Written Testimony for CSHB 111 (RES)
For House Finance Committee

Submitted by Sarah Obed
Vice President of External Affairs for Doyon, Limited

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Introduction

Doyon is the state-chartered Alaska Native Claims Settlement Act regional corporation for Interior Alaska. Doyon has over 19,500 shareholders, most of whom reside within the state.

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

Doyon is the largest private landowner in the state, and one of our highest priorities is the continued exploration for oil and gas resources on lands owned by the state and Doyon in the Minto Flats/Nenana Basin. Doyon has approximately 250,000 leases from the State and Mental Health Trust, and Doyon pays $3 dollars per acre, per year in rentals for these leases. This is where Doyon's exploration focus remains. However, success in the Nenana Basin would demonstrate potential in the much larger and geologically similar Yukon Flats basin. One of the most prospective parts of the Yukon Flats is near Steven's Village, only thirty miles from the Trans-Alaska Pipeline System.

Middle Earth Exploration and Potential

The structure of the Alaska oil and gas production tax is vital to the exploration and development of areas of the state sometimes referred to as "Middle Earth," which encompasses all areas of the state south of the North Slope and outside of Cook Inlet. Middle Earth includes the Nenana Basin and Yukon Flats in central Alaska where Doyon holds oil and gas interests, including several hundred thousand acres of state leases. Middle Earth also includes Kotzebue, Copper River, Bristol Bay, and the Aleutians. These areas are uniquely situated and the opportunities and challenges for economic development and oil and gas exploration and development are dramatically different than the opportunities and challenges on the North Slope and in Cook Inlet.

Currently there is no oil or gas production in Middle Earth and the prospective basins are unexplored or underexplored, with no commercial discoveries. Federal and state studies indicate that many of the basins in Middle Earth are highly prospective areas for oil and gas. Some areas are near infrastructure and could be quickly developed to bring oil and gas into production in the near future. There are great opportunities for major oil and gas discoveries that could accelerate economic development and provide jobs, local sources of gas to communities, revenues from royalties, lease rentals, and taxes, and also valuable well and seismic data.

There are several Middle Earth projects that are moving forward and production tax credits impact these projects and the appetite for investment in them. Doyon has drilled three wells showing oil and gas, and shot seismic in the Nenana Basin and Yukon Flats. Doyon has advanced its projects from unknown potential to the demonstration of an active hydrocarbon system. The system present includes good source rocks, excellent reservoir rocks, and a near gas discovery. These opportunities are roughly 40-60 miles from the Trans-Alaska Pipeline and the likely route of a major gas line, and can provide gas to Fairbanks. These projects are already spurring economic development and providing revenue to the state and localities—Doyon has paid the state millions in lease rentals over the last several years. This is further exampled by Doyon's continued exploration, which includes a 64 square mile 3D seismic shoot that is currently underway.

The oil and gas production tax credits are vital to Middle Earth exploration and development, but the amount of credits associated with Middle Earth activity is miniscule compared to the total amount of credits in the state. Total rebates to Doyon for the last decade are estimated to be approximately $64 million, or less than 7 million dollars per year on an annualized basis. Because Doyon's prospects are near infrastructure, the minimum economic size needed to develop an initial discovery is 30-40 million barrels when oil is in the $50-70 bbl range. A single oil discovery could yield several hundred million dollars in oil royalties alone, and the Nenana basin has multiple opportunities for accumulations well in excess of the minimum field size. Success with one of these traps strongly suggests that there will be success with many others. There are also significant opportunities for gas production, estimated to yield enough gas to supply Fairbanks for decades. In addition, over 30 local groups provided services for Doyon's 2016 programs and over 150 people were directly employed. Such opportunities are repeatable throughout the basin, and would also lead to multiple opportunities throughout the Yukon Flats basin.

Overwhelmingly, Doyon's oil and gas exploration investment dollars in the Nenana basin have gone into State of Alaska and Alaska Mental Health Trust ("MHT") lands. In addition to several hundred thousand acres of state leases, Doyon holds about 9,500 acres in a Mental Health Trust lease. By comparison, Doyon owns only about 43,000 acres in the basin. The vast majority of seismic Doyon has gathered has been on state lands, the wells that Doyon has drilled have been on state and MHT leases, and the well Doyon drilled last summer targeted a trap located on both state and Doyon lands. The all-weather road access constructed by Doyon has been on public land—state, MHT and City of Nenana. Other traps imaged in the central part of the basin are on shared lands, and traps in the northern and southern parts of the basin will all be on state lands. The state and MHT will continue to benefit from lease rentals and will benefit from royalties if production commences. Further, production from all lands in Alaska, public and private, is subject to production taxes.

Doyon Oil Field Services

The Doyon Family of Companies includes several businesses providing oilfield services. These businesses include Doyon Drilling, our premiere company, which owns eight advanced drill rigs specifically designed to operate in Alaska's northern climates, including rigs specifically designed for deep exploration in unexplored areas with little or no infrastructure. Doyon Associated, our joint venture with Associated Pipeline Contractors, works to improve North Slope construction efficiencies and is committed to environmental and workforce safety. Doyon Remote Facilities and Services provides camp services, and Doyon Anvil, our joint venture with Alaska Anvil Incorporated, provides engineering and design, process safety, risk management, project management and construction coordination support services.

The success of the Doyon Family of Companies directly impacts Alaska's residents and economy. Doyon and our oil field services companies are based in Alaska and have excellent records of hiring Alaska residents. Most of Doyon's 19,500 shareholders reside in Alaska. The result is that the benefits of our activities and profits stay in Alaska.

Our businesses, like the Alaskan economy, depend on a healthy and sustainable economy, with a competitive investment climate. In this low oil price environment, our businesses have had to adapt to a downturn in investment, and as such Doyon urges the Alaska State Legislature to minimize changes to the oil and gas tax policy. As Doyon must look to the future for business opportunities on behalf of our shareholders and employees, the state of Alaska must also consider crafting long term polices that yield positive economic and social impacts through jobs, training, workforce development and investment. Although we applaud the intent language in HB 111 about the need to purchase outstanding tax credit certificates, HB 111 creates a less competitive environment in the oil and gas sector, and contributes to the ongoing instability in taxation and regulation by the state of Alaska for this industry.

Further, several components of HB 111 would directly and negatively impact oil and gas exploration and development in Middle Earth.

- HB 111 would take away the ability to obtain rebates from the state for loss credits under AS 43.55.023(b). The ability to monetize the tax credits through a purchase of them by the state is crucial for investment in oil and gas exploration and development in Middle Earth, and removing that option for loss credits for Middle Earth exploration and development expenditures will hamper those activities. The fact that the loss credit was reduced from 25% to 15% *just last year through the passage of HB 247* in and of itself justifies leaving the program unharmed.

- Current law provides that applicants for rebates of tax credits must produce a daily average of less than 50,000 BTU equivalent barrels to qualify for the rebates. HB 111 would reduce that to a daily average of 15,000 BTU equivalent barrels. This further constricts the ability to obtain rebates for tax credits to a very narrow band of companies with very little or no production. The result would be a reduction in investment for Middle Earth exploration and development. The rules regarding purchase of credits by the state were overhauled *just last year through the passage of HB 247*—we cannot see a reasonable basis for another change.

- AS 43.55.029 allows an applicant for a tax credit certificate under AS 43.55.023 or AS 43.55.025 to assign the certificate and proceeds to third parties. This is a useful option that facilitates investment in, and financing of, oil and gas exploration and development projects—with no negative financial impact to the state. Yet HB 111 would repeal AS 43.55.029, removing the ability to assign certificates. Given that exploration credits under AS 43.55.025 have sunset everywhere but Middle Earth, and that the qualified capital expenditure credit under AS 43.55.023(a) and well lease expenditure credit under AS 43.55.023(*l*) are only available for Middle Earth projects after 2017, the repeal of the ability to assign certificates under these programs would directly harm Middle Earth projects. Further, this repeal would apply to credits "applied for" on or after January 1, 2018, which has a retroactive impact when parties have agreed to assign credits generated by expenditures incurred before January 1, 2018, with the credit application to follow sometime after that date. This would be detrimental to current commercial arrangements involving 2017 expenditures that would require an assignment of credits in 2018.

- Last year, the legislature expanded public disclosure of information regarding tax credits to include the names of companies from which the state purchased credit certificates and the amount purchased from each company each year. Now, before the Alaska Department of Revenue has even published that information, HB 111 would add additional reporting and disclosure requirements, including descriptions of expenditures and the properties for which the expenditures were incurred, and "a detailed description of the purpose of the expenditure." Not only could this very broad language create excessively cumbersome reporting requirements, but it would likely lead to disclosure of commercially sensitive information that is rightfully held confidential under current law.