Alaska Oil and Gas Association

AOGA

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Kara Moriarty, President/CEO

May 28, 2016

Representatives Nageak and Talerico
House Resources Committee Co-Chairs
Alaska State Legislature
Juneau, AK 99801

Dear Representatives,

HB 246 would establish an oil and gas infrastructure development fund, which may sound like a good idea on the face of it. So I would like to explain briefly why we oppose it.

AOGA is a diverse group, ranging from producers and explorers to refineries and pipeline companies. But even with all the challenges our industry has been facing the past year, not one of my member companies has ever voiced concern about a shortage of state loans to weather this downturn.

If there isn't a clear unmet need, why expand loan programs? There are better things to do with the money.

Through the collective voice of AOGA and individually, active explorers and producers across Alaska have testified repeatedly that the incentives and tax policies Alaska already has are working — they are doing exactly what they were supposed to do, and frankly, accomplishing the very intent set out for HB 246 in AIDEA's presentation dated March 16, 2016.

For instance, the current fiscal system <u>is</u> attracting small and medium sized companies to Alaska, production <u>has</u> increased from last year to this, and new fields <u>have</u> come online. The current system is attracting new investment, resulting in more jobs, more production and, yes, even more state revenue than what there would have been without that investment. Utilities have testified that increased investment and production have resulted in more short-term energy supply contracts for Southcentral Alaska.

If necessary, small producers have secured existing loans from third-party lenders. These third-party loans were typically designed to cover the producer's portion of development costs that would be in addition to the amounts funded by the current tax credit laws. These third-party lenders typically hold a first-lien position on all assets. In order for the state to obtain a first-lien security for any state-funded loan, the state must either: a) fund a large enough amount to replace and pay off the existing first-lien loans; or b) the parties who already have a first-lien on the security must surrender their position to the state. The first option would likely require very large funding amounts by the state, and the second option is highly unlikely.

Moreover, even if more state loans were beneficial for the State, it would be taking on greater risk about the creditworthiness of borrowers and the soundness of the loans. And here's where HB 246 is fatally flawed — its definition of "proven reserves" in Section 13.

The Securities and Exchange Commission spent years developing a definition of "proven reserves" that would work with respect to honest "proven reserves," but would prevent charlatans and hucksters from scamming the public with oil and gas "prospects" with no reserves, or without any truly "proven" ones as industry uses the term.

AOGA says this with absolutely no intent to disparage or impugn the character or motives of anyone who has been supporting HB 246. But we have to say this because — if you don't get "proved reserves" right — <u>real</u> charlatans and hucksters <u>will</u> come to try to borrow from you with their own version of "proved reserves" as collateral. If the State is going to make any of these loans at all, it must use the safe definition that the SEC developed — which would also let the SEC investigate and prosecute suspected abuses without having to hire a squad of state investigators and prosecutors to do it.

In closing, we would advocate for the state to retain its current fiscal system, versus creating a new and expanded loan program. Why create a new program when the current system is already achieving the desired results of the proposed oil and gas investment fund?

Sincerely,

Kara Moriarty

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