

HOUSE FINANCE COMMITTEE
March 23, 2011
1:40 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:40 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Ken Sheffield, President, Pioneer Natural Resources Alaska; Wendy King, Vice President of External Affairs, ConocoPhillips Alaska; Dale Pittman, Alaska Production Manager, Exxon Mobil Alaska; Mark Landt, Executive Vice President, Renaissance Alaska; Joe Michel, Staff to Representative Bill Stoltze; Representative Craig Johnson; Senator Cathy Giessel; Senator Charlie Huggins.

PRESENT VIA TELECONFERENCE

Ed Duncan, President and Chief Operating Officer, Great Bear Petroleum; Ryan Moynagh, Vice President of Finance and Chief Financial Officer, Great Bear Petroleum.

SUMMARY

HB 110 PRODUCTION TAX ON OIL AND GAS

HB 110 was HEARD and HELD in committee for further consideration.

#hb110

HOUSE BILL NO. 110

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; relating to the oil and gas production tax rate; relating to monthly installment payments of estimated oil and gas production tax; relating to oil and gas production tax credits for certain expenditures, including qualified capital credits for exploration, development, and production; relating to the limitation on assessment of oil and gas production taxes; relating to the determination of oil and gas production tax values; making conforming amendments; and providing for an effective date."

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KEN SHEFFIELD, PRESIDENT, PIONEER NATURAL RESOURCES ALASKA, discussed a PowerPoint presentation titled "Pioneer Natural Resources, House Resources Committee Testimony re: CSHB110 (RES)" dated March 23, 2011 (copy on file). He appreciated the opportunity to testify before the committee and hoped to provide insight on the company's other national projects. He made forecasts in regard to Pioneer's future activities. He discussed Slide 3: "Pioneer Alaska Profile."

- Anchorage headquarters
- 60+ full-time employees
- 120 AK contract workers
- World class Oooguruk project
- 1st independent operator on NS
- \$1B capital investment
- 120-150 MMBO resource potential (net)
- 2010 Production ~10MBOPD (gross)
- State and NS producer support

Co-Chair Stoltze took the committee role.

Mr. Sheffield continued with his presentation. He discussed the company history on Slide 4, "Pioneer: 1997-2005 Deepwater/International Focus." He elaborated about the company's exploration strategy with big investments in the Gulf of Mexico, Africa, and Alaska. He moved on to discuss Slide 5, "Why Alaska in 2002?"

- Worldwide exploration focus
- Alaska- large, oil resource potential in the U.S.
- Limited competition for resources
- State actively courting independents
 - Exploration credits, low severance tax (ELF)
 - Available acreage at a low cost
- Independent mindset
 - Quick decision making
 - Lower cost structure

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Mr. Sheffield discussed "North Slope Exploration History" on Slide 6. He explained that Pioneer embarked on an exploration program in Alaska in 2003. Pioneer participated in eleven exploration wells in a four year period between 2003 and 2007. The exploration led to one commercial discovery, Oooguruk. He noted that hydrocarbons were located in almost every exploration well drilled; however, the quality of the reservoirs was too low.

Mr. Sheffield discussed Slide 7: "8 Years Later - What has Changed?" on Slide 7.

- Technology
- Oil and gas prices
- Resource play development
- Alaska's severance tax system

Mr. Sheffield addressed "Technology" on Slide 8. He expressed excitement about horizontal well improvements and fracture stimulation. Drilling a horizontal well with hydraulic fracturing unlocked unconventional resources in shale for both oil and gas.

Mr. Sheffield discussed "Oil and Gas Price History" on Slide 9. He commented on the oversupply of natural gas in the Lower 48. Oil prices continue to rise.

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Representative Gara asked about Slide 9. He understood that lower taxes provide incentive. He asked if oil prices provide comparable incentive. Mr. Sheffield replied that with increased oil prices, the cost of doing business increased dramatically. He added that competition increased substantially.

Representative Gara wondered about the high oil prices and whether it was more attractive to invest today than under conditions in 2002 and 2003 when taxes and oil prices were low. He wondered about profit margin at today's prices. He queried whether the company could make more money today even under the current tax regime. Mr. Sheffield responded that expectations and prices changed. He claimed that the analysis was difficult to make.

Mr. Sheffield continued with his presentation on Slide 10, "U.S. Shale Liquids Production." The chart illustrated 50 million barrels of new liquid hydrocarbons produced in the United States from shale in 2009. He expected that the volume would dramatically increase over the next few years.

Mr. Sheffield discussed "Alaska's Severance Tax" on Slide 11.

- Pre 2007: ELF (Oooguruk project sanction)
 - Low rate fields- no severance tax
- 2007: PPT (Oooguruk construction)
 - 20% investment tax credit
 - 22.5 % net profits tax
 - Moderate progressivity
- 2008: ACES (Oooguruk first production)
 - 20% investment tax credit
 - 25% base tax rate
 - Aggressive progressivity (not indexed)
 - Maximum tax rate = 75%

Mr. Sheffield conveyed that the Alaska Clear and Equitable Share (ACES) tax structure was not competitive with other areas. He opined that ACES places Alaska projects at a disadvantage.

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Mr. Sheffield introduced Slide 12: "What's Next? Oooguruk Expansion." He explained the map illustrating the island drill site and the development wells. He commented on the well log with production horizons. He highlighted the Turok area, which was a small volume producing well. Another plan included the development of onshore drill wells that access the reserves that underlie the Colville River Delta.

Representative Gara asked whether the Torok well site was considered an exploration, development, or hybrid well. Mr. Sheffield responded that he would call it an appraisal well. The presence of hydrocarbons in the system was known prior to the project. At question was the economic viability of the well.

Representative Gara stated that the term "appraisal well" had not been mentioned in committee meetings. Mr. Sheffield remarked that the Torok well did not qualify as an exploration well.

Vice-chair Fairclough wondered how an appraisal well was permitted in Alaska. Mr. Sheffield did not know the answer but would provide it to the committee.

Representative Doogan referred to the phrase "low quality" and wondered what was meant by that phrase. Mr. Sheffield explained that the reservoir rather than the oil was qualified as "low quality." The permeability of the reservoir was of low quality.

Mr. Sheffield continued with his presentation on Slide 13: "Expansion Project Scope."

- 1 or 2 onshore drillsites connected to Oooguruk tie-in pad
- 25 development wells envisioned
- Large, but challenged oil resource
- Project contingent upon pilot waterflood success
- Must compete with low risk, high margin projects in L48

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Mr. Sheffield remarked that much had changed over the past eight years. He discussed Slide 14, "Competition for Capital - Texas Projects."

- Pioneer resource plays in Texas
 - Spraberry: West Texas
 - Eagle Ford shale: South Texas
 - Barnett shale: North Texas
- Investment characteristics
 - Low geologic and project and execution risk
 - Short project cycle times and high margins
 - Year round operations and simple logistics
 - Low severance taxes - no progressivity
 - Much lower well and services costs
 - Flexibility to ramp up or ramp down activity

Co-Chair Thomas wondered whether the other areas provided tax incentives. Mr. Sheffield responded that the other areas did not provide tax credits.

Representative Doogan wondered whether additional costs are incurred outside of Alaska. Mr. Sheffield replied that most of the land was private and that royalties ranged from 1/8 to 1/4. The 4.6 percent severance tax is the only charge.

Representative Wilson wondered how long it took to permit a project in Texas. Mr. Sheffield did not know, but believed it would take weeks.

Representative Wilson wondered whether royalties on the land were paid in Texas. Mr. Sheffield replied that the royalties were paid directly to the landowner and the severance tax was 4.6 percent.

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Mr. Sheffield discussed Slide 15, "Pioneer: 2011 "Back to Our Roots." The Spraberry field transformed from a declining field to a growing field due to massive investment. He highlighted the expansion of the Eagle Ford Shale field with 2000 drilling locations and 7 rigs, soon increasing to 19. He mentioned the Barnett Shale Combo with 600 drilling locations and 2 rigs running.

Co-Chair Stoltze asked if the mature fields in Texas provide hope for extending the life of fields in Alaska. Mr. Sheffield referred to Slide 15 and explained that the margins had increased. The combination of horizontal drilling and hydraulic fracturing result in greater

efficiency. He noted that the existing infrastructure in Texas is taxed with the increased production.

Representative Guttenberg referred to the rising tide of commodities. He wondered whether the rising commodities would create additional available capital. Mr. Sheffield replied that as commodity prices increased and drilling ramped up that additional cash flow followed suit. The company continued to seek new opportunities.

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Representative Costello wondered how Alaska could compete with the scenario presented in other locations. Mr. Sheffield replied that Alaska's geography affects its tax structure and the time frames needed to move a project forward. The state did have one big lever that it could pull, which was fiscal policy. One deterrent to the Alaska projects is the progressivity element. The changes in HB 110 were significant steps that would provide the company with the tools to compete.

Mr. Sheffield discussed Slide 16, "Competition for Capital." The purple line illustrated on the graph shows the level of drilling activity in the state. The blue line illustrated drilling activity in Spraeberry. He pointed out that Pioneer plans to drill over five times the amount of wells drilled in Alaska.

Mr. Sheffield provided closing remarks on Page 17 "Closing Thoughts."

- Oooguruk expansion must compete with L48 resource plays with:
 - o Large resource potential in Pioneer's back yard
 - o Short project cycle time and high margins
 - o Very favorable fiscal terms
 - o Much lower capital cost
- Oooguruk expansion
 - o New project - new barrels in TAPS
 - o Create ~500 construction jobs
 - o Create ~100 development jobs
- HB 110 will have a positive, material impact
 - o Increased investment credits for well related costs
 - o Bracketing of progressivity
 - o Provide administrative certainty

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Representative Hawker wondered about the dollar value of the mentioned expansion project. Mr. Sheffield replied hundreds of millions. He did not have an approximate number at the time.

Representative Gara referred to a tax benefit related to royalty relief for the Ooguruk field. Mr. Sheffield responded that Pioneer did receive royalty relief at Ooguruk. He stated that the primary reason for seeking relief was that the existing lease was burdened by a royalty plus thirty percent net profits lease.

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Representative Doogan recalled unanswered questions asked in previous testimony.

WENDY KING, VICE PRESIDENT OF EXTERNAL AFFAIRS, CONOCOPHILLIPSPHILLIPS ALASKA, discussed a PowerPoint presentation titled "House Finance HB 110" dated March 23, 2011 (copy on file). She began with Slide 2, "Positive Impact of HB 110."

- Be more competitive
- Create More Jobs for Alaskans
- Increase Production

Ms. King discussed Page 3, "More Production Key to TAPS Future." The graph provided a plot of production. The outline illustrates the anticipation of significant challenges with low flow in the pipeline. The industry delivered a 6 percent production decline curve. The challenges of low flow might be faced in Alaska in the next decade. She believed it unlikely that new projects will deliver oil production in the next ten years.

Ms. King discussed Page 4: "Alaska's Decline Rate Highest in US." She mentioned that a number of states successfully mitigated and increased their oil production over the last eight year period. She noted that Texas successfully

mitigated its production decline. Alaska declined more in the last eight years than any other state.

Ms. King continued with Slide 5: "Alaska Lags Other Major Oil States:" She noted the comparison between Texas and Alaska.

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Representative Hawker referred to a comment made regarding a lack of evidence that any Alaska producers moved investment into the Lower 48. He asked if the tax situation in Alaska affected the investment strategy for ConocoPhillips. He wondered whether Alaska was in a position to compete with shale developments.

Ms. King reflected on an example regarding Eagleford shale from a recent analyst presentation. She stated that ConocoPhillips invested \$1.4 billion in Eagleford shale, while Alaska remained flat at \$900 million.

Representative Hawker asked what an analyst presentation was. Ms. King responded that an analyst presentation included an overview provided by ConocoPhillips regarding investment criteria and performance.

Representative Wilson referenced Slide 5 and noticed Alaska's decline throughout a variety of tax regimes. Ms. King remarked that a different commercial structure was necessary to "chase the oil" and highlighted Texas as an example of success. She stated that the fiscal structure in Alaska has been a deterrent to investment since 2005. She stressed that ConocoPhillips believed that additional oil potential exists on the North Slope, although the resource is challenged.

Representative Neuman asked about the amount of dollars invested in Alaska in 2003 to produce one million barrels of oil compared to those invested currently to produce 650 thousand barrels. Ms. King replied that she would address the question with several slides later in the presentation.

Vice-chair Fairclough requested discussion about Alaska's recoverable oil. She recalled that 33 percent of recoverable oil existed in a particular reservoir. She wondered how Alaska could compete for investment dollars under the current tax structure. Ms. King provided an

example related to Prudhoe Bay. The original oil estimate on the field was thirty billion barrels of oil. The industry accepted less than 100 percent recovery factors. Recovery factors range from 20 to 40 percent. Recovery increased by 1 percent in Prudhoe Bay, which amounted to 300 million barrels of oil. She cited 60 million barrels for one additional percentage of recovery for the Kuparuk field. The legacy fields through improved technology may be profitable, yet the cost to the industry is greater.

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Ms. King moved on to Slide 6, "Why Isn't Alaska Booming at \$100/bbl?" She explained that the left side of the graph represents Lower 48 oil production. The Lower 48 declined from 4.7 million barrels of oil per day to 4.3 million barrels of oil per day. Production increased substantially to 4.8 million barrels of oil per day in 2008 with increased oil prices.

Ms. King explained that the right side of the graph represents Alaska. Alaska's production declined steadily, but did not see the uptake noted in the Lower 48. The analysis provided in the graphs reflects oil rig count, omitting gas. The oil rig use in the Lower 48 increased dramatically. The rig drilling on the North Slope, however, remains flat.

Representative Gara understood that roads in the Lower 48 allow for the development of smaller pools of oil with a greater number of small rigs. He asked if a greater use of rigs always translates to greater quantities of oil produced.

Ms. King responded that the different fiscal structure available in the lower 48 allows for greater drilling opportunities. She believed the influence combined the tax structure and the overall cost to move North Slope oil to the market. She highlighted the lack of increase in oil rig activity despite the largest oil price cycles seen in the industry. The activity occurring in Alaska retained the flat line indicating rig production.

Representative Gara clarified that a greater number of oil rigs might be employed to produce a small amount of oil in an area where roads are abundant. Ms. King replied that projects in the Lower 48 supported greater activity because

of the combination of the lower cost structure and better fiscal structure.

Representative Guttenberg asked if the tax regime was the only important factor in the flat line seen on the right side of Slide 6. Ms. King responded no. She stated that the objective of the graph was to provide a comparison of oil rig activity in the Lower 48 versus Alaska.

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Representative Costello was more concerned with production than rig activity. She wondered whether ConocoPhillips would increase production in the event that HB 110 passed. Ms. King could provide no guarantees regarding oil production. Even if activity and investment are increased, production cannot be guaranteed. She stated that the passage of HB 110 may lead to mitigating production decline.

Representative Costello wondered whether changes in the tax structure would lead to a greater ability to compete. Ms. King replied in the affirmative.

Representative Costello queried the marginal and effective tax rates. She asked about the relationship between actual and marginal tax rates. Ms. King would speak to the question later in the presentation.

Co-Chair Stoltze asked for further elaboration of the "no guarantee" remark made earlier by Ms. King. Ms. King replied that "dry holes" are sometimes drilled, even with the best of intentions. She stressed that the geologic basin is strong in Alaska. She hoped that ConocoPhillips would be the company to find additional oil in Alaska. She stressed the importance of a good investment climate.

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Ms. King continued with Slide 7: "Is This the Future We Want for Alaska." The Energy Information Administration (EIA) provided the projections of Alaska's production over the next 10 years. The graph compared Alaska to Lower 48 onshore and Lower 48 offshore. The EIA presented strong oil production from Lower 48 onshore. The anticipated growth is 26 percent over the next decade. The Lower 48 offshore would continue to grow production by another 44 percent

over the next decade. Alaska, however, is anticipated to decline another 39 percent over the next decade.

Ms. King moved on to Slide 8: "ELF Generated Significant Incremental Production." The Economic Limit Factor (ELF) was the tax structure in place through 2006. She explained that in 1989 the Department of Revenue (DOR) had a production forecast illustrated with a grey line on the graph. The green line represents the oil price. A number of new developments occurred between 1989 and 2010 including Midnight Sun, Polaris, Prudhoe Bay, Aurora, Borealis and Orion. She highlighted the significance of the Alpine field. While low production was anticipated as early as 1989, the combination of the tax policy, the good rocks, and the investment levels provided by the industry led to incremental production. Wells developed in 1989 now comprise 2/3 to 3/4 of total production.

Ms. King discussed Slide 9: "North Slope Investment Under ELF." The chart compared industry investment levels under the ELF tax structure. The industry was investing an average of \$2.7 billion on an annual basis.

Representative Gara referred to DOR charts citing the highest investment year on the North Slope as 2009 or 2010. The data in the charts presented by DOR was different than that provided by ConocoPhillips. He wondered why.

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Ms. King replied that different criteria for the presented numbers such as a 2010 dollar basis and pure capital may have been used. She added that the red dotted line on the graph represents recent numbers for the purpose of comparison.

Ms. King returned to her presentation with Slide 10: "Alaska Not Competitive Marginal Government Take." She explained that the study shown was performed for ConocoPhillips by PFC energy. The graph illustrates marginal government take at \$100 barrel oil price. She offered to provide an additional graph to the committee illustrating total government take. Marginal government take is analyzed by ConocoPhillips. The graph characterizes a component of the fiscal structure.

Representative Hawker wondered who PFC Energy was. Ms. King responded that PFC Energy was a consulting firm. She believed that they were a reputable company that produced quality work.

Representative Hawker had heard comments and testimony indicating that marginal government take was an irrelevant statistic. He wondered whether that was true. Ms. King believed that it was clearly not an irrelevant statistic. She noted that the information described an element of Alaska's fiscal structure and was critical in ConocoPhillips' investment decisions.

Representative Gara wondered about actual government take and asked to see a chart similar to Slide 10 exemplifying taxes paid rather than marginal government take.

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Ms. King responded that they did have the requested chart prepared for average government take and they would provide it to the committee. She assured that marginal government take did affect ConocoPhillips.

Representative Gara requested data including actual tax with last year's oil prices. Ms. King responded that they would provide the information to the committee.

Ms. King discussed Slide 11: "Progressivity Removes Upside." The red bars represent ConocoPhillips net income and the blue bar represents the average oil price. The company observed that if the oil price increased their income would not increase in Alaska. ConocoPhillips paid over \$16 billion in taxes and royalties to generate \$7.8 billion in net income. Incremental investment decisions are thus affected. The net income has become desensitized to oil price, as greater taxes are paid with increases in oil prices.

Representative Doogan expressed disbelief regarding the constant net income. He requested further information.

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Ms. King replied that the progressivity was so steep that higher oil prices lead to increased taxes.

Representative Doogan understood that. However, the company's take continued to increase and he did not understand how it could stay constant. Ms. King assured that the numbers presented were accurate.

Representative Costello wondered whether it was possible to answer the question.

Representative Guttenberg asked if a point in the graph exists where the company was earning less money. Ms. King guessed that the confusion for Representative Doogan and Representative Guttenberg might be benefitted by understanding the progressivity feature. The progressivity applies to everything. As the tax rate increases, the effect is compounded. She mentioned the governor's proposed bracketing component.

Vice-chair Fairclough remarked that the current plan involved sweeping back and taxing all of the money instead of the portion of the additional dollar.

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Ms. King discussed "Risk-Based Decision Making" on Slide 12. She informed that the slide was a generic example for illustrative purposes. The slide presented an example of a method used by ConocoPhillips. The concept of assessing risk and uncertainty is conducted by most companies. She highlighted that delays in Alaska are viewed differently as they can cost the company an entire year of valuable time. She noted the effect of progressivity illustrated on the left side of the slide. She added that the cumulative probability was illustrated on the right side of the slide. With the progressive feature, the probability of losing money on a project increases. One piece of the structure included was capital credits.

Ms. King discussed Slide 13: "Progressivity Breaks Risk/Reward Balance." The chart compares a \$1 billion investment in Alaska to the same investment in offshore Alaska or Gulf of Mexico. For an offshore investment, as oil price increases, the investor and government share also increase. Using the same \$1 billion investment made in Alaska, subject to ACES tax structure, the percentage to the state substantially increases in relationship to the investors.

Ms. King discussed "Core Fields are Key to State Production" on Slide 14. The core fields of Prudhoe Bay, Kuparuk, and Alpine produce approximately 90 percent of Alaska's oil. The core fields are forecasted to deliver four billion barrels of oil production.

Ms. King detailed Slide 15: "Investment Reduces Production Decline." She explained that specialists with ConocoPhillips look for ways to glean additional oil from the existing fields. The concept is that "big fields get bigger." The Kuparuk satellites are generating approximately 20-25 percent of Alaska's total production. Subsequent investments from the original development deliver substantial volumes. She stated that the Alpine field yields 40 percent of production from satellites developed subsequent to the original development. She noted that the technology required to develop these satellite fields was available through ConocoPhillips if the fiscal structure was amenable.

Ms. King continued with Page 16 "HB 110 Improves Alaska Investment Climate."

- Existing Units
 - Bracketing Progressivity is critical component
 - Moves Alaska toward a more balanced risk/reward environment
 - Incentivizes investment in core fields and existing units
 - Support longer term projects/ longer term investment
- Improved Well Credits
 - Incentivizes well related activity
 - Increased drilling/workovers provide additional short-term jobs
 - Support language being clarified to include workovers
- Administrative Improvements
 - Audit period to 4 years - provides improved tax payment predictability
 - Interest - eliminates punitive rate for good faith tax filings
 - Monthly vs. annual progressivity - improves alignment on cost and revenue calculations
- Effective Date
 - COP believes effective dates should be accelerated by 1 year.

- ConocoPhillips supports HB 110

Ms. King concluded with Slide 17: "Alaska's Oil Future is at risk." She reiterated that bracketing progressivity was a critical component of HB 110. She believed that the bill would incentivize investment in core field and existing units, which is critical in support of the longer term projects needed to help offset the production decline. Improved well credits were considered important to ConocoPhillips. The administrative improvements in the original version of the bill such as the audit period, the interest rate, and the monthly versus annual progressivity were viewed as positive. The timing was critical. She commented that high oil prices generate revenue. Active rig use has increased in the Lower 48, while remaining flat in Alaska. Production in the Lower 48 continued to increase while production forecasts in Alaska decline. The expected future projection is down, while Lower 48 production is expected to increase. She opined that HB 110 could provide an important step in changing the picture.

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Representative Hawker wondered about the role of additional front-end credits. He wondered whether increasing credits that the state is offering the best way to improve production. Ms. King believed that credits alone would not lead to improved production, but the combination of progressivity change and credits were important.

Representative Hawker asked about the difference between well credits and front-end exploration credits. Ms. King explained that the existing exploration credits vary depending upon distance from existing infrastructure. The governor's bill proposed that the same mechanism used in the front-end exploration credits is given a 40 percent well credit for the portion of the capital activity needed for any well drilled on the North Slope. The purpose of the well credit is to stimulate additional drilling activity.

Representative Costello referred to Slide 13. She believed that the graph might present the answer to an earlier question by Representative Doogan regarding industry investment. She wondered if the chart exhibited the core issue that the industry voiced with progressivity as established by ACES. She understood why the idea might prove counterintuitive to Representative Doogan. Ms. King

agreed and stated that the graph was used often to explain the uncertainty with progressivity.

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Representative Wilson requested a similar graph illustrating the potential outcome of HB 110. Ms. King agreed to provide the requested data.

Vice-chair Fairclough informed that an additional question by Representative Gara regarding slide 12 and 13 would be asked.

Co-Chair Stoltze remarked that the requested information provided by DOR would be distributed shortly.

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ED DUNCAN, PRESIDENT AND CHIEF OPERATING OFFICER, GREAT BEAR PETROLEUM (via teleconference), introduced himself and his colleague.

RYAN MOYNAGH, VICE PRESIDENT OF FINANCE AND CHIEF FINANCIAL OFFICER, GREAT BEAR PETROLEUM (via teleconference), discussed a PowerPoint presentation titled "Great Bear Petroleum LLC, Presentation to the House Resources Committee" dated February 18, 2011 (copy on file).

Mr. Moynagh highlighted the unprecedented high oil price. He wished to propose a strategy to reverse the decline of oil production in Alaska. He acknowledged that current oil production in Alaska was one-quarter of that seen at its peak. The combination of price and production has disguised the problem. He expected large implications for the state if the price of oil drops.

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Mr. Moynagh stated that the development of new technology in the oil industry contributed to great change. The numbers of opportunities in the oil and gas industry have increased in the last few years. New emerging markets opened. The issue then becomes one of which mammoth

resource will be developed to the exclusion of others. He claimed that his company could not control prices, but could control volumes. He stressed that Great Bear's strategy could dramatically increase production levels in Alaska. Great Bear was committed to invest and reinvest in Alaska.

Mr. Moynagh discussed Slide 4: "Tough Fiscal Terms Suppress Activity."

- The most important factor in exploration investment is Prospectivity, or the likelihood of discovering oil or gas in commercial quantities. The industry will focus where the rocks are good.
- Effective conversation from prospectivity to commercial production ultimately controls the terms and the size of government revenue.
- Fiscal terms will influence the conversion efficiency from prospectivity to commercial production ultimately controlling government revenue.

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Mr. Moynagh stated that he did not wish to compare Alaska's fiscal regime to others in the nation or the world. He stated that his comments regarding HB 110 related directly to the needs of Great Bear. He mentioned four key aspects of HB 110.

- Progressivity
- Tax bracket
- Monthly versus annual computation of progressivity
- Tax credits

Mr. Moynagh opined that HB 110 clearly addressed the taxing of oil production in Alaska. He detailed Slide 5: "Recognition of Alaska as a Global Oil and Gas Producer has Declined."

- The easy conventional oil has been found.
- Remaining large volume potential in unconventional plays, e.g. heavy oil, shale oil & gas, CBM.
- Costs will continue to rise on perbarrel basis and economic returns will decline due to
 - o Field sizes getting smaller
 - o Challenging operating environment

- o Exploration for new play types becoming riskier
- o Identified plays such as "shallow heavy oil" and "oil and gas shale" are expensive
- The ability to deliver unconventional resources to market rests primarily on commercial risk rather than technical risk factors.
- Discovery and development of Alaska's remaining potential would be significantly enhanced by improvements in Alaska's fiscal terms such as those terms in HB 110.

Mr. Moynagh added that any reduction in the production tax would prove positive for the high cost of this unconventional process.

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Mr. Moynagh stated that a combination of tax bracketing and reduction of progressivity buffers producers from the cyclicity of the business. The current tax system prevents producers from benefitting from high oil prices. The business is cyclical and upside options are necessary for industry.

Mr. Moynagh discussed moving from monthly to annual computation of the production tax. The annual computation allows a company to model and foreword plan its operations. With the monthly computation, the production tax is calculated based on actual monthly prices. With an annual computation, prices and costs are calculated on the same basis, which provides a "smoothing effect" of the calculation of the production tax, allowing better ability to monitor risks.

Mr. Moynagh addressed tax credits. Great Bear endorsed the application of tax credits. Tax credits entice and encourage participants to reinvest. He stated that tax credits ultimately increase production levels.

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Representative Wilson asked about Slide 8: "drill 250 wells per year for 20 years starting 2013." She referred to a quote stating "we have an aggressive program that supports 250 wills per year for 20 years starting 2013." She asked if Great Bear would begin drilling in 2013 if HB 110 did not pass.

Mr. Moynagh answered that the information provided was a success case production profile. Great Bear must access the capital markets to obtain the necessary finance to deliver the production levels presented. A commercial case must be demonstrated to investors. He believed that the proposals put forth in HB 110 would have a dramatic impact on the ability to secure the needed investment capital. Without HB 110, the prospects become more challenging.

Representative Wilson noted that the feedback from prior presentations that the existing credits were working well for the drilling of the wells and that the issues exist in the production aspect rather. She wondered if the 2013 goal was possible. She wondered if Great Bear possessed the resources to move forward with the goal.

Mr. Moynagh stated no. The program outlined in 2013 is a full development program. Great Bear's approximate budget for 2013 is \$2 billion. He mentioned a work program that will be enacted later in the year. Discussions are ongoing with a number of parties to refine the composition and the necessary cost of the program.

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Representative Hawker acknowledged his own presence at the House Resources Committee presentation. He mentioned Slide 9, "Great Bear Petroleum Potential Oil Production Profile." The slide's graph illustrates production increases predicted from 2012 through 2028. He asked if the graph presents the argument that the state should not amend the progressivity feature of the state's tax regime.

Mr. Moynagh clarified that the purpose of the slide was to argue that changes in progressivity should be made. The graph was intended to demonstrate the magnitude and potential of Great Bear's project. The issue is not exploration, but instead the ability to commercially extract them. The graph demonstrates the impact that the project could have on a state level if the commercial environment was supportive.

Representative Hawker noted Great Bear's expressed potential. He asked for clarification of status in Alaska in terms of equipment and capital. He wondered whether the capital was contingent on fiscal terms provided by the

state. Mr. Moynagh clarified that Great Bear was currently demonstrating the viability of the plan to the investment community. He stated that Great Bear would establish permanent headquarters in Anchorage. The 2013 program is contingent upon the significant capital of several billion dollars raised from the financial markets. Alaska's fiscal regime will impact access of the markets.

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Representative Gara referred to Slide 7, "High Bidder on 537,500 Acres in the 2010 North Slope Areawide Lease Sale." He assumed that Great Bear anticipated prospects for development that existed under current law rather than under the guidelines of HB 110, which was not introduced at the time that the prospects were initiated. Mr. Moynagh responded that his company bid for the leases before the proposed change in legislation. He mentioned his company's aggressive financing strategy, which is a function of the proposal of eventual legislative change. Three elements provide an attractive outcome for all parties: technical, operational and commercial. The technical and operational elements of the strategy have been addressed, but the legislative changes must occur to support an unconventional operation within the state.

Representative Gara admitted that he may have misunderstood Mr. Moynagh. He wondered whether the company intended to invest \$2 billion later in the year. Mr. Moynagh responded that the investment was planned for the 2013 timeframe.

Vice-chair Fairclough referred to an article from Petroleum News dated March 6, 2011 citing testimony regarding the investment structure for the new company assembled. She quoted the article "Great Bear is not looking for investors or partners except for a possible share in three dimensional seismic shooting next winter across the North Slope." She felt that the testimony offered today differed from that in the article. She requested clarification. Mr. Duncan replied that the publication's comment was directed toward an inquiry regarding Great Bear "shopping their company for sale." The question was directed at significant joint venture plans for Great Bear. His answer was the quote stated.

Vice-chair Fairclough wondered whether Great Bear had drilled a single well on the North Slope. Mr. Duncan

replied that Great Bear had not. He noted that the leases were not awarded to his company.

Vice-chair Fairclough wondered if Alaska had not awarded the lease, or payment for the lease was not received.

[3:59:22 PM](#)

Mr. Duncan replied that the state had not presented the final award or request for payment. The company would make the payment immediately following the state's award or request for payment.

Vice-chair Fairclough thanked Mr. Duncan and Mr. Moynagh for their testimony.

Vice-chair Fairclough asked whether the company had a contract to access the pipeline for production. Mr. Duncan replied that they did not.

[4:00:57 PM](#)

AT EASE

[4:05:33 PM](#)

RECONVENED

Representative Wilson requested information from the Department of Natural Resources (DNR) regarding Great Bear's lease. Co-Chair Stoltze responded that the administration would address the inquiry.

[4:06:29 PM](#)

DALE PITTMAN, ALASKA PRODUCTION MANAGER, EXXON MOBIL ALASKA, read from a letter dated March 23, 2011 (copy on file).

For the record, my name is Dale Pittman. I am the Alaska Production Manager for ExxonMobil, based in Anchorage. I want to thank the committee for the opportunity to express ExxonMobil's views regarding the Committee Substitute to HB 110, the Governor's proposed amendments to Alaska's oil and gas production tax or ACES.

Let me start by saying that Alaska has been and continued to be an important component of ExxonMobil's

world-wide investment portfolio. We have had a presence in Alaska for over 50 years and have been a key player in Alaska's oil industry development, investing over \$12 billion dollars to date. We are the operator of Point Thomson, hold the largest working interest at Prudhoe Bay (36.4%) and the largest lease holder of discovered Alaska gas resources. We expect to be involved in Alaska for many years to come and will continue to evaluate potential development opportunities.

At the outset, so our position is clear, 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, and on the proposed tax reform legislation last session, that ExxonMobil believes the changes made to Alaska's oil and gas production tax since 2005 have had a negative impact on business activity in Alaska and Alaska's overall investment climate. Alaska's current production taxes are simply too high to stimulate the additional investment required to fully develop Alaska's oil and gas resources.

It is for this reason ExxonMobil is pleased to see that the Administration recognizes the need for material change to Alaska's current oil and gas production tax system. We are encouraged by Governor Parnell's desire to see increased investments and further oil and gas development. We support his efforts to reform ACES and believe CS HB 110 is a good first step towards what we hope is a thorough review and revision of Alaska's production tax regime to allow the state to fully develop its vast resources.

ExxonMobil supports CS HB 110, and if enacted in its current form, we would expect investment activity in Alaska to increase, resulting in a corresponding benefit of more work for Alaskans. With passage of the Governor's proposed changes to ACES in its current form, we anticipate that industry will reexamine the inventory of Alaska North Slope opportunities and move

forward with those projects that are made competitive by the reduced production tax burden. For example, the proposed enhanced in-field drilling tax credits and reduction to the progressivity tax would allow us to consider additional drilling and well work activity at the Prudhoe Bay Unit. This kind of developmental drilling in the core field on the North Slope is critical to Alaska's future, particularly over the next five to ten years. Production decline must be stemmed until new developments can be discovered, progressed and brought on production.

While the enhanced in-field drilling tax credits and reduction to the progressivity tax are much needed revisions to ACES, we would urge earlier effective dates to accelerate the resulting ramp up in investment activity, Alaskan jobs and future state revenues.

However, merely providing additional tax credits while keeping the overall effective rate of the ACES tax too high is not the long term solution to improving Alaska's investment climate. While the system of tax credits under ACES does provide significant incentives for investing in capital assets to explore for, develop, and produce more oil and gas, the deduction of lease expenditures or the allowance of a tax credit is simply part of the calculation about how much tax a producer owes. The bottom line is that, between PPT and ACES, the industry's production tax obligations have more than tripled over the past five years.

ExxonMobil supports the Governor's proposal as an important first step, but additional reform of ACES is needed.

Additional reforms are needed to improve Alaska's overall investment climate over the long term. Evaluation of a further reduction in the production tax rates should also be considered. Even with the Governor's proposal, Alaska's production taxes are high in comparison to other investment alternatives, making Alaska one of the most expensive states in which the oil and gas industry does business.

As you have heard in prior testimony or may have read in recent newspaper articles, spending on the North

Slope has remained relatively flat since the enactment of ACES. But what needs to be clarified is that the majority of the investment has been made for maintenance or production enhancement efforts for existing operations, not for new exploration and development opportunities that would bring on new production. It is also worth noting that costs for this investment activity have gone up, so while some may argue there has been additional investment, it doesn't necessarily translate into more activity. For example costs to drill a well have increased over the years, so higher spend on drilling does not necessarily mean more wells are being drilled.

Alaska is currently producing approximately 600,000 barrels of oil per day from the North Slope. Industry currently invests more than \$1 billion per year just to maintain current North Slope oil production decline at six to seven percent. Without that continued investment, the annual production decline would be in the range of 12 to 15 percent annually.

The Alaska Department of Revenue is forecasting the production from Alaska's currently producing fields to decline by 60,000 barrels of oil per day this year. It goes on to predict that current field production will decline to half of its current 600,000 barrels of oil per day rate in just seven years, as decline of over 300,000 barrels of oil per day. Allow me to put the challenge of stemming that decline in perspective.

Alaska's newest development, the Nikaitchuq field, began production early this year. The field has been more than six years in planning, development and construction and carries a total cost of over \$2 billion. The field is forecasted to reach peak production of about 25,000 barrels per day four years from now. So using this as an example, it would take the startup of two to three Nikaitchuq equivalent fields every year in perpetuity just to hold North Slope production at 600,000 barrels of oil per day. Pioneer's Oooguruk field is another example. It would take three to four fields the size of Oooguruk every year to match the forecasted North Slope production decline.

Clearly, the current outlook for development falls far short, and new fields are urgently needed to stem this decline.

Such development will only occur if there is an improvement in the Alaska investment climate. Alaska production tax policy is key to fostering a favorable investment climate.

Alaska's overall high production tax rates discourage investment. Companies like ExxonMobil are willing to accept the risks of long-term, capital intensive investments when there is a stable and competitive tax structure that encourages investment and ensures a corresponding opportunity for upside potential. When you take away the upside potential through a high progressivity tax you reduce the overall attractiveness of those capital intensive investments, which in turn could lead to reduced investment and resource recovery and, in the long-term, diminished state revenues. Let me reemphasize this point, while higher taxes may bring additional revenues in the short-term, it's reasonable to anticipate that any reduction in investment will decrease production and significantly reduce those revenues in the longer term.

As many of you heard me testify last year, 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 made years ago. Increasing production rates in the decades to come will be a direct result from sound policies, decisions, and commitments that are made today. The Governor's proposed ACES changes are clearly a significant step in the right direction towards much needed reform of Alaska's high oil and gas production tax system.

Alaska needs a long-term resource development policy that will encourage increasing investment to maximize its resource potential while receiving a fair share of the resource revenues; addressing its high level of government take is a start. The reform of ACES needs to result in a competitive, stable and predictable fiscal environment that will encourage investment,

recognize that the remaining resources are economically challenged, including both new fields and resource development opportunities in existing fields. The primary driver of Alaska's long-term resource development policy should be to maximize the development of its resource base, not just maximize short-term state revenues.

Let me conclude my testimony by reiterate that while we hope to continue to pursue investment opportunities in Alaska in the future, the resource and cost structure in Alaska is becoming increasingly challenging. Governor Parnell's proposed changes to ACES are a good start to needed fiscal reform- but more is still needed.

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.

[4:14:33 PM](#)

Representative Gara requested an estimate number of exploration wells that Exxon Mobile drilled in the past 10 years excluding Point Thompson. Mr. Pittman replied that the corporation had not drilled any exploration wells since 1992. The Alaska Oil and Gas Conservation Commission (AOGCC) did classify two new Point Thompson development wells as exploration wells, due to the lack of a better category.

Representative Gara wondered why reducing taxes would lead ExxonMobil to increase exploration wells when they had not drilled an exploration well since 1992, when the Economic Limit Factor (ELF) system was in place. He asked why a reduction in taxes would now lead to exploration. Mr. Pittman could not guarantee that the change in tax structure would lead to exploration wells but he believed that the change would lead to increased investment. A constant evaluation and assessment of Alaska's exploration opportunities remained a part of the global ExxonMobil portfolio. Although Alaska presents certain challenges, ExxonMobil is active in arctic areas and will remain poised to return to Alaska given the right balance of prospectivity, fiscal terms and regulatory policies.

Representative Gara stated that other major oil companies share information about their Alaska profits. ConocoPhillips and British Petroleum have taken in excess of \$15 billion in Alaska profits. He asked to know the Alaska profits received by ExxonMobil over the last four years.

Mr. Pittman responded that as a matter of corporate practice, the company did not divulge profits or earnings. He did not know what the profits were. He replied that the company did supply the information to the federal government and the Department of Revenue (DOR).

[4:20:31 PM](#)

Representative Guttenberg referred to comments in Mr. Pittman's testimony regarding fiscal regime and stability. He understood the importance of fiscal stability and wondered how the tax regime and stability worked together for ExxonMobil. Mr. Pittman replied that ExxonMobil observed 30 year investments with an expectation of competitiveness and stability of projects.

Representative Guttenberg wondered if the sanctioning of a project included the commitment of resources to the project. He wondered about deeming a project "competitive." Mr. Pittman responded that a better word would be "viable" as opposed to "competitive." He stated that multibillion dollar decisions are made on 30 year projects. The uncertainties that are encountered are sometimes fiscal in their nature.

Representative Wilson discussed the difference between exploration wells and production. She wondered whether there was a method to determine the oil's location without the need to drill another well. Mr. Pittman replied that multiple resources such as heavy oil, viscous oil and frozen gas continue to exist in both Prudhoe Bay and Kuparuk fields. Today those resources are not economically viable. The responsibilities of ExxonMobil include technology, development and operating cost reductions. He claimed that current drilling practices were unavailable ten years ago. He expressed amazement about the technology advances made and the skills built in drilling multilateral wells.

Representative Wilson mentioned the "straight tax" employed in states like Texas and North Dakota. She wondered if a straight tax might be considered for Alaska.

[4:26:31 PM](#)

Mr. Pittman opined that simple was better. The challenge was how to attract as many producers and explorers to Alaska as possible. Large and small producers look for different benefits in a tax regime.

Representative Doogan reflected on Mr. Pittman's statement that "proposed changes provide a good start but that more was still needed." He asked for elaboration of "more." Mr. Pittman replied that over the long term it was important to ensure that projects were economically viable for the future. Many resources in Alaska will be increasingly difficult to produce economically. Over the long term, methods must be sought to increase economic viability due to the necessary cost of technology advances. ExxonMobil requires a balance between the state's take to ensure future viability. The envelope of viable resources in Alaska requires expansion.

Representative Doogan ascertained that the price of oil would increase and as the less accessible oil decreases, the more challenged resource required the state to take less of the value of the oil. Mr. Pittman suggested that the state look to the future.

Vice-chair Fairclough asked how ExxonMobil would proceed if HB 110 passed and the legislature accepted bracketing as a new method of reducing industry taxes. Mr. Pittman replied that when he looked at major projects 8 to 10 years out, known fields and known resources are accessed first.

Vice-chair Fairclough discussed yearly taxation calculation in the governor's bill. She wondered whether Mr. Pittman could speak to their opinion on the preferable timing of calculation. Mr. Pittman replied that tax calculation includes every dollar of revenue and a yearly taxation calculation would provide an average and remove the spikes that result from changes in oil prices. He noted that quarterly or biannually would also be preferable to monthly calculations.

[4:32:48 PM](#)

Vice-chair Fairclough expressed concern that waiting one year to average the price might prove difficult for state revenue forecasts. She thought that a quarterly or biannual calculation would provide increased certainty when predicting the future year's budget cycle. She understood from a producer's auditing that yearly calculation would be simpler than monthly. Mr. Pittman added that the spikes prove punitive to the company leading to the suggestion of a yearly calculation.

Co-Chair Stoltze recalled claims that the U.S. tax code was the primary agent of influence in behavior both social and economic. He wondered whether Exxon was immune to the agent of tax code influence. Mr. Pittman replied that ExxonMobil observed the appropriate federal tax codes and paid billions of dollars annually.

Co-Chair Stoltze discussed the difference between U.S. tax codes and the Alaska tax codes. He wondered how the Alaska tax code impacted Exxon's behavior. Mr. Pittman replied that the Alaska tax code was observed as part of the company's investment decision.

Representative Gara stated that ConocoPhillips attempted to access National Petroleum Reserve Alaska (NPR) under the ACES tax structure. He spoke about other companies who were willing to risk exploration despite the various tax structures available in Alaska. He wondered why other companies were willing to explore areas in Alaska while ExxonMobil was not. Mr. Pittman did not know, but he offered that ExxonMobil had not operated in the North Slope. He added that the event in 1989 led the company to be cautious. He stated that the company would move forward with Point Thompson with or without tax changes.

[4:38:10 PM](#)

Representative Gara hoped that ExxonMobil would remain serious about the pipeline. He pointed out the lack of exploration in the past. He wondered if ExxonMobil would be hard pressed to commit to exploration even with the passage of the bill. Mr. Pittman affirmed. He stated that ExxonMobil had a business model focused on large accumulation. He spoke of the challenge of balancing a large accumulation with the uncertainties of operating and development costs.

Representative Guttenberg referred to Mr. Pittman's comment "minor pause" in 1989. He discussed that oil companies might not change their behavior in the event that HB 110 passed. He asked if oil companies might consider leaving well enough alone, as the profit is so great even without the passage of HB 110. Mr. Pittman did not think so. He remarked that Exxon Mobile remained bullish in Alaska and continues to invest in viable projects, but the company could offer no guarantees.

Representative Costello discussed her attendance at a presentation featuring entities that were hopeful about the prospects in Alaska. She mentioned geologist's testimony citing that Alaska contains a world class resource. The legacy companies provide a much different story, one of lack and turmoil. The tax credits work to incentivize a particular behavior. She asked if the tax credits in Alaska truly incentivize production.

[4:43:16 PM](#)

Mr. Pittman asked if Representative Costello was referring to exploration or development tax credits. Representative Costello listed the available credits. Mr. Pittman replied that the credits absolutely help incentivize expansion of infrastructure. He explained that two-thirds of development was for infrastructure alone. He believed that Alaska would eventually require methods such as building roads to help industry access the areas open to exploration.

Representative Costello pointed out the proposed fact that 4.5 billion barrels of oil in the ground. She wondered if the lack of exploration was the result of current awareness of the location of the oil reserves. Mr. Pittman replied that Prudhoe Bay was a well known field and drilling there would be classified as "appraisal." He noted that true exploration required a hint as to the presence of oil because of the rocks available.

Representative Costello asked about marginal tax rate and wondered whether it was important in making decisions on production investment. Mr. Pittman replied that the importance of the marginal tax rate varies from company to company. The effective tax rate provides important information.

Vice-chair Fairclough asked about cost recovery and the company's business model. She wondered about the investment opportunity time frame and how ExxonMobil captured costs for return on investment using the 30 year model.

Mr. Pittman responded that 30 year models comprise significant investments. Investments are viewed in a variety of time frames.

Vice-chair Fairclough wondered whether costs incurred by ExxonMobil were allocated to a project or a geographic unit. She wondered about the corporation's method of cost calculation. Mr. Pittman replied that the rules varied across the state and the globe in terms of cost calculation. He admitted that there was no simple answer to the question.

Vice-chair Fairclough alluded that the legacy fields were taking the "gravy" on the top. She wondered whether the company was accessing "gravy" or recovering costs from exploration or investment over a longer period of time. She wondered if the costs were ring-fenced or calculated based on an investment in cost incurred in a geographic or unitized lease space. Mr. Pittman replied that ExxonMobil observed the life of the investment within the same framework required by regulators.

[4:50:22 PM](#)

AT EASE

[4:52:06 PM](#)

RECOVERED

MARK LANDT, EXECUTIVE VICE PRESIDENT, RENAISSANCE ALASKA, read from a statement to the House Finance Committee, dated March 23, 2011 (copy on file).

Representative Stoltze, members of the committee, thank-you for the opportunity to speak with you today on House Bill 110.

Firstly, let me introduce myself and Renaissance Alaska, LLC (Renaissance). My name is Mark Landt and I am the Executive Vice President, Land and Administration for Renaissance, which is headquartered in Houston, Texas. Renaissance is the Umiat Oil Field on the North Slope.

Since its formation, Renaissance has acquired BLM and State oil and gas leases on 19,358 acres located on the Umiat Oil Field located in the National Petroleum Reserve-Alaska (NPRRA) and the Gubik Gas Field on the North Slope, Alaska.

Since we last testified on Senate Bill 309, the State of Alaska has made significant progress in providing the incentives necessary to encourage drilling and development in the Cook Inlet, Alaska. Specifically the Special Credits for drilling the first three wells drilled to a Pre-Tertiary prospect from a Jack-up drilling rig and the repeal of the future spend requirements to monetize the tax credits provided in SB 309 and the additional 20 percent tax credit for all drilling in the Cook Inlet basin under HB 280. The combined tax credits and being exempt from production tax in ACES, makes the fiscal environment in the Cook Inlet one of the most competitive in the world.

The State of Alaska has demonstrated tremendous leadership and acted decisively to revitalize oil and gas exploration and development activities in the Cook Inlet. Similar leadership and progressive action is required to revitalize oil and gas through-put for TAPS continues to fall and now stands below initial estimates regarding the economic life of the line. Alaska will increasingly depend on the discovery and the development of smaller fields, technically challenged resources and known reserves remote from existing infrastructure. This testimony is to address the significant challenges we see for the development of the North Slope's extensive, untapped oil and gas resources and specifically the undeveloped reserves located at the Umiat oil field.

The Umiat oil field was discovered in the late 1940s by the U.S. Navy in search of new sources of oil after World War II. It remains undeveloped to this day in spite of delineation by 12 legacy wells; the shallow depth of its consolidated, productive reservoirs; sweet, light 37 API gravity oil; and over one billion barrels of original oil in-place. To this point, remoteness (92 miles from TAPS), part of the reservoir in permafrost, and low reservoir energy have been the main development challenges. All of these

challenges have been addressed through modern technological advancements such as multi-lateral horizontal drilling, electric submersible pumps, and cold gas injection for pressure maintenance to bring the Umiat development closer to fruition. Remoteness given the arctic environment is still a key challenge.

Renaissance, through Renaissance Umiat, LLC, controls the undeveloped Umiat oil field and a portion of the undeveloped Gubik gas field 12 miles to the east-northeast. Since acquiring the acreage in 2006 and 2007, Renaissance has de-risked the project through an 86 square mile 3-D seismic survey acquired in 2008 and extensive geoscience and development cost studies.

Renaissance has also focused on the plan of development and contracted third parties, including NANA WorleyParsons, Schlumberger, ASRC, Cardno (previously Entrix) and Umiat (subsidiary of UIC) on pipeline route and cost, facility layout and costs, horizontal (lateral) development techniques, and obtained an independent reserve report from Ryder Scott and Associates (one of the top oil and gas reservoir engineering firms in the world). This report has estimated 250 million barrels of recoverable oil from the shallow zones at Umiat with peak field production of approximately 50 MBOPD. In addition, the University of Alaska at Fairbanks has a DOE grant to, among other things; confirm cold gas injection as the preferred pressure maintenance mechanism.

One of the development considerations is the ability to bury the pipeline in the shoulder of the road to lower the pipeline costs and to have less of a visual impact to the environment. Since the oil is being produced cold (28-32 degrees F) and the gravity is 37 degrees, this option to move the oil exists with no risk of melting the permafrost. The oil would be heated to pipeline specs at the TAPS connection.

The Umiat oil field is unique. There is no analogy in the world of light sweet oil being produced at these shallow depths with a portion of the reservoir in permafrost. The lack of analogy and distance from infrastructure has made this project and the multiple winter seasons required to develop the field. Although Renaissance feels it has addressed the key technical

concerns, the distance from infrastructure is still a major risk factor. Your support of "Roads to Resources" and specifically the Environmental Impact Statement being prepared by the Department of Transportation and Public Facilities for the transportation corridor between Umiat and TAPS is going a long way to reduce this risk. Current development cost is estimated to be \$1.3 billion dollars and further technical studies are underway to finalize the Plan of Development prior to raising the funding necessary for project development. Renaissance has spent in excess of \$43MM on the Umiat project to date.

Although Renaissance is solely focused at Umiat, we must compete for capital in the international financial markets. We strongly support the proposed amendments to ACES to increase the tax credits and reduce the progressivity factor to make Alaska more competitive as an oil producing state.

[4:58:35 PM](#)

Representative Wilson queried the location of Renaissance's wells. Mr. Landt replied that the company's only project was the Renaissance Umiat Oil Field. Representative Wilson asked to know the company's proposed start-up date. Mr. Landt replied that his company could commence construction in 2013.

Vice-chair Fairclough wondered about an exact dollar amount that the company sought in tax credits. Mr. Landt explained that the project existed over 25 miles from an existing unit at Umiat and would be entitled to 55 percent, 65 percent with the governor's proposal.

Vice-chair Fairclough wondered whether there was a dollar amount that would incentivize the proposal. Mr. Landt stated that Renaissance was located over 25 miles from an existing unit at Umiat, which allowed qualification for the 30 percent exploration credit. The governor's proposal would increase the company's tax credits from 55 percent to 65 percent. Vice-chair Fairclough asked again for a dollar amount of tax credit value necessary to incentivize the project. Mr. Landt replied that the total development costs are \$1.3 billion, but he required additional time to

calculate the exact amount. He offered to provide an answer to the committee.

Co-Chair Thomas wondered whether any fields existed in between the Umiat field and the existing unit. Mr. Landt replied that exploration occurred nearby, but the results have yet to be released. He knew of a significant amount of gas reserves in the vicinity.

Representative Hawker retained a personal understanding of the challenges in the Umiat area. He sincerely respected the effort and commitment that Renaissance put forth in investing in the area. Mr. Landt thanked Representative Hawker.

[5:03:15 PM](#)

AT EASE

[5:03:51 PM](#)

RECONVENED

JOE MICHEL, STAFF TO REPRESENTATIVE BILL STOLTZE, discussed the following day's schedule.

Vice-chair Fairclough wondered whether there would be a second opportunity for the public to testify. Mr. Michel responded that public testimony was available on Friday from 3 pm to 6 pm.

Vice-chair Fairclough thanked all of the presenters for taking time to testify. She thanked the co-chairs for organizing the testifiers.

HB 110 was HEARD and HELD in committee for further consideration.

[5:09:22 PM](#)

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ADJOURNMENT

The meeting was adjourned at 5:09 PM.

