



# BP Testimony to Senate Finance

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# Alaska's Future

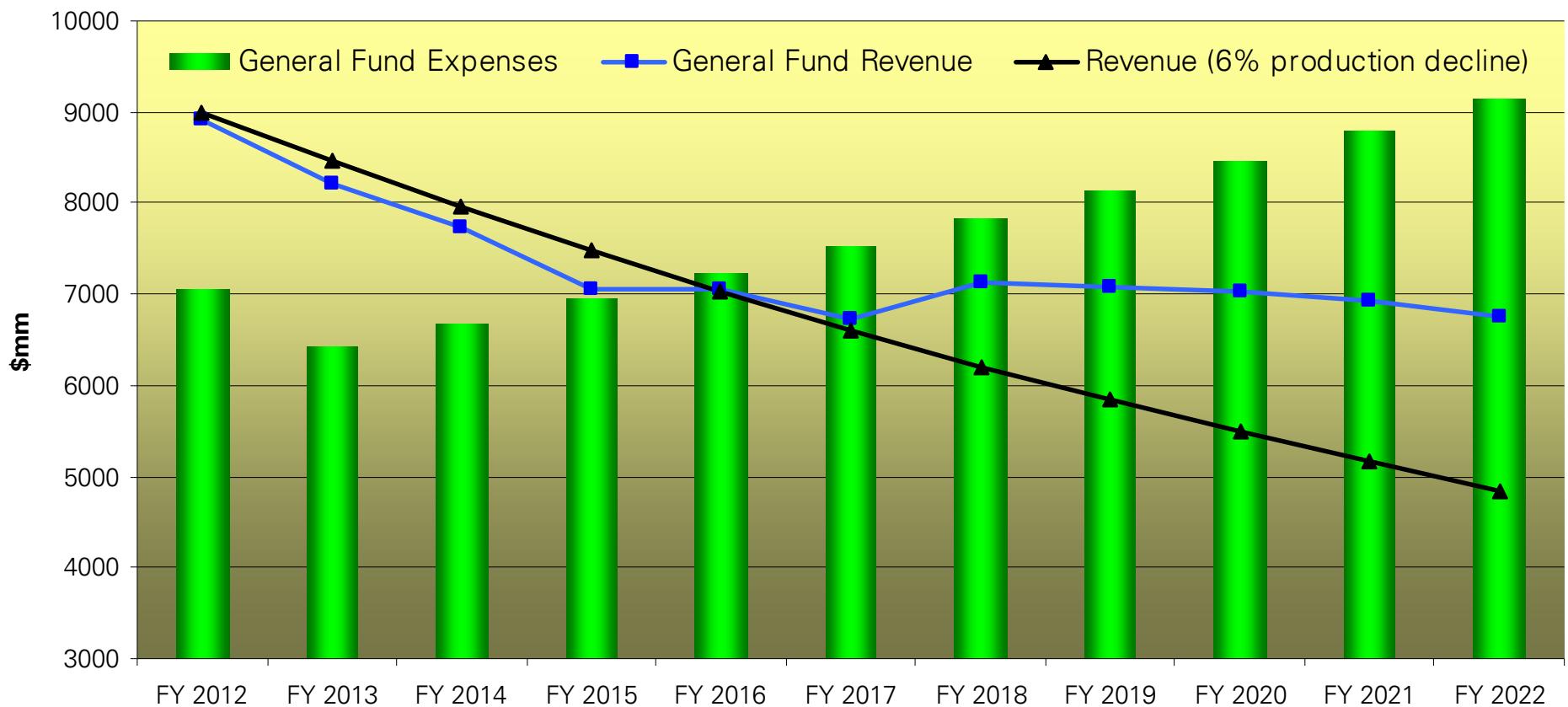


- ACES is not working
- More investment is needed to increase production
- Policy must focus on long-term solution



# Declining production is a crisis for the State

**GF Revenue versus Appropriations FY12 to FY 22**  
**Fall 2011 Revenue Forecast With 4% GF Growth beginning in FY2014**

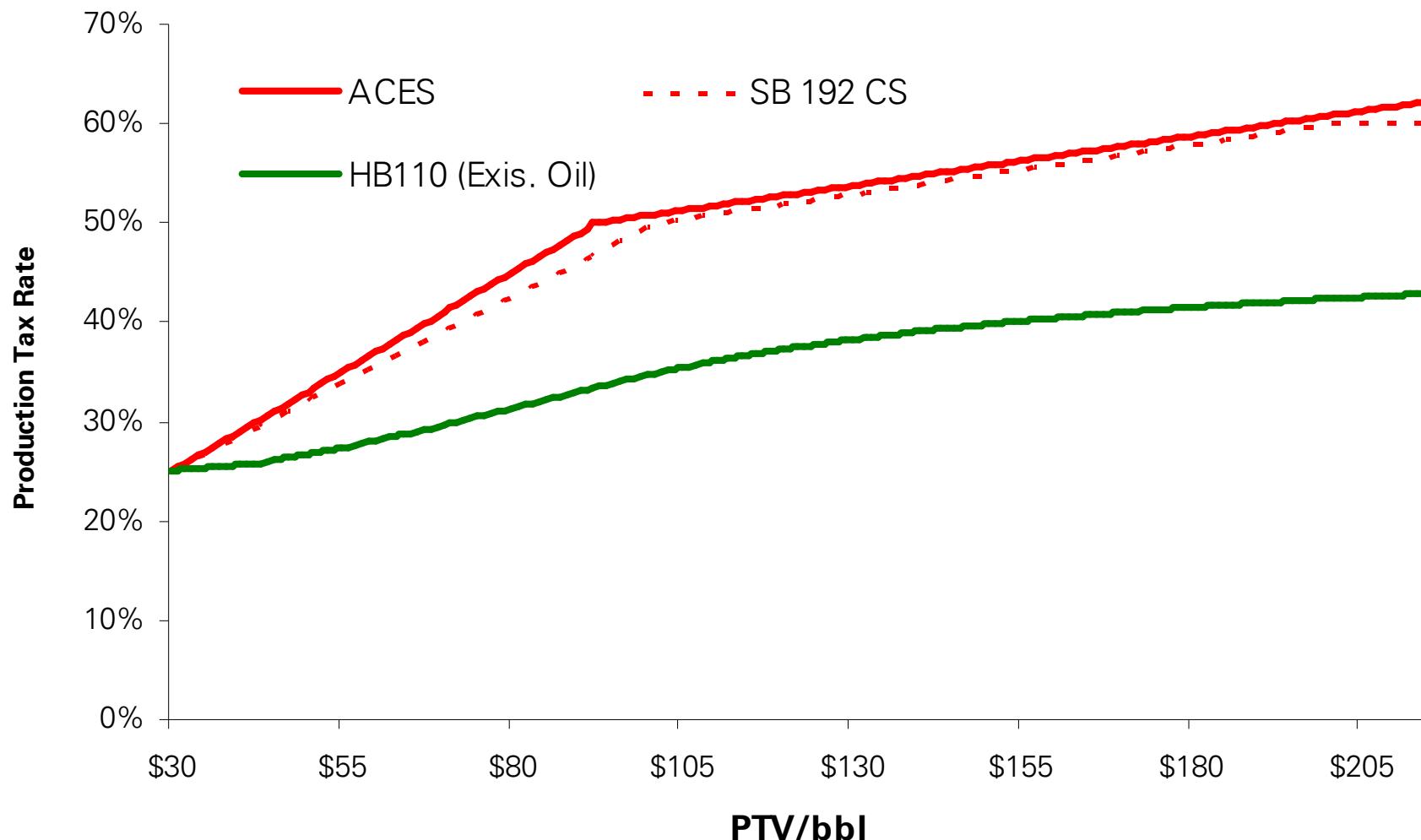


## State's experts – ACES is not working



- Pedro Van Meurs – ACES makes AK non-competitive internationally. “No large and attractive projects available in Alaska under current fiscal terms for major oil companies. Attractive opportunities outside Alaska.” PVM, February 13, 2012, pg 22
- ACES encourages harvest, not growth. “ACES – Effective as a Harvest Area Fiscal Regime” PFC, March 15, 2012, pg 28
- AOGCC - development drilling is down

# CSSB 192 (Senate Resources) is not the answer



# CSSB 192 is not the solution



Component	Description	Meaningful	Explanation
Progressivity	Changes progressivity from 0.4% to 0.35%, maximum of 60%	NO	The impact of the reduction in the progressivity is limited to around a single percentage point of government take at \$100 ANS crude (PFC to Senate Finance, March 15, 2012, page 51)
New Production	<b>\$10 off PTV for exceeding production target</b>	NO	<b>The impact of the \$10 allowance for "new oil" is almost undetectable. (PFC to Senate Finance, March 15, 2012, page 52)</b>
Minimum Tax	Higher of 10% GVPP or ACES	NO	A tax increase will not increase investment. Huge tax increase at lower prices (DOR to Senate Finance, March 14, 2012, pg12)
Decoupling	<b>De-links oil and gas for purposes of allocating expenses</b>	NO	<b>The focus now must be on the light oil business that is the foundation for all else</b>
Petroleum Information Management System	Data collection for information reported to DOR, DNR, DL&WFD	NO	Many administrative and confidentiality challenges, due process

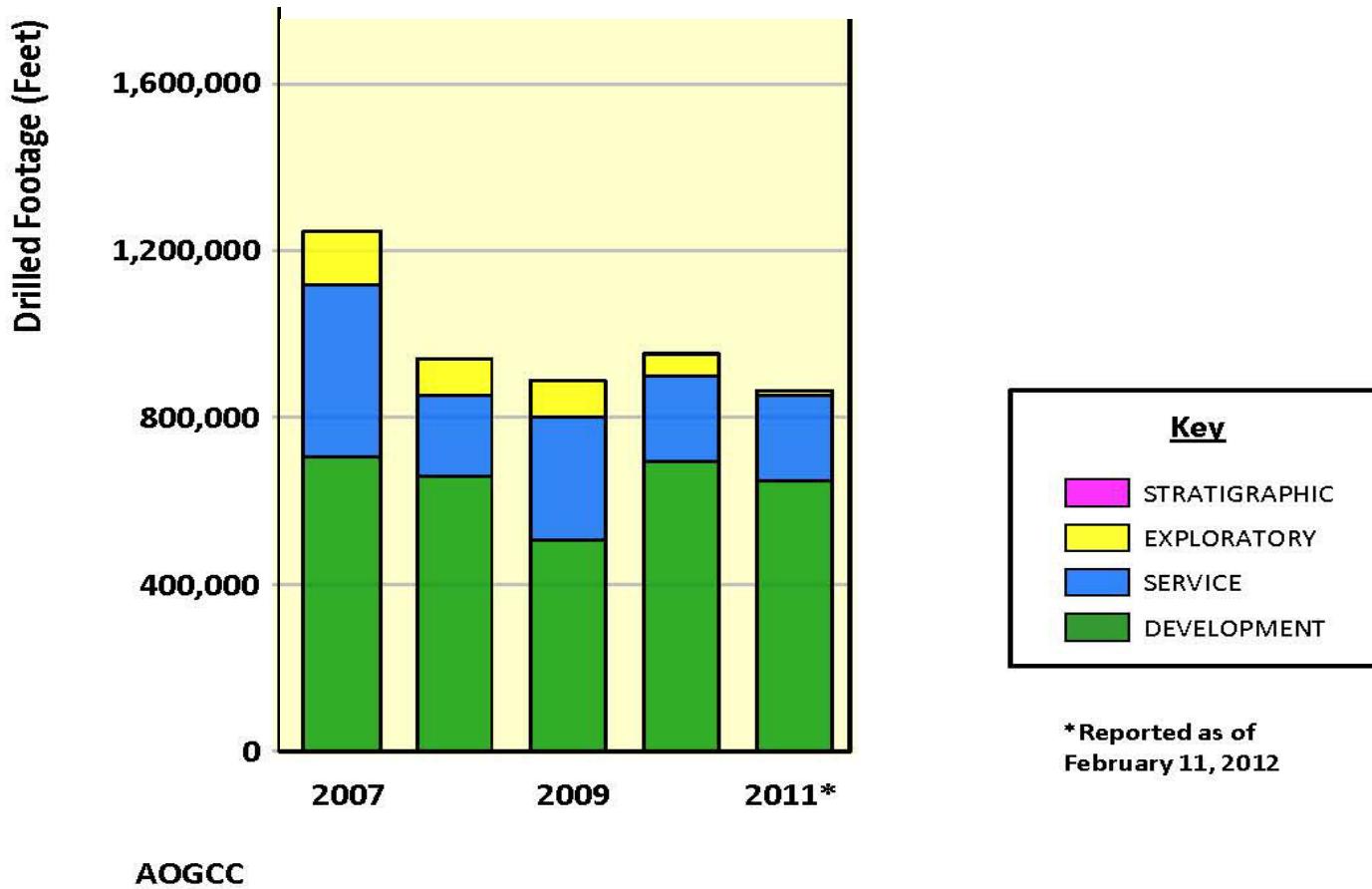
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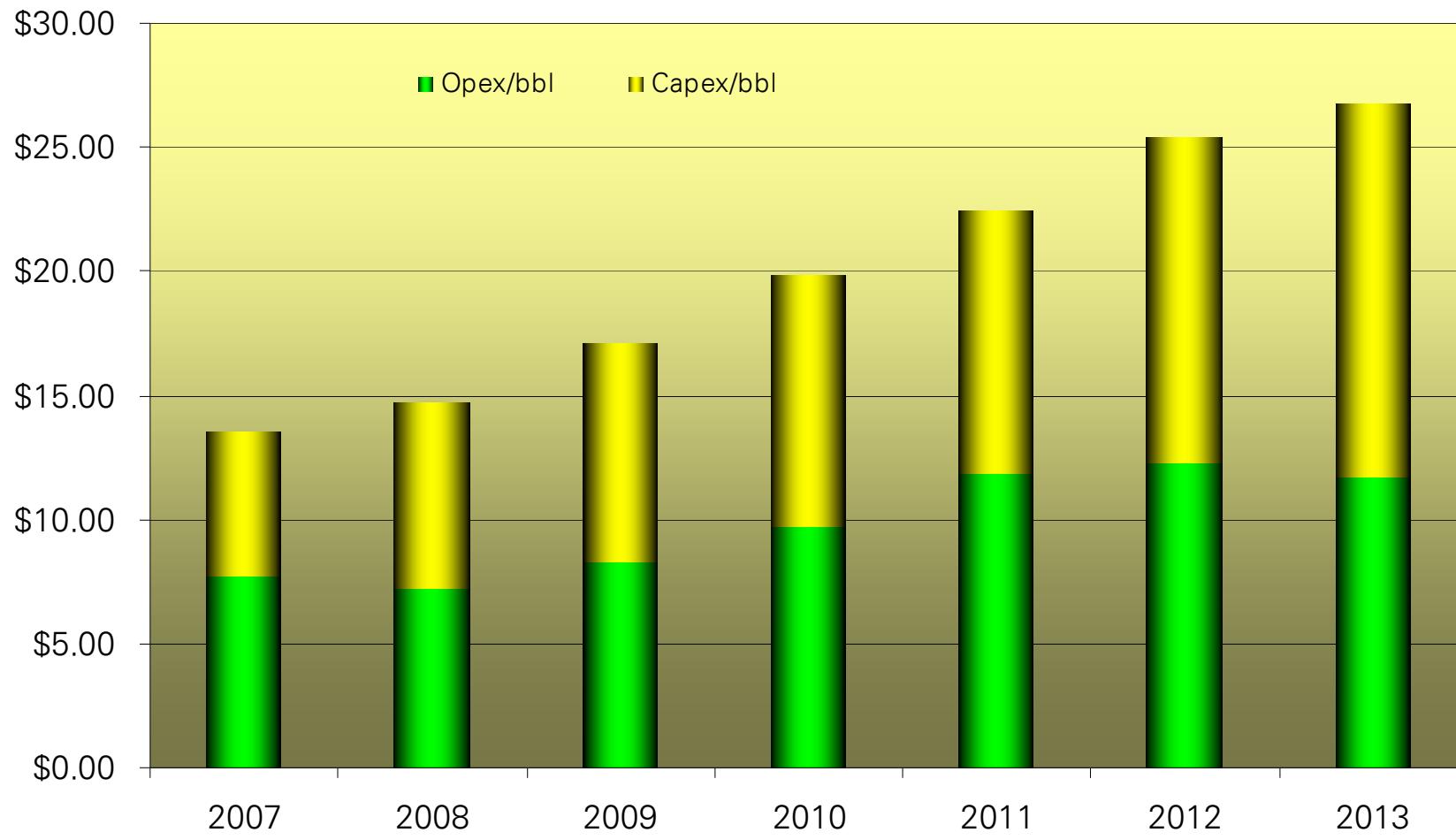
## Drilling activity is challenged by ACES



Source: AOGCC testimony to Senate Resources 2/14/2012



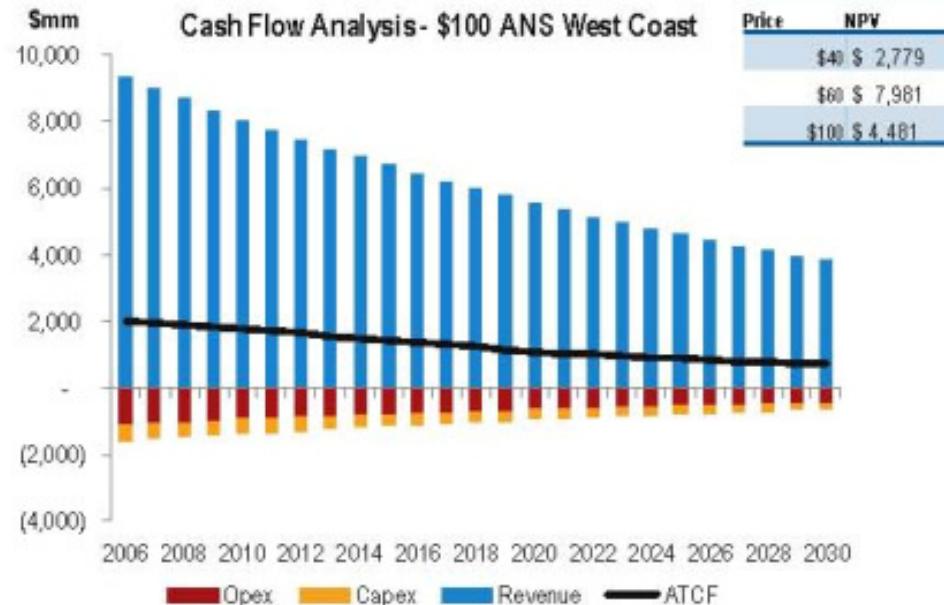
## Costs continue to rise



Source: DOR Revenue Source Book - Fall Forecasts

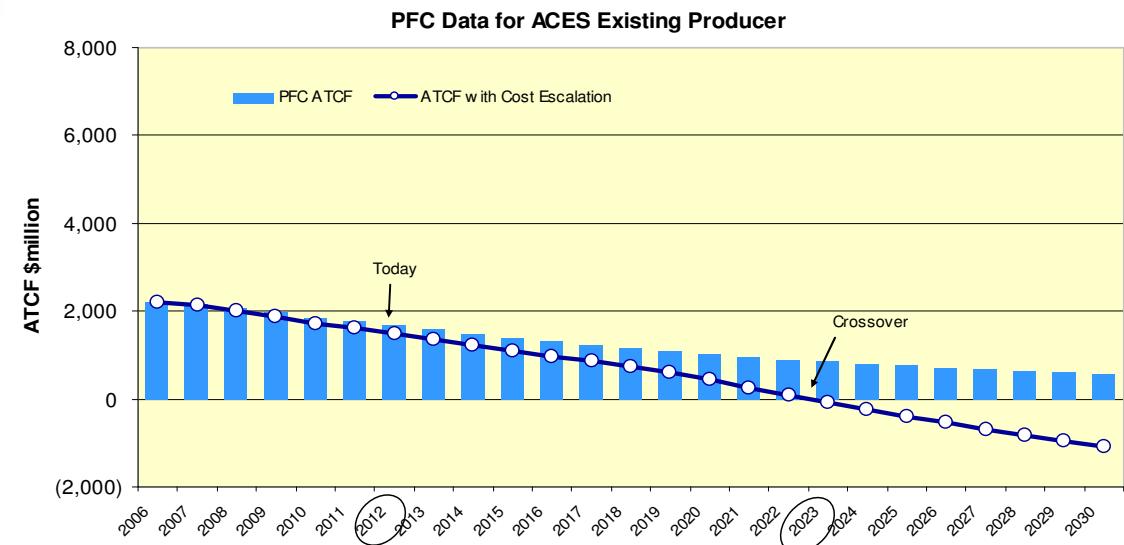


# Base business is challenged

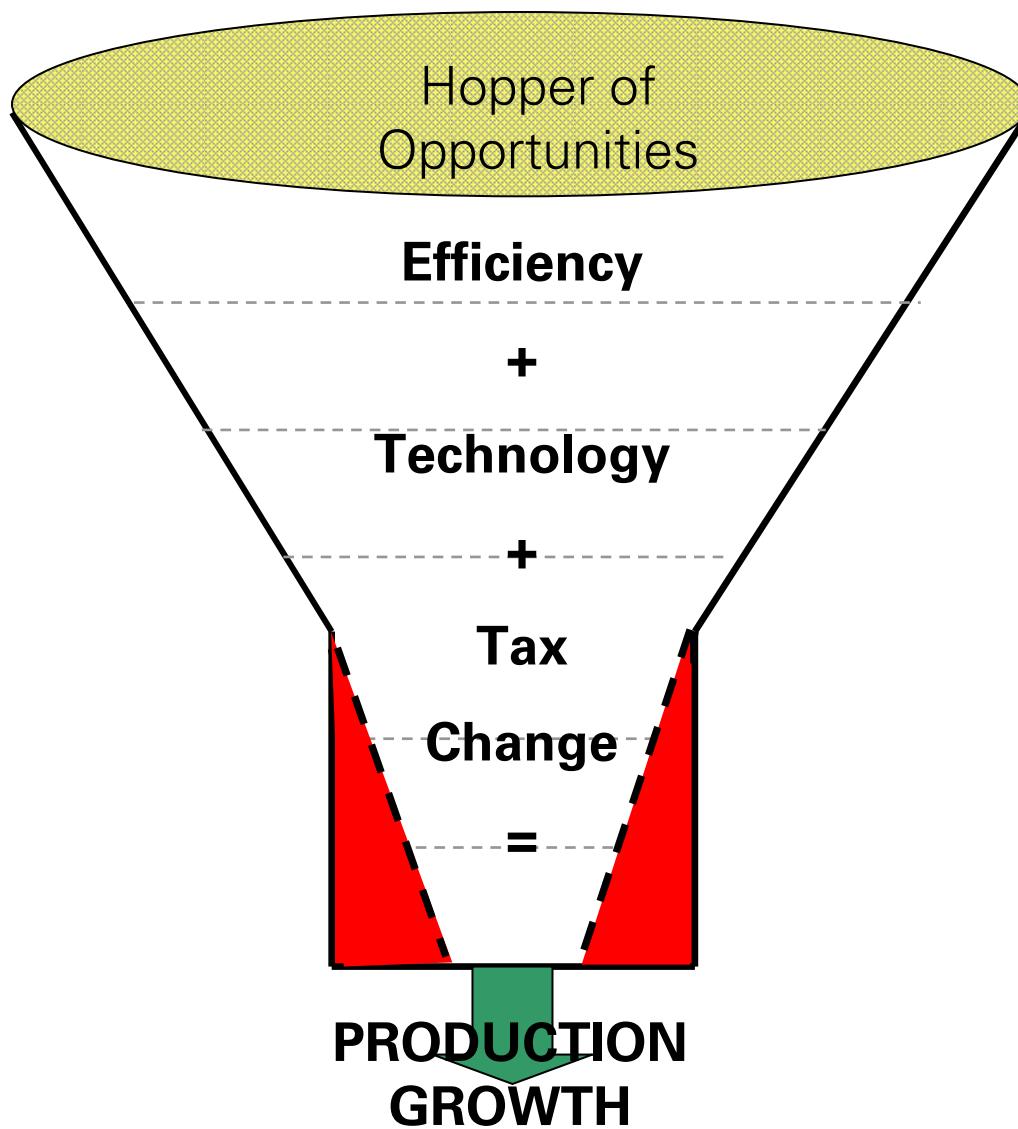


- PFC assumed at flat unit lifting costs (\$12/bbl)
- Actual lifting costs more than double PFC assumption

Source: PFC Energy, Slide 17, Senate Finance, March 15, 2012



We have good rocks, but.....



- Healthy base business
- Brightwater, Multi-lateral drilling, Lo Sal, etc.
- \$5 billion in new investment
  - Prudhoe I Pad
  - Kuparuk Eastern NEWS
  - Prudhoe Sag @ scale
  - Add'l drilling in legacy fields

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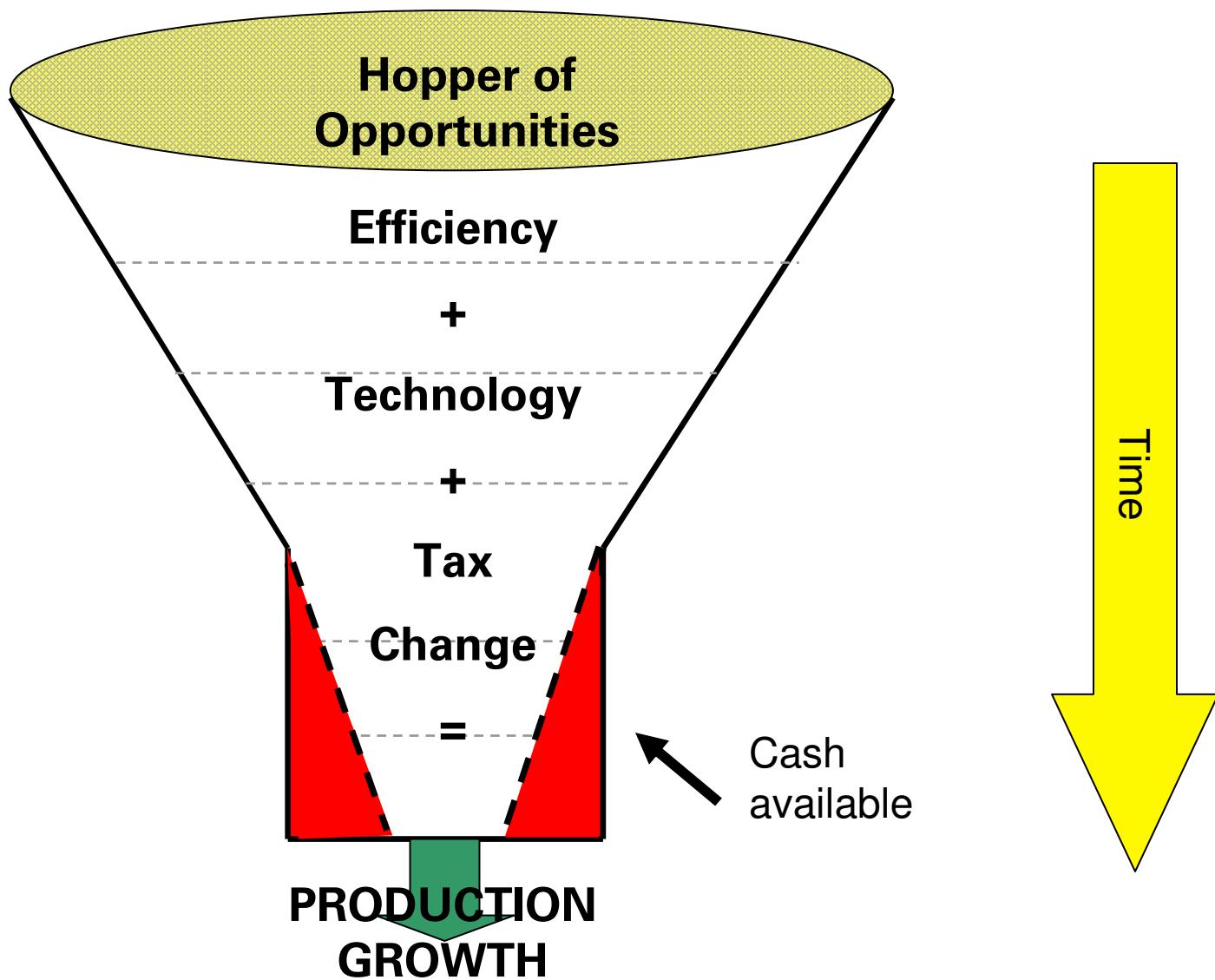
## The solution is a long-term policy

“The health of all the fields on the North Slope depend, to a certain degree, on **the health of Prudhoe Bay**. Prudhoe Bay is the central nervous system and the circulatory system (of the North Slope).” Commissioner Cathy Foerster, AOGCC, before the Senate Resources, February 14, 2012

“Companies evaluate exploration and development prospects in terms of the value (to shareholders) a prospect can generate. Government take, in the form of taxes, royalties, or other production-sharing or profit-sharing requirements, adds to upstream costs, and thus **the level of government take is an important component of the investment decision**.”

CERA – White Paper Industry Context, September 1999, pg 21

# Meaningful Tax Change Creates A New Future



## Conclusions



- ACES is not working
  - Production adding activity remains flat
- More investment is needed
  - Base business in legacy fields is the foundation for the future
- Focus on long-term, now
  - Only the legislature can correct a failed fiscal policy