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March 21, 2011

Testimony to House Finance Committee

Mr. Chairman and Members of the Committee:

My name is Jim Jansen. I am the CEO of the Lynden Companies. I have lived in Alaska since 1970. I have spent my entire career helping to build an Alaska company that derives 70% of its business from transportation and construction, to, from and within Alaska.

Approximately 20% of Lynden's revenue and jobs are derived directly from the Alaska Petroleum industry, but most of Lynden's revenue and jobs are indirectly driven by the oil industry.

Our direct petroleum related jobs and revenue have been flat to down since 2007 when ACES was passed. It is this downward trend, contrary to oil activity elsewhere in the country and globally, that concerns me. With oil prices over $100 per BBL, Alaska should be booming today, like the rest of the oil provinces. Instead, we have falling production, less petroleum related jobs and almost no exploratory drilling or new development.

**There is very little engineering or seismic activity in Alaska today which is a strong indication that the oil industry is not planning to invest here. Other than routine production drilling and maintenance there is very little being done to arrest the rapidly declining production of oil.
It is this trend, and the rapidly declining flow in the pipeline that troubles me most.**

You do not need me to explain what happens to our state if the flow of North Slope oil falls below the economic and physical capacity of the pipeline.

For anyone whose economic horizon is 5 years or less, they should promote our current punitive tax policy. On the other hand, if we want an economic future for our state, for our children and grandchildren,

Alaska must create a competitive investment climate, which means taxes that are competitive with alternative locations. Oil companies will not invest here with a total Government take exceeding 80%. They will invest where they get the best return on the dollar.

How long to you suppose Lynden would stay in business if our prices were double our competitors? How long would you shop at your local supermarket, if its prices were not competitive? The oil companies are no different. They will invest elsewhere if Alaska is not a competitive place to invest.

Lynden operates a fleet of 6 Hercules aircraft. Our oil activity in Alaska for these aircraft has fallen to almost zero. We now have 1 aircraft operating in Paupa New Guinea and are very close to placing another aircraft in Peru. We do not want to operate in these difficult locations, but that is where the investment is taking place and we have no choice but to work there or go out of business. We would much prefer to stay in Alaska, and keep the jobs and Lynden's investment here.

We hear a lot about tax credits as an alternative to reducing production taxes. While helpful, as they reduce the down side risk, they do very little for the upside. Businesses invest for the upside. ACES has removed the upside, therefore there are no meaningful investment plans on the drawing boards.

We must also remember that there is a substantial lead time required for new investment. If we wait to see what happens with ACES, the results may be devastating before we have time to fix the tax system.

Alaska must regain its reputation as a fair and commercially viable place to invest. Failure to do so will unnecessarily result in economic ruin for our great state.

Thank you for this opportunity to speak today and I urge you to pass a competitive tax bill this legislative session.

Jim Jansen
CEO
Lynden Inc.

CALISTA CORPORATION
www.calistacorp.com

March 21, 2011

Dear Committee members:

Calista Corporation supports a more competitive environment for Alaska's oil and gas exploration and development. We support legislation encouraging the increase in oil production on the North Slope.

Development of Alaska's resources should be considered a long term investment of long term projects. A more balanced long term strategy could benefit Alaska and the nation in many ways, from the potential of a more consistent oil and gas supply, to steady employment for hundreds of Alaskans.

The current tax structure, "ACES," can be improved. CNBC's report last summer placed Alaska as the worst state in which to conduct business in the nation. The survey determined Alaska was ranked last for the fourth year in a row.

Additionally, higher well credits can help encourage new and existing field development. Alaska has a strong history of exploration, and the state laws and regulations need to better support continued exploration and business development in Alaska. The jobs oil and gas provides for our Shareholders enables them to work rotational schedules and still live a subsistence lifestyle.

Again, Calista supports utilizing our states natural resources in a safe and responsible way, while providing a more balanced business environment for the oil and gas industry. Calista thanks you for your time in this important matter.

Sincerely,

Calista Corporation

Andrew Guy
President/CEO

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t: (907) 279-5516 • f: (907) 272-5060 • calista@calistacorp.com

Good Afternoon,

My name is Tom Maloney and I am a long term resident of South Anchorage. Currently, I am the Alaska Area Manager for CH2M HILL and the Board President of the Resource Development Council. I am pleased to have the opportunity to testify today. I very much appreciate all of your services to the State.

By way of background, my degrees are in Accounting and Finance and I am a CPA, CMA and CFP. I am very concerned with the current state of the Alaska oil industry. Why, throughput in the Trans Alaska Pipeline System (TAPS) has been decreasing at an increased pace over the last several years. For example, in 2008 the production decline through TAPS was 18,000 barrels per day (bpd). The decline increased to 24,000 bpd in 2009 and 48,000 bpd in 2010. This is an alarming rate of decline that should serve as a wakeup call that without doing something different in the very near future, we will not have a North Slope oil industry. Just think, in the last twenty years, production rates are down around 70%.

Wayne Gretzky the Great One said, "You miss 100% of the shots that you don't take." The same is true with hydrocarbons. Without new investment, there is no drilling and without drilling Alaska gets no new production. Without new production, the only question is when will TAPS shut down? Companies involved in the oil industry know that production and related jobs are drying up in Alaska. The Department of Labor in January 2011 indicated that the oil and gas industry lost 1,000 jobs over the past year, or almost 8%. What can we do? DRILL.

How has drilling activity been over the last several years? The number of North Slope exploratory wells in 2007 was 18. This year there is 1, a decrease around 95%. Exploratory wells create a significant number of great high paying jobs. Attached is a drilling graphic that displays some of the types of jobs associated with drilling.

Fortunately for the residents of Alaska including myself and my family, the two largest oil fields in North American history – Prudhoe Bay and Kuparuk – are located on State land. These two giant oil fields require a tremendous amount of new investment to minimize decline in production numbers. Unfortunately, the number of total North Slope development wells has also been decreasing over the past several years. For example, the number has fallen from 139 in 2007 to 110 in 2010. The negative trend in drilling is resulting in a faster decline in production than most of us would care to see.

How does one stop the decline in drilling? There is only one answer and that is to DRILL, but first we must bring investment back to Alaska, in my view, it is difficult to see how the punitive tax structure of ACES will encourage the oil industry to ramp up drilling in Alaska – when the government takes almost 80 cents of each additional dollar of profit earned at $90 oil.

Wall Street and other analysts have raised red flags about steadily declining oil production and its impact on the Trans-Alaska Pipeline System (TAPS), the lifeblood of Alaska's economy. The recent temporary shutdown of TAPS in January sent shock waves across the nation and gave Alaskans a preview of what the future may hold. A CNBC story by Scott Cohn used the shutdown to highlight the impact of declining throughput on TAPS, Alaska, and the nation.

The challenges of restarting the pipeline in extreme cold at reduced flow clearly foreshadow the line's future. Studies show that ice can form in the pipeline at a flow of 500,000 barrels a day or less, a threshold that may be breached within four years. While new investment in TAPS could help mitigate low-flow challenges, less oil in the line will hasten the day when the pipeline may be forced to shut down.

Analysts warn an accelerating TAPS throughput decline could lead to the premature shut-down of the pipeline, stranding billions of dollars in state royalty payments, which exceeded $2 billion in 2010 alone. Remember, we only get royalties from State Lands when there is actual production.

In 2005, the State predicted TAPS production would average 832,000 barrels per day (bpd) in 2010. Actual production was 644,000, 22% less than forecasted. In 2005, the State forecasted 762,000 bpd in 2015. Yet current production is 630,000 bpd and falling. Will we be less than 500,000 bpd in 2015, or can we take steps to reverse the steep decline? With oil accounting for almost 90% of the State Treasury, we are fast approaching a very steep cliff.

Tax policy must change in a way that reflects the important role drilling has in Alaska's economy. Investors take 100% of the risk to lease, explore and develop a resource. At high prices, government can take more than 80% of the income stream of a barrel of oil. What is the incentive for an investor to take risk? Would anyone in this room with their own real estate, stock, or other investments give the government almost all the upside while taking nearly all the downside?

How has the rapid decline in North Slope drilling activities affected a major employer like CH2M HILL? In Energy, CH2M HILL works primarily in engineering, construction, and operations and maintenance including drilling and well-support services.

Our engineering segment is headquartered at 949 E. 36th Street in Anchorage. We have seen a 60% decrease in engineering and design staff. The primary driver of this lower activity is the lack of new production opportunities, including challenged or heavy oil. I might also add that the federal government has not been helping out Alaskan employment opportunities as it relates to the National Petroleum Reserve Alaska (NPRA) and the Outer Continental Shelf (OCS).

Construction, including NORCON, our Union Construction Company, has also seen decreased employment. For example, with the lower level of drilling opportunities, there is a decreased need for modular construction, well tie-ins and related installation work.

In our drilling and well-support work, we have seen a decrease in all areas, including drivers, mechanics, support services, etc.

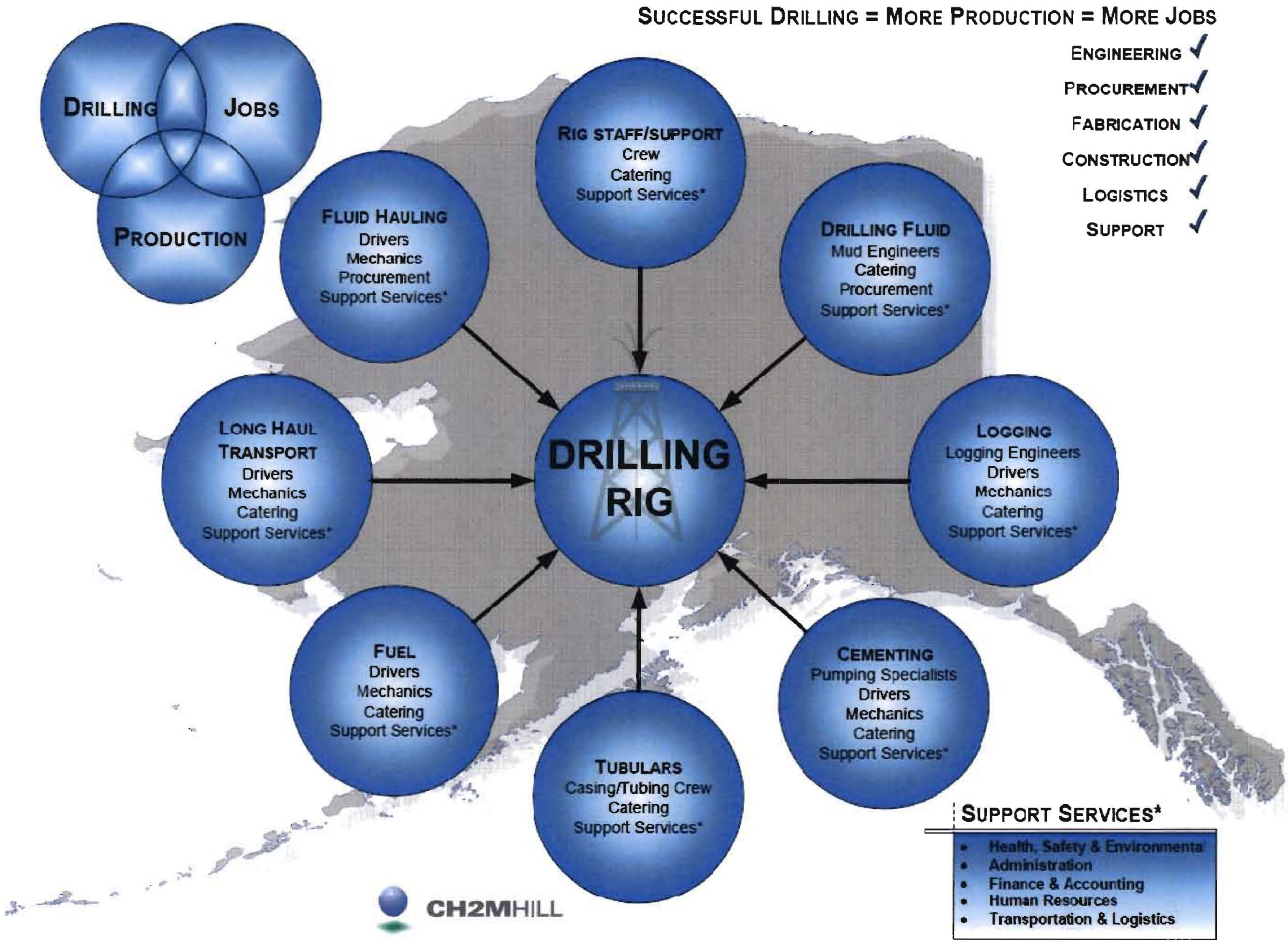
The overall downturn in business affects us and other employers in multiple ways. For example, several years ago we hired as many as 38 interns. These were high paid jobs for Alaskans, including Alaskan high school students in drafting positions. This year we expect the number to be 7 interns, which will be a challenge for us quite frankly.

One area that really concerns me is that many years ago we use to talk about the Alaska brain drain and the fact that many of our best and brightest were leaving the State for education and job opportunities. Many Alaskan employers, including ourselves, have worked hard to educate young Alaskans about a future in the oil industry. The week of February 20th was Engineers Week, nationally. CH2M HILL had a numbers of engineers and support staff, visit a number of schools to educate our youth about engineering opportunities in the state. We want to give our young people hope that we will have highly skilled and well-compensated private industry jobs for them in the next few years.

In summary, there is a need to drill to pay the bill. To keep some dough, we need oil flow. I hope and trust that the legislature will take proactive steps this year to address the steep decline in oil production that we have been experiencing. One only needs to look at Cook Inlet production which is down 95% from its peak of 40 years ago to the Ketchikan Pulp mill, Agrium, and now the Kenai L&G plant to recognize that we cannot take industry for granted. Let's make Alaska more competitive in attracting the investment necessary to stem the production decline and sustain TAPS to the point where OCS production could ultimately enter the pipe. Please encourage more private investment, more jobs and a brighter future for our kids and grandkids. After all, I have an 18 year old son majoring in welding and non-destructive testing at UAA who is very concerned about future employment activities in Alaska.

Thank you for listening. I sincerely appreciated the opportunity.

Tom Maloney
Anchorage, Alaska
Tom.Maloney@ch2m.com



SUCCESSFUL DRILLING = MORE PRODUCTION = MORE JOBS
ENGINEERING
PROCUREMENT
FABRICATION
CONSTRUCTION
LOGISTICS
SUPPORT
DRILLING
JOBS
PRODUCTION
RIG STAFF/SUPPORT
Crew
Catering
Support Services*
FLUID HAULING
Drivers
Mechanics
Procurement
Support Services*
DRILLING FLUID
Mud Engineers
Catering
Procurement
Support Services*
LONG HAUL TRANSPORT
Drivers
Mechanics
Catering
Support Services*
DRILLING RIG
LOGGING
Logging Engineers
Drivers
Mechanics
Catering
Support Services*
FUEL
Drivers
Mechanics
Catering
Support Services*
TUBULARS
Casing/Tubing Crew
Catering
Support Services*
CEMENTING
Pumping Specialists
Drivers
Mechanics
Catering
Support Services*
SUPPORT SERVICES*
Health, Safety & Environmental
Administration
Finance & Accounting
Human Resources
Transportation & Logistics
CH2MHILL

3 March, 2011

Testimony to the House Finance Committee from Doug Smith, President and CEO of Little Red Services, Inc.

~~Co-chairs Seaton and Fiege and Members of the House Resources Committee:~~

My name is Doug Smith and I am President and CEO of Little Red Services an Alaskan oil field service company employing just over 100 Alaskans who reside from Sitka to Two Rivers. We operate on the North Slope providing well services with our fleet of high pressure pump trucks with fluid heating capabilities known as Hot Oil units.

I appear before your committee today to express my support of House Bill 110, the Governor's bill to restructure the way taxes are levied upon the oil and gas industry in Alaska. Meaningful reform to ACES is necessary at this time to encourage additional industry investment in Alaska. Investment by the producers is critical for small companies, such as mine, with Alaskan employees who reside from Sitka to Two Rivers.

Oil and Gas related businesses need a long term predictable solution that encourages investment by producers and creates jobs for Alaskans. The oil and gas industry is already subject to an unpredictable marketplace and a myriad of regulatory entanglements. In order for our oil and gas resource development to thrive here, we must be granted the stability by the legislature to work in a business environment that is fiscally hospitable to development.

LRS Corporation, 9330 Vanguard Anchorage AK 99507. Ph. 907 349-2931

As an Alaskan employer working in the oilfield services industry, I am confronted ~~daily~~ with the ramifications of the current tax structure. Due to the decline in investment and infield production related activity small Alaskan companies are losing revenue and our employees are losing jobs. Since 2008, Little Red Services has seen a 20% drop in demand for services realized by a reduction of over 6,000 hours of hot oil truck use. For our company this resulted in an annual revenue loss of nearly $2 million dollars and forced the layoff of 11 employees over a two year period.

"If oil is taxed at too high a rate there's a risk that crucial investments don't get made in the state's most important industry."[1] I can tell you, without question that this is the case, but those are not my words. Senator French and Representative Gara acknowledged this in their ADN compass piece this past December. They also said that "any reasonable tax relief proposal that will lead to more Alaska jobs and more Alaska oil will get serious consideration from this legislature." It is clear that House Bill 110 is not meaningless pandering to the oil industry. The visible investment in areas with more competitive tax structure demonstrates that ACES is stifling investment in Alaska.

Yes, it is true that the State has put millions of dollars into budget reserves from taxes levied against producers. It is also true that oil and gas service industry employees struggle as investment stalls. ~~What~~ HB 110, following the recommendations made by the Department of Revenue , is to evolve the current tax structure, though meaningful reform, in an effort to stem

[1] http://www.adn.com/2010/12/04/1589367/lowering-oil-taxes-doesnt-guarantee.html

the tide of job loss and encourage investment in what is universally acknowledged to be Alaska's most important industry.

Opponents of reform argue that employment is up under the ACES structure. In reality, exploration, and production related jobs are down while maintenance jobs are up. While work camps are being built and filled with workers to meet oil and gas development needs in North Dakota, only one exploration well is planned for Alaska's North Slope this winter and development wells are down 16% from 5 years ago. Production is declining sharply and accelerating year on year. From 2001 to 2006 the ANS production declined 163,000 bbls per day or 16% and from 2006 to 2010 the decline increased another 217,000 bbls per day or 25%.

We do not come before you today asking for corporate welfare, nor do we enter this debate lightly or without careful consideration of long-term revenue for our state. In an environment where industry is provided competitive investment opportunities it is incumbent upon the members of that industry to hold themselves and their colleagues accountable to re-investment of profits in Alaska. This improved investment climate would serve to benefit Alaskans though continued development, increased employment, and continued strong civic engagement.

The activity of our oil and gas industry reaches every Alaskan and many times through the nonprofit organizations. In 2010 forty-four major oil and oil support companies contributed $3.7 million dollars to United Way of Anchorage or 49% of the total raised by the private sector. My company, tiny by comparison, donated nearly $70,000 in charitable contribution in 2010.

I commend the governor for his understanding of the oil and gas industry business environment, its key role in our future and for his leadership on this reform.

I thank you for your time and I appreciate your service to our citizens.

Thank you.

Good afternoon, my name is Keith Silver and I am a victim of ACES. My prior employer laid me off as well as three others due to the lack of new work on the slope. We provided the camp services, security, and contract labor for the oil companies and their contractors. A reduction of work on the Slope results in the subsequent reduction of support staff in Anchorage. The 2,000 slope jobs quoted often probably does not include all those in Anchorage that supported them.

I would encourage you to pass out of committee HB110. In lieu of ACES, we should call it FACT. Fair and Competitive Tax. Alaska must be competitive with other jurisdictions in order to attract investment dollars. Due to the remoteness and weather conditions of the North Slope, we are already the most expensive place in the world in which to do oil field business. Couple that with a tax system that offers no upside to the producers if the oil price increases and it is no wonder that there has been no new investment dollars put into exploration into the legacy fields. There is one exploration well being drilled this winter. Just one. At the turn of the century, it was common to have over twenty drilled in a season.

The Province of Alberta followed Alaska's example and increased its taxes in a me-too move. Shortly thereafter, the companies and contractors picked up its equipment and left. The government of Alberta recognized its mistake and reversed their taxes and the companies came back. It is time that Alaska do the same. Comments that HB110 is a $2 billion giveaway do not help matters. We should all instead view it as a correction. A correction that is sorely needed to improve the competitive standing of Alaska's lands on the North Slope. The constitution requires you to get the best deal for the people's natural resources. 55% of something is far larger than 88% of nothing.

I don't work in the oil and gas business anymore. However, as an Alaskan citizen, I have a vested interest in how well the oil field prospers. We need more oil in the pipeline, preferably oil from state lands. Without a resurgence of exploration and production on the slope, how are we going to pay for state government a decade from now? Taxes on other resources can't cover it, payroll taxes can't cover it, and reserve funds can't cover it for long. I am all for diversifying our economy and adding new industries to the mix. But, any new industries will look at how the existing industries have been treated and decide to look elsewhere.

Please pass HB110 out of committee with a do pass recommendation. Thank you

CONSUMERENERGYALLIANCE
ALASKA

RESOLUTION

Whereas Alaska business and residential consumers of energy have a direct interest in consuming energy supplied from domestic sources; and

Whereas Alaska business and residential consumers of energy are dependent upon robust overall economic activity to maintain livelihoods; and

Whereas over 30% of Alaskans are dependent upon oil and gas exploration and development for employment; and

Whereas the development of Alaska's natural resources was contemplated as the economic foundation upon which Alaska became one of the 50 States of the United States of America under the Statehood Compact; and

Whereas the development of Alaska's natural resources remains the cornerstone to economic viability for the state and it citizens; and

Whereas external and internal threats to the responsible development of those resources is detrimental to the overall welfare of Alaskans as described under Section 1 of Article 8 of Constitution of the State of Alaska; and

Whereas over 85% of state revenue used to provide services to the people of the state is derived from taxes on oil production; and

Whereas oil production has declined from a peak of over 2 million barrels a day to about 640 thousand barrels a day and is in freefall at the rate of 5 - 7% per year; and

Whereas Alaska provides thirteen percent of total domestic oil production in the United States; and

Whereas Alaska's abundant natural resources and oil production are vital to the energy security of the entire nation; and

Whereas the Alaska Department of Natural Resources has, since the Alaska's Clear and Equitable Share tax regime became effective, reduced by 600 Million barrels its projected Alaska oil production for the 10 year period ending in 2020; and

Whereas new exploratory drilling is both a risky enterprise and necessary to stem the decline in Alaska oil production; and

Whereas drilling delays caused by overly burdensome and overlapping federal regulations has also increased the time, expense and opportunities to thoughtfully develop Alaska's oil and natural gas resources; and

Whereas new oil exploration in Alaska needs to compete globally for investment dollars; and

Whereas the rates and progressivity structure of Alaska's current tax regime provide a disincentive to attracting risk capital to the state; and

Whereas Governor Sean Parnell has proposed changes to Alaska's tax regime designed to increase the global competitiveness of the state; and

Whereas increased investment through increased global competitiveness will enhance Alaska's ability to fulfill its constitutional mandate to develop natural resources for the maximum benefit of the people; and

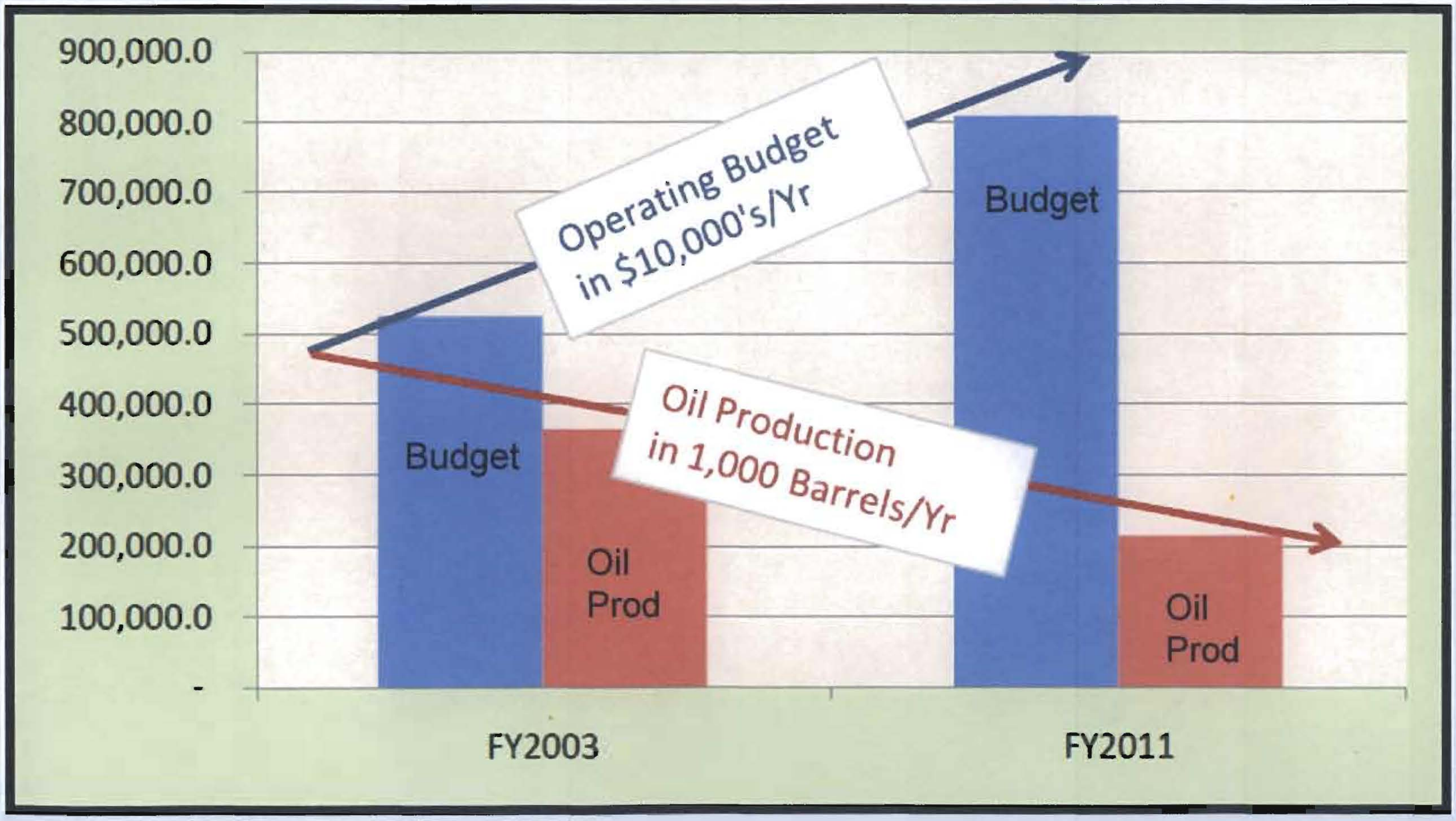
Whereas, Alaska's remoteness from the markets, Arctic climate, high labor and logistical costs argue for an even more competitive tax and regulatory structure;

Now, therefore, it is RESOLVED by Consumer Energy Alliance - Alaska:

That the Alaska State Legislature should approve the revisions to the Alaska Tax Code in substantially the same form as submitted to it by Governor Parnell without delay and without conditions or complex requirements that would discount the improved investment climate the legislation could otherwise produce.

Dated at Anchorage, Alaska this 15th day of March, 2011.

Oil Production Down; State Spending Up



Prepared by Steve Pratt
March 2011

Good afternoon and I thank the Committee for having this hearing in Anchorage. My name is Steve Pratt. I am testifying in support of HB 110 on behalf of Consumer Energy Alliance – Alaska. I serve on its Board of Directors and act as the Chairman of the Issues Committee.

CEA-AK is an affiliate of the national Consumer Energy Alliance organization which is a nonprofit nonpartisan organization promoting a balanced energy policy that helps consumers and enhances economic growth. This means increasing access to and production from domestic oil and gas resources, increased utilization of alternative energy sources, and enhanced energy efficiency and conservation.

CEA-Ak believes that Alaska's current tax rates and progressivity structure provide a disincentive to attracting risk capital to the state. It also believes that improvements to the tax regime have the potential to reinvigorate investment, add jobs to Alaska's private sector economy, and add to the domestic production of energy. Consequently, last week our Board of Directors passed a resolution urging passage of HB 110 and asked me to present this resolution to the Legislature.

Alaska's energy and economic security are inextricably linked to oil and gas production and resource development. The recent surprising shutdown of the LNG export facility on the Kenai Peninsula demonstrates how quickly our situation can change in response to commercial and resource realities. Alaska has unique climate, labor and logistical challenges that tax policy needs to recognize in designing a competitive tax structure.

I know that members of the House Finance Committee are all concerned about the dependency of Alaska's prosperity on oil production and how best to maximize benefits to the people. Aside from state revenue, over 30% of Alaskans are dependent upon oil and gas development for employment. For the long term, our members are extremely concerned with declining oil exploration investment in the state and potential impacts on the economy. In a fiscal sense, we are also very concerned about the simultaneous increase in state spending over the past decade combined with declining oil production.

about econ. incentives

~~I suspect that~~ Many provisions of our Resolution trod familiar ground so I won't take up your hearing time in their recitation. But I ask you to review the document and invite you to contact us with any questions you might have. In addition to the Resolution, I will leave you with this chart. It tracks Alaska trends in oil production – down – and state spending – up. With 85% of state revenue tied directly to oil production, these trends simply cannot survive the test of time unless something changes.

As noted in our Resolution, approval of HB 110 in substantially the same form submitted by Governor Parnell to modify the progressivity structure of Alaska's tax regime will go a long way towards removing disincentives to business activity in the state. CEA-Ak believes this is the right thing to do for the state, its citizens, and its future.

I thank you again for this opportunity and will answer any questions to the extent I am able.

Steve Pratt
Chairman, Issues Committee
Consumer Energy Alliance – Alaska
345-0032