

**Alaska State Legislature
House Finance Committee
April 9, 2013**

**Testimony of Doyon, Limited
on CSSB 21 HRES Version K**

For the record, my name is Sarah Obed, and I serve as the Director of Government Relations for Doyon, Limited. I am also a tribal member from Minto, Alaska and a Doyon shareholder.

Doyon's mission is to enhance our position as a financially strong Native Corporation in order to promote the social and economic well-being of our shareholders, strengthen our Native way of life, and enhance our land and resources.

Doyon, Limited is headquartered in Fairbanks and is the largest private landholder with a 12.5 million acre land entitlement in the Interior. Our lands extend from the Brooks Range in the north to the Alaska Range in the south, and reach westward from the border almost to Norton Sound.

Our other asset is our people. We have over 18,700 shareholders, the majority of whom live here in Alaska. We also have over 2700 employees within the Doyon Family of Companies. And within the Doyon Family of Companies, several businesses provide oilfield services.

Doyon Drilling is our premiere company, owning seven advanced drill rigs which are specifically designed to operate in Alaska's northern climates.

Doyon Universal Services, a joint venture with Sodexo, prides itself on being the industry leader among support services contractors in Alaska and provides for both urban and remote-site catering, maintenance, janitorial and housekeeping services. DUS also provides high end security, and is the recognized leader in critical infrastructure protection.

We recently also got into the camp services businesses with our investment in Doyon Remote Facilities and Services, and Doyon Emerald provides engineering and technical support.

Doyon Associated, our joint venture with Associated Pipeline Contractors, is Alaska's premier pipeline contractor. Doyon Associated has skilled personnel and an extensive fleet of equipment. They work to continually improve North Slope construction efficiencies and also commit to environmental and workforce safety.

These companies employ over 1400 employees, and like Alaska, our livelihood depends on a healthy and sustainable economy, with a competitive investment climate. Therefore, we testify today in support of the oil tax reform effort.

We are supportive of oil and gas tax changes as beneficiaries and participants in oilfield support services. Doyon must look to the future for business opportunities on behalf of our shareholders and employees. We know oil and gas exploration and production are down, and that vast oil and gas opportunities remain in Alaska.

One of our highest priorities is looking for them on both State and Doyon owned lands. James Mery, our Sr. Vice President of Lands and Natural Resources is here with me today to highlight our exploration activities in Alaska's Interior.

For the record, my name is James Mery, and I am the Sr. Vice President of Lands and Natural Resources. I head up the Doyon oil, gas and hard minerals exploration efforts. Today, I want to talk about the areas where Doyon is exploring for hydrocarbons in areas outside of Cook Inlet and south of the Brooks Range, in an area affectionately known as Middle Earth.

Ultimately I want to focus on two sunset provisions in current State tax law that are not addressed in SB 21. Failure to extend these laws will affect greatly future exploration in Middle Earth. The first is AS 43.55.025(a). Exploration credits -- these are the 30% and 40% credits in place for several years and sunset in 2016. These credits have statewide application. And the second, AS 43.55.011(p), this Middle Earth specific is a limited production tax cap which sunsets at the end of 2021, and this provision passed last year.

Other ANCSA Corporations in Middle Earth, such as NANA and AHTNA; and while we don't speak for them, they are also affected in similar ways to Doyon, by these provisions. Here is more background information on our frontier exploration efforts in Middle earth, and why the extension of these provisions is vital to work.

If you limited our discussion on Middle Earth to only the Interior, it is a vast area that is larger than the size of the State of Texas, yet there is only one deep test well and a handful of seismic programs. Doyon is conducting frontier exploration, in an area where there are no commercial discoveries or production in Middle Earth. In fact, we are the only Company conducting frontier exploration onshore in Alaska, and because of that, the exploration risk is very high.

We have put together a great team of highly experienced exploration geoscientists and engineers, including Michael Richter, Arco Exploration Vice President, and Frank Brown, affiliated with Alpine field - and numerous others associated with Petrotechnical Resources of Alaska.

In a very short time, we have established that there are several deep sedimentary basins in Interior Alaska, and they have active petroleum systems-- they are generating wet gases and oil. We believe that these areas are capable of generating billions of barrels of oil.

Doyon's current exploration efforts focused on finding oil to put in to TAPS, and gas for local in-state use is also a secondary goal. Frontier exploration risk is shared currently with the State through the expiring exploration credits program, and without that assistance our exploration programs would not have taken place. The State has been a great partner, and in particular, we have received a lot of support from the Alaska Division of Oil and Gas.

We are exploring in the following areas:

1) We hold 400,000 acres in state leases in the Nenana Basin. These leases were converted from a state exploration license, and we also have licensed heritage data sets from major oil companies. We conducted two 2D seismic programs in 2005 and in 2013. We also drilled one well in 2009 and will be drilling again this summer. In fact, we just completed 8 mile road extension and completed the well pad. Nenana is our highest priority now, because we are on the clock - seven year state leases, time to make discoveries so we can extend some of them.

2) We are also exploring in Yukon Flats on 1.3 million acres of Doyon and village owned ANCSA lands. We conducted two seismic programs at Stevens Village, one 2D program in 2010 and one 3D program currently underway.

There are other geophysical and geochemical exploration in all three sub-basin, and hope to drill there soon. Success in the Yukon Flats could lead to renewed exploration in nearby Kandik area adjacent to Canada border.

All of these basins were areas of interest and enjoyed exploration efforts by major oil companies a generation or more ago, including ARCO, Shell, Exxon, Amoco, and Chevron. Yet there are numerous examples all over the world where majors came into frontier areas, got discouraged or company priorities shifted, and left. Then small companies come back in to the same areas a generation or two later and make major hydrocarbon finds using heritage data sets, new exploration and new ideas. This is our basic business model.

Doyon is just getting started in exploring these areas. Within Nenana and Yukon Flats basins, there are at least five large areas of promise, two at Nenana (North and South) and three in Yukon Flats (at Steven's Village, Beaver and Birch Creek); these areas are grossly under explored.

However, based on new and old data-- geophysical, geochemical and limited drilling, we believe each of these five areas are permissive of holding hundreds of millions of barrels of recoverable oil - some or all of these areas may be uneconomic. Only time and more exploration will tell.

That is why we respectfully request that you consider the five year extension (through 2022) for the 30 and 40% exploration credits found in AS 43.55.025(a).

Without this state risk sharing with us, or unlikely early exploration success in these frontier areas, exploration by Doyon in most, if not all of these areas of significant promise will likely cease. We need the State as our partner past 2016.

Finally, want to address legislation passed last year which places a cap of 4% on the gross value of production for a limited period on new production from Middle Earth. This legislation is found at AS 43.55.011(p).

This is a provision of critical importance for exploration in Middle Earth. If we were to make a discovery, it provides simple certainty during the capital investment recovery phase of new projects in Middle Earth, where there is no oil and gas production infrastructure and where we have unknown permitting and litigation risks.

The problem with current law is the provision requires a company to be in production by 2022 to take advantage of its provision. This is an unrealistic deadline for possibly all of the five areas we are exploring. Given the early stages of exploration there, and the well established time cycles 8-10 years or more to get to production once you make a discovery in a truly frontier basin. To make this important provision meaningful, the sunset date needs to be pushed out at least five years to 2027.

Thank you for the opportunity to provide these comments

Sarah E. Obed
Director of Government Relations
Doyon, Limited