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VIA Email & Facsimile

April 9, 2013

Honorable Bill Stoltze
House Finance Committee Co-Chair
State Capitol, Room 511
Juneau, AK 99801

Dear Representative Stoltze,

Thank you for inviting Savant Alaska LLC ("Savant") to offer testimony regarding SB 21 Oil & Gas Production Tax. In lieu of having a representative present in person, Savant offers this written testimony.

Savant first began investing in North Slope state leases in May of 2006. In the winter of 2008, after licensing some 200 square miles of 3D seismic data, Savant drilled its first exploration well, a dry hole, from remote, man-made, ice island in the Beaufort Sea. In the winter of 2009, Savant, with its working interest partner ASRC Exploration LLC ("AELLC"), began actively drilling and exploring in the Badami Unit as a result of a commercial agreement with BP Exploration (Alaska) Inc. ("BP"). In the winter of 2010, Savant made its first discovery in a secondary Killian sand exploration target located within the Badami Unit. The primary horizon in this well was dry. During that same winter ice road season, Savant notably drilled the first horizontal well in the Badami Sands pool. Later that year, Savant and AELLC elected to restart the then dormant Badami processing plant and pipeline to resume production from some of the wells in the Badami Sands PA, the new horizontal well, and from the Killian Sands discovery well.

In January 2012, Savant succeeded BP as the Badami Unit operator and became just the fifth production operator on the North Slope of Alaska. The Badami Unit has produced over 1.1 million barrels of oil at an average of 1279 barrels of oil per day since production was resumed and new oil was brought on line in November of 2010. The Badami Unit continues to produce at about the same level today.

The Badami Unit, with low production and high operating cost, is a marginal oil project by any standard. There is no gravel road access from the main North Slope infrastructure, drilling activities are limited to winter when ice road access is available, open water barging operations only offer some minor well services support in summer, and air transport must be relied upon at all other times. Even so, production from the Badami Unit employs approximately 45 contractors and Savant employees, the majority of whom are residents of Alaska, to operate the Badami Unit. Without the herculean efforts of its contractors and employees, and the various tax credits available under the original ACES legislation, Savant and its

working interest partner, AELLC, could not have accomplished what they have to date at the Badami Unit.

The overarching issue facing the State of Alaska is that any new oil to be developed outside of the Prudhoe Bay – Kuparuk infrastructure, and perhaps Alpine, is likely uneconomic to develop or “marginal” for the following reasons:

1. The complete lack of road infrastructure to known or unknown accumulations makes it cost prohibitive to develop them. Savant has built an expensive, disposable ice road to Badami each year that it has been on production in order to drill new wells and service existing wells;
2. The lack of robust service company support for the intermittent use of independent oil companies. On numerous occasions in the past, Savant has been unable to secure ad hoc services for well work preventing it from increasing oil production from its operated wells;
3. The high operating costs associated with operating on the North Slope. Exploration targets and production levels must be significant in order to justify new processing facilities, transport employees and contractors to worksites, and carry the higher than average drilling and development costs. Savant could not economically produce oil from the Badami Unit if the existing pipeline and production facilities were not already in place; and
4. By any standard, the production tax rates are too high for the marginal quality exploration and development opportunities that are available to lead to new oil flowing down TAPS. The difference between the most recent developments by Savant, Pioneer and ENI on the North Slope and the mainstay fields is that without tax relief in the form of Qualified Capital Expenditures, Net Operating Loss Credits, and the Small Producers Tax Credit these “new oil” projects would not be economic to develop and produce.

The proposed SB 21 Oil & Gas Production Tax legislation will negatively impact Savant’s ability to maintain or grow existing production, both in the Badami Unit and on its leasehold outside of the Badami Unit, for the following reasons:

1. The elimination of “a credit for a qualified capital expenditure incurred to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude” after December 31, 2013 will cause Savant to invest less of its capital in the marginal exploration and development opportunities in the Badami Unit.
2. The Gross Revenue Exclusion (GRE) not being allowed for new oil within the existing Badami Sands PA will cause Savant to invest less of its capital in the marginal development opportunities within the Badami Sands PA.
3. By not extending the Small Producer Credit under AS 43.55.024 to 2022, Savant, a very small producer, will be less likely to explore for and develop any oil and gas deposits on its leasehold outside of the Badami Unit.

4. Removal of the modification of the Exploration Tax Credit (ETC) that eliminated the 3-mile buffer for drilling and extended the deadline for ETC's to 7/1/2022 removes any incentive for Savant to explore the small, one-well, marginal exploration targets within the Badami Unit not associated with any current production and on its leasehold outside of the Badami Unit.

In closing, Savant urges the House Finance Committee to consider certain changes to the proposed SB 21 to provide further incentives for small producers and new entrants to continue to explore and develop the smaller marginal targets, in and outside of existing units, on the North Slope of Alaska.

Thank you again for allowing Savant to submit this written testimony.

Very Truly Yours,

A handwritten signature in blue ink, appearing to read "Greg Vigil", with a stylized flourish at the end.

Greg Vigil, President