

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

February 18, 2011

1:04 p.m.

**MEMBERS PRESENT**

Representative Eric Feige, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Peggy Wilson, Vice Chair  
Representative Alan Dick  
Representative Neal Foster  
Representative Bob Herron  
Representative Cathy Engstrom Munoz  
Representative Berta Gardner  
Representative Scott Kawasaki

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Mike Hawker  
Representative Craig Johnson  
Senator Cathy Giessel

**COMMITTEE CALENDAR**

OVERVIEW(S): ALASKA OIL & GAS EXPLORER & SUPPORT INDUSTRY

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

BART ARMFIELD, Vice President, Field Operations  
Brooks Range Petroleum Corporation (BRPC)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation about  
BRPC's North Slope operations and commented on HB 110.

KEN THOMPSON, Managing Director, Owner  
Alaska Venture Capital Group (AVCG), LLC

Anchorage, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation about AVCG's Alaska operations and commented on HB 110.

JAMES JOHNSEN, Senior Vice President of Administration

Doyon Limited

Fairbanks, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation about Doyon and supported HB 110.

ED DUNCAN, President, Chief Operating Officer

Great Bear Petroleum LLC

Austin, Texas

**POSITION STATEMENT:** Provided a PowerPoint presentation about Great Bear Petroleum LLC and why HB 110 is a step in the right direction.

DAVE CRUZ, President, Chief Executive Officer

Cruz Companies

Palmer, Alaska

**POSITION STATEMENT:** Testified that his oil field services company faces much uncertainty on the North Slope; he supported HB 110 as a means for turning things around.

GARY PORTER, Pilot

Homer, Alaska

**POSITION STATEMENT:** Explained that due to the oil industry decline his business has very little work.

MIKE PEARSON

Sutton, Alaska

**POSITION STATEMENT:** Warned that something must be done to keep the North Slope, Alaska's lifeblood, from being killed.

REBECCA LOGAN, General Manager

Alaska Support Industry Alliance

Anchorage, Alaska

**POSITION STATEMENT:** Described the makeup of her trade organization and the concerns of its member companies.

DOUG SMITH, President, CEO

Little Red Services

Anchorage Alaska

**POSITION STATEMENT:** Described the problems his oil field services company is currently facing and supported HB 110.

PHIL KROMM

Carlile Transportation  
Fairbanks, Alaska

**POSITION STATEMENT:** Described the problems he is seeing on the North Slope as a line haul driver for a transport company.

**ACTION NARRATIVE**

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**CO-CHAIR PAUL SEATON** called the House Resources Standing Committee meeting to order at 1:04 p.m. Representatives Seaton, Feige, P. Wilson, Herron, Gardner, Foster, and Munoz were present at the call to order. Representatives Dick and Kawasaki arrived as the meeting was in progress. Senator Giessel and Representatives Hawker and Johnson were also present.

**OVERVIEW(S): Alaska Oil & Gas Explorer & Support Industry**  
[Contains discussion of HB 110]

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CO-CHAIR SEATON announced that the only order of business is an overview of the Alaska oil and gas explorer and support industry, as well as any comments that the industry might have about [HB 110] and how to increase production through the Trans-Alaska Pipeline System (TAPS).

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BART ARMFIELD, Vice President, Field Operations, Brooks Range Petroleum Corporation (BRPC), specified that BRPC is an operating entity on behalf of its working interest owners which are: Alaska Venture Capital Group (AVCG), LLC, Ramshorn Investments, TG World Energy, and Brooks Range Development Corporation. He said BRPC manages in excess of 240,000 acres on the North Slope (slide 1). The Beechey Point Unit, a proved and formed exploration unit, is BRPC's near-term development area. To the west of this unit is BRPC's exploration area which has a pending exploration unit called the Southern Miluveach Unit and to the east is BRPC's strategic planning area called the South Thomson Area. The exploration well being drilled in the southeast corner of the Southern Miluveach Unit is scheduled to be spud on March 1, 2011.

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MR. ARMFIELD noted that by the end of 2011 BRPC will have spent in excess of \$154 million on the North Slope during its 10-year life. He said AVCG was formed in 2000 and the time from 2000 to 2007 was used to implement business strategies, set the foundation for the operations of the company, acquire a leasehold position, evaluate the prospects within that position, formulate an exploration plan, and hire the technical staff required to support those activities, with the first well drilled in 2007. Participation in area-wide lease sales has occurred every year since 2000. The North Tarn Well is being drilled in 2011 pending approval of the Southern Miluveach Unit, at which point will be the edge of sanctioning a development project.

MR. ARMFIELD related that during visits to legislative bodies last week he was asked why Brooks Range Petroleum Corporation is out drilling this year, so he developed [slide 2] to answer that question. First, the working interest owners need to have that investment of \$154 million perform. Second, the corporation's current approved business plan has a timeline that reflects production, and revenues from that production, in mid-2013. Third, each year of delay has an adverse affect on BRPC's internal rate of return. He pointed out that BRPC is the only entity that is out with activities in 2011.

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MR. ARMFIELD stated that the current economic models used by BRPC to evaluate its prospects support the internal rate of return for these smaller accumulations with an assumption that that reserve base, once sanctioned, will foster further growth and make that investment even more profitable. An increase in the tax rate and a reduction in the capital credits would have an adverse impact to BRPC's models and could very easily shift them into an uneconomic position because they are so small and are on the edge. Conversely, adoption of a policy that lowers the rate and increases credits would have a much different impact on that economic model. Performing to that economic model would go a long way in providing a confidence level for the working interest owners that have invested \$154 million, and a positive return would allow the gathering of more investment capital. He advised that there is a watchful eye on Alaska and if positive policies come out of this legislative session he thinks there will be an elevation in the activity level of people coming to the North Slope and to Alaska.

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MR. ARMFIELD related that he calls the proposed base tax rate, progressivity, capital credits, and timing of those credits the top side of HB 110 (slide 3). The first three elements do not affect BRPC today because it does not yet have production or revenue, but the goal is to become affected by them. He said BRPC supports the bracketed structure and the reduced base rate with a cap because these policy measures would greatly affect BRPC's models and improve the internal rate of return that is presented to the working interest owners. The fourth element, the acceleration of the payment schedule for capital credits from a two-year to a one-year realization, would have profound effects on BRPC's annual planning and overall North Slope operations. The proposed increase of the qualified capital credits from 20 percent to 40 percent would most definitely have a big effect on BRPC's position. Further, BRPC supports extending the sunset for small producer credits through the year 2021 at the least, although indefinitely would be preferred.

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REPRESENTATIVE HERRON inquired whether raising the small producer tax credit above \$12 million a year would be of benefit to Brooks Range Petroleum Corporation or to the state.

MR. ARMFIELD replied yes, it would most definitely be nice to have it go up. However, he has not evaluated what level that should be because BRPC has been accepting the current figure of \$12 million that is scheduled for sunset in 2016.

REPRESENTATIVE HERRON asked whether BRPC likes the tax credit on well lease expenditures for Cook Inlet that would be expanded to the North Slope.

MR. ARMFIELD responded yes, that is a positive, and there are probably several other things within HB 110 that BRPC has not fully evaluated. Additionally, BRPC has some line item concerns and plans to address these as legislators re-define that language.

CO-CHAIR SEATON interjected that there will be full public testimony once the details of the bill are fully rolled out.

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MR. ARMFIELD reviewed the throughput history of TAPS, along with the production forecast from the 2009 Division of Oil & Gas

Annual Report (slide 4). He said HB 110 has the opportunity to profoundly impact the state's declining oil production and would change how new and existing players plan and execute their activities on the North Slope.

MR. ARMFIELD presented what BRPC is calling Plan-2050, which is an incremental/phased look at how to support production and throughput of TAPS to address the current production decline (slide 5). The goal of Phase I would be to add 10 new fields over the next 12 years with an average production of 12,000 barrels of oil per day per field. This would increase the recoverable reserves by 500 million barrels. The amount of investment capital to support that level of activity would be in excess of \$6.3 billion. History demonstrates that adding 10 new developments over a 12-year period can be done. For example, over the last 12 years Alpine, Northstar, Ooguruk, and Nikaitchuq were put on line, and Badami was restarted. While those do not total 10 projects, they collectively represent the equivalent of 10 projects of 12,000 barrels per day per field.

MR. ARMFIELD said the goal of Phase II is 32 new developments over the next 20 years. Since 10 new developments would already have occurred, Phase II would be the addition of 22 new fields under the same parameters, but in this case it would be done in an 8-year period. He maintained that this is an achievable goal when one looks at the current advancements in technology and prototypes, such as the unconventional resource plays presently happening in North Dakota. There will come a time, and it may be in the very near future, that those processes are applicable to the North Slope, and those advancements will support the ability to add 22 new developments of 12,000 barrels of oil per day per field in an 8-year period, or it could be 8 developments of 30,000 barrels of oil per day per field.

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MR. ARMFIELD highlighted Phase III of BRPC's Plan-2050 in which the final goal of 44 new developments would be reached by the year 2050 [meaning 12 more new fields would be developed between 2031 and 2050]. Thus, by 2050, a total of over \$18.6 billion in new capital investment would come into the state and total recoverable reserves would increase by 2.2 billion barrels.

MR. ARMFIELD outlined how the production decline curve would flatten under Plan-2050 when the new production is combined with the production from existing fields (slide 6). Current industry as a whole could support four new developments from within

existing fields over the first 12-year period of Plan-2050. Six new developments would come from independents and new players to Alaska, bringing the total of new developments to ten [top left graph]. He compared the production curve of the current Division of Oil & Gas (DOG) forecast with that of Plan-2050 Phase I (the years 2011-2024), explaining that the Phase I curve represents a combination of the production history from the past 12 years and the current DOG forecast, with production from Phase I beginning in 2015 since there needs to be a lead time for Phase I production to start. He pointed out that the two bottom graphs [on slide 6] carry out the Plan-2050 production curve for Phase II (years 2011-2031) and Phase III (years 2011-2049) using the same aforementioned combination of production history, DOG forecast, and Plan-2050 forecast.

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MR. ARMFIELD said Brooks Range Petroleum Corporation sees three courses for action that are probably being considered [slide 7]. One course of action is the status quo where current fiscal policy remains the same. He said he thinks that if this course of action is taken the current production trend will continue [declining from 600,000 barrels per day in 2011 to 100,000 barrels per day in 2050], the effect on activity will be marginal, the chance for new developments will be limited, and there will be a high degree of uncertainty. He expressed his disappointment that only 3 explorers are present at this hearing instead of 30 or 40. A second course of action is a negative adjustment in which taxes are increased and credits are lowered. He said BRPC's perspective is that this would cause downward pressure on the [current declining] forecast, would reduce the number of capable slope players, would increase the burden on the existing units, and would have a very high degree of uncertainty.

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MR. ARMFIELD continued, saying that a third course of action is a positive adjustment where the focus is on throughput. He said HB 110 would result in an upward movement in activity, improve exposure to discoveries, exploit existing producing units, expand clients for vendors, stabilize the state's tax revenue base, establish common throughput targets, extend the economic and physical operation of TAPS, and improve the life of field potential. He noted that the \$18.6 billion figure he cited earlier relates only to those projects that are successful. Using a basis of 50 percent successful projects and 50 percent

failed projects the total of new investment capital would be \$36 billion under HB 110 [Phases I-III of Plan-2050]. Therefore, Brooks Range Petroleum Corporation supports the positive adjustment through HB 110. At the very least, he continued, the payment schedule should be accelerated from a two-year program to a one-year program [for exploration and other qualified capital investments] and that the small producer tax credit should be extended [from its current expiration date of May 1, 2016, to May 1, 2021] (slide 8).

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MR. ARMFIELD, in response to Co-Chair Seaton, clarified that his basis in investment capital of 50 percent successful projects and 50 percent failed projects would apply to all of the graphs shown on slide 6. In further response he confirmed that for [Phase I] the new investment capital would be \$6.3 billion for successful projects and for successful and failed projects combined it would be about \$13 billion. [For Phase II] the total new investment capital for successful and failed projects combined would be about \$26 billion [\$13.2 billion for successful projects].

REPRESENTATIVE P. WILSON, regarding Mr. Armfield's use of a 50:50 success to failure ratio, recalled hearing a few years ago that the ratio is 1 wet well for every 6 wells drilled. She asked whether this ratio has changed over the years.

MR. ARMFIELD replied that he cannot support the 1 in 6 number right now given that BRPC's performance has not been to that level. Over the past 4 years, BRPC has drilled 9 penetrations on the North Slope and 2 were dry. In further response, he clarified that 2 out of the 9 were definitely not good, 2 of the remaining 7 are known to be good, and the other 5 are still being evaluated.

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CO-CHAIR SEATON said the committee is also focusing on throughput and ensuring that any changes made will result in that. He understood Mr. Armfield to be saying that for BRPC the most important things are extending the small producer tax credit and having the credit cycle be over a period of one year rather than two.

MR. ARMFIELD responded that that is correct, but clarified that those two are the most important today to BRPC in terms of real

financial impacts. The goal is to get to the position of being a producer, at which point the other things will then have a definite impact on BRPC.

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CO-CHAIR SEATON noted that Beechey Point and Southern Miluveach are both unitized but not yet producing oil. Regarding the provision in HB 110 for a lower tax rate on new units, he inquired about BRPC's position on whether those two existing units should be classified as new or old oil.

MR. ARMFIELD answered that BRPC has concerns about this language because it really would affect the company. In its business plans and execution, BRPC always forms a unit to proceed. The acreage is acquired, any available seismic is reviewed and new seismic is shot, an exploration unit is formed, and a commitment is made to work programs to support that exploration unit. While Beechey Point has been a unit for nearly three years, the oil would be new; therefore, BRPC would definitely be impacted if it was thrown out of being qualified for this category. In further response to Co-Chair Seaton, Mr. Armfield said it is BRPC's perspective that [Beechey Point and Southern Miluveach] are new oil. Regarding heavy oil and other resources that have been out there and are considered old, he pointed out that the technology has not been there to allow their development and so when the technology is refined to allow getting that type of oil he would argue that it is new oil.

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REPRESENTATIVE P. WILSON requested further explanation on when something becomes a unit.

MR. ARMFIELD explained that BRPC forms exploration units and there are differences between exploration units, producing units, participating areas, and a wide range of other categories. His concern with the proposed language in HB 110 is that there is no distinction between the aforementioned types of units, the language just says units. He further explained that once BRPC forms those exploration units, they go to the Department of Natural Resources for approval and an applicable work program is assigned to them that extends that exploration unit for a given number of years based on the performance adhered to in that work program. Once into production and development, it goes into a producing unit that is associated with a participating area, and from there it gets more complex.

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REPRESENTATIVE P. WILSON understood Mr. Armfield's explanation and his concern, but asked why the other locations on the map are not called units.

MR. ARMFIELD replied that BRPC has not yet applied for those areas because there is a long process for forming a unit. An area cannot be unitized just because a company wants to; there must be a foundation that supports that unitization process. The Southern Miluveach Unit was just completed and is currently being evaluated by DNR. The unit's books are four inches thick to support the unit application, which could be approved in its current form or could be approved in a reduced or expanded form. The Beechey Point Unit went through the process, was formed, and is approved. These two units have work programs that BRPC plans to move forward on. The other areas are still being evaluated as to what BRPC thinks the units should look like and what work program BRPC should commit to for maintaining a unit.

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CO-CHAIR SEATON inquired whether the new capital amount of \$36 billion in the Plan-2050 includes new production facilities at the new oil units, or whether the assumption was that everything would run through existing Prudhoe Bay infrastructure.

MR. ARMFIELD responded that the \$36 billion is derived through an economic model in which the cost is applied on a per barrel basis. So, yes, the figure involves new facilities or modifications to existing facilities to be able to handle that. In further response, he said the costs are inclusive of ice roads, exploration, exploration wells, gravel, facilities, pipeline, and whatever it takes to support that level of production and these are applied in the model.

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MR. ARMFIELD, in response to Co-Chair Feige, confirmed that, to his knowledge, BRPC is drilling the only exploration well on the North Slope this winter season.

REPRESENTATIVE GARDNER asked whether all nine of the wells drilled by BRPC participated in the state's exploration credit program.

MR. ARMFIELD answered yes, adding that BRPC takes full advantage of every opportunity afforded to it by the state.

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KEN THOMPSON, Managing Director, Owner, Alaska Venture Capital Group (AVCG), LLC, explained that AVCG is the parent company of Brooks Range Petroleum Corporation. He has lived in Alaska for 17 years and from 1994-1998 he was president and CEO of ARCO Alaska, Inc. His purpose is to present ideas to re-incentivize investment and increase the competitiveness of Alaska relative to other oil basins with one common state and industry goal in mind: to level Alaska's oil production (slide 2). Alaska Venture Capital Group has had a very positive relationship with the State of Alaska and its agencies, and would like to be a company that helps the state to substantially grow the pie of revenues.

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MR. THOMPSON maintained that the state of Alaska can have level oil production again. Some companies in Alaska are in the harvest mode and that should be their strategy. But there are other companies like AVCG that are in a growth mode and over the next one to two decades companies like AVCG do not have to find a big Prudhoe Bay or a big Kuparuk. If the state can have 10 50-million-barrel oil fields every 12 years, the production can be leveled.

MR. THOMPSON explained that his job at AVCG is to raise capital for exploration and development on the North Slope, while Mr. Armfield's job within BRPC is to do the implementation. In addition to raising capital from current investors, he is looking for one new investor and that is why he is currently in Houston, Texas, at the North American Oil and Gas Prospect Expo. In addition to looking for a partner that can bring in more capital to help accelerate the company's work, there could be substantial upside in shale oil on some of the acreage, which could possibly be a new business within Alaska. Therefore, AVCG needs to bring in a company with that expertise. He added that Great Bear Petroleum is also playing that same concept with the acreage that it acquired last October. Of the 15,000 attendees at the expo, 50 stopped by AVCG's booth, and 5 companies expressed interest and asked for more information.

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MR. THOMPSON said he thinks fundamental improvements to Alaska's Clear and Equitable Share (ACES) are needed to attract new investors. His company's focus is on what it calls the next frontiers for major developments on the North Slope. Those frontiers would grow the company as well as level production in Alaska. Those frontiers fall into two categories for what AVCG does: exploration of smaller fields in the 25-50 million barrel range with the sharing of regional processing facilities and production from low-permeability sands and oil source shales. On the Southern Miluveal Unit about 1 billion barrels have been identified in sands, with about 20 percent recoverable. About 100,000 of AVCG's acreage may have significant oil source shale potential. As the state looks at how to level and grow production, other frontier areas include North Slope viscous oil, North Slope natural gas, and North Slope offshore oil, but those are the realm of the major oil companies.

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MR. THOMPSON explained that Alaska Venture Capital Group is a holding company that owns all the leases and assignments and will own the oil production and production revenues (slide 3). Additionally, AVCG manages the direction and business strategy, negotiates all business deals, and attracts new investors. Moving to slide 4, he specified that AVCG has spent \$154 million and he is a personal investor. Alaska Venture Capital Group is committed to Alaska and is working hard to get a return on that capital for its investors. Of the 240,000 acres, about 50 percent is held by AVCG and the other 50 percent is split between Ramshorn Exploration, a private firm out of Houston, and TG World Energy, a small public corporation in Calgary.

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MR. THOMPSON highlighted what he deals with to attract new investors in the face of global competition for capital (slide 5). He related that about a year ago, AVCG had a partner out of Calgary called Bow Valley, a small public company. It was purchased by Dana Petroleum, a larger public company out of the United Kingdom (UK). With that purchase Dana became the owner of about 20 percent of the holdings shown on slide 4; however, upon looking at everything, Dana concluded that Alaska's fiscal regime was tougher than the UK sector where it was playing. Dana decided to focus solely on the UK and said it did not want to invest in Alaska, so AVCG acquired Dana's interest which increased AVCG's interest from 30 percent to the current 50 percent. The owners of AVCG do not necessarily like the risk of

50 percent ownership given that AVCG plays the risky side of exploration. Therefore, his job over the past nine months has been to find an investor that can bring capital as well as expertise. Last summer AVCG attended this same expo in Houston at which time 12 companies expressed strong interest. Since then, however, 11 have said no and the number one reason for saying no is the Alaska fiscal regime with its high and complicated taxation. Several of those companies elected to put their money into North Dakota's Bakken Oil Shale where the severance tax rate is much more favorable, plus the risk is less in North Dakota than it is in Alaska. Some did not want to participate because they were looking for fields of 50-100 million barrels or more and therefore did not like the prospectivity on the North Slope. One company remains and is very interested. Internally, that company is going to approve partnering with AVCG and will bring in its technologies to the North Slope. However, the one final hurdle is the company's board meeting in March where board members want to hear about the only issue that remains for them - Alaska's taxes. He said he has prepared a positive story for this board meeting and most of that positive story is HB 110. Over the next several months he will meet with the other five companies that recently expressed interest, but he is hoping the aforementioned one company will join in and then he will not have to meet with the other five.

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MR. THOMPSON, addressing the portion of slide 5 regarding the UK, pointed out that the riskier fields in the North Sea are exempt from the UK's supplemental surcharge that is leveled on top of the corporation tax. For the first \$1.3 billion of each field's profits there is no surcharge, which allows better recovery of capital. He related that he just met with several executives from Noble Energy, a company that recently made a huge natural gas discovery in offshore Israel. While Israel is increasing its government take from 30 percent to 52-62 percent, which is still less than the Alaska and the U.S. total take, the 30 percent rate will be maintained until a producer recovers 200 percent of investment. Under this concept, the capital comes back more quickly, although Alaska does help in some regards with the capital tax credits.

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MR. THOMPSON reported that while Alaska had three booths at this expo, the states of North Dakota, Texas, and Wyoming combined

had 100-200 booths. When shale production began in North Dakota, the state suspended its severance tax for 18 months on any new production, after which time the tax goes back to the normal maximum rate of 11 or 12 percent. That tax suspension generated a lot of new activity and now it is running on its own with about 150-160 wells per month being drilled in the Bakken Shale. Oil production in North Dakota is on the incline and is expected to double [this decade] at which point it will surpass Alaska as a production state.

MR. THOMPSON, in relation to his work trying to raise new capital, pointed out that in terms of overall attractiveness Alaska is in the middle relative to the rest of the world [Fraser Institute 2010 Global Petroleum Survey as presented by the Alaska Department of Revenue on 2/5/2011] (slides 6-7). The most attractive states depicted on the graph had tens of booths at the aforementioned expo. He said he thinks there is a correlation between where people are interested in investing and these graphs, which are being shown in corporate board rooms as well as government hearings. This is what makes it harder for him in trying to raise capital, but AVCG is not giving up.

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MR. THOMPSON offered AVCG's recommendations to assist in achieving the common goal of no decline (slide 8). He said AVCG supports the proposed changes in HB 110 of revising the progressivity surcharge and capping the total tax [at 50 percent]. To attract partners in moving the Beechey Point exploration unit to a development unit, it would be helpful if the base tax rate for new fields was 15 percent instead of 25 percent with the total tax capped at 40 percent, as proposed by HB 110. He said AVCG is willing to share its economics on that.

MR. THOMPSON thanked the state for the tax credits that are currently provided on exploration, saying those credits have been significant to AVCG and have helped it to drill two wells in some years instead of one, which doubles the chance for discovery. If, as proposed by HB 110, this tax credit could be refunded in one year instead of the current two, he would be able to recommend to AVCG's owners to go to three wells a year instead of two, which would help accelerate finding oil.

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MR. THOMPSON, regarding AVCG's support for increasing the tax credits for qualified capital investments from the current 20

percent to 40 percent as proposed by HB 110, said that the only issue is clarifying the definition, particularly of units, as discussed by Mr. Armfield.

MR. THOMPSON pointed out that the small producer tax credit plays very well when he talks with prospective investors. The current credit of \$12 million a year every year for the first five years helps recover capital before the higher tax rates, which is very helpful. Extending this credit five more years, as proposed by HB 110, would help to bring on the Beechey Point unit and AVCG is hopeful that the well currently being drilled will also be able to take advantage of this credit.

MR. THOMPSON related that the mantra when he was president of ARCO Alaska was "no decline after '99" and that was in regard to ARCO's production, which is now ConocoPhillips. The two companies pretty much did that for several years and he thinks Alaska can too. Regarding the 10 fields in 12 years mentioned by Mr. Armfield, he shared that AVCG has set an internal goal of achieving 2 of those 10. If AVCG can attract some additional investors, he thinks all of that can add up to the 10 fields needed to reduce the decline.

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REPRESENTATIVE P. WILSON inquired where Alaska would be located on the Fraser graph of overall attractiveness (slide 6) if HB 110 was passed.

MR. THOMPSON replied he does not know because he has not calculated where the Alaska line would move. However, if HB 110 passes, it will for sure be bold headlines in the Houston Chronicle energy section, as well as in Dallas, Denver, and Los Angeles. It will be heard throughout the industry and likely be headlines in the Oil & Gas Journal because the prospectivity is there.

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REPRESENTATIVE FOSTER asked what the atmosphere is like when Mr. Thompson approaches prospective investors and what their read is on Alaska. He commented that Mr. Thompson's statement of "we're not giving up" means that others are and indicates that Alaska needs to do something.

MR. THOMPSON responded that AVCG ran a large survey three years ago in the Southern Miluvealch unit and found 16 leads ranging in

size from 10-40 million barrels of oil. While all of those may not make it to the drilling stage, showing them at AVCG's expo booth generated buzz and the oil source shales that were mapped generated quite a bit of buzz. Some of AVCG's acreage on the western North Slope is in prime areas similar to the Bakken Shale. Showing that that play is commercial in Alaska, or that the severance tax is suspended like has been done in North Dakota for all new Bakken horizontal wells, could generate a buzz, word would get out, and more people would come to Alaska.

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CO-CHAIR SEATON inquired what range of investment capital AVCG looks for when talking to prospective investors.

MR. THOMPSON replied that for a two-well drilling program the typical overall budget for seismic, new land acquisitions, and two wells is \$50-plus million per year. Any company entering an area enters with the idea of pushing hard for, say, five years, so that would be \$250 million. Alaska Venture Capital Group is looking for companies that can pay 20-50 percent of that, so it is going to be companies that are willing to do \$50-\$125 million for exploration within Alaska. For development, AVCG is looking for hundreds of millions to billions, so the companies know that if they become involved they must have access to pretty large capital for development.

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The committee took an at-ease from 2:17 p.m. to 2:20 p.m.

[2:20:44 PM](#)

JAMES JOHNSON, Senior Vice President of Administration, Doyon Limited, specified that Doyon is a for-profit Native corporation founded in 1972 dedicated to the economic and social well-being of its 18,158 shareholders and to strengthening the Native way of life (slide 2). Doyon owns 12.5 million acres of land in Interior Alaska and 2010 was its twenty-sixth consecutive year of profitability (slide 3). While Doyon is a for-profit company, it also has social values in addition to its financial goals, so Alaska hire, shareholder hire, and shareholder development are critical to the company. Doyon's enrollment is open, so the number of shareholders goes up daily. Fifty percent of the shareholders are located in Interior Alaska, 25 percent live in Anchorage and the rest of Alaska, and the remaining 25 percent live in the rest of the U.S. (slide 4).

Doyon is seeing a gradual movement of people from the Interior villages into Fairbanks and, in particular, Anchorage.

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MR. JOHNSEN outlined Doyon's corporate strategies (slide 5). Doyon is a holding company that works to select the optimal mix of operating companies to maximize earnings and provide shareholder opportunities. Doyon adds value to those companies by providing capital, administrative services, guidance, and strategy. A major strategy is conducting oil and gas exploration on state and other lands, but primarily Doyon lands. From a rural economic development standpoint, Doyon seeks partnerships with village corporations to the extent possible. Lastly, increasing value to shareholders is critically important since they are the owners. Last year, Doyon paid over \$20 million in shareholder wages, over \$6 million in dividends to shareholders, about \$600,000 in college and university scholarships to shareholders, and \$500,000 in donations to various community organizations.

MR. JOHNSEN, noting that this money must come from someplace, explained that Doyon operates in three industries (slide 6): oil field services which includes drilling, security, engineering, facilities, and construction services; government contracting which includes military utility management in Alaska, security services in locations outside Alaska, civil and military construction, and logistics services primarily for the U.S. Department of Defense; and land and resource development which includes oil and gas exploration, hard rock minerals, and sand and gravel.

2:27:24 PM

MR. JOHNSEN said Doyon has four companies that operate in oil field services: Doyon Drilling, Doyon Universal, Doyon Emerald, and Doyon Industrial/Associated (slide 7). Doyon Drilling has seven drill rigs operating on the North Slope, all of which are currently under contract. A new technologically sophisticated rig, "Rig 25", was just commissioned at an investment of over \$100 million. A large share of employees work on the slope, but the primary location administratively is Anchorage. Current business outlook on the slope is not good - exploration activity is down, all of Doyon's drilling activity is workovers and infield work. Additionally, Doyon is very concerned about the regulatory constraints being put on federal lands. Doyon employment has fallen by about 9 percent [from 314 in 2007 to

285 in 2010]. Doyon is the number one contractor for BP and ConocoPhillips and roughly 85 percent of Doyon's employees working there are Alaskans. About 45 percent of Doyon Drilling employees are Alaska Native shareholders, which is a big deal because of the large salaries that these particular employees make and take back to their families and communities. Doyon Universal, a joint venture of Doyon and the French multinational corporation Sodexo, provides security/facility services on the North Slope and on the Trans-Alaska Pipeline System (TAPS). The industry outlook here is also not positive and the employment decline is even more serious with a 25 percent employment loss between 2007 and 2010. Doyon Emerald, a small recently acquired company, provides engineering consulting services to the industry. It is doing a lot of design for some of the integrity programs and is stable at the moment. Doyon Industrial, a joint venture between Doyon and Associated Pipeline, is a major pipeline construction firm doing a lot of the feeder pipeline replacement work on the North Slope. Although exploration activity is down this company is seeing some work, but it is short-term work and Doyon Industrial would like to be doing more of it.

[2:30:53 PM](#)

MR. JOHNSEN pointed out that Doyon is also looking for oil, gas, and hard rock minerals on the 12.5 million acres of surface and subsurface lands that it owns, while being a responsible steward of these lands (slide 8). Doyon is investing in oil and gas exploration in the Interior and about a year and a half ago spent roughly \$20 million in the drilling of an exploration well in Nenana on Mental Health Trust land. That data is being analyzed and a seismic program is planned in the Nenana Basin for next year. Last year Doyon conducted seismic exploration for oil near Stephens Village and that seismic program will continue this year. Doyon partnered with village corporations for the road construction and other work on both of these projects, which is in keeping with Doyon's dedication to rural economic development and which provides quite a multiplier effect. Through its partnerships and the state's tax credits, Doyon has leveraged its investments and has spent over \$200 million on exploration activities in the Interior.

[2:33:14 PM](#)

MR. JOHNSEN concluded by stressing that Doyon is an Alaskan company that employs about 1,500 Alaskans (slide 9). On behalf of both its shareholders and its employees, Doyon must look to

the future for business opportunities and takes this responsibility seriously. Doyon believes vast oil and gas opportunities remain in Alaska and on Doyon lands in the Interior. However, investment in oil and gas exploration and production is down, Alaskans have lost jobs and revenues, and Doyon has lost revenue. Doyon believes Alaska's current oil tax policy inhibits investment in development and is inconsistent with the state's constitutional requirement to maximize the benefit of the state's resources. Doyon supports a state tax policy that fills the pipeline, produces jobs, and provides revenues for the state. Doyon supports the elements of HB 110 that encourage exploration and increase investment in production.

[2:34:47 PM](#)

REPRESENTATIVE HERRON understood that Doyon was a key player in getting the small producer credit in the current tax law. He asked whether the number for that credit should be changed.

MR. JOHNSEN replied he is unprepared to respond at this point. It will be awhile before Doyon is able to take advantage of the credit because it is still in the early exploration phase and therefore he will have to get back to the committee with a response. He added, however, that Doyon concurs with the responses that have been heard from those companies that are further along than is Doyon. In further response, he agreed to provide justification in Doyon's response to the committee.

[2:36:06 PM](#)

REPRESENTATIVE GARDNER inquired whether there are elements in HB 110 that Doyon believes will not act to fill the pipeline, produce jobs, and provide revenue.

MR. JOHNSEN responded yes, Doyon would propose friendly amendments to expedite implementation so that it takes place sooner rather than in a few years.

[2:36:50 PM](#)

MR. JOHNSEN, in response to Representative P. Wilson, answered that Associated Pipeline, Doyon's partner in Doyon Industrial, is out of Houston. In response to another question from Representative P. Wilson, Mr. Johnsen stated that the Doyon shareholders located outside of Alaska are Native shareholders. Responding to Co-Chair Seaton, he confirmed that slide 4 depicts

where Doyon's Native shareholders live. In response to Representative Gardner, he said he did not know whether other corporations have a similar percentage of 25 percent of out-of-state shareholders, but that people have the freedom to move around.

[2:38:29 PM](#)

CO-CHAIR SEATON, regarding the number of Doyon employees shown on slide 7 for 2007 through 2010, requested Mr. Johnsen to provide employment statistics for the five years prior to 2007 so committee members could see whether ACES has had a positive or negative effect on employment numbers.

MR. JOHNSEN agreed to do so.

[2:39:36 PM](#)

REPRESENTATIVE MUNOZ asked whether Doyon anticipates a continued employment decline under the current tax regime.

MR. JOHNSEN answered that a continued decline is definitely projected for Doyon's drilling and services companies, although an increase may be seen for Doyon Industrial's maintenance work. He said Doyon does not see a positive future if there are no adjustments to the incentives on the North Slope.

CO-CHAIR SEATON interjected that one reason for asking for a longer range employment history is because the 2010 employment numbers are higher than those of 2009 and 2008, but lower than 2007 and it is unknown whether 2007 was a maximum point in employment numbers or just a spike.

[2:40:59 PM](#)

REPRESENTATIVE GARDNER inquired whether Doyon has participated in the state's credit programs.

MR. JOHNSEN replied yes, the Nenana project, and expedition of these programs would expedite Doyon's receipt of those credits.

CO-CHAIR FEIGE commented that he knows Native hires are important to Doyon because several years ago he spent a lot of time [as a pilot] hauling Doyon's Rig 19 crews back and forth and the names on the manifests were all Yukon names. He urged Doyon to keep it up.

[2:42:26 PM](#)

ED DUNCAN, President, Chief Operating Officer, Great Bear Petroleum LLC, stated that Great Bear Petroleum is a new company to Alaska in registration only because his experience in Alaska, and that of his colleagues, goes back 30 years. He and four other managing members run Great Bear and the company has a very aggressive and progressive business development strategy.

MR. DUNCAN advised that Alaska competes for capital on a global scale, not just domestically (slide 3). Capital is mobile today; it will find the best investment opportunity in the world and gravitate in that direction. Great Bear believes that Alaska presents an opportunity for growth in the sense of an investment into oil and gas business, but Great Bear also sees great opportunity for Alaska to improve its position globally and will talk about that in the context of HB 110.

[2:44:43 PM](#)

MR. DUNCAN pointed out that great prospectivity is what really drives oil and gas exploration and production work (slide 4). A poor basin with poor rocks cannot be made great with great fiscal terms. Alaska is fortunate to have some of the best rocks and one of the best petroleum provinces in the world, but Alaska also has some fiscal terms that are suppressing the development of that great basin.

MR. DUNCAN noted that recognition of Alaska as a global oil and gas producer has declined over the past two decades (slide 5). What can be done about that production decline? Great Bear is singularly focused on Alaska and building an exploration leg and production base of oil first, gas second, on the North Slope. It is an expensive business and costs have risen; so, whether exploration tax credits should be higher is something he cannot answer today, but Great Bear's finance people could look into this issue and quantify a number. Great Bear believes that the ability to deliver unconventional resources to market, which Great Bear thinks is a significant part of the long-term answer for Alaska, rests primarily on improving the commercial environment within which it operates. Great Bear believes it has the technical risk in hand, but the commercial environment is where Great Bear has to establish how to make this happen.

[2:47:38 PM](#)

MR. DUNCAN noted that HB 110 would have a number of significant impacts on Great Bear Petroleum (slide 6). Extension of the tax credits to the North Slope would have a huge impact. The ability to claim the tax credits in a single year versus two years would also have a huge impact because Great Bear is a small company with very, very high expenditures on the front end of its program. Reduction of the production tax burden would improve Great Bear's ultimate commercial outcome, which would improve the probability of attracting critical capital investment to the state, to the plays, and to the business. The scale of capital investment is huge, he added, with the numbers mentioned by Mr. Thompson being on the low end of the amount needed to arrest or grow the production base of the state.

[2:48:52 PM](#)

MR. DUNCAN said Great Bear Petroleum's business thesis is based on unconventional shale oil and gas production (slide 7). His job as a new ventures geologist is to identify new opportunity space to look for oil and gas. He matches together geological conditions, engineering technology, and commercial environments to provide areas within which Great Bear will prosecute its business. He began thinking about areas around the globe where world class source rocks existed at drillable depths and with appropriate thermal maturity that would allow technologies developed in only the last three years to be deployed successfully for unconventional oil and gas resource play development. As he thought about such areas, he was surprised to land back on the North Slope where he started his career. Some of the richest oil-prone source rocks in North America and the world are reasonably proximal to established infrastructure, are at drillable depths, are thermally stressed optimally, and are completely untested - and that was the genesis for Great Bear Petroleum. This is the opportunity to deliver a play that has long-lived production, manageable risk, allows the state to forecast forward revenue, and provides tremendous job growth. The critical step in making it happen is not technical; rather, it is commercial viability and competition for capital.

[2:52:15 PM](#)

MR. DUNCAN highlighted Great Bear's vision, saying that his company is leading the industry toward development of unconventional oil and gas resources from known, prolific source rocks on the North Slope (slide 8). That is Great Bear's business thesis, he said, and the company is not doing this anywhere else in the world. Great Bear has done this in the

Lower 48 and understands the geology of the plays and the exploitation technology. Great Bear is on the verge of contracting the largest service providers in the world that are already resident in the state and that already have the technology in the state to help Great Bear develop a proof of concept stage for the play because proof of concept is critical.

Mr. DUNCAN, responding to Co-Chair Seaton about the definition of proof of concept, explained that exploitation of this play will involve long-length lateral wells. The early work program has already been set and, weather permitting, the program will be accelerated late this year to build a rock mechanics model that will allow design of the wells and reservoir stimulation program as scientifically and precisely as possible. Two full-production tests will be drilled in the January to April 2012 window to test the viability and applicability of known technologies to these rocks in north Alaska. While this is an aggressive plan, accelerating the research and development phase is critical because it allows the company to scale the business development side and full development cycle of this project.

[2:54:55 PM](#)

MR. DUNCAN, in further response to Co-Chair Seaton, confirmed that the proof of concept stage is drilling in the field. He added that the regional mapping for this basin was done some time ago by the U.S. Geological Survey (USGS) and the State of Alaska. Thus, Great Bear was able to build an interpretation for this play and is past the data room stage and is going to the field next. The rock mechanics studies will be drilled holes with whole rock extracted. Rock strength will be determined to provide a picture of how wells will drill and what kind of fracturing stimulation technology will be deployed. The full-length laterals will be full exploration style wells that will probably have a little more analytical analysis done during drilling than when in full-production mode. A unique aspect of unconventional resource play development is that once the boundaries of the play are known, the characteristics of the play are known. The industry tends to move towards a factory-type drilling so the drilling costs go down somewhat, details of the individual well analytical work programs simplify, and the rate at which wells can be drilled, stimulated, and put on production increases. Great Bear has a very aggressive annual drilling schedule in full development mode with a target of 200-250 wells a year. As a contrast, he noted that today 300-350 wells per month are being drilled in the Bakken of North Dakota.

[2:58:22 PM](#)

MR. DUNCAN said Great Bear Petroleum believes that development of this play is super critical for putting long-lived, large-volume oil into TAPS in the near term. Development of the play is possible on the geological and technical front. However, the commercial side is onerous and that is why Great Bear is before the committee to talk about how the fiscal environment can be changed to ensure that this play can be developed relatively unencumbered. Great Bear is committed to working with the state and is committed to operating in an environmentally responsible manner. This play and the work program behind this play address some of the serious concerns that were just expressed by Doyon. This is a significant way of securing long-lived oil production into TAPS as well as thousands of wells being drilled over the next 20-25 years that will create an enormous amount of long-term jobs. Great Bear believes that in a full development mode, this play will deliver a minimum steady-state production of 150,000 barrels of oil a day over the horizon, and production in the near term of 15 years would be much higher than that.

[3:01:24 PM](#)

MR. DUNCAN presented the play's potential oil production profile (slide 9). He said the profile uses the same production metrics on a per well basis as the Eagle Ford [shale play] in South Texas, which has rock and oil types similar to the Shublik, and Great Bear Petroleum believes this North Slope play will, at the least, equal the metrics of the Eagle Ford. The target of 3,000 total wells will be reached by drilling 200-250 wells per year, so the drill out period is long, the number of associated jobs is significant, and the production profile grows dramatically and quickly and holds until the plateau is reached. He added that what is beginning to be seen as a science and engineering phenomenon is that while the initial production declines are fairly dramatic in the first year post fracture stimulation, the wells appear to be developing a very long-lived asymptotic plane at a reasonably high production level. Therefore, the 3,000 accumulated wells run a long time over the horizon, so revenue growth and generation for the state is tremendous, as is the associated job growth. He reiterated that in Great Bear's opinion the risk is not technical, but commercial.

[3:04:27 PM](#)

MR. DUNCAN concluded his presentation by noting that current policy has not addressed declining production and has not re-

invigorated exploration (slide 10). He said HB 110 focuses on encouraging increased oil production immediately and will aid Great Bear in attracting critical capital to deliver on its stated strategy. The bill encourages new exploration activity, maintaining many of the exploration incentives that exist today. Great Bear's lease area is over 500,000 acres and will take a lot of exploration drilling to prove that area. Great Bear sees it as a viable way to put long-term oil production into TAPS, and this is in addition to the conventional exploration programs that will continue to add oil and gas. Great Bear believes that reasonable solutions can be agreed and implemented, providing long-term stability to the state and HB 110 is a step in the right direction.

[3:07:25 PM](#)

MR. DUNCAN, in response to Representative Herron, stated that Great Bear Petroleum is now an Alaska company with an office in Anchorage. Its mission is not to build a glass tower in Anchorage but to build technical alliances with key service providers that have more experience than Great Bear could assemble by hiring [employees]. He said the biggest names in the industry, both multi-national and indigenous, are already resident in Alaska. Great Bear's mode of operation is to join with groups to supply the critical skills and needed technology to prosecute Great Bear's work program. Every company that Great Bear has met with has said it has the technology to do an unconventional play, which is 100 percent Great Bear's business.

[3:11:32 PM](#)

REPRESENTATIVE HERRON asked whether Great Bear thinks the small producer's tax credit of \$12 million should be increased.

MR. DUNCAN responded that he does not have a specific answer at this time, but he is willing to commit his staff to help the committee and the state determine whether that number should be moved and what it should be.

[3:12:44 PM](#)

REPRESENTATIVE HERRON inquired whether President Obama's position on fracturing will affect Alaska.

MR. DUNCAN answered that reservoir stimulation by fracturing is controversial in some parts of the nation for good reason. Understanding the distribution of potable water aquifers and the

effect on urban surface environments is very critical. Great Bear Petroleum will fracture stimulate its wells in a way that will not affect any potable water aquifers, of which there are none in the area of operation. Great Bear is cognizant that the subsistence communities in this area will have subsistence hunting rights at certain times of the year and those will be taken on board. The event in the northeast U.S. that lead to much of the concern, real and other wise, had a juxtaposition of certain geological elements, human habitation, and aquifers; but those kinds of impediments are not present on the North Slope.

[3:14:47 PM](#)

REPRESENTATIVE GARDNER commented that most legislators had never heard of Great Bear Petroleum until several months ago. She asked whether the company is brand new and whether it has any holdings or activities elsewhere.

MR. DUNCAN answered that Great Bear Petroleum is focused solely on the North Slope of Alaska. When competition for capital occurs within the walls of the company it is deciding whether to drill the east side of the company's lease in Alaska or the west side, not whether to drill a well in Texas or North Dakota. Great Bear will hire to the best of its ability exclusively Alaskan. He cannot promise that all of the service providers have that exact same standard, but Great Bear will be dealing with Alaska-based service providers.

[3:16:04 PM](#)

REPRESENTATIVE GARDNER asked where the capital for this type of capital intensive work comes from, given that Great Bear Petroleum is a brand new company.

MR. DUNCAN replied that Great Bear is a private company with initial investment capital coming from friends and family. The additional investment capital for funding the company through the proof of concept stage was very broad-based and significant. While he has no fear about Great Bear getting through the proof of concept stage, he proffered that no company in the world, other than a couple of the super-majors, has capital on account to fund out of pocket the full development drilling of 250 wells a year which is in excess of \$2 billion annually for this play. Great Bear believes the oil and gas is there and that it can get the resource out of the ground at rates that will be material to TAPS and the long-term health of the state.

[3:17:56 PM](#)

CO-CHAIR SEATON inquired whether the \$2 billion in capital costs includes production facilities or only the drilling. He further asked whether the development would require separate production facilities.

MR. DUNCAN responded that he believes the resource base is large enough to dictate a development scenario that allows Great Bear to get the oil into TAPS so he does not expect facilities construction to be an impediment. Moving that amount of oil around will require building roads, pipelines, pump stations, and processing facilities. In further response, he said the \$2 billion was directed at the drilling capital expenditures.

[3:20:41 PM](#)

DAVE CRUZ, President, Chief Executive Officer, Cruz Companies, noted that his company is an Alaska-based provider of oil field services, heavy civil construction, and marine services. He said his company is faced with a tremendous amount of uncertainty, although the previous testimony has made him feel a little better than when he first walked into the committee room. He began working on the North Slope in the mid-1970s, started his own company in 1981, and then partnered with his wife in the business 28 years ago. As his company has grown it has been in resource development, building roads, clearing pipelines, airports, and a multitude of disciplines. In 2004, his company purchased a portion of Western Geophysical's assets in Prudhoe Bay, figuring to get into the business of building ice roads. About that time "ARCO" was sold, "Conoco" took over, and independent oil companies began to show up and explore in Alaska. His company specialized in exploration support, building the ice roads and ice pads, hauling equipment across the tundra during the winter, setting up and supporting the drill rigs and camps, and then tearing them down for the thaws.

[3:23:44 PM](#)

MR. CRUZ said the explorers included "Anadarko, Brooks Range, FEX, Chevron, Renaissance, Total, Conoco ... Savant ... Pioneer, ENI, and UltraStar", but several of these companies are no longer in the state. In 2005 the exploration side of his company employed 30 people; by 2008 it employed 200 people all winter, of which 99 percent were Alaska residents. In 2009 the number of employees dropped to 150 during which time the company took a two-year exploration project for Chevron south of

Prudhoe. When ACES started to kick in, a total lack of interest in exploring on the North Slope began and his number of winter employees decreased from 150 to 32, with only 5 weeks of work in 2010. He currently has 12 people working on the slope. He said he attributes much of this decline to the business climate created by Alaska's high taxes.

[3:26:17 PM](#)

MR. CRUZ told committee members that last fall he moved millions of dollars worth of equipment to the Bakken oil fields of North Dakota, after it sat on the North Slope for about a year and a half. His company's specialty in North Dakota is moving drill rigs. His work in North Dakota, where 161 drill rigs are working in an area of 100 square miles, has taught him that Alaska's production has declined to the point that it is broken. He reported that much of the surface and subsurface in North Dakota is privately owned, unlike in Alaska. Another difference is that North Dakota's tax structure invites investment. Changes must be made to Alaska's oil tax structure, he warned, or oil in Alaska will be done.

[3:27:42 PM](#)

MR. CRUZ pointed out that to compete as a contractor he must offer a better price than his competitor and do better work to stay in the business. Alaska is competing against the costs in other places; for example, the cost of drilling a production well in North Dakota is \$2.5 million, while the first exploration well on the North Slope of Alaska requires an investment of \$25 million. For Alaska to compete, the state government must provide incentives for investment, or people like himself must go someplace else to make a living. He took only 10 employees from Alaska to North Dakota, the rest are from Wyoming, Arizona, North Dakota, and Colorado. If he was not in North Dakota right now he would be having some very serious problems to contend with; therefore, he is a very strong supporter of HB 110 to help turn things around.

[3:29:53 PM](#)

GARY PORTER, Pilot, testified that he and his wife own a small air service in Homer that operates aircraft statewide. He built a new facility in Homer used primarily for winter maintenance and a new hanger and facility in Deadhorse. He said his story mimics that of Mr. Cruz's. His company went to the North Slope about six or seven years ago when the last oil bubble happened

and it looked like things were going to take off after 15 years of the slope looking like a ghost town. When the price of oil went up and things were looking great, he dove in with both feet. The money he made was immediately reinvested back into infrastructure that still stands. He hired 100 percent local, mostly kids graduating from the Homer high school because they had a good foundation from working on fishing boats. The jobs were at least six months of the year at pretty good pay.

[3:32:32 PM](#)

MR. PORTER said that at the time this last bubble began he thought it would last. He followed the ACES taxes briefly, but he never really got into it because it was complicated and he is not an economist. He was therefore hopeful that the people working on ACES knew what they were doing, but instead the oil companies were run off and now he is left with huge investments and no work. He wonders what the opposition to HB 110 is and what the arguments are against it. He proffered that the state of Alaska will have a beautiful government when the oil levels out at 300,000 barrels, but there will be no workforce.

[3:36:13 PM](#)

MIKE PEARSON stated that he began working in the oil field shortly after arriving in Alaska in 1975. He has worked on drilling platforms in Cook Inlet and on the North Slope. Now he is driving truck for NANA Oil Field [Services], hauling potable water and diesel all over the North Slope, which allows him to see what everyone is doing. Four years ago things were looking pretty bright with new camps, a hotel, and other facilities being built. But since then he has watched things trickle away. Liberty has had engineering and bureaucratic problems and Point Thomson is being shut down. People he knows in the Anchorage area thought they were going to work this winter, but did not, and he does not know what they will do this spring. He understood why there was no work during the oil downturn of the mid-1980s when the price of a barrel of oil was less than that of a red salmon. However, he cannot understand why there is no work at today's price of \$100 per barrel. There used to be dust clouds from all the trucks in a line on the road delivering supplies, but no longer.

[3:39:24 PM](#)

MR. PEARSON further understood that this spring some of the older drilling rigs will be cut up and sold for scrap. Alaska

is losing its manpower on the North Slope, he warned, and some of the work is one-of-a-kind that takes many years to learn. The wages are going down and workers are taking pay cuts and losing insurance benefits. Companies are trying to stay, but that has meant taking away from the worker. He said he has also noticed that when flying on Alaska Airlines all of the passengers have grey hair, which indicates to him that the state is losing its young people. The North Slope is Alaska's lifeblood, something must be done or the golden goose will be killed.

[3:41:35 PM](#)

REBECCA LOGAN, General Manager, Alaska Support Industry Alliance, explained that her organization is a trade association of 500 members who employ 40,000 of the 310,000 people working in the state of Alaska. The association represents a wide variety of employers and sectors of business that are the support companies for the oil, gas, and mining industries. These companies include automotive, clothing, construction, drilling, education, food and beverage, janitorial, oil field service, personnel, photography, real estate, transportation, and welding companies, as well as Alaska Native corporations, financial institutions, and nonprofit organizations.

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MS. LOGAN related that the association recently completed a survey of its membership. She shared the responses of 80 Alaska companies that employ 9,739 people in the state. Fifty-six percent of those 80 companies reported that they have had a reduction in workforce since 2008. Eighty-five percent of those 80 companies reported that worries about finding work in a poor economy have kept them up at night. The 80 companies also identified issues that will have the greatest impact on them in 2011 and the top three issues were lack of work, regulatory environment, and access to natural resources. In response to Representative P. Wilson, said she will provide the survey results to committee members as well as the names of the companies that are in each committee member's district.

[3:45:19 PM](#)

CO-CHAIR SEATON advised that the committee is cognizant of the lack of work, but the problem is making sure that what is enacted is right for Alaska and will generate the new production. Regarding the lack of work, he pointed out that the

ConocoPhillips CD-5 drill pad, the Liberty field, and Point Thomson have been stopped by federal regulatory actions or negotiations with the state, not the state's tax system. Members are faced with the idea that it is the taxes that are stopping all development; yet, according to Alaska Oil and Gas Conservation Commission (AOGCC) figures, the drop in the number of production wells occurred before the petroleum production profits tax (PPT) or Alaska's Clear and Equitable Share (ACES) and the number has since been on a plateau. Legislators are trying to identify the true levers and whether the response to a drop in revenue to the state will be the stimulation in production that everyone is seeking or whether the levers are instead permitting, regulation, and negotiation. He said that if there is any way to target the information that ties the survey results to tax policy, and not regulatory delays, the committee would appreciate hearing that.

[3:48:40 PM](#)

DOUG SMITH, President, CEO, Little Red Services, said his company is an Alaskan oil field service company that operates on the North Slope exclusively and it currently employs about 100 Alaskans. What is being seen under the current tax structure and regulatory burden is a decrease in the infield activity which his company supports. The work his company does is from the wellhead down and includes feeding of crude and diesel, cleaning the well bore to enhance production of existing oil fields, freeze protection of the wells when TAPS has a slow down, and getting the oil flowing again once TAPS is back on line. In his 20 years in the Alaska industry he has seen a lot of changes in the tax structure. While one needs to be an economist to understand the impacts of all the tax structures that Alaska has had, it appears that the current tax regime has placed Alaska at a disadvantage in the global market. He said he is unsure where the Department of Labor & Workforce Development job numbers come from because they do not match what he sees on the ground in Prudhoe.

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MR. SMITH stated that as an employer the biggest thing he is confronted with is the decline in investment in the infield arena. Since 2008 his company has seen a 20 percent drop in demand for its services. Between 2008 and 2010 his company lost 6,000 truck hours, which equates to about 20 percent of his company's total infield servicing truck hours and about \$2 million in revenue. He was forced to lay off 11 employees, of

which 9 were Alaska residents, and these employees had an average tenure with his company of 5 years plus. A home grown company, Little Red Services is a long-term employer type of company, with the company's first two employees still working for it. This is the first time his company has had to make this kind of reduction. Additionally, the company had to reduce its employee benefits by changing the type of healthcare benefits that it provided and had to stop paying profit sharing benefits for the past two years. There has been a heartfelt impact on the day-to-day lives of his employees.

[3:53:10 PM](#)

MR. SMITH read two statements that he agrees with from a recent article in the Anchorage Daily News written by Senator Hollis French and Representative Les Gara: 1) "If oil is taxed at too high a rate there is a risk that crucial investments don't get made in the state's most important industry." 2) "Any reasonable tax relief proposal that will lead to more Alaska jobs and more Alaska oil will get serious consideration from this legislature." He related that last week he went to a briefing where the senator and representative said that they wanted the state to advertise what it has to offer to investors through tax credits, royalty relief, and such. However, as was earlier heard from Mr. Thompson, potential investors are turning away from Alaska's prolific oil producing areas because of the state's tax policy. Advertising what the state offers under ACES is not the only solution; another is a broader-based solution that weighs Alaska's policy against other areas and having a middle ground to move forward with in the legislature.

[3:54:10 PM](#)

MR. SMITH said that while he appreciates the state's healthy budget reserve, he fears Alaska is putting at risk the industry that adds to that treasury long term. While opponents to reform argue that employment is up under ACES, he said he believes that a look into those numbers will show that exploration, infield development, and production-related jobs are down while there is an uptick in infrastructure maintenance jobs. His employees are keeping themselves apprised of what is happening across the U.S. right now, and his company is concerned about its ability to retain key, skilled people who may choose to leave for areas like North Dakota where they see a longer-term future with less opposition to development. Production is down significantly and while HB 110 will not completely reverse that, his company supports the bill because it should change Alaska's position in

the global economy to attract additional investment, create jobs, and allow his company to stay in the state long-term as an employer and maintain and grow its employment levels.

[3:56:11 PM](#)

MR. SMITH said his company is not looking for a handout. This is an opportunity to address the state's fiscal structure, keep Alaskans working, and maximize development of Alaska's resources. In addition to providing jobs the industry also participates in civic activities; for example, in 2010 the United Way of Anchorage received a total of \$3.7 million from 44 major oil and oil support companies, which represented 49 percent of the funds it raised from the private sector. Little Red Services provided \$70,000 in charitable contributions across the state. He commended Governor Parnell's grasp of what the industry needs to move forward and said the reform proposed by HB 110 deserves serious consideration.

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PHIL KROMM, Carlile Transportation, stated that he is a 15-year line haul driver with Carlile Transportation, a company with about 650 employees. He also works in safety, recruitment, training, and driver retention for Carlile. He usually drives his 18-wheeler on the haul road to take goods to the slope. He loves his job and is excited to be able to share his concerns about the situation that Alaska, its local companies, and its people are in right now. He has firsthand knowledge of the significant decline in business volume and work slow down on the North Slope that has affected people. It is obvious that less pipe is going up the road, specifically less drill stem which is used for exploration. Since ACES went into effect, all of the drivers on the haul road have seen the decline that happened overnight.

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MR. KROMM reported that there is also a considerable reduction in loads of construction supplies, from lumber to heavy equipment. Carlisle is not the only one feeling the pain; it is all of the oil and gas providers and contractors. Non-oil and gas business are affected, too, because when his paycheck is less he and his family make fewer trips to the local coffee stand and diner. Also, during the winter Carlile hires about 30 additional people to move things around between the fields on the slope, but for the last couple of years those 30 additional

jobs have not been there. This is significant because it is not just 30 families without a job at Carlisle, it also includes other businesses and therefore adds up. The people that do still have jobs are just scraping by because there is no overtime available due to the work not being there anymore. Drivers are looking for loads just to make a paycheck and he has personally seen drivers leave Alaska for work in other places like the Dakotas that have good pay and a lower cost of living. Alaska is losing jobs and good employees because of the declines in local business.

MR. KROMM related that the conversations on the road today are about the high cost of living, how to make ends meet with less money, and a nervous sense about the future of the state. Alaska needs to be competitive to keep its workforce here, create opportunities for jobs, and keep investment circulating here at home. He and his fellow drivers want to stay busy hauling drill pipe and look forward to the ice roads season. It is exciting to see a new man camp being moved up to the slope, not being moved off the slope to the Dakotas. With the committee's help and cooperation, development and a stable investment climate can happen.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 4:03 p.m.