

Tom Maloney 3215 Legacy Drive Anchorage, AK 99516 (907) 244-4119

Good evening, my name is Tom Maloney. I am a long term resident of South Anchorage and am providing personal testimony. My background includes having 3 accounting and financial certifications. Taxes matter and if you don't believe me, look at recent federal payroll taxes.

The Governor, his Administration and consultants, along with the Legislature and staff have done an outstanding job in examining our current production and tax system.

The DOR recently presented a graph on Crude Oil Production by State for 2011-2012. There were 15 locations. The number 2 and number 1 oil producing states, North Dakota and Texas, were up over 55% and 34% respectively for the year. Every other state was up for the year, except one. You guessed it. Alaska was down by 7.1%. Even California was up.

In the fall of 2007, the Resource Review published by RDC contained the following quote from then Commissioner Pat Galvin: "Frankly, we have not said that ACES improves the investment climate—clearly, there is going to be a larger state share and that isn't going to make economics of projects better."

This was a very astute observation ^{which} ~~with~~ has unfortunately been proven correct.

In calendar year 2007, North Slope oil production averaged 739 thousand barrels a day. In 2012, production shrank to 548 thousand barrels a day which is down 191 thousand barrels a day. Just think—5 short years ago, production was nearly 35% higher. Production ranged from a low of 399 thousand in August to a high of 624 thousand in January 2012. In 2012, the highest producing month was lower than the lowest producing month in 2007.

This is strictly not sustainable for a positive long term economy for Alaska. I urge the committee to focus on the Governor's guiding principles and to not be fine with production decline. Taxes and production really matter.

Alaskans need to remember that increased production generates higher royalties which builds up the Permanent Fund (minimum of 25%) and results in PFD's that are paid only to Alaska residents. We have a Need to Drill to Pay the Bill, and we have No Dough without Oil Flow.



Good Evening

My name is Eric Dompeling I am the New Ventures Manager for SolstenXP a project management and contracting service firm based here in Anchorage. I am also a past president of the Alaska Support Industry Alliance, speaking in favor of the proposed changes to what is now the not so ACES tax.

The better part of the last year I have been working opportunities for my company in places like North Dakota, Wyoming, Texas and Oklahoma, because the opportunities that used to exist in Alaska are now more prevalent in the Lower 48. And the current tax structure in Alaska is impeding progress; investment flows where costs are most competitive.

I have lived in Alaska for almost 40 years. My children and grandchildren live here and I would like to see them have the same opportunities I did.

Deep down there is not a single person in this State that doesn't understand that you have to invest to make something happen, returning the capital to the industry to invest in Alaska is the only way to make that happen.

There are 5 billion barrels of known reserves on the North Slope, and multiple barrels of yet to be discovered resources. We could have a bright future, but we need to change the tax structure to realize those future opportunities.

Thank you this concludes my testimony.

Testimony of Carl Portman
Before House Finance Committee, Tuesday, April 9, 2013

Good afternoon. My name is Carl Portman and I am testifying on my own behalf.

I am here to express my support for meaningful oil production tax reform this session. The Legislature has been addressing this issue for years and has yet to pass significant reforms that will move the needle in attracting the investment we need to reverse the production decline.

Given the strong competition in the Lower 48 and abroad for corporate capital, Alaska needs to position itself as a compelling place for investment – where we stand out from the competition. Lower taxes will generate more investment, which in turn will boost production and lead to more state revenue over the long term. New investment and production will stimulate the private sector, create more jobs, and grow the economy. New production will also boost royalty income to the State.

Alaska's current oil production tax structure has generated billions of dollars in short-term revenues, but I fear at the expense of long-term investment, production, jobs, and a sustainable economy. Clearly, taxing ourselves to prosperity is a poor strategy and will undermine our future and the private sector, the foundation of Alaska's economy.

As I see it, under the current tax structure, the state is guaranteed lower production, guaranteed less revenue, and guaranteed higher budget deficits over the long term, resulting in a weaker economy and a lower standard of living for Alaskans. Under ACES, the state will face leaner budgets and greater challenges to funding state services and education as production declines.

The time is now for major oil production tax reform because the status quo of steadily declining production is unacceptable.

CS SB 21 is a big step in the right direction. I urge you as legislators to do sufficient due diligence to ensure the goals set out in the legislation are fully achieved.

Thank you for your service and for this opportunity to testify.

MACC TESTIMONY TO HOUSE FINANCE:**APRIL 9, 2013****Delivered by: Lynn Johnson @ Anchorage LIO**

Make Alaska Competitive Coalition was created because of our concern about the potentially serious consequences of declining oil production on our state's economy. Since we have a very limited amount of time to offer testimony, I will simply direct you to our web site for information about the broad composition of the group and its steering committee. We fund the operation from individual and company contributions, but do not accept any funds from the oil companies.

Thank you for:

- **Recognizing and taking on the most critical problem Alaska has ever faced – declining production.**
- **Understanding that the problem is complicated and that there are risks involved in any solution.**
- **Recognizing that the biggest risk to Alaska's future is NO action. This is a tough decision, but is the right decision for the long-term health of Alaska's economy.**
- **All the time and effort spent listening to and questioning consultants who are specialists in oil taxation.**

The decline curve has been presented to you from a number of independent sources, so we won't repeat that testimony. It is a known fact that we are on a serious decline.

The date on which the cost of state government exceeds the income from declining oil production is near enough that all of us with business interests have to factor it in today as we make investment decisions for the future.

Many of our members own or work for companies which have begun to see business opportunities growing as an offshoot of oil development elsewhere while opportunity here declines with the production curve.

We trust that the members of the House Finance Committee share these concerns.

We are supportive SB21, and the work the legislature has done to improve upon it based on the Governor's guiding principles. The important thing is that it gets done this year, and that it achieves a balanced, fair and competitive tax structure for Alaska, one that motivates investment so that Alaska's economic future can remain strong.

We sincerely appreciate the efforts of the Legislators who want to Make Alaska Competitive again and unleash the opportunity for investment and production.

SB21 is the right answer, and the time is now. Thank you.

3521 Andree Drive
Anchorage, AK 99517

April 9, 2013

RE: Testimony to House Finance Committee on HCS CSSB for SB 21

Co-Chairs Stoltze and Austerman and Members of the House Finance Committee:

My name is Peter J. Stokes a professional petroleum engineer working for Petrotechnical Resources of Alaska. I serve on the Board of the Alliance and Chair of the UAF's CEM Advisory and Development Council.

I live and work in Anchorage.

I am testifying on behalf of myself, my wife, and the future of my 3 offspring who work in Anchorage and my 2 grandsons.

Thank you for your service and for letting me and others of the public testify on this important piece of oil tax reform that is needed to increase investment and new production in Alaska.

I grew up on the Kenai Peninsula, went to college in Fairbanks and have worked in oil and gas, starting in Alaska, with jobs in other states and overseas and working for the last 10 years in Anchorage.

I support the Governor's concepts to make Alaska more competitive in attracting increase investments to increase Alaska North Slope production and I urge passage of legislation to make meaningful reforms this year.

In 2007, ACES was passed and it resulted in extracting much higher taxes. At these high tax rates, we all have seen that it made the state very uncompetitive for attracting new investment and thus has increased annual declines through the pipeline.

HCS for SB 21 is a good bill achieve this goal, especially

- 1) the elimination of progressivity
- 2) The tax rate, credits and GVR allow for a 62-63% government take for all price ranges to make Alaska investments attractive.
- 3) Developments for new production within existing PA's can achieve GVR with approval from DOR/DOG. These existing PA's are the areas that can bring the quickest and largest increases in new production.

I do suggest reinserting the exploration credit modification in place to allow drilling within 3 miles of existing wells which allows new explorers to continue to explore and allowing small explorer/developers to keep the QCE until end of 2015.

In summary, I applaud you in your efforts to allow Alaska to become more competitive in investments for new oil production for both explorers and existing producers. Without new exploration and the continued development of new production within existing PA's, the efforts to lower or flatten production decline will likely not occur.

Chairmen and Members, thank you again for all of your efforts.

April 9, 2013

Testimony of Ray Latchem before the House Finance Committee

Mr. Chairman,

For the record I am Ray Latchem and have been associated with the oil and gas sector in Alaska continuously since 1977. In 1985 I founded Norgasco, the gas distribution company in Prudhoe Bay/Deadhorse, of which I remain involved with. In 1992 I developed a company that became Fairbanks Natural Gas which I sold my remaining interest in 2004. Today I'm the president of Spectrum LNG which produces LNG for the motor fuel markets in Arizona and California. We are developing an LNG plant project in Prudhoe Bay now.

Unfortunately I had to leave Juneau prior to being able to present my testimony in person before your committee. I did attend most of the hearings you held on SB21 and survived the death by power point attacks from the many consultants, and only nodded off occasionally. I paid closer attention when we heard more directly from the Producers. Some of these guys are pretty slick and they all start to sound alike. Most of the questions from the committee members sounded a lot like "what's the right amount to achieve the goal we want". This is like the guy with two watches, he never knows exactly what time it is.

I should note that while I have a long history in the industry, I was not an automatic supporter of SB21. In fact, I've seen big oil do some things in the past that cause me to be skeptical of them.

Of all the testimony, that from Mr. Jepsen got my attention and he came close to saying something that I hadn't really thought about. We need to keep our nerds.

Lots of the slides made clear that most of the remaining known oil is in the legacy fields. This begs the question why provide incentives for what we already know is there? He explained that they are using 4-D seismic to find and target these smaller traps of oil. They require roads, pads, pipelines, and new drilling methods (Coil tubing) and several new technology tricks to get to these smaller traps that contain the oil. I know a little about some of the tricks they are using, a very little bit. But the point is, it takes really sharp folks to do this work. I guarantee that some of the sharpest folks (nerds) are working on Prudhoe Bay. And we need to make sure we keep these nerds, or else we will not get these smaller traps of oil.

Mr. Jepsen could have used a simple analogy. Like Alaska has an apple tree orchard. We have a couple of really tall trees and several regular sized trees. All loaded with fruit. We need to make sure we get as much of the fruit as possible out of all the trees. But it takes creativity to get the fruit from the upper levels of the tree. Creativity isn't as simple as tying a bunch of ladders together.

So the concern that was not addressed in the hearings that we need to look at is how good of a job are our apple pickers doing? I know a little about this having worked in several different oil provinces. Alaska has always had the most talented engineers working our fields. I wish Big Oil would have bragged more of their accomplishments in this area. I think the committee would be impressed when they learn that the Engineers that actually pick the orchard are some of the best in the world.

I believe that doing the best job of harvesting all the oil is more important to the State than any difference between the various versions of SB21.

In many other oil provinces, like the Gulf of Mexico Shelf, it is very common for mature fields to be sold to other companies. These companies can extend the life of the field, generally not by bringing in some new technology the first developer didn't have access to, but generally the new owner has a lower cost structure because they don't have a very deep technical staff. Someday this may happen to Prudhoe, and it will be a very sad day. I've seen both the Big Oil operators' methods and the lower cost structure companies' methods. Things like the luxury of flying workers back and forth on jets to an "onshore oilfield" are things that many of these operators will change as they lower the current high operating cost. You can imagine that the caliber of workers might fall given other opportunities in the world for their skills.

So please start thinking about SB21 in terms of keeping the best and the brightest working on our legacy fields to postpone the eventual turnover to the low cost operators. These guys set the bar very high with respect to recovery rates, just look back over the years at their own reserve estimates. Every time they invent a new gismo (and many were developed with Prudhoe in mind) they get to add to their reserves. Then after they have developed the gismo or new method, they use it on neighboring fields that might not have had the ability to justify the development cost of the new gismo.

So if you want some testimony that will be sure to keep everyone awake, ask them to show you some of their tricks to get the higher fruit out of the tree. It will make you feel a lot better voting for SB21.

Thank you for your time.

MACC TESTIMONY TO HOUSE FINANCE:

APRIL 9, 2013

Delivered by: Lynn Johnson @ Anchorage LIO

Make Alaska Competitive Coalition was created because of our concern about the potentially serious consequences of declining oil production on our state's economy. Since we have a very limited amount of time to offer testimony, I will simply direct you to our web site for information about the broad composition of the group and its steering committee. We fund the operation from individual and company contributions, but do not accept any funds from the oil companies.

Thank you for:

- Recognizing and taking on the most critical problem Alaska has ever faced – declining production.
- Understanding that the problem is complicated and that there are risks involved in any solution.
- Recognizing that the biggest risk to Alaska's future is NO action. This is a tough decision, but is the right decision for the long-term health of Alaska's economy.
- All the time and effort spent listening to and questioning consultants who are specialists in oil taxation.

The decline curve has been presented to you from a number of independent sources, so we won't repeat that testimony. It is a known fact that we are on a serious decline.

The date on which the cost of state government exceeds the income from declining oil production is near enough that all of us with business interests have to factor it in today as we make investment decisions for the future.

Many of our members own or work for companies which have begun to see business opportunities growing as an offshoot of oil development elsewhere while opportunity here declines with the production curve.

We trust that the members of the House Finance Committee share these concerns.

We are supportive SB21, and the work the legislature has done to improve upon it based on the Governor's guiding principles. The important thing is that it gets done this year, and that it achieves a balanced, fair and competitive tax structure for Alaska, one that motivates investment so that Alaska's economic future can remain strong.

We sincerely appreciate the efforts of the Legislators who want to Make Alaska Competitive again and unleash the opportunity for investment and production.

SB21 is the right answer, and the time is now. Thank you.

Good Evening

My name is Eric Dompeling I am the New Ventures Manager for SolstenXP a project management and contracting service firm based here in Anchorage. I am also a past president of the Alaska Support industry Alliance, speaking in favor of the proposed changes to what is now the not so ACES tax.

The better part of the last year I have been working opportunities for my company in places like North Dakota, Wyoming, Texas and Oklahoma, because the opportunities that used to exit in Alaska are now more prevalent in the Lower 48. And the current tax structure in Alaska is impeding progress; investment flows where costs are most competitive.

I have lived in Alaska for almost 40 years. My children and grandchildren live here and I would like to see them have the same opportunities I did.

Deep down there is not a single person in this State that doesn't understand that you have to invest to make something happen, returning the capital to the industry to invest in Alaska is the only way to make that happen.

There are 5 billion barrels of know reserves on the North Slope, and multiple barrels of yet to be discovered resources. We could have a bright future, but we need to change the tax structure to realize those future opportunities.

Thank you this concludes my testimony.

Testimony of Carl Portman
Before House Finance Committee, Tuesday, April 9, 2013

Good afternoon. My name is Carl Portman and I am testifying on my own behalf.

I am here to express my support for meaningful oil production tax reform this session. The Legislature has been addressing this issue for years and has yet to pass significant reforms that will move the needle in attracting the investment we need to reverse the production decline.

Given the strong competition in the Lower 48 and abroad for corporate capital, Alaska needs to position itself as a compelling place for investment – where we stand out from the competition. Lower taxes will generate more investment, which in turn will boost production and lead to more state revenue over the long term. New investment and production will stimulate the private sector, create more jobs, and grow the economy. New production will also boost royalty income to the State.

Alaska's current oil production tax structure has generated billions of dollars in short-term revenues, but I fear at the expense of long-term investment, production, jobs, and a sustainable economy. Clearly, taxing ourselves to prosperity is a poor strategy and will undermine our future and the private sector, the foundation of Alaska's economy.

As I see it, under the current tax structure, the state is guaranteed lower production, guaranteed less revenue, and guaranteed higher budget deficits over the long term, resulting in a weaker economy and a lower standard of living for Alaskans. Under ACES, the state will face leaner budgets and greater challenges to funding state services and education as production declines.

The time is now for major oil production tax reform because the status quo of steadily declining production is unacceptable.

CS SB 21 is a big step in the right direction. I urge you as legislators to do sufficient due diligence to ensure the goals set out in the legislation are fully achieved.

Thank you for your service and for this opportunity to testify.

Tom Maloney

3215 Legacy Drive Anchorage, AK 99516

(907) 244-4119

Good evening, my name is Tom Maloney. I am a long term resident of South Anchorage and am providing personal testimony. My background includes having 3 accounting and financial certifications. Taxes matter and if you don't believe me, look at recent federal payroll taxes.

The Governor, his Administration and consultants, along with the Legislature and staff have done an outstanding job in examining our current production and tax system.

The DOR recently presented a graph on Crude Oil Production by State for 2011-2012. There were 15 locations. The number 2 and number 1 oil producing states, North Dakota and Texas, were up over 55% and 34% respectively for the year. Every other state was up for the year, except one. You guessed it. Alaska was down by 7.1%. Even California was up.

In the fall of 2007, the Resource Review published by RDC contained the following quote from then Commissioner Pat Galvin: "Frankly, we have not said that ACES improves the investment climate—clearly, there is going to be a larger state share and that isn't going to make economics of projects better."

This was a very astute observation ^{which} ~~with~~ has unfortunately been proven correct.

In calendar year 2007, North Slope oil production averaged 739 thousand barrels a day. In 2012, production shrank to 548 thousand barrels a day which is down 191 thousand barrels a day. Just think—5 short years ago, production was nearly 35% higher. Production ranged from a low of 399 thousand in August to a high of 624 thousand in January 2012. In 2012, the highest producing month was lower than the lowest producing month in 2007.

This is strictly not sustainable for a positive long term economy for Alaska. I urge the committee to focus on the Governor's guiding principles and to not be fine with production decline. Taxes and production really matter.

Alaskans need to remember that increased production generates higher royalties which builds up the Permanent Fund (minimum of 25%) and results in PFD's that are paid only to Alaska residents. We have a Need to Drill to Pay the Bill, and we have No Dough without Oil Flow.



Attachments

- 1 – North Slope Oil Production, January –December, 2007-2012
- 2 – Change in Average Daily Oil Production By State, 2011-2012
- 3 – Daily Oil Production in the Top 4 U.S. Oil-Producing States, 2002-2012
- 4 – Alaska North Slope Wells Drilled, 2002-2012

North Slope Oil Production Barrels Per Day (bpd)

	(in thousands)		
	2007 bpd	2012 bpd	Better or (Worse) Than 2007
January	796	624	(172)
February	775	609	(166)
March	764	591	(173)
April	757	578	(179)
May	779	571	(208)
June	725	517	(208)
July	725	430	(295)
August	658	399	(259)
September	649	516	(133)
October	715	571	(144)
November	765	582	(183)
December	756	582	(174)
Average Per Day	739	548	(191)

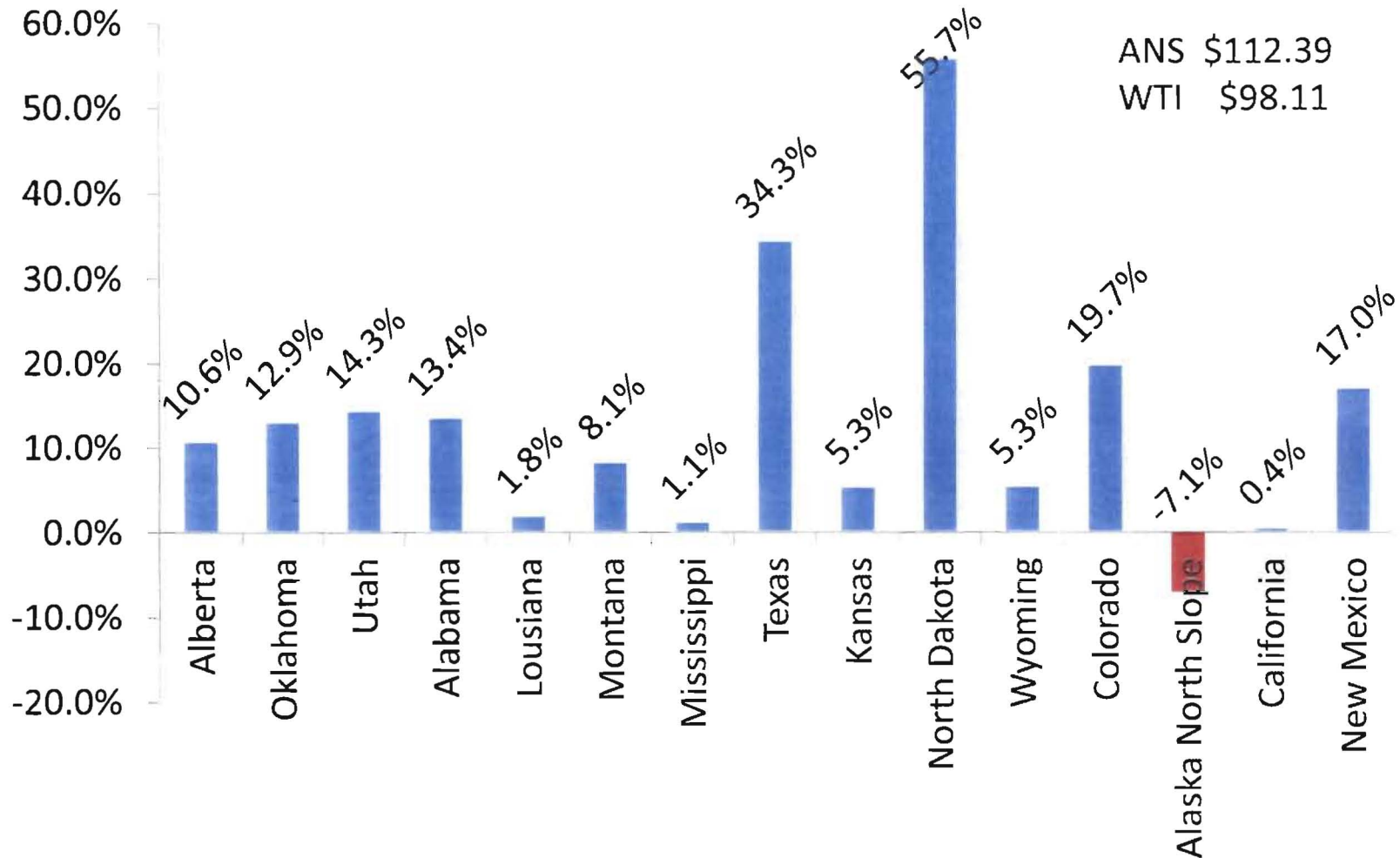
January – December 2007 – 2012
(in thousands)

**191,000 bbl x 365 x \$100
is approx. \$7 BILLION
DOLLAR reduction in
Alaska's Economy in ONE
YEAR alone.**



Change in Average Daily Oil Production By State 2011-2012

Prepared by the Department of Revenue, Economic Research Group (March 18, 2013)



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldp_m.htm

Tom Maloney

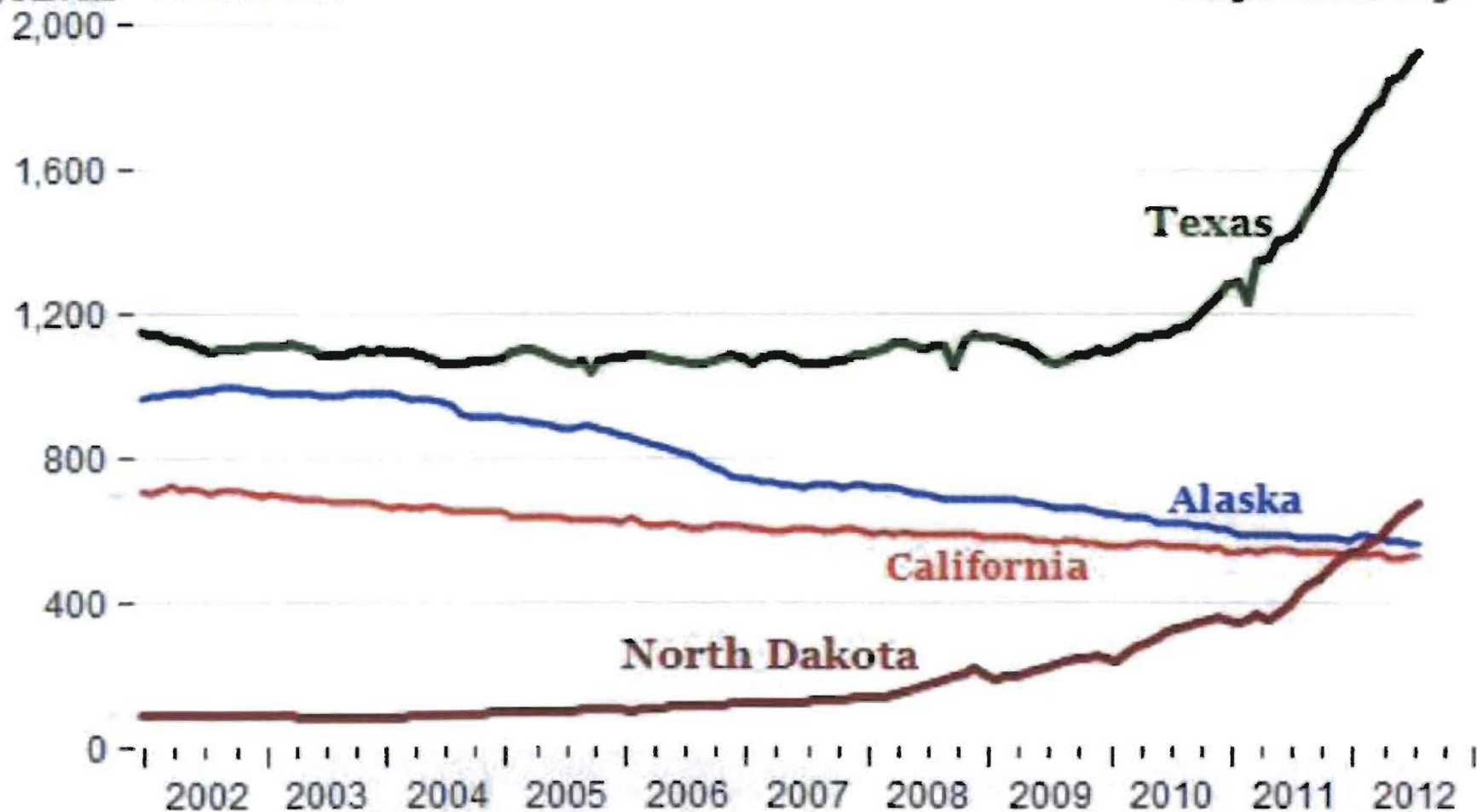
Alaska Headed Out of Medal Contention – 4th

Daily Oil Production in the Top 4 U.S. Oil-Producing States, 2002-2012

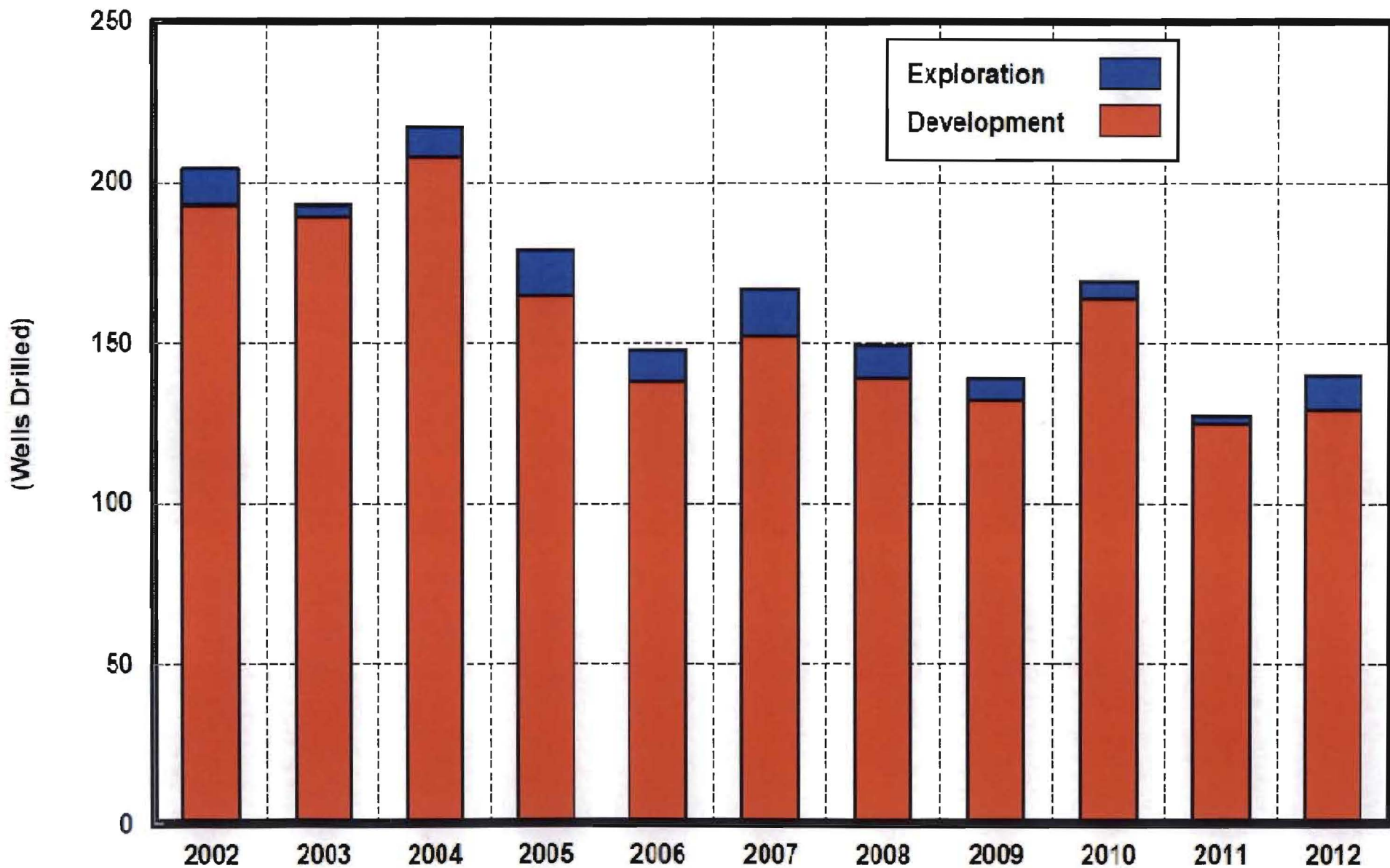
Thousands
of barrels

Source: EIA

Carpe Diem Blog



Alaska North Slope Wells Drilled 2002 - 2012



Source: 2002-2010: DNR; 2011-2012: AOGCC.