

Alaska Oil and Gas Association



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6 April 2012

The Honorable Bert Stedman, Co-Chair
The Honorable Lyman Hoffman, Co-Chair
Senate Finance Committee
Alaska State Capitol
Juneau, AK 99801

Re: Work-Draft "O" of CSSB 192(FIN)

Dear Senators Stedman and Hoffman and Members of the Senate Finance Committee:

On behalf of the member companies of the Alaska Oil and Gas Association, who account for the majority of oil and gas exploration, production, transportation, refining and marketing in this state, I would like to offer the following comments regarding work-draft "O" of a Senate Finance CS for Senate Bill 192. Despite the diversity of our membership, my comments reflect a 100% consensus among them.

On March 16 we testified to you about the Senate Resources version of the Bill. At that time we told you that, unless one is satisfied to see North Slope oil production continue to decline at about 6% a year or more, meaningful changes need to be made to the present ACES tax. We pointed out a number of measures that the Resources CS could have taken but didn't, as well as a number of things that it proposed to do that would be counterproductive.

Despite all the time and effort that have gone into work-draft "O", we have to say that this new CS also falls short of the meaningful tax change that is called for in order to meet the challenge of stopping decline, much less the even harder goal of getting back to a million barrels a day flowing through the TAPS oil pipeline.

The CS does indeed provide a slightly less onerous tax treatment for new fields and increases in production. But we would remind you that two very new fields — Oooguruk and Nikaitchuq — are each expected to peak at around 20,000 barrels a day. This year the North Slope at a 6% decline will decline by roughly 40,000 barrels a day, as much as these two new fields *combined*. In other words, to offset the decline, two new fields like Oooguruk and Nikaitchuq would need to come into production *each* year. These slight improvements are not likely to generate even this level of development.

The producers of the existing non-legacy fields on the Slope, and the developers of any new fields that may be discovered, need as much production as possible flowing from the legacy

fields through the TAPS oil pipeline in order to keep the costs affordable to ship their oil from the Slope to its refinery destinations. Unaffordably high transportation costs could cripple the economics of any new fields that might be found, as well as the economics of non-legacy fields currently in production.

In other words, the North Slope oil province is like a tree, with the two great legacy fields being its trunk, and with the other fields being branches rising out of the trunk. If one peels the bark off all the way around the trunk and make it unhealthy, all the other branches will become unhealthy too, no matter how robust they might have been if the trunk had stayed strong.

It has been openly acknowledged during the Committee's hearings that the intent is to keep the tax essentially the same as the present tax for the legacy fields at \$100 oil, and work-draft "O" reflects that intent. But that intent is just the opposite of what we urged you to do in our March 16th testimony on the Resources CS, and it is the opposite of what we urge you to do now.

Throughout the Twenty-seventh Legislature, AOGA and others have been testifying about what is happening with their businesses on the North Slope, about the interrelationship between the level of new investment each year and the rate of decline in ANS production, and about the effects taxes have on investment decisions. These explanations are not threats, but they are not bluffs either. They have been candid attempts to describe to you how those companies evaluate their investment opportunities here against their opportunities elsewhere, and how Alaska's tax regime can influence the decisions about which opportunities to take.

Those decisions reflect the expectations of the companies' respective shareholders that each company will chose the opportunities that it perceives to be best, all things considered – including taxes. If an Alaskan opportunity is better than one elsewhere and there is enough budgeted money only for one of them, the shareholders expect, and in a very real sense demand, that the Alaska opportunity be taken. The reductions in the level of companies' investments in Alaska since the enactment of ACES are not any kind of retaliation for ACES' enactment, nor does a company cut back here to spite its face. The investments are nothing more, and nothing less, than the result of the competition of the Alaskan opportunities against opportunities elsewhere.

Any one is free to believe that the declining investments and declining production on the North Slope are due to something other than these reasons ... but they will be mistaken. Unfortunately, by the time they are proven to be mistaken, the opportunity for Alaska to have addressed the situation will have passed. And there aren't any "do overs."

Without meaningful tax relief for the legacy fields as well as the other production, the bark will continue to be peeled off the tree trunk, harming the entire tree. Work-draft "O" threatens harm for every member in AOGA.

Thank you, Mr. Chairman and Members of the Senate Finance Committee, for this opportunity to share our deep and grave concerns with you about work-draft "O" of the Finance CS. We respectfully ask you to take another look at what it would do, and to replace it with a CS

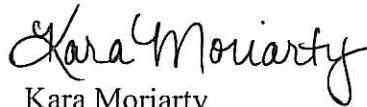
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that would provide meaningful tax change to enable the additional investments the state and its future need.

In closing, let me repeat that these comments have the unanimous support of AOGA's members: Apache, BP, Chevron, eni petroleum, ExxonMobil, Flint Hills, Hilcorp, Marathon, Petro Star, Pioneer, Repsol, Shell, Statoil, Tesoro, XTO Energy, and Alyeska Pipeline Service Company. Thank you for this opportunity to share them with you.

Very truly yours,

ALASKA OIL AND GAS ASSOCIATION

A handwritten signature in black ink that reads "Kara Moriarty". The signature is written in a cursive, flowing style.

Kara Moriarty
Executive Director

Cc: Governor Sean Parnell
All Members of the Alaska State Legislature