



March 20, 2011

Hon. Representative Bill Thomas, Jr.  
Co-Chairman, House Finance Committee  
State Capitol Room 505  
Juneau, AK 99801

Hon. Representative Bill Stoltze  
Co-Chairman, House Finance Committee  
State Capitol Room 515  
Juneau, AK 99801

Re: HB 110

Thank you for the opportunity to testify on the subject bill. Unfortunately, I can't testify in person, but I will furnish my comments via this letter. Before I start, I thought I'd furnish you a brief introduction to UltraStar, which was formed in 2001 by Dale Lindsey of Seward, John Winther of Petersburg, and me. Dale was born and raised in Seward, and he and his widow, Carol, built a small fuel delivery service into the largest marine and land fuel distributor in the State. John was born in Fairbanks, raised in Juneau, and now lives in Petersburg, from where he manages a fleet of long liner vessels that fish cod and black cod in the Bering Sea and Gulf of Alaska. I was born and raised in the oilfields of Wyoming, and worked in project engineering, construction, and operations and executive management for ARCO for 30 years, 23 of which were spent working in various capacities on Prudhoe Bay, Kuparuk, Lisburne, Pt. McIntyre and West Sak. I moved my family to Anchorage in 1985. UltraStar's business plan is to acquire North Slope Leases close to existing infrastructure, develop projects on these leases, and prove up commercial reservoirs with the drill bit. To my knowledge, we are the only 100% Alaskan owned company that has drilled wells on the North Slope. We have another well and sidetrack planned for the first quarter of next year.

I am pleased to add UltraStar's name to the list of independents that support the Governor's proposed changes to ACES. We firmly support both HB 110. We support not only lower marginal tax rates, but also the elimination of the requirement that credits be paid over a two year period, which goes a long way toward "leveling the playing field" for start-up companies like ours with no current production.

As much as we like the direction these pieces of legislation are going, we feel that if ACES is going to be re-opened, one other issue should be addressed, and that is the Small Producer Credit. This is a credit of \$12 million per year for companies producing less than 50,000 barrels of oil equivalent per day, and is due to sunset in 2016. My suggestion is to recognize the lead times associated with finding, developing and producing reserves on the North Slope, and extend that sunset date. First, we must acquire leases, then seismic, then evaluate the seismic and develop drillable prospects

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If the drilling finds commercial quantities of oil, then facility access terms and conditions need to be negotiated and established with the owners of the likely production facility where the oil, gas and water will be processed, and roads need to be built and the well(s) need to be connected to that facility. If the commercial accumulation is large enough, stand alone facilities may be a more appropriate approach to get production on line. Finally, somehow or another, production can commence, and the cash flow meter can start (hopefully) turning the other way, or at least slow down. Unfortunately, UltraStar has yet discovered commercial oil, but it has taken an average of 6 years per well to get to the point where we were able to get the drill bit into the ground.

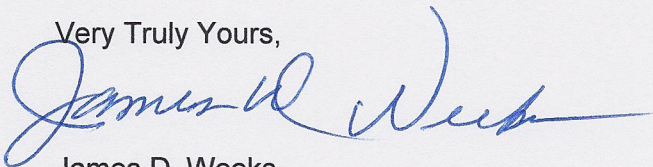
Rather than have a specific year when the Small Producer Credits expire, I recommend that it stay in place for each reservoir or unit until payout of the exploration, delineation and development costs necessary to get oil flowing. I believe this would be a much stronger incentive than a date certain year. New leases acquired last year have no chance of realizing this credit.

Not in the bill is re-consideration of the tax credits, which is good. The Qualified Capital Expenditures and the Carry Forward Loss provisions in the existing law are important, are working and should not be changed. It is safe to say that the last well drilled by UltraStar, the Dewline No. 1, would not have been drilled without the use of these credits. We simply could not have raised the money from the venture capital investors who funded the drilling and other exploration expenses without these credits. They do work for small independents like ours.

Lastly, it mystifies me why some in the Legislature want to take all the precious time in this short session having studies done to determine the competitiveness of Alaska. The major producers have had those studies done, probably by the same consultants the Legislature would use, and the answer given to the Legislature by the same consultants will be the same as the conclusions given to the major producers--Alaska is the bottom third or lower in the world. I can't speak for the major producers, but my guess that any one or all of them will be willing to share the details of the studies they commissioned with any Legislator who has an interest.

Thanks for hearing this bill and moving the process forward. The State of Alaska, the workers and citizens of Alaska, and the investors in exploration in Alaska need and appreciate your support.

Very Truly Yours,



James D. Weeks  
Managing Member