Chairman and members of the committee:

My name is Matthew Fagnani, and I am representing myself. I have been involved in the Alaskan oil patch now for more than 20 years. I truly believe that with the current ACES tax policy that we are killing the oil industry years before they would naturally look to other markets to develop.

It is my belief that the recession and loss of oil field jobs that Alaska is feeling today is self imposed by the ACES tax regime and regulations. As you all have heard, any new dollars being spent on the North Slope are primarily for maintenance and spill repair. Not from new development, not from new field exploration. This is a bad precedent, and it is having a very negative impact on the service industry jobs of many Alaskans including many personal friends and colleagues.

I agree with the experts who believe that without new production or a new Prudhoe Bay size fielded being discovered, that the Trans Alaskan Pipeline future is in jeopardy. Bottom line is we need more oil in the pipe. That would be a shame knowing that we have known oil that should be developed, yet stymie that development, and our state's future, by onerous fiscal and public policy. It's time to save Alaska from itself.

For years now, I have been a supporter of responsible oil and gas development. In Alaska, we need to start acting like and oil and gas providence. We need to be proud of the fact that companies like ConocoPhillips, BP, ExxonMobil, Pioneer, and other want to work with us in Alaska. However, because we have been shortsighted in our fiscal tax policies, the industry is doing what any other free market entity would do – find a better place to do business. Well guess what? That's what is happening and its negative effect on jobs and our economy is real.

In closing, we need to honor that relationship with the oil and gas industry and realize that a healthy oil industry keep us producing a healthy Alaska.

Thank you for your time and consideration.

Matthew Fagnani
2559 Loussac Dr
Anchorage, Alaska 99517

My name is Jerry McCutcheon and I have followed development on the North Slope for since 1969. I bought property in Valdez before the destination the terminus of the oil line, TAPS, was announced.

When considering HB110 you must consider the best long term interests of the State of Alaska and the veracity of those for whom you propose to give tax breaks in hopes obtaining development of Alaska's resources, which under the lease agreements and the law they are already obligated produce. The duty to produce has been lost in HB110 . The legislature must the weigh the likely hood that anything will come of the gross loss of revenue.
HB110 would never, ever pass the Harvard Business school's risk investment standard. The Harvard risk assessment supports some very high risk gambles. Not only would HB110 would fail the Harvard test but also the oil companies own test of Monty Carlo simulation and decision tree analysis. HB110 would not even get out of the starting gate on the oil companies standards.

I also brought about a Congressional hearing on the then proposed gasline in 1977. The Energy Committee hearing by Senator Henry "Scoop" Jackson was held Oct 30, 1977. Exxon represented the North Slope producers. Public Document 95 -73

At the conclusion of the hearing Chairman Jackson declined to support the North Slope producers 2 bcfd gasline. Because of serious questions raised about the adverse effects of the gasline on North Slope oil production, which were not only proven to be true thirty years later but also far exceeded the estimated the loss oil by 10 billion and maybe 15 billions of barrels of oil.

Exxon et al peddled the fact Prudhoe Bay would only produce 9 billion barrels of oil with or without a gasline. The lie that the production would be same with or without gasline flew in the fact of long, well established reservoir engineering.

The Exxon deliberately lied not only to Alaskans but also Sen. Jackson's committee. Exxon wound up Alaskans and the legislature like toys into demanding a gasline just like today. Reason, like today, did not have chance. The mob prevailed until it hit a congressional committee.

What Alaska and Alaskans almost lost came out in the legislative gasline hearings in Anchorage in 2007. The AOGCC, Alaska Oil and Gas Conservation Commission testified that because the gasline, only 2 bcfd, was not constructed in the1980s Prudhoe Bay had already produced an additional 6 billion barrels of oil as of 2006 because the 1980s gasline was not constructed with more additional oil to be produced.

The AOGCC also testified that Alaska would be broke today if the 2 bcfd gasline been constructed. That should have been a sobering thought, but its affect on the legislature is like rain on ducks back. The Alaska Legislature continues to pursue one ruse after another ruse as if throwing money at it would somehow bring whatever it is into being.

Exxon and the other North Slope producers were quite will to render more oil unrecoverable that they were going to produce. Just like the Cook inlet platform producers did to Cook Inlet oil where there is now more once recoverable oil under the platforms that is now unrecoverable than was produced.

Exxon et al and were actively trying to deprive Alaska and the USA billions of barrels of oil.

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No Alaska exploratory wells in 2011, company says

The Associated Press
(11/18/10 10:37:20)

FAIRBANKS, Alaska (AP) - ConocoPhillips Alaska has no plans to drill any exploratory wells in the state in 2011.

The president of the oil company, Trond-Erik Johansen, made the announcement Wednesday at the Resource Development Council convention in Anchorage, The Fairbanks Daily News-Miner reported.

ConocoPhillips and BP announced one year ago at the same event that they would trim development budgets for 2010 on the Alaska North Slope.

Johansen said his company sees potential in offshore drilling and viscous and heavy oil production. But he said Alaska's investment climate, taxes and maintenance troubles on the trans-Alaska oil pipeline present challenges to development.

"We have some work to do to make sure we ensure we keep oil flowing through the pipeline," he said.

BP Exploration, Alaska, will hold to the same budget this year as last year, president John Minge said Thursday.

Spending around $800 million on capital, for things like safety programs and new infrastructure, and $1.3 billion for operations would halt a slide in capital investment.

Minge said capital spending had shrunk 20 percent this year from 2009.

He said BP also sees long-term potential in hard-to-develop viscous and heavy oil resources. The company this year wrapped up a $100 million heavy oil pilot project at Milne Point.

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Information from: Fairbanks Daily News-Miner, http://www.newsminer.com

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ConocoPhillips plans no new exploratory wells in Alaska in 2011

by Christopher Eshleman / ceshleman@newsminer.com
11.18.10 - 08:50 am
Updated: 12:05 a.m. Nov. 18

ANCHORAGE — The president of ConocoPhillips Alaska said Wednesday that his company will not drill any exploratory wells in the state for a second straight year.

Trond-Erik Johansen made the statement at the Resource Development Council's annual convention here.

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Johansen said his company sees potential in offshore drilling and viscous and heavy oil production. But he echoed other executives' suggestion that Alaska's investment climate, weighed by high taxes, and maintenance troubles on the trans-Alaksa oil pipeline present challenges.

"We have some work to do to make sure we ensure we keep oil flowing through the pipeline," he said.

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$100 million heavy oil pilot project at Milne Point. The result: BP thinks it could be producing from three wells there next year, he said. And it could eventually partner with other companies to pump 2 billion barrels of viscous oil — similar to heavy oil in characteristics — from the North Slope, he said.

That type of viscous oil production would take thousands of wells at 50 development pads, Minge said. The state, however, would need to adapt to that potential with taxes aimed at enabling development, he said.

"We have great opportunities. We have some challenges that aren't too daunting if we grab hands and try to do this together," Minge said.

Contact staff writer Chris Eshleman at 459-7582.

Thur. March 24^t

Conoco/Bp Article(Nov. 18^{th} , 2010)

The tenet of HB110 is ;
reverse the decline in oil production.
Conoco and Bp claim that State taxes has prevented this reversal.

If the answer is tax reduction, then why didn't the producers explore and develop when there were virtually no taxes such as ,while ELF was in effect ? (Tax structure named- Economic Limiting Factor).

Conoco and BP have stated they will maintain North Slope investments--there will be no increases.
Why would anyone give money away with nothing in return. No guarantee , not an assurance, nothing that says "We will fill the Pipe". The only thing we know right now, because the producers have put that in black and white, is investment and exploration will be "Status Quo". They are not putting any more money into the North Slope than they have for the last few years. We can believe that.

Incedently, both Bp and Conoco have reported over 7 billion in profits from 2007 through 2010

Why does the Governor want to give his former employer our money when he swore an oath to represent the residents.

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Currently, Alaska is financially positioned better than any other state, giving money away with nothing in return is not prudent. Stewardship calls for careful administration of revenues, depletion now with no return , leaves no future for Alaskans.

Solutions;
Exploration , Production, and Royalty credits require that investment take place in Alaska.

Pioneer (Oooguruk) and Eni (Nikaitchuq) have enjoyed royalty relief via;
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The first quarter of this year has seen a great deal of activity in seeking both 025 credits (Remote site production relief) and 023 credits (Development-Exploration reductions) [May have come directly from the ACES legislation]

Thoughts;
I don't see where industry can say we are not promoting their opportunities when the major producers have enjoyed huge profits, they've made more money in the last five years than in the previous 20.

Harvesting huge profits while blaiming the State for not exploring and developing is a distraction that averts attention from industries' bulging bottom line as well as the increase in spills and shut-downs caused by lack of pipeline maintenance.

Thank you members of the committee, my name is David Gottstein of 733 West 4th Avenue, Anchorage, Alaska. I am the Chief Investment Officer of Dynamic Capital Management, Inc., a Registered Investment Advisory firm, and I have been active in Alaskan oil and gas politics for thirty years.

I can offer to you that I was an active participant in the development of ACES. The net profits approach to taxation offered by ACES provided the State and the oil & gas industry a powerful mechanism in the pricing of our non-renewable oil resources. We want to provide incentives for the oil and gas industry to bring their capital and operational expertise to Alaska in their quest for competitive returns. The ACES platform adds wealth as compared to the old tax on the gross by allowing for the deduction against taxes for later stage higher lifting costs. The mechanisms of a floor tax rate, a base to begin progressivity, and the progressivity itself, allows for a flexible formulaic way to parse out rewards for contributions and risks taken.

We want the oil companies to make competitive returns, and make more money at higher prices. And we don't want our pricing to be too aggressive

such that the oil companies make less money at higher prices. The devil is in the details. Or rather the percentages and base levels embraced.

We also <u>don't</u> want to sell our resource too cheaply. The oil industry acts as a rational gate-keeper that works in our favor, keeping resources stored for higher value. Whereby we both profit from higher prices. Our selling or taxing mechanisms determines the apportionment of those profits.

If a purveyor raises their prices 10%, and they lose 5% of their customers, they are money ahead. If he raises prices by 10%, and loses 15% of his customers, he is money behind. It is extremely important for the State to test where the cusp of too high of taxes or resource selling price is. Independent of what the oil companies say, as legitimate distributors of information with extreme prejudice.

Let me say that ACES and the mechanisms of ACES work. What needs to be fixed is the progressivity level. It is too aggressive. At about $120-130, even though state taxes are deductable at the federal level, the combination of state and federal taxes crimps the generation of marginal profits at higher prices, and therefore limits

upside potential. We don't want to do that, as the winners have to more than pay for all the losers.

On the other hand, we don't want to sell our resources too cheaply. Because of the inherent power of ACES, the answer to our too high of selling price is elegant, and rationally accomplished.

First, we need to change the rate of progressivity from its current .4% linear step function formula to a less aggressive one that decays in value as oil prices rise. Two examples of possible solutions would be to instead of having .4, .4., .4, .4, perhaps as prices rise, .4,.398, .396, .394 or .4, .395, .39, .385, etc. And we should know how much each would gain or lose us, and change the choke point price where margins for the oil companies gets too this. Whereby if in the future, oil prices rise to a new choke point, the progressivity, or base price where progressivity kicks in, can be raised.

That is how ACES was supposed to work, and how it can be used in a powerful way moving forward. Adjusting the pricing levers within ACES I believe is where the debate should be. Not by throwing out the baby with the bath water, and lowering our resource selling price by tens of billions of dollars willy nilly without proper due diligence. This is

worth tens of billions of dollars over time to the State. And the numbers used in the calculations become the critical price determinants.

I strongly urge you to stick with the ACES platform, and to take the time to study the impacts of adjusting the powerful tools you currently have. Of changing the progressivity to a polynomial rather than a step function in order to price Alaska's gas more competitively, and to apportion profits in a manner that serves all parties. I would also keep the taxation of oil and gas separate, and bring an equally rational mechanism forward to price our gas resources.

03-24-11

Additional Docs in H Finance Email

Alaska State Legislature

Please enter into the record my testimony to the House Finance
Committee name

Committee on HB 110, dated March 24, 2011
Bill/Subject

House Finance Co-Chairs Rep. Stoltze and Rep. Thomas, I am unable to attend tonight's public hearing on the subject bill. Therefore, I respectfully request that my written testimony, which follows, be entered in the public record of tonight's hearing on HB110.

First, I wish to thank you and the other members of the House Finance Committee for your service on-behalf of the people of Alaska. The Alaska Legislature is an esteemed institution, and your job of charting a fiscally sound course for our great State is a daunting responsibility.

Second, I am pleased to have this opportunity to submit my testimony, albeit in writing, on HB110. Specifically, with respect to Governor Parnell's proposed tax reductions and incentives to the big oil producers, ConocoPhillips, BP, Exxon, Shell, et al., I have the following concerns and comments:

1. What exactly is the Governor's justification for Alaska giving some the largest, most profitable corporations on the planet tax breaks and incentives to find and produce a product that, by all accounts, is in high demand and for which there is a limited supply globally?

2. By the Governor's own estimation, his tax breaks and incentives to the oil companies will cost Alaska $5 billion in revenue over the next five fiscal years. Some in the Legislature have estimated that his proposal could cost the State, depending on the price of oil, as much as $2 billion in revenue annually. Can Alaska afford the Governor's plan? I suggest it cannot.

3. Where are the data, analyses, and oil industry commitments that would lend credibility to the Governor's proposed fiscal strategy for creating more jobs and increasing future oil revenues for the State if his planned is approved by the Legislature?

4. I am just a four-acre farmer, but the last time I checked, the Governor's wishful thinking-cross your fingers approach to fiscal planning is not sound policy. Don't Alaskans deserve a more fiscally prudent plan than our Governor's roll of the dice?

5. To offset his projected loss in State revenue, Governor Parnell proposes that Alaska dip into its savings to cover any deficits necessary to balance its annual operating budgets. Would it not be more prudent to forego his tax breaks and incentives to the oil companies in favor of the more conservative fiscal policy of paying for current year expenditures from current year revenues? Using one-time, non-recurring savings to cover budget deficits, as the Governor proposes, is a slippery slope fiscally.

6. According to the National Petroleum Council's Global Oil & Gas Study, which was made available July 18, 2007, "The major oil and gas companies are increasingly turning their attention to overseas development opportunities, leaving U.S. production largely in the hands of independent oil and gas companies." Proof of this can be seen in North Dakota per that State's active drilling list (see Attachment). So, that being the case, one might ask just how practical is Governor Parnell's proposal to attract more exploration and production activities from the major oil companies, like ConocoPhillips, BP, Exxon, and Shell?

Per the concerns and comments expressed above, I am opposed to HB110 and urge you to vote against it.

Signed: JAMES ELLIOTT
Testifier

Representing (Optional)

JWMELLIOTT@AOL.COM
Address

adn.com
Anchorage Daily News

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