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The Honorable Joe Paskvan
Co-Chairman, Senate Resources Committee
State Capital Building, Room 115
Juneau, AK 99801-1182

Dear Senator Paskvan:

ExxonMobil appreciates the Resource Committee's attention to production tax reform. We understand that your committee is seeking comments on the need to reform Alaska's Clear and Equitable Share (ACES) production tax rather than on Senate Bill 192. Let me respectfully offer you ExxonMobil's views on this topic for the record and direct you to recent testimony and perspectives that we've provided.

We believe that meaningful tax reform is critical for Alaska's economic future. While I am unable to join you in person on such short notice, I do feel that the work you are undertaking is important.

ExxonMobil continues to support Governor Parnell's efforts toward substantive reform of the current production tax. It is apparent that Alaska's production tax since 2005 has had a deleterious impact on business activity and investment in the state. Simply put, the current production tax is too high to stimulate the additional investment necessary to fully develop Alaska's oil and gas resources in the decades ahead. It is essential to have a tax structure in place that encourages long-term, material development of Alaska's potential to significantly grow state revenues, secure jobs and stem the production decline.

During the 2011 legislative session, I appeared before the House Resources Committee and testified on this topic. I am attaching a copy of that testimony as well as an op-ed letter signed by Rich Kruger, ExxonMobil Production Company President, which underscores the need for production tax reform. We continue to stand by the positions stated in these two documents.

Thank you again for the opportunity to provide input and be part of the ongoing debate during the 2012 sitting of the legislature. ExxonMobil is committed to Alaska and we look forward to working with you and your colleagues during this legislative session to develop a tax regime that will allow the resources of this great state to be developed for the benefit of all stakeholders.

Sincerely,

Dale Pittman

DDP:jpc
Enclosures (2)

cc: Governor Sean Parnell
Senator Thomas Wagoner, Co-Chairman, Senate Resources Committee

TESTIMONY OF DALE PITTMAN
ON PROPOSED HB 110
TO THE ALASKA HOUSE RESOURCES COMMITTEE
February 16, 2011

INTRODUCTION

Mister Chairman, members of the committee:

Good afternoon. For the record, my name is Dale Pittman. I am the Alaska Production Manager for ExxonMobil, based in Anchorage. I want to thank the committee for the opportunity to express ExxonMobil's views regarding HB 110, the Governor's proposed amendments to Alaska's oil and gas production tax or ACES.

Let me start by saying that Alaska has been and continues to be an important component of ExxonMobil's world-wide investment portfolio. We have had a presence in Alaska for over 50 years and have been a key player in Alaska's oil industry development, investing over $12 billion dollars to date. We are the operator of Point Thomson, hold the largest working interest at Prudhoe Bay (36.4%) and the largest lease holder of discovered Alaska gas resources. We expect to be involved in Alaska for many years to come and will continue to evaluate potential development opportunities.

At the outset, so our position is clear, let me say that ExxonMobil supports the presentation you heard today from the Alaska Oil and Gas Association. I do not intend to repeat the thorough technical comments from that testimony.

As for our specific comments, I would like to state, consistent with our prior testimony during the hearings on both the PPT and ACES, and on the proposed tax reform legislation last session, that ExxonMobil believes the changes made to Alaska's oil and gas production tax since 2005 have had a negative impact on business activity in Alaska and Alaska's overall investment climate. Alaska's current production taxes are simply too high to stimulate the additional investment required to fully develop Alaska's oil and gas resources.

It is for this reason ExxonMobil is pleased to see that the Administration recognizes the need for material change to Alaska's current oil and gas production tax system. We are encouraged by Governor Parnell's desire to see increased investments and further oil and gas development. We support his efforts to reform ACES and believe HB 110 is a good first step towards what we hope is a thorough review and revision of Alaska's production tax regime to allow the state to fully develop its vast resources.

ExxonMobil supports HB 110, and if enacted in its current form, we would expect investment activity in Alaska to increase, resulting in a corresponding benefit of more work for Alaskans. With passage of the Governor's proposed changes to ACES in its current form, we anticipate that industry will reexamine the inventory of Alaska North Slope opportunities and move forward with those projects that are made competitive by the reduced production tax burden. For example, the

proposed enhanced in-field drilling tax credits and reduction to the progressivity tax would allow us to consider additional drilling and well work activity at the Prudhoe Bay Unit. This kind of developmental drilling in the core field on the North Slope is critical to Alaska's future, particularly over the next five to ten years. Production decline must be stemmed until new developments can be discovered, progressed and brought on production.

While the enhanced in-field drilling tax credits and reduction to the progressivity tax are much needed revisions to ACES, we would urge earlier effective dates to accelerate the resulting ramp up in investment activity, Alaskan jobs and future state revenues.

However, merely providing additional tax credits while keeping the overall effective rate of the ACES tax too high is not the long term solution to improving Alaska's investment climate. While the system of tax credits under ACES does provide significant incentives for investing in capital assets to explore for, develop, and produce more oil and gas, the deduction of lease expenditures or the allowance of a tax credit is simply part of the calculation about how much tax a producer owes. The bottom line is that, between PPT and ACES, the industry's production tax obligations have more than tripled over the past five years.

ExxonMobil supports the Governor's proposal as an important first step, but additional reform of ACES is needed.

Additional reforms are needed to improve Alaska's overall investment climate over the long term. Evaluation of a further reduction in the production tax rates should also be considered. Even with the Governor's proposal, Alaska's production taxes are high in comparison to other investment alternatives, making Alaska one of the most expensive states in which the oil and gas industry does business.

As you have heard in prior testimony or may have read in recent newspaper articles, spending on the North Slope has remained relatively flat since the enactment of ACES. But what needs to be clarified is that the majority of that investment has been for maintenance or production enhancement efforts for existing operations, not for new exploration and development opportunities that would bring on new production. It is also worth noting that costs for this investment activity have gone up, so while some may argue there has been additional investment, it doesn't necessarily translate into more activity. For example costs to drill a well have increased over the years, so higher spend on drilling does not necessarily mean more wells are being drilled.

Alaska is currently producing approximately 600,000 barrels of oil per day from the North Slope. Industry currently invests more than $1 billion per year just to

maintain current North Slope oil production decline at six to seven percent. Without that continued investment, the annual production decline would be in the range of 12 to 15 percent annually.

The Alaska Department of Revenue is forecasting the production from Alaska's currently producing fields to decline by 60,000 barrels of oil per day this year. It goes on to predict that current field production will decline to half of its current 600,000 barrels of oil per day rate in just seven years, a decline of over 300,000 barrels of oil per day. Allow me to put the challenge of stemming that decline in perspective.

Alaska's newest development, the Nikaitchuq field, is scheduled to produce first oil early this year. The field has been more than six years in planning, development and construction and carries a total cost of over $2 billion dollars. The field is forecasted to reach peak production of about 25,000 barrels per day four years from now. So using this as an example, it would take the startup of two to three Nikaitchuq equivalent fields every year in perpetuity just to hold North Slope production at 600,000 barrels of oil per day. Pioneer's Oooguruk field is another example. It would take three to four fields the size of Oooguruk every year to match the forecasted North Slope production decline.
Clearly, the current outlook for development falls far short, and new fields are urgently needed to stem this decline.

Such development will only occur if there is an improvement in the Alaska investment climate. Alaska production tax policy is key to fostering a favorable investment climate.

Alaska's overall high production tax rates discourage investment. Companies like ExxonMobil are willing to accept the risks of long-term, capital intensive investments when there is a stable and competitive tax structure that encourages investment and ensures a corresponding opportunity for upside potential. When you take away the upside potential through a high progressivity tax you reduce the overall attractiveness of those capital intensive investments, which in turn could lead to reduced investment and resource recovery and, in the long-term, diminished state revenues. Let me reemphasize this point, while higher taxes may bring additional revenues in the short-term, it's reasonable to anticipate that any reduction in investment will decrease production and significantly reduce those revenues in the longer term.

As many of you heard me testify last year, time in the oil and gas industry is not measured in business cycles. It is measured in decades and in generations. Today's production rates are the product of government policies, technical work, and investment decisions made years ago. Increasing production rates in the decades to come will be a direct result from sound policies, decisions, and commitments that are made today. The Governor's proposed ACES changes

are clearly a significant step in the right direction towards much needed reform of Alaska's high oil and gas production tax system.

Alaska needs a long-term resource development policy that will encourage increasing investment to maximize its resource potential while receiving a fair share of the resource revenues; addressing its high level of government take is a start. The reform of ACES needs to result in a competitive, stable and predictable fiscal environment that will encourage investment, recognize that the remaining resources are economically challenged, including both new fields and resource development opportunities in existing fields. The primary driver of Alaska's long-term resource development policy should be to maximize the development of its resource base, not just maximize short-term state revenues.

Let me conclude my testimony by reiterating that while we hope to continue to pursue investment opportunities in Alaska in the future, the resource and cost structure in Alaska is becoming increasingly challenging. Governor Parnell's proposed changes to ACES are a good start to needed fiscal reform - but more is still needed.

ExxonMobil looks forward to working with the Administration, the legislators, industry and the people of Alaska in the future pursuit and development of Alaska's oil and gas resources.

Thank you again Mister Chairman for the opportunity to testify today.

APS Endorsed 041411

UNITE FOR A BRIGHT ALASKAN FUTURE

Alaska remains full of opportunity and promise. From the very first Native Alaskans to all the citizens who live and work in the state today, Alaska's challenges have been met by those willing to look beyond the horizon.

Despite challenging environmental conditions, Alaska has achieved a remarkable and enviable position in the world by responsibly developing its natural resources – hard work that has fueled an engine of progress for the state and its people. Today, Alaska's oil and gas production accounts for more than 34,000 jobs across the state and nearly 90 percent of its general revenue.

Unfortunately, the engine is not firing on all cylinders.

Since 2007, Alaska's Clear and Equitable Share (ACES) tax regime has failed to be either clear or equitable. Under ACES, nearly every measure of progress has declined, including investments and production. And as oil volumes flowing through the TransAlaska Pipeline (TAPS) continue to decline, the engine of progress is in very real danger of stalling.

Governor Parnell has recognized the detrimental effect of ACES on Alaska's future and is leading real changes to improve the state's competitiveness. His proposals offer an important step in the right direction toward a brighter economic future for Alaska. It is our firm belief that passage of the Governor's proposed changes to ACES, in its current form, will support additional investments in Alaska that will lead to greater development and production.

Over the past several weeks there has been much discussion regarding Governor Parnell's ideas for ACES reform. Most of the talk has focused on winners and losers in the near-term. In fact, the Governor is looking beyond the horizon to long-term solutions in which everyone wins.

ExxonMobil is committed to Alaska's future. We have worked here for more than 90 years, investing more than $12 billion to date and providing jobs for Alaskans. Currently, we are working with the state to bring the Point Thomson Project on line to produce additional oil and gas volumes in the near term. Going forward, we have joined with TransCanada to help bring a new gas pipeline to Alaska. Progressing these multi-billion dollar projects underscores ExxonMobil's continued commitment to Alaska.

Governor Parnell's proposal provides a foundation to build on the opportunity and promise of the state's vast natural resources and the indomitable spirit of its people.

Whether you are a proponent or critic of ACES reform, we all seek the same goal – a strong and prosperous Alaska. We encourage all state legislators to work together to provide industry with an investment environment that will help secure a promising future for the people of Alaska.

Rich Kruger, President
ExxonMobil Production Company