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House committee approves governor's oil tax change

By **Tim Bradner**

Alaska Journal of Commerce

The Resources Committee in the state House has passed Gov. Sean Parnell's plan to modify state oil and gas production taxes on to the House Finance Committee. It is the first major action by the Legislature on the governor's proposal, which he argues is needed to rekindle investment by the petroleum industry. The oil and gas tax change is one of the major issues before the Legislature in 2011.



Austerman

All committee members voted to pass the bill except two Democrats, Anchorage's Rep. Berta Gardner and Scott Kawasaki of Fairbanks.

In a briefing, House Majority Leader Rep. Alan Austerman, R-Kodiak, said they want to get the governor's bill through the House and to the Senate quickly to give senators time to consider Parnell's proposal this session.

Senate leaders so far have been cool the idea of modifying the production tax. The House Resources Committee held hearings over three weeks on Parnell's bill and, in an extensive session Feb. 28, listened to arguments against the proposal from its co-chair, Rep. Paul Seaton, R-Homer.

Seaton argued that data on past drilling provided to the committee by the Alaska Oil and Gas Conservation Commission, a state agency, did not show the decline in drilling over the past few years that has been claimed the companies.

The rate of drilling actually seemed immune to changes in taxes or even oil prices, Seaton said.

State Revenue Commissioner Bryan Butcher responded, arguing that the Revenue Department is convinced that the current state tax rate, which exceeds 80 percent on some projects, is impeding new investment.

He also has noticed the surge in new oil investment and drilling in the Lower 48 due to higher oil prices and new opportunities in drilling for oil from shale formations.

"We haven't seen that that here," Butcher said.

Butcher said he was also struck by the prediction by North Dakota officials that the state will be outproducing Alaska in a few years.

A number of amendments were made to HB 110 to enhance exploration incentives, mainly for smaller companies exploring, but a significant change was language added that reduces a producer's tax rate if the company's Alaska-hire rate exceeds 80 percent. Gardner and Kawasaki offered the amendment, which was accepted by the committee.

In other developments, most of the Legislature was off to Washington, D.C., March 2 to attend the annual meeting of the Energy Council, an association of legislators from oil-producing states, including Alberta, Canada, and Venezuela.

Sen. Lesil McGuire, R-Anchorage, said that besides attending the council meetings, the Alaska lawmakers will meet with four of the five Federal Energy Regulatory

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Commission members to sound out their latest views on an Alaska gas pipeline project and proposals for hydro projects in Alaska, including a possible \$4 billion-plus hydro project in Watana, on the upper Susitna River.

There are a number of side meetings legislators have arranged with federal officials. Sen. Lyman Hoffman, D-Bethel, co-chair of the Senate Finance Committee, will meet with federal coastal zone management officials to get their view of Alaska's coastal management program. Alaska's program is up for reauthorization this year and legislators plan to begin hearings on the program the week of March 7.

McGuire also said she and other members of the Senate Finance Committee have become concerned over cost increases of the new state prison now under construction in the Matanuska-Susitna Borough.

The cost of the prison facility has risen but what seems to be the main factor escalating costs is the new utility system that will be built, McGuire said at a March 1 briefing by Senate leaders.

"We are trying to unpack the numbers on this to understand what is happening," McGuire said. "This project was premised, when it was approved seven years ago, on the idea that it would be good to bring our prisoners home," from out-of-state prisons and that costs would not be substantially higher.

"The information we're now getting indicates that if we just stopped construction now and kept the prisoners out of state, it would cost us \$21 million more than what we're paying now," McGuire said.

The Senate Finance Committee needs to get a better picture of what the final cost of the prison will be, she said. Further information has been requested from the state Department of Corrections.

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