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**Hilcorp Alaska, LLC Testimony  
Committee Substitute House Bill 247  
House Finance Committee  
April 1, 2016**

**For the record my name is Dave Wilkins, I'm the Senior Vice President for Hilcorp Alaska. Mr. Chairman and members of the committee thank you for the opportunity to address you today about CSHB 247. I have previously testified on HB247 at the House Resources Committee on March 1<sup>st</sup> of this year.**

**For those of you who aren't familiar with our company, Hilcorp is the largest privately-held oil and gas company in the United States. Headquartered in Houston, TX, Hilcorp has operations in the Gulf Coast of Texas and Louisiana, the Northeast United States, and Alaska's Cook Inlet and North Slope. Hilcorp was founded 1989 and has more than 1,400 full-time employees. Just over 500 of those employees support our operations here in Alaska and I'm proud to say that nearly 90% are Alaskan residents.**

**Here in Alaska we operate approximately 53,000 gross barrels of oil per day and 150 million cubic feet of gross gas per day from approximately 500 producing wells, for a total net production to Hilcorp of approximately 57,000 barrels of oil equivalent per day.**

**Hilcorp's assets are primarily (although not exclusively) older fields with extensive production histories, steady and**

**predictable performance that carry incredible opportunity for getting more oil and gas out of the ground safely and responsibly while extending production life through efficiency and thousands of smaller scale projects. We think the State needs to attract more companies like Hilcorp as fields and infrastructure continue to age.**

**That brings me to why I sit before you here today. Hilcorp's production in Alaska represents approximately 40% of what we produce company-wide, so our success here in Alaska is critical to Hilcorp's overall success.**

**I can say from Hilcorp's perspective, the credits in question have resulted in more investments here in Alaska, both on the North Slope and the Cook Inlet basins. Starting with the Cook Inlet area, it's no secret that Hilcorp has been a big part in reviving energy security in Southcentral Alaska.**

**During the past 4 years, we have invested over \$1 billion in projects and have drilled over 50 wells in the Cook Inlet Area. As a result of this investment and the increased production, we're sending more oil to be refined and used in Alaska. On the natural gas side, due to our significant investment over the past four years, we are now making gas supply commitments with local utilities into the year 2023. We stand by our commitment to serve Alaskan's energy needs first and are working to ensure a reliable and affordable energy source for Alaska's largest population hub.**

**As you're well aware, prior to Hilcorp's entry into Alaska, there was widespread concern of "brownouts" and that utilities would need to import natural gas to meet demand. I have**

spoken to many who made electric generator purchases during this time expecting service interruptions.

Hilcorp's success certainly didn't come without challenges.

Developing oil and natural gas in the Cook Inlet basin carries a very high cost of production coupled with decline rates that vary from 15-50% annually depending on the field. The simple fact is that if we are not spending money on projects that bring on new production we cannot curb these declines. So we believe it is in both our best interest and the state's best interest that we continue to spend dollars on trying to produce more oil and gas.

It's also no secret that Alaska's tax credit system and the Cook Inlet Recovery act were key drivers in bringing Hilcorp to Alaska and in our investments to date. Since 2012, Hilcorp has spent approximately \$3.2 Billion dollars in capital and acquisition costs here in the State of Alaska. Those investments were aimed at one primary goal – increasing oil & gas production. Since 2012, we have increased overall production by approximately 40%. A lot of people like to ask us how we do it, and the answer is simple. We have and continue to make significant investments; investments that were encouraged by the State's tax credit program and investment that did just what the credits were meant to do...Increase energy supply for Alaskans.

I would argue that our success has been meaningful to many, including the State. Increased production levels of oil and natural gas in the Cook Inlet basin has resulted in increased royalty rates, property taxes, jobs and more.

One example of this is looking at our Monopod offshore platform. In January 2012, right after Hilcorp took over operations, the realized oil price was approximately \$95 per barrel. Production was approximately 600 barrels of oil per day,

a marginal rate for an offshore platform that has a high operating cost. Because of this marginal rate and low profitability, the Monopod qualified for royalty relief under HB 185 passed in 2003.

The royalty rate was reduced to help maintain profitability for the platform so it would not be shut-in and/or permanently abandoned. As the royalty owner, the state's take from the Monopod at that time was approximately \$90,000 per month...again, when oil was about \$95 per barrel. Over the past 4 years, Hilcorp has done over 150 projects on the Monopod, most of which were smaller in scope, and has increased production to a current rate of approximately 3,000 barrels of oil per day.

Because of the increase in production, the state's royalty share is back up to the standard 12-1/2% and even with oil prices at \$35 per barrel, the state's royalty take from the Monopod has increased to approximately a half a million dollars per month. That's over a 5 times more in royalty dollars going to the state, despite oil prices declining more than 60%. Furthermore, and probably more important, our success at the Monopod has added 20+ years of production life and 8 million barrels of future oil production.

The Monopod is not an isolated anomaly. Since Hilcorp's entry into the Cook Inlet area in 2012, oil production has doubled, which has increased oil royalty to the state of over \$70 million. Furthermore, even though oil prices are lower this year, estimated oil royalties will be approximately \$10 million more this year than what they were right before Hilcorp's entry when oil prices were high. Hilcorp's success in increasing oil

production over the last 4 years also has increased future estimated oil production by 20-30 million barrels, meaning increased future royalties for the state.

I would offer, we need more results like this...more production. I will also offer that the state needs a system in place that is stable, predictable and incentivizes, not jeopardizes, continued investments. Hilcorp's Cook Inlet success is a really good example of the State putting good policy in place aimed at achieving a positive result and getting one.

I can tell you today that the credits Hilcorp EARNED were absolutely reinvested in the resource. Our current production rates prove it. We have managed to work our way above the 50K Barrel threshold both through acquisition and A LOT of hard work. Breaking the 50K per day mark means we can no longer cash in the very credits that this legislation proposes to take away. But other budding companies can, and Hilcorp is a company that always welcomes competition in the market. We want to help promote a healthy industry throughout the state. An active industry means additional service companies will be attracted to Alaska which creates competition and will help drive down costs.

A lot of the discussion regarding credits has involved the Cook Inlet basin, primarily because of the notable increase in production and activity that the existing tax structure intended to generate was wildly successful. Our success in Cook Inlet is what fueled Hilcorp's interest in expanding to the North... And we did just that in November of 2014 when we purchased three of BP's assets on the North Slope, Milne Point, Endicott and Northstar fields. When we took over operations, we were

**producing approximately 36,000 gross barrels of oil per day from these three fields and now we produce approximately 37,000 gross barrels of oil per day.**

**After a year of working with these assets, I am so excited about the amount of opportunity up there. We have a comprehensive list of projects we can invest in...projects that will put more oil in the pipeline and support literally hundreds, if not thousands, of jobs for Alaskans. We currently have 1 drilling rig running on the slope and would like to pick up a 2<sup>nd</sup> rig by the end of the year.**

**BUT, in today's price environment and in the face of an uncertain state fiscal structure, it is to be determined what projects move forward and when. We have to be very thoughtful with every penny we spend. Investment budgets are shrinking and compete with other oil and gas producing areas throughout the world. I want Hilcorp's investment dollars to come to Alaska. We have to continue to work hard to build efficiencies and cut costs, while ensuring we do it safely and without causing harm to the environment. Cutting COSTS, not corners, is the only way we will survive the current downturn.**

**I know that we aren't the only ones faced with difficult decisions and realities during this challenging time. I also recognize the members of this committee and the legislature have much to consider about what is best for the state and our future. I ask you today to recognize that change creates uncertainty, and uncertainty deters investment and affects jobs. Investment, whether for exploration or development, is the only way to increase production and increased production is the only way we can help get out of this situation.**

**Over the past 30 years, I have worked in several other basins throughout the US, and I can say with confidence Alaska has changed its tax policy more in the last few years than other areas have in decades. I want to keep Alaskans working, I want to increase production but the company simply isn't going to continue to invest hundreds of millions of dollars in Alaska, especially in this price environment, when the fiscal structure continually changes.**

**So, in closing I'd just like to say again that the uncertainty we are currently facing threatens our ability to plan our investments and that the decisions you make today will impact the economics of the opportunities to increase tomorrow's production both in Cook Inlet and on the North Slope.**

**Thank you.**