

From: "Bruce Webb"

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Subject: HB 238

Dear Representative Guttenberg,

I have a copy of the referenced Bill that was supplied to me by the AOGA.

I am surprised I was not invited to testify on this Bill today, since Furie is the only other natural gas producer in the Cook Inlet with the ability to continue to compete in the market with Hilcorp and relieve the State of Alaska from Hilcorp's monopoly and an ongoing Consent Decree.

I have concerns about Sec. 2 of the Bill. Specifically the repeal of AS 38.05.180 (f)(5), (f)(6), and (dd).

To the contrary of what you are proposing, I believe those section should be amended and expanded.

Currently, Furie is trying to find a way to supply natural gas for the IEP. However, the required sales price is too low to be economical.

A sales price of \$4.25 is about \$2.50 below current market and would cost Furie 2 to 3 million in lost revenue.

However, if AS 38.05.180 (f) (5) or (6) were amended to include Furie for the 10-year royalty reduction, it would save Furie about 3 or 4 million per year in royalties – enabling Furie to offset gas sales losses for the benefit of the people in the Interior. Realizing of course, the success of the IEP would lower the Interior Energy costs and improve the air quality for those residents.

Also, (f)(5) and (f)(6) were put into place for companies like Unocal, Marathon, Aurora Gas, and Force Energy to help them establish new infrastructure and production in the areas of the Cook Inlet that were much more expensive to operate – specifically, the offshore. Furie has invested

about \$700 million in the Cook Inlet since 2011. We have lowered the gas cost to Homer Electric and Enstar by 12 to 18 percent. We are the only company with enough reserves and potential deliverability to keep the Cook Inlet from being a monopoly again.

As it turns out, the “Cook Inlet Discovery Royalty” has little benefit because of how limiting its interpretation is. See attached.

In addition, with the sunset of the tax credit program and the potentially losing the ability to finance, assign, or “cash-in” tax credits, a royalty reduction for the Kitchen Lights Unit would help offset this unexpected loss of cash flow and encourage/assist us in continuing exploration and new developments.

Natural gas and oil produced from the Cook Inlet also benefits the Interior. Virtually everything that goes to the Interior has to go through the Cook Inlet region – the cost of energy in the Cook Inlet directly affects the cost of food, clothing, building material, freight, and fuel to the rest of Alaska (excluding those parts of the panhandle that get supplies directly from Seattle).

As the days of the extended session come to an end, I would like the opportunity to come to Juneau and meet with you about an amendment to your bill. Please see the attached. It was originally drafted in 2011 as HB 32– but did not get any traction. A simple amendment to (f)(5) or (f)(6) would incentivize Furie to pursue other sub-economic markets... like the IEP.

Please let me know if you would like to discuss this and possibly consider it. Thank you for your time.

Best Regards,

Bruce Webb
Sr. Vice President