

3700 Center Point Drive

Anchorage, AK

February 5, 2013

Testimony to Senate Special Committee on TAPS Throughput (Senate Bill 21)

Co-Chairs Senator Micciche, Senator Dunleavy and Senators on the Committee:

My name is Douglas Smith, President and CEO of LRS Inc and President of the Alaska Industry Alliance.

Thank you for your service to the people of Alaska and working the difficult issue of increasing TAPS production.

The Alliance represents over 400 member companies and 35,000 Alaskan Workers.

LRS is a Hot Oil business with 148 employees working on the North Slope.

I am testifying on behalf of the Alliance.

The alliance supports the framework of SB 21 and the intent of the Governor to make Alaska competitive for additional investment and increased oil production.

Production is down 27% since 2007 despite continued high oil prices

Total Capital spending has been flat since 2008 and when adjusted for inflation a decrease year to year since 2010. For the large producers, and the bulk of where our oil comes from, the capital spend in 2012 is \$62 million less and \$100 million less when adjusted for inflation.

Some have focused on new entrants to the North Slope and despite capital spending that is equal to 50% of the large producers the group accounts for less than 10% of the production and some of that is inside mature units.

New unit production, those producing after 2003, are less than 5% of daily production. Despite the high investment and limited production gains the new entrants are a key component of Alaska's future and have provided not only additional production but a significant boost to our local economy by spending 100s' of millions in the state while others have reduced spending. These new entrants have more opportunities and our tax policy must continue to support their development efforts. As we try to stem the decline it is the aggregate production gain that matters when discussing the new developments.

The easy oil is gone and the cost to develop new sources of oil is many times that of earlier developments. Alpine was developed for a billion dollars and delivered 80,000 barrels per day but now CD5 will cost a billion dollars and deliver 18,000 barrels under a very different and less profitable tax policy.

In 2005 179 wells were drilled on the North Slope while ANS crude was \$51 per barrel. In 2012 we drilled 140 wells, a 25% reduction despite oil prices topping \$100. ACES is working if we are harvesting and have given up on the long term potential of our oil resource the pathway to LNG development and the next generation of Alaskans economic prosperity.

We are 3 years into a rigorous debate on our tax policy while production continues to decline and some Senators tell us that ACES is working. Senator Wielechowski who wants to debate the Governor on oil tax policy along with Senator Ellis would like to bring back Gaffney, Cilne and Associates who worked on ACES to advise legislators. That group produced graphics in 2007 that show Capex for drilling at 3.7 billion from 2008 to 2012 and incremental oil of over 200,000 barrels per day by 2012. Given the inaccuracy of that forecast of how our oil and gas investment and corresponding production has turned out I would not listen to the Senators in question or the consultants they would like to have advise legislators on tax policy. The work provided by econ One and PFC Energy is comprehensive and provides the information necessary along with testimony to move forward with legislative decisions.

We cannot waste more valuable time on fool hearted follies or consultants that steered us into this path of declining investment while our oil producing peers have seen extraordinary growth, prosperity and increased production. Despite an aging field environment Texas has seen a production increase in the last 10 years while our production has dropped 40%. It is long overdue to correct our tax policy and make Alaska competitive for the investment needed to sustain our oil production for the long term.

Senate Bill 21 is a good start to achieve this goal however we suggest the following considerations:

- 1) Ensure our tax policy adjustments do not increase taxes in the range where producers will stress test the economics of investment opportunities, thought to be in the \$80 -\$85 range.
- 2) Ensure our tax policy does not disincentive development within existing PA's where the largest production improvement opportunities exist.
- 3) Oil policy must support the new entrants like Pioneer and ENI who are producing oil into TAPS and spending millions in our state economy. Our policy must encourage them to continue that investment trend.
- 4) A new tax policy must make Alaska competitive for investment but protect Alaskans interest. A fair and balanced approach will be durable.

We urge you to act fairly but expeditiously on this legislation and allow Alaska to become more competitive in investments for new oil production.

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