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The Honorable Bill Stoltze, Co-Chair
The Honorable William Thomas, Jr., Co-Chair
House Finance Committee
Alaska State House of Representatives
State Capital
Juneau, Alaska 99801-1182

Dear Chairmen Stoltze and Thomas:

Thank you for the opportunity to submit testimony to the Alaska State House Finance Committee regarding our company and comment on the proposed oil and gas tax legislation before you. I regret I am unable to appear before you personally. I hope you find the comments we provide useful in your deliberations and would entertain any questions my testimony may generate.

Company Background

Established in 1954, Apache Corporation (Apache) has grown to become one of the world's top independent oil and gas exploration and production companies with over \$29 billion in assets. In August 2010 Apache acquired almost 200,000 acres of State oil and gas leases in Cook Inlet primarily from Daniel Donkel and Samuel Cade. Since then Apache has picked up additional acreage from the Alaska Mental Health Trust bringing our Cook Inlet acreage to approximately 300,000 acres.

Investment Decisions

In making decisions on investments there are a number of criteria Apache takes into consideration. Specifically when we looked at Alaska what made investment attractive is that it has been sparsely explored and new technology will help find new reserves that can be produced more efficiently. Another factor is the percent of profit available on a barrel of oil after taxes, royalty and costs. There are incentives available in Cook Inlet as well as the tax structure makes it attractive. Conversely, the North Slope is expensive due to the operating environment and a different tax structure.

Cook Inlet Exploration

Apache's objective in acquiring the Cook Inlet leases is to explore for oil. Permit applications were submitted in November 2010 to conduct a 2D seismic technology test using a new Nodal technology. All the necessary permits were issued in February 2011 with the seismic work to be completed in March 2011 in Cook Inlet's West Forelands. Apache has begun conversations with the stakeholder groups and regulatory agencies about the 3D seismic program to commence in the fall 2011. We will spend approximately one year doing seismic exploration on the Apache leases that stretch from Wasilla to Anchor Point. After analysis of the seismic data we will then be in a position to determine where to undertake exploratory drilling.

One of the many questions Apache has been asked is why are we interested in Cook Inlet. With the discovery of oil on the North Slope in the late 1960's the companies that were operating in Cook Inlet moved north. We believe there is significant untapped oil potential in the region and the incentives offered by the State of Alaska are attractive. Those two reasons compound with a skilled workforce and stable government make Cook Inlet attractive.

Alaska Oil and Gas Tax Structure

In addition to looking for acreage in Cook Inlet, Apache has examined opportunities to make investments on the North Slope. We have made the decision to focus our efforts in Cook Inlet for now in part due to the oil and gas tax structure embedded in the North Slope fields. Specific areas of concern include:

- High tax rate
- The progressivity surcharge
- Lack of incentives and tax credits

The base tax rate for the North Slope is 25%. House Bill 110 proposes to lower this rate to 15% for areas outside of current fields or units not in commercial production prior to December 31, 2010. This is a step in the right direction to encourage companies, like Apache, to invest.

There are a number of issues surrounding the progressivity surcharge. One, it is regressive. Once a company makes more than \$30 barrel the company is charged at the 25% tax rate PLUS they are charged for every single dollar over the \$30, a form of double taxation.

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The proposal for capping the progressivity tax at 50% rather than the current 75% provides some of the uplift needed to encourage companies to take the risk. Also proposed is moving to an annual calculation versus today's monthly calculation. An annual calculation synchronizing revenues with expenses would more accurately reflect the philosophy behind the progressivity feature.

If incentives are going to be provided then it should apply to all new oil associated with new field development and exploration. Equally it should apply to new oil arising from existing producing fields using in-field drilling, secondary recovery and tertiary recovery techniques. Apache would encourage you to include incentives for all new oil.

In May 2010 the Cook Inlet Recovery Act included tax credits to incentivize and encourage further exploration. Apache would encourage the Alaska State Legislature to apply these same credits to all regions undertaking oil and gas exploration and development in Alaska.

Again, I apologize that I am unable to attend your hearing in person. Should you have questions please feel free to contact me.

Sincerely yours,



for John R. Bedingfield
Vice President, Worldwide Exploration and New Ventures
APACHE CORPORATION

Cook Inlet, Alaska

Anchorage

Legend

- Apache
- Leased
- Open

Apache
Kilometers
0 5 10 15 20 25
1:200,000

Apache : 305,000 Acres

