

TESTIMONY OF DALE PITTMAN
ON PROPOSED CSHB 308
TO THE ALASKA HOUSE RESOURCES COMMITTEE
MARCH 11, 2010

INTRODUCTION

Mister Chairman, members of the committee:

Good afternoon. For the record, my name is Dale Pittman. I am the Alaska Production Manager for ExxonMobil, a position I commenced in June of last year. My wife and I have moved to Anchorage and are very happy to be part of the community of Alaska. I have been with ExxonMobil for nearly thirty years, the last fifteen of which were spent overseas, most recently managing operations in Sakhalin. Here in Alaska, I look forward to continuing the progress underway to develop and operate Point Thomson.

I want to thank the committee for the opportunity to express ExxonMobil's views regarding the proposed Committee Substitute to House Bill 308.

ExxonMobil has been working in Alaska for more than 50 years. We have been a key player in Alaska's oil industry development, spending and investing well over \$20 billion dollars during that time. As you know, we are currently active with our co-owners at Prudhoe Bay, Kuparuk, Duck Island and Granite Point. We are also excited about our

progress at Point Thomson and remain on track to achieve a 2014 production startup. We look forward to being a part of Alaska for many years to come.

At the outset, let me say that ExxonMobil supports the presentation you heard today from the Alaska Oil and Gas Association. I do not intend to repeat the thorough technical comments from that testimony.

As for our specific comments, I would like to state, consistent with our prior testimony during the hearings on both the PPT and ACES, that ExxonMobil believes Alaska's current production taxes are too high to result in the additional investment needed to maximize the development of Alaska's resources. It is our belief that even the proposed 20 percent tax rate that was in the original PPT bill would not encourage the full development of Alaska's resources.

Alaska is rich in undiscovered resource potential. To date, Alaska has produced more than 15 billion barrels of oil from the North Slope, and according to the DNR there are approximately 6 billion barrels of known resources remaining. These resources represent a known opportunity, but their development is at risk under the current tax system. Oil production today is one-third of the peak oil production of more than 2 million barrels per day in 1988, and annual production continues to decline.

Spending on the North Slope has remained relatively flat since the enactment of ACES, as you have heard in prior testimony. But the majority of that investment has been for maintenance or production enhancement efforts for existing operations, not for new exploration and development opportunities. In fact, the industry currently invests more

than \$1 billion per year just to maintain North Slope oil production at the current decline rate of about 6 percent annually. Without that continued investment, the annual production decline would not be 6 percent, but would actually be closer to 12-15 percent annually.

What this means is in just 10 years, the majority of future oil production will need to flow from new investments - investments that are at risk today under Alaska's current production tax regime.

Let me explain.

Time in the oil and gas industry is not measured in business cycles. It is measured in decades and in generations. Today's production rates are the product of government policies, technical work, and investment decisions that in many cases were made decades ago. Increasing production rates in the decades to come will result from sound policies, decisions, and commitments that are made today. As policy makers, you will need to decide whether Alaska's current high production tax regime is the right course for Alaska or – given the current high costs and steadily declining oil production rates we face – if another course is necessary to harness the remaining resource potential.

It is important to recognize that any decision made today impacts much more than tax revenue in the future. Decisions made today impact jobs for Alaskan workers, revenue for many Alaska businesses, and infrastructure that benefits Alaskan communities and extends the life of production in existing fields.

To encourage full development of Alaska's resources, we believe production taxes should be lowered. The high base tax rate and the higher taxes due to the additional progressivity tax are major disincentives to the high risk investment opportunities required in Alaska.

Companies like ExxonMobil are willing to accept the risks of long-term, capital intensive investments when there is a stable tax structure that allows and encourages investment and ensures a corresponding opportunity for upside potential. Upside factors such as increased production and higher prices should be a benefit for risks taken, because companies are certainly negatively impacted when lower than expected production or prices occur. When you take away the upside potential that companies can achieve you reduce the overall attractiveness of those capital intensive investments.

Alaska faces significant challenges. Costs are high, exploration is down and production continues to decline. We all need to work together to achieve the right balance - a balance that maximizes the benefit to Alaskans while encouraging industry to continue to invest in Alaska.

We advocate a collaborative approach to develop a sustainable long-term resource development policy that will encourage the needed investments to build the future of Alaska for many generations to come.

Alaska's resource development policy should identify and characterize state-wide resource potential, identify key issues challenging exploration and development, and

encourage investment needed to mitigate production decline. Such a policy should also consider key factors that impact resource value, such as research and technology, exploration and development costs, regulatory and environmental considerations, and land access. A reassessment of Alaska's high production taxes is a critical part of that long-term resource development policy.

Committee Substitute to House Bill 308 is best characterized as a first step toward what we believe should be a comprehensive examination of Alaska's production tax structure.

It will take everyone working together to achieve that long-term policy. Government leaders, industry representatives, contractors and citizens all stand to benefit from developing Alaska's resources.

ExxonMobil looks forward to working with the Administration, the legislators, industry and the people of Alaska in the future pursuit and development of Alaska's oil and gas resources.

Thank you again Mister Chairman for the opportunity to testify today.