

**MINUTES OF THE  
UTAH TAX REVIEW COMMISSION**

Thursday, September 11, 2008 – 9:00 a.m. – Room C445 State Capitol

**Members Present:**

Mr. M. Keith Prescott, Chair  
Mr. David Crapo, Vice Chair  
Mr. Larry Barusch  
Mr. Mark K. Buchi  
Rep. John Dougall  
Ms. Janis A. Dubno  
Sen. Brent Goodfellow  
Rep. Wayne Harper  
Sen. Lyle W. Hillyard  
Ms. Kathleen Howell  
Mr. Bruce Jones  
Rep. Rosalind J. McGee  
Sen. Wayne L. Niederhauser

**Members Absent:**

Dr. Gary Cornia  
Comm. Bruce Johnson  
Mr. Dixie Leavitt

**Staff Present:**

Mr. Phillip V. Dean, Policy Analyst  
Mr. Bryant R. Howe, Assistant Director  
Ms. Angela D. Oakes, Associate General Counsel  
Ms. Rebecca L. Rockwell, Associate General Counsel  
Ms. Phalin L. Flowers, Legislative Secretary

**Note:** A list of others present, a copy of related materials, and an audio recording of the meeting can be found at [www.le.utah.gov](http://www.le.utah.gov).

**1. TRC Business**

Chair Prescott called the meeting to order at 9:10 a.m. He excused Dr. Cornia, Comm. Johnson, and Mr. Leavitt from the meeting.

Chair Prescott said that he received a request from the Utah State Tax Commission to review: 1) the corporate income tax deduction for foreign operating companies; and 2) the definition of business income pertaining to the liquidation of a company. He said that consideration of these issues would be scheduled for a future meeting.

Staff distributed the minutes of the June 12, 2008 meeting.

**2. Oil and Gas Severance Tax**

Mr. Keith Specht, Rocky Mountain Regional Controller, Newfield Exploration Company, gave the TRC a brief overview of Newfield Exploration Company and the economic impact that it has on the Uintah Basin. He discussed the amount of royalties and other expenditures made by that company. He explained two risks that Newfield Exploration Company has taken when drilling in Utah. The first risk is drilling for black wax oil because this oil is difficult and expensive to refine. Because of this, black wax oil is sold at a discount from the usual crude oil market price. The second risk is that Newfield Exploration Company does not have a competitive market in which to sell black wax oil because of the nature of the oil. He also noted that Newfield Exploration Company drills in an isolated location and has a limited labor pool. He said that Newfield Exploration Company's labor costs have increased by 30 percent in the past four years and that costs of materials and equipment are also increasing. He explained that it can take up to two years to receive a permit to drill a new well.

Mr. Specht also explained that Newfield Exploration Company is sometimes taxed twice because the Ute Tribe also imposes its own severance tax on oil and natural gas. He emphasized that the price of oil is not the only factor when considering severance taxes. He requested that the TRC remember that the oil and gas industry is very volatile.

Sen. Hillyard asked if the price discount for black wax oil is a fixed dollar amount or a percentage off market price. Mr. Specht replied that it depends on the contract with the refinery.

Sen. Hillyard commented that the public mood is very negative towards the oil industry and that high gas prices are a common complaint from constituents.

Ms. Dubno said that she agrees that the oil industry is facing higher marginal costs for exploration and production. She asked for information on drilling costs in Utah compared to other states. Mr. Specht said that, as an example, drilling costs in an oil field in Montana that Newfield Exploration Company owns are 50 percent less than in Utah. He also said that one reason Newfield Exploration Company invests heavily Utah is because of the state's favorable tax climate.

Sen. Goodfellow asked if Newfield Exploration Company is able to sell all of the production from its 600 new wells. Mr. Specht replied that production from oil wells declines rapidly over time and that new wells must continually be drilled to supply what the market demands.

Rep. McGee asked what Newfield Exploration Company does to recruit and train new workers. Mr. Specht replied that the company has training partnerships with various educational institutions located in the Uintah Basin.

Mr. Crapo asked for an estimate of the "all in" costs of production per barrel. Mr. Specht replied that a very general cost estimate would be about \$36 per barrel. He also said that it costs about \$30 per barrel to produce a barrel of light sweet crude oil.

Sen. Niederhauser asked what would be the effects on oil exploration and production if the state's severance tax were to be increased. Mr. Specht replied that such an increase would reduce the after tax rate of return on investment and would likely cause investment to be diverted to other states.

Mr. Lee Peacock, President, Utah Petroleum Association, explained that there have not been any new refineries built in the United States in the past 25 years and that around 200 small refineries have closed due to competition and numerous restrictions and regulations. Mr. Peacock also noted that Utah's refineries are small compared to refineries in other parts of the country. He said all refineries around the nation have made improvements in efficiency, equipment, and technology to increase their capacity.

Mr. Bruce Stallworth, Newfield Exploration Company, explained that oil prices are not lower in Utah because Utah is a net importer of crude oil, which is subject to world market prices. He noted that the same severance tax increase that Colorado is considering on the ballot this year was defeated in California several years ago.

### **3. Update on Constitutional Amendment B**

Mr. Howe distributed and discussed, "Public Awareness Effort -- Constitutional Amendment B," "Ballot Titles for Proposed Constitutional Amendments Appearing on November 2008 Ballot," and "Impartial Analyses for Proposed Constitutional Amendments Appearing on the November 2008 Ballot." He explained that appointments with newspaper editorial boards are being set as well as speaking engagements with civic organizations.

Mr. Howe also discussed a ballot initiative in Colorado regarding that state's oil and gas severance taxes. He distributed a memorandum on Colorado Amendment 58, and "Comparison of Oil and Gas Tax Burden in Nine Producing States, "If tax plan passes, study claims oil, gas industry faces 137% hike," *Rocky Mountain News*, and "Oil-shale plans take step forward," *Deseret News*.

#### **4. Other Items / Adjourn**

Mr. Howe noted that the Office of Legislative Research and General Counsel has retained the services of Dr. Gabriel Lozada, who is a professor of economics at the University of Utah, to provide an independent analysis of the structure of the state oil and gas severance tax. He said that Dr. Lozada will present his report and analysis at the next meeting.

Mr. Howe gave an update on the Tax Issues Working Group and said the working group hopes to have a progress report presented at the next TRC meeting in October.

Chair Prescott adjourned the meeting at 11:03 a.m.