

**To the Honorable Co-Chairs of the House Resources Committee:
Representative Eric Feige:
Representative Dan Saddler:
and Committee Members::
Rep. Mike Hawker:
Rep. Craig Johnson:
Rep. Kurt Olson:
Rep. Paul Seaton
Rep. Peggy Wilson:
Rep. Geran Tarr:
Rep. Chris Tuck:**

Testimony of Dan Donkel April 1, 2013;

Please allow me to introduce my small company and myself to you. My name is Dan Donkel and I am the founder of Donkel Oil and Gas LLC, and Danco Exploration Inc.

My primary reason for being here today is to explain what I believe is necessary for this Legislature to do if it wants to see those smaller companies whose business is confined to exploration, production and sale of crude oil, companies commonly referred to as independents, flourish in Alaska. I am in the business of bringing such companies to Alaska and have been for thirty years. For my business and the business of those I bring to Alaska to be successful, I believe, NO, I KNOW, — this legislature needs to do three things that are not being considered in this bill..

This Legislature should:

1. Adopt a simple easy to explain 75% exploration and production credit that can't be manipulated to exclude independents
2. While leaving a fixed royalty in place, provide a seven year exemption from taxes for all new production outside of the existing participating areas:
3. Leave the ACES tax, including its progressivity as is for all existing participating areas:

I am going to share some information with you that the Majors don't want you to know. By Majors, I mean companies that I mean those fully integrated companies that explore, drill, transport, refine, and distribute, refined products for wholesale and retail.

I began forming investment groups and partnerships to acquire, explore, drill, and otherwise promote small leases on the Kenai in the early nineteen eighties. My first big re-sales were to Arco, Amoco, and Unocal. In the mid-eighties I acquired over 100,000 leased acres in Cook Inlet. Today, part of that acreage is known as the Redoubt unit operated by Cook Inlet Energy. In 1995 I sold to Marathon a 50 % interest in the Sterling oil and gas unit which I acquired from Unocal. In 2010 we encouraged Apache to come to Alaska and purchase 200,000 acres we had leased in the Cook

Inlet. The Osprey, the last platform to be built in the Cook Inlet, was built to access a formation that was made interesting by geological and geophysical reports developed and presented by Danco Exploration.

For thirty years I've made a living from the royalty and partnership interests I have retained in producing fields I helped bring into production. I have high expectations for royalty interests I have in the fields Buccaneer Energy plans to drill next summer. No company has interests more closely aligned with Alaska's need to attract companies willing to buy and drill leases.

When ACES passed I refocused to take advantage of new investment opportunities made possible on the North Slope by ACES. Today, an investment partner Samuel H. Cade and I hold leases on around 200,000 acres on the North Slope.

Since ACES was passed we've sold leases to Pioneer, Brooks Range Petroleum, Bald Eagle, True North Energy, Buccaneer, Apache, Aurora, and Fox Petroleum.— True North Energy partnered with Savant to drill a well near Liberty and Duck Island. In total, we've sold around 200,000 leased North Slope acres. The hole Fox Petroleum and Savant drilled was dry. True North Energy elected to put Alaska behind; citing harsh regulations and uncooperative regulators for their decision. Several of those who we have sold leases to have publicly stated that the credits made available through ACES is why we are here. My fear is what will happen to future markets when our prospects observe the difficulty the independents we have sold to will have getting the oil they find into the pipeline without being the victim of excessive charges by the owners of the feeder-lines and conditioning facilities..

We at Donkel Oil have been aggressively selling Polar Petroleum on Alaska's cost participation program and recently sold them 40,000 acres. Polar Petroleum opened an office in Alaska last month. We are now negotiating a sale to an Australian company who has put us on hold, waiting to see what happens with SB-21. If SB-21 passes the House as it passed the Senate, it is less than likely that we will be closing that sale.

As written by the Senate, SB-21 will enable the major oil companies, BP, ConocoPhillips, and EXXON, to elbow small companies like mine off the slope. It is our hope that the Alaska House will have the wisdom to use SB-21 to not only keep the participation program created by ACES, we hope you will also use it to level the playing field between us and the Majors. We will bring more small players to Alaska if you do.

My experiences have convinced me that the Majors' don't want companies we attract on the Slope. We threaten their control of the basin. To such ends, the Majors use the regulatory system to their

advantage. Regulators give sway to the Majors but stand rigidly for independents and I will give you examples. The Majors have the time and financial strength to litigate and navigate regulations that keep smaller companies away. The Majors also have a need for reserve crude supplies that the independents do not. The Majors need crude they control as a back-up in the event a large source of crude is lost. A backup supply protects the Majors from losing their retail market share due to even a temporary interruption in their ability to meet their market share for retail refined products.

Smaller companies are not integrated from the well to the gas pump and have no such need. Smaller companies have a much shorter window of time to drill and produce before they are bled dry by an uncooperative regulatory system. It took a large company like Anadarko to challenge the excessive pipeline tariff. Companies of the size I deal with would likely go bankrupt if they had tried. Preferential treatment for the Majors comes in many forms and it is contributing to Alaska's production decline.

Hemi Springs is an example of regulators favoring the Majors. Hemi Springs is a proven approximate 500 bpd oil and gas field discovered by ARCO in 1984. Like point Thompson, Hemi Springs has had no production in 29 years. Repsol saw value and tendered a bid (***North Slope lease sale 2011 tract #973***) for the opportunity to develop it and their bid was denied. Last year (***NS 2012***) Donkel oil tendered a bid on the same tract and we are waiting for a response.

In contrast, just two miles from Point Thompson, Donkel oil made application for a unit to develop a discovery in the East Point Thompson Field, which was estimated to flow at 700 to 800 bpd. Donkel planned to drill an exploration well in August of 2015. Commissioner Dan Sullivan and his D.O.G. Director Bill Barron denied Donkel oil's unit application and there are no immediate plans to develop the find at this time.

My first point is this. The biggest obstacle in the way of my ability to attract new interments to Alaska's oil patch comes from the interference run by the Majors and those regulators who pander to their every wish. the biggest selling point has been the credits and the profits guaranteed by ACES.

My second point is; — someone needs to ask why DNR DOG is allowing ConocoPhillips to store the Hemi Springs oil in the ground. This is one of many examples where I believe the Majors are using Alaska as a warehouse reserve to be accessed in the event of an interruption in supply. Other examples include the Kavik Field, also held by ConocoPhillips for nearly thirty years and the Mikkelsen OIL Field, which Exxon, Conoco, and Shell have all held an interest in for nearly thirty years.

As passed by the Senate, the only thing SB 21 will produce is a windfall profit and a tighter lock on the North Slope for the Majors. For the independent oil and gas companies it will provide lawsuits and bankruptcies. And it may well put me and everyone like me out of business.

The only thing that's clear about SB 21 is just how unclear everyone is on how credits will be managed. Based on my long, successful history in attracting oil and gas companies to Alaska, I believe SB 21 is a deal killer. I believe DNR DOG will use its complication to arbitrarily pour money into the pockets of the Majors, while sandbagging the independents. I believe the simpler way of doing things outlined below would cause the Majors to produce more oil and I know it would enable me to pick up the pace of bringing new independents into Alaska's exploration and production market.

(1.) The State should just keep the tax portion of ACES and its progressivity as is on all participating areas in producing units as of the effective date of this act. Doing so would provide the State with the revenue necessary to fund a simplified flat 75% E&P credit on all non-producing units and on all E&P expenditures spent drilling for new oil north of the Brooks Range. New discoveries and new participating areas north of the Brooks Range should receive a 7-year (fixed royalty only) tax holiday for all new production on non-producing units or leases. ACES allows an extraordinarily generous profit for existing proven fields whose investors have recovered their investments years ago. Keeping ACES won't discourage production, and applying it, with its existing progressivity, to companies like mine, after seven years of investment recovery, would be more than fair. The Majors should like such a plan. It should incentivize them to explore more and produce new oil. If they don't, it's a good bet that they, for reasons of their own, have no intention of drilling for new oil under any circumstances. The credit should be monetized annually within 90 days of the FY year-end after the money is spent on E&P cost to be effective to cause new oil production and royalty income currently received on an oil and gas lease contract.

(2.) The State should steer clear of complicated and hard to audit tax credits. Complicated regulations create opportunities for arbitrary decisions by regulators who favor Majors over independents. The credit should cover permitting, well cost, roads, all seismic work, production facilities, gathering systems, pipelines, geological and geophysical work and other relative costs that cause new investment, including reasonable promotional costs to find new investment partners to find new oil and produce. The tax holiday should begin when production of oil or gas is placed on line and end seven years thereafter.

I've spent 30 years in Alaska investing and bringing oil companies to Alaska to explore. A system that favors the Majors has prevented all small independents from ever making a profit in Alaska.

I realized this years ago and consequently chose to use my knowledge and experience to compete, where the Majors could not interfere. With the help of some of the world's best geologists I carefully select the most marketable oil and gas leases I can find, and display them year after year at the North American Prospect Expo, (NAPE). — NAPE typically has over 17,000 attendees. Many of those attendees are there in search of exploration opportunity. My exhibiter booth is always well equipped and well staffed with maps, geophysical data, and Geologists familiar with the North Slope and the leases were promoting.

My goal at NAPA is to attract oil companies to Alaska who will drill and produce. The goal of Alaska's Legislature is to attract oil companies to Alaska who will drill and produce. No one has interests more clearly paralleled with Alaska's interests than Donkel Oil and Gas. If SB 21 is amended to reflect these recommendations, my job will be much easier and Alaska will be the biggest winner.

I have been studying the oil and gas Industry for decades. I've compared regulatory systems and tax regimes all over the world. From that learning experience, I believe there are three things Alaskans need to know. (1.) If you give a fully integrated major oil company control of your basin, they will abuse you. (2) No matter what tax regime you install, the Majors will always say it's not enough. (3.) Contrary to what the Majors would have you believe, ACES is generous in comparison to the majority of the tax regimes around the world. My ability to explain the generosity of ACES at my booth has enabled me to attract several independents to Alaska.

If you want to ramp up the salability of Alaska, give us who do the selling the tools.

1. Adopt a simple easy to explain 75% exploration and production credit that can't be manipulated to exclude independents
2. While leaving a fixed royalty in place, provide a seven year exemption from taxes for all new production outside of the existing participating areas:
3. Leave the ACES tax, including its progressivity as is for all existing participating areas:

Alaska would then have one of the strongest producer magnets in the world.

Thank you for your time and consideration,

Best Regards,
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