \$111.8 million figure is the one in our table above. Dividing it by 719.05 million barrels equals the per-barrel amount.

The data for the total paid to Alaskan government are the totals for the data for unrestricted royalty, royalty contributed to the Permanent Fund, production tax, property tax and income tax.

The federal income tax of \$542.0 million is computed by applying the tax rate of 34 percent to the difference between the net production revenue of \$3,134.2 million and the total payments to the State of Alaska of \$1,539.9 million. The per-barrel amount is found by dividing by the amount of annual production.

The difference between net revenue and the total paid to the State of Alaska and the federal government equals the amount that goes to the industry and its shareholders.

The figures in the table above do not include TAPS. HB 118 is a production tax proposal. The figures above represent production revenues and costs.

Income attributable to Alaskan pipeline activity is already being taxed under the corporate income tax, using a specially modified two-factor or three-factor apportionment formula under AS 43.20.-072. The number of factors in the formula depends on whether the pipeline company or any of its affiliates produces oil or gas in Alaska. We might add that TAPS profits are limited by the TAPS tariff settlement.

(19) How much profit is made from refined products from Alaskan oil?

Answer: BP refines a relatively small percentage of its Alaska North Slope (ANS) oil because most of its refining capacity in the United States cannot accommodate large amounts of ANS. The rest is either sold outright to third parties or is exchanged for other crude, which may then be refined or further exchanged for crude that can be run in the refineries.

BP has no refineries in Alaska, yet part of its refining profit is apportioned to Alaska and taxed under the modified apportionment formula in AS 43.20.072.

(20) What did the oil companies of Prudhoe Bay do with the savings made as a result of the tax break occurring on June 20, 1987?

Answer: We do not agree that the expiration of the 10-year rounding rule for Prudhoe Bay was a "tax break."

Substantial amounts of new capital were invested in Alaska both before the rounding rule expired for Prudhoe Bay and afterwards. Within the space of 12 months in 1986 and 1987, approximately \$3 billion worth of new facilities were installed at Endicott, Lisburne and the central gas facility at Prudhoe Bay. Those investments were justified in part because of the anticipation that the State would not change the rules of the game and the "rounding" rule would expire as scheduled.

Since 1987 the industry has continued to make major expenditures for the continued drilling and development of the North Slope. Without the drilling of new wells and the workovers of existing ones, production from Prudhoe Bay would already be in serious decline. If these activities were to be discontinued today, the repercussions could start being felt in as little as 60 to 90 days. The decline would not only set in sooner than it needs to, but it would also be faster than it would be if drilling and workover work can continue unabated.

(21) What percent of money grossed by Alaska's oil in Prudhoe Bay and Kuparuk is reinvested in Alaska? How much is sent outside?

Answer: As stated in the answer to the preceding question, major new investments in the development of the North Slope have continued to be made. Some \$3 billion dollars of investment came on line within a single 12 month period ended in late 1987. This