



Aug 1, 2023

Lauren Hughes

Office of Representative Ben Carpenter
Alaska State Legislature / District 8
Legislative Budget & Audit Committee Aide
Phone: (907) 269-5778
Email: Lauren.Hughes@akleg.gov

Subject: *Royalty Modification for Badami Unit*

Members of the Legislative Budget & Audit Committee:

We regret that we are unavailable to meet on short notice for the Badami Royalty Modification meeting, as we have prior obligations and commitments, including an ongoing audit with one of the federal agencies. We have prepared a brief synopsis to include with the presentation from the Department of Natural Resources to the Legislative Budget & Audit Committee. It is our hope that this document, although not as effective as meeting in person, will help articulate the benefit of the Royalty Modification to both the State of Alaska as well as to the Badami Unit. Should a follow up meeting be desired, we would enjoy participating in discussions on the subject.

Savant Alaska, LLC (Savant) a subsidiary of Glacier Oil and Gas Corp. (GLA) has applied for royalty modification for seven leases in the Badami Unit, an oil field located on the eastern flank of North Slope of Alaska. Savant has provided a clear and convincing case to the Alaska Department of Natural Resources (ADNR) backed by financial and technical evidence as required under 11 AAC 88.105, 11 AAC 83.185, 11 AAC 05.010(a)(10)(H), and AS 38.05.180(j)(6) showing that royalty modification is warranted under AS 38.05.180(j)(1)(B). The company has also provided a detailed analysis of the production history of the Badami Unit, including the decline in production and the challenges faced in maintaining production levels at this remote field. Savant has demonstrated that the current royalty rates are a significant burden on the economics and future development of the field, and that royalty relief is necessary to maintain economic viability and level the playing field for a small operator like Savant. The royalty modification will ultimately prolong the economic life of the Badami Unit that has limited resources and attract the



necessary investment and partners to keep it sustainable. This will ultimately lead to further development in this underdeveloped area and will directly benefit the State of Alaska.

The primary reasons for the royalty modification request included:

- 1. Economic Viability:** Savant has demonstrated through updated cash flow models that without royalty relief, the field would experience negative sustained cash flows, particularly at specific price points. Savant has clearly shown that the increase in per-barrel costs due to declining production is sufficient to make future production from Badami uneconomic without royalty relief. Lease operating costs are expected to slowly rise with inflation as production declines resulting in each barrel bearing more of those fixed costs. By modifying the royalty rates, Savant aims to make future production economically viable, especially as production declines and costs per barrel increase.
- 2. Field Life Extension:** The proposed royalty modification, based on a threshold revenue, is expected to extend the economic life of the Badami Unit. The royalty relief can approximately extend field life by 6-7 months on average based on stochastic modeling by ADNR, which can be crucial in maintaining operations and securing potential investment for growth and development in the region. Badami is also crucial to enabling production from adjacent fields like Point Thompson reach markets through its pipeline network it operates.
- 3. Challenges of Mature Field:** Badami is as a mature field, which requires significant investment to maintain production levels. Badami has been a challenging reservoir to produce from since its discovery in the 1990s, with complex geology that involves compartmentalization. Production has undergone boom and bust cycles, with ownership changing hands multiple times. GLA took over operations in 2014 and has diligently worked to optimize production and incite growth. However, the field has steep natural declines due to compartmentalization and the addition of new wells that come with high capital costs only provide temporary relief before rapid decline ensues. The current royalty structure at Badami ranges from 12.5% to 16.66667% depending on the lease. The current royalty rates are seen as a significant burden to investors on the economics of the field that currently produces around 1,000 BPD, and royalty relief is seen as necessary to sustain operations. Savant is one of the few independent operators left that lacks the resources and asset portfolios that aid major companies operating on the North Slope. Royalty relief would help level the playing field especially towards the east where capital and operating costs are much higher and infrastructure like gravel roads are non-existent. The improved economics from royalty reduction would allow Savant to reinvest capital into infrastructure upgrades, workovers, and new wells to increase production and reserves that will attract capital. Royalty modification has helped Cook Inlet mature fields nearing end of economic



GLACIER

life to continue operations; however, no precedent yet exists to aid operators to deal with mature fields on the North Slope.

4. **Attracting Investment Partners:** Savant believes that granting royalty relief will enable GLA to invest in future wells and attract investment partners. This is important for the future development and viability of the field, especially given its high-cost nature. New owners of GLA; SEP Alaska and JPD Family holdings have expressed strong interest in new investment and drilling at Badami in 2024 if economic conditions allow.

5. **Quantifiable and Indirect Benefits:** The royalty modification will result in quantifiable direct and indirect benefits for the State of Alaska. These include gains in direct state revenues from modifying royalties, as well as savings from deferring pipeline tariff increases on the Badami and other pipelines. Quantitatively, DNR's modeling and analysis provides evidence that granting modification to Badami will produce revenue gains to the State versus not modifying. Expected direct gains from royalties, production taxes, and property taxes average \$167,000-\$282,000 across many scenarios. Indirect gains are also quantified by estimating over \$444,000-\$518,000 in savings from deferring pipeline tariff increases on the Badami, Endicott, and Trans Alaska Pipeline systems.

6. **Unquantified Indirect Benefits:** Savant has also highlighted several unquantified indirect benefits, such as the potential for new investments, unlocking remaining reserve potential, and impacting future lease sales in the surrounding areas. Badami also has remaining reserve potential that could potentially be tapped by new wells but would be negatively impacted if facilities and infrastructure were removed due to abandonment. Extending the life of the field is preferable to premature abandonment and loss of remaining resources and jobs. Glacier currently employs (79) full time employees and contractors with (37) personnel directly working at Badami, a majority of whom are Alaskans. Nearby acreage acquisition and explorers with strategic positions around Badami can also benefit from continued Badami operations and use of the infrastructure that would otherwise be abandoned.

7. **Environmental and Safety Record:** Savant emphasizes its solid environmental protection and safety practices at Badami, which further supports the case for royalty modification. The infrastructure and facilities at Badami will also aid in reducing environmental footprint by sharing resources with new and emerging operators.

In summary, GLA presents a robust case in justifying royalty modification within the relevant statutes, aimed at extending the economic life of the Badami Unit. The application is backed by comprehensive technical and financial information, underscoring the necessity of granting royalty relief to attract investment partners and sustain the field's economic viability. Savant's thorough demonstration through data submissions, cash flow modeling, stochastic



GLACIER

forecasting, and reserve analysis provides compelling evidence for the request. Additionally, GLA has addressed both quantitative direct and indirect impacts, along with qualitative unquantified benefits, making the case multi-faceted and convincing from many angles. ADNR has carefully evaluated these arguments and supporting evidence before deciding on the royalty modification request. The preliminary findings showcase extensive evidence from various perspectives, supporting the conclusion that Savant deserves royalty modification for the leases comprising the Badami field.

Due to short notice given and a prior commitment to a scheduled federal audit, GLA regrets that it cannot be present at the scheduled hearing and is presenting this statement supporting ADNR's findings. The company operates with a small office staff of (9) personnel at Anchorage in a dynamic and fast-paced business environment, with numerous ongoing projects, audit engagements, and internal operations that require diligent attention. Unfortunately, the abruptness of the hearing notice has left the company with insufficient time to rearrange its tight schedules and an ongoing workover operation in the Cook Inlet to mobilize the necessary personnel to attend the hearing. Despite its earnest desire to participate, the company must prioritize its current commitments to maintain its professional integrity and fulfill its responsibilities to its stakeholders. GLA remains willing to cooperate and provide any relevant information as required, and sincerely apologizes for any inconvenience caused by its absence at the hearing.

Should you have any questions or desire an in-person meeting, we are available to meet and discuss at an alternate date and time.

Respectfully,

David Pascal

COO

Glacier Oil and Gas, Corp