

**Testimony of Carri Lockhart, Marathon Oil Co, in  
support of State of Alaska HB 229  
House Resources Committee  
March 15, 2010  
DRAFT**

Good afternoon. My name is Carri Lockhart and I am the Production Manager for Marathon Oil Company's Alaska Business. Before I begin, I would like to extend the appreciation of Marathon Oil Company, for this opportunity to testify in support of House Bill 229.

By way of background, Marathon Oil Company's Alaska operations are focused on natural gas production operations, limited to Cook Inlet. In 2009, our natural gas sales from Alaska averaged 87 mmcf/d. We sold to essentially every natural gas market available including the local utilities - Enstar and Chugach Electric, Tesoro, and the Department of Defense. We also provided natural gas to the ConocoPhillips/Marathon LNG plant. Marathon

has been in business in AK for over 55 years and we remain committed to serving the natural gas needs of SouthCentral AK through our various contractual commitments.

As you are aware, in 2003 the Legislature passed, and the Governor signed several bills directed at providing incentives for new exploration and development activities. Marathon was particularly interested in House Bill 61, which was intended to incentivize the exploration and development of natural gas reserves in the Cook Inlet. The bill under consideration by this committee, HB 229, will merely strengthen the incentives provided for by the earlier bill.

One might ask about the need to provide incentives for natural gas development in the Cook Inlet. The answer to this question is found by considering the long-term decline in natural gas reserves and deliverability which the Cook Inlet has experienced. What must be addressed is whether there is currently sufficient exploration and development activity to address such decline in reserves and deliverability, and not simply to ask whether the Cook

Inlet is running out of gas. At the current minimal level of Cook Inlet activity it is unlikely that Cook Inlet reserve additions will replace annual production on an ongoing long-term basis. As such, natural gas reserves and deliverability are at risk for continued decline in the Cook Inlet, resulting in the exposure to unmet utility needs in the future.

The lack of Cook Inlet activity (especially exploration) is an artifact of the historic oversupply of natural gas which kept prices well below lower-48 indexed prices, creating a lack of incentive for additional drilling. Furthermore the regulatory processes and deterioration in market availability have added to project uncertainty. The project economics and market uncertainties have made it difficult for projects to complete effectively for finite funding.

So how will HB 229 help?

As we are all painfully aware, Alaskan project economics are not considered solely on their absolute merit. They are also scrutinized on a relative scale in comparison to other worldwide opportunities in which companies such as Marathon may invest. The intent of HB 229 is to help level the playing field between Alaskan projects and other investment opportunities around the world.

HB 229 is intended to continue to provide an incentive to oil and gas exploration and development activities through an investment tax credit. You should have before you the committee substitute for HB229 (version E). Since this is the first hearing for HB229, let me walk through the main points of this new legislation: This legislation makes six significant changes to current law:

1. Section 1 increases the amount of the credit from 10% to 25% of the amount of qualified capital investment and qualified services spending as well as clarifying that the credits can apply to costs incurred for a gas reserve for which the taxpayer previously elected to claim a credit.

2. Section 2 adjusts the dates for when qualified expenditures must be made to qualify for the old 10% and new 25% credits. It also changes the term “reserves” to “wells” to clarify that “wells” produce gas whereas “reserves” are what is being produced.
3. Section 3 removes the 50% limitation on the amount of credits that can apply in a single year, increasing the time value of money for the credits.
4. Section 4 clarifies that the credits do not apply to North Slope gas that is brought into Southcentral.
5. Section 5 removes the “successful efforts” requirement that developers must find and deliver new gas resources to market to qualify for the credit. It also clarifies that the credits can be applied to a gas reserve regardless of whether or not there has been previous gas production in the area.
6. Section 6 clarifies that the credits can be taken on a current tax return, on a timely filed tax return or on a timely filed tax

return for the year immediately following the year the qualified capital investment is made.

7. Section 7 adjusts the date the credits expire from 2017 to 2024.
8. Section 8 extends the sunset date of the investment tax credit from January 1, 2013 to January 1, 2020.
9. Section 9 is gives this legislation an immediate effective date.

In summary, Marathon Oil Company believes HB 229 is one part of the equation to enhance Cook Inlet exploration and development activities, attempting to create more certainty in the overall natural gas deliverability in Cook Inlet. I would also add that timing is important. It takes multiple years to properly plan and execute drilling activity in Cook Inlet, which is necessary to meet future overall deliverability needs in SouthCentral AK.

I would be happy to answer any questions the committee may have.