

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 10, 2016

1:03 p.m.

DRAFT

MEMBERS PRESENT

Representative David Talerico, Co-Chair
Representative Mike Hawker, Vice Chair
Representative Bob Herron
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Andy Josephson
Representative Geran Tarr

MEMBERS ABSENT

Representative Benjamin Nageak, Co-Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 247

"An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing

oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 213

"An Act requiring the commissioner of natural resources to make specific, detailed written findings before restricting or prohibiting a traditional means of access to state land, water, or land and water for a traditional outdoor activity; and requiring certain public notice of a proposed restriction or prohibition of a traditional means of access to state land, water, or land and water for a traditional outdoor activity."

- BILL HEARING CANCELED

HOUSE BILL NO. 282

"An Act relating to the board of directors of the Alaska Gasline Development Corporation; adding legislators as nonvoting members of the board of directors of the Alaska Gasline Development Corporation; and providing for an effective date."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 247

SHORT TITLE: TAX;CREDITS;INTEREST;REFUNDS;O & G

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	RES, FIN
02/03/16	(H)	RES AT 1:00 PM BARNES 124
02/03/16	(H)	Heard & Held
02/03/16	(H)	MINUTE(RES)
02/05/16	(H)	RES AT 1:00 PM BARNES 124
02/05/16	(H)	-- MEETING CANCELED --
02/10/16	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

RANDALL HOFFBECK, Commissioner
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: On behalf of the governor, assisted in introducing HB 247.

KEN ALPER, Director
Anchorage Office
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: On behalf of the governor, provided a PowerPoint presentation to introduce HB 247.

LENNIE DEES, Audit Master
Production Audit Group
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions related to HB 247.

ACTION NARRATIVE

[1:03:09 PM](#)

CO-CHAIR DAVID TALERICO called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Talerico, Olson, Johnson, Hawker, Josephson, and Seaton were present at the call to order. Representatives Herron and Tarr arrived as the meeting was in progress.

HB 247-TAX;CREDITS;INTEREST;REFUNDS;O & G

[1:04:04 PM](#)

CO-CHAIR TALERICO announced that the only order of business is HOUSE BILL NO. 247, "An Act relating to confidential information status and public record status of information in the possession of the Department of Revenue; relating to interest applicable to delinquent tax; relating to disclosure of oil and gas production tax credit information; relating to refunds for the gas storage facility tax credit, the liquefied natural gas storage facility tax credit, and the qualified in-state oil refinery infrastructure expenditures tax credit; relating to the minimum

tax for certain oil and gas production; relating to the minimum tax calculation for monthly installment payments of estimated tax; relating to interest on monthly installment payments of estimated tax; relating to limitations for the application of tax credits; relating to oil and gas production tax credits for certain losses and expenditures; relating to limitations for nontransferable oil and gas production tax credits based on oil production and the alternative tax credit for oil and gas exploration; relating to purchase of tax credit certificates from the oil and gas tax credit fund; relating to a minimum for gross value at the point of production; relating to lease expenditures and tax credits for municipal entities; adding a definition for "qualified capital expenditure"; adding a definition for "outstanding liability to the state"; repealing oil and gas exploration incentive credits; repealing the limitation on the application of credits against tax liability for lease expenditures incurred before January 1, 2011; repealing provisions related to the monthly installment payments for estimated tax for oil and gas produced before January 1, 2014; repealing the oil and gas production tax credit for qualified capital expenditures and certain well expenditures; repealing the calculation for certain lease expenditures applicable before January 1, 2011; making conforming amendments; and providing for an effective date."

CO-CHAIR TALERICO noted that Commissioner Hoffbeck and Mr. Alper will continue their PowerPoint introduction of HB 247 that was begun on February 3, 2016.

[1:04:51 PM](#)

RANDALL HOFFBECK, Commissioner, Department of Revenue (DOR), clarified that in discussions over the last week it became apparent that the study being done by the Institute of Social and Economic Research (ISER) will be more high level than the expectation he had left the committee with at the 2/3/16 meeting. He said an executive summary from ISER is expected by 2/11/16, a draft report by 2/15/16, and that Gunnar Knapp from ISER is willing to testify before the committee on the report. The report, he explained, really is looking at the governor's fiscal plan in general and the relative impacts of the decisions that would be made on taxes versus cuts in employees versus cuts in capital versus using portions of the earnings versus reducing the dividend, and the relative impacts that each of those have on the state's economy. The report, he continued, doesn't drill down into the competitiveness of oil and gas based on which of the credits remain and which ones don't.

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REPRESENTATIVE HAWKER offered his appreciation for this clarification. He said the impact analysis that ISER had said it would provide on all these alternatives - such as impacts on the number of jobs and total incomes by the sector, industry, region, and distributional impacts - had led him to think that the report was going to address his concerns as a committee member, rather than being at a high level. His concerns are about what the economic impacts will be of the changes proposed in HB 247 on the state's competitiveness, productivity, jobs, economy, and people's lives. He asked who will do this for the administration since it is not ISER.

COMMISSIONER HOFFBECK replied that at some level ISER is going to do that but it won't be drilled down to the point of saying that if a specific credit is reduced or eliminated what kind of competitive imbalance that may create for a company and whether the company will invest and what that has in long-term impacts on production in the future. It will be more an issue of a specific tax may affect a different region differently. In general, it will be more at the level of how \$100 million in new taxes would affect the economy.

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REPRESENTATIVE HAWKER remarked that this seems to be relying on the ISER study that Commissioner Hoffbeck said wasn't going to do this. He asked whether ISER will be examining the aggregate effects and giving an impact analysis of the effects of HB 247.

COMMISSIONER HOFFBECK responded he believes that it will only be to the extent of a general statement on taxes and that \$100 million in taxes would have this kind of effect generally on the economy. It will not drill down into the details of the bill on a specific credit and what the impact would be. It will be more of an overview of general tax policy.

REPRESENTATIVE HAWKER inquired whether Commissioner Hoffbeck thinks that that is an adequate economic analysis for legislators to be able to make a valid judgement on HB 247.

COMMISSIONER HOFFBECK answered he doesn't believe the ISER report will be sufficient for legislators to make the decision based on that particular report. He said [the administration] did not make the decisions in a vacuum - there were over 30

meetings with the various industry players and those that were loaning against the credits. He pointed out that [DOR] has the raw data that underlies the credits on where the credits have been spent and what the results of those expenditures have been. Good data was had in putting the bill together. Unfortunately, however, most of the data is in a format that [DOR] cannot readily share with the committee, but some of that information will come out when industry representatives testify.

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REPRESENTATIVE SEATON related that he had not been anticipating that the ISER study would be able to drill into competitive advantages and disadvantages by individual areas of the state or individual oil companies and how they proceeded with their business. A general orientation cannot be expected to provide the specific impacts on those elements because [ISER] doesn't have the balance sheet or investment detail that the individual oil companies have and he expected to get that from the individual companies. He expressed his hope that the companies will be specific to each one of these credits because each credit impacts different companies in quite different ways.

REPRESENTATIVE JOSEPHSON agreed with Representative Seaton. He said he attended as many of Senate Working Group meetings as he could last fall and that industry attended all of the meetings it was invited to, which may have been all of them. He noted [the legislature] just renewed [a consulting contract] with analytica. He offered his understanding that opportunities have been scheduled for industry to tell the committee its view.

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CO-CHAIR TALERICO asked whether, other than the ISER report, anything more will be forthcoming that is a modeling-type report. He presumed that industry could also provide the committee with more of a structured-type model of how this would all function.

KEN ALPER, Director, Anchorage Office, Tax Division, Department of Revenue (DOR), replied that later in the presentation he will talk about the economic impacts as well as the how the various sectors will be impacted. However, on Co-Chair Talerico's question is a lot more, and is sort of subjective as to how specific changes on specific sectors are possibly going to influence industry decision making. That is beyond what [the administration] was able to do, beyond what was learned directly

from talking to the participants who will hopefully be coming before the committee. He said he is sure that the consultants hired by the Legislative Budget and Audit Committee will be offering their thoughts. [The administration] did not go to outside consulting services specifically to parse into the individual provisions of this bill.

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REPRESENTATIVE HAWKER remarked:

It's your bill, you're asking us to pass judgement on a major change in state's tax policy. This isn't just a little tweak of tax credits, this is a major economic shift in the way we approach oil and gas taxation in this state. And you're simply offering it to us without any advocacy, any explanation, any economic ... impact analysis of the consequences of the legislation that you are proposing. And you're saying, "Ok, you guys figure it out on your own." And if that's the case, that's great because then I don't think you get the right to rebut what we do.

COMMISSIONER HOFFBECK responded that he can't totally disagree with the aforementioned. He walked the committee through the process of how [the administration] got to where it is:

Last year you saw the first cut of the first indication of the impacts that the oil and gas tax credits had ... on the budget issues when the governor vetoed the \$200 million in the credits last year, essentially to start the discussion on what it was that we could afford going forward in a credit program. ... That created the series of meetings that we had over the summer, including the meetings that Senator Giessel sponsored, to try and just really give the full understanding of the credits and who was using them and how they were being used. ... It started honing in on just how big of a pie did we have? How much revenue do we have? And how much of the credits would fit within that revenue pie? That became the balance of what credits could we maintain, which ones we simply couldn't, how we could accommodate as many of the concerns ... as we possibly could on the people that we had talked to and came up with a balance of ... this is what we feel is what we have available to offer for credits. ... We weren't in

the discussions saying whether credits were good or bad or whether credits were [a good or bad policy]. What we were trying to do was retain as many of the credits as we possibly could under the current economic situation the state was in. So that was one of the driving factor of the discussion.

1:16:46 PM

REPRESENTATIVE HERRON asked why [the administration] chose not to hire the services of outside consultants.

MR. ALPER responded there are a number of reasons, the first being that he is very proud of DOR's Tax Division staff and the people at the Department of Natural Resources (DNR). These employees have had "many years of experience working in this field and we relied on their counsel and their thoughts and their analysis." A lot of what is being done is number crunching that doesn't necessarily require industry-specific experience. He continued:

We are constrained. We don't have the money for outside consulting services that we might have had several years ago as part of the larger fiscal issues of the State of Alaska. If you go back, Mr. Chairman, to previous major oil and gas legislation that's been before this body, although the administration's come in with a lot of outside services, really it's been quantitative services: this is how much money this change would be if you ... did that different, the dollar amount would change to that. No one was really speculating on what changes in behavior might be. They were modeling what the impact would be if certain behaviors A, B, or C were to occur, not saying the likelihood of any of them to occur. We could pin down with some certainty what the dollar value of these changes is, but what we don't believe we have the ability to predict, which no one has the ability to predict, is how any specific player in the industry is going to react to these changes.

1:18:37 PM

REPRESENTATIVE HERRON inquired whether data and presentations by DOR and Econ One for Senate Bill 21 were utilized [for HB 247]. He further inquired as to how involved was DNR in developing the proposed policy and changes in HB 247.

MR. ALPER answered that the modeling from Senate Bill 21 was important in that it created the new model as to what the new tax structure is. The changes proposed in HB 247 are built on the base of Senate Bill 21. The tax rate, the per-barrel credit, the new-oil-specific benefits are unchanged in the bill before the committee. None of the modeling for Senate Bill 21 predicted an additional amount of new activity, that wasn't part of the conversation. Likewise, [DOR] is not predicting new activity or less activity through this process. He said DOR conversed with DNR throughout as there are pieces of the bill and pieces of existing law that tie in more closely to DNR's operations than others. For example, DNR is very connected to the Exploration Tax Credit system which has something of a pre-approval process relating to data submission requirements. Over the fall, DNR presented multiple times to Senator Giessel's working group about how much value DNR perceives from the data that it gets. In response to that, even as the Exploration Credits begin to sunset this summer, [DOR] tried to find a mechanism in this legislation to continue to ensure that DNR can have that data for the function of its own planning purposes and marketing of Alaska's resources to the world. He said Director Feige [of DNR's Division of Oil & Gas] is a close colleague and he and Director Feige spoke many times about this bill as it worked its way through the development process.

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REPRESENTATIVE SEATON understood that DOR's presentation is on the bill's impact on the State budget, the resources that the State does or doesn't have, and how to pay for those. It is not to supersede and say what the impact is on the industry or individual players, but the impact on the budget.

COMMISSIONER HOFFBECK replied that the motivating factor behind having to make a change was the impact on the budget. But, he pointed out, a tremendous amount of work was done directly with the participants who use these credits and loan against these credits to find out what the impact on those particular individuals would be before the specific selection of components within the bill was put together. For [DOR's] purposes that is more robust than what a consultant would tell [the department]. There is not a way to present that information to the committee in this forum because most of that information is proprietary information.

[1:22:20 PM](#)

REPRESENTATIVE SEATON proffered that these credits are an investment of State dollars and he hopes that [DOR] has Net Present Value calculations on what the value of those investments would be over the life of a field. The State is investing hundreds of millions of dollars and he would like to know whether that is a good investment for the State based on the Net Present Value of the impact that is going to occur.

COMMISSIONER HOFFBECK inquired whether Representative Seaton is meaning the Net Present Value of what has already been invested or what will be invested in the future.

REPRESENTATIVE SEATON clarified that if [the State] is making an investment of \$100 million through this kind of a credit, he is meaning to get a feel of what is that Net Present Value going to yield back to the State over time.

COMMISSIONER HOFFBECK responded there are two ways to address that. One, DOR can look at the history of the credits that the State has already paid and what the Net Present Value impact effect of those credits are. He said DOR has hesitated to do that because certain pieces are still unknown. Some of the credit expenditures are on fields that are still in development so it is hard to say what the Net Present Value of those credits are until such time as some of these fields come online and actually start to produce. As far as the go forward, he said DOR can certainly within its data see where it would be best to spend that \$100 million because the history can be seen of what has occurred up to this point in time and which fields are progressing and which ones aren't. Unfortunately, that again gets into that granularity of the data that is difficult for DOR to bring forward to the committee.

MR. ALPER added that the Tax Division has over the last several months developed a lifecycle field modeling structure that didn't formerly exist. He said it was in many ways built in honor of Mr. Janak Mayer of analytica, the Legislative Budget and Audit Committee's consultant, who developed a similar model in looking at field costs and present values during various pieces of oil legislation. So, for a typical 50 million barrel field, DNR can now say what the upfront cost is, what the upfront credits are, and what the State can expect to get in the backend from production taxes, royalties, and the like, given various cost and price options. And then from that there is a cash flow to the State - a Net Present Value. The division has run some scenarios in response to specific requests and is

prepared to share that model and its results with the committee if asked. Where it gets hard is to talk about specific actual fields because that gets into the internal decision making of a specific company.

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REPRESENTATIVE HAWKER charged that Mr. Alper just threw this back at analytica. He stated analytica is here to provide the legislature independent analysis of what [the administration] is doing, not to make the case for [the administration's] bill and work for [the administration].

MR. ALPER apologized and stated:

We're not expecting analytica to do our work for us. What I just said was we tried to copy some of their methodology and some of their modeling which we found to be very insightful and very robust. And there is no great magic to it as long as the analyst in question has the mathematical skills to be able to build the model. And we built a model that in many ways replicated what they had previously done for the legislature.

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REPRESENTATIVE HAWKER asked whether he is correct in recalling that in earlier testimony it was said that the motivating factor behind the construction of HB 247 was the impact on the budget.

COMMISSIONER HOFFBECK answered:

The motivation to go down this path and look at credits was the budget. The motivation was not to go in and redefine oil and gas taxes and credits within the State of Alaska. It was just a recognition this was a very large expenditure that the State was carrying, that we needed to see whether there was a way that we could reduce some of that liability during tight budget times.

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REPRESENTATIVE HAWKER returned to earlier testimony that last year's \$200 million veto was motivated by the belief that the State just didn't have that money to spend; it was a money

motivated and budget focused veto alone. He recounted that the veto had profound consequences on the ability of Alaska's working industries to secure financing, to the fact that an entire consortium of international bankers withdrew money that was on the table for Alaska's industry and literally threw them into the tizzy that the administration had to deal with all summer. He asked whether the administration had anticipated that kind of consequence when making that budget decision.

COMMISSIONER HOFFBECK replied the administration expected it would have some collateral effects. For some of the more stable financing situations where the project was a long ways along and driving towards the finish line, the administration probably didn't recognize that those funds would be pulled back as well. It took several conversations with the industry to explain the process that the credits were still good. Then they felt comfortable and essentially started to loan again. "We recognized it would have some impact," he said. "There is no doubt about that."

[1:29:07 PM](#)

REPRESENTATIVE HAWKER returned to an earlier statement by Mr. Alper that the administration is not predicting new or lesser activity through the enactment of this bill. However, he argued, it seems there is evidence that a \$200 million cut to the tax program had profound ripples. As just acknowledged, there were consequences on industry, some of which were unanticipated. He asked whether [the administration] is truly now not predicting new or lesser activity or that there will be consequences of passing HB 247. He further asked whether [the administration] cares about the consequences, wants to know what they are, and what [the administration] thinks will be precipitated through this bill on the economy.

MR. ALPER responded that the governor's veto was not the first step in a process, the conversation began earlier in the 2015 session. He explained:

The governor published an op-ed that talked about our credit spend being out of alignment with our greatly reduced production tax revenue, that suddenly we were spending more. There's a lot less elasticity in the credit spend than there is in the revenue when the price of oil goes down. Therefore, instead of the credits being a reinvestment of some portion of a very large revenue stream, had actually grown to become

larger than the revenue stream. So the idea was put on the table we needed to do something different. The veto was not the ideal method of solving the problem, simply, but it was the only tool available to the governor at that moment. As I said in my earlier presentation, this is a two-step process. The credits are earned because of industry activity. They're claimed, they get audited, they get given a certificate; a certificate is a paper asset. Those certificates are then owned by companies, which they could either use against tax liability if they have tax liability; they could sell them to another company who might have tax liability; or, with funds available, sell them back to the state - have them repurchased through the tax credit fund. What the governor did was veto and cap the amount of money available to the tax credit fund and didn't in any way change the credits available on the street. In doing so, there's a certain uncertainty because the credits that belong to people are suddenly - who are expecting to get paid back - aren't going to get paid back. What we're attempting to do with this legislation is actually create a little bit more certainty. If there's fewer credits being earned but we're going to ensure that the amount being earned is in line with the funds available, then at least when people make their decisions they can have some certainty that they'll be able to get paid back on their credits. What makes me nervous is the possibility of there being hundreds of millions of dollars of credit certificates out there without there being funds available to buy them back. I think that causes more of a ripple effect and uncertainty in the industry than simply trying to pare back on the program itself.

[1:32:07 PM](#)

REPRESENTATIVE HAWKER stated:

That was the governor's own budget that had those credits in it. ... Those were not legislative ads, those were the governor's own budget that he committed to the industry, to the banking industry, to the expectations of what the word of this government was going to be, and then he reneged on it. But, frankly, this bill we've got in front of us, the governor also campaigned very strongly on not touching the taxes

under Senate Bill 21, and we're here doing that. I can understand the need to reassess. But again, if you're going to reassess ... I would like to know what you think the consequences are going to be on the economy of the state of Alaska, jobs, our competitiveness in the world, an analysis of what you think is a fair share, how much government take are you expecting, how much do you think is a fair share. ... What I keep hearing is that we're not going to get that, we're supposed to figure it out on our own.

COMMISSIONER HOFFBECK answered:

Again, I think that some of that information will come out when the producers testify. The decisions that were made on this bill were done not in a vacuum, in discussions with the people that use these credits. ... We talked very openly ... they shared with us what the impact of these various credit changes might be and that largely framed some of the decisions that we made on ... what's still in the bill. Hopefully that information comes out in that testimony. And as Director Alper said, we can provide some information based on past practice on ... what the impact of the credits have been, but we're going to present it with the caveat that I think the jury's still out on some of that. And so if we come in and say that the Net Present Value on a barrel of oil is X and then ... somebody brings in a much larger field all of a sudden that could change dramatically. We just want to make sure ... that we don't draw too hard of a line in the sand with that information. That's one of the reasons we haven't been actively floating out that information ... it's early.

[1:34:17 PM](#)

REPRESENTATIVE TARR recounted that in 2013 the legislature passed a bill repealing tax credits for other industries, such as the film industry tax credit, which began the conversation about whether the State of Alaska could afford all the credits and industry incentives that had been put in statute. She surmised that this wouldn't be the only industry credit that's under consideration right now.

COMMISSIONER HOFFBECK replied "exactly correct," and added that last year there was a fairly substantial bill that removed the

film tax credit from the statutes and with many of the similar conversations.

[1:35:21 PM](#)

CO-CHAIR TALERICO requested Mr. Alper to continue [the administration's] PowerPoint presentation, "Oil and Gas Tax Credit Reform, HB 247," which he had begun presenting at the 2/3/16 committee meeting.

MR. ALPER recapped slides 1-22, noting that [on 2/3/16] he discussed the first two of the presentation's four sections: 1) the history of how the tax credit system developed and the system's aggregate cost, and 2) how the different features of the bill would work, such as the changes that would be made to exploration, to the Cook Inlet system, and to the minimum tax. He explained that today he will discuss the third section of the presentation which is a sector specific analysis. Before addressing slide 23 he noted there is not a lot of government take in the bill, it's primarily a reduction in government outlay. The only place that government take is substantially impacted is in the sections regarding the minimum tax.

[1:36:59 PM](#)

MR. ALPER turned to slide 23, "Bill Impact: Example Scenarios," to outline how the changes proposed in HB 247 would impact a North Slope major producer. He said very little would happen to a North Slope producer. If oil prices are high, at the level they've been in recent history, there is no change. The 35 percent base tax rate of Senate Bill 21 is in place and the sliding scale per-barrel credit is in place if that oil production is eligible for the Gross Value Reduction (GVR); there are no changes made to those fundamental aspects of the system. If the prices drop below approximately \$85 a barrel, that's the point at which the minimum tax is typically triggered; it varies from producer to producer based on that producer's individual economics. But in that world they are currently paying a 4 percent minimum tax under existing law. The bill would increase that minimum tax to 5 percent. That 1 percent increase in the minimum tax reflects roughly \$50 million in revenue in the fiscal note. If there is an extended period of very low prices, as is the case right now, a second aspect of the change to the North Slope major producer would kick in. [Currently,] once a major producer goes negative for one year, the producer can use the percentage of its operating loss, the Operating Loss Credit, to offset taxes and go below the minimum

tax and pay at a zero level until the producer works its way through its Operating Loss Credit. House Bill 247 would harden the floor - it would make it so that these credits can't be used to reduce the payments below the minimum tax. The minimum tax would need to be paid at the 4 percent, or, if that provision survives, at 5 percent. The credits remain alive, the producer in question would carry those credits forward to a subsequent calendar year when hopefully prices have recovered sufficiently that the producer has tax liability and can use its operating loss to offset its tax liability in a future year.

[1:38:57 PM](#)

REPRESENTATIVE HAWKER recalled Mr. Alper's prefacing statement as being that HB 247 would have very little impact on a North Slope major producer.

MR. ALPER offered his belief that the sentence in question was completed with "at the prices we've seen in recent years." At higher prices there's no impact (indisc.--sound interruption) producers and that he then highlighted what the specific impacts would be as prices are lower, both mildly lower or as it is right now in an extended period of very low prices.

[1:39:48 PM](#)

REPRESENTATIVE HAWKER noted that the committee doesn't have the impacts from [the administration]. He asked whether Mr. Alper would change his opinion on the bill if it is documented by the producers that there would be significant impacts on a North Slope major producer.

MR. ALPER responded that there is another change in the bill (indisc.--sound interruption) that would impact large companies coming to do work in Alaska that aren't current major producers, similarly sized companies who don't currently exist here. Those companies would be prevented from being able to cash in their credits; they would have to hold them and use them against future tax liability. Right now, the existing law for many years has been that the large producers cannot get cash for their credits and must carry them forward. The hardening of the floor is tied intimately with the idea that they can't get cash for their credits, that they have to carry them forward, and the bill is saying that now the major producers are being asked to carry them forward another year and not use them to offset their minimum tax payments. The administration believes strongly that people should pay the minimum tax; if there is a minimum tax the

minimum tax should actually be the number that's paid. What is being attempted to do here is prevent situations where certain credits could be used to reduce payment below the minimum tax. "If a multi-billion dollar company sits before us and says that that's going to fundamentally consequentially harm their ongoing operations, I look forward to hearing that testimony," Mr. Alper said. "But we're talking about a relatively small number in the broader scope of this bill, we're talking about the 4 percent minimum tax."

REPRESENTATIVE HAWKER remarked that the aforementioned response finally got to the answer he was looking for.

[1:41:32 PM](#)

REPRESENTATIVE JOSEPHSON inquired whether the third bullet on slide 23 is the provision where under current law a North Slope producer could essentially pay no taxes and, through the Net Operating Loss Credit, the State of Alaska would be inadvertently paying for the production without seeing any revenue except perhaps from royalty.

MR. ALPER answered that royalties, corporate income tax, and property tax are not impacted by this bill and are not impacted by these credits in any way. Modeling has been done for scenarios in which oil prices stay at a fixed price for a certain number of years. What starts happening in the second and third year of lower prices is that there's enough Operating Loss Credits from the major producers that they are able to completely offset their minimum tax. He posed a scenario for an oil price of \$50, the price predicted in fiscal year 2016 by the Revenue Sources Book, which is about \$40 gross after transportation cost. About 160 million taxable barrels is produced from the North Slope every year. That's about \$6.5 billion worth of value, that's what the oil is worth at the wellhead. A 4 percent minimum tax is \$250 million. In a pure minimum tax that's the production tax revenue DOR would expect. Currently this year DOR is expecting \$150 million. The difference between those two is: about \$50 million is being offset by the Small Producer Credit being used to reduce tax liability below the minimum tax and another \$50 million from Operating Loss Credits from major producers. If low prices continue for a couple of years, that number will reduce to zero and DOR would expect to get nothing from the production tax.

COMMISSIONER HOFFBECK noted that there is another provision in the bill that deals with new oil, which may be the one that

Representative Josephson is more concerned about and could actually drive the credits to something greater than the value of the loss.

REPRESENTATIVE JOSEPHSON surmised that is where it gets into the stacking phenomena.

COMMISSIONER HOFFBECK offered a correction, stating that that is another circumstance.

MR. ALPER added that the stacking provisions are not so much relevant on the North Slope anymore because of the so-called "spending-based credit" - the Capital Expenditure Credit - which was repealed through Senate Bill 21. Also, the Exploration Credit will sunset this summer. So, it is unusual that the same project would be getting two credits for the same expenditure in the North Slope today.

[1:44:15 PM](#)

REPRESENTATIVE SEATON inquired about how and when the Net Operating Loss Credit is calculated. As an example, he noted that one oil company doing business in Alaska does publish public reports and this company's consolidated income statement shows a loss of \$67 million, but the adjusted earnings show a positive earnings of \$482 million.

MR. ALPER replied that the Alaska production tax code is very much a cash flow based tax. The entire sector - the North Slope as a whole, Cook Inlet as a whole - is commingled for tax purposes: how much did the company earn and how much did the company spend, and that includes not just operations of the company's current field, but, for example, investment in a future field on the North Slope counts towards the tax calculation. Not considered, however, is depreciation for example, which is a factor of the federal tax code that impacts corporate income taxes but doesn't impact Alaska's production tax. He offered his belief that it doesn't include other taxes, noting that current code (AS 43.55.165(e)) has a long list of all the ineligible deductions, such as lobbying expenditures, spill cleanup from lack of deferred maintenance, and other things added as part of the production profits tax (PPT) and the 2007 bill, Alaska's Clear and Equitable Share (ACES). It's a calculation of allowable expenses from actual revenue, that's the loss. There aren't these adjustments that are seen in the federal tax code with the biggest and most obvious one being depreciation. The Operating Loss Credit is a flat multiplier, a

percentage of that number. In calendar year 2015 that number on the North Slope was 45 percent. So, a company that shows it spent \$100 million more than it earned would have a \$100 million operating loss. The company would earn a \$45 million Operating Loss Credit that, in the aforementioned scenario of a few minutes ago, could be used to reduce its taxes below the minimum tax to the extent of that \$45 million.

[1:46:35 PM](#)

REPRESENTATIVE SEATON asked whether any credits that a company earns from the State of Alaska, other than the Net Operating Loss Credit, count into that cash flow or are accounted for separately.

MR. ALPER deferred to Mr. Lenny Dees for a definitive answer.

LENNIE DEES, Audit Master, Production Audit Group, Tax Division, Department of Revenue (DOR), responded that other credits are not counted in that particular loss calculation. The loss calculation is done by what are called segments; for instance, the North Slope oil and gas production is a particular segment for a company. That loss calculation only takes into account the revenues from the oil and gas that's produced and sold by that particular company for that segment, less the annual lease expenditures for that particular segment. The annual lease expenditures for that segment are comprised of the operating and capital expenditures. To the extent that those lease expenditures exceed the revenues for that particular segment, a company would have a net operating loss for that segment.

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REPRESENTATIVE SEATON inquired whether the 35 percent credit against lease expenditures counts into the revenue picture or lowers expenses before the loss is calculated.

MR. DEES answered that the 35 percent is the value of a deduction for a company regardless of whether there is a loss or profit for that particular segment. For instance, if a company has a positive production tax value, which is when the revenues exceed the lease expenditures, the impact of those lease expenditures on the taxes is calculated such that for every dollar of lease expenditure that the company spends it gets a 35 percent deduction against the actual taxes that will be due for that particular segment. But, if a company doesn't have a positive production tax value, i.e. it has a net operating loss,

the 35 percent is then applied to the excess of the lease expenditures over the revenues to determine the credit for that particular segment.

COMMISSIONER HOFFBECK offered to put together some slides that show the calculations because it is easier to see them than it is to explain them.

REPRESENTATIVE SEATON said that would be helpful.

MR. ALPER pointed out that the back pages of the December [2015] Revenue Sources Book have a stylized, simplified version of the production tax calculation in the aggregate for fiscal years 2015, 2016, and 2017. From these it can be seen how the barrels are calculated, and then the per-barrel spending, and how the different elements of the calculation work through.

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REPRESENTATIVE HERRON commented that Commissioner Hoffbeck has come up with a great idea. For example, the Econ One analysis was presented in slides, graphs, and modeling that were easy to see. Being able to look at pictures is helpful and he would therefore recommend that Commissioner Hoffbeck and Mr. Alper show the committee in graphs and slides what they are trying to explain.

MR. ALPER agreed to provide the aforementioned type of presentation when the administration is next invited before the committee.

[1:51:53 PM](#)

MR. ALPER resumed his presentation, turning to slide 24 to address the bill's impacts on North Slope new or smaller producers. He explained that these are the companies in production and operating fields that aren't the three major producers. These companies, for the most part, came to Alaska in the last 10 years or so. At higher oil prices where the underlying tax system of Senate Bill 21 remains in place, these companies won't have any change. They will have their production, Gross Value Reduction, taxation, and \$5 per barrel credit; for the most part those new fields are eligible for the Gross Value Reduction, the new oil benefit from Senate Bill 21. He continued, noting that prices below \$85 barrel will be material to these companies. Under the structure of current law the per-barrel credit for new oil can reduce tax liability to

zero, as opposed to legacy oil where the minimum tax, the 4 percent floor, kicks in and must be paid. House Bill 247 would add the 4 percent minimum tax to so-called new oil, to oil eligible for the Gross Value Reduction, and therefore the newer and smaller producers would be asked to pay a minimum tax on their production. Another impact on these companies, he said, is one of the more technical provisions. Currently, if a company has an actual operating loss, the Operating Loss Credit isn't tied to the loss, it ties to the loss as additionally subtracted from by the Gross Value Reduction, thus creating a larger loss, a paper loss, which has led to circumstances where [the State of Alaska] has paid Operating Loss Credits greater than 100 percent of the amount of the loss. Under HB 247 that ability would be lost by those companies - the Operating Loss Credit would be limited to the size of the actual loss.

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MR. ALPER moved to slide 25 to discuss the bill's impacts on a North Slope new project developer, an entity that is not yet in production and has a project or discovery that is in the development phase. He explained that these companies earn the Net Operating Loss Credits as a normal part of their business. The annual cycle is that every year [DOR] gets applications, the companies prove up their expenditures, and DOR writes them a check. Under HB 247 the 35 percent Net Operating Loss Credit would continue to be earned without change. However, what could change is the method by which those credits are paid back, and there is a fork in the road in that it depends on the nature of the company. A large multi-national company, which is defined in the bill as having annual revenues in excess of \$10 billion, would no longer be eligible to get cash for its credits and would have to hold onto its certificates until the future year when it is in production and has a tax liability and can fully offset future tax liability against the loss credits that the company has earned during the development stage.

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REPRESENTATIVE HAWKER asked whether this provision would apply only to multi-national companies or to both multi-national and domestic corporations.

MR. ALPER replied that a large American company with \$10 billion worth of annual revenue that doesn't operate in any other country would fall under this provision. The specific language

in the bill says global revenues in the prior calendar year in excess of \$10 billion.

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MR. ALPER returned to slide 25 of his presentation to address the alternative fork in the road, explaining that a smaller company that doesn't meet that threshold would be able to continue to get cash rebates for its tax credits. The limitation that would be imposed by HB 247 is to put a \$25 million per company per year cap on the amount of State of Alaska cash that it can get. Amounts in excess of that would have to be carried forward to a subsequent year and it is possible that it could take multiple years to use up the credit depending on the size of the project. The number of \$25 million was not pulled out of thin air, it is from historic state statute that was put in place with the PPT bill in 2006. Prior to 2006 there was no ability for the State of Alaska to repurchase credits. In 2006 the ability to do so was added with a specific cap at \$25 million per company that was subsequently eliminated with the passage of the ACES bill in 2007.

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REPRESENTATIVE JOSEPHSON inquired whether there have been small companies that have sought more than \$25 million for new development. If the answer is yes, he further inquired as whether it would be an example of what Representative Hawker was talking about where there could be some observable slowdown of the incentive to develop a new project.

MR. ALPER confirmed that [the State of Alaska] has paid credits well in excess of \$25 million to individual companies within a year, small companies as well. When the definition of small is less than \$10 billion a year in annual revenue, that's different than the mom and pop grocery store down the street and, yes, [the State of Alaska] has spent well in excess of that per company and it is reasonable to say that corporate decisions might be made differently if a limitation is put on that, if the State of Alaska is no longer going to be spending more than \$25 million per company per year.

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MR. ALPER moved to slide 26 to discuss the bill's impact on a Cook Inlet existing producer. He explained that this is the person who is producing oil or gas, selling the oil through the

refinery, and/or selling the gas through the local utilities or the liquefied natural gas (LNG) plant in Cook Inlet. Currently, Cook Inlet existing producers pay very low or in most cases zero taxes because of the Cook Inlet tax cap. In those cases where a company is required to pay the 17 cent per thousand cubic feet (MCF) gas tax, that tax is often offset nearly completely, or completely, by the Small Producer Credit in Cook Inlet. So, the State of Alaska receives very little, if any, tax revenue from Cook Inlet, yet those companies that are currently in production and not paying taxes are eligible for the current credit repurchase through the capital and well lease expenditure programs. [The State of Alaska] pays these companies for 20-40 percent of their capital and well spending regardless of their profitability or whether or not they are paying taxes. As the bill is written, repeal of those credits means simply that the producer that doesn't have operating loss is not earning refundable credits; the producer would continue to pay zero taxes and the tax caps under current law would remain in place through the end of 2021.

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REPRESENTATIVE JOSEPHSON related that a member of the other body applauded the effort in toto but said the administration should reverse this proposition and tax the production while retaining the credits because the net effect to Alaskans would be better doing that. He asked whether this is something that the administration has thought about.

MR. ALPER responded that the administration hasn't specifically modeled it, but has talked about it. To put the numbers in perspective, he pointed out that the entire wellhead value of all oil and gas production from the Cook Inlet last year was about \$800-\$900 million. He said he doesn't know offhand what the profitability of that is and what the production tax or the net profits tax implication would be. This specific provision eliminating those spending credits is \$150 million or so out of the fiscal note. The administration is not necessarily opposed to talking about reintroducing the Cook Inlet tax or eliminating the Cook Inlet tax caps; it's not part of the bill before the committee. If the administration was to go there, simply repealing the cap language would likely be insufficient. The underlying tax regime in Cook Inlet is something of a hybrid of multiple existing taxes and would require some modification. The administration would need to work on a specific proposal for a new Cook Inlet tax regime.

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REPRESENTATIVE HAWKER recalled that as recently as five or six years ago the communities reliant on Cook Inlet gas were having blackout drills in expectation of not having adequate gas to keep the heat and lights on in the middle of winter. Legislation was passed that specifically targeted and intended to promote exploration and development and to increase and provide energy security in Southcentral Alaska. He inquired whether the administration can tell him and give him any kind of assurance that the consequences of implementing HB 247 as it is being presented will not cause the industry to revert to the practices it had before those legislative changes were made. Regarding the word practices, he explained that it was not like anybody intended, it just didn't work economically in the Cook Inlet. The legislature made economic changes, the Cook Inlet Recovery Act recovered the inlet, so he is asking for assurance that an analysis has been done that shows these proposed changes will not cause the inlet to revert to the status it was before and put his community back at risk of blackout drills and not having enough energy for heat and lights in winter.

COMMISSIONER HOFFBECK answered that the dynamics of Cook Inlet are dramatically different today than five years ago when it was a market looking for gas and no gas behind the pipe to fill the pipe. The incentives that were put in place worked. There is now gas behind the pipe and several fields are not being developed simply because they lack a market to spend the capital to finish the development. He said he cannot give the assurance that ten years from now Southcentral won't be back in that situation. But he can say that right now that is not an issue and there is additional gas that can be brought online in the near future when a market exists. Qualifying that he is not trying to be too cavalier, he asked whether victory can be declared and move onward. Maybe the particular set of credits that were in place for the time they were in place worked. Things are at a stable point now. Maybe five years down the road credits might have to be introduced if it is seen that a shortage is on the horizon, but to continue to pay credits at a point in time where, quite frankly, the credits might be going to pay for an export project at a time when the State of Alaska's budget is tight is something [the administration] doesn't see as being the proper use of state resources.

2:04:01 PM

REPRESENTATIVE HAWKER stated the aforementioned is disturbing because investments requiring long lead times are involved. It's like turning an aircraft carrier, the wheel is spun but the carrier doesn't turn on a dime and that is what is being dealt with in regard to these Cook Inlet oil fields. He said he would love to declare victory and go home, but is asking to be shown some evidence that victory can be declared. At the last meeting he was asked to trust the administration and while trust is a wonderful thing, when it comes to the economics here he doesn't know that he wants to put his community at risk on faith.

COMMISSIONER HOFFBECK replied that [DOR] will work with DNR to put something together.

REPRESENTATIVE HAWKER requested that in addition to DNR he would like to receive assurance from Southcentral utilities that they feel comfortable there will be adequate gas remaining behind their pipes for the foreseeable future.

COMMISSIONER HOFFBECK agreed that would be good testimony, but noted he is not the one who can get those utilities before the committee.

CO-CHAIR TALERICO said he will see what can be done in this regard.

[2:05:13 PM](#)

REPRESENTATIVE SEATON requested that the analysis include the price of gas because at the time the legislature went forward with the credits gas producers were losing money producing the gas. Since then the Regulatory Commission of Alaska (RCA) has changed the structure so that now gas produced in the Cook Inlet is the most profitable gas in the whole U.S., and people will invest when they can make a profit. Heavy subsidies are needed when a regulation is in place that means something will be sold at a loss, and that's the situation Cook Inlet was in. He said he would therefore like to see those coincident timings of when the credits came in as well as when the gas price went from \$2.25 to \$7.00 per MCF, meaning that it became profitable. This needs to be investigated as a subsidy, he continued, because [the State of Alaska] is subsidizing these companies, these new developments, and if the only use for that gas is export then it must be looked at very strenuously to see if it is in the state's best interest to be subsidizing and the state maybe losing the entire net value as well as its royalty value, corporate income tax, and any small amount of production tax for

a company to export and make profit overseas. He further requested that the analysis be put into a graphic format.

COMMISSIONER HOFFBECK agreed to include those numbers in the analysis, but cautioned that it will be very difficult to parse what was a credit effect versus a price effect.

MR. ALPER added that some of these issues were talked about in the Senate Working Group presentations. There was definitely, frankly, a political dynamic in Cook Inlet. The RCA at the time was rejecting supply contracts that had higher prices to them. That led to the producers doing less work, and some of the supply shortages were due not necessarily to lack of gas but to lack of work done to develop that gas. He allowed that this is a disputable concept, but said those issues have largely been resolved not just through Alaska's tax credit system but through the increase in the price of gas, suddenly it is more economical to produce gas in the Cook Inlet. He noted that he earlier gave the number of \$800-\$900 million as the entire value of the annual production from Cook Inlet. A number he gave during last week's presentation to the committee was that about \$400 million was paid in tax credits by the State of Alaska to Cook Inlet oil and gas explorers and developers. So, a little bit less than half of the entire value of the entire resource was paid by the State of Alaska through tax credits last year.

[2:08:25 PM](#)

MR. ALPER turned to slide 27 to discuss the bill's impact on a Cook Inlet new field developer. He explained that the Net Operating Loss Credit is currently being received by those individuals who are not operating, aren't yet selling resource. The Net Operating Loss Credit is 25 percent in [Cook Inlet], but that is typically stacked, meaning it could be received alongside either the 20 percent Capital Credit or 40 percent Well Lease Expenditure Credit. Typically an expenditure will be one or the other. The companies will try to get as much as possible into the 40 percent category, of course, and those expenses which might not qualify for the 40 percent will typically qualify for the 20 percent. So a weighted average in the 30-35 percent range is typical stacked with the Net Operating Loss Credit. That means 50-60 percent of the cost of a new field development is being directly subsidized by the State of Alaska through the refundable tax credit program under current law. With the repeal of the Cook Inlet credits, the Capital and Well credits, the State of Alaska would continue to support that activity but at a reduced level of 25 percent,

which is the Cook Inlet Net Operating Loss. He returned to something he said earlier about reinstating the tax, noting if that were to happen that's one of the oddities out there - the Cook Inlet's underlying tax is the 35 percent tax from Senate Bill 21, but the Cook Inlet Net Operating Loss is the 25 percent from ACES, so it is something of a hybrid system. Limited by that 25 percent Net Operating Loss Credit there would be the same fork in the road that he described for the North Slope: a large company, national or multi-national, with \$10 billion of annual revenue would have to hold its credits for use against future tax liability; a smaller company would be limited by that \$25 million per company per year cap and would have to carry forward numbers in [excess] of that. Typically the Cook Inlet projects are smaller in scale than the North Slope projects, so more of the companies operating in Cook Inlet are likely to fall into that \$25 million cap situation, whereas some of the newcomers coming to the North Slope are more likely to fall into the \$10 billion situation.

[2:10:44 PM](#)

REPRESENTATIVE HERRON inquired whether that \$25 million [cap] would hurt those companies that are not large and are not small.

MR. ALPER responded that right now in Cook Inlet a company investing \$100 million a year, which is a good-sized company, would at the end of the year get a \$50 million or \$60 million credit. If HB 247 passes and the company did the exact same activity it would get a \$25 million credit. So, it would hurt the company to the extent that it would be getting \$25-\$35 million less state dollars for its project. To the extent which that makes that project feasible or more or less profitable is impossible to say without looking at individual specific projects.

[2:11:37 PM](#)

REPRESENTATIVE HERRON returned to slide 25 to ask the same question. He said there are people who are not large multi-national but they're definitely not smaller, and this new limitation would definitely hurt barrels going into the pipeline.

MR. ALPER answered by posing a scenario in which a mid-sized company is spending \$400 million a year on the North Slope, thereby earning \$127 million from the 35 percent Net Operating Loss Credit. If that company could only cash in \$25 million per

year, it would mean the rest of the credits would roll forward into the next year and the next year. If the company were to keep investing \$400 million a year and it becomes a multi-billion dollar project - yes, there would be a big stack-up of deferred credits that might become a large future liability for the State of Alaska or those credits start to sunset after 10 years. He posed another scenario in which under current law a company spends \$2.5 billion on a major project on the North Slope that takes 10 years. While that is great for barrels in the pipeline, jobs, and economic development, that \$2.5 billion at 35 percent is \$875 million - the State of Alaska would be writing \$875 million in checks to that company in advance of the first dollar that the State of Alaska received in production taxes, corporate income taxes, or anything else, although maybe a little bit of property tax. The intent of HB 247, he said, is to simply constrain the State of Alaska's cash flow to what is a feasible number given its fiscal realities.

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REPRESENTATIVE HAWKER opined that over the years discussions have occurred throughout the Capitol about the importance of having a tax structure that levels the playing field, of giving every company equal access and ability to do work in the state. He maintained that HB 247 is clearly defining a prejudice and a discrimination against bigger companies, which may or may not be a good thing. If it's good to discriminate against those big companies and it is wanted that they have to use their credits only against their own future tax liability, then why not apply that to everybody? Equal footing would be that all companies use the credits offered by the State to offset their own future earnings. He posed a scenario in which a big multi-national company that operates almost exclusively in southwest Africa decides to invest a small amount of capital on a small project in Alaska and asked why it would be wanted to discriminate against that investment. Throwing statutory, intentional discrimination into Alaska's tax code seems problematic, so, he asked, why not just have everybody use the certificates against their future liability and save the State of Alaska the cash that [the administration] is concerned about.

[2:15:33 PM](#)

MR. ALPER disagreed that there's some inherent discrimination in this. He continued:

There's existing discrimination in current law - if you want to call it that - that says if a company produces more than 50,000 barrels per day in Alaska they're not eligible to get cash for their tax credits. Those companies must hold those certificates and carry them forward. That was written to apply to basically three companies - the major North Slope producers. The expectation was those companies would have relatively large tax liabilities and would offset their credits against their liability. But if they don't, which is the circumstance we're in right now, they're forced to carry them forward. But part of the rationale there, I believe, is that these are by their nature large companies with balance sheets and bank accounts and diversified investment portfolios that they could afford better than a smaller company to hold the tax credit certificate on their balance sheet and get the value for it later rather than coming to the state for cash. ... What we realized in discussing possible future liability, and some of this conversation started when we were before this committee talking about [the Arctic National Wildlife Refuge (ANWR)] during the previous session, is the large companies who don't operate in Alaska are in many ways very similar to the large companies that do operate in Alaska - they're global, diversified, have bank balances, balance sheets - and we don't need necessarily to be writing checks to those companies. They can hold those credits on their balance sheets. It's the smaller company, especially the company that might be forming itself for the purpose of an Alaskan investment that's going to have the more imminent cash flow need and that's why if we were going to protect to a limited extent state cash for credits, we wanted to limit it those who most likely were going to be in need of that cash in the short term. So we created a line that said "if you aren't in this large company category then you can get the cash, but if you are you can wait." That was the decision we made and we chose a number. I don't believe that number is carved in stone, but the theory behind it, I believe, is sound.

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REPRESENTATIVE TARR asked whether this is to also address the issue of a company that is not well resourced that then goes out

of business prior to having a tax liability and the state is left having given the credits to the company.

MR. ALPER responded that the State of Alaska doesn't want anyone to go bankrupt to save the state tax credit money. That would be an unfortunate reality. Bankruptcies are awkward for all concerned and the state is facing some smaller ones in the industry right now. To a certain extent, if the benefit package gets too generous, if the State of Alaska is paying too large a percentage of things, it is possible that certain inefficient decisions might be made, that more speculative or less likely for success projects might be funded due to a company's expectation that its risk is much smaller because the state is going to pay close to two-thirds of its money and the company could take that loss. It is reasonable to say that perhaps the projects that do go forward are the ones that have better fundamentals and are more likely to result in success.

COMMISSIONER HOFFBECK added that this doesn't do anything directly to protect the State of Alaska from having to pay the credits if a company goes bankrupt. He explained that if a company has earned the credits, the credits become an asset of whoever is doing the bankruptcy proceedings; the State of Alaska cannot stop from paying the credits if a company earns them.

REPRESENTATIVE SEATON noted that bankruptcy is an issue and is a real issue for Alaska suppliers. For example, Buccaneer went bankrupt. Suppliers sold fuel to Buccaneer, were paid by Buccaneer, and Buccaneer burned the fuel. Then suddenly the bankruptcy court comes back to the suppliers saying that they got paid within 90 days of when Buccaneer decided to declare for bankruptcy and now the suppliers must return to the bankruptcy court the money that was paid for the fuel that Buccaneer burnt. The same thing occurred with the services provided in the Homer harbor where the dockage had to be refunded. He announced he has an amendment on the bankruptcy issue that he will be bringing forward when the committee gets to amendments.

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REPRESENTATIVE SEATON, addressing the high amounts of the credits, stated that the credits are predicated on the idea that it is much more expensive to do projects in Alaska than anyplace else in the U.S. Because the credits would lower the cost of a project going forward, Alaska would then get a competitive final investment decision because the credits would equalize costs. He related that last summer Hilcorp testified before the Senate

Working Group that it had worked out procedures that have lowered its costs to the same as in the Lower 48. Hilcorp further testified that it was moving those procedures to the North Slope and anticipated having equivalent costs on its activities there. At some point in time, he opined, the credits must be looked at, and how much is being given, and whether the credits are promoting inefficiencies in companies; the State of Alaska shouldn't be subsidizing inefficiencies. He said he would like to see it addressed as to how much the State of Alaska is offsetting or subsidizing and how much is really necessary with some of the technical and new company innovations that are coming.

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CO-CHAIR TALERICO pointed out that a small company can be a \$50 million investment or a \$400 million investment or upwards of \$2 billion if the company is not going to bring in \$10 billion. The time value to the money that a company invests is critical to that company continuing forward, more so than an attached number. Given [the administration's] earlier statement that there may be flexibility in the proposed number, he urged that a percentage basis be considered rather than a number because it is hard to define a certain number when there is such a big gap.

MR. ALPER agreed that the time value of money is substantial and material and that the talk is about asking people to defer receiving cash from the state for potentially a number of years. He said the corollary to that is the status quo of continuing to spend half a billion dollars year towards a program in an environment where the State of Alaska's annual general fund revenue is less than \$2 billion, down approximately two-thirds from what it was a couple of years ago. All these factors are what's before the legislature to weigh as members look at this bill and other legislation moving forward.

[2:23:58 PM](#)

MR. ALPER moved to slide 28 to discuss the bill's impacts on the Interior/Frontier area explorer. He explained he is limiting it to the explorer because there is no real production yet in the Interior/Frontier areas. Explorers are currently receiving the 65 percent credit for exploration and 50-60 percent for development. What does that mean? It's a stack of things. The Exploration Incentive Credit is about 40 percent and the Net Operating Loss Credit is at 25 percent, and these explorers are eligible for both. Once past the exploration phase it becomes

more of a development activity where there is the weighted average of the Well and Capital Expenditure credits of 30-35 percent stacked with the 25 percent Net Operating Loss Credit for the 50-60 percent. [Under HB 47] the Capital and Well credits would go away; so, under the development phase, projects in the Frontier areas would only receive the 25 percent Net Operating Loss Credit, which is comparable to what the change would be in Cook Inlet. However, under a provision inserted into the exploration statutes as an amendment to Senate Bill 21, the exploration credits extend through 2022. So, the qualified expenditures of companies in the Frontier areas of the state where new production is wanted, and many of which are Native corporations, will get paid by the State of Alaska at the 65 percent rate for at least another five or six years while they prove up their exploration.

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REPRESENTATIVE JOSEPHSON noted that Senate Bill 21 provides for the State of Alaska to pay 65 cents on the dollar to the folks in the Nenana Basin for their efforts. He said he has been to presentations by these folks and thinks they are earnest and honest about their prospects. He understood that there hasn't yet been any production.

MR. ALPER replied correct. He recounted that in presentations before Senator Giessel's working group, Doyon, Limited, sounded like it is in something approaching active development and is hoping to bring some production online. Modeling was presented showing that even though the State of Alaska supports it with credits at this level and even though the taxes are quite low due to caps in other statute for the Interior, the State of Alaska will receive royalties that will more than offset its investment. However, he pointed out, the prevalence of state land is not as widespread in the Frontier areas. The central North Slope is state land and so are large areas of Cook Inlet where the oil and gas development has been, which means the State of Alaska receives the royalty. But, for a major project on privately held land or corporation land, even if that project would be eligible for hundreds of millions of dollars in credit, there might not be any material amounts of revenue coming in simply because the State of Alaska doesn't get the royalties, someone else does.

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MR. ALPER reviewed the bill's revenue impacts outlined on slides 29-30. Qualifying that it is a rough estimate because there are so many moving parts, he said [the administration] believes the bill is worth about \$500 million in the fiscal year 2017 budget. Of that \$500 million, approximately \$200 million [per year] in credit certificates would not be issued, things that currently result in credits being issued that are no longer going to exist. This is primarily from the repeal of AS 43.55.023(a) and (1), the Capital Expenditure and the Well Lease Expenditure in the non-North Slope areas; those are worth roughly \$150 million. The remaining \$25-\$50 million worth of credits would be from elimination of the so-called loopholes - the ability to increase the size of an operating loss and a few other minor provisions. Regarding the second set of \$200 million [per year] in credits, he said [the administration] could legitimately be accused of kicking the can down the road. There are \$200 million worth of certificates that are going to be earned, that are going to be held, but are simply not going to be cashable this year. They are going to be used against some future year's tax liability in a year where hopefully there is more tax revenue. These are the entities that fall under the repayment capped at \$25 million or the \$10 billion large company cap. That gets it to \$400 million with the rest being \$100 million in additional revenue. About \$50 million of that \$100 million comes from raising the floor from 4 percent to 5 percent. About another \$50 million comes from hardening the floor - preventing certain credits from being able to be used to reduce payments below the minimum tax. A bit of additional money, probably less than \$25 million, comes from the increase in interest rate. That number would increase a little bit over time, but because it is mostly tax assessments, delinquent taxes, it is money that would find its way into the Constitutional Budget Reserve once it is eventually paid, rather than the general fund.

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REPRESENTATIVE JOSEPHSON surmised that if a constituent was to ask him what the historic cut is under this proposal, it would be more accurate for him to say \$300 million rather than \$500 million because the other \$200 million will be paid by the State of Alaska if there is a future tax liability, which is a huge contingency.

MR. ALPER agreed that that is a legitimate point to make. He concurred that the net effect would be about \$300 million. The immediate effect when talking about balancing the budget that's

before the legislature this session is \$500 million, meaning the impact on the fiscal year 2017 budget.

2:30:22 PM

REPRESENTATIVE HAWKER inquired as to what the total government take on industry would be in the fiscal year 2017 budget as a percent rate of expected revenues based on the currently projected low oil price scenario.

MR. ALPER answered that remodeling has not been done of total government take including tax credits in the current low price scenario. He said there is a bit of an unusual circumstance now because the minimum tax does lead to some very high government take calculations. For a company losing money and paying a minimum tax it creates an infinite government take on the production tax. However, the tax credits are something of an offset to that that haven't previously been built into the government take calculations. He said he would like to get back to the committee on that as he is very curious. It's only fair to look at the change in government take, both on the tax side and on the credit side, in the aggregate. The conversation on government take is a little bit misleading when tax credits are not included in the conversation, he continued. During the hearings on Senate Bill 21, tax credits were not discussed when government take was being discussed. The baseline number, the consensus number, on Senate Bill 21 was an expectation of total government take in the 65-68 percent range across a wide range of prices, but today's prices are outside that expected range. Mr. Alper allowed he doesn't know to what extent those numbers have moved given current reality and he would like to find out.

2:32:09 PM

REPRESENTATIVE HAWKER asked whether he heard Mr. Alper say that the intent of this bill is to take an industry that today is actually losing money and impose an infinite increase in taxes on them by basically saying "you're losing money but we're going to raise your taxes."

MR. ALPER replied these are large companies that operate over multi-year cycles. Their business model, as he understands it, expects highs and lows and things are very much in a low swing right now. A small increase in the minimum tax would increase their down at this moment of the cycle and that could be said without hesitation.

REPRESENTATIVE HAWKER concluded that the short answer is yes, [the administration] intends to increase taxes on companies already losing money in the state of Alaska.

MR. ALPER responded yes.

2:33:03 PM

REPRESENTATIVE OLSON noted that DOR recently completed the 2008 ACES production tax credit and that DOR has seven more to go that are overdue. He understood that [the Tax Division] cut back one of its master tax auditors and didn't look for any additional people for oil and gas audits. He inquired how things are going to get done on these proposals if the division is already seven years behind.

MR. ALPER answered he doesn't like to think of it as being behind. [The Tax Division] is on target and hasn't missed any deadlines, he said. While closer to the statute of limitations than he is comfortable with, [the division] has zero intent of missing any deadlines and everything will be done before the deadline. [The division] is also on an active program to speed up somewhat. Qualifying he isn't sure what Representative Olson's audit master question is exactly about, he said that during the last legislative session one audit master position was cut in the current year's budget. That position was held by a person who was promoted and became a deputy commissioner and [the division] chose not to refill the position. An audit master position is being eliminated in the current budget, but that person has really not been working on production tax issues and has been functioning in more of an economic research role. The core audit staff doing the day-to-day work of reviewing the information from companies, being in communication with the companies, doing all the calculations and making sure that the numbers add up, is a solid core group of workforce that [the division] is not looking to cut.

2:34:38 PM

REPRESENTATIVE OLSON understood the 2008 audit generated \$285 million.

MR. ALPER replied \$265 million in assessments and pointed out that not all of that was paid, some is under dispute right now through the appeals process with one or more of those producers.

REPRESENTATIVE OLSON surmised a lot of money is hanging out on the other seven audits.

MR. ALPER offered his belief that just as DOR has gone through a learning curve on what is and isn't legal in the world of a net profits tax, so are the companies. He said he expects that over time the audits will go cleaner and faster as all of the bugs, rules, and procedures get worked out. Once DOR has rejected something a couple of times industry is going to stop claiming it again. While he is not exactly sure how much money is on the table, he said he will be able to talk to this and other committees before the end of this session about the 2009 audit completions and those numbers, as well as DOR's strategy for accelerating its audit process and catching up on these audits.

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REPRESENTATIVE JOSEPHSON understood that this is not unusual historically in Alaska and has been the history of oil and royalty debates since 1977. For example, the ARCO tax period in the 1980s wasn't resolved until the 1990s, which was several hundred million dollars, and Amerada Hess which was over a billion dollars.

MR. ALPER answered, "It's a litigious industry and ... there's a lot of vague transactions that are prone to differences in interpretation." It's a complicated topic. The aforementioned cases were more multi-year lawsuits that resulted in large back payments. The money in these two lawsuits, as well as the current tax assessments in which [DOR] says a company owes money for short-paying its taxes in a prior year, is not general fund money and does not balance the budget. The entirety of that money goes to the Constitutional Budget Reserve. If the money in question results from a royalty shortfall, which was the case for a lot of the older lawsuits, the appropriate percentage goes to the permanent fund and the remaining to the Constitutional Budget Reserve. He pointed out he doesn't want to hope for a couple billion dollars because that means people were abusive in their tax filings. Rather, he wants to hope that the number is zero and everything is buttoned down just right. However, if there is a large amount of money that comes to the state it's not going to have any immediate impact on the budget deficit.

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REPRESENTATIVE OLSON asked whether it is advantageous to the state to have it take seven years, given [the state] would be making 11.5 or 12 percent interest.

MR. ALPER replied the interest rate through January 1, 2014, was 11 percent. With the effective date of Senate Bill 21 the interest rate, including on old things, reset to the statutory rate of 3 percent over the federal discount rate. It moves every quarter and this current quarter is 4 percent. He said he doesn't want to speculate on industry behavior, but when it was 11 percent and DOR assessed the tax, companies tended to pay it and then go through the protest process because if companies got paid back they got paid back with interest. Now it's more in their interest to not pay the assessment and protest because the additional cost of more time is only 4 percent.

REPRESENTATIVE OLSON understood that almost two-thirds of the 2008 audit was interest.

MR. ALPER responded no, about \$150 million was tax and about \$115 million was interest, roughly 40 percent.

REPRESENTATIVE OLSON asked whether the interest goes to the Constitutional Budget Reserve (CBR).

MR. ALPER answered yes, the entirety of the payment goes to the CBR and there is a process for that. The CBR is also used to pay refunds if there is an assessment and an appeals process in which the company wins or a settlement is made somewhere in the middle. The CBR also pays reversed tax assessments.

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REPRESENTATIVE HAWKER paraphrased Mr. Alper's earlier statement as being "that the oil and gas industry in the state of Alaska was ... 'litigious.'" He said one definition of litigious that he came across defines it as being "unreasonably prone to go to law to settle disputes." He asked whether Mr. Alper believes it is unreasonable for the oil and gas industry in the state of Alaska to have legitimate challenges with assessments of taxes.

MR. ALPER replied he was not specifically limiting his comment to Alaska. The industry engages in very large transactions in very diverse areas all over the world and oftentimes there are disputes over valuation. Saying he doesn't want to question the dictionary definition or the reasonableness of anything, he noted that everyone has the right to the legal process whether

the simplest citizen, or the largest company, or the State of Alaska itself; that's why the legal process exists.

REPRESENTATIVE HAWKER asked whether Mr. Alper believes the oil and gas industry is unreasonably prone to go to law to resolve those disputes.

MR. ALPER responded no, he does not believe that anyone is being unreasonable.

REPRESENTATIVE JOSEPHSON stated that what he heard was "it's a litigious business" and that he thinks Mr. Alper was referring to both sides.

MR. ALPER thanked Representative Josephson for clarifying.

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MR. ALPER drew attention to slide 30, "Revenue Impact," noting that DOR's fiscal note is a little bit unusual. He explained:

We are able to highlight \$500 million in the immediate year, but our forecast of future tax credit expense tends to decline as you go into the out years. And that's not necessarily tied to actual expectation of less credits being spent, it's actually tied to our production forecast. We can only forecast oil production if we know the project has been sanctioned and is going to happen. We tend to add projects as we get closer to the present. ... We are looking at things three and four years from now; we don't know what wells are going to be drilled; likewise we don't know what credits are going to be earned. So there's a natural tendency for our estimate of tax credit spending to increase as you get closer to the present. So when you look at the fiscal note before you ... you will see smaller numbers as far as the savings and expenditure. Those numbers are pegged to our official forecast of tax credit spend, which is the Revenue Sources Book, reduced by \$50 million. We're essentially saying that we expect to reduce our credit spend to ... \$50-\$100 million per year in future years from whatever the number would be as we get closer to the present. ... Our forecast only includes known projects. We have a very conservative forecasting methodology and it's not for this committee and this hearing, but we could discuss the evolution of our

forecasting methodology; it's actually gotten much more conservative in recent years. Most new projects, anything that folks might talk about and has come before this committee when you speak to industry and say "we want to do A, B, or C," those are projects that haven't been sanctioned yet, are not yet in our credit forecast, and if they were to actually happen would increase the expected spend given current law.

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MR. ALPER moved to slides 31-32, "Implementation Cost," noting that in the transition, most of the changes in HB 247 have an effective date of July 1, 2016, meaning until that point current law remains in place. He defined "honoring existing credits" as meaning that \$700 million in tax credits is expected to be claimed this fiscal year but only \$500 million is going to be paid. That's the limitation of the appropriation, so there is going to be \$200 million hanging past at the end of fiscal year 2016. He said [DOR] is estimating \$425 million in credits that would under normal circumstances be paid next year. These are almost entirely credits earned in the past calendar year - the companies spent the money, did the projects, and are going to file their taxes in March and claim all of these credits. Then there is whatever would be earned in the first half of the present calendar year before the effective date of the bill. That gets to a number somewhere past \$800 million, leaving a little bit of room for unanticipated circumstances. Rounding up, \$1 billion would be put into the tax credit fund to ensure there's adequate funds to clear the deck of whatever credits might be earned prior to the effective date. The fiscal note is a bit unusual in that the operating budget has \$74.3 million in it, a number that comes out of a statutory formula. The fiscal note adds \$926.6 million, which is the difference between that number and \$1 billion, for the so-called transition fund. It would be an appropriation from the Constitutional Budget Reserve into the oil and gas tax credit fund.

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REPRESENTATIVE HERRON recounted that the governor has said these tax proposals are mostly written in pencil because the legislature is going to weigh in on it. He requested that Mr. Alper inform the committee as to which places are written in pen and which places are must haves.

MR. ALPER replied, "I think the governor says it's all written in pencil." The intent, the goal, he continued, is to reduce the amount of money that the State of Alaska spends every year from the current multiple hundreds of millions of dollars to a more manageable number in line with the State of Alaska's available resources. He said he has complete faith in the ability of the committee and the rest of the legislature to come up with a solution that does not need to be exactly what [the administration] is proposing.

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MR. ALPER turned to slide 32 to continue his discussion of the implementation cost. This is a bit larger than the fiscal notes that will be seen on some of the other smaller revenue bills, he pointed out, because a lot of reprogramming is involved. [The Tax Revenue Management System (TRMS)] is a very complicated tax system; it works very well to do the work but it's a little bit hard coded, so when a change is made it requires bringing back the programmers to recode things - for changing the way balances are handled, which credits exist, how different transactions get posted. He said [DOR] has requested the company that built the system to come up with an estimate of implementing HB 247 the way it is written. Because there is not yet a number, the amount of \$1.5 million is a placeholder; DOR expects the number will be different and expects that it will be lower. Once a real number is received from the contractor DOR will come before whichever committee the bill is in front of at that moment to adjust that number. These are one-time funds that would be a capital appropriation or a supplemental appropriation. No additional resources or staff will be needed to implement and manage the ongoing tax program once the changes are made.

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COMMISSIONER HOFFBECK addressed slides 33-34, both entitled "Closing the Budget Gap." He explained the slides outline the New Sustainable Alaska Plan and where these various components [shown in red] fit into two parts of the three-part plan. The first part uses investment earnings and existing taxes, which gets to \$4.2-\$4.3 billion of the \$5.2 billion goal. The second part hits in spending reductions at the rate of \$400 million for the coming fiscal year; not paying the credits is a reduction in the State of Alaska's expenditures. This also fits in the third part, the new revenue component, at \$100 million, which is the hardening of the cap and the increasing of the [minimum tax] rate from 4 percent to 5 percent.

2:48:12 PM

REPRESENTATIVE HAWKER returned to the \$1 billion capitalization of the oil and gas tax credit fund. He said it is shown as a fiscal year 2017 appropriation already requested [fiscal note identifier: HB247-DOR-OGTCF-1-27-16] and that [page 1] of the fiscal note states, "Initial version showing funding to Oil and Gas Tax [Credit] Fund. This will be reflected in the Governor's amended appropriation bill". He inquired as to where that \$1 billion is in the appropriation process and whether it is in the supplemental appropriation bill.

MR. ALPER responded he doesn't have the document in front of him and doesn't recall if it's going to be in the governor's supplemental bill. He said he wrote some of that text but cannot recall the specific sentence being referred to, so he wants to look back at it. He said his expectation is that it's a fiscal note that's attached to the bill so it would be contingent on the passage of a version of the bill because that is usually how these things are structured. He added that he hasn't seen the governor's supplemental bill, the governor's amended appropriation bill, to know if that's in there.

REPRESENTATIVE HAWKER agreed that the fiscal note is requesting the \$1 billion fund gap, but said he is confused by the statement at the bottom of the fiscal note that this will be reflected in the governor's amended appropriation bill.

COMMISSIONER HOFFBECK stated that [DOR] will clear that up.

2:50:05 PM

REPRESENTATIVE SEATON requested the committee be provided a presentation on the Gross Value Reduction and what that does for a net present value calculation for the State of Alaska's investment. For example, if the State of Alaska is investing in a new field, what the expected investment would be over time and the CBR or permanent fund discount rate, and what is the net present value both offsetting production tax and offsetting all revenues that the general fund would receive. He said he would like this presentation so that when the committee is considering these tax credit investments, members will know whether the State of Alaska will be making or losing money over the totality of the project.

MR. ALPER responded that [DOR] envisions some scenario drill-down in the more math oriented presentation that it expects to bring before the committee next.

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MR. ALPER turned to the sectional analysis outlined on slides 35-44, saying he will concentrate on the sections that are the most essential to the core changes that would be made by HB 247. He explained that Section 7 [slide 35] proposes to increase the interest rate tied to the Federal Reserve Discount Rate from 3 percent to 7 percent above the Federal Reserve Discount Rate. This splits the difference between the historic pre-2014 interest rate and what was put in place by passage of Senate Bill 21. Section 8 [slide 36] would provide a confidentiality waiver - the ability to talk about specific spend by individual companies. Section 8 would turn certain information currently considered taxpayer proprietary and make it public information. He noted that Section 17 [slide 37] is one of the "mother sections" of the bill and describes the minimum tax and how it's calculated. Section 17 defines the credits that, if the bill passes, will no longer be able to reduce payment below the 4 percent level. Additionally, Section 17 would remove the ability to move the Per-Taxable-Barrel Credit around from month to month, instead turning it into more of a truly monthly calculation so as to protect the State of Alaska from the need for large tax refunds at the end of the year.

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MR. ALPER explained that Section 18 [slide 38] would impose the minimum tax on the Gross Value Reduction eligible oil, new oil. He noted this is something that doesn't currently exist - new oil can pay as low as zero. Section 20 [slide 39] would add the 10-year sunset on credit certificates. Because the State of Alaska would be deferring a lot of payment, that 10 year provision is material and is something that should be discussed. Section 22 relates to DNR's needs and would ensure that as the exploration credits expire DNR will be able to receive seismic and downhole data well logs for its own planning and strategic purposes. This would be done by tying [the data requirements] to other credits rather than to the exploration credits. Section 26 [slide 40] talks about who is suddenly no longer eligible to receive cash for their tax credits - the \$10 billion limit, the \$25 million per year limit. This section amends AS 43.55.028(e), which is current law on other restrictions on who can get cash - specifically the 50,000 barrel a day, the large

current producer exemption. Section 27 [slide 41] is the Alaska hire restriction on credit rebate. Section 37 [slide 42] would clean up the situation wherein a municipal utility selling a small amount of production becomes eligible for sometimes very large credits because of the way that law is currently interpreted. Most of the rest of it is conforming. Section 39 [slide 43] would add a definition for "outstanding liability to the state." Right now if a company owes taxes it cannot get its credits - [DOR] pays their taxes out of the credit first. Section 39 would broaden this to also pay other liabilities to the state, such as royalties and the like, and to do this a definition is needed of "outstanding liability to the state." Section 44 [slide 44] is a retroactive effective date just applying to Section 17, which is the floor hardening section. Because of the specific situation with major producers using operating loss credit to reduce their minimum tax payments, [the administration] wants that to take effect this year so [the State of Alaska] can recapture some of that money that it's going to again lose at the end of January. [Section 45] provides for an immediate effective date for transition language and [Section 46] provides an effective date of July 1, 2016, for the rest of the bill.

[2:56:35 PM](#)

CO-CHAIR TALERICO noted there is confusion among the people who are actually working in the Frontier Basin, and that Mr. Alper's presentation clearly says the Frontier Basin is still eligible for the 65 percent tax credits until 2022. He said he has been approached by several operators who have said those expire on July 1, 2016, and he wants to be assured that he can tell those operators that those would be extended to 2021 or 2022.

MR. ALPER said that in some ways two different things are being talked about. There was a Frontier Basin Credit, a specialized credit that was modeled in many ways on the Cook Inlet Jackup Rig Credit which passed as part of a Frontier incentive bill during the 2012 session. That credit, which is 80 percent of certain expenditures with certain limits to the first well [drilled] in the four or six basins, is expiring July 1, 2016. However, the underlying Exploration Incentive Credit, a statewide credit of 40 percent, has been specifically extended for the Frontier basins through 2022. The 80 percent Frontier Basin Credit has never been claimed or used and is going away. Those explorers in the Frontier basins will be able to get the Exploration Credit stacked with an Operating Loss Credit with a total State of Alaska contribution of 65 percent.

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REPRESENTATIVE JOSEPHSON offered his understanding that HB 247 actually extends or replaces credits and asked whether Mr. Alper considers any of the bill's features as being generous to the industry in that respect.

MR. ALPER replied he doesn't want to answer broadly because it's an open-ended question. He said no, the bill doesn't extend any credits. There are credits in current law that have existing sunsets of July 1, 2016: the bulk of the exploration credits, the Frontier Basin credits, the Jackup Rig Credit. The Small Producer Credit begins a slow sunset in May 2016. Under previous legislation, Senate Bill 21, an amendment was made on the House floor that extended the exploration credits specifically in the areas outside the North Slope and Cook Inlet to January 1, 2022, and HB 247 would simply maintain that.

[HB 247 was held over.]

[2:59:11 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:59 p.m.