

MINUTES
SENATE FINANCE COMMITTEE
April 4, 2006
9:07 a.m.

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately [9:07:13 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice-Chair
Senator Fred Dyson
Senator Lyman Hoffman
Senator Donny Olson
Senator Bert Stedman

Also Attending: SENATOR GARY STEVENS; SENATOR TOM WAGONER; STEVE MARSHALL, President BP Exploration Alaska, Inc.; AGNUS WALKER, Commercial Vice President, BP Exploration Alaska, Inc.; TOM WILLIAMS, Senior Tax Counsel, BP Exploration Alaska, Inc.; RICHARD OWEN, Production Manager, ExxonMobil, and Vice President, ExxonMobil Alaska Production;

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

SB 305-OIL AND GAS PRODUCTION TAX

The Committee heard from industry representatives. The bill was held in Committee.

#SB305
[9:07:29 AM](#)

CS FOR SENATE BILL NO. 305(RES)
"An Act providing for a production tax on oil and gas;
repealing the oil and gas production (severance) tax;

relating to the calculation of the gross value at the point of production of oil or gas and to the determination of the value of oil and gas for purposes of the production tax on oil and gas; providing for tax credits against the tax for certain expenditures and losses; relating to the relationship of the production tax on oil and gas to other taxes, to the dates those tax payments and surcharges are due, to interest on overpayments of the tax, and to the treatment of the tax in a producer's settlement with the royalty owners; relating to flared gas, and to oil and gas used in the operation of a lease or property under the production tax; relating to the prevailing value of oil or gas under the production tax; relating to surcharges on oil; relating to statements or other information required to be filed with or furnished to the Department of Revenue, to the penalty for failure to file certain reports for the tax, to the powers of the Department of Revenue, and to the disclosure of certain information required to be furnished to the Department of Revenue as applicable to the administration of the tax; relating to criminal penalties for violating conditions governing access to and use of confidential information relating to the tax, and to the deposit of tax money collected by the Department of Revenue; amending the definitions of 'gas,' 'oil,' and certain other terms for purposes of the production tax, and as the definition of the term 'gas' applies in the Alaska Stranded Gas Development Act, and adding further definitions; making conforming amendments; and providing for an effective date."

This was the fourth hearing for this bill in the Senate Finance Committee.

[9:07:41 AM](#)

Representatives of BP Exploration, Alaska gave a presentation utilizing a handout titled, "BP Presentation on CSSB 305 (PPT), Alaska State Legislature, Senate Finance Committee, 4th April 2006" [copy on file].

STEVE MARSHALL, President, BP Exploration Alaska, Inc. introduced his co-presenters and made the following statement.

Over the last few weeks as we've been working through the various committees, both on the House and Senate side, and being in Juneau meeting with a number of legislators, I've become increasingly concerned about the direction the bills are taking. Seems to be and to BP that things are heading in the wrong direction.

There is clearly a focus on short-term revenues to the State. My worry is that is being done at the jeopardy of the longer-term revenues. And to some extent I suppose we have not done as good a job as we could have in convincing those that we've talked to about the linkage between tax rate, investment and that investment linkage to production.

The common ground that the industry and the citizens of Alaska and the legislature have in common is production. Our singular purpose, if you boil it down to something very simple, is to maximize the recovery of oil and gas from the oil fields in Alaska, and in our case, on the North Slope.

The natural decline of an oil field or a gas field is inevitable. It's something in the range of 15 percent for the fields that we have on the North Slope. Through the efforts of our staffs and teams and the investments and the ideas and the innovation and the technology, we are able to arrest that decline to about six-percent.

For the industry that represents about a billion and a half dollars investment per year; capital investment, wells, flow lines, new facilities, to be able to not only produce oil and gas but to also handle the water, the solids, the inevitable challenges that come with working in mature fields 20 to 30 years old.

In addition to that we spend as an industry, in excess of somewhere in the range of \$2 billion just to operate those fields. So again the ongoing maintenance, keeping the wells productive, stimulating the wells to make sure they maximize the production, that represents the investment. About a billion and a half capital, something in the range of about \$2 billion just to operate those fields.

What I think is happening right now is that all of those efforts, because there are no big projects, they get lost. The wells that we drill every year, the side tracks of new

wells, about 100 penetrations is the hard peddling we do. It's a bit like, if you think the industry is like a millpond, the ducks just sailing along and the oil keeps coming. Actually we're paddling very hard underneath the surface ... to offset that decline.

I think the decline is somewhat masked by the high prices we're experiencing. That's the good news. It benefits us all, clearly the industry, BP is no exception, we're making very good profits - very good profits. There is no doubt about that. Resetting the balance there I think is something that is clearly the challenge before us: achieving that balance.

But the high prices are I think offsetting a very worrying trend. The industry's track record, I wish I could say was exemplary in meeting its forecasts, not only our own internal forecasts, but also the DNR forecasts. We've experienced over the last four or five years, we have missed those in a negative sense every year.

Why is that? I think it's from a number of reasons: drilling wells that have taken longer, projects that have been delayed maybe for technological reasons, maybe for other external factors, operational upsets, small discrete investments that may take a little longer to mature. Every year as we submit our business plan it includes many many discrete individual investments. The \$600 million that we're spending this year probably represents maybe a hundred different projects. All of which have their own economics and their own relative attractiveness. It's our job to mature those to the point where we're confident we can actually deliver on what we say we're going to do there.

Any time we change one factor, that could be a technological factor or any other factor, it makes the relative competitiveness of those investments less attractive. Clearly tax is one aspect of that. So I think the delays to projects, all it does is further undermine the production. It accelerates the decline and when we lose that momentum it's very difficult, if not impossible to get back.

I think we've shown as individual companies and as an industry, once we lose the a particular project for whatever reason it's delayed, we have nothing there to kind of put in its place. We'll get that production eventually, but it just slides further into the future. That's the underlying decline that we're seeing exaggerated.

Now BPs plans over the next ten years are to spend \$14 billion. That was the plan that we put together in the summer of last year. It clearly represents a significant investment in gas. But that gas only represents about half of that \$14 billion. There's another \$7 billion tied to oil projects. That represents almost a doubling of upstream investment - the investment on the North Slope and what we've experienced in the last few years.

We spend quite a considerable amount in the last few years on what we call our midstream. One billion dollars on new tankers, the four new tankers that are coming into the fleet [and] the modernization of the pump stations on the pipeline, are just two examples where we're modernizing our infrastructure. Modernizing our infrastructure for the next 30 years, but at the same time, investing to lower unit costs.

That's one of the big challenges that Alaska faces: an incredibly high fixed cost of infrastructure to get oil to market. Unlike many places, the distance to market is a big handicap for Alaska. The actual cost of doing business is high, but it's not extraordinarily high. The cost to get the product, oil or gas, is considerably higher than just about anywhere else BP operates. I suspect the same is true for anybody in the industry.

That two-times spend that we're looking at there is what I want to make sure we're not putting in jeopardy. The 20/20 proposal that the governor proposed a few weeks ago, I have to say was at the outer edge of where BP had been thinking. Prior to that time, we'd been talking about 12 1/2 percent as a production tax. So 20 percent represents a big change. And 20/20 - 20 percent tax and 20 percent credit, in 2006 and with oil prices that we currently have, and with the capital plans that we currently have this year, \$600 million, it represents about a 13 percent production tax.

If you strip it down, the tax and the credit represents about a 13 percent tax - effective tax on production.

Under ELF [economic limit factor], under the same circumstances, the same scenario, that's about 5 1/2 percent. So it's essentially a doubling of that tax rate.

The Senate bill, as it currently stands, represents almost a three-fold increase in production tax over ELF. So perhaps that's one way of explaining our concern about - less about the revenues for the State, but more about what impact that will have on future investment.

That's our mission. That's what the 1,700 direct and 5,000 indirect employees working for BP do everyday is paddle very hard to keep maximizing that production.

Certainly our thinking prior to the governor's bill coming out was that an approach that provided the State with considerable upside at high prices. That we accepted and recognized the State's need for that [as] something that we supported [and] providing some protection at the downside under low prices. Agnus will show that certainly in the \$20 to \$25 price range, our business makes very little profit if any. We'll come to that in more detail because I know that's been an issue that's had quite a bit of press recently and I think is worth an examination of what's really driving the business there. We want to provide as much transparency on that as we possibly can.

Our approach was to provide the State with upside at high prices, something the State has not enjoyed and needs to and should [and] some protection at the downside. The middle ground is where we thought the game needs to be won or lost. Preserving to the extent we can the investment and the investment climate over that mid-range of prices that we've been operating under for the last two years is the area where we're most concerned about. So we would argue for something less than 20 percent in that range. But that would be true progressivity. What it boils down to is increasing the size of the pie, not just increasing the slice of the pie that the State gets.

I think that where we all win is a bigger pie that we can all share in. I worry that the focus so far has been just

on increasing the slice of the pie. That to me would be less than [an] optimal outcome for the State of Alaska.

[9:20:06 AM](#)

Senator Hoffman referenced the witness' comment that the Senate Resources Committee substitute provisions for a 25 percent tax and 20 percent credit would result in a tax increase of three times that of the current rate. He asked if this calculation includes the progressivity factor.

[9:20:23 AM](#)

Mr. Marshall responded that progressivity is not included in the assertion.

[9:20:27 AM](#)

Senator Hoffman asked the percentage of the increased tax including the progressivity.

[9:20:33 AM](#)

AGNUS WALKER, Commercial Vice President, BP Exploration Alaska, Inc., responded that he did not have figures, but that the impact would be "obviously significantly more".

[9:20:45 AM](#)

Senator Dyson requested comments pertaining to provisions of the committee substitute that would be "less attractive" in encouraging investment, particularly relating to credits and transition provisions.

Senator Dyson relayed a "rule of thumb" that five times the amount of credits is equal to one percentage of tax. He invited the testifiers to express their agreement or disagreement with this theory. He asked also if the rule would apply to oil prices of both \$60 per barrel and \$25 per barrel.

[9:22:06 AM](#)

Mr. Marshall affirmed that the tax rate would "always out trump" credits. Credits assist in mitigating tax. A formula providing a 20 percent tax and a 20 percent credit calculates to

approximately 13 percent tax. The tax rate is "always out trumped" by production. If successful in attracting additional investment, a situation could result in which no Petroleum Production Tax (PPT) revenue would be collected, but more income would be generated for the State.

[9:23:49 AM](#)

Mr. Walker provided his testimony referencing the aforementioned handout and utilizing a visual aid. The document includes information shown on the visual presentation interspersed with written testimony.

[9:24:28 AM](#)

Page 5

DOR Production Forecasts

[Line graph depicting ANS Oil Production (mbd) for the years 1978 through 2015. Actual production is shown for the years 2005 and earlier; projected production forecasts for years following 2000 are shown for Fall 01, Fall 03, Fall 05 and Spring 06.]

- Historical basin decline has been around 6%
- Flattening of production from 2002-2004 due to Alpine & Northstar
- Decline since 2004 has mirrored historical basin decline

Mr. Walker noted the decline in production has been occurring since 1988.

Mr. Walker pointed out that the Department of Revenue forecasts have been systematically adjusted and that previous forecasts were too "optimistic" and forecasted higher production rates than was actually realized. The Spring 2006 forecast also predicts higher production than would actually occur.

Mr. Walker stressed that this should be of concern to all parties. Production of 100,000 barrels per day equates to \$500,000 in revenues to the State of Alaska.

[9:27:15 AM](#)

Mr. Walker surmised that certain factors were proving more difficult than industry had anticipated, thus causing production rates that were "failing to meet" forecasts. Development of viscous oil is an example that some projects are requiring more time to execute. Additionally, the environment at Northstar is challenging. A significant investment was made in another field, which has provided no return.

[9:28:16 AM](#)

Mr. Walker reported that the forecasts are made utilizing a number of "real projects" with "real reserves" located on the North Slope. However, the forecasts are not based on a realistic capital forecast. "No restraint" is exercised in the preparation of these forecasts to consider whether industry has available capital, capacity, and support structure to undertake projects.

[9:29:30 AM](#)

Page 6

Investment Offsets Decline

[Line graph showing the downward trend from approximately 1.75 Millions of barrels per day to less than .5 million for years 1990 to almost 2050. Delineated for the years following 2005 are projections of a 15% Decline rate of 1.3 billions of barrels produced and Zero Investment; the Status Quo with a 6% Decline rate, 3.6 Billions of barrels to be produced and an investment of \$1 - \$1.5 billion per year; and a 3% Decline rate with 7.5 Billions of barrels to be produced and an investment of \$2 - \$3 billion per year.]

DOR Spring Forecast cannot be met without significant additional investment

The vast majority of that investment must be made in existing fields

Mr. Walker outlined the history of decline in production on the North Slope. If no additional investments were made, production from existing facilities would end by 2012 or 2013. In actuality, investments are currently made at \$1 to \$1.5 billion per year. A continuation of this rate would continue the trend of a six-percent annual decline in production.

Mr. Walker stressed that BP Exploration desires a "healthy oil business" in Alaska for decades in the future and that would enable the construction of a natural gas pipeline. To accomplish this, annual investment must be \$2 to \$3 billion per year.

Mr. Walker considered the issue to be how to double the current level of investment.

[9:32:42 AM](#)

Mr. Walker reiterated that the Department of Revenue Spring 2006 forecast would be revised to reflect a lower production rate because the projected rate requires a significantly higher investment than currently being made.

[9:33:09 AM](#)

Senator Hoffman asked the average amounts invested by BP Exploration and the industry as a whole in the past five years.

[9:33:23 AM](#)

Mr. Walker reported that the industry has been investing between \$1 and \$1.5 billion annually. Of that amount, BP Exploration has been investing approximately \$400 million annually in "upstream operations". The company is also investing in "midstream" activities. The total investment of BP Exploration is \$3.5 billion for the previous five years.

[9:34:13 AM](#)

Senator Hoffman asked about the company's stated objective to increase investment an additional one billion dollars regardless of proposed changes to the tax structure. He asked if this is a result of higher oil prices.

[9:34:43 AM](#)

Senator Hoffman asked the underlying reason to increase investment in future years, given that only \$400 million was invested annually in the past five years.

[9:35:06 AM](#)

Mr. Walker clarified that the investment figures quoted on the graph represent the total industry.

[9:35:43 AM](#)

Senator Olson asked if the cited investment amounts are limited to investments made in North Slope activities or whether they also include investments in the transportation process, such as the pipeline and ships.

[9:36:15 AM](#)

Mr. Walker replied the figures represent the investment industry has made in North Slope activities only. Industry is also investing in other aspects of the business to ensure it is "healthy."

[9:36:34 AM](#)

Senator Olson asked if the renovation of tanker ships is included in these efforts. his

[9:36:45 AM](#)

Mr. Walker responded that those expensed are not included in these figures. This data pertains only to upstream activities.

Mr. Walker repeated that the future of the resource development would be determined by industry's "ability to attract investment."

[9:37:22 AM](#)

Page 7

A 50 year vision

[Graph delineating BP Net Production (mboe/d) of Light Oil, Viscous Oil, Heavy Oil, and Gas, for the years 1975 through 2050.]

Mr. Walker spoke to efforts BP Exploration is undertaking to address the issue of declining production. The strategy is to create a 50-year future for the business by focusing on known resources. Accomplishing this would be challenging but possible.

One challenge would be to "normalize" the viscous and heavy oils to transport to market. Production of viscous oil has started and efforts have started for production of heavy oil. The company also intends to take natural gas to market.

[9:38:46 AM](#)

Mr. Walker contended that the "future is very different from the past". Future activities would involve three businesses: light and heavy oil, and gas. All must be interdependent and each must be "healthy" for the long term future of the North Slope.

[9:39:13 AM](#)

Mr. Walker told of many challenges that must be met and overcome. These efforts are underway. Technology is being identified to increase productivity from existing fields; to develop the state's vast viscous resource and transport it to market from the arctic environment. The company is working to ensure its fleet of ship and the pipeline infrastructure is adequate for future use.

Mr. Walker remarked that BP Exploration employs 200 people in Alaska.

[9:40:33 AM](#)

Mr. Walker relayed the BP Exploration plan to expend \$14 billion in the next ten years. A significant portion of that investment would be related to natural gas development. The investment in oil resources in the North Slope would double.

[9:40:56 AM](#)

Mr. Walker expressed concern that the future of these plans would be jeopardized by the proposed increased taxes.

[9:41:09 AM](#)

Page 8

Production Drives Revenue

[Spreadsheet expounding on the information depicted on Page 6 regarding the decline in production and industry

investment amounts. Operating Expenses are listed at \$30 billion for 1.3 billion barrels produced; \$50 billion for 3.6 billion barrels produced; and \$100 billion for 7.5 billion barrels produced. Also shown is State Revenue (estimate) Assuming 20/20 \$40 ANS of \$10 billion from a decline rate of 15% and \$1 billion Industry Investment; \$30 billion from a decline rate of 6% and \$20 billion Industry Investment; and \$60 billion from a decline rate of 3% and \$60 billion Industry Investment. Pie charts for the three scenarios demonstrate the portion of revenue derived from the proposed PPT compared to All other non-PPT state revenue.]

Maximizing State Revenue means maximizing Production

Mr. Walker outlined the additional information contained on this page. Industry would incur the operating expenditures "to keep North Slope running for the duration."

Mr. Walker pointed out that if successful in achieving a three-percent decline in production goal, a \$60 billion investment would be required. This amount is three-times the current forecast. Additionally, \$100 billion in operating expenses would be required; an amount twice the current forecast.

[9:42:50 AM](#)

Mr. Walker relayed that private business interests outside the oil industry caution against underestimating the impact of the oil industry on the economy of Alaska.

[9:43:24 AM](#)

Mr. Walker stressed the direct impact of oil development on State revenue. Property tax, royalty and income tax revenues are all based on production. Production through a pipeline is the significant factor.

[9:44:18 AM](#)

Mr. Walker, referencing the pie charts, noted that revenues generated from the proposed PPT would comprise less than one-quarter of total State oil revenues. A severance tax of zero could be adopted if determined to be the best method to facilitate investment in Alaska. Such investment could provide

the State with higher income from property taxes and royalty tax.

[9:45:09 AM](#)

Mr. Walker stated that the current six-percent production decline is historically driven by the current economic limit factor (ELF) tax structure. According to the basic law of economics, less investment would be made if the proposed 20/20 PPT structure were adopted. This would result in an investment decline of six to 15 percent.

[9:45:53 AM](#)

Mr. Walker contended that State officials should be considering methods to double the current rate of investment in Alaska rather than how much to increase taxes.

[9:46:12 AM](#)

Senator Hoffman returned to Mr. Walker's earlier comment that a production reduction of 100,000 barrels of oil would cause a revenue reduction of \$500 million. Senator Hoffman asked the price of oil this calculation is based upon.

[9:46:29 AM](#)

Mr. Walker replied the current price of \$60 per barrel was used in this analogy.

[9:46:35 AM](#)

Senator Hoffman asked if the reverse would be true that the State would receive \$500 million for each 100,000 barrel production increase.

[9:47:26 AM](#)

Mr. Walker responded that the factors change over time. The aforementioned calculation is based on an economic model over the next 40 years. Although production declines, operating costs do not; therefore costs per barrel increases.

[9:48:16 AM](#)

US Marginal Tax Rates

North America: Tax Rate Comparison

Alaska is already the highest cost region to operate

[Bar graph listing the Marginal Tax Rate percentages of other states and Canada as follows:

Alb.1	39%
GOM	45%
CO	51%
WY	52%
KS	53%
TX	53%
NM	53%
OK	53%
CA	53%
Alb.2	54%
AK (ELF)	56%
LA	57%

(Alb: Alberta Heavy Oil - pre and post-payout)

Marginal Tax Rate percentages of PPT proposals are also listed as follows:

20/20	61%
Senate:	
<\$40	63%
\$100	67% Increases with oil price]

Alaska will have the highest marginal tax rate

Mr. Walker answered his own question that the tax rate is important.

Mr. Walker defined the marginal tax rate as applying to additional earnings after all costs are covered.

[9:49:21 AM](#)

Mr. Walker noted the states listed are the top ten producers in the United States. Alaska currently has the second highest tax rate under the existing ELF system.

[9:49:53 AM](#)

Mr. Walker pointed out that the original 20/20 proposal would increase the marginal tax rate to 61 percent, which would be the highest rate in the United States. The marginal tax rate under the Senate Resources Committee substitute would be higher still and the progressivity provision would allow for continued increases for higher oil prices.

[9:50:39 AM](#)

Senator Stedman asked the marginal tax rate of the Senate Resources Committee substitute at a price of \$100 per barrel not including the progressivity factor.

[9:50:55 AM](#)

Mr. Walker answered that the marginal tax rate would remain 63 percent and would not increase with price increases.

[9:51:21 AM](#)

Senator Stedman indicated he would have additional questions at a later time.

[9:51:28 AM](#)

Mr. Walker declared it "unthinkable" that high tax rates would yield additional investment.

[9:51:45 AM](#)

Mr. Walker directed attention to Alberta and the Gulf of Mexico where "business is booming" and investment is attracted. Alberta is "open for business" and imposes a royalty tax of only one percent.

[9:52:36 AM](#)

Senator Bunde identified the need for fiscal certainty as a complication to the legislature in determining specifics of a PPT structure. A few Alaskans would be making a decision that would remain unchanged for many years. He asked about fiscal certainty for the citizens of Alberta and the amount of time before current decisions could be changed.

[9:53:26 AM](#)

Mr. Walker was unsure of the exact terms of the tax structure in Alberta, although he assumed the government had some assurances. Alaska is in the unique position of wanting a \$20 billion natural gas pipeline, which is a "driving need" for long term fiscal certainty.

[9:54:04 AM](#)

Senator Stedman agreed that the marginal tax rate for Alaska would be "huge", but reminded that royalty and property tax rates are utilized as a method of "selling our resources". The figures cited in this presentation are similar to those reported by the Department of Revenue. However, the aggregate corporate profit margin would be 35.5 percent on prices of \$40 per barrel under the 20/25 PPT proposal contained in the Senate Resources Committee substitute compared to 37.9 percent under the current ELF system. This difference in profit is marginal. He recognized that the profit margin is different for each company and could be lower for BP Exploration.

Senator Stedman acknowledged that, at \$60 per barrel, the current aggregate profit margin is approximately 42.8 percent and would be 32.7 under the 20/25 method. However, with prices of \$20 per barrel the profit margins would be 18.5 percent and 23 percent respectively. The profit margins would actually increase under the proposed system.

Senator Stedman emphasized this information should be considered along with the issue of "top down view of government take versus industry take and where is this balance point." The balance point would be determined through the use of taxes and royalties and would be utilized as a "selling point" of resources in the global market. This differs from the scenario of an income tax imposed by the federal government.

[9:57:03 AM](#)

Co-Chair Wilken recalled that the legislature commissioned the Wood McKenzie Group a couple years prior to provide an analysis of the investment climate of oil and gas activities in Alaska. Mr. Walker contended that Alaska is one of the most expensive places to produce and transport the resources; however, the commissioned report concluded that Alaska is also one of the

most profitable locations. He asked if the witness agreed with this finding.

[9:57:58 AM](#)

Mr. Walker responded that industry must be profitable to invest. The real issue is whether opportunities exist in Alaska to attract industry capital. These opportunities, "obviously" do not exist due to the annual six-percent declining in production on the North Slope. The focus should be to determine the proper fiscal system necessary to attract investment, rather than how much the State could "take" from oil companies. The issue should be "what is right for Alaska."

[9:59:15 AM](#)

Mr. Marshall gave his recollection that the aforementioned study made a comparison of the profitability of individual projects. Projects in Alaska include high costs to transport the resource through the pipeline and on ships. These are unique expenses. Production in Alaska is attractive due to the profits that could be realized at higher oil prices.

Mr. Walker agreed with Senator Stedman that achieving balance is the goal. However, providing adequate product to sell is also important. He cautioned against creating a situation in which less product is sold.

[10:01:36 AM](#)

Senator Dyson asked if the marginal tax rate depicted on Page 9 reflects all government "take", or just those taxes levied by state governments.

[10:01:53 AM](#)

Mr. Walker replied this includes corporate income tax and royalty. The data also includes federal taxes.

[10:02:13 AM](#)

Senator Dyson requested a listing of the amount of recoverable oil in the states shown. He expected this information is factored into business decisions as well.

[10:02:39 AM](#)

Senator Dyson relayed that a representative of a partner company to BP Exploration operating on the North Slope informed him that the "present lifting cost", the cost of producing a barrel of oil, from Prudhoe Bay is currently between \$13 and 14, and could increase to \$15 or \$16 with the change of the tax structure. He asked if the witness agreed with this estimation.

[10:03:09 AM](#)

Mr. Walker alluded to difficulties in providing a response. The "break even point" for BP Exploration operations is \$22 per barrel. Operating expenses for each barrel produced equals approximately \$10, capital costs are \$6 per barrel and taxes amount to \$7. Profits are achieved after those expenses are covered. Business is becoming more difficult and expensive.

[10:04:56 AM](#)

Senator Dyson took offense to comments suggesting greed is the motivation for changing the current tax structure. In actuality, legislators are attempting to obtain a "fair return" to Alaskans for the loss of a "one-time" resource. The issue is not about how much money could be collected to spend on government, but rather what amount would be fair to the people of Alaska.

[10:05:57 AM](#)

Mr. Walker responded that tax rate is only one factor in attracting investment in Alaska. Consultants have utilized various figures and comparisons. He expressed concern that this information provides an "impression that's the answer". The quantity and quality of oil and gas yet to be discovered and developed must be considered. The country of Norway has a significantly high tax rate but has experienced 20 years of continuous production growth. The reservoirs and wells at that location are very productive. A similar sized reservoir located in Western Texas or Alaska would require more wells to "liberate" the oil and gas, which involves higher capital costs and provides lower profitability.

[10:08:10 AM](#)

Senator Bunde addressed the underlying principles in the assumptions used in this process. He asked if the witness agreed that the long-term oil price would likely be approximately \$40 per barrel.

[10:09:56 AM](#)

Mr. Walker answered that BP Exploration is "not in the business" of forecasting future prices. The corporation takes risks with regard to future oil prices. The "prevailing view" of the industry is that prices would decline from the current levels.

[10:10:37 AM](#)

Page 12

PPT Impacts
Government Take (%)

[Pie Charts and spreadsheet depicting the distribution of funds based on the price per barrel as follows:

Price per barrel - \$20		
State		
Status Quo		143%
PPT (20/20)		97%
Federal		
Status Quo		1%
PPT		18%
BP		
Status Quo		0%
PPT		0%
Price per barrel - \$40		
State		
Status Quo		40%
PPT (20/20)		44%
Federal		
Status Quo		23%
PPT		22%
BP		
Status Quo		37%
PPT		34%
Price per barrel - \$60		
State		
Status Quo		32%

	PPT (20/20)	40%
Federal		
	Status Quo	25%
	PPT	22%
BP		
	Status Quo	43%
	PPT	38%

Mr. Walker indicated this should address Senator Stedman's concern regarding relative share. At prices of \$20 per barrel, proceeds are insufficient under the existing tax system to allow BP Exploration to earn a profit. The "breakeven point" is currently \$22.50 per barrel.

Mr. Walker surmised that the information generated and utilized by the Department of Revenue as "corporate profit" and which Senator Stedman referenced is not actually corporate profit as industry considers it to be. He is working with the Department of Revenue to "clean up" the information, which is misleading. BP Exploration financial information is accurate, although it differs from the Department.

[10:13:39 AM](#)

Senator Stedman appreciated the collaboration between the company and the Department of Revenue. The Department information coincides within one percent of the figures provided by BP Exploration.

[10:14:07 AM](#)

Mr. Walker stated some discrepancies exist. The Department of Revenue calculates industry earning a reasonable profit at oil prices of \$20 per barrel.

[10:14:29 AM](#)

Senator Stedman clarified the comparable figures are based on prices of \$40 and \$60 per barrel. He agreed the discrepancy is greater at \$20 prices.

[10:14:53 AM](#)

Mr. Walker remarked that accurate information is needed to base decisions on.

[10:15:02 AM](#)

Senator Bunde asked if the status quo indicated on the pie charts pertains to the current tax structure, rather than five years in the future with the ELF system eliminated.

[10:15:23 AM](#)

Mr. Walker answered the information is based on 2006 data and assumes an effective ELF tax rate of 5.5 percent.

[10:15:40 AM](#)

Mr. Walker continued detailing the pie charts. At oil prices of \$40 per barrel, the State share is still greater than the BP Exploration share. At \$60 per barrel, the BP Exploration share is greater than the State's, as it should be under a regressive tax. A regressive tax provides "relative assurance" to the State during lower oil prices.

[10:16:54 AM](#)

Mr. Walker pointed out that the initial 20/20 PPT proposal does not include progressivity. At \$20 price per barrel, the federal government would receive more than under the ELF status quo system. BP Exploration would not earn a profit.

[10:17:27 AM](#)

Mr. Walker continued outlining the shares received by the State, federal government and BP Exploration at prices of \$40 and \$60 per barrel under the 20/20 proposal. In each instance, PPT would provide the greatest share to the State.

[10:18:52 AM](#)

CSSB 305: Key Issues

- The increase of the base tax rate to 25% will be a serious barrier to investment
- The proposed progressivity in the tax rate combined with the significant base rate increase in moving from WLF to PPT (25/20) is inappropriate given Alaska's circumstances

- Several of the newly introduced terms are unbalanced and will cause problems
- Failure to provide for the full transition will harm the State's reputation with investors
- The current version of the Bill adds significant complexity to one of the most complex fiscal regimes in the world
- We do not believe this Bill as drafted achieves the mutual goal of increasing investment & stemming decline
- Alaska has lots of oil & gas but production is declining! Decline is our common enemy!
- Significant additional investment is required to stem decline
- Maximizing production will maximize State revenues and benefits to Alaska
- With a 20% tax rate Alaska will have the highest tax rate & the highest cost structure in the US (25% is even worse!)
- The bill as drafted will not maximize benefits to Alaskans
- The UK and Alberta have successfully attracted significant investment and increased production by reducing taxes and are thus great role models

Mr. Walker overviewed this information provided in addition to the presentation handout.

[10:22:05 AM](#)

Senator Stedman perceived an indication that industry predicts implementation of the "two for one" provision would be problematic. The goal is to decrease the declining production rate at Prudhoe Bay. He asked a "one and a half to one" or a "two and a half to one" or other variation would provide more enticement for industry to increase investment from \$1 billion to \$2 billion annually.

[10:23:00 AM](#)

Co-Chair Green asked if Senator Stedman's comments pertained to the tax rate or the PPT system.

[10:23:06 AM](#)

Senator Stedman answered he was speaking to both issues.

10:23:08 AM

Mr. Walker responded that BP Exploration was "still formulating our views on this". However a provision to allow for transition would be appropriate. He understood the logic of linking transition benefits to future investment. The provision could be simplified in a manner in which the corporation could support.

10:24:04 AM

Senator Stedman asked whether BP Exploration intended to provide an example of an acceptable provision. He requested input on this matter from both smaller and larger producers.

10:24:36 AM

Senator Bunde expressed interest in further considering the State's reputation with investors. He understood the witness' testimony that if a five-year transitional period, such as that contained in the original PPT proposal, were not adopted the reputation with investors would be harmed.

10:25:20 AM

Mr. Walker informed that a "common base" for investors includes a transitional period. The Governor's proposal was not the only acceptable option, but some transitional provisions must be allowed for.

10:25:53 AM

Mr. Marshall announced that BP Exploration would provide detailed comments on several provisions in the bill. The underlying issue is the relative economic attractiveness today compared to any scenario. This is a key differentiator. The tax rate is a significant factor; however, other factors could ameliorate the impact of the tax structure change.

10:27:25 AM

Senator Stedman understood the different impact of a 25 percent tax rate. Econ One, the consultant retained by the legislature

is calculating the impacts of 25 percent and 30 percent credits. He requested input from BP Exploration on this and an assessment of how "helpful" increased credits would be.

[10:28:42 AM](#)

Mr. Walker gave his initial reaction that higher credits "are good". The corporation's original proposal to Governor Murkowski included a 12.5 percent tax rate and a 25 percent credit for many facilities. BP Exploration supports a credit rate higher than the tax rate. A credit system to "incentify" investment would be beneficial to Alaska; however, the credit rate could not be increased to an amount to fully compensate for the tax rate.

[10:29:53 AM](#)

Mr. Walker asserted that the language of this legislation is too complex for the fiscal regime. He recommended amending the bill to provide greater simplicity.

[10:30:23 AM](#)

Mr. Walker declared that the provisions of the Senate Resources Committee substitute would not achieve the mutual goal of increasing investment. The State and industry should be "entirely aligned" in determining what is in the best interest for Alaska.

[10:30:55 AM](#)

Mr. Walker addressed the proposed retroactive effective date of the tax structure change. This is not appropriate. The effective date should be no sooner than July 1.

[10:31:29 AM](#)

Mr. Walker concluded his presentation by saying that a better tax system could be achieved and offering to work with the legislature to accomplish this.

[10:33:30 AM](#)

Senator Stedman requested further discussion on the issue of base allowance. The current proposal would provide for no tax

levied on production of 5,000 barrels or less and tax levied on an expediential curve for production rates up to 30,000 barrels. He asked the opinion of BP Exploration on this provision.

[10:34:31 AM](#)

Mr. Walker replied that the resulting \$73 million tax-free provision was not considered for the benefit of BP Exploration. The focus should be in establishing a regime that would benefit all producers. A rate that is appropriate for this corporation should be appropriate for all producers. The Senate Resource Committee substitute excludes large producers from the base allowance benefit. A new tax system should have a "level playing field".

[10:35:48 AM](#)

Mr. Marshall informed that original discussions on this issue were focused on providing a geographical specific base allowance applicable to all producers operating on the North Slope. A different system could be adopted for operations located in Cook Inlet.

[10:36:25 AM](#)

Senator Stedman noted the proposed 95 percent "true-up" provision that would require producers to submit 95 percent of the estimated tax on a monthly basis. He requested comment from industry on this issue as well as any other "burdens" or issues of concern.

[10:36:48 AM](#)

TOM WILLIAMS, Senior Tax Counsel, BP Exploration Alaska, Inc., testified that he was previously employed as Assistant Commission of the Department of Revenue. The 95-percent true-up provision is "extremely unfair". Federal taxpayers remit quarterly payments of estimated tax with a true up of the actual tax due March of the following year. No penalty is assessed on underestimated taxes.

[10:38:01 AM](#)

Mr. Williams stated that the proposed PPT structure "resembles" an income tax. The provisions of the Senate Resources Committee

substitute would require the taxpayer to predict the tax with 95-percent accuracy, based on future oil prices. Additionally, costs, which would be accounted as deductions, would be unknown.

Mr. Williams continued that capital costs would be accounted as credits and would reduce the tax liability. However unanticipated events during the year, such as a delay in obtaining equipment, would result in different capital expenditures than planned. Lower production rates could result in lower operating costs. Lower operating costs would garner lower deductions. These issues and challenges are similar to those encountered with federal corporate income tax returns.

Mr. Williams detailed the accommodations provided for federal returns, including a nine-month period to reevaluate estimated taxes. This legislation, in comparison, would require significant accuracy each month. The true-up should be 90 percent and cumulative to the end of the calendar year. This method would be "workable" and would provide the State regular cash flow.

[10:43:28 AM](#)

Senator Stedman surmised the corporation prefers the true-up provision contained in the original PPT proposal to the Senate Resources Committee substitute.

[10:43:37 AM](#)

Mr. Williams corrected that the legislation introduced at the request of the governor would create the same difficulties. Although the true-up is 90 percent, penalties would still be assessed for underestimations.

[10:44:03 AM](#)

Senator Stedman informed he would review this matter.

Senator Stedman asked the corporation's position on the proposal to increase the oil spill surcharge fee rate by one cent and implement other changes to the existing program.

[10:44:25 AM](#)

Mr. Williams explained the Senate Resources Committee substitute proposes to lower the surcharge collected for the Oil and Hazardous Substances Spill Response (470) Fund from the current amount of two cents to one cent. The balance of this fund is \$50 million and therefore has "gone to sleep", and the surcharge would not be levied unless the balance was reduced.

Mr. Williams concluded that a reduction in the surcharge amount would "move away from where the State would want to be." In an incident in which the fund were drawn against, it should be replenished expeditiously, rather than remain below replenishment for an extended period. The proposed reduction would double the length of time before the fund was replenished.

[10:46:10 AM](#)

Senator Olson, referencing the pie charts on Page 12, realized that industry profits and the State benefits from high oil prices. However, residents of the election district he represents would be impacted by the high price. He requested consideration of the greater context of the issue. He also asked the impact of the proposed increase from a 20 percent tax to a 25 percent tax.

[10:48:06 AM](#)

Mr. Walker responded that a 25 percent tax would place a "significant additional burden on industry". Revised pie charts demonstrating the impact of a 25/20 PPT would be prepared and provided.

Senator Olson surmised that high oil prices are in the best interest of industry.

Mr. Walker agreed and furthered that high oil prices are in the best interest of all parties.

Senator Olson countered that high prices are not in the best interest of local consumers.

Mr. Walker advocated for the State's decisions in expending its revenue generated from the high oil prices.

[10:49:26 AM](#)

Co-Chair Green announced that the Committee could develop a list of questions for BP Exploration.

[10:49:52 AM](#)

Mr. Walker indicated he would be available to address these.

[10:50:02 AM](#)

Co-Chair Green intended input "from all sides" of the proposed PPT issue.

AT EASE [10:49:50 AM](#) / [10:57:25 AM](#)

[10:57:41 AM](#)

RICHARD OWEN, Production Manager, ExxonMobil, and Vice President, ExxonMobil Alaska Production, read testimony into the record as follows.

I am here today to discuss ExxonMobil's concerns with the committee substitute to SB 305. Before I go into our specific concerns, I would like to take a few minutes to describe ExxonMobil's history in Alaska, how tax systems impact investments, and our assessment of the remaining resource potential on Alaska's North Slope.

ExxonMobil has had a presence in Alaska for over half a century, investing more than 11 billion dollars in the State's economy. Currently, ExxonMobil has working interests in Prudhoe Bay, Kuparuk, Endicott, and Granite Point. We are the operator of the Point Thompson Unit, and we are the largest interest holder in the Prudhoe Bay field. Our current working interest oil production is approximately 180,000 B/D (Note: EMWI 159,000 EMNI), and we are the largest owner of discovered gas resource. We are proud of the role our company has played in Alaska through: exploration; initial field developments; construction of TAPS [Trans-Alaska Pipeline System]; development of new technology; and the promotion of efficient reservoir management practices. Today, our production from Alaska represents approximately 4% of ExxonMobil's worldwide oil and gas production.

Our Alaska production is primarily from Prudhoe Bay and near-by satellite fields. Prudhoe Bay, along with Point Thomson, has significant remaining potential, but it comes at a higher cost and risk.

One of ExxonMobil's objectives - in both the gas pipeline fiscal contract negotiation and the discussion on oil taxes - has been to reduce the risk associated with fiscal changes by working with the State of Alaska to establish a predictable and durable fiscal environment in which to make long term investment decisions. Changes in the fiscal regime for oil directly impacts how Senator Elton evaluate ongoing investment decisions. Tax systems need to be carefully designed to ensure the desired objective of resource development is achieved. To that end, it is critical to take into account the quality of the remaining resource otherwise a change may result in unintended consequences, such as reduced investments and lower reserve recovery.

When I say quality of resource, I mean: the size and nature of the oil and gas reservoirs; the cost and technology required to develop those reservoirs; the distance to market; as well as the tax and royalty system that applies, including the long-term stability of that system. Countries experiencing significant industry investment have achieved the proper balance in their fiscal regimes. ExxonMobil's assessment of the remaining oil resource suggests future growth opportunities will come from: complex enhanced oil recovery (EOR) projects; development of smaller, more marginal oil accumulations; and the innovative development of viscous and heavy oil resources. These opportunities will require the development and application of new technology, higher unit development costs, and more complex operations to deliver a given production rate. These resources are much lower in quality as compared to Prudhoe Bay and Kuparuk, though they face the similar challenges associated with arctic conditions and distance to market.

Therefore, we are concerned the Administration's original proposal is weighted towards a higher tax, which could prevent some of Alaska's challenged resources from being developed. The committee substitute contains even higher tax rates, which may prevent more of these challenged resources from being developed.

On February 28, I testified before the Senate Resources Committee about our key concerns with SB 305 as originally proposed. On March 18, I testified again before the Senate Resources Committee about how the proposed changes incorporated in the committee substitute bill exacerbate our concerns. I do not intent to cover all of my previous testimony, but I will provide comments on these areas: the increase of the base tax rate and addition of a progressive tax rate component; the committee substitute's transition provisions; and the elimination of royalty settlement agreements as a determination of market value.

SB 305, as originally proposed, would represent a significant tax increase on the industry. And as I just outlined, we are concerned the higher tax rate could prevent some of Alaska's remaining challenged resources from being developed. The committee substitute bill increases the already high cost base tax rate to 25% and then further increases it as oil prices increase.

Higher tax rates discourage investment. Companies are willing to accept the risks of long-term, capital intensive investments when there is a corresponding opportunity for upside potential through a variety of factors, such as increased production or higher prices. When you limit or reduce the benefit companies can achieve from the upside factors, you reduce the attractiveness of those investment opportunities. The proposal to increase the already high base tax rate and then further increase it as oil prices increase, reduces or limits the upside potential, which will result in companies recalibrating investment decisions. Reduced investment will result in reduced resource recovery, diminished state revenues, and fewer employment opportunities, with a resultant negative impact on the state's economy. Again, let me reemphasize this point. While higher taxes may bring in additional revenues in the short-term, any reduction in investment and subsequent production will significantly impact those revenues in the longer term. We think the focus of the tax bill should be encouraging investment and growing production, which is not accomplished with the higher tax rate and increasing the tax rate with oil price.

I would now like to discuss the committee substitute's transition provisions. The benefits from a typical oil and gas investment take many years to be realized. Satellite and tertiary recovery investment decisions by our company during the last five years were made under the ELF structure, anticipating a lower tax relative to that proposed under the PPT bill. The State appropriately provided this incentive so these challenged and costly projects could be commercially viable. SB 305, as originally proposed, recognized it is not appropriate to suddenly increase taxes on these prior investments without providing some form of consideration. The Senate Resources Committee included transition provisions in the committee substitute bill, but proposed a deduction based on recent investments with the pace of the deductions linked to future spending. As I stated, the purpose of the transition is to address the sudden increase in taxes on recent historical investments. Future investments decisions will be made under the new tax system based on the balance between the new tax rate and the credit rate. For this reason, we think the Administration's proposal of providing a deduction based on recent investments, not linked to future spending, is more appropriate.

Finally, I would like to express our disappointment that the provision allowing the use of a producer's royalty settlement agreement to determine the value of oil and gas has been removed from the committee substitute bill. That provision addressed a longstanding issue that has divided the State and the industry over the years. Too many years and too much money have been spent in disputes over how to value a single barrel of crude oil or a single molecule of gas. It made little sense in the past and it makes little sense today for the State to have separate divisions determining the value of oil and gas - one for royalty and one for taxes. There is only one value in the market place. SB 305, as originally proposed, allowed the State to value a producer's oil and gas using the producer's royalty settlement agreement, which was negotiated with, and approved by, the Department of Natural Resources. That provision was important to industry as it provided certainty to a producer on the value on which to pay its royalty and production taxes while reducing the administrative and audit costs to both the State and the

industry. We urge this committee to reinstate that provision.

In summary, the quality of the resources, the risks undertaken by a producer, and the impact on the State's overall investment climate must be factored into the design of the tax system. While industry needs predictability and durability under which to gauge investment decisions, the attractiveness of that predictably and durability is lost if it comes at too high a cost.

Despite our concerns with the original SB 305, we are prepared to move forward under that system as originally proposed, since it sought to provide a balance of revenues to the state and producers across a range of oil prices, provided sufficient incentive for producers to undertake exploration and development risks, and included reasonable transition provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase. Potential changes to the Administration's PPT bill should be carefully considered to avoid upsetting the balance contained in the bill - changes would require a reexamination to ensure the underlying health and stability of the oil business is sufficient for a gas pipeline project.

As I mentioned, the proposed committee substitute exacerbates our key concerns regarding both tax rates and certainty. For these reasons and the need to move ahead with the review of the Gas Pipeline Fiscal Contract, we urge this committee to support SB 305 as originally proposed.

[11:08:38 AM](#)

Senator Stedman referenced the witness' testimony to the potential impact of a PPT system on negotiations for a natural gas pipeline, as well as exploration and development over the next five years. While he recognized the potential impact on oil development, he questioned the influence of either a 20/25 or 20/30 PPT system or the status quo would have on the establishment of a natural gas pipeline.

Senator Stedman cited data of the Department of Revenue, calculating that at a price of \$40 per barrel, profitability would decline under a PPT system. However, the decline would be relatively minimal; from \$3.8 billion to \$3.4 billion. The disparity increases with higher oil prices.

Senator Stedman contended that Alaskan's, as the owner of the resource, should receive a fair share of profits. However, the tax system should also ensure that, at lower oil prices, industry would be unable to produce and expand operations.

[11:11:41 AM](#)

Senator Hoffman qualified that the figures listed by Senator Stedman do not include progressivity. Progressivity would change the amounts significantly.

[11:12:05 AM](#)

Senator Stedman agreed that progressivity levied on \$60 per barrel prices would impact profits. At below \$40 per barrel prices, progressivity would not be triggered. The actual impacts would be studied during this process.

[11:12:51 AM](#)

Mr. Owen expressed concern for the "health" of the "oil business" in the long term, which depends on more than just profitability.

[11:13:38 AM](#)

Senator Bunde identified the underlying issue of the long term viability of the oil industry is based on the price of oil. He asked the Exxon Mobile prediction of the long term price of oil.

[11:14:05 AM](#)

Mr. Owen responded that the company would not share its outlook on prices. A range of prices is utilized in its forecasting. Market conditions do support the current prices.

Senator Dyson ascertained the witness' implication that the original version of the bill, introduced at the request of Governor Murkowski, could not be improved.

[11:15:05 AM](#)

Mr. Owen responded that improvements possibly could be made to the original version. ExxonMobil has offered suggestions on some aspects through the Alaska Oil and Gas Association. The company has had ample time to review the Governor's proposal and the balance it would create between producers, explorers, large and small parties, etc. The original bill is acceptable and would provide the necessary predictability and stability.

[11:15:48 AM](#)

Senator Dyson asked if the witness deemed the original version superior to the committee substitutes under consideration in this Committee and the House of Representatives.

[11:16:05 AM](#)

Mr. Owen affirmed.

[11:16:10 AM](#)

Senator Dyson asked how the recommendations of the Alaska Oil and Gas Association were presented to the Committee.

[11:16:25 AM](#)

Mr. Owen replied that the Association testified primarily about the "mechanics" of the bill.

[11:16:38 AM](#)

Co-Chair Green informed that the Association testified before the Senate Resources Committee.

[11:16:46 AM](#)

Senator Stedman noted that the issue of the royalty settlement agreements was addressed significantly in the Senate Resources Committee. He requested the witness explain why ExxonMobil was dissatisfied with the provisions relating to this issue included in the committee substitute. This matter could be easily overlooked.

[11:17:48 AM](#)

Mr. Owen paraphrased his earlier testimony, explaining that the royalty settlement agreements provide "a very clear and well defined" process to value production. This process has been successful and has agreement by the Department of Natural Resources. It provides producers the ability to calculate value as well as dispute resolution through a re-opener process for destination value and deductible costs.

[11:18:27 AM](#)

Senator Stedman surmised the witness' assessment that excluding the existing royalty settlement agreement provisions would result in a more cumbersome process for industry that is subject to disputes and litigation.

[11:18:46 AM](#)

Mr. Owen affirmed that if the language were removed from statute, royalty provisions would have to be completely recreated. Industry would prefer the ability to value according to the provisions of the royalty settlement agreement.

[11:19:12 AM](#)

Senator Stedman commented that this issue could be worthy of discussion.

[11:19:31 AM](#)

Co-Chair Green asked the witness would respond to questions compiled by the Committee.

[11:19:50 AM](#)

Mr. Owen answered he would be available to do so.

[11:19:53 AM](#)

Senator Stedman referenced the impact of a credit rate of 20 percent, 25 percent or 30 percent in relation to the decline in production. He asked ExxonMobil's position as to whether a higher credit percentage would assist in mitigating the situation.

[11:20:53 AM](#)

Mr. Owen responded that credits are beneficial and reduce the "barrier to investment" in offsetting some upfront costs for investment. However, the "total project" is also important, including "revenue stream". If the overall tax rate is too high and "takes so much of that revenue stream" it would impact the "attractiveness" of those projects. A balance is necessary.

[11:21:50 AM](#)

Senator Stedman spoke to previous testimony as well as the modeling compiled by Econ One and the declining production from the North Slope. The Committee has been told that regardless of its actions regarding tax rates and credit rates, Alaska could never adequately compete in "Exxon's world" against competitors worldwide that have "vastly" wider pools of resources. Alaska is at a competitive disadvantage due to the size of its oil reserves. He asked if the witness agreed with this assertion.

[11:22:47 AM](#)

Mr. Owen responded that ExxonMobil is "very active" in Alaska has drilled extensively, and supports Prudhoe operations. The company is pursuing "all economic opportunities" available and would continue to invest in the state and toward progress in overcoming technical challenges. He disagreed that Alaska is not competitive, but rather stressed that Alaska has ExxonMobil's investments and the company intends to retain those investments. The issue is whether the new tax structure would allow this.

[11:24:49 AM](#)

Senator Dyson distributed an article published in The Economist on the fiscal regime of the North Sea.

#SB305

ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at [11:25:15 AM](#)