

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 11, 2011

3:34 p.m.

MEMBERS PRESENT

Senator Joe Paskvan, Co-Chair
Senator Thomas Wagoner, Co-Chair
Senator Bill Wielechowski, Vice Chair
Senator Bert Stedman
Senator Lesil McGuire
Senator Hollis French
Senator Gary Stevens

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Cathy Giessel
Senator Joe Thomas
Representative Les Gara

COMMITTEE CALENDAR

SENATE BILL NO. 49

"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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 49

SHORT TITLE: PRODUCTION TAX ON OIL AND GAS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/19/11 (S) READ THE FIRST TIME - REFERRALS
01/19/11 (S) RES, FIN
03/09/11 (S) RES AT 3:30 PM BUTROVICH 205
03/09/11 (S) Heard & Held
03/09/11 (S) MINUTE(RES)
03/11/11 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

BRIAN BUTCHER, Commissioner-designee
Department of Revenue (DOR)
Juneau, AK

POSITION STATEMENT: Commented on SB 49.

SUSAN POLLARD, Assistant Attorney General
Department of Law (DOL)
Juneau, AK

POSITION STATEMENT: Continued with sectional analysis of SB 49.

LENNY DEES, Audit Master
Department of Revenue (DOR)
Juneau, AK

POSITION STATEMENT: Answered questions about SB 49.

JOE BALASH, Deputy Commissioner
Department of Natural Resources (DNR)
Juneau, AK

POSITION STATEMENT: Commented on SB 49.

ACTION NARRATIVE

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CO-CHAIR JOE PASKVAN called the Senate Resources Standing Committee meeting to order at 3:34 p.m. Present at the call to order were Senators Stevens, French, McGuire, Wielechowski, Co-Chair Wagoner, and Co-chair Paskvan.

SB 49-PRODUCTION TAX ON OIL AND GAS

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CO-CHAIR PASKVAN announced the committee would resume the hearing on SB 49 and is now on page 12 of the sectional analysis. He said that DOR Commissioner Butcher would present the goals and rationale for SB 49, an explanation of the production tax mechanism and more details about the bill's individual components.

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BRIAN BUTCHER, Commissioner-designee, Department of Revenue (DOR), introduced himself and said that Ms. Pollard would continue with the sectional analysis of SB 49.

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SUSAN POLLARD, Assistant Attorney General, Department of Law (DOL), said she had ended with the interest rate provisions that apply to taxes of all types in SB 49 and explained that there are a variety of conforming amendments.

SENATOR STEDMAN joined the committee.

MS. POLLARD said the last interest rate provision changes in sections 21 and 22, and one change to AS 43.56 even out the oil and gas properties tax interest rate between refunds and payments for unpaid taxes.

Section 19 on page 13 changes the statute of limitations that applies to returns under the oil and gas production tax from six years to four. However, subsection (b), which deals with adjustments that need to be made after a possible court or FERC decision, is not changed.

SENATOR FRENCH asked what the rationale for the reduction is.

COMMISSIONER BUTCHER answered that ACES had three years and that was changed to six years to give the department time to not just move from ELF to PPT to ACES, but more, to move from gross to net, which is a huge change for the audit division. They have completed the first year of PPT and are currently three years back but catching up quickly. Their reasoning is that four years would be longer than the initial three, but shorter than the six and it also wouldn't begin until 2014 - to make sure the division could get completely caught up.

SENATOR FRENCH commented that there are seven owners on the North Slope and six of those have been audited under PPT and one has not. So, the state hadn't really completed an ACES return yet.

COMMISSIONER BUTCHER replied that was correct. They are just starting on the first year of 2007, which was available to them in 2008.

SENATOR FRENCH said it sounds like he is saying if everything works right, they will be caught up once this goes into effect; but his concern is that it's always hard to go back and change things if something doesn't work out. Maybe they should wait until they have actually done a year or two of ACES returns and then change the statute. "Has that crossed your mind?"

COMMISSIONER BUTCHER answered no. They just used 2014 to give them a little added flexibility, but they don't think the extra time will be needed.

SENATOR WIELECHOWSKI asked if they complete the audit of one company before moving on to the next.

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LENNY DEES, Audit Master, Department of Revenue (DOR), answered that they complete the audits by taxpayer and do them simultaneously. This depends on the amount of staff that are available; they have almost a full complement presently and have started on 2007.

SENATOR WIELECHOWSKI asked if he expects the number of taxpayers they have to audit to increase in the coming years.

MR. DEES answered if investment improves, yes. He added that a special group of auditors reviews audits of companies that are applying for tax credits in addition to the companies that file tax liabilities every year.

SENATOR WIELECHOWSKI stated that since the passage of ACES, Savant, Great Bear and Repsol have come on board, and he asked if there would be a need for additional audit work for those companies and others that have come to the North Slope.

MR. DEES answered yes.

SENATOR WIELECHOWSKI remarked that the PPT passed in 2006 and hadn't finished those audits.

MR. DEES replied that they have just one taxpayer left.

SENATOR WIELECHOWSKI asked if they would be beyond the four year statute of limitations for that one company if this law were in place now.

MR. DEES answered yes.

SENATOR WIELECHOWSKI asked if additional companies had come on since that time that would need to be audited.

MR. DEES answered yes; every time a company applies for a tax credit their application gets reviewed.

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CO-CHAIR PASKVAN asked the number of companies that were available for audit in the years 2005 and 2011.

MR. DEES replied that he started with the department in 2008 and didn't have that number at hand. The number of companies that are available to be audited today, whether for tax liabilities or for tax credits, probably runs in the teens to low 20s.

SENATOR FRENCH asked who benefits from a shorter statute of limitations.

MR. DEES replied that is difficult to answer. He couldn't think of an instance when the state hadn't had enough time to audit even with the three-year statute of limitations, because extensions allowed them to take place. The department can also issue a certain type of assessment which would send the disputed items to the appeals process. For the most part, when there has been a need to extend the audit due either to the department's or the taxpayer's desire to do so, that had occurred without adversity.

SENATOR WIELECHOWSKI asked if the state had gone past the statute of limitations in auditing of royalty payments.

MR. DEES answered that he couldn't speak to royalty payments, because those are handled by the Department of Natural Resources (DNR).

CO-CHAIR PASKVAN asked if part of the procedure to extend the statute of limitations is filing of documents without support.

MR. DEES responded that extensions aren't done in an adversarial sense. He there are many reasons for an audit needing to be extended.

SENATOR WIELECHOWSKI asked when the Palin/Parnell administration proposed ACES, if there was a reason they did not include a provision that said the statute of limitations will be six years and then in 2014 it would go down to four years.

COMMISSIONER BUTCHER replied that neither of them was here during that time. He could say that this is not a key piece to the Governor's bill, but rather a minor improvement.

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MS. POLLARD continued her summary saying the last provisions of the bill, sections 25-30, simply state the different effective dates for the different divisions. An applicability provision, which is common in tax legislation, particularly when making changes to credits, clarifies how the credit is issued for the expenditures incurred before and after the effective date. Everything in the bill takes effect prospectively, and all of them at slightly different dates. The interest rate provisions would take effect on July 1, 2011, because interest is compounded quarterly.

SENATOR WIELECHOWSKI said they had asked at the last hearing for data on interest rate under or overpayment.

COMMISSIONER BUTCHER replied the department is still working on that.

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At ease from 3:53 to 3:57.

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CO-CHAIR PASKVAN called the meeting back to order at 3:57 and announced the next presentation.

COMMISSIONER BUTCHER said the goal of this legislation is to get more oil out of legacy fields by changing the tax system so that Alaska will be more competitive both nationally and globally, produce more jobs for Alaskans and increase Alaska's oil production.

He said they have heard that in the next five years North Dakota is expected to pass Alaska in terms of production - a real eye opener when one looks at the history and potential of oil in Alaska compared to North Dakota. The federal government has been a significant deterrent to a lot of the development and that is why the governor is trying to promote and encourage as much development on state land as possible.

He said that many of the credits and incentives that have been passed over the last few years have been helpful, but production continues to decline. The challenge is that most of the easy oil has been produced and the two main goals of the bill are to

develop currently unexplored fields and to get more production out of the legacy fields that are currently providing over 80 percent of Alaska's oil.

CO-CHAIR PASKVAN asked him to elaborate on the North Dakota development.

COMMISSIONER BUTCHER replied that it has been a mix of more traditional oil as well as shale oil.

CO-CHAIR PASKVAN asked what kind of future development would be needed for North Dakota to pass Alaska.

COMMISSIONER BUTCHER replied those two and, in particular, the Bakken Shale. Great Bear has potential, but Alaska has some hurdles that North Dakota doesn't have in terms of workforce, infrastructure and distance from market. What is economic in North Dakota isn't necessarily economic here.

SENATOR WIELECHOWSKI asked if he knows what the tax rate is for oil in North Dakota.

COMMISSIONER BUTCHER replied 10 percent of gross.

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SENATOR WIELECHOWSKI asked if he is aware of efforts by the oil industry and the business community in North Dakota to lower it.

COMMISSIONER BUTCHER replied he had read things, but had no details.

SENATOR FRENCH commented when they wrote ACES in 2007 the bill spent 40 hours in the Judiciary Committee and a similar time in the Resources Committee before that, and probably more time in the Finance Committee after that. He wished him luck saying, "It's tough to change oil taxes. It should be tough....When you start tinkering with AS 43.55, that is the financial future of the state....We all know how serious it is."

COMMISSIONER BUTCHER said he looked forward to the discourse.

CO-CHAIR WAGONER added that this committee had the original PPT bill for over six weeks, and one thing that was stressed at the time is that they had to have those credits to make sure oil continued to flow in TAPS without a decline. And it bothers him that they hadn't seen any change in the decline since then. What

can he tell him that will make him believe they will see a leveling off and perhaps an increase of oil in the pipeline?

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COMMISSIONER BUTCHER responded that the administration has a role, but so does industry - in coming forward to answer their questions and giving them some level of comfort that the future is as they discuss it as the bill goes forward. The bill has no assurances.

SENATOR STEDMAN said North Dakota's tax rate is 10 percent, but subsurface ownership is different there. In North Dakota payments are also being made to several hundred subsurface owners instead of one sovereign that has 30 years of experience in hydrocarbon basin comparisons like the State of Alaska. He asked if the problems defined by the administration in slide 3 are in ranked order or arbitrarily put on the page.

COMMISSIONER BUTCHER replied they have no priority, but "We would hope that number one would lead to number two and number three." The three are:

1. Improve investment climate
2. Create jobs for Alaskans
3. Increase production

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SENATOR WIELECHOWSKI asked how many jobs he estimated that SB 49 would create.

COMMISSIONER BUTCHER replied that he had no number, but rather they would lay out some investment scenarios in a future meeting.

SENATOR WIELECHOWSKI asked how much increased production they are expecting under SB 49.

COMMISSIONER BUTCHER answered that those questions would be covered while looking at a variety of investment scenarios and what they believe each would mean. But he thought much of that would come from industry testimony and those that are looking at this as being a material change to how they do business in the state.

SENATOR STEVENS stated it's of "enormous importance" to realize the difference in ownership. He said Senator Murkowski took the joint session of the House and Senate to task when she

compared Alaska oil taxes to Texas taxes saying that ours was something like five times more. But she probably didn't take into consideration the fact that in Texas if you are an oil company, you pay money to the property owner - the rancher or the farmer - who owns the land. In Alaska, when you pay taxes you pay them to Alaska. The press hadn't even mentioned this point.

CO-CHAIR PASKVAN said he understands that in Texas if it's a quality field with a sophisticated landowner that the royalty is 25 percent or more depending on those factors.

SENATOR WIELECHOWSKI said he read through some old PPT testimony and came across several people who testified that the natural rate of decline on the North Slope was expected to be 15 percent, and the numbers he saw by some industry reps were that if they spent \$1-1.5 billion per year, they could stem that to 6 percent, which has been the actual decline rate. He asked what the DOR projected would be the decline over the next decade.

COMMISSIONER BUTCHER answered between 3 and 4 percent.

SENATOR WIELECHOWSKI responded that he understood the total decline would be roughly about 18 percent over the next decade or 1.8 or 2 percent per year.

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COMMISSIONER BUTCHER replied that he would get the details, but he believed it was a 3 to 4 percent decline. The department's petroleum forecaster, Frank Molly, could also participate in this discussion, since the forecast was made before he had this position. Liberty is a pretty good example of something that has changed since the fall forecast in terms of needing to be pushed back from where they thought they would see production.

He said slide 4 showed the North Slope production curve from 1977 and peaking in 1988 with a little over 2 million barrels per day. Fiscal year 2010 finished at 644,000 barrels a day, a 68 percent decline since the peak. The DOR forecast continues the decline, although it will flatten out somewhat. Seeing the high price of oil and development in other states, it's surprising that Alaska continues to decline. There doesn't appear to be the rush to exploration here that other states have seen.

SENATOR WIELECHOWSKI said the steep decline in 1989-2009 was during the ELF [economic limit factor] when the tax rate was roughly 15 percent for some fields and zero for many others.

SENATOR STEDMAN asked if this is a normal production life cycle of a basin or is it abnormal.

COMMISSIONER BUTCHER answered that he didn't have the details of what a mature basin decline looks like and Frank Molly might be able to answer that at a future meeting.

SENATOR STEDMAN asked if they were to model an investment in a new basin would it be similar to the type of production curve they would normally use - a rapid increase at first, peaking after three or four years, and a fairly rapid decline and then a tapering off.

COMMISSIONER BUTCHER said he couldn't answer that and asked if he would like Joe Balash to come forward.

SENATOR STEDMAN answered, "Not really."

SENATOR STEDMAN asked if he did an investment analysis of this, would he have a flat production for several decades like with gas or would he build this into the financial model to make those decisions.

COMMISSIONER BUTCHER replied that is more of a DNR question, but when you look at many states, like North Dakota, that is growing tremendously because they had a relatively low amount of oil being produced and now that's changed, and then look at a state like Texas with a little decline over the last number of years - and it has a much more mature oil basin than the State of Alaska does - there is a natural decline, but some areas have been able to stem that decline.

SENATOR STEDMAN said as they go through the process, they should have their consultants explain how these investments are modeled. He thought they would find that one sees a rapid increase over the first three years to recoup capital, then a fairly rapid decline, then a tapering off; it's all the time value of money - and they will probably find this is a standard life-cycle of a basin. The question is how to slow the decline, not that there is anything wrong with the decline curve on the North Slope. His concern is that the public isn't left with the impression that a policy error led to this rapid decline in Prudhoe Bay.

COMMISSIONER BUTCHER agreed that passage of this bill won't fill the pipeline, but decreasing the decline and potentially increasing the amount that is currently being produced is a reasonable goal.

SENATOR STEDMAN said as the sovereign, the state is more attracted to a flat revenue stream for many years versus the need to have a large spike in the beginning to recoup the capital costs that are required to open up basins and do development. The state does not have alignment with industry on productions.

COMMISSIONER BUTCHER said he didn't disagree.

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CO-CHAIR PASKVAN asked what they should expect to hear from industry.

COMMISSIONER BUTCHER answered his assessment is that they would hear a discussion of this being a material change. He didn't think they should expect a "quid pro quo" from multinational corporations that have to go through their board of directors for their investment decisions. It's also an opportunity for the legislature to get information from the companies that the department can't provide.

SENATOR WIELECHOWSKI asked if he is familiar with the majors' reserves regarding their Alaska productions.

COMMISSIONER BUTCHER replied that is something that is not shared with the state.

SENATOR WIELECHOWSKI asked if he knew whether ConocoPhillips had added reserves on the North Slope in recent times.

COMMISSIONER BUTCHER answered no.

SENATOR WIELECHOWSKI asked what triggered Mark Gillman, analyst with Benchmark Company, talking about additions to reserves in Alaska, and Jeff Sheets, Sr. Vice President and CFO, ConocoPhillips, saying they came from their existing areas - in other words, Prudhoe, Kuparuk and the western North Slope. He asked the commissioner if he was aware of ConocoPhillips adding significant reserves in Prudhoe.

COMMISSIONER BUTCHER responded that he would talk to the DNR and find out what he could on that.

SENATOR WIELECHOWSKI asked if he thought it was important for the DOR to keep track of reserves being added to by the majors.

COMMISSIONER BUTCHER answered that he hadn't been in his position long enough to get into that detail. But he would be happy to get back to him on it.

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He went on to explain that slide 5 reflected the department's revenue forecast, and basically looks at three categories of future production. The first is currently producing fields; these tend to be the most in-sync in looking into the future in terms of the slope of a field. The second category is "under development" and that looks at fields that are currently not producing but will be producing in the future; Liberty is an example. The most speculative is the "under evaluation" fields, the ones industry is looking at but they haven't made a decision to begin to develop.

SENATOR FRENCH said he understands that under development means it's either currently funded or awaiting project sanctioning in the very near future. So, they have a fairly high degree of confidence that is going forward (under ACES). Under Evaluation is more speculative - technically viable projects currently in the pencil sharpening stage where engineering costs, risks and rewards are all being actively evaluated. The unfunded but have a high chance of being brought to fruition ones are maybe the ones they are trying to influence most here today.

COMMISSIONER BUTCHER agreed and added areas that wouldn't be considered as under evaluation enough to put on the graph but yet would hopefully show up with future development.

SENATOR FRENCH said this does not include NPR-A and OCS, for example, and asked if ConocoPhillips CD-5 is included.

COMMISSIONER BUTCHER indicated yes.

SENATOR FRENCH asked if the heavy sands area was included.

COMMISSIONER BUTCHER answered no; he said Ugnu is not included in the production forecast at this point.

SENATOR FRENCH asked if the black section is going to be an area that will enjoy the lower tax rate in this bill.

COMMISSIONER BUTCHER replied the majority of the under evaluation category is unitized; Mr. Molly could dig into those details at a later point.

SENATOR FRENCH asked which areas are non-unitized and how ACES works as far as onshore oil and if it applies throughout Alaska whether or not it's state or federal land.

COMMISSIONER BUTCHER answered that the production tax applies everywhere.

SENATOR FRENCH said the state gets ACES oil from NPR-A, and if ANWR opened tomorrow it would get state production tax from there.

COMMISSIONER BUTCHER said that was correct. He said that the governor has pointed out the Armstrong area has real development potential, but it is non-unitized.

SENATOR FRENCH asked if shale oil is the same as heavy oil.

COMMISSIONER BUTCHER said he didn't know.

CO-CHAIR PASKVAN said that it's conventional oil flowing through shale.

SENATOR WIELECHOWSKI asked the commissioner if he was familiar with the producers' duty to produce under their leases.

COMMISSIONER BUTCHER answered yes.

SENATOR WIELECHOWSKI asked if a producer wants to sit on his leases, does the DOR have any say whether or not the state should take more aggressive action to ensure those leases are explored and drilled.

COMMISSIONER BUTCHER answered his understanding is that isn't a DOR issue.

SENATOR WIELECHOWSKI said that is an important discussion to have at some point. If these areas that are under evaluation have extremely high internal rates of return and extremely high net present values and the company just decides not to develop them for whatever reason, he thought they were in violation of

their lease terms. He didn't think it was the best public policy to give them "a few billion dollars in tax breaks" in exchange for their developing them.

COMMISSIONER BUTCHER said it's not an issue the DOR has had anything to do with.

SENATOR STEDMAN asked him to provide the committee with its five-year incremental production forecasts for Prudhoe from 1990.

COMMISSIONER BUTCHER replied he could put that together very easily. He said slide 6 is a view over the last 15 years of the development and service wells drilled on the North Slope as well as a comparison with the price of oil during that period of time. He clarified that a development well is a well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive. A service well (for natural gas) is a well drilled to support that well whether it's for injecting the water, steam or air necessary for the development well but it's not a producing well in and of itself.

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SENATOR WIELECHOWSKI, referring to the slide, asked with oil at an all-time high (\$60) and a zero percent tax rate on 15 out of 19 fields on the North Slope in 2006, what makes him think that lowering taxes now will have any impact at all on future development.

COMMISSIONER BUTCHER responded two things. One is there tends to be a couple-year lag time between when decisions are made and when wells are drilled and development occurs. The second aspect has to do with the development and service wells, which tend to be in the more mature areas of the North Slope, and as the price of oil went up in the past, the level of wells being drilled was maintained although they didn't increase in number.

SENATOR WIELECHOWSKI said even with a couple-year lag, there was still a zero percent tax rate in 2004/5 (with prices still going up) and drilling was still flat in 2006.

COMMISSIONER BUTCHER said producers could provide more detailed answers. This slide leads into the next that shows exploration wells "basically falling off the table" and development and service wells declining slightly over the last five years.

CO-CHAIR PASKVAN asked if the administration thinks there should be an increase in development wells in the next five years as part of any negotiation.

COMMISSIONER BUTCHER replied that he didn't have a specific answer for that question; he would need a breakdown of the currently producing fields and those that would be newly producing, because they are focusing on not just getting new fields under development; they are also focusing on getting more out of current fields.

SENATOR WIELECHOWSKI asked the difference between development and exploration wells.

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JOE BALASH, Deputy Commissioner, Department of Natural Resources (DNR), explained that the primary difference between an exploration well and a development well is what is known about the subsurface. An exploration well is truly looking to see what is beneath the surface. The planning and engineering is different - for safety purposes more than anything. Once the resource is discovered, a little bit of delineation is done; those wells are kind of like exploration wells. They are delineated and the well is designed to maximize the bore-to-rock exposure, taking into consideration the pressures in and around the reservoir zone.

SENATOR WIELECHOWSKI said he was still unclear about the difference and asked if once you figure out oil is there then does it become a development well.

MR. BALASH answered that the way a well is designed is different, both from a casing and stream perspective, but also in the direction that the bit is turned down in the ground to identify the target and reach.

CO-CHAIR PASKVAN said he has seen a report that says the central North Slope has 5.1 billion barrels in proven reserves, and according to the USGS there is about 4 billion barrels in undiscovered likely recoverable oil. He asked if the development well is the 5.1 billion barrels and the exploration well is the 4 billion barrels.

MR. BALASH answered yes, that is basically correct. A development well is designed to pay; an exploration well is designed to find out information.

SENATOR WIELECHOWSKI asked if ConocoPhillips does in-field drilling, would that be considered exploration or development.

MR. BALASH replied that would be development.

SENATOR WIELECHOWSKI asked if he is aware of ConocoPhillips changing its policies in terms of doing fewer exploration wells and focusing more on in-field drilling opportunities.

MR. BALASH replied that he is generally aware of ConocoPhillips' plans in Alaska through a number of the exploration targets they have cited since they took over the Arco legacy assets on the North Slope, but he is not privy to a general policy or a particular strategic business approach.

SENATOR WIELECHOWSKI asked if he was familiar with the following that Kevin Meyers, Sr., Vice President, ConocoPhillips, said on March 24, 2010 an analyst meeting:

Let's take a few minutes and take a look at where we are spending the rest of our exploitation dollars around the globe. Whether it be [in] Alaska or Australia or the North Sea, you see some common themes that emerge. We are spending our exploitation dollars on infield drilling opportunities on peripheral drilling opportunities and on technology applications to improve recovery in these legacy assets.

MR. BALASH replied that he is aware of their investment approach of reducing their debt on their balance sheet and divesting certain assets, particularly those in the refining business sector for the last 18-24 months. But in terms of exploitation versus exploration, the strategy is that exploration dollars are high risk - very little guarantee of success and ultimate payback. So, they want to choose their targets wisely. In Alaska, he has seen a change of focus from the exploration side on the western side of the North Slope into greater Moose's Tooth and Bear Tooth.

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SENATOR FRENCH asked him to comment on ConocoPhillips' purchase of Burlington Resources in 2005, a natural gas company for which they paid about \$15/mcf, one of the highest prices ever paid for a natural gas company.

MR. BALASH responded that through trade press coverage he understands ConocoPhillips' exposure to gas and gas reserves in

North America and the effect it has on their corporate performance. It is one of the reasons why the returns that they are seeing on oil in Alaska appear to be so impressive relative to the rest of North America. As one of Alaska's most transparent players, ConocoPhillips shows comparisons of all the regions that they are producing hydro carbons from including their Eagle Ford and Bakken shale gas plays.

SENATOR FRENCH asked if it is fair to say that investing in those plays had a "negative effect" on ConocoPhillips' ability to spend money on things like exploration and development over the subsequent years.

MR. BALASH replied that's for shareholders to decide.

SENATOR FRENCH asked if it's true that they had to sell assets, like a refinery, to cover the debt they acquired when they bought that company.

MR. BALASH replied that he understands their strategy is to divest of a number of poorly performing refining projects and facilities to repay that debt, but at the same time they are optimizing other business segments.

SENATOR STEDMAN said he wanted to know if there are any recognizable trends between what is going on in Alaska and what is going on elsewhere recognizing, for instance, the financial meltdown in 2008/9. He asked to have an industry profile overlaid on development and service wells and exploration wells on slides 6 and 7.

COMMISSIONER BUTCHER indicated he would put that together for him.

SENATOR WIELECHOWSKI pointed out that ConocoPhillips paid out \$3 billion to shareholders in 2009 and cut their capital spending from \$12 billion to \$10.7 billion. They also repurchased \$4 billion worth of shares. Significant amounts of money were paid back to shareholders, but were not used to develop the North Slope. He wasn't criticizing them for it, but if they are trying to figure out what is going on out there, it's important to look at what the company is doing with the money it has.

COMMISSIONER BUTCHER responded that many factors play into a company's decisions.

SENATOR MCGUIRE asked him to look at her legislation on the competitiveness review study and asked to what end the department has considered the effect investment decisions made by oil and gas companies have on Alaska competitiveness globally.

COMMISSIONER BUTCHER indicated that he had read her bill and he would be happy to go through it with her at a later date.

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CO-CHAIR PASKVAN asked if there is an industry norm as far as the number of development wells one should anticipate "in this age of the development of an elephant field."

COMMISSIONER BUTCHER replied that he would get back to him with those details, but he knows that getting technology to a certain threshold or the price of oil helping a project make more sense have an impact.

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At ease from 4:55 to 4:56.

[4:56:01 PM](#)

He said that slide 7 overlaid the price of oil on the number of exploration wells drilled on the North Slope and covered 2007 when ACES passed and investment decisions that had already been made prior to its passage; it also showed the a drop of almost 50 percent in 2009 and a drop of 50 percent in 2010. He said DNR estimates only one exploration well will be drilled in 2011. So, as the price of oil has been going up and as other states have seen the number of exploration wells increase, Alaska's has dropped "to almost a trickle."

SENATOR FRENCH remarked that they would probably spend a couple of hours on this slide. So, as a matter of housekeeping, drilling seasons are thought of as winters spanning two years, and he asked how the state decides which year these wells fall in.

MR. BALASH answered that exploration on the North Slope is restricted by access to tundra travel and ice road construction. More often than not that activity doesn't get authorized until later in the year. By the time rigs are mobilized it's generally after the first of the year.

SENATOR FRENCH asked if these are spring time wells in general.

MR. BALASH responded, "If you would like to think of January as spring, yes."

SENATOR FRENCH asked what happened in 2003.

COMMISSIONER BUTCHER replied that he would have to research that.

SENATOR FRENCH asked what an exploration well costs.

MR. BALASH replied that the cost of the well is one thing, but the larger cost in most cases has to do with its distance from infrastructure and the mobilization transport costs. The wells drilled by FEX in the remotest NPR-A cost over \$70 million; closer in to infrastructure and with a limited need for ice roads a well still costs \$15-20 million.

[5:00:55 PM](#)

CO-CHAIR PASKVAN said this was an appropriate point to stop this presentation and adjourned the meeting at 5:00 p.m.