



RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

March 10, 2010

Representative Craig Johnson
House Resources Committee
Alaska State Legislature, State Capitol
Juneau, AK 99801

Re: HB308-Oil and Gas Production Tax

Dear Representative Johnson:

The Resource Development Council (RDC) would like to encourage the Legislature's efforts to develop an improved tax policy that enhances the State of Alaska's competitiveness for exploration and development investments. We support legislation that will encourage new exploration and development of Alaska's oil and gas deposits, as well as enhance production from existing fields. Only through equitable and predictable tax and royalty policies will we be able to reverse the trend that leaves our pipeline less than one-third full today.

RDC is a statewide, non-profit, membership-funded organization founded in 1975. The RDC membership is comprised of individuals and companies from Alaska's oil and gas, mining, timber, tourism, and fisheries industries, as well as Alaska Native corporations, local communities, organized labor, and industry support firms. RDC's purpose is to link these diverse interests together to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

More and more, Alaska is becoming a less attractive place for the oil and gas industry to invest its capital. According to investors – the companies that take the risks involved in developing energy resources, Alaska's high cost environment coupled with its high tax regime discourage new investment. While some in state government and the Legislature may disagree, Alaskans need to listen to what the investors are telling us, since they are the ones making the decisions on where to invest their corporate capital.

While Alaska still holds much promise for significant oil and gas discoveries, there is a world of opportunity elsewhere for companies engaged in energy development. Investors will develop the prospects in their global portfolios that offer the best returns, whether here in Alaska, the Lower 48, or abroad.

It is not enough that Alaska is rich in oil and gas because industry faces substantial risks and high costs in the arctic. The economics of developing energy deposits in the far north are highly challenged, but the state can mitigate many of these challenges by creating a warmer business climate, one that has attractive and highly competitive fiscal terms that compel industry to invest here.

Founded 1975

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Given oil is the lifeblood of Alaska's economy and the pipeline is running at one-third its peak flow, it is imperative the state have the right tax and royalty policies in place to attract industry investment and sustain the economy. Approximately \$40 billion in new investment will be required in the next ten years to develop new fields and prevent the current six percent annual decline in North Slope production from accelerating. Moreover, 38 percent of projected production in 2015 is expected to come from fields that are not yet in production.

Yet Alaska appears to be heading in the wrong direction. Capital spending by major oil producers has ebbed and a disproportionate share of spending has been directed to maintenance projects, which do virtually nothing to generate new production but remain important in maintaining the base production. 2010 will bring the number of exploratory and development wells to their lowest levels in a decade on the North Slope, where production is down 80,000 barrels since 2007.

RDC finds these trends alarming and the lack of investment where it matters most indicates the production decline is likely to accelerate well beyond state projections. The worrisome trends also indicate more than just tweaks are needed to restore Alaska's competitiveness and draw investment dollars back to our state.

RDC is closely tracking oil and gas production tax legislation and requests the opportunity to testify and comment on this issue as the session evolves. We appreciate your efforts to improve Alaska's competitive position in attracting new investment and we thank you for considering our concerns.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason Brune", with a long horizontal flourish extending to the right.

Jason Brune
Executive Director