ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672
6570 SENATE RESOURCES 974

The final factor that the free conferees were arguing about for those two weeks was the exponential constant, and the Senate wanted 750 and the House wanted 300. And to make a long story short, they compromised. In the very last minutes, as often does, it came together very quickly with a compromise which was a very small reduction in the House's proposed nominal rate from 12.5 down to 12.25, and they got to the end where they were arguing about hundredths of a percentage point, and they compromised on the House's part, or really a willingness on the Senate's part to adjust that exponential constant downward and there was some disagreement among the various oil companies as to their reactions to that and I don't think any of that disagreement ever got on the record, but it least it was said that some of the smaller oil companies operating in Cook Inlet felt that some advantage for the larger oil companies had been gained at their expense. I don't know if that's true, but that was an interesting side light on the negotiations and discussions.

COUNTER #348

There were probably ten or, there were a multitude of curves of this nature drawn and I think that's about all I can tell you about what went on in 1977 free conference. But the formula we worked through today ar[illegible]e out of those kinds of political compromises and I think it's the fact that the free conferees had to get in to this material as deeply as they did and as we have done today that has persuaded Gordon Harrison to ask me to go into as deeply as I have.

There are a whole lot of additional things that probably should be talked about, including the cents-per-barrel differences in 1977. The House proposed a cents-per-barrel tax...with an annual adjustment to the cents-per-barrel, based on the GNP deflator, basically based on inflation. So, had the House provision in that regard been adopted, the cents-per-barrel floor would have risen each year to keep pace with inflation and we haven't calculated what it would have been. The House proposed 93¢ per barrel, so it clearly would have been somewhere well above $1.00 by now as a floor for the severance tax.

There's another interesting side light. The Dept. of Revenue initially proposed in 1977 and later retracted, or withdrew, a proposal to provide a royalty credit against severance tax, and it was a cute little device that would have, had it been legal, or had it been adopted, would have protected royalty revenues with a floor of sorts, in effect, using the severance tax as a means of providing a floor under royalty revenues as well. Senator Ferguson, who was around all this time, and Sen. Eliason haven't said anything about these, I hope that your memory ... accords with mine on these points.

The Senate had proposed a cents-per-barrel floor of 75¢ per barrel and had said that there would be no escalator. They compromised on that at 80¢ per barrel and that's where the 80¢ per barrel comes from that's in our law today. That's a good stopping place, I think, for the moment. There are a whole lot of other things to go into, but now is probably a good time to pause.

What comes next, if we want to go into it, Mr. Chairman, is the procedure for establishing the Production at the Economic Limit. The 1981 amendments, which of course gave us the tax system we have and which substantially changed the applicability of the ELF, as Mr. Nelson pointed out earlier, the ELF doesn't at this moment apply to Prudhoe Bay and that's because of what was done in 1981. Do you want to go on to those right now, Mr. Chairman, or do you want to pause at this point?

COUNTER #398

(QUESTION from Rep. Grussendorf: What would be your timing on that, Gregg?)

I think the 1981 amendments we could probably get through before lunch, and probably finish up this whole thing before lunch, unless you want to take an early lunch. I guess I'm getting a little hoarse, but that's alright.

(QUESTION from Rep. Grussendorf: Are there any objections to continuing?)

(QUESTION from Sen. Abood: One question, Mr. Chairman, I want to be sure it's straight. The only two fields that are affected are the Milne Point and the Kuparuk at this present time, is that correct?)

Affected by the ELF? I don't believe that's correct, but I would defer to my colleague, Tom Chester, who's probably looked into it. Cook Inlet fields, of course, are affected as well. And I think...

(QUESTION from Sen. Abood: But you were saying, if I may, Prudhoe Bay is not effected by it, but Kuparuk and Milne Point according to this graph, is affected by it?)

The Kuparuk field does have the ELF applied in calculation if its taxes, and the Milne Point field does as well, yes.

(QUESTION from Sen. Abood: So everything but Prudhoe Bay is affected by it?)

At this time, that's correct. (tape unintelligible) It appears that that would the case, yes, unless the law is altered.

In 1981, let me back up, because there's one thing I should really say that I am not really the expert to talk, or the person to profess any expertise on, and that is the procedures under which the Production at the Economic Limit can be modified. And I am going to defer to Mr. Monkman or Ms. Vogt or Dr. Logsdon, if you want to go into more detail on those procedures. They're dealing with them on a daily basis. But the 1977 law, both versions, the House version and the Senate version, had a provision that said if the oil companies came in and could show that the costs of their production, and the bill defined costs very narrowly, although it left some ambiguities which I think may be a matter of some concern, if the oil companies could come in, or any oil company, any producer, could come in and show that its costs or the revenue from the production of the given 300 B was not enough to cover its narrowly defined costs, then the company would be entitled to, and the Dept. of Revenue was directed to grant, a higher Production at the Economic Limit. The factor, that provision was, I must say in my memory, not particularly a matter of concern to either side in the negotiations. There was concern that the language be written very tightly and of course, as usually often happens in this case, the concern of those of us who were drafting at the direction of the committee was to define those costs very narrowly. It turns out that that wasn't the problem, and as is often the case, it's the problem you don't think about is the one that comes back and grabs [you]. So, if there are further questions on that, I think I'd like to defer and have them direct it to the Dept. of Revenue, since they're in administrative hearings and are thinking a lot about it, if it's alright with Mr. Monkman.

COUNTER #458

(QUESTION from Rep. Grussendorf: Any last questions of Gregg, here on PEL?)

Let's go on to 1981 then. In 1981, I don't think we want to go through the long history of the 1981 situation, but in brief, the state had been sued with respect to the constitutionality of its oil and gas corporate income tax. And as a result of the deliberations in the 1981 session, there were attempts to settle that lawsuit legislatively, that is to remove the provisions of the petroleum corporate income tax that was passed in '78, which offended the oil companies, and thus settle the law suit. Those efforts came to naught, but there were efforts and concern on the part of the administration of Governor

Hammond to limit the state's liability by substituting another kind of tax that would not be so legally, at least would not be subject to the legal vulnerabilities that some people thought the oil and gas corporate income tax, that was then called, by shorthand, separate accounting, was supposedly vulnerable to.

The legislature decided to repeal the separate accounting tax and substitute a different tax which, it was felt, would be less subject to legal threat. The result of that change was a substantial reduction in revenue to the state. And to counterbalance that reduction, significant changes were made in the 1977 severance tax. The effect of those changes were to increase the tax rate at Prudhoe Bay from what was then about 11% up to 15%. This was done by establishing in the law, what I call in a shorthand way, the ten-year ELF trigger. And the ELF trigger says that any time a field has been in production for ten years, if that field began production before 1981, that it, the ELF goes into effect only after ten years of production. That is why Prudhoe Bay does not have the ELF applied in calculating its effective tax rate right now. Now there was also another trigger in the 1981 law and that's the .7 trigger. And I know this sounds very confusing and it is because the 1981 amendments were confusing. They were, in my opinion anyhow, kind of jury-rigged to produced the revenue result that was needed to balance the losses of revenue resulting from the change in the separate accounting to modified apportionment tax in the income tax side.

The theory behind it however, there was a theory behind those changes, and the theory behind the changes was that a field would be entitled in general (and this wasn't in the law this was sort of the theory behind it) to five years of production with a tax rate of 12.25% and that thereafter the tax rate would go up to 15%. Since Prudhoe Bay had already producing for five years in 1981, it meant that Prudhoe Bay had about five years to go without, actually in terms of the effective date about seven years to go, and with a tax rate that was not affected by the ELF. In addition, that unfortunately didn't get enough money to make up the difference, and so it was rather arbitrarily the law was designed so as to apply a 15% rate to Prudhoe Bay during the present time on the distinction that it came into production earlier and that they were going give a better tax situation to the smaller fields that were expected to come on after 1981.

COUNTER #536

So the result is that Prudhoe Bay has a calculated ELF of about .8 right now, which being above .7, doesn't trigger the .7 trigger, which if it did would cause the ELF to be applied. As a result, Prudhoe Bay pays a full 15% tax and will do so until it has been in production for ten years, which happens next year. That change means that there will be a significant reduction in the amount of severance taxes that the Prudhoe Bay field will produce for the State of Alaska.

That reduction sometimes gets caught in a kind of semantic difficulty. [I]t certainly is a reduction from the tax that is currently being paid by the oil companies on their Prudhoe Bay properties and their Prudhoe Bay production. It is not, however, a reduction from the current tax law, so I think it's useful in discussing this to remember that semantic distinction there. Usually we can say current tax and compare it with something else, in this case the word current tax can have two quite different meanings. So that is...one kind of ELF legacy, if you will, that is left over from the 1981 session: he ten years is running out and Prudhoe Bay is waiting to get its ELF.

The second legacy, and one that really works the other way, is that the five years that fields are allowed to produce at 12.25%, and this only applies to the newer fields, means that in the 1990's or late 1980's some of these newer fields are going, actually they'll all be in the 1990's, are going to have a significant tax increase. Endicott for example, is going to be subjected to about an increase from, I don't know what the effective rates are, but it's about a 20% severance tax increase in about 1991-1993 (I don't have that sheet in front of me, but Tom Chester will talk to you later about the revenue effects of these things and show that to you) because the nominal rate changes from 12.25 to 15% in that year. Now if those fields are marginal, it's probably [not] something you want to hit with an extra tax burden at that time. That is another legacy left by the 1981 amendments.

There is, of course, the legacy of the 1977 session, in what Mr. Monkman has descriptively called the "trap door in the floor." That is the application of the ELF to the cents-per-barrel which means that the tax rate could in fact fall to zero. Something that I don't think was contemplated or thought about one way or the other very much at the time the bill was drafted, although others may have a different opinion on that. So there are at least these two legacies from the 1981 amendments, and those may or may not be something you'll be interested in looking at further.

That concludes my presentation, and I am to be followed, presumably this afternoon, by my colleague, Tom Chester, who will discuss with you the revenue implications of these legacies, if you will, and the ways that those revenue implications could be altered, some of the ways that those revenue implications could be changed.

(QUESTION from Rep. Grussendorf: Before we break, do we have any questions of Gregg? When we come back, we'll be dealing with revenue effects of ELF and then the previous proposals to change ELF. Will coming back at 1:00 be acceptable with you? Let's recess until 1:00.)

END OF TAPE 2, SIDE 2, COUNTER #633

HB
118
FILE 3

Alaska State Legislature

SENATOR JIM DUNCAN

P.O. BOX V JUNEAU, ALASKA 99811-3100

(907) 465-4766

COMMITTEES:
FINANCE
VICE CHAIR –
HEALTH EDUCATION & SOCIAL SERVICES
BUDGET & AUDIT
BANKING & ECONOMIC DEVELOPMENT

MEMORANDUM

April 28, 1989

TO: Senator Bettye Fahrenkamp, Chairman
Senate Resources Committee

FROM: Jim Duncan
Senator

SUBJECT: Proposed Amendment to Elf Legislation to help finance oil spill prevention and clean-up

I recently sent a memo to Senator Pearce regarding the importance of realizing the direct connection between oil industry profits and the risks that have been inappropriately placed on the shoulders of Alaska citizens. For that reason I propose an amendment to the ELF legislation HB 118 that you have before your committee.

The Prince William Sound oil spill dramatically illustrates the need for clearly identified and readily available funds for the prevention and clean-up of future spills.

The state's Oil and Hazardous Wastes Release Response Fund only had a balance of approximately $1.5 million before the spill occurred. We all now realize the costs of cleaning up the spill will be far higher than that, as the Governor and the Senate recognized in our approval of the $20 million special appropriation. I believe it is painfully apparent that the full costs to the state of the clean-up and restoration will far exceed that $20 million figure.

The spill also points out the need for the state to increase its efforts at prevention of such disasters. We have seen that clean-up work after a spill is a particularly poor substitute to keeping the spill from happening in the first place and that too will cost money.

I propose that the legislature address these needs by passing legislation to revise the Economic Limit Factor (ELF). This legislation made sense before. It makes more sense now.

We now know that there is clearly a connection between the industry; their activity, and the financial and environmental risk to Alaskans. The margin of profits to the Oil Industry can be a direct liability to us as we have seen this past week as the costs of doing business (risks) has been wrongfully placed on our shoulders.

The attached amendment was developed to apply to the Senate Judiciary CS and would make the bill apply to all the oil produced this calendar year from Prudhoe Bay and Kuparuk. The amendment provides the following:

1.) An additional $104 million more than the version reported out of the Senate Judiciary committee.

2.) Provide an immediate $32 million dollars for the Oil and Hazardous Substance Release Response fund to deal with our immediate disaster. This also allows some immediate funding for prevention as well as clean-up and restoration as authorized in SB 261 which I introduced this morning.

3.) Provides that the Legislature will appropriate annually to the state's spill prevention and clean-up fund $30 million or four percent of the severance tax revenues, whichever is greater.

As you are aware, Exxon has committed to paying for the costs of the clean-up, but the state needs to insure that the money is both adequate and timely. The state should spend the money as needed, and obtain reimbursement later through the courts if necessary. In the meantime we need to insure that adequate funding is available.

In addition to addressing the immediate need created by the Exxon Valdez spill, I believe if we are to see major production in the future, such as ANWR, it is necessary to demonstrate to the citizens of Alaska, and Congress that we will be prepared to prevent and respond quickly to future problems. I believe the building of a "super fund", such as this amendment provides for, would go a long way in providing those assurances.

I urge an early hearing of House Bill 118 and favorable consideration of both the legislation and my amendment.

6-0652Tb ✓
Chenoweth

A M E N D M E N T

OFFERED IN THE SENATE BY DUNCAN

TO: SCS CSHB 118 (Judiciary)

Page 1, following line 24:

Insert a new bill section to read:

"* Sec. 3. AS 43.55.080 is amended by adding new subsections to read:

(b) The commissioner of administration shall separately account for all proceeds of the tax deposited into the general fund under (a) of this section.

(c) The legislature shall annually appropriate to the oil and hazardous substance release response fund established in AS 46.08.010 the greater of:

(1) $30,000,000; or

(2) four percent of the amount estimated to be received from the tax levied and collected under this chapter during the fiscal year."

Renumber the following bill section accordingly.

Page 1, following line 25:

Insert new bill sections to read:

"* Sec. 5. Sections 1, 2, and 4 of this Act are retroactive to January 1, 1989, and apply to oil produced after December 31, 1988.

* Sec. 6. AUTHORIZATION FOR APPROPRIATION OF TAX REVENUE RECEIVED DURING FY 1989. The legislature shall appropriate to the oil and hazardous

substance release response fund 50 percent of the difference between the taxpayer's tax liability on oil production under AS 43.55 for the period between the retroactive application date of this Act and May 31, 1989, as determined under AS 43.55.013

(1) as that statute existed before the amendments to it made by secs. 1, 2, and 4 of this Act; and

(2) as amended by secs. 1, 2, and 4 of this Act.

* Sec. 7. PAYMENT OF TAX DUE. The oil production tax payable as a result of the retroactive application of this Act is due on the 20th day of the calendar month following the effective date of this Act. If the tax due and payable is not paid by the date specified in this section, the tax becomes delinquent and subject to payment of interest and the provisions of AS 43.10 relating to enforcement and collection of delinquent taxes.

* Sec. 8. OVERPAYMENT OF TAX UNDER REVISED FORMULA. The tax liability of a party that is reduced by the retroactive application of this Act shall be credited against the taxpayer's future tax liability. The provisions of AS 43.05.280(a) and 43.05.280(b)(1) do not apply to, and interest is not allowed on, the overpayment."

6-0652B
Chenoweth
5/1/89

Original sponsor: Finance Committee

IN THE HOUSE BY THE RESOURCES COMMITTEE

SENATE CS FOR CS FOR HOUSE BILL NO. 118 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the oil and gas properties production tax; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1 AS 43.55.013(b) is repealed and reenacted to read:

(b) The economic limit factor for oil production of a lease or property shall be computed according to the following formula:

(1-[PEL/TP]) exp ([150,000/(TP/Days)] exp [(460 X WD)/PEL])

where: PEL = the monthly production rate at the economic limit;

TP = the total production during the month for which the tax is to be paid;

WD = the total number of well days in the month for which the tax is to be paid;

Days = the number of days in the month for which the tax is to be paid; and

exp = exponent.

* Sec. 2. AS 43.55.080 is amended by adding new subsections to read:

(b) The commissioner of administration shall separately account for all proceeds of the tax deposited into the general fund under (a) of this section.

(c) The legislature may annually appropriate to the oil and hazardous substance release response fund established in AS 46.08.010 the greater of:

(1) $30,000,000; or

(2) four percent of the amount estimated to be received

from the tax levied and collected under this chapter during the fiscal year.

* Sec. 3. Section 1 of this Act is retroactive to January 1, 1989, and applies to oil produced after December 31, 1988.

* Sec. 4. AUTHORIZATION FOR APPROPRIATION OF TAX REVENUE RECEIVED DURING FY 1989. The legislature may appropriate to the oil and hazardous substance release response fund 50 percent of the difference between the taxpayer's tax liability on oil production under AS 43.55 for the period between the retroactive application date of this Act and May 31, 1989, as determined under AS 43.55.013

(1) as that statute existed before the amendments to it made by sec. 1 of this Act; and

(2) as amended by sec. 1 of this Act.

* Sec. 5. PAYMENT OF TAX DUE. The oil production tax payable as a result of the retroactive application of this Act is due on the 20th day of the calendar month following the effective date of this Act. If the tax due and payable is not paid by the date specified in this section, the tax becomes delinquent and subject to payment of interest and the provisions of AS 43.10 relating to enforcement and collection of delinquent taxes.

* Sec. 6. OVERPAYMENT OF TAX UNDER REVISED FORMULA. The tax liability of a party that is reduced by the retroactive application of this Act shall be credited against the taxpayer's future tax liability. The provisions of AS 43.05.280(a) and 43.05.280(b)(1) do not apply to, and interest is not allowed on, the overpayment.

* Sec. 7. Section 2 of this Act takes effect July 1, 1989.

* Sec. 8. Except for sec. 2 of this Act, this Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
THE LEGISLATURE

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Mary Van Nimwegen

HB 118

Sen. Resources 4/28/89

Dang - Thanks you

Introduced by: Mayor Nordale
Date: April 10, 1989

RESOLUTION NO. 3071

A RESOLUTION ADDRESSING THE STATE OF ALASKA ECONOMIC LIMIT FACTOR (ELF).

WHEREAS, the Economic Limit Factor enacted by the legislature in 1977 was intended to promote marginal oil field development; and

WHEREAS, the fields currently producing oil in Alaska differ from one another with regard to production costs and profitability; and

WHEREAS, it is good public policy to encourage commercial production in marginal fields and avoid premature shut-downs in production; and

WHEREAS, a fair and equitable form of oil taxation is beneficial to the residents of the State and the industry; and

WHEREAS, the existing statute dealing with the Economic Limit Factor is faulty in a number of technical aspects and does not fulfill its intended purpose.

NOW, THEREFORE, BE IT RESOLVED THAT THE CITY COUNCIL OF FAIRBANKS, ALASKA

1) urges the Governor and the Legislature to revise the Economic Limit Factor to ensure that tax relief is given only when it is deserved and the State of Alaska is assured of a proper return on the disposal of its oil resources;

2) instructs the City Clerk to forward a copy of this resolution to the Governor and the Legislature.

PASSED and APPROVED this 10th day of April, 1989.

J. D. Nordale

J. D. NORDALE, Mayor

ATTEST:

Carma Roberson

CARMA ROBERSON, City Clerk

Introduced by: City Manager
Date: April 10, 1989

RESOLUTION NO. 3062

A RESOLUTION IN SUPPORT OF THE INTERIOR REGION MEDICAL SERVICES COUNCIL, INC.

WHEREAS, the Interior Region Emergency Medical Services performs a vital role in the provision of emergency medical training and support to other public safety services in the interior of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council continually provides training for emergency medical service providers and the general public in an efficient manner, and;

WHEREAS, the Interior Region Emergency Medical Services Council acts as liaison between municipal Emergency Medical Services and the State of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council maintains high standards of training and emergency medical service care in the interior of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council assists with funding and obtaining local grant funding for local emergency medical services needs and manages that funding for the greatest regional good, and;

Introduced by: Council Member Hayes
Date: April 10, 1989

RESOLUTION NO. 3065

A RESOLUTION URGING THE LEGISLATURE TO SUPPORT AN APPROPRIATION OF NINETY MILLION DOLLARS ($90M) FROM THE RAILBELT ENERGY FUND TO SUPPORT CONSTRUCTION OF A NEW ENERGY TRANSMISSION LINE AND THE HEALY COGENERATION PROJECT.

WHEREAS, the Railbelt Energy Fund (REF) was originally appropriated to be used exclusively to meet the energy needs of Alaskans in the railbelt region; and

WHEREAS, the REF currently has approximately $235 million dollars of funds available for energy related projects; and

WHEREAS, the REF is in danger of being diverted almost entirely to uses other than its original purpose unless it is appropriated for Railbelt energy project this legislative session; and

WHEREAS, the Fairbanks City Council, and the Public Utilities Board have previously endorsed by Resolution, use of a portion of the REF to upgrade the Fairbanks-Anchorage electrical intertie; and

WHEREAS, a newly constructed 138KV electrical transmission line between Fairbanks and Healy will enable the Healy Cogeneration Project (HCP) to deliver its full electrical energy output to the Fairbanks electrical distribution network; and

WHEREAS, the HCP is an economic development project of great benefit to the Interior, creating at least 130 direct long-term jobs in addition to the development of a coal-drying technology useful in producing large volumes of premium low-sulfur fuel having significant potential in the international export market; and

WHEREAS, the opportunity to obtain Federal clean coal demonstration funding could approximate $55 million dollars of Federal funding for the Alaska HCP project, and said funding feasibility will be greatly enhanced by the demonstration of strong State financial support for HCP.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, that

Introduced by: City Manager
Date: April 10, 1989

RESOLUTION NO. 3064

A RESOLUTION IN SUPPORT OF THE STATE OF ALASKA PROVIDING ADDITIONAL FUNDING TO DENALI CENTER, FAIRBANKS, ALASKA.

WHEREAS, Denali Center is the only Licensed Skilled Nursing Facility certified by Medicare and Medicaid serving Fairbanks, Alaska, the Fairbanks North Star Borough, and Interior Alaska; and

WHEREAS, Denali Center provides a much needed service in the delivery of Health Care in Fairbanks, Alaska and the City of Fairbanks; and

WHEREAS, Denali Center works cooperatively with other health care providers, including Fairbanks Memorial Hospital, in providing health care services in the most appropriate and economical setting; and

WHEREAS, Denali Center provides Long Term Health Care at the second lowest cost in the State of Alaska; and

WHEREAS, Access to Long Term Health Care would be restricted if Denali Center were forced to close; and

WHEREAS, Denali Center employs approximately 135 employees; and

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

Introduced by: City Manager
Date: April 10, 1989

RESOLUTION NO. 3062

A RESOLUTION IN SUPPORT OF THE INTERIOR REGION MEDICAL SERVICES COUNCIL, INC.

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WHEREAS, the Interior Region Emergency Medical Services Council acts as liaison between municipal Emergency Medical Services and the State of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council maintains high standards of training and emergency medical service care in the interior of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council assists with funding and obtaining local grant funding for local emergency medical services needs and manages that funding for the greatest regional good, and;

WHEREAS, the Interior Region Emergency Medical Services Council provides a means of communication of common goals among the many emergency medical service organizations in the Interior of Alaska.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, that the City of Fairbanks express its thanks and continued support to the Interior Region Emergency Medical Services Council for its assistance to the City of Fairbanks to improve the emergency medical services it provides to the community.

PASSED AND APPROVED THIS 10th DAY OF APRIL, 1989

JDNordale

J.D. NORDALE, Mayor

ATTEST:

Carma B. Roberson

CARMA B. ROBERSON, City Clerk

Introduced by: Council Member Hayes
Date: April 10, 1989

RESOLUTION NO. 3065

A RESOLUTION URGING THE LEGISLATURE TO SUPPORT AN APPROPRIATION OF NINETY MILLION DOLLARS ($90M) FROM THE RAILBELT ENERGY FUND TO SUPPORT CONSTRUCTION OF A NEW ENERGY TRANSMISSION LINE AND THE HEALY COGENERATION PROJECT.

WHEREAS, the Railbelt Energy Fund (REF) was originally appropriated to be used exclusively to meet the energy needs of Alaskans in the railbelt region; and

WHEREAS, the REF currently has approximately $235 million dollars of funds available for energy related projects; and

WHEREAS, the REF is in danger of being diverted almost entirely to uses other than its original purpose unless it is appropriated for Railbelt energy project this legislative session; and

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WHEREAS, a newly constructed 138KV electrical transmission line between Fairbanks and Healy will enable the Healy Cogeneration Project (HCP) to deliver its full electrical energy output to the Fairbanks electrical distribution network; and

WHEREAS, the HCP is an economic development project of great benefit to the Interior, creating at least 130 direct long-term jobs in addition to the development of a coal-drying technology useful in producing large volumes of premium low-sulfur fuel having significant potential in the international export market; and

WHEREAS, the opportunity to obtain Federal clean coal demonstration funding could approximate $55 million dollars of Federal funding for the Alaska HCP project, and said funding feasibility will be greatly enhanced by the demonstration of strong State financial support for HCP.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, that

SECTION 1: The Governor and the 16th Alaska State Legislature are hereby urged to support an appropriation of $60 million dollars from the Railbelt Energy Fund for the construction of a new 138KV electrical transmission line between Healy and Fairbanks and the addition of voltage compensation components on the existing Fairbanks-Anchorage transmission system.

SECTION 2: The Governor and the 16th Alaska State Legislature are hereby urged to support an appropriation of $30 million dollars from the Railbelt Energy Fund to enhance the opportunity of securing Federal clean coal demonstration grant funds for the Healy Cogeneration Project.

SECTION 3: A copy of this Resolution be forwarded to Governor Steve Cowper and members of the 16th Alaska State Legislature.

PASSED and APPROVED this 10th day of April, 1989.

J.B. Nordale

J.B. NORDALE, Mayor

ATTEST:

Carma Roberson

CARMA ROBERSON, City Clerk

Introduced by: City Manager
Date: April 10, 1989

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WHEREAS, Denali Center provides Long Term Health Care at the second lowest cost in the State of Alaska; and

WHEREAS, Access to Long Term Health Care would be restricted if Denali Center were forced to close; and

WHEREAS, Denali Center employs approximately 135 employees; and

Resolution No. 3064
Page two
April 10, 1989

WHEREAS, Denali Center contributes approximately $2.8 million dollars in payroll into the economy of Fairbanks; and

WHEREAS, Residents needing Long Term Care services in Fairbanks, would be forced to transfer to other higher cost Long Term Care facilities in the State at an increase in cost to both residents and the State of Alaska; and

WHEREAS, The City of Fairbanks has no means of increasing revenue to provide funding to Denali Center at this time; and

WHEREAS, Fairbanks, Alaska needs the skilled nursing care available as provided by Denali Center.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF FAIRBANKS, ALASKA, that the City Council of Fairbanks requests that the State of Alaska provide additional funding to Denali Center as agreed upon Denali Center and the State of Alaska in order to allow Denali Center to continue operation so that Fairbanks residents have skilled nursing services available at a reasonable cost.

PASSED AND APPROVED this 10th day of April, 1989.

J. D. NORDALE, Mayor

ATTEST:

Introduced by: City Manager
Date: April 10, 1989

RESOLUTION NO. 3070

A RESOLUTION URGING THE GOVERNOR AND THE 16TH ALASKA STATE LEGISLATURE TO PROVIDE FOR STATUS QUO FUNDING OF MUNICIPAL ASSISTANCE AND REVENUE SHARING.

WHEREAS, State and local service programs are delivered to Alaskans at the local level and State aid to municipalities is NOT expendable because of difficult circumstances; and

WHEREAS, the revenues are collected by the State and should be redistributed back to Alaskans where essential public services are provided, which is mainly in municipalities; and

WHEREAS, **the State has already severely cut municipal aid** to municipalities by at least 30 percent to as much as a 57 percent **reduction already in the case of the City of Fairbanks,** and now the State has proposed to further make disproportionately excessive cuts to municipal aid programs; and

WHEREAS, cutting funds to local government would result in the layoffs of hundreds of Alaskan municipal employees, cutting essential services, i.e., fire, police, roads, refuse collection, schools, paramedic services, telephone, sewer, water, health, and other services necessary to Alaskan's general health, safety, and welfare; and

WHEREAS, formula programs, which make up approximately 43% of the State operating budget are incorrectly equated solely with aid to local governments. **Municipal assistance and revenue sharing represent only 4.5% of the total State budget.**

WHEREAS, oil resources and the revenues derived from those resources belong to all the people of Alaska, and the State has a responsibility to share at least the FY 89 funding levels with municipalities in FY 90, and for subsequent budgetary years.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, THAT:

SECTION 1: the Governor and the 16th Alaska State Legislature should provide adequate funding for FY 90 for municipal entitlement programs, to include appropriations for:

(a) the Municipal Assistance Program (AS 29.60.350) at not less than the FY 89 level of $56,084,400.

(b) the State Revenue Sharing Program (AS 29.60.010) at not less than the FY 89 level of $40,773,400.

SECTION 2: That a copy of this Resolution be forwarded to Governor Cowper and members of the 16th Alaska State Legislature.

PASSED and APPROVED this 10th day of April, 1989.

JD Nordale

J.D. NORDALE, Mayor

ATTEST:

Carma Roberson

CARMA ROBERSON, City Clerk

Introduced by: City Manager
Date: April 10, 1989

RESOLUTION NO. 3067

A RESOLUTION ENCOURAGING THE LEGISLATURE TO INCREASE THE HEALTH AND SOCIAL SERVICE COMMISSION GRANT FUND FROM $437,500 AWARDED IN 1988 TO $700,000 FOR THE YEAR 1989

WHEREAS, the Fairbanks Health and Social Services Commission each year accepts proposals from various agencies in the community who are in need of funding; and

WHEREAS, with the current economical climate of the City of Fairbanks, there has been demonstrated an increasd need for human services; and

WHEREAS, in 1988, because of this increased need for health and social services and the limited money available for funding such services; six of our local agencies who submitted meritorious proposals were unable to be funded; and

WHEREAS, the City of Fairbanks and the Health and Social Services Commission are appreciative of the past support and funding provided by our Legislatures; and

WHEREAS, by this Resolution the City of Fairbanks encourges our Legislature to increase the funding for health and social services to ensure that quality and essential services are continued for those in need.

NOW, THEREFORE, BE IT RESOLVED THAT THE CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, urges and encourages the representatives of the people of the City of Fairbanks to increase funding for the Health and Social Services Grant to SEVEN HUNDRED THOUSAND DOLLARS ($700,000).

PASSED and APPROVED this 10th day of April, 1989.

J.D. Nordale

J. D. NORDALE, Mayor

ATTEST:

Carma Roberson

CARMA ROBERSON, City Clerk

Introduced by: City Manager
Date: April 10, 1989

RESOLUTION NO. 3062

A RESOLUTION IN SUPPORT OF THE INTERIOR REGION MEDICAL SERVICES COUNCIL, INC.

WHEREAS, the Interior Region Emergency Medical Services performs a vital role in the provision of emergency medical training and support to other public safety services in the interior of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council continually provides training for emergency medical service providers and the general public in an efficient manner, and;

WHEREAS, the Interior Region Emergency Medical Services Council acts as liaison between municipal Emergency Medical Services and the State of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council maintains high standards of training and emergency medical service care in the interior of Alaska, and;

WHEREAS, the Interior Region Emergency Medical Services Council assists with funding and obtaining local grant funding for local emergency medical services needs and manages that funding for the greatest regional good, and;

Resolution No. 3062
Page two
April 10, 1989

WHEREAS, the Interior Region Emergency Medical Services Council provides a means of communication of common goals among the many emergency medical service organizations in the Interior of Alaska.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF FAIRBANKS, ALASKA, that the City of Fairbanks express its thanks and continued support to the Interior Region Emergency Medical Services Council for its assistance to the City of Fairbanks to improve the emergency medical services it provides to the community.

PASSED AND APPROVED THIS 10th DAY OF APRIL, 1989

J.D. NORDALE, Mayor

ATTEST:

Carma B. Roberson
CARMA B. ROBERSON, City Cl

J - ELF

MAR 0 8

GREATER JUNEAU DEMOCRATIC PRECINCT COMMITTEE

RESOLUTION

WHEREAS, Alaskan oil belongs to all the people of Alaska, and

WHEREAS, the Economic Limit Factor (ELF) was created by the Alaska Legislature in 1977 to encourage oil companies to develop marginal oil fields and to extend the life of producing fields when production at those fields become marginal, and

WHEREAS, the current ELF formula does not currently give Alaska an attractive enough tax climate to encourage development of marginal oil fields, and

WHEREAS the current ELF formula provides an unintentional and unnecessary massive tax break to the highly profitable Prudhoe Bay and Kuparuk oil fields, and

WHEREAS, the Prudhoe Bay and Kuparuk oil fields are not marginal oil fields, and

WHEREAS, Alaska is currently suffering from revenue shortfalls due in part to the current ELF formula, and

WHEREAS, HB 118 would create a more attractive tax climate for the development of truly marginal old fields, reducing or eliminating altogether taxes on every oil field in Alaska except Prudhoe Bay and Kuparuk, and

WHEREAS, HB 118 would eliminate unintended tax breaks for the two highly profitable oil fields in Alaska (Prudhoe Bay and Kuparuk), and

WHEREAS, the net result of the enactment of HB 118 in its present form would increase revenues to the State of Alaska by an estimated $848 million over the next five years, and

WHEREAS, the increased revenue generated by the enactment of HB 118 would greatly assist Alaska in providing necessary services that would otherwise have to be drastically reduced, and

WHEREAS, the enactment of HB 118 would otherwise create jobs, raise other revenue, promote economic development and protect the interests of the people of Alaska, NOW, THEREFORE, by unanimous vote (one abstention) on February 7, 1989, by the Greater Juneau Democratic Precinct Committee, be it hereby

RESOLVED: that the Greater Juneau Democratic Precinct Committee urges expeditious enactment into law of HB 118 in its present form.

BE IT FURTHER RESOLVED that a copy of this resolution be provided to each member of the Alaska State Legislature and the Governor of Alaska.

DATED this 7th day of February, 1989.

GREATER JUNEAU DEMOCRATIC PRECINCT COMMITTEE

Brenda Knapp

Brenda Knapp, Chair

ATTEST:

Andrew W. Ebona

Andrew W. Ebona, Secretary

file : elf.

Resources

Faulkner
Banfield

Joan Gilbertson - 586-2210
need copy of bill file HB118

FRANK H. MURKOWSKI
ALASKA

COMMITTEES:
VETERANS' AFFAIRS (RANKING MEMBER)
ENERGY AND NATURAL RESOURCES
FOREIGN RELATIONS
INDIAN AFFAIRS
INTELLIGENCE

f - ANWR

United States Senate

WASHINGTON, DC 20510
(202) 224-6665

ANCHORAGE
U.S. FEDERAL BUILDING
701 C STREET, BOX 1, 99513
(907) 271-3735

FAIRBANKS
U.S. FEDERAL BUILDING
101 12TH AVENUE, BOX 7, 99701
(907) 456-0233

JUNEAU
U.S. FEDERAL BUILDING
BOX 1647, 99802
(907) 586-7400

April 21, 1989

MAY 1 1989

Honorable Bettye M. Fahrenkamp
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Bettye:

Thank you for expressing your views regarding legislation to authorize oil and gas leasing in the Arctic National Wildlife Refuge (ANWR).

I support a balanced national energy policy. We must diversify our energy mix to include a whole range of sources, but we must make realistic choices now in order to provide for our economic well-being and our national security. Our country made history this past December when oil imports exceeded 50% of the amount of oil consumed in the U.S. As petroleum products will continue to be an important part of our energy mix for the foreseeable future, I believe it is responsible public policy to enact legislation that will make available to us this area of great potential.

The Senate Energy and Natural Resources Committee recently approved legislation to authorize leasing on the coastal plain of ANWR by a vote of 12-7. I am now working closely with Senator Johnston, Chairman of the Energy Committee, and Majority Leader George Mitchell to forge an agreement for full Senate consideration.

Thanks again for contacting me. I appreciate your support and hope that you will continue to be actively involved in the ANWR debate.

Best regards,

Sincerely,

Frank H. Murkowski

Frank H. Murkowski
United States Senator

6-0652Ub
Chenoweth

A M E N D M E N T

OFFERED IN THE SENATE BY THE RESOURCES COMMITTEE

TO: SCS CSHB 118 (Oil & Gas)

Page 1, following line 20:

Insert a new bill section to read:

"* Sec. 2. AS 43.55.080 is amended by adding new subsections to read:

(b) The commissioner of administration shall separately account for all proceeds of the tax deposited into the general fund under (a) of this section.

(c) The legislature may annually appropriate to the principal of the Alaska permanent fund established in AS 37.13.010 the greater of:

(1) $30,000,000; or

(2) four percent of the amount estimated to be received from the tax levied and collected under this chapter during the fiscal year."

Renumber the following bill section accordingly.

4/28/89

FINDINGS AND PURPOSE. The legislature recognizes that tax statutes may be made retroactive as long as the nature and duration of its application are reasonable. The purpose of applying the provisions of HB 118 retrospectively to December 30, 1988 is to generate the additional funds necessary to meet the costs of operating state government programs.

SCS CSHB 118 (OIL AND GAS)

LEGISLATION REVISING THE ECONOMIC LIMIT FACTOR (ELF)

Presented to the

Resources Committee

by the

Department of Revenue

April 28, 1989

INDEX

QUESTIONS AND ANSWERS ON

SCS CSHB 118 (OIL & GAS)

Why should the Legislature modify the ELF?

This legislation promotes economic development, creates jobs, raises revenue, and protects the interests of the people of Alaska in their resources.

What tax does the Economic Limit Factor formula affect?

The Economic Limit Factor (ELF) formula affects the severance tax on oil. The severance tax — also called the production tax — is a tax on oil removed from the ground. The tax compensates for the depletion of the state's non-renewable resources. The severance tax has provided more than a third of the state's unrestricted General Fund revenue in the past decade.

What is the Economic Limit Factor?

The ELF is a formula which reduces the severance tax actually paid on oil. The ELF formula produces a fraction which reduces severance taxes as the productivity of a well declines. This reduced severance tax rate is the "effective" severance tax rate — that is, it is the rate the producer actually pays. The effective severance tax rate is the "nominal" severance tax rate (the one set out, or "named" in statute, which is normally 15 percent for mature fields) multiplied by the ELF. Here's an example which shows the tax rate on Prudhoe Bay now:

15% nominal tax rate

multiplied times ELF of 0.824

equals an effective severance tax
rate of 12.36%

The higher the ELF, the higher the actual tax paid. The lower the ELF, the lower the actual tax paid. A low ELF provides a large tax break.

DEPARTMENT OF REVENUE (April 28, 1989)

Why do we have the ELF?

The ELF was originally created in 1977 to encourage oil companies to develop marginal oil fields, and to extend the life of producing fields when production at those fields became marginal.

How did we get to where we are today?

In 1981, the Legislature sharply reduced the state's corporate income tax on oil and gas producers by abandoning separate accounting. (The changes were made because the separate accounting law had been challenged in court, but the state later won the lawsuit.) In an attempt to compensate for the expected loss of revenues from the changes made in the corporate income tax, the Legislature raised the severance tax rate from 12.25% to 15%. Because the ELF formula would have cut into this needed revenue, the Legislature -- as a stopgap measure -- suspended the ELF at Prudhoe Bay until 1987.

Even at the outset, this attempt to compensate failed. The 1981 changes in the income tax and severance tax had the net effect of costing the state more than $1 billion in lost revenues between fiscal years 1982 and 1987.

In 1987, the impact of the 1981 tax changes became even more negative for the state. When the stopgap provision ended in 1987, this additional tax break caused the effective severance tax rate at Prudhoe Bay to drop sharply. (Graphic #1 shows this sharp drop for Prudhoe Bay.) This sharp drop immediately cut Alaska's total revenue by $135,000,000 in FY 88, and has cost the state more than $70 million more for FY 89 by the middle of March of 1989.

Why do people want to change the ELF now?

The current ELF is not giving Alaska an attractive enough tax climate to encourage development of marginal oil fields. Instead of helping marginal fields, the ELF formula now mostly provides a massive and unnecessary tax break to two fields which are not marginal at all -- Prudhoe Bay and Kuparuk. These are the largest oil fields in the United States, and two of the most profitable as well.

House Bill 118 would target tax breaks toward marginal fields and away from these two large, high-profit fields. The bill would give tax breaks to currently producing marginal fields such as Endicott and Lisburne and to prospective marginal fields at Niakuk, Point Thomson, Milne Point, and Seal Island. It would leave taxes at zero at West Sak and all the Cook Inlet fields. (See Graphic #2.)

In fact, HB 118 would cut -- or leave at zero -- the taxes on every oil field in Alaska except Prudhoe Bay and Kuparuk.

HB 118 would reduce the tax breaks given to Prudhoe Bay and Kuparuk. The current ELF gives a 20 percent tax break to Prudhoe Bay, and more than a 40 percent tax break to Kuparuk. HB 118 would reduce -- but not eliminate -- the tax breaks given to these two large fields.

Graphic #3 shows the tax savings provided by HB 118 for producers at all other fields except Prudhoe Bay and Kuparuk. Graphic #4 shows the increased revenues generated from Prudhoe Bay and Kuparuk by HB 118. The legislation on balance raises substantial revenues.

How much revenue would HB 118 raise?

HB 118 does not provide for an effective date, nor does it specify when it begins to apply. Assuming that the bill went into effect July 1, 1989 and applied to oil produced after June 30, 1989 -- and assuming the mid-case scenario projections of the Fall, 1988 Department of Revenue forecast -- the bill will raise $158 million in Fiscal Year 1990.

The legislation would raise much more money if it were retroactive. If the bill applied to oil produced after December 31, 1988, it would generate $235 million for FY 89 and FY 90.

The long-term fiscal impact is substantial as well. For the FY 91 - FY 95 period, the legislation would raise $981 million.

Matanuska-Susitna Borough
P.O. BOX 1608, PALMER, ALASKA 99645-1608 • PHONE 745-9682
BOROUGH MAYOR

April 6, 1989

APR 13 1989

Dear Senator:

At the April 4, 1989 regular meeting of the Assembly of the Matanuska-Susitna Borough, the enclosed Resolution No. 89-063 was passed and approved. This resolution is in support of the Economic Limit Factor (ELF) and House Bill No. 118. We enclose a copy for your information and offer our support to you in this matter.

Sincerely,

Dorothy A. Jones

Dorothy A. Jones
Borough Mayor

th

Enclosure

MATANUSKA-SUSITNA BOROUGH

Resolution Serial No. 89-063

A RESOLUTION OF THE ASSEMBLY OF THE MATANUSKA-SUSITNA BOROUGH, SUPPORTING SENATE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE HOUSE BILL NO. 118, AN ACT RELATING TO THE OIL AND GAS PROPERTIES PRODUCTION TAX.

WHEREAS, in 1981 the Legislature, fearing it could lose an oil industry lawsuit challenging the state's taxing structure, shifted oil taxes (adjusting the severance and income taxes) which resulted in a net tax reduction to the industry; and

WHEREAS, the 1981 tax break has cost the state more than $1 billion in lost revenues between 1982 and 1987; and

WHEREAS, the Alaska Constitution requires that the legislature provide that all state-owned resources be used for the maximum benefit of all the people of Alaska; and

WHEREAS, Senate committee substitute for Committee Substitute House Bill No. 118 modifies the Economic Limit Factor (ELF); and

WHEREAS, Senate CS for CSHB No. 118 has passed the house; and

WHEREAS, the bill has been referred to the Senate for consideration; and

WHEREAS, a special Senate committee on oil and gas is reviewing the bill, however no date for a hearing on the bill has been scheduled; and

WHEREAS, the intention of the ELF is to reduce the amount of taxes on oil fields as production dwindles and it becomes increasingly expensive to get the oil out of the ground, the ELF is an incentive to keep marginal fields producing; and

WHEREAS, Senate CS for CSHB No. 118 would provide for greater tax breaks for truly marginal fields and adjust--not eliminate--tax incentive for the two huge fields, Prudhoe Bay and Kuparuk; and

WHEREAS, the dollar amounts of tax collected per barrel of oil in Alaska are lower than in many states; and

WHEREAS, the modification to the Economic Limit Factor will provide increased incentive for marginal field development, which is more labor intensive and should provide additional employment in the State of Alaska; and

WHEREAS, the modification of the Economic Limit Factor as proposed in Senate CS for CSHB Bill No. 118 is estimated to generate approximately $170 million for the next fiscal year according to the most recent oil forecast.

NOW THEREFORE, BE IT RESOLVED that the Assembly of the Matanuska-Susitna Borough supports the modification of the Economic Limit Factor as set forth in Senate CS for CSHB No. 118, however, the bill should become effective as soon as possible;

BE IT FURTHER RESOLVED that copies of this Resolution be forwarded to Senators Kerttula, Szymanski, Adams and Pearce, the special Senate committee on oil and gas, the House Resources

Committee, Representatives Larson, Menard, and Swackhammer, and Governor Cowper.

PASSED AND APPROVED by the Assembly of the Matanuska-Susitna Borough this 4 day of April, 1989.

Dorothy A. Jones

Dorothy A. Jones, Mayor

ATTEST:

Linda Dahl

Linda Dahl, Borough Clerk

(SEAL)

(R/040389-3)

BSN# 569

ALASKA SENATE
CSHB 118 FIN EFD FLD

5/ 8/89 1:37 PM

2ND SESSION 15TH LEG

11 YEAS 9 NAYS 0 EXC 0 ABS

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

+ VOTED FOR
* CHANGED VOTE

BSN# 566

ALASKA SENATE

CSHB 118 RES ED FLD 3RD

2ND SESSION 15TH LEG

5/ 7/89 11:45 PM

9 YEAS 11 NAYS 0 EXC 0 ABS

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

+ VOTED FOR
* CHANGED VOTE

SENATE COMMITTEE REPORT

FURTHER FIN

DATE TURNED INTO OFFICE ________________

4/27/89

Mr. President:

Resources Committee considered CSHB 118 (RES) efd fld

oil and gas properties production tax

and recommended

[ ] replace with S CS CSHB 118 (Resources)) [X] same title
[ ] or adopt ______ CS ______________) [] new title
[] technical title change (HB only)

[ ] attached amendment(s) and

[ ] ________________ letter of intent adopted

[ ] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to ____________________

FISCAL NOTE(S) [ ] zero [ ] fiscal impact [ ] appropriation no FN
[ ] new [ ] updated [ ] previous
[ ] same as previous fiscal note(s) published ________________

MEMBERS SIGNING DO PASS	OTHER RECOMMENDATIONS
[signature]	[signature] No Rec
	[signature] No Rec
	[signature] Do not pass unless am.
	Kirk Hailford DO NOT PASS
	[signature] No Rec

[signature] Do Pass
Chair / signature and recommendation

[ ] Committee Backup attached

SENATE COMMITTEE REPORT

2
6-06524

FURTHER (RES) FIN

3/31/89 DATE TURNED INTO OFFICE ________________

Mr. President:

OIL & GAS Committee considered CSHB 118 (RES)(efd fld)

oil and gas properties production tax

and recommended

[✓] replace with S CS HB 118 (Oil & Gas)) [ ] same title
[ ] or adopt ______ CS ______________________) [ ] new title
[✓] technical title change (HB only)

[ ] attached amendment(s) and & reports out Do not pass as follows:

[ ] ________________ letter of intent adopted

[ ] do pass

[✓] do not pass

∅FN!

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to ____________________

FISCAL NOTE(S) [✓] zero [ ] fiscal impact [ ] appropriation no FN
[ ] new [ ] updated [ ] previous
[ ] same as previous fiscal note(s) published ________________

MEMBERS SIGNING DO PASS

2 Al Adams - NEEDS Amendment

OTHER RECOMMENDATIONS

/ Paul Fischer (Do Not Pass)
/ Rick Halford (~~[illegible]~~) Do Not Pass
/ Tim Kelly (Do Not Pass)

True Pearce - Do not pass
Chairman signature and recommendation

[ ] Committee Backup attached

SENATE COMMITTEE REPORT

(d)
6-0652T

FURTHER

O&G
RES
FIN

3/23/89 DATE TURNED INTO OFFICE ______

Mr. President:

JUDICIARY Committee considered CSHB 118 (RES)(efd fld)

oil and gas properties production tax

and recommended

[x] replace with S CSHB 118 (JUD)) [x] same title
[ ] or adopt ______ CS ______) [ ] new title
[ ] technical title change (HB only)

[ ] attached amendment(s) and

[ ] ______ letter of intent adopted

[ ] do pass

[ ] do not pass

[ ] no recommendation

[x] individual recommendations

[ ] further referral to ______

FISCAL NOTE(S) [ ] zero [x] fiscal impact [ ] appropriation no FN
[ ] new [ ] updated [ ] previous
[ ] same as previous fiscal note(s) published ______

MEMBERS SIGNING DO PASS	OTHER RECOMMENDATIONS
	Mike Szymanski Do not pass
	Drue Pearce do not pass
	Vic Fischer NO REC
	Rick Halford NO REC

Do not pass

Chairman signature and recommendation

[ ] Committee Backup attached

STATE OF ALASKA
1989 LEGISLATIVE SESSION

Bill Version: SCS CSHB 118 (Res)
Publish Date:

FISCAL NOTE

REQUEST:

Revision Date: May 1, 1989
Title: Oil & gas properties production tax - ELF
Sponsor: House Finance Committee
Requestor: Senate Resources

Agency Affected: Department of Revenue
BRU: Oil & Gas Audit Division
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	64,000	171,000	181,000	192,000	207,000	207,000

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: See attached page for analysis.

Prepared By: Roger Marks
Division: Dept. of Revenue, Oil & Gas Audit Division
Phone: 277-5627
Date: May 2, 1989

Approved by Commissioner: Hugh Malone FOR
Agency: Department of Revenue
Date: 5/2/89

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Fiscal Analysis of HB 118

This bill modifies the economic limit factor (ELF) formula used in computing the production (severance) tax on oil.

The bill (1) introduces the rate of field production into the exponent of the current ELF formula; (2) repeals the so-called "rounding rule," the provision of current law which states that for any month during the first 10 years of commercial oil production for which the computed ELF of a lease or property exceeds 0.7 the ELF shall be considered to be one; (3) authorizes the appropriation to the oil and hazardous substance release response fund of 50 percent of the revenues for the period between January 1, 1989 and May 31, 1989; and (4) authorizes the annual appropriation in future years of $30 million or 4 percent of the severance tax revenues, whichever is greater.

This fiscal note was calculated using the oil price and production assumptions of the Department of Revenue's Spring 1989 Petroleum Production Revenue Forecast mid-case scenario. That forecast was predicated on Alaska North Slope crude prices at the U.S. Gulf of $14.29 a barrel in FY 89 and $16.41 a barrel in FY 90.

Additional revenues for future years in millions of dollars are as follows:

1995	194
1996	180
1997	165
1998	157
1999	148
2000	139
2001	129
2002	110
2003	86
2004	69
2005	45
2006	21
2007	4
2008	(3)
2009	0
2010	0

A price - revenue matrix is included. It is based on an application date of December 31, 1988.

→ 2007 = 2.23 billion
$150 million = 7%

Price/Revenue Increase for HB 118
(Millions of $)

Saudi Light ($/bbl)	ANS @ US Gulf ($/bbl)	Fiscal Year 1989	1990	1991	1992	1993	1994	1995
10	11	35	85	88	98	104	104	99
12	13	48	115	116	129	146	148	139
14	15	63	151	153	161	174	175	164
16	17	78	187	189	198	213	214	200
18	20	92	223	226	235	253	253	236
20	22	107	259	262	272	283	277	258

STATE OF ALASKA
1989 LEGISLATIVE SESSION

Bill Version: SCS CSHB 118 (Jud)
Publish Date:

FISCAL NOTE

REQUEST:

Revision Date: April 4, 1989
Title: Oil & gas properties production tax - ELF
Sponsor: House Finance Committee
Requestor: Senate Judiciary

Agency Affected: Department of Revenue
BRU: Oil & Gas Audit Division
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	~~VARIES~~ SEE ESTIMATE ATTACHED		181,000	192,000	207,000	207,000

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: See attached page for analysis.

Prepared By: Roger Marks
Division: Dept. of Revenue, Oil & Gas Audit Division
Phone: 277-5627
Date: April 4, 1989

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue
Date: 4/4/89

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

page 1 of 4

Fiscal Analysis of HB 118

This bill modifies the economic limit factor (ELF) formula used in computing the production (severance) tax on oil.

The bill (1) introduces the rate of field production into the exponent of the current ELF formula; (2) repeals the so-called "rounding rule," the provision of current law which states that for any month during the first 10 years of commercial oil production for which the computed ELF or a lease or property exceeds 0.7 the ELF shall be considered to be one; and (3) fixes the production at the economic limit (PEL) at 300 barrels times the number of well days in the month.

This bill does not explicitly state the date on which it first begins applying to oil production. That date will determine how much revenue is raised for FY 89 and FY 90. The following table shows the revenue raised for each date.

If the bill applies to oil produced after this date	Revenues Raised for FY 89	Revenues Raised for FY 90
12/31/88	64	171
01/31/89	50	171
02/28/89	37	171
03/31/89	24	171
04/30/89	12	171
05/31/89	0	171
06/30/89	0	158
07/31/89	0	145
08/31/89	0	132

The severance tax is paid monthly for the prior month. For example, the tax for production in April is due in May.

This fiscal note was calculated using the oil price and production assumptions of the Department of Revenue's Spring 1989 Petroleum Production Revenue Forecast mid-case scenario. That forecast was predicated on Alaska North Slope crude prices at the U.S. Gulf of $14.29 a barrel in FY 89 and $16.41 a barrel in FY 90.

Additional revenues for future years in millions of dollars are as follows:

1995	194
1996	180
1997	165
1998	157
1999	148
2000	139
2001	129
2002	110

2003	86
2004	69
2005	45
2006	21
2007	4
2008	(3)
2009	0
2010	0

A price - revenue matrix is included. It is based on an application date of December 31, 1988.

Price/Revenue Increase for HB 118
(Millions of $)

Saudi Light ($/bbl)	ANS @ US Gulf ($/bbl)	Fiscal Year 1989	1990	1991	1992	1993	1994	1995
10	11	35	85	88	98	104	104	99
12	13	48	115	116	129	146	148	139
14	15	63	151	153	161	174	175	164
16	17	78	187	189	198	213	214	200
18	20	92	223	226	235	253	253	236
20	22	107	259	262	272	283	277	258

ELF

BSN: 164 ALASKA HOUSE OF REPRESENTATIVES

CSHB 118(RES) REC ELF

1ST SESSION 16TH LEG 3/22/89 12:47 PM

21 YEAS 19 NAYS 0 EXC 0 ABS

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

+ VOTED FOR
* CHANGED VOTE

J. ELF

BSN: 165 ALASKA HOUSE OF REPRESENTATIVES

CSHB 118(RES) EFD IMMEDIATE

1ST SESSION 16TH LEG 3/22/89 12:47 PM

26 YEAS 14 NAYS 0 EXC 0 ABS

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

Needed ~~27~~. He was last to punch the button. IT'LL COST THE STATE ABOUT $80 MILLION.

+ VOTED FOR
* CHANGED VOTE

ELF

United Brotherhood of Carpenters and Joiners of America

LOCAL UNION NO. 1243

MAR 14 1989

Farthest North Local in the World

DON K. SWARNER
Business Representative
Financial Secretary-Treasurer

907 452-5308
907 452-3862

313 FIFTH AVENUE
P.O. BOX 347
FAIRBANKS, ALASKA
99707

A RESOLUTION URGING THE ALASKA STATE LEGISLATURE TO
REVIEW AND ADOPT HB 118 AN ACT
RELATING TO THE OIL AND GAS PROPERTIES PRODUCTION TAX

WHEREAS, the Economic Limit Factor (ELF) as enacted by the Alaska State Legislature in 1981 was intended to promote continued development of marginal oil fields; and

WHEREAS, unbeknownst to legislators in 1981, both the Prudhoe Bay and Kuparuk Oil Fields are in no sense of the word marginal fields; and

WHEREAS, the application of the Economic Limit Factor (ELF) actually discourages oil production at a truly marginal field such as Milne Point; and

WHEREAS, the people of the State of Alaska own the oil resources of the State and should be fairly & equitably compensated for their extraction; and

WHEREAS, the economic conditions in Alaska do not warrant a tax break for the oil companies; and

Whereas, the Alaskan work force is not receiving its fair share of employment in the development of their oil and gas resources;

THEREFORE, be it resolved that Local Union 1243 of the United Brotherhood of Carpenters and Joiners of America urges the Alaska State Legislature to complete its review of HB 118 and to bring this bill to the floor and furthermore, we urge its adoption.

UNANIMOUSLY passed this 28th day of February, 1989 by the General Membership.

Murray L B.00

Murray Baldwin
President

Don K. Swarner

Don Swarner
Business Representative
Financial Secretary/Treasurer

CONOCO

Tom Painter
Division Manager

Conoco Inc.
3201 C Street
Suite 200
Anchorage, AK 99503

May 1, 1989

The Honorable Bettye Fahrenkamp
Alaska State Legislature
P. O. Box V
Juneau, Alaska 99811

Dear Senator Fahrenkamp:

I appreciate the request by Senate Resource's Staff to provide your Committee Conoco's position regarding HB 118. Our position favoring a modification of the ELF to make the production tax structure a progressive tax based on field size as well as well productivity remains unchanged from our prior testimony in the hearings on CSHB-164 in 1987. We continue to believe such change would offer a positive first step in encouraging the development of Alaska's small, marginal fields.

Oil field development in remote areas of Alaska, such as the North Slope, offshore, or interior, requires high fixed cost components of investment and operation. All fields, regardless of size, must possess living quarters, roads, pipelines, and personnel transportation infrastructure in addition to the normal production handling facilities. In Alaska's high cost environment, these factors result in significant diseconomies of scale for smaller fields. For smaller fields to be economically developed, we believe some adjustments must be made in the tax or royalty structure.

Conoco remains desirous on becoming a more active participant in the Alaskan economy. For Milne Point, the North Slope's smallest field, a change in the production tax structure would help. The economics of continuing development at Milne Point would be more enhanced by a change in our royalty rate, which, at 20%, is the largest fixed royalty for any field in the state. HB-128, which has recently been approved by the House of Representatives, has the potential to provide royalty relief. For Milne Point to be a success, a sufficient differential between crude price and costs, including taxes and royalty, must exist to generate a profit. While oil price continues to be the controlling factor, any incremental improvement in taxes and royalty would have the same effect as an increase in price.

We must caution that our position on modifying the ELF to provide an incentive for small field development should not be misconstrued as support for increasing taxes on any currently producing field in Alaska. Alaska's sustainable economic growth has and will continue to come from private sector investment to develop Alaska's natural resources. From our observations, the tax reductions initiated at Prudhoe Bay are benefitting both the State and the Prudhoe Bay owners as additional production and reserves are being developed, investments are being made, and new jobs are being added to the Alaska economy.

It is possible to provide both an incentive for small field development and to maintain continued investment in the state's larger fields by adopting the modified ELF proposed in HB-118 and simultaneously reducing the production tax rate, resulting in a "tax neutral" position.

I hope this information will suffice to adequately define Conoco's position on HB-118. If you so choose, you may submit this letter as testimony at the hearing.

Very truly yours,

T. R. Painter
Division Manager

AEH(jah)

TESTIMONY OF

GERALD SERENA

FOR

EXXON COMPANY, U.S.A.

BEFORE THE

SENATE RESOURCES COMMITTEE

SCS CSHB No. 118

APRIL 28, 1989

My name is Gerald Serena and I am a tax lawyer for Exxon Company, U.S.A. We appreciate the opportunity to comment once again on legislation proposed to modify the Economic Limit Factor. In previous hearings before committees of the House and Senate, Exxon has made clear its opposition to any proposals that would effectively eliminate the benefit of ELF for the Prudhoe Bay and Kuparuk fields. Our message has not changed.

This bill would significantly increase production tax on 90% of Alaska's oil production. This increased cost of production would adversely affect investment in future Prudhoe Bay development projects. These projects are economically marginal in the same sense that the start-up of some smaller fields on the North Slope might be marginal. Such projects are necessary to optimize production from Prudhoe Bay, which is crucial to Alaska's economic future.

Alaska's production tax law is comprehensive, well-reasoned, and effective. It combines two essential elements -- the highest nominal tax rate in the United States, and an Economic Limit Factor which reduces this rate on a field-by-field basis as measured by production rate per well in the field.

IT HAS WORKED UP TO NOW AND IT WILL CONTINUE TO WORK AS DESIGNED AS PRUDHOE BAY PRODUCTION DECLINES.

THE PRODUCTION TAX ON OIL FROM PRUDHOE BAY IS HIGH ENOUGH BY ANY STANDARDS. WHEN COMBINED WITH THE OTHER STATE TAXES ON NORTH SLOPE PRODUCTION OPERATIONS, IT IS CLEAR THAT OUR INDUSTRY IS CONTRIBUTING ITS FAIR SHARE OF STATE TAX COLLECTIONS. WHEN YOU COMBINE TAXES AND ROYALTIES, OUR INDUSTRY ACCOUNTS FOR ABOUT 85% OF STATE REVENUES. FURTHERMORE, ROYALTIES AND OTHER LEASE PAYMENTS HAVE ESTABLISHED THE $10 BILLION ALASKA PERMANENT FUND.

IN 1988, AVERAGE DAILY OIL PRODUCTION AT PRUDHOE BAY DECLINED TO 1,450,000 BARRELS FROM THE 1,500,000 AVERAGE ACHIEVED IN PRIOR YEARS, AND WE ANTICIPATE THAT THIS DECLINE WILL CONTINUE. THIS WAS INEVITABLE. IT WAS DELAYED UNTIL NOW BY AN EFFICIENT AND OPTIMAL DEVELOPMENT PLAN THAT CONTINUES TO BE IMPLEMENTED. SINCE INITIAL DEVELOPMENT, EXXON HAS EVALUATED AND SUPPORTED SEVERAL PROJECTS TO INCREASE RECOVERY AT PRUDHOE BAY. THE COST PER BARREL FOR THESE PROJECTS TO INCREASE RECOVERY WAS TWICE THE COST OF THE INITIAL DEVELOPMENT.

After current development is completed, it is estimated that 10 billion barrels of oil will be left in formation at Prudhoe Bay. H.B. 118 would increase the cost of producing those barrels and thereby reduce the incentive to undertake such projects. Future projects to maintain production and increase recoverable reserves at Prudhoe Bay will cost more than five times as much as the initial development. It is conceivable that undeveloped marginal reserves at Prudhoe Bay might exceed the potential reserves of all the smaller field prospects on the North Slope identified to date.

H.B. 118 is based on the assumption that larger oil fields should contribute production taxes at a higher rate than smaller fields. Tax policy makers should not confuse the production rate of a field with its profitability. The Prudhoe Bay field in decline is a perfect example.

Our recommendation today is the same as it has been at all the prior hearings on this legislation. We urge you not to support H.B. 118. It will adversely affect future development investment at Prudhoe Bay. Such investment is needed to maximize oil production, thereby increasing the state's royalty and production tax base.

TESTIMONY

OF

BP EXPLORATION (ALASKA) INC.

TO THE

SENATE SPECIAL OIL AND GAS COMMITTEE

REGARDING

SCS CSHB 118 (THE "ELF")

April 24, 1989

My name is Thomas K. Williams. I am Manager of Tax Planning at BP Exploration (Alaska). At the outset, I want to say that BP Exploration is saddened by the Exxon Valdez Incident. So is everyone I know at BP Exploration. We share in your desire to take steps to avoid further spills and to improve the ability to respond to any future spills, as already evidenced by actions announced to date.

However, my purpose in appearing before you today is to testify about the Economic Limit Factor, or ELF, and the legislation that proposes to change it, House Bill No. 118. My testimony today is in two parts. First, I have this prepared statement responding to certain testimony to the Committee last Thursday. Second, I have some comments about how the present ELF works and how it would be changed under HB 118.

Last Thursday, there was a question about the nature and size of the return on investment which the owners of TAPS receive. Attached to my written statement are relevant pages from the Settlement Agreement between the State of Alaska and the pipeline owners. As Mr. Motley correctly stated on Thursday, the agreement provides for a 6.4% real rate of return from 1984 through 1989, and a return of 35 cents per barrel (adjusted for inflation) after that for the original investment. In signing the agreement, the State of Alaska endorsed this level of profitability for TAPS. Putting it another way, to increase the tax on production because of pipeline profits is counter to the intent and stated conclusion of the Agreement, which states on page 2 that "TAPS tariffs ... are both just and reasonable and non-discriminatory...." The tariff was structured in a way to increase capital recovery in earlier years so that there would be a lower tariff in later years. This in turn would mean that State revenues would be higher and new fields would have a lower transportation cost in those later years.

Also at Thursday's hearing, the Administration again showed a chart displaying the rate change in Prudhoe Bay in 1987. In explaining the chart, the Administration described how a change of this nature was not fully understood in 1981. The goal in 1981 was to ensure that the State continued to receive its fair share of not less than 30 percent. In fact, compared to 1981, the State's share has soared. BP's figures show that the State's share of production revenue went from 30% in 1981 to 49% in 1988.

State Share of Production Revenue

	1981	1986	1987	1988
BP	30%	72%	39%	49%

The same would be true for the other petroleum companies having production in Alaska given the substantial decline in crude oil prices that have occurred over this period. In short, over the last three years, the State of Alaska has received a share of the revenue "pie" far beyond what was contemplated in 1981. In our earlier testimony before this Committee regarding Senate Bill No. 97, BP emphasized that 1986 marked the beginning of an era of dramatically reduced profitability from oil production. As just shown, 1986 also marked the beginning of a period of a dramatically increased State's share of the net revenue from oil production.

We heard on Thursday that HB 118's ELF formula makes field size its dominant parameter because field size reflects how profitable a field is. Let us pass over the counter-example of the West Sak field -- a very large field that even the Administration concedes will be marginal at best. Instead, let me direct your attention to the case of Prudhoe Bay.

BP's figures show that the profitability of Prudhoe Bay has dropped by more than 65% from 1981 to 1988. House Bill No. 118 would match this 65% drop in profitability with a reduction in the tax rate from 15% to 14.9%. If all goes as the State predicts, the rate for Prudhoe will drop again in 1994 -- from 14.9% to 14.8 percent. So much for HB 118's sensitivity to profitability. The justification for setting the tax rate as high as Alaska does was and remains the fact that the ELF will scale the rate down as profitability drops. Under the formula in HB 118, this will no longer happen.

One last comment I have about last Thursday's hearing is not about something that was said, but about something that was not said. At the beginning of this Session, the Administration's primary argument for amending the ELF was that the State needs the money to meet its budget needs. Since then, the change in the outlook for oil prices this year and next based on the State's Spring Forecast has increased State revenues by more than five times the amount that the ELF was supposed to bring in.

This concludes my prepared remarks. At this time, with your permission, I would like to distribute to the Committee a handout regarding the operation of the present ELF and the proposed one under HB 118.

KENAI PENINSULA BOROUGH
144 N. BINKLEY • SOLDOTNA, ALASKA 99669
PHONE (907) 262-4441

DON GILMAN
MAYOR

April 19, 1989

APR 24 1989

Alaska State Senate
P.O. Box V
Juneau, AK 99811

Dear Senator:

On April 18, 1989, the Kenai Peninsula Borough Assembly unanimously adopted Res. 89-33, "In Support of Modification of the Economic Limit Factor by the State of Alaska". The assembly and mayor requested the resolution be forwarded to you.

Your review would be greatly appreciated.

Thank you.

Very truly yours,

Catherine Y. DeLacee

Catherine Y. DeLacee,
Deputy Borough Clerk

ENC: (1)

f- HB 118

Introduced by: Mullen, Skogstad
Date: April 4, 1989
Vote: 12 Yes, 2 No
Action: Adopted

KENAI PENINSULA BOROUGH

RESOLUTION 89-33

(Local Affairs Comm. Amended)

IN SUPPORT OF MODIFICATION OF THE ECONOMIC LIMIT FACTOR BY THE STATE OF ALASKA

WHEREAS, the Alaska legislature is considering modifications to the Economic Limit Factor (ELF), and

WHEREAS, revenues available to local municipalities including the Kenai Peninsula Borough in the form of funding for education and municipal assistance and revenue sharing will be directly impacted by action the legislature takes regarding the ELF, and

WHEREAS, if the ELF were modified as proposed in HB 118, additional revenues would be available to offset the budget deficit, thereby decreasing the likelihood of dramatic cuts to muncipalities;

NOW THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

Section 1. That the Kenai Peninsula Borough Assembly supports HB 118.

Section 2. That the Kenai Peninsula Borough Assembly urges a Senate floor vote on the ELF prior to May 9, 1989.

Section 3. That copies of this resolution shall be sent to all members of the legislature.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH ON THIS 18th DAY OF April, 1989.

Jonathan W. Sewall

Jonathan W. Sewall, Assembly President

ATTEST:

Joanne Brindley

Borough Clerk

Alaska Public
Employees Association APEA
State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

APR 14 1989

April 11, 1989

Senator Bettye Fahrenkamp
P.O. Box V
Juneau, AK 99811

Dear Senator Fahrenkamp:

Attached is a resolution passed by our Board of Director's urging the passage of HB 118 (ELF) with the amendments proposed by Senator Duncan. The resolution speaks for itself.

We would appreciate your support on this matter. Thank you.

Very truly yours,

Bruce I. Ludwig

Bruce I. Ludwig
Business Manager

Enclosure

BIL/kr

Fairbanks Field Office
825 College Road
Fairbanks, AK 99701
Telephone: (907) 456-5412

Anchorage Field Office
833 Gambell Street, Suite A
Anchorage, AK 99501
Telephone: (907) 274-1688

Juneau Field Office
227 4th Street
Juneau, AK 99801
Telephone: (907) 586-6305

ALASKA PUBLIC EMPLOYEES ASSOCIATION

RESOLUTION

A resolution supporting legislation that removes applying the Economic Limit Factor (ELF Tax Break) to Prudhoe Bay and Kuparek Fields.

WHEREAS, the State of Alaska will lose approximately 200 million dollars in FY90 as a result of the ELF tax loophole; and

WHEREAS, the State faces a potential FY90 shortfall of approximately 250 million dollars according to recent projections; and

WHEREAS, the State is considering drastic cuts to balance the budget; and

WHEREAS, these cuts would decimate employment and ultimately the well being of families from throughout the State; and

WHEREAS, the Institute of Social and Economic Research report recently predicted a dramatic impact on the entire economy resulting from such budget cuts; and

WHEREAS, cuts of such magnitude would cause another serious recession in local communities; and

WHEREAS, the economy is just now beginning to recover; and

WHEREAS, APEA has recently negotiated a no increase, good faith State Employee contract to demonstrate its willingness to share in responsibility for a fair budget; and

WHEREAS, the ELF was originally intended to apply to marginal fields, not provide tax breaks to the largest producing fields in North America; and

WHEREAS, Senator Duncan has developed an amendment that would provide fair and reasonable incentives to the industry for spill prevention and clean up, now and in the future.

NOW THEREFORE BE IT RESOLVED; for the sake of Alaskan families, APEA urges the Legislature to enact HB 118 with Senator Duncan's amendments immediately.

Be it known that I, Harry A. Sturrock, certify that the above is true of correct copy of a resolution approved by the Board of Directors of the Alaska Public Employees Association on April 3, 1989.

Signed: Harry A. Sturrock

Date: 4/7/89

Testimony, ELF

Juneau, AK

Good afternoon. My name is Ben Odom. I am Senior Vice President of Operations of ARCO Alaska, Inc. I appreciate the opportunity to offer testimony today concerning yet another proposed modification to the Economic Limit Factor of the Alaska Oil and Gas Properties Production Tax.

I feel certain that it will come as no surprise to you that ARCO Alaska opposes any changes to the Economic Limit Factor (ELF) which would have the effect of increasing the oil and gas industry's tax burden. We certainly identify with your problems concerning the potential budget deficit generated by the drop in crude oil prices. We have had to make a number of difficult decisions because of lower crude prices, including organizational restructuring and substantial reductions in costs, because our revenues, like yours, were and are, tied to the price of crude oil.

Our economics for making investment decisions contain two principal components. Estimated prices and estimated costs. We know we can't control prices, and we have learned we don't have the ability to predict them very well either. That leaves only cost. Other than the actual costs of transporting the crude oil, the largest single cost we have in Alaska is not the result of the remoteness of the fields or even the cold. The largest single item of cost we face in Alaska is taxes. Higher costs or lower prices result in exactly the same thing -- more oil left in the ground -- more oil that could be recovered becomes uneconomic to recover. That oil which is left in the ground because it is uneconomic will not return any royalties to the State, and it's from these royalties that the contributions are made to the Permanent Fund. It will not result in the payment of any production tax nor generate any income tax. Oil left in the ground will not create jobs. It will not utilize the facilities already available for its production, therefore, those facilities will generate less ad valorem tax revenues. The ELF helps to reduce the regressive effect of a gross production tax and prevent the premature cessation of oil production. Short-term fixes resulting in higher costs today have the result of removing jobs today and revenue from the future.

High crude prices have meant more tax and more royalty for the state. Those high prices have also equated to more crude oil reserves and more jobs to produce those reserves. However, reserves are not the equivalent of the total amount of crude oil in a reservoir. There is also an economic consideration. Reserves are instead only equal to the amount of crude oil that can be economically produced. Added crude reserves come when prices have been high enough to provide the economic incentive to pay for the technology specific to each reservoir and to pay for workers and equipment to implement that technology in each reservoir. Low prices mean reduced crude reserves; high costs likewise mean reduced crude reserves.

I want to show you this afternoon some information about the Kuparuk River Unit which should give you cause to move carefully in considering changes to the ELF. It is my understanding that the administration has prepared the 1990 budget based on a $14 Gulf Coast North Slope crude price. I would like to call your attention to Exhibit I, which indicates the impact on the Kuparuk River Unit of a $14.01 crude oil price. Kuparuk is the second largest oil field in North America with a current daily production rate of around 300,000 barrels. Our studies indicate nearly a billion barrels of oil can be produced with the existing wells and facilities. Half as much again is recoverable with additional capital spending. One might suppose that this field is an extremely profitable investment. But contrary to what you read in the papers or see on television, at $14 a barrel, Kuparuk is anything but profitable. As the exhibit so clearly shows, the State already, with the current ELF, receives more than 100% of the available net revenue on each incremental barrel of crude.

Even at its current peak production rate, only the State of Alaska, not the Kuparuk investors, receives a profit. These numbers paint a rather bleak picture at $14 a barrel. How can increasing the production tax burden by more than 100% over the next ten years, as HB-118 would do, be justified when you look at the economics? The State would certainly appear to be receiving a great deal more than a fair share of the available revenue.

The producer's return on each incremental barrel of oil will determine whether additional investments are made to produce more oil. Kuparuk has no natural gas cap to force the oil from the ground. From the day the first barrel was lifted, pressure has been decreasing, and production on a per-well basis would decline without extensive additional investment in enhanced recovery projects. These new investments are very costly and can only provide for a slower decline in production than would otherwise occur. The loss per barrel that you see is the amount that must support the economic decision of whether we continue to create additional crude oil reserves in the Kuparuk River Unit. Do we operate a drilling rig to do well workovers to produce more barrels when we lose $.14 on each barrel? Does it look better to double the production tax and increase the loss to $.32? There is not a multiplier or an exponent which will convert this loss to an economic incentive to spend more money, to generate more barrels at a loss. What is at issue is the one half billion barrels in the ground that require additional wells and investment to produce.

We are currently looking at a long-range plan for Kuparuk involving what we hope to be a continuing development package. As attached Exhibit II shows, there are many development projects left to be done at Kuparuk, and they would require additional capital of almost $1.6 billion and would create additional Alaskan jobs amounting to nearly 4000 man years of construction. Many of those projects will stay on the drawing board unless we have higher crude oil prices or lower costs -- or both. We can't do it without your help. The industry can't live with low prices and higher taxes. Among these projects, for example, is a drill site on the periphery of the Kuparuk field. Our plans call for a project consisting of 12 wells to be drilled on the site, providing an additional 12 million barrels of new oil reserves. Under the State's price forecasts and the present tax laws, this project is only marginally economic. If HB-118 is enacted, this project won't happen. Twelve million barrels of oil and effectively $35 million in State revenue will be left in the ground. Of the $35 million, $7 million would go into the Permanent Fund.

The importance of tax burden in a project evaluation cannot be overstated. The ELF plays a pivotal role in mitigating the regressive nature of the Alaska production tax by taking into account the economic realities of oil field operations. Those realities are that it doesn't matter how large or small the field is, what does matter is that each new project must stand on its own by showing a positive net present worth. Although prices are still very low, the current ELF provides a small but measurable incentive to help reduce some of the costs associated with producing more oil.

When I initially came to Alaska in 1968, the severance tax rate was 1%. A step production tax was introduced in 1974 to help mitigate the production tax burden on wells whose production was at certain low levels. This step methodology was modified in 1977 with the introduction of the ELF, and the maximum statutory rate was increased to 12.25%. Again in 1981 the statutory rate was increased to 15%, the highest production or severance tax rate in the nation. In addition, the application of the ELF was limited during the first ten years of production. As the curves in Exhibit III indicate for the Kuparuk Field, the burden on the production tax has not only changed by calculation method, but it has continually increased. Kuparuk would clearly be paying less production tax under prior laws than it would be paying under HB-118. As the top line of the graph plainly shows, HB-118 does not provide a slowly declining tax rate, or even a step decline, as production drops off. HB-118 is more on the nature of a cliff, where the production of the wells in the field must be so low before any reduction in tax is realized that under North Slope economic realities, the wells could not be operated at these production levels. This can be restated by saying that the Kuparuk Field will shut down before the ELF in HB-118 mitigates anything but an insignificant amount of the production tax.

An increase in taxes also has the direct effect of reducing the amount of capital available for exploration and production in the state. The modification of the ELF embodied in HB-118 is an increase in taxes. This bill provides only a short term revenue boost to cover excessive current government spending. It will not solve the fiscal difficulties the state now faces, and if it is enacted, it will be at the expense of long-term stability and growth. Too much of the oil industry's resources are being drained out of resource development and into government. It is time for the Legislature to set the pace for Alaska by putting into place policies that attract new investment and provide incentives to increase current investments. The current ELF formula does help to provide incentives to increase production, while HB-118 severely limits those incentives and effectively reinstates the regressive inequities of the gross production tax.

In closing, I would like to state that ARCO Alaska believes that HB-118 will not be advantageous to the economy or the citizens of Alaska. Its enactment would place an onerous additional tax burden on the oil industry that would remove to other states or countries funds that could otherwise be spent on additional investment in Alaska. HB-118 would create a disincentive to future Alaska exploration and development and will not maximize the recovery of Alaska's oil resources. ARCO Alaska strongly opposes House Bill 118.

ANS Net Revenue
Kuparuk River Field

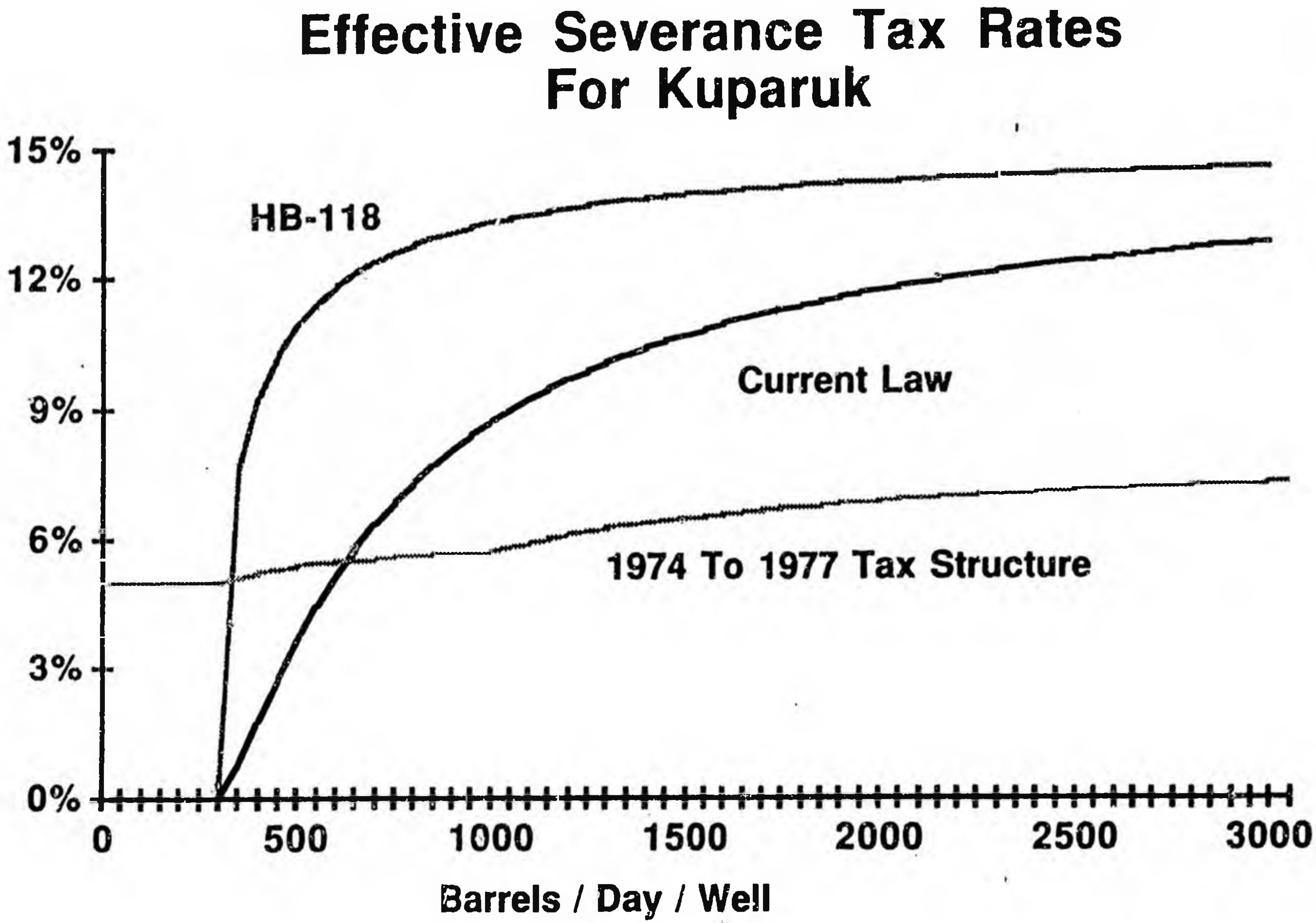
	Current Law $/bbl	HB-118 $/bbl
Assumed Crude Price	14.01	14.01
Tanker Freight	2.70	2.70
Quality Differential	0.40	0.40
TAPS Tariff	3.11	3.11
Kuparuk Pipeline	0.70	0.70
Pipeline Loss -	0.10	0.10
Wellhead Price	7.00	7.00
Production Cost and Capital Recovery	5.43	5.43
Total Net Revenue	1.58	1.58
State Royalty	0.82	0.82
Severance Tax	0.54	0.82
Property Tax	0.44	0.44
State Income Tax	-0.01	-0.02
Total State	1.79	2.06
Federal Income Tax	-0.07	-0.17
Producer Profit	-0.14	-0.32

Source:
Barclays de Zoete Wedd, September 1988
Alaska Department of Revenue October 1988
State of Alaska Royalty and Severance Methodology

PROJECT PORTFOLIO

KUPARUK

Project	Description	Timing
Drilling		
• Peripheral Drillsite 2K	Selective peripheral DS development	1989 SU
• Peripheral Drillsite 3R	on 160 acre spacing. Total of 98	1989 SU
• Peripheral Drillsite 2M	additional wells	1990 SU
• Peripheral Drillsite 2L		1990 SU
• Peripheral Drillsite 3G		1990 SU
• Rem. Peripheral Dev.	14 drillsite expansions, 6 new drillsites, 180 additional wells 1 rig 1989, 2 rigs thereafter	1990===>
Waterflood/EOR		
• LIP-3 Expansion	Additional water handling capacity @ CPF-3	1990 SL
• Infill Drill @ DS 1Y/2Z	22 new wells. Improve EOR efficiency	1989===>
• Infill Drill @ DS 1A	16 wells. Seed for Phase I infill	1989 SU
• Phase I Infill Drilling	160 + 80 acre accelerate reserves	1991 SU
• Fullfield EOR	19 drillsites staged over 4 years	1991 SU


Effective Severance Tax Rates
For Kuparuk
15%
12%
9%
6%
3%
0%
HB-118
Current Law
1974 To 1977 Tax Structure
0
500
1000
1500
2000
2500
3000
Barrels / Day / Well

ARCO Alaska, Inc.

ARCO Alaska, Inc.	1988	1987	1986	Total
Earnings - millions of dollars	$ 382	$ 487	$ 124	$ 993
Total assets - millions of dollars	$3,977	$4,221	$4,615	
Additions to fixed assets - millions of dollars	$ 214	$ 136	$ 506	$ 856
Liquids production - thousand barrels/day - net	487.3	470.4	429.9	
Natural gas sales - million cubic feet/day - net	30	28	35	
Average crude price - dollars/barrel	$ 5.51	$10.95	$ 6.43	
Average natural gas price - dollars/thousand cubic feet	$ 1.36	$ 1.14	$ 1.16	
State taxes - millions of dollars*	$ 474	$ 328	$ 483	$1,285
Exploration expense - millions of dollars	$ 56	$ 45	$ 44	$ 145
Net exploratory wells completed	2	0	1	3
Proved liquids reserves - million barrels	2,064	2,136	2,046	
Proved natural gas reserves - billion cubic feet	2,484	2,207	1,985	

* Includes production, property and income taxes paid in the State of Alaska, as well as lump sum settlement payments made to the state in 1988 and 1986 for income and production taxes. Does not include the state's approximately 12.5 percent share of production.

ARCO Alaska Earnings - \$/BOE (Excluding debt service and overhead)	\$ 2.12	\$ 2.81	\$ 0.78	\$ 1.94
State Earnings - \$/BOE (Excluding Lump Sum Settlements)	\$ 2.49	\$ 3.25	\$ 2.26	\$ 2.68

ARCO Share	26%
State Share	59%
Federal Share	15%

Daning Nguyen

FEB 20 1989

To: Senator Bettye Fahrenkamp
From Craig B. Dotson

PUBLIC TESTIMONY GIVEN ON HB-118 FEBURUARY 13, 1989

My name is Craig Dotson I am an Engineer in the oil industry and yes my livelyhood depends on a strong Alaskan oil industry just like every state employee. Let's not forget at last estimate 84 percent of the state revenue is provided by the oil industry not to mention the amount of money generated in the private sector. I strongly oppose HB-118. I have listened to people across this State for the last 2 hours give their testimony on the ELF. Most elected officials say repeal the ELF because they need the money for their budgets. The people in business say leave it alone because of the impacts on the privite sector. I tend to believe also growth in the private sector is more productive for this State then growth in government. The repeal of ELF is an attempt to cover up a much bigger problem and that is the current level of State spending. The budget shortfall will only get worse as we move into the 1990's and Prudhoe Bay oil production declines. Mr Cowper is not in the mainstream of Alaska, his budget and proposed taxes are out of line. But back to the ELF as I mentioned before **Prudhoe Bay is on decline** the rate of decline will depend on the field development. More wells will need to be drilled between existing wells, as oil production decreases, gas and water production increases therefore more surface facilities and people are needed to produce less oil, it happens to every oilfield thats a fact. Alaskans are the oil industry I have worked at Prudhoe Bay for 4 1/2 years the people up there are Alaskans who live and spend their money in Alaska. I have also seen friends, Alaskans in the oil industry laid off, wages cut at the same time government spending and number of employees, who have some of the best benefits in the country, increase. We in the private sector have given enough its time to reduce state spending. The state should look at revenue enhancement outside of creating a larger State government, get Conoco's Milne Point back on line help BP Exploration bring Niakuk on line these create Alaskan jobs and enhance state income. President Bush in his talk to the House and Senate recommended sound environmental development of ANWR. Let's send a delegation to Washington to show strong Alaskan support not like the last time we sent a delegation and when they left the people in DC had no idea if Alaska was for or against the opening of ANWR. Leave our, as Mr Cowper called himself, Governor of the Caribou at home. Thank you for your time.

Craig B. Dotson

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