

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 1, 2017

6:01 p.m.

**MEMBERS PRESENT**

Representative Andy Josephson, Co-Chair  
Representative Geran Tarr, Co-Chair  
Representative Dean Westlake, Vice Chair  
Representative Harriet Drummond  
Representative Justin Parish  
Representative Chris Birch  
Representative DeLena Johnson  
Representative George Rauscher  
Representative David Talerico

**MEMBERS ABSENT**

Representative Mike Chenault (alternate)  
Representative Chris Tuck (alternate)

**COMMITTEE CALENDAR**

HOUSE BILL NO. 111

"An Act relating to the oil and gas production tax, tax payments, and credits; relating to interest applicable to delinquent oil and gas production tax; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 111

SHORT TITLE: OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS

SPONSOR(S): RESOURCES

02/08/17	(H)	READ THE FIRST TIME - REFERRALS
02/08/17	(H)	RES, FIN
02/08/17	(H)	TALERICO OBJECTED TO INTRODUCTION
02/08/17	(H)	INTRODUCTION RULED IN ORDER
02/08/17	(H)	SUSTAINED RULING OF CHAIR Y23 N15 E2
02/08/17	(H)	RES AT 1:00 PM BARNES 124
02/08/17	(H)	Heard & Held
02/08/17	(H)	MINUTE(RES)
02/13/17	(H)	RES AT 1:00 PM BARNES 124

02/13/17	(H)	Heard & Held
02/13/17	(H)	MINUTE(RES)
02/17/17	(H)	RES AT 1:00 PM BARNES 124
02/17/17	(H)	Heard & Held
02/17/17	(H)	MINUTE(RES)
02/20/17	(H)	RES AT 1:00 PM BARNES 124
02/20/17	(H)	Heard & Held
02/20/17	(H)	MINUTE(RES)
02/22/17	(H)	RES AT 1:00 PM BARNES 124
02/22/17	(H)	Heard & Held
02/22/17	(H)	MINUTE(RES)
02/22/17	(H)	RES AT 6:30 PM BARNES 124
02/22/17	(H)	Heard & Held
02/22/17	(H)	MINUTE(RES)
02/24/17	(H)	RES AT 1:00 PM BARNES 124
02/24/17	(H)	Heard & Held
02/24/17	(H)	MINUTE(RES)
02/27/17	(H)	RES AT 1:00 PM BARNES 124
02/27/17	(H)	Heard & Held
02/27/17	(H)	MINUTE(RES)
02/27/17	(H)	RES AT 7:00 PM CAPITOL 106
02/27/17	(H)	Heard & Held
02/27/17	(H)	MINUTE(RES)
03/01/17	(H)	RES AT 1:00 PM BARNES 124
03/01/17	(H)	RES AT 6:00 PM BARNES 124

**WITNESS REGISTER**

JIM PLAQUET, Member  
International Union of Operating Engineers  
Fairbanks, Alaska  
**POSITION STATEMENT:** Testified in opposition to HB 111.

CAROLINE PETERSON  
Anchorage, Alaska  
**POSITION STATEMENT:** Testified in opposition to HB 111.

DAVID OTNESS  
Cordova, Alaska  
**POSITION STATEMENT:** Testified during the hearing of HB 111.

BILL WARREN  
Nikiski, Alaska  
**POSITION STATEMENT:** Testified during the hearing of HB 111.

KELLY DROOP  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

MIKE MILLIGAN  
Kodiak, Alaska

**POSITION STATEMENT:** Testified during the hearing of HB 111.

MARK MORRIS  
Juneau, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

ALEXANDER GUDSCHINSKY  
North Pole, Alaska

**POSITION STATEMENT:** Testified during the hearing of HB 111.

BILL JEFFRESS  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

DEBORAH LIMACHER  
Homer, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

DANIEL PATE  
Soldotna, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

JIM UDELHOVEN, CEO  
Udelhoven Operating Companies  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

DAVE HANSON  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of certain provisions in HB 111.

JAKE JACOBSEN  
Kodiak and Kotzebue, Alaska

**POSITION STATEMENT:** Testified during the hearing of HB 111.

ROBIN SOLFISBURG  
Skagway, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

JOSH HALL  
Anchor Point, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

CATHY DOXBRY

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

CYNTHIA HENRY

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

ROGER BURGGRAF

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

CHRISTY WRESLER (ph)

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

BRUNI WARRICK (ph)

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

ERIC TREIDER

Soldotna, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

GRETCHEN NELSON

Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

BILL REINER

Anchorage, Alaska

**POSITION STATEMENT:** Testified during the hearing of HB 111.

KATI CAPOZZI

Eagle River, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

KATIE KENNEDY

Ninilchik, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

JAMES SQUYRES

Deltana, Alaska

**POSITION STATEMENT:** Testified in opposition to certain provisions of HB 111.

DONALD BULLOCK

Juneau, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

BEN MOHR

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

CEAL SMITH, Spokesperson

Alaska Climate Caucus and Alaska Center for Climate and Energy Policy

Eagle River, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

AMY CHRISTIANSEN

Homer, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

DANIELLE REDMOND

Douglas, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

HARRY K. BROWER JR., Mayor

North Slope Borough

**POSITION STATEMENT:** Mayor Brower's testimony in opposition to HB 111 was read by Dan Fauske, Director, Governmental and External Affairs, North Slope Borough.

BOBBY REDDELL (ph), Spokesperson

Udelhoven Oilfield System Services

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

CARL PORTMAN

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

KEITH SILVER

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

LYNN JOHNSON, Chairman

Dowland Bach Corporation

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

CHARLES UNDERWOOD

Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

JEANINE ST. JOHN  
Lynden Incorporated  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

MICHAEL JESPERSON  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

ROGER JENKINS  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

JOHN SONIN  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the hearing of HB 111.

SANDRA LEMKE  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

BEN MULLIGAN, Deputy Director  
Alaska Chamber  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

WESTON HOWE  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

JOE RINTALA, Construction Business Agent  
Teamsters Local 959  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

DAVID SCOTT  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 111.

JOHNNY GRIFFIN  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

JACK KVASNIKOFF  
Ninilchik, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

ALICIA SIIRA, Deputy Director  
Alaska Miners Association (AMA)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

ANNE SENECA, Regional Director  
Consumer Energy Alliance CEA-Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

KATE BLAIR, Manager  
Government & Public Affairs  
Tesoro Corporation  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

BILL CORBUS, Member  
Keep Alaska Competitive  
Juneau, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

MARLEANNA HALL, Executive Director  
Resource Development Council for Alaska, Inc.  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 111.

#### **ACTION NARRATIVE**

[6:01:27 PM](#)

**CO-CHAIR GERAN TARR** called the House Resources Standing Committee meeting to order at 6:01 p.m. Representatives Tarr, Parish, Talerico, Johnson, Josephson, Westlake, and Drummond were present at the call to order. Representatives Birch and Rauscher arrived as the meeting was in progress.

#### **HB 111-OIL & GAS PRODUCTION TAX;PAYMENTS;CREDITS**

[6:01:56 PM](#)

CO-CHAIR TARR announced that the only order of business would be HOUSE BILL NO. 111, "An Act relating to the oil and gas production tax, tax payments, and credits; relating to interest applicable to delinquent oil and gas production tax; and providing for an effective date."

6:02:07 PM

CO-CHAIR TARR made announcements regarding public testimony.

6:02:49 PM

REPRESENTATIVE BIRCH shared his concern that testifiers have had extended waits in the past. He suggested that the chair keep testifiers apprised of the agenda and estimated times.

CO-CHAIR TARR listed communities from which testifiers were calling.

6:04:49 PM

JIM PLAQUET stated he is a 43-year member of the International Union of Operating Engineers and a longtime resident of Alaska. He told the committee that it is time for Alaskans to come to grips with the environment of future declining oil production. He opined that HB 111 goes too far, would raise the basic oil tax rate, and hurt investment in Alaska, when the state needs to be attracting investment. He stated that Alaskans should be looking for ways to make the development of Alaska's oil more economical, rather than seeking ways to thwart future development. He said Alaska should be open and ready for business as well as be willing to provide a regulatory and tax climate in which the industry can reinvest in Alaska. He declared that [Senate] Bill 21 [passed in the Twenty-Eighth Alaska State Legislature] made Alaska more competitive and a more attractive place to invest. Alaska saw no production decline in 2014, only a slight dip in 2015, and production increase in 2016 - which he noted was the first increase in 14 years. He shared his optimism that as long as Alaska makes the production of oil economically attractive, industry would aggressively pursue development of new and older fields on the North Slope. In fact, the question legislators should be asking in Juneau is not how much tax revenue the state could get, but how much future investment could the state attract.

6:07:12 PM

CAROLINE PETERSON stated her belief that although the taxes in HB 111 would provide shortsighted relief, in the long term HB 111 would be severely damaging to Alaska because the United States does not depend on Alaska's oil. She said oil companies would not be penalized but would instead follow the money. She

opined that HB 111 would be a disincentive for the oil industry from investing in Alaska, and Alaska's reality is that the economy depends on the oil industry. She argued that while it seems just and fair to target the oil companies with their seemingly deep pockets, the harm would not fall on the companies, but instead on Alaskans. She noted that each oil company job supports 20 other jobs in the state economy and concluded that HB 111 would force oil companies out of Alaska and destroy the state's economy.

[6:08:50 PM](#)

DAVID OTNESS opined that since Senate Bill 21 passed, disaster has befallen Alaska. He recalled four years ago [the oil industry] promised one million barrels of production per day; however, shortly after Senate Bill 21 passed, BP laid off 200 employees. He said the investments that have been made are not new investments, but were already online before Senate Bill 21. Alaska is constantly being taken advantage of compared to other places in the world where the industry must work under more difficult circumstances. Mr. Otness inquired as to the actual numbers regarding oil tax credits and whether they make financial sense for the state or just for the companies receiving benefits. He urged for the committee to assess the results of Senate Bill 21.

[6:11:38 PM](#)

BILL WARREN said he has been an Alaska resident for 65 years and worked on the Trans-Alaska Pipeline System (TAPS) as a welder. He expressed support for HB 111 with one caveat: a net system does not work. He explained that Alaska has tried the tax systems of Senate Bill 21 and Alaska's Clear and Equitable Share (ACES) [passed in the Twenty-Fifth Alaska State Legislature] but remains confused and insecure because the state doesn't get the needed information from the oil companies to be confident. However, oil producers run on confidentiality and secrets, and [regimes] with "open data" have more clarity. He stated that he is in favor of a gross barrel tax, which is simpler, although there would still be "heavy lifting." Mr. Warren reminded the committee explorers are the risk-takers and the producers are the investors and pointed out Alaska has 2.5 times more resource than Texas. He urged legislators to think big instead of small and complete their work.

[6:13:29 PM](#)

REPRESENTATIVE DRUMMOND asked Mr. Warren to repeat the last sentence of his testimony.

[6:13:45 PM](#)

MR. WARREN said the legislature should work on oil, an income tax, cuts, and the [Alaska] Permanent Fund Dividend (PFD).

[6:14:03 PM](#)

KELLY DROOP said she is a lifelong Alaskan. Her family has benefitted from the oil industry and what it has afforded Alaska, including the elimination of a state income tax and significantly improved infrastructure, and is opposed to HB 111. She opined that production must be incentivized in order to attract the investment and significant capital dollars it takes to maintain and increase production on the North Slope. Senate Bill 21 not only benefited oil and gas contractors with increased opportunities, but also helped other businesses. She advised against continuing to change the rules on industry; in fact, HB 111 discourages investment, would have serious long-term implications for state funding, and does not address the state's budget deficit. Ms. Droop urged the committee to find another way to cut costs and preserve opportunities for Alaskans.

[6:15:44 PM](#)

MIKE MILLIGAN stated he worked on TAPS and has followed the issue of oil taxes for over 30 years. He referred to a chart found in the committee packet that shows the percentage of private [oil] industry worldwide [chart not provided]. Mr. Milligan related 75 percent of worldwide oil production comes from state-owned facilities. He stressed oil companies have never indicated where they would go if taxes are increased in Alaska; further, he questioned where else in the world private industry controls transportation as private oil operators control access to TAPS and make it difficult for any other operators to begin operations. He urged the committee to ask the oil industry where it would go if Alaska's oil industry collapsed.

[6:18:25 PM](#)

MARK MORRIS stated Alaska is approaching either 30 more years of prosperity or a long lackluster recovery once oil prices rebound. Mr. Morris said he was raised in Juneau and he and his

family operate an engineering firm which was reduced from ten fulltime employees to one fulltime and two part-time employees at the time of the crash in oil prices. According to economists, every job created by a source outside of a community creates five to nine new jobs within a community; further, like so many other Alaskans, his firm and family are waiting for the price of oil to rebound and trying to survive until then because capital budgets, both state and local, are down. He asked the committee to picture hundreds of Alaska families, like his, just hanging on waiting for the price of oil to rebound, and cautioned that HB 111 would take away any hope of a prosperous future; in fact, when the oil industry sees increased taxes and reduced or eliminated oil tax credits they simply take their billions of dollars elsewhere to develop someone else's oil. Speaking from his personal experience, he said private oil corporations have ongoing projects all over the world involving foreign governments. He stated that [former] Governor Jay Hammond and the Alaska State Legislature foresaw a boon in prosperity followed by fluctuating oil prices and created the Alaska Permanent Fund and the Alaska Permanent Fund Dividend (PFD). He urged the committee to use the rainy day fund during the current crisis instead of costing Alaskans their jobs.

[6:21:32 PM](#)

REPRESENTATIVE PARISH asked Mr. Morris which high school his sons attended.

[Due to technical difficulties, the following portion of the recording contains intermittent breaks in the audio recording.]

MR. MORRIS [indisc.] but his boys play for Thunder Mountain High School.

[6:21:55 PM](#)

REPRESENTATIVE DRUMMOND asked Mr. Morris whether he was aware of discussion in the House Finance Committee about other revenue sources besides the [Alaska] Permanent Fund.

MR. MORRIS answered yes. He opined it is unfair to suggest imposing an income tax when Alaska has already established a rainy day fund in the amount of \$55 billion. He urged for a return to leadership similar to what was provided by former President Reagan during times of "terrible trouble." (Indisc.) Americans were joining hands across the political aisle, and across social and economic lines, while interest rates were sky

high for four years (indisc.) because he had the vision for a bright future for America. Alaska needs leadership that can explain to its citizens the need to forfeit the PFD program instead of losing more jobs. Mr. Morris shared that he is looking for work outside of Alaska because his firm is in danger of closing. [Indisc.]

[6:23:55 PM](#)

REPRESENTATIVE DRUMMOND asked Mr. Morris if he supports giving up [Alaska] Permanent Fund Dividends for a few years.

MR. MORRIS responded absolutely.

[6:24:13 PM](#)

ALEXANDER GUDSCHINSKY said he is a lifelong Alaskan and stated his support for the elimination of oil tax credits. Although tax credits support investment, the state has only paid a limited amount because if all of the tax credits that are owed were paid, there would be no money for roads and schools. He said that oil tax credits are a good idea, but if Alaska doesn't have the capital to pay them the credits should not continue.

[6:26:07 PM](#)

BILL JEFFRESS shared that he has spent over 40 years in resource development and is currently in the mining industry. He pointed out all resource development relies on a stable regulatory and tax system. He noted that taxes have changed seven times in the past twelve years and voters said Senate Bill 21 should be given a chance to work, which it has. After job losses in the state, the oil industry is "just holding on," and because resource industries rely on out-of-state investors, HB 111 is the worst message the state could send to industry. Mr. Jeffress advised the mining industry relies on exploration dollars and investment capital to bring new projects online in a similar manner to the oil industry, and the message would spread across all resource industries that Alaska is not a stable environment to support industry in the long-term.

[6:28:28 PM](#)

DEBORAH LIMACHER said she has been an Alaska resident for 41 years. She expressed her opposition to tax credits for oil and gas exploration, and her support for HB 111 and other legislation proposed to lower tax credits for tax and oil

exploration. She questioned what it would take for Alaska to stop its dependence on revenue sourced from gas and oil. Ms. Limacher advised that many countries are turning to alternative energy sources and the days of oil are waning; in fact, Texas has created more jobs and revenue from wind generation than from oil production, and she suggested HB 111 should include incentives for alternative energy exploration. Speaking as an Alaskan and thereby an owner of the state's oil and gas, she said, "Leave it in the ground." Until the time of alternative energy comes, she urged increased taxes from the oil industry to protect the state from bankruptcy. Her experience has been companies come to the state, destroy their operations, declare bankruptcy, and leave, which leads to an uncertain future for the local residents.

[6:31:30 PM](#)

DANIEL PATE shared that he is a lifelong Alaskan with a career in the oil and gas industry. He said he is opposed to HB 111 and wants to see the oil industry flourish. His grandparents and parents worked in the oilfields and he would like to see the industry continue for future generations.

[6:33:07 PM](#)

JIM UDELHOVEN, CEO, Udelhoven Operating Companies, informed the committee that two years ago his firm employed 800 employees, two months ago that number dropped to 400 employees, and as of this week he has 299 employees. Following the recent severe recession, oil prices have now stabilized at the national level, and the state can move forward with optimism if HB 111 is opposed. Increased taxes at this time would slow exploration; in fact, developing "new oil" will bring in more revenue than raising taxes on existing production. Mr. Udelhoven reported the oil industry seeks a stable tax structure which would ensure further investment in Alaska. He noted that the industry has increased production in the past few years, even during the recession, and with stable oil prices the existing tax system would prove successful. He restated his strong opposition to HB 111.

[6:35:50 PM](#)

DAVE HANSON expressed his support for reductions in the oil tax credits program brought forth in HB 111; however, he said he does not support the tax increase from 4 percent to 5 percent, noting the following three points: 1. Reducing oil industry tax

credits does not indicate opposition to the oil industry just like reducing the capital budget did not indicate opposition to the construction industry, but although there has been a long, mutually beneficial business partnership with the state, subsidies must be decreased; 2. Alaska can no longer afford the oil tax credit program, as the oil industry's contribution to the state's revenue has been reduced from 85 percent to 26 percent and there have been cuts to all areas of state government; 3. Subsidies must be reduced to control the state's existing debt to the industry which is over \$900 million. The passage of HB 111 would reduce payments and debt accumulation by \$200 million annually over the long haul, which is the equivalent of paying the 5 percent income tax proposed by the governor.

[6:38:30 PM](#)

JAKE JACOBSEN stated he is a 50-year Alaska resident representing himself and family members. He opined HB 111 is too timid and the committee's goals should be to revise Senate Bill 21, stop the oil tax credits, simplify the system, make the system more transparent, hire aggressive auditors, and assess the tax on barrels going down the line per day - on the gross. He discounted threats that the oil companies would leave because oil companies cannot afford to leave Alaska. Also, Mr. Jacobsen spoke against efforts to "seize the PFD," as gas and oil are held in common for all Alaskans, but a PFD is private property. He expressed his support for both an income tax and a sales tax.

[6:40:10 PM](#)

ROBIN SOLFISBURG stated her support for HB 111 and said increasing the tax rate on oil and curtailing Alaska's system of giving money to the oil industry should be first on the list of solutions to Alaska's financial problems. She encouraged the committee to stand for Alaska, and not oil companies; schools, public safety, and dividends are equally - if not more - important than oil company tax subsidies.

[6:41:23 PM](#)

JOSH HALL said he is a lifelong Alaska resident of the Kenai Peninsula and informed the committee that careers in the oil industry have deeply impacted him and his family. He stated his opposition to HB 111, noting that his experience in the industry is the basis for his belief that HB 111 would make planning for future projects difficult, and increasing the oil and gas tax

would make further exploration and growth difficult for the industry.

[6:42:49 PM](#)

CATHY DUXBURY stated her opposition to HB 111. She observed legislators repeatedly seek to increase taxes on the industry that supplies most of the revenue and jobs for the state. The company she works for has recently made many cuts including cuts to charitable donations, pay, and the number of employees. Ms. Duxbury said she is optimistic when she hears of new finds, but then state raises taxes again, which will be the seventh increase in the past twelve years and the third increase in three years. She suggested that if the legislature spent half the amount of time trying to figure out ways to attract investment and get more oil down the pipeline as it does trying to figure out ways to raise taxes, the state would not have the problems that it does.

[6:45:15 PM](#)

CYNTHIA HENRY said she has operated a retail family business for over 35 years that is not oil industry related, but is dependent on Alaska's economy. She expressed her opposition to HB 111, noting the challenge to the state government's financial position is due to low oil prices and lower throughput in the pipeline. However, new oilfields have been announced and last year throughput increased after years of decline. Further, the price of oil is inching up, thus she and others are cautiously optimistic. The structure of Senate Bill 21 is working and she warned that it would be a big mistake to raise oil taxes which would lead to less investment, less production, fewer jobs, and a deepening recession. Ms. Henry urged the committee to vote no on HB 111.

[6:47:11 PM](#)

ROGER BURGGRAF said he has been a resident of Alaska for over 64 years and worked on the pipeline and in other resource industries. He stated his opposition to HB 111 because it does nothing to encourage oil companies to invest time or money to get more oil in TAPS, but encourages the oil industry to invest elsewhere. He recognized the need to diversify Alaska's economy, however, there is no upcoming industry to replace lost oil revenue. Mr. Burggraf said he has submitted written testimony for the committee's review, and further observed 71 percent of all profits derived from oil produced in Alaska goes

to state and/or federal governments and only 21 percent is retained by the oil companies. He urged that HB 111 not get passed.

6:50:24 PM

CHRISTINE RESLER (ph) said that she works in the oil and gas industry and is very opposed to HB 111. Ms. Resler stated the importance to Alaska's economy to remain competitive, noting that it is more expensive for oil and gas companies to produce in Alaska than many other places around the world, thus keeping Alaska competitive should be a key focus. She cautioned that there clearly are other places for oil companies to go, and even a couple of dollars per barrel could mean the difference between development and no development of some of the recently discovered oil reserves in Alaska. She urged Alaskans to gain a perspective of how the state compares to the rest of the world, and the implications to Alaska's government and economy if oil production becomes uneconomic.

6:51:55 PM

BRUNI WARRICK (ph) stated her opposition to HB 111, noting raising taxes would make Alaska less competitive for investment dollars and would result in lower production, fewer jobs, and ultimately less value to the state. She opined the state is already taking a hit from the [Alaska] Permanent Fund, and restated her strong opposition to HB 111.

6:53:01 PM

ERIC TREIDER said two years ago an economist predicted the state would owe oil producers more in the form of tax credits than what was received in production taxes, and he questioned the prediction because he couldn't believe lawmakers would "craft such a terrible bill." However, HB 111 is an effort to make corrections. He recognized that many testifiers have shared concern that HB 111 would prompt oil producers to leave Alaska, and remarked:

During the debate over Senate Bill 21, Dr. Scott Goldsmith was unable to identify any state or country that offers more competitive profit opportunities to oil companies than Alaska. Not long ago BP signed a contract with Iraq which obligated them to produce 2.9 million barrels of oil per day in return for cost plus \$4 million per day. Now you're considering a bill

that would cut BP's, ConocoPhillips', and Exxon's share of Alaskans' profits to reimbursement of all costs plus 27 percent. ... Had we Alaskans had Iraq's deal ... and we placed the additional revenue in the permanent fund, our dividends would have grown to \$10,000 per citizen per year and Alaska would be in a position to fund government for the next hundred years from the permanent fund earnings. ... I would ask the legislators to take deep breath and reflect for a few minutes on who really needs the help the most ... here in Alaska or the folks in Houston and London.

[6:55:49 PM](#)

GRETCHEN NELSON said she is a 35-year resident and expressed her support for HB 111, which has a number of provisions of benefit to the state. She urged for the resolution of the oil tax credit issue and said the state needs to stop paying oil companies for their work in the state. Further, Senate Bill 21 may need to be revised. The bill would be a step toward a solution to the state's fiscal problems along with an income tax, some budget cuts, and restructuring the [Alaska] Permanent Fund. Ms. Nelson asked the committee to support HB 111.

[6:57:59 PM](#)

BILL REINER expressed his opposition to HB 111, and said the oil tax credits should be stopped before the state is bankrupt. He pointed out the oil and gas tax credits were designed to best function at [oil] prices of around \$100 per barrel, however, HB 111 continues the credits to 2020, which is not acceptable.

CO-CHAIR TARR asked Mr. Reiner to clarify why he opposed HB 111.

MR. REINER said HB 111 does not go far enough and delays diversification of the economy to a later date.

[7:00:49 PM](#)

KATIE CAPOZZI said she understands the challenges before the legislature to solve the state's fiscal crisis; however, turning to the industry that has largely funded the state's government and provided well-paying jobs and the state's savings, and increasing taxes on that industry - which is experiencing an economic downturn - for the second time in as many years, is perilous and shortsighted. The oil and gas industry has made thousands of layoffs in the past two years affecting Alaskan

friends, neighbors, and colleagues. Ms. Capozzi stated her opposition to HB 111.

7:02:12 PM

KATIE KENNEDY stated her strong opposition to all tax credits; in fact, Alaskans did fine before the oil companies came. She said [Hilcorp's pipeline] has been leaking gas for six weeks and has been allowed to utilize infrastructure in Cook Inlet that was built in the '50s. Ms. Kennedy said officials from BlueCrest told her it could continue operations without tax credits, so they need to do that. She questioned the wisdom of using fracking techniques in an area of seismic activity, and urged the state to be progressive and leave the oil and gas in the ground to be the state's "true" savings account. Tax credits are a giveaway and, because of profits, the "big three" in the oil industry will never pull out of Alaska, thus the state should not continue giving tax credits. She recalled that other industries, such as commercial fishing, have had to adjust to changes, and suggested the state should focus on renewable sources of energy such as geothermal and tidal energy. Ms. Kennedy expressed her opposition to HB 111 because all oil and gas tax credits should be eliminated.

[Due to intermittent technical difficulties some discussion and testimony were lost.]

CO-CHAIR TARR [indisc.]

MS. KENNEDY opined that it is ridiculous to allow legislators who work for industry to vote on bills [regarding oil and gas tax credits].

7:06:40 PM

JAMES SQUYRES stated his opposition to refundable oil and gas tax credits and questioned why the program is still in existence knowing the governor's intention to veto the amounts paid to the statutory minimum. He recommended a "streamlined" bill to address the refundable credits without any additional tax changes. Mr. Squyres opined the "refundable gas tax program" has been de facto shut down for some time, but the state will still have to pay 100 cents on the dollar whether tax credit holders wait for refunds, or transfer their credits to major oil companies. He restated it is better to address the refundable oil and gas tax credits without changes to tax rates or to the "good effects of SB 21," and expressed his opposition to HB 111.

7:09:16 PM

DONALD BULLOCK informed the committee he was familiar with the state's history of production tax due to his work in the Department of Revenue during hearings on the Economic Limit Factor (ELF) formula [passed in the Tenth Alaska State Legislature and modified in 2005] that was applied to the Milne Point Unit, resulting in the two-year shutdown of Milne Point in the late '80s. Mr. Bullock said HB 111 was rushed, and there are some basic concepts missing, as well as significant errors, one of which provides for no minimum tax after 2021. He cautioned that every credit and every allowed deduction is an investment of state money, whether in refundable credits paid or credits deducted from future tax revenue. Both credits and investments are very important; in fact, the wellhead value at Prudhoe Bay, which is the gross value at the point of production, is the netback from the sales price, therefore, Alaska has the lowest wellhead value in the country. Further, [hydrocarbon] is a non-renewable resource, unlike farm equipment or seed, and easily accessible oil has mostly been found, thus "new oil" will require more investment. For example, the jack-up rig credit in Cook Inlet was expensive for the state, but it brought results, and on the North Slope producers must start looking at deeper wells, new areas, and heavier oil that costs more to produce and has less market value. Mr. Bullock stated his opposition to HB 111 because the bill does not take all the aforementioned factors into consideration and, along with an increase in the gross tax and a reduction to the credits, it is a new scheme for taxes since the Petroleum Profits Tax (PPT) [passed in the Twenty-Fourth Alaska State Legislature] was enacted in 2006. The minimum tax already rejects any lease expenditures, and he said he is in favor of applying credits against the minimum tax because legitimate credits will lead to more production. Mr. Bullock cautioned that TAPS does have a minimum throughput and was almost lost when Pump Station 1 went down a few years ago. Further, with the loss of the refinery in Fairbanks, there is no longer an increase of heat as the oil is transported in the coldest part of the pipeline. He advised the committee to slow down, look at the big picture, and at the resource being taxed. Regarding the "it's our oil mantra," he pointed out lessees have the right to all the oil they produce except for royalty due the state: production taxes are the same as taxes imposed by a municipality, although in the case of natural resources, there may be impacts that continue after the resource is gone.

7:14:15 PM

CO-CHAIR JOSEPHSON noted that some components of HB 111 were heard in over 25 hearings last year, and asked Mr. Bullock to clarify whether he thought the bill was rushed.

7:14:45 PM

MR. BULLOCK recalled industry has testified that whether the current tax system is working is unknown at this time, thus the sponsors of the legislation are "approaching it with one hand behind your back and the other hand over one of your eyes." Furthermore, the tax system has been changed; tax stability is important to taxpayers and also to the state, particularly when revenues are low and a predictable source of revenue is needed. Without complete understanding of the existing tax system, changes should be approached carefully. Mr. Bullock restated his opposition to HB 111.

7:15:48 PM

BEN MOHR stated that one of the reasons for his opposition to HB 111 is due to the number of changes to the tax credit system in recent years; companies who have potential plays need as much certainty as possible to build out programs and plan appropriately, and although taxes are inevitable, the taxes should be a constant - not as a variable - in order for industry to make good business decisions. In addition, Alaska's tax credit program has little credibility because the credits are not getting paid as originally promised. Finally, the oil and gas industry has no more to give and he said he supported asking Alaskans to pitch in, diversify Alaska's revenue sources, and make "smart cuts" to government spending.

7:18:16 PM

CEAL SMITH, spokesperson, Alaska Climate Caucus and the Alaska Center for Climate and Energy Policy, shared that she supports HB 111. She said for the first time the state is paying more out than it is taking in from the oil and gas industry, which is unsustainable. Neither ACES nor Senate Bill 21 were adequate for Alaska to get its fair share; in fact, Alaska's production tax is among the lowest in the world. In addition, Ms. Smith supported the increase of the tax rate from 4 percent to 5 percent. She referred to previous testimony that Alaska's deficit is largely due to reduced oil production taxes, not reduced oil prices, and if the state were to receive roughly a

one-third profit share, the deficit problem would be reduced by 50-75 percent. Ms. Smith turned to the "taboo" issue of climate change, and advised Alaska is warming two to three times faster than the rest of the country, which is alarming and not understood by scientists. She reiterated that Alaska needs to stop paying oil companies to take Alaska's oil, and the oil industry needs to pay its fair share and costs to mitigate demands from climate change.

[7:21:57 PM](#)

AMY CHRISTIANSEN said she has been an Alaska resident for 31 years and opined Alaska's reliance on oil as its sole source of income to pay for government and schools is a tragedy. She said the state is not going to be able to cut its way out of the current fiscal situation by cuts to education, public safety, and the Department of Transportation & Public Facilities. Furthermore, the state is paying oil companies oil tax credits to "frack off the coast of Cook Inlet." She pointed out that even after giving the big oil companies what they wanted in Senate Bill [21] they still laid off employees because gas is cheaper [to produce] in Iraq than it will ever be in Alaska. The oil and gas in the ground now belongs to future generations and is basically Alaska's savings account. She recalled former Governor Hammond was smart and Norway modeled Alaska's Permanent Fund with better results. She urged the committee to be bold and diversify, noting that the oil industry will not spend time extracting oil in Alaska during periods of low oil prices. Ms. Christiansen stated that although she supports HB 111 because any decrease in oil tax credits is good, she does not feel the bill goes far enough.

CO-CHAIR TARR encouraged the public to send written testimony to the committee.

[7:26:11 PM](#)

DANIELLE REDMOND shared with the committee the following: 1. fixing the oil and gas tax structure is crucial, Senate Bill 21 needs to be fixed, and tax credits should be reduced or eliminated before changes are made to the [Alaska] Permanent Fund Dividend; 2. she supports an income tax over a sales tax because an income tax taxes workers from out-of-state, whereas a sales tax disproportionately affects low-income and working families; 3. she supports HB 111 and any effort to remedy the oil and gas tax credit structure; 4. climate change is an issue that is not being addressed but is directly relevant to oil and

gas tax subsidies. Speaking as a parent, Ms. Redmond urged the committee to consider the impact of subsidies on the future as relates to the unknown expense of climate change.

[7:28:31 PM](#)

HARRY K. BROWER JR., Mayor, North Slope Borough. Mayor Brower's testimony was read by Dan Fauske, Director, Governmental and External Affairs, North Slope Borough, as follows:

First, I want to begin by stating that it is my privilege to serve the people of the North Slope Borough as their mayor. We are a unified and a resilient people. We value family and love and respect our children and elders, like many of you. We are also people that survive and thrive in changing times. We as a people who live across the entire North Slope have witnessed dramatic changes over the last 44 years when oil was first discovered in Prudhoe Bay it started a chain of events that had tremendous impacts to our region. Because of the visionary leadership of the people who walked before us we have opportunities to better the lives of all the people that call the North Slope Borough their home. That has been the primary focus of my administration since I was sworn into office. The borough's economy continues to be strong, however the borough's fiscal stability should never be taken for granted. Our economy is predominantly based on oil and gas development that means it depends on global markets and economic conditions, the oil industries investment development options around the world, state and federal policy, and the success of exploration activities on the North Slope. Many of these things are beyond our control but historically what's been good for the borough, is good for the state. With the state's economic pressures and fiscal deficit the borough will be forced to make tough economic and financial decisions to fill the gap in providing key essential services to our region that were previously funded by our state. The proposed policy and rates in HB 111 will further limit the borough's resources and the state's to providing such services for North Slope communities and communities as a whole. Simply raising taxes on our state and region's most important industry during a time of low oil prices is not a wise policy. Oil companies across the North Slope,

including service and support companies, have already laid off thousands of their work force and postponed project development due to low prices. By increasing taxes the state runs the risk of seeing more job losses, less investment, and less production. The current oil tax policy has made significant difference in the level of activity in our borough. It increased investment, employment, and encouraged exploration development across the North Slope. Like the state, the North Slope Borough has a direct stake in a vibrant oil industry. When industry is confident in the future and its partner, the State of Alaska, they make investments. These investments lead to our jobs for our residents, expand our tax base, and provide us with the financial opportunities to provide the same services taken for granted by our fellow citizens in more populated areas. The reality is when changes are made to oil and gas taxes our people, our borough, and our Native corporations are the first to feel the impacts. We do not believe that HB 111 will bring more jobs, encourage more investment, or lead to more oil flowing down the pipeline. Instead let's work to fix our economic problems by keeping our state economic engine at maximum capacity. If some tweaks to our existing tax structure need to be made, then let's work together to find solutions that work for the state and industry. No ... disrespect to the good Alaskans who drafted this bill, but in our opinion it's an overreaction that could have major long term impacts. We are all partners in our state's economy. It is our hope that we can all work together as Alaskans to solve the challenges we face so we can build a sustainable future for generations to come.

[7:33:30 PM](#)

BOBBY REDDELL (ph), spokesperson, Udelhoven Oilfield System Services, informed the committee HB 111 would discourage new exploration while jeopardizing progress made under the current tax policy. The oil industry needs a stable, predictable, and competitive tax policy to make investment decisions for the future. If Alaska continues to shift its tax structure depending on the government's deficit, businesses would find other locations in which to operate. Udelhoven Oilfield System Services has approximately 300 employees in Alaska who depend on the oil and gas industry, and HB 111 would have a negative impact on those employees and put their jobs at risk.

7:34:51 PM

CARL PORTMAN stated he is a lifelong Alaskan who worked on TAPS while he was in college. Like others, he expressed his concern about the state's current fiscal situation, noting that Alaska's economic lifeblood is TAPS, but it is now running at three-quarters empty. He said he does not support raising taxes on the oil industry and suggested the best approach to raising new revenue from the oil industry is to increase North Slope production; in fact, higher taxes would have a direct negative impact on future industry investment in Alaska, and therefore on future production. Mr. Portman said at today's low oil prices, approximately 67 percent of Alaska's revenue comes from the oil industry through various taxes and royalty. He pointed out that clearly the industry continues to pay the majority of Alaska's bills and pay more than its fair share. Further, with several multibillion barrel oil fields now on the horizon, Alaska could be on the cusp of an oil renaissance on the North Slope. Alaska has the resources in place to grow production, increase TAPS throughput, and grow the state revenue stream. In order to pull Alaska's economy out of a worsening recession, a major injection of capital is needed to bring new prospects online, however, HB 111 would do nothing to attract the investment required to develop new fields and grow the state's revenue over the long term. Given the urgent need for new industry investment, Mr. Portman said he does not support HB 111, and he concluded that higher taxes on the industry would make matters worse for both the public and private sectors.

7:37:13 PM

KEITH SILVER said that he is opposed to HB 111, which is the seventh oil tax law change in twelve years and the third since 2013. Furthermore, the bill does not take into account that under the current oil and gas tax credit scheme, several new multibillion barrel oilfields have been announced. He pointed out that in 2016, TAPS had an increase in throughput, which positively benefited the state budget. In addition, the decisions to sanction the recent discoveries were determined under the current tax and credit law, so changes could cause oil companies to pack up and leave, and some have. Mr. Silver informed the committee that Alaska is already the most expensive place to develop an oilfield and constant fiscal uncertainty makes Alaska an unattractive place to do business. The current oil tax system is balanced and sets a higher minimum floor than previous tax systems, while setting a stable and predictable

rate when oil prices rise again; in fact, at current prices Alaska's oil tax policy has brought hundreds of millions more dollars in tax revenue to the state than it would have under the previous system. An annual industry investment of \$3 billion to \$4 billion is needed to keep production levels stable on the North Slope; in addition, production stability also requires a durable and competitive tax policy that funds Alaska projects. [Indisc.] Mr. Silver advised that not changing the tax system for seven years would allow the state to fully analyze what needs to be fixed, what still works, and what would significantly decrease fiscal uncertainty.

[7:40:00 PM](#)

LYNN C. JOHNSON, Chairman, Dowland-Bach Corporation, stated his company has been in business for 42 years and manufactures control and instrumentation systems. He said the current slowdown has limited his company's manufacturing entities to 32 hours per week. The bill is flawed because it discourages investment in Alaska, and instead the state needs to encourage additional investment in facilities and infrastructure to prolong oilfield life and facilitate exploration. As previously stated, HB 111 would be the seventh major tax change in twelve years. He pointed out that a lot of Alaskans think that they are not affected by the oil and gas industry, but the Anchorage real estate market is starting to feel the effects through decreases in property assessments by 6-7 percent from 2016. Mr. Johnson cautioned now is not the time to raise minimum production taxes from 4 percent to 5 percent, or to modify net operating loss (NOL) credits and carry-forward credits. He questioned whether lawmakers have compared transportation costs in a "post-fracking world," and concluded HB 111 is a bad business decision for Alaska.

[7:42:09 PM](#)

CHARLES UNDERWOOD spoke in opposition to HB 111. He opined that Alaska needs to ensure it has a stable fiscal tax regime, and the change that would take place under HB 111 would not do so.

[7:42:54 PM](#)

JEANINE ST. JOHN, spokesperson, Lynden Incorporated (Lynden), stated her company's opposition to HB 111. She said Lynden is an Alaska multimodal transportation company that brings goods in and out of Alaska by road, air, and sea. Lynden provides logistics and transportation for all of Alaska's resource

industries - fisheries, mining, construction, and oil and gas - and employs over 700 Alaskans providing service to Alaska for over 60 years. She stated that Lynden wants to make sure the Alaska economy stays healthy, as the livelihood of its employees and business is dependent upon it. She pointed out that decisions made this year would determine the future of Alaska's economy. Ms. St. John urged the legislature not to change the fundamental oil tax structure while deliberating on fixing the fiscal situation and concurrently adjusting oil taxes. She observed the changes in HB 111 cannot be classified as an adjustment to cashable tax credits, but are instead tax increases proving Alaska's investment instability, and would drive down investment, even though there may be additional revenue to the state in the short-term. Ms. St. John said Lynden has employees all over the state and HB 111 would be a deterrent for good jobs for Alaska's workforce.

[7:46:04 PM](#)

MICHAEL JESPERSON expressed his opposition to HB 111, noting that the proposed 25 percent increase in minimum tax is a huge increase, and the seventh tax increase in twelve years is ridiculous. He pointed out that by the time a business determines whether a tax policy is profitable for the company, the state changes it, and businesses cannot operate in that type of environment. Mr. Jesperson said the existing system should be given a chance to work; the best way to fix Alaska's fiscal problems would be to put Alaskans to work and put more oil in the pipeline. He opined recent discoveries will provide an opportunity to put more oil into the pipeline, and if so, the price of oil per barrel doesn't matter.

[7:48:44 PM](#)

ROGER JENKINS asked the committee not to change horses in mid-stream, because no one thought the price of oil would "tank" again. He opined the process to refuel the pipeline has begun, and if the flow into TAPS is too low it will be torn down and North Slope production will cease. Mr. Jenkins said additional subsidies and time will be required for production from Smith Bay, Armstrong, Greater Mooses Tooth, and Willow, thus HB 111 is the wrong bill at the wrong time.

[7:50:15 PM](#)

JOHN SONIN said he is a 17-year resident of Juneau. He said HB 111 is complicated but the big picture is that the state needs

to get its priorities straight - Alaskans before profits. He stated that Alaska is currently jeopardizing the lives of children, for profits, by cutting teacher positions and wages. In response to Co-Chair Tarr, he said he is for renegeing on the tax credits which are destroying the economy.

[7:53:03 PM](#)

SANDRA LEMKE said she is a 40-year resident of Alaska and worked for ARCO and now ConocoPhillips Alaska, Inc. (ConocoPhillips) for almost 30 years. She said she supports the geosciences, geophysicists, and reservoir engineers, and opined Alaska needs a predictable fiscal framework for industry while it searches for new sources of oil. Ms. Lemke expressed her opposition to HB 111, specifically to the increase in taxes and not the tax credits, because she agreed with a previous speaker that the two issues should be addressed in separate bills. Furthermore, the state should "step back" and let the new discoveries on the North Slope stabilize, so industry can evaluate and rebuild geoscience teams. She urged that the committee not pass HB 111.

[7:55:06 PM](#)

BEN MULLIGAN, Deputy Director, Alaska Chamber, emphasized that Alaska needs stability in its tax structure right now, and so Alaska Chamber opposes HB 111. [Additional written testimony was found in the committee packet.]

[7:55:55 PM](#)

WESTON HOWE said he is a lifelong Alaskan with a leadership role in Alaska's natural resource economy. He stated his opposition to HB 111 because the bill does not encourage investment from producers and others in order to support Alaska's oil and gas industry and economy for the next 30 years.

[7:57:06 PM](#)

JOE RINTALA, Construction Business Agent, Teamsters Union Local 959, said that he represents members working on the North Slope, TAPS, and the Valdez Marine Terminal. The Teamsters Union represents members working throughout the state, and negotiates with its employers for good wages and benefits. Mr. Rintala informed the committee the union appreciates legislation introduced to address the budget shortfall, and understands the need to balance the budget. Further, the union supports adjustments to the [Alaska] Permanent Fund and new revenue

resources to assist in obtaining Alaska's goal, but does not support HB 111. Teamsters Local 959 has members working on the GMT 1/CD-6 project for ConocoPhillips, a new drill site west of CD-5. Nanook, one of the largest contractors on the North Slope, has been awarded contracts to build an eight-mile gravel road, ice roads, a ten-acre gravel pad for the future drill site, and other projects. Work at GMT 1 alone has created over 200 jobs for Alaskan Teamsters and countless jobs for other unions, businesses, and vendors. He said that ConocoPhillips kept its commitment to the project, in spite of the decline in oil prices. In addition, Armstrong Oil and ConocoPhillips have made "huge investments in the North Slope." Stability in the oil industry is important regarding investments; investment leads to new development, and that leads to new jobs. Mr. Rintala urged the committee to consider the impact of current and future production, especially in times of low oil prices, and noted that the Teamsters Union supported Senate Bill 21 - as did the majority of the public - which resulted in new investments by industry, putting Alaskans to work.

[8:00:26 PM](#)

DAVID SCOTT said he is a 68-year resident of Alaska and has worked in the oil and gas industry for over 30 years. He said he supports HB 111 because it is time to bring the oil and gas industry to the table to discuss problems created by Senate Bill 21. He expressed his support for HB 111.

[8:01:11 PM](#)

JOHNNY GRIFFIN said he is a 20-year Anchorage resident and has worked in the oil and gas industry for many years. The industry has provided a good life for him and his family, and because HB 111 is bad for Alaska and Alaska families, he is opposed to the bill.

[8:02:33 PM](#)

JACK KVASNIKOFF said he is a lifelong Alaskan and his personal experience is that when oil and gas companies are profitable there are more jobs. He said he is strongly opposed to HB 111.

[8:03:30 PM](#)

ALICIA SIIRA, Deputy Director, Alaska Miners Association (AMA), informed the committee AMA is a nonprofit membership organization established in 1939 to represent the mining

industry throughout Alaska. Its membership is composed of over 1,500 members including prospectors, geologists, engineers, suction dredge miners, small family mines, junior mining companies, major mining companies, as well as oil and gas and mining support service companies. Although AMA's mission is to promote responsible mineral development, its testimony today is in opposition to HB 111 because a healthy oil and gas industry is crucial to a healthy mining industry, and is also good for Alaska. The Alaska Miners Association produces an annual Issues of Concern document that for the last several years has contained a provision pertaining to the oil and gas industry which demonstrates AMA's belief that it is vital for Alaska to have oil and gas policy that incentivizes the industry's continued investment in the state. However, HB 111 is not that kind of policy, but is the seventh change in twelve years and creates new punitive changes to the oil and gas tax structure that would result in less investment, less production, fewer jobs, and a deepening recession. Her organization encourages the committee to focus on the larger issue of a sustainable budget using spending reductions, [Alaska] Permanent Fund earnings, and new revenue from broad-based taxes - not from increased taxes on existing taxpayers who are already a significant part of the revenue base.

[8:05:38 PM](#)

ANNE SENECA, Regional Director, Consumer Energy Alliance (CEA), CEA-Alaska, informed the committee CEA is a nationwide consumer advocacy organization representing families, farmers, truckers, manufacturers, small businesses, and energy providers. Advocating for a competitive market and stable energy prices are two goals of CEA, and HB 111 would destroy opportunities Alaska could offer the Lower 48. A 25 percent tax increase on Alaska's minimum petroleum production would likely result in the reduction of Alaska's global competitiveness, U.S. energy production, Alaska employment and income opportunities, and state revenue, all of which would adversely affect Alaskans. Ms. Seneca advised Alaska needs a healthy business climate and in 2016, there was the first uptick in production in 14 years as a result of oil tax reform in 2013; however, raising taxes could jeopardize recent gains made in Alaska's oil industry. Alaska cannot expect to tax away the industry's incentives to invest and still expect to have a stable economy. She strongly encouraged the committee to not support HB 111 because it would do nothing to increase production or provide a stable economic environment in Alaska.

8:07:50 PM

KATE BLAIR, Government and Public Affairs Manager, Tesoro Corporation, informed the committee Tesoro Corporation (Tesoro) is a Fortune 100 company and an independent refiner and marketer of petroleum products. Tesoro, through its subsidiaries, operates seven refineries across the western U.S. and has a total capacity of 895,000 barrels, and also holds ownership interest in Tesoro Logistics. Tesoro has a proud Alaska legacy, beginning with its first refinery in Nikiski, which has a crude capacity of 72,000 barrels per day. Tesoro's assets also include a 69-mile common carrier pipeline that transports products from the Nikiski refinery to the Ted Stevens Anchorage International Airport and to the Port of Anchorage, where refined products such as jet fuel, gasoline, and ultra-low sulfur diesel are stored and then transported throughout the state. Ms. Blair pointed out the existence of in-state refineries has helped the growth of the international air cargo business and Anchorage is one of the top five air cargo airports in the world. Because the Kenai refinery is also able to meet most of the state's demand for gasoline, the majority of the gasoline consumed in Alaska has been refined in Alaska. Tesoro Alaska's refinery and logistics operations employ about 250 people in Nikiski and Anchorage, and maintain a greater than 97 percent Alaska-hire rate. As an independent refiner, logistics, and marketing company, Tesoro does not pay production taxes in the state and thus does not take a stance on what oil taxes should be; however, in-state oil production matters, and any loss of production - from the North Slope or Cook Inlet - would affect the in-state refinery and potentially make Tesoro's economics more challenging because Tesoro relies on access to in-state crude through production in Cook Inlet and on the North Slope. At its peak, the Cook Inlet basin produced more than 200,000 barrels per day and in 2016, Cook Inlet produced just 16,500 barrels per day; Tesoro refines every drop of oil that comes out of the Cook Inlet basin and purchases additional North Slope crude for refinement in Nikiski. Earlier this year, Tesoro entered a royalty oil contract with the state allowing it to purchase 20,000-25,000 barrels of Alaska North Slope (ANS) royalty share oil - which will benefit the state by \$45 million-\$65 million dollars. The Cook Inlet Recovery Act [passed in the Twenty-Sixth Alaska State Legislature] and Senate Bill 21 have resulted in a stable local supply of crude, but supply must still be supplemented by imported light sweet crude from foreign and domestic sources; importing additional crude along with the high cost of energy in an energy-intensive refining process may make local refining a less economical option and lead to

increased importation of refined products, which would ultimately affect the stable local supply of transportation fuels within Alaska. Ms. Blair urged the committee to consider how modifications to oil and gas tax credits will affect production and in-state manufacturing.

[8:12:11 PM](#)

BILL CORBUS said he served as the commissioner of DOR from 2003-2007. He noted his testimony is a summary of written testimony submitted by KEEP Alaska Competitive (KEEP), an organization composed of a variety of businesses, groups, and individuals, whose mission is to encourage a vibrant Alaska resource industry. He added that KEEP does not accept funding from the oil industry. Mr. Corbus said KEEP's position is that HB 111 is the wrong approach; it increases oil taxes at low prices when industry is losing millions, or is not making enough profit to support investing \$4 billion-\$6 billion a year. This is in contrast with Senate Bill 21, which is characterized by "stability over time." In the past, Alaska was a predictable partner in both high- and low-price environments and the focus was long-range rather than short-term. In 2013, KEEP supported [Senate Bill] 21 in order to turn from a punitive tax system and to change incentives to invest and produce oil, not simply spend money. The aforementioned legislation attracted independents which resulted in several large discoveries which, if developed, will provide significant revenues for the state; however, HB 111 would reverse Senate Bill 21 as well as provisions in ACES and in other legislation for cashable NOL credits. Mr. Corbus said KEEP recognizes the state does not have the resources to cash out tax credits when prices are low, but this does not mean that credits and NOLs should not be allowed against production taxes when prices are high. Further, KEEP believes the primary focus should be on fixing the current fiscal problem using the [Alaska] Permanent Fund realized earnings, cutting costs, and utilizing reasonable broad-based revenue solutions that would not kill investments.

[8:16:00 PM](#)

MARLEANNA HALL, Executive Director, Resource Development Council for Alaska, Inc. (RDC), informed the committee RDC is a statewide trade association comprised of individuals and companies from Alaska's oil and gas, mining, fishing, tourism, and timber industries. The members of RDC believe the best approach to grow the economy and generate new revenue would be to produce more oil, attract more tourists, harvest more fish

and timber, and mine more minerals. Regarding HB 111, she said that raising taxes on companies that are in negative cash flow is not a sound fiscal policy. Increasing taxes on Alaska's oil industry would not increase throughput for TAPS, encourage the development of new prospects, nor would it solve Alaska's fiscal crisis. In fact, higher taxes in the current low price commodity environment would likely deter investment and lead to lower state revenue and a weaker private sector. Further, HB 111 would jeopardize recent gains such as the first oil production increase in 14 years, billions of dollars of investments since 2013, and optimism about recent multibillion barrel discoveries on the North Slope. Ms. Hall said if HB 111 is enacted, production decline rates of six percent or more annually might reappear, and Alaska could end up with a much smaller economy; however, incentivizing the industry will cause it to drill more and create more wealth, jobs, and activity. The passage of Senate Bill 21 in 2013 brought new exploration, jobs, and continued investment in Alaska. The members of RDC are not asking for a tax decrease during the current low commodity price environment, as is being considered in other states and countries, but do request that the committee do no harm to Alaska's largest industry. She urged the committee to reject HB 111.

[8:18:53 PM](#)

HB 111 was held over with public testimony open.

[8:20:00 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:20 p.m.