OIL & GAS COMPETITIVENESS REVIEW BOARD

July 6, 2016
10:00 a.m.

Taken at:
Alaska Department of Revenue
Atwood Building
550 West 7th Avenue, 6th Floor, Suite 670
Anchorage, Alaska

OIL & GAS COMPETITIVENESS REVIEW BOARD:

G. Wyche Ford, Chair
Commissioner Randy Hoffman
Commissioner Andy Mack
Tom Maloney (via telephone)
Bob Pawlowski
Kara Moriarty
Vince Beltrami
Tom Walsh
Steve Davies for Commissioner Foerster (via telephone)
Director Corri Feige, Division of Oil & Gas (via telephone)
Deputy Commissioner Alice Edwards for Commissioner Larry Hartig (via telephone)
William Van Dyke

Others participating:

Stephanie Alexander, Department of Revenue (via video conference)
Shalome Cederberg, Boards and Commissions

PROCEEDINGS

CHAIR FORD calls the Oil and Gas Competitiveness Review Board to order. He asks Ms. Alexander to call the roll.

MS. ALEXANDER calls the roll.

CHAIR FORD states that there appears to be a full quorum and moves to approval of the agenda. There being no objection, he continues to approval of the minutes from the prior meeting. There being no objection, he recognizes Commissioner Hoffbeck for a legislative update.

COMMISSIONER HOFFBECK begins with Legislation 247, recently signed by the Governor as far as oil and gas tax and credits are involved. He states that it phases out all of the credits in Cook Inlet by 2018; cuts them in half for 2017, and then they go to zero in 2018. He continues that there will be no oil and gas tax credits in Cook Inlet after January 1, 2018. It also sunsets the new oil provisions on the North Slope so that oil is taxed at the higher legacy rate after '17.

He adds that, currently, there were provisions within the statutes that allow for new oil to be taxed at a lower rate than legacy oil. There was no sunset in that provision originally. He states that it caps the amount a single company can receive in a year in credits at $61 million and removed a couple of loopholes that allowed companies to artificially increase the net operating losses for eligible tax credits, which is throughout the state. He continues that it provides waivers of confidentiality that allows for some reporting of the companies that are receiving the credits, and increases the interest rate the State will receive on delinquent taxes for just three years. He explains this more fully. He adds that it eliminates credits in Cook Inlet by 2018. He states that the Governor has called the Legislature back and will introduce a bill that will seek to try and modify, to a greater extent, the credits on the North Slope. He moves on to a brief history of the credit program, explaining it in greater detail. He states that when the Governor introduced the budget, he had put a billion dollars in there to pay off the credits, outstanding credits, and the credits that would be accrued up to the beginning of this fiscal year. That was predicated on the idea of this plan which was not put in place. He adds that there may be a substantial amount of collateral damage associated with that veto.

MR. BELTRAMI asks for some explanation on the legislation that will go back and if that is like the House version of 247. He also asks if that will have an impact on the $430 million that was the line item vetoed pending any action that the Legislature might take.

COMMISSIONER HOFFBECK replies that the Governor hinted in his veto that if there was a fiscal plan in place he would look at finding a way to pay the existing credits.

MS. MORIARTY clarifies that the Cook Inlet Recovery Act credits are the ones that were phased out of course in 247. She continues that the limits that were put on the credits on the North Slope are credits that were part of the Senate Bill 21 package because the credits have evolved as Alaska went from a gross tax system to a net tax system.

A short discussion ensues.

CHAIR FORD asks what is in the special order related to this issue.

COMMISSIONER HOFFBECK replies that there are three things that were introduced: one was oil and gas tax credit reform; second would be an omnibus tax bill that deals with new revenues for the State; and the other is use of the Permanent Fund earnings. He states that the Permanent Fund earnings portion was already passed by the Senate. The idea would be to try and get the House to pass something similar. He adds that the bill on the bundle of oil and gas tax credits is being worked on. He continues that there is a tax structure there and there is a good idea of what to work with in going forward for the report on Cook Inlet tax structure that is due for the next legislative session.

MS. MORIARTY explains more fully and states that there could be some regulations that need to be written before the industry can truly understand how the tax structure is going to work.

The discussion continues.

MS. MORIARTY adds that the priority payment is based on whatever the Alaska hire was. She states that the statute did not clarify the process for reporting, and they have never had to report in the past.

MR. WALSH asks about the liability of the State to pay these credits.

COMMISSIONER HOFFBECK replies that there is no obligation for the State to pay the credits in cash. It is just one of the three options. He states that it is a moral obligation and there is an expectation that those credits will be cash; but statutorily it is not a legal obligation. He continues that there is a provision in the statutes that if credits are purchased the liability cannot take below 80 percent of what it would have been without the credits. He adds that there is a very limited market for credits at this time. He states that the bigger discussion within the Cook Inlet report is that it is a competitive market and what things can be done to make it a competitive market.

CHAIR FORD asks for some discussion on the failure to fund the credits and what that impact means.

COMMISSIONER HOFFBECK replies that credit certificates will still be issued when they are due. He continues that those certificates have value and it is just a matter of when the funds would be available to repurchase the credits. He adds that there could be a supplemental appropriation in 2017 to pay those credits. He explains more fully.

MS. MORIARTY states that the fiscal year is ended and there is $30 million in the fund. She asks for the total amount including the applications that are there, and from the $200 million that was vetoed from last year, plus applications that were submitted for this fiscal year.

COMMISSIONER HOFFBECK replies that the majority of the ones that came in for last year with the $500 million that was available were actually paid. He states that there is still a couple million left in that fund.

A discussion ensues.

CHAIR FORD asks Commissioner Hoffbeck for some examples of the current Cook Inlet tax structure, the total tax burden.

COMMISSIONER HOFFBECK replies that the one difficult issue is how much can be provided that is company specific versus how much is going to have to be aggregated. He states that there is a very different mix on the tax liability company by company in Cook Inlet, but cannot give specific company by company data.

MS. MORIARTY suggests not only looking at the tax structure, but also looking at the results from the production side.

COMMISSIONER HOFFBECK states that Hilcorp is a good example of a company with a provision that if more than 50,000 barrels are produced per day, than the eligibility for cash credits is gone. He continues that because of it buying some of the fields on the North Slope, plus its Cook Inlet activities, Hilcorp has triggered that 50,000-barrel-a-day provision. Even though the majority of their production is on the North Slope, it is impacting what they have available in Cook Inlet. He adds that a comprehensive report on competitiveness has been started, but because of the very complicated tax structure in Alaska it is a very difficult report to write. His economic research group is starting to research it.

A discussion ensues.

MR. WALSH states the need to develop the framework. He continues that there is a lot of information that contains the answer to what is trying to be solved and just needs someone in there to set up a framework. What is needed out of the report is to compile the available information and pull the report together. He adds that the delivery of this report is six months away, and it needs to develop quickly.

MR. PAWLOWSKI states that in looking at the changes in the tax structure there is a need to recognize what made it competitive and what will allow it to continue to produce gas for the long term. The bottom line is that the Cook Inlet resources as they exist now is about eight to ten years of gas supply.

MR. WALSH states that there is a general perception that the Cook Inlet has recovered, and he does not think that is true.

The discussion continues.

CHAIR FORD asks for any other questions for Commissioner Hoffbeck. There being none, he moves on to the next item on the agenda which is the scoping for the future deliverable. He continues that at the last meeting a little bit about the draft committee assignments were discussed. He shifts to the one that has the most bearing on the upcoming deliverable which is the fiscal tax regime committee. He adds that Commissioner Hoffbeck, Ms. Moriarty and Tom Maloney were on the committee.

Ms. Moriarty states that it was Pete Stokes, the Commissioner and herself.

CHAIR FORD states that Tom Maloney volunteered to be on this one at the last meeting.

A discussion ensues on clarifying that three members was the appropriate number to have the flexibility to work outside the regular committee meetings.

The discussion continues on the framework for the report to drive what the structure of the committee and subcommittees would be.

COMMISSIONER HOFFBECK asks for the exact language in the statutes on what the deliverable is for Cook Inlet.

CHAIR FORD states that while the discussion has been primarily focused on Cook Inlet, this is really everything out of North Slope.

MS. MORIARTY states that she would not be opposed to just having a committee of the whole because then it is completely transparent and open in the information and there is no speculation about one subcommittee going off and doing this.

MR. PAWLOWSKI states that the point made in the last meeting, based on the discussions, that this was the one subject in which we all have a vested responsibility.

MS. MORIARTY suggests looking at the previous RFP as a homework assignment and evaluating what the scope and components should be, and then trying to devise a game plan of how to accomplish the components set out in statute at the next meeting.

CHAIR FORD agrees. He states that in considering it a committee of the whole allows work efforts to branch off and do the ground work needed and then bring the information back to the full board. He continues that this is probably the right structure in moving through this between now and January.

MS. MORIARTY states that there are some State staffing issues, as well as reaching out to LB&A for any assistance.

COMMISSIONER HOFFBECK states that he will make that initial contact.

MS. MORIARTY states that she volunteers to put up a draft framework for the board's consideration at the next meeting.

CHAIR FORD asks if this board is seen as a resource to the Legislature, and if they are aware that this board exists.

COMMISSIONER HOFFBECK replies that there is some lack of recognition that this board exists. He states that they were surprised when the fact of a deliverable due in January on the issue was mentioned.

A discussion ensues.

COMMISSIONER HOFFBECK states that he will commit to come back with at least an idea of what the Legislature envisions using this report for or whether it is seen more as a reason to delay.

CHAIR FORD states that is the most significant issue covered this morning. The next item on the agenda was the committee assignments, which was covered. He continues that those will be left as they sit with the addition that the fiscal tax regime committee is the board at large. He adds that there will be further guidance on how to progress this deliverable based on feedback from Commissioner Hoffbeck. He moves on to future board meetings.

MS. MORIARTY suggests meeting in the next week or two to evaluate the bill and the feedback from the Legislature.

A discussion on a meeting date ensues.

CHAIR FORD states that the meeting will be on the 14th in the morning, 10:00-12:00, and asks if that would be adequate notice.

MS. ALEXANDER replies that would be a week's notice.

CHAIR FORD asks for anything else.

MR. WALSH asks Commissioner Hoffbeck, in terms of any appropriation, getting back to the $435 million, if that would need an override of the Governor's veto.

COMMISSIONER HOFFBECK replies that there are two ways: One would be to override the veto, and the other would be to get an FY17 appropriation. He continues that it would require a vote of two-thirds to override the veto, or a three-quarter vote to get it out of the CBR.

CHAIR FORD asks for anything else. There being none, he asks for a motion to adjourn.

MR. BELTRAMI makes a motion to adjourn the meeting.

MR. WALSH seconds.

There being no objection, the meeting is adjourned.

(Board Meeting adjourned at 11:20 a.m.)

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