ARMSTRONG

Energy, LLC

March 7, 2017

The Alaska State Legislature
House Resources Committee
Representative Geran Tarr
State Capitol Room 126
Juneau, AK 99801

Dear Co-Chair Tarr:

You have heard from industry and its voice has been unanimous in opposition to HB111. Aside from the particulars contained in the bill, the mere fact the state is once again debating changes to the oil tax code are troubling. I cannot emphasize enough how incessant revisions disrupt project planning, and worse, discourages private investment in your state.

Following the enactment of SB21 - and defeat of the related referendum - we did exactly what we testified to: executed an exploration plan, found oil, filed for unit, and are moving forward with development. As your partner, we have kept our side of the agreement.

Just last year we watched as the state amended two key provisions of SB21 as it relates to our activities: capping cashable credits and truncating the GVR. Make no mistake, the changes in HB247 negatively impacted our economics.

While you strive to rebalance "government take," you must make certain that the system works for all companies so that the state gets the benefit of the application of new technology from numerous entities, new ideas from companies not biased by conventional wisdom, and basin competition. HB 111 does not achieve the aforementioned goals and will not lead to development of Alaska's oil & gas resources, "for the maximum benefit of the people."

Armstrong is fully aware of the state's challenging fiscal situation. We want to be a part of the solution - depositing billions into the state treasury and creating hundreds of jobs over the coming decades.

Notwithstanding my concerns noted above, and in full awareness of your challenging fiscal situation, should the Legislature decide oil tax code changes are absolutely necessary I suggest amendments be very narrow and limited to:

1. Repealing cashable credits and replacing them with simple NOLs;

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2. NOLs, and any unused balance, should be allowed to be carry forward at full value until all costs are recovered. Further, NOLs should be tied to an uplift factor or rate;

3. NOLs can only be applied to production revenues.

If the committee feels a need to go further, we need a production tax that:

1. Replicates SB 21. Under SB 21 Armstrong found the Pikka field which appears to be between 1.5 to 3 billion barrels of oil recoverable and will produce at 120,000bopd for over 15 years and probably much longer. As a result of Armstrong's success ConocoPhillips found the Willow field which they say will produce over 100,000bopd Together these two fields would make up nearly half of the current production through TAPS. This clearly demonstrates the power of a fair tax system and its ability to reconcile the state's budget.

2 The production tax should accommodate the length of time to get to first production (especially for new companies). New fields sometimes take over14+ years to get on line. As such any production tax has to take into consideration that the length of time to get on production. Any economic analysis weighs heavily on how long to get to first production. All oil companies, investment banks, venture capital firms and sovereign wealth funds determine the viability of a government's oil assets based on how long it takes to get to first production. This is why no one is investing in Alaska's North Slope. As an example, it will probably take Armstrong and its partners 14 years from our first capital expenditure to get to first production. It will take us much longer than 14 years to get 100% of our investment back. Evaluate that to comparable investments that the permanent fund of Alaska has and the return on investment that Alaska requires on its own investments and you find that ALASKA would not likely invest in itself! To our knowledge Alaska's permanent fund does not have any investments that wait such a long time before beginning to get their money back. If Alaska will not invest in itself why would you expect anyone else to invest in the state?

With this in mind Alaska must have a tax policy that recognizes and accommodates the length of time to bring new fields online. Please refer to Armstrong's white paper for a workable policy to get new production on line on the North Slope. If anyone takes issue with this they should ask themselves, if Alaska's tax policy is so good, why under similar circumstances would Alaska not invest in itself. Also, remember that Alaska has less drilling activity than almost any other oil region in the United States or anywhere else in the world. This tells the whole story.

I'd also like to take this opportunity to apologize for not making it up to Alaska to participate in your hearings. We are in the final stages of drilling another field which we hope has great promise; nonetheless, we have followed your work closely and appreciate the time commitment that the committee has put in to better understand the issues and allow for public debate.

Your decisions will largely dictate what kind of economic future your children and grandchildren will have.

Just a couple more robust finds and we'll have more new oil flowing thru the pipeline than the amounts currently flowing.

Appreciate the opportunity to comment. I expect that we'll be coming to Alaska before the end of session - - hopefully with some more good news.

Yours truly,

Walter L Armstrong

Bill Armstrong