REPRESENTATIVE SEATON surmised much of the estimate of revenue is for an Alaska North Slope (ANS) West Coast price range of $110, which, at a transportation cost of $10 would be a gross value at the point of production of less than $100, and therefore most of the oil would be at a credit of $6, $7, or $8. While he understood tapering off to a slight progressivity at higher prices, he said this proposal seems to be a fairly dramatic reverse progressivity below $110. He requested an explanation for the "hit on the state" at lower prices when the state will have less revenue and higher deficits.

MR. PAWLOWSKI responded that, as a policy call, the concept is first tied directly to production. Second, when going from $5 to $8 versus from $5 to $0, there is actually more on the state side going up than there is going down, so there is a balance between the upside and the downside that is being considered. Another important point is on page 16, line 18: "A tax credit under this section may not reduce a producer's tax liability for a calendar year ... below zero." These are nontransferable, use-it-or-lose-it credits. So, unlike the capital credit which is based on spending, there could be a situation where production is interrupted or production has declined and spending is happening and there is a different relationship directly to the state. Under this, the credit is linked directly to production, so the less production the less revenue to the state but also the less credits received by the company. As the presentation continues, the committee will be able to look at the balance between what the state's exposure at the low side is versus how much additional revenue the state is taking at the high side. At the end of the day it is a policy call and a balance that legislators need to consider.

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