

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 1, 2012

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

COMMITTEE CALENDAR

SENATE BILL NO. 192

"An Act relating to the oil and gas production tax; and providing for an effective date."

- HEARD & HELD

Presentation: Major North Slope Producers

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 192

SHORT TITLE: OIL AND GAS PRODUCTION TAX RATES

SPONSOR(s): RESOURCES

02/08/12	(S)	READ THE FIRST TIME - REFERRALS
02/08/12	(S)	RES, FIN
02/10/12	(S)	RES AT 3:30 PM BUTROVICH 205
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WITNESS REGISTER

DAMIAN BILBAO, Head of Finance, Developments and Resources
BP Exploration

POSITION STATEMENT: Commented on CSSB 192(RES).

SCOTT JEPSEN, Vice President

External Affairs

ConocoPhillips Alaska

POSITION STATEMENT: Commented on CSSB 192 (RES).

BOB HEINRICH, Vice President

Finance

ConocoPhillips Alaska

POSITION STATEMENT: Commented on CSSB 192 (RES).

ACTION NARRATIVE

[3:34:53 PM](#)

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 Wielechowski, French, Stedman, Co-Chair Wagoner and Co-Chair Paskvan.

SB 192-OIL AND GAS PRODUCTION TAX RATES

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CO-CHAIR PASKVAN announced consideration of CSSB 192(RES), labeled 27-LS1305\B. He said BP and ConocoPhillips would offer comments on it. He said the committee had received letters from ExxonMobil, Pioneer Natural Resources and the Arctic Slope Regional Corporation in the last couple of days on their positions and all the information is posted on BASIS. He said approximately 140 Alaskans had testified on Tuesday and Wednesday and the committee very much appreciated their input and thoughts. Additionally, each committee member had received dozens of emails from around the state and many had been communicating with Alaskans about the oil tax issue almost daily for the last year.

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He reviewed that CSSB 192(RES), version B, preserves the deductions for the capital expenditures (CAPEX), the operating

expenditures (OPEX) and the transportation costs. It preserves the tax credits, the State of Alaska's royalty rate and royalty modification, and most importantly it reduces progressivity from the current tax structure in two ways; it reduces the slope and lowers the cap.

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The tax credits it preserves include:

- The 20 percent capital expenditure credits
- Oil and gas exploration credits
- Net operating loss (NOL) carry-forward credits
- Transitional investment expenditure credits
- Well lease expenditure credits
- Cook Inlet jack up rig credit

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He said as owner of a world class resource, Alaska collects about 12.5 to 16.5 percent as a royalty and that doesn't change. For comparison, Texas averages 25 percent royalty and North Dakota averages 20 percent, but their production is on private land.

CO-CHAIR PASKVAN said the commissioner still preserves the right to modify royalty to no lower than 5 percent if a field or pool is not otherwise economically feasible and is sufficiently delineated. If a royalty modification is submitted to prolong the economic life of a field (for example, because costs increased or the price decreased) it can't be reduced below 3 percent.

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CO-CHAIR PASKVAN said Alaska has a system by which taxable barrels are analyzed after royalty is taken off the top; transportation costs, CAPEX and OPEX are deducted from that. Production Tax Value (PTV) is the value that is established after arriving at taxable barrels. The original trigger of \$30 PTV is maintained but the slope changes in the CS at this point from .4 to .35 and at 50 percent is reduced to .1 progressivity for a 60 percent maximum (down from 75 percent).

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DAMIAN BILBAO, Head of Finance, Developments and Resources, BP Exploration Alaska, recognized the committee's willingness to discuss and debate Alaska's oil tax policy. He said this dialogue must continue to stem declining production on the North Slope. They have a common goal with the state of getting more oil in the pipe.

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SENATOR STEVENS joined the committee.

MR. BILBAO said his testimony would be specific to the CS before them [version B].

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SENATOR MCGUIRE joined the committee.

CO-CHAIR PASKVAN noted Senator Giessel in the audience.

MR. BILBAO said he found it notable that PFC Energy's presentation yesterday indicated that only the amendments providing for bracketing around progressivity showed meaningful tax change that would lead to increased investment in Alaska.

MR. BILBAO said CSSB 192(RES), version B, does not provide any meaningful tax change. The movement in the progressivity feature from .4 percent to .35 percent will not affect BP's decision making process in Alaska or shift the conversation around the opportunity set. Only a "meaningful tax change starting with bracketing around progressivity" will draw the additional investment Alaska needs to put more oil in the pipe. He offered to take questions.

SENATOR STEDMAN asked what BP thought of the two-tier approach: one dealing with current production in the legacy fields and the other for incremental production, versus a co-mingled tax.

MR. BILBAO replied that it's helpful to industry when the system is simple. Right now it's not simple and takes a lot of effort to implement and administer. It doesn't help the decision making process. Secondly, the fields they operate are expensive and to try to distinguish one from the other would be difficult. Everyone has said the goal is to increase production in TAPS and to do that the change will have to be meaningful; it will also have to be simple so they can implement it. And bracketing around progressivity is the meaningful change that will focus the conversation around investment decisions.

SENATOR STEDMAN asked if he heard Mr. Bilbao say BP is more interested in a co-mingled tax structure versus targeting the incremental production with a lower tax rate (that would help alleviate the higher costs of production).

MR. BILBAO replied that they hadn't modeled one versus the other, but basically the fiscal policy has to incentivize investment broadly. He didn't think creating two tiers would affect the decision-making process. He explained that BP looks at a project's economics and how it sits on top of the base business. Both have to be healthy and distinguishing between the two may not help the conversation.

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SENATOR WIELECHOWSKI said he has heard many times that HB 110 is the only bill for which industry has offered a commitment to invest and he wanted to know what the commitments were.

MR. BILBAO responded that over the last few months the BP Alaska president has stated publicly with a meaningful shift in tax policy they "would support progressing \$5 billion of gross incremental spend on the North Slope" on top of the large level of investment activity that is already ongoing. He said it takes a "significant amount of effort" to get at the 6 percent decline that the state is experiencing today.

SENATOR WIELECHOWSKI asked if this is just a BP commitment.

MR. BILBAO answered this is a gross investment commitment that both BP and ConocoPhillips have spoken to publicly. BP is a minority owner at Prudhoe Bay so they need to make sure they are aligned with their other working interest owners. BP has talked about the I-pad project, Sag redevelopment, and incremental drilling at both greater Prudhoe Bay and Kuparuk and ConocoPhillips would share with them later what they have stated publicly. ConocoPhillips is operator for the eastern/northeast West Sak project which BP would support in the right fiscal environment. That would take up the total \$5 billion they have been talking about.

SENATOR WIELECHOWSKI asked how much of the \$5 billion would go for the I-pad project.

MR. BILBAO replied the total of the four projects equals over \$5 billion with each project being in a range of numbers, and he would provide those ranges as a follow up to this testimony.

SENATOR WIELECHOWSKI said he is trying to understand what the state will get for its tax break and asked what period of time the \$5 billion is invested over.

MR. BILBAO replied incremental drilling in the next year or two, but it would take "at least six years plus" before getting into the bulk of that spend. It depends on how the specific projects mature with the resources available.

SENATOR WIELECHOWSKI asked if they have spoken with ExxonMobil, the other partner, about doing this.

MR. BILBAO clarified that spending the \$5 billion would be over at least 6 years and it could take as long as 10. "These are big complex projects" with technological and efficiency challenges as well as the state's challenge.

CO-CHAIR PASKVAN asked if Alaskans should anticipate further investments after these identified projects. Will there be another \$5 billion or \$10 billion more?

MR. BILBAO replied yes; this would be a first phase. He added that Alaska struggles to compete for incremental investment opportunities when BP discusses its global opportunity sets.

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CO-CHAIR PASKVAN asked if he believed another 400,000 incremental barrels of oil from state land will be derived from this \$5 billion investment in the next 10 years.

MR. BILBAO replied he didn't want to set a specific production target of 10 years for those projects and it would probably take more than just the \$5 billion to reach that level. However, with meaningful changes to ACES - bracketing around progressivity - other projects would materially stem the decline.

CO-CHAIR PASKVAN asked when he uses the term "material offset" is that just within the hyperbolic rate of decline.

MR. BILBAO replied that the investment made today could move production from what could be a 15 percent decline to the 6 percent decline. He said it takes a tremendous amount of investment to get to the 6 percent and that it would take "big material projects" to get beyond that. "Five billion is a first phase of what those could be, but that will only happen if the tax policy that is in place enables them to happen and makes Alaska competitive with other opportunities around the world."

CO-CHAIR WAGONER said if the legislature would vote to give back the state's take on progressivity and goes with the tax breaks in HB 110 or Amendments B.4 and B.5, that amounts to \$1.5

billion less per year to the state and Mr. Bilbao is talking about a \$5 billion spend in six years. In six years a total of \$9 billion would be credited back to the oil companies by this give on progressivity and in 10 years they would get \$15 billion credited back. He asked in light of this information, "Whose \$5 billion are we talking about investing to bring these projects on line?" He said the state hasn't gained a lot if BP is figuring on using the \$5 billion the state gives up in progressivity to invest as its \$5 billion.

MR. BILBAO answered that the \$5 billion of project investments is a first phase and there will be more opportunities after that. This is a transition point to another new business like Prudhoe Bay was and a lot of cash is needed. BP has already renewed its infrastructure over the last several years to facilitate 30 more years of production.

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SENATOR FRENCH remarked that Senator Wagoner had pointed out some of the math problems that have beset the committee and to be fair the state would have to actually push \$9 billion across the table to get \$6 billion in tax breaks to the companies, because of the federal income tax effect. His question went back to Senator Wielechowski's question about the role of ExxonMobil in this investment scheme and asked if he had discussed these projects with ExxonMobil and if they are contributing to the \$5 billion.

MR. BILBAO replied that they have discussed these projects and others and that they regularly discuss a "hopper of opportunities" with their working interest owners. Those conversations involve economics and the technical and efficiency challenges, and they help the companies stay aligned. But Senator French would have to ask that question of ExxonMobil directly.

SENATOR FRENCH said to be clear as far as Mr. Bilbao is concerned, the \$5 billion is what BP and ConocoPhillips are putting forward; it doesn't include anything from ExxonMobil.

MR. BILBAO replied that he couldn't speak for ConocoPhillips, but he could say that conversations they have had with ConocoPhillips are around the same set of projects.

SENATOR FRENCH rephrased his question and asked if that \$5 billion is a combined spend between the two companies.

MR. BILBAO answered yes.

SENATOR FRENCH asked what percent of ownership ExxonMobil has at Prudhoe Bay.

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MR. BILBAO said he wanted to correct his previous statement to be very clear: the \$5 billion is the total gross spend and would include ExxonMobil. The \$5 billion is the total estimate for those four investment opportunities. They are not differentiating who would pay for what amount. They are talking about what level of investment ultimately would benefit the state of Alaska with meaningful tax change.

SENATOR FRENCH said that Mr. Bilbao is also telling him to check with Exxon as to their position on this.

MR. BILBAO replied that he was saying that only Exxon could tell them specifically whether and when they are prepared to move forward with those projects. He couldn't speak on their behalf.

SENATOR FRENCH asked how much of Prudhoe Bay ExxonMobil owns.

MR. BILBAO replied approximately 35 percent, roughly the same amount as ConocoPhillips. BP owns approximately 26 percent.

SENATOR FRENCH remarked that no single company is a majority owner.

MR. BILBAO replied he could answer that question, but fundamentally the way the operating agreement for Prudhoe Bay works is it requires the three parties to agree to move something forward.

SENATOR FRENCH said that is the point he was getting at. He had lunch with Jeff Lowenfels who is absolutely focused on the Prudhoe Bay operating agreement as being the single document that people have to understand to "get what is going on on the North Slope." Jeff inspired him to get a copy; it's a very complex document eight binders long. His understanding of it is that Mr. Bilbao's position is correct; it requires the agreement of all three owners to proceed with an investment in Prudhoe Bay. That leaves him with a deep fear that BP can pledge \$5 billion, and in all good faith believe it and have the check ready to write and ExxonMobil can say, "No, we don't like it and we're not going to do it."

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SENATOR STEDMAN said he had a similar concern with the operating agreement and its connection to the two-tiered approach and was struggling with how to get a solution where all three companies are comfortable. Because it seems like they would always be chasing the lowest common denominator for whatever decision point (and there are multiple ones) they are trying to work through. If they took care of BP targets, whatever they are, those might not be meaningful to ConocoPhillips and ExxonMobil. He asked Mr. Bilbao to help the committee in understanding how they could find a solution that would work for all three companies.

MR. BILBAO said he could only speak on behalf of BP, but the bracketing of progressivity in HB 110 was "chinning the bar on meaningful tax change," and BP looked upon it as a minimum threshold. They should also understand the way the companies evaluate their projects; they do not look at them in isolation. It's important that the underlying financials are healthy, not just the project he sits on top of it. The fiscal policy needs to affect both and to try to differentiate one versus the other misses the mark on how that analysis takes place. It comes down to the policy as a whole needs to provide a stable and healthy business on top of which healthy projects can be executed.

SENATOR STEDMAN said he understood what Mr. Bilbao was saying, but the committee struggles with knowing the details. Even if they get the rough idea of a 33 or 34 percent effective tax rate at \$109 in FY13 for the overall basin by looking at the Revenue Source Book, BP might be at a 5 percent higher rate internally. Some small producers might have no revenue but have \$400 or so million in credits embedded in the system and so on. Legislators use roughly a-third, a-third and a-third, because it's easy. This is why they are asking for some guidance or help in solving the incremental production question to get them above the 6 percent. BP is saying the bracketing is significant, but what he hears is fix the high marginal rate, fix the government share and give me a fair share of real high oil prices.

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MR. BILBAO responded that he provides a great amount of information to the Department of Revenue each month and every quarter and spends a lot of time trying to answer their questions and help them analyze information. From BP's perspective HB 110 was a start. It was chinning the bar on "meaningful," but they would also like to see a reduction in the base rate. They look at the upside opportunity at a higher price

versus whatever planning price they are using and if they don't see that upside that affects the way that project competes globally.

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SENATOR STEDMAN asked if one of their concerns is splitting the extra increment at \$120 to \$130. He said it's not 50/50, but probably 80/20. Do they want that split corrected and stabilized so when they look forward to a price spike of \$150, for instance, they would have a good idea of what impact it would have on their projects?

MR. BILBAO replied that the legislature's own consultants have said that the current tax system is not competitive internationally. In fact yesterday, PFC Energy said that ACES is a system that encourages a harvest mode not a growth mode. That is representative of what BP sees when they look at the projects. At \$100 versus \$120 they do not see an upside for moving a project forward and that affects the way that project competes with opportunities elsewhere.

SENATOR STEDMAN said one of their consultants, Pedro van Meurs, said that the government share of the tax structure within the legacy fields should be capped at around 75 percent (including federal tax).

MR. BILBAO responded that Mr. Van Meurs also said that the Alaska system is not competitive internationally and his cost assumptions were very low compared to BP's actual costs. So, he would expect that some of his recommendations wouldn't "move the needle on the way we look at our projects."

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CO-CHAIR PASKVAN recapped that the question still is who is doing the investment if the state lowers its tax rate.

SENATOR WIELECHOWSKI said he was still trying to understand the promise that the people of Alaska are getting in exchange for the tax break. He asked Mr. Bilbao if he was saying with absolute certainty if they pass HB 110 they will get \$5 billion in investment over 6 to 10 years.

MR. BILBAO replied no, but he could say if they pass meaningful change, like the bracketing around progressivity in HB 110, that they would move forward aggressively in conversations with their other working interest owners. They would ramp up staffing around these projects to make sure they could move forward

aggressively. But he couldn't speak on behalf of the other owners other than hold with the comments they have already made in support of some of these projects under a different tax environment.

SENATOR WIELECHOWSKI said, "So essentially we really don't have any promise or commitment to develop or invest \$5 billion if we pass HB 110?"

MR. BILBAO replied that they have an absolute commitment three years from now if they pass a meaningful tax change in Alaska. He said, "You can bring us up before this committee and hold us to account if you haven't seen the progress you expect."

SENATOR WIELECHOWSKI said it's his understanding that the state actually picks up 60 percent of the \$5 billion he is saying they may spend over 6 or 10 years through tax credits and deductions.

MR. BILBAO responded that their share of the \$5 billion is money they are not spending somewhere else in the world.

SENATOR WIELECHOWSKI asked, "Are you saying \$5 billion of your own money exclusive of state tax credits and deductions?"

MR. BILBAO said they talk in cash flow terms not in net income terms. So, \$5 billion is \$5 billion of cash gross and BP's share of that being spent in support of those projects.

SENATOR STEDMAN said they can run those calculations. But of the \$5 billion, 20 percent would probably be available for capital credits and 100 percent write off. It digs a deeper hole when getting to Senator Wagoner's question of net.

SENATOR WIELECHOWSKI asked how many barrels of oil they will get from the \$5 billion investment that may be made.

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MR. BILBAO replied that he could only speak to the Sag and I-pad piece and it would be range of numbers over 200 million barrels, and he would get that information for them.

CO-CHAIR PASKVAN asked if they would describe the field size rather than the daily throughput.

MR. BILBAO replied yes.

CO-CHAIR WAGONER asked if that would be a total of recoverable resource.

MR. BILBAO replied yes.

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At ease from 4:28 to 4:29 p.m.

[4:29:58 PM](#)

SCOTT JEPSEN, Vice President, External Affairs, ConocoPhillips Alaska, thanked the committee for inviting them to testify on CSSB 192(RES). He said ConocoPhillips believes that the key to making the North Slope more attractive for capital investment is reducing or eliminating the progressivity element of ACES. They are pleased to see the committee has attempted to address progressivity, but they have concluded that the changes as described in the CSCS 192 (RES) are not significant and will not improve the investment climate on the North Slope. They have looked at the other amendments that have been proposed that address progressivity and have concluded that only the bracketing amendments have the potential of having any material impact and those were the only amendments they would address at this hearing. However, he assured the committee that ConocoPhillips would want to come back and discuss any changes to the bill. And they are not in a position today to say whether a single provision would make the North Slope more attractive for capital investment partly because they need to see what the final bill would look like.

CO-CHAIR PASKVAN said he could probably understand the focus of the committee's questioning from Mr. Bilbao's presentation and asked if he could address those concepts.

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MR. JEPSEN said the first slide is a barrel slide that demonstrates the fact that CSSB 192(RES) doesn't provide any material change to ACES. They used the fall 2011 Revenue Source Book for FY2013 with key assumptions for federal tax and state income taxes et cetera. The bottom represented the capital and operating costs; the next slice was industry share; then federal income tax; and Alaska's share (royalty, severance tax, income tax and property tax). There was some uplift for industry as prices increased, but it paled in comparison with the state's share of growth with the same increase (about five times that of industry).

He said when ConocoPhillips looks at investments in Alaska they look at the total risk/reward equation in terms of the reservoirs, the capital risk and the technology risk; and they also take a look at a number of economic metrics before making that investment decision. Part of that is what their long term cash flow potential is going to look like as margins increase. Right now in the State of Alaska because of the progressivity element and the impact it has on the marginal tax rate, they can't see it as a terribly interesting place to invest incremental capital. This is not to say they aren't investing; they do invest about \$900 million a year. But the key to making Alaska more attractive for additional investment is going to be to change the progressivity element of ACES.

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BOB HEINRICH, Vice President, Finance, ConocoPhillips Alaska, went to the solid line chart on slide 3 that demonstrated the split in cash flow between Alaska and the industry across a range of prices (using the most recent Revenue Source Book modeled for FY2013). It showed industry net (after federal income tax and state royalty, production taxes, income and property taxes) under the current ACES structure and under the CSSB 192 (RES) structure.

CO-CHAIR PASKVAN said yesterday they were shown a \$375 million per year reduction in production tax at \$120 barrel and a \$500 million reduction at \$130 barrel and asked if that gap was in this chart.

MR. JEPSEN replied that the previous chart showed about a \$2 barrel decrease in state sharing going from ACES to CSSB 192(RES) at about \$125 barrel.

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MR. HEINRICH said the numbers won't match exactly because their models are done using different bases; ConocoPhillips uses 2013 price data for a static year and PFC's model uses a longer term economic basis.

CO-CHAIR PASKVAN said PFC based its model on FY2013 DOR estimates. That is why he wanted to make sure he is saying that gap represents \$375 million a year at \$120 barrel and about \$500 million a year at \$130.

SENATOR STEDMAN said PFC had a slight oversight in its calculation of property tax (about a \$300 million error); and they will rectify that. They also used the data off the back of

the book which is a summary table. They may not exactly line up, but the visual representation should lead to similar conclusions.

MR. HEINRICH said at the \$120 price range their calculation was more in the \$250 million impact range.

MR. JEPSEN said it's really hard to read the chart, but a rough calculation shows a \$2/barrel difference in the state's share between CSSB 192(RES) and ACES which amounts to about \$350 million at \$125 barrel in that particular year.

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MR. HEINRICH said industry's share remains flat over a range of prices while Alaska's share increases more dramatically under ACES; CSSB 192(RES) doesn't make a material difference in creating a robust investment climate. The next chart (slide 4) represented the split under ACES excluding the progressivity feature, the one aspect of ACES that makes Alaska a less desirable area for investment in their eyes. He observed that what it showed was across the range of prices Alaska receives a higher portion of cash flow than industry does even without progressivity.

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SENATOR STEDMAN said he didn't blame them for asking to eliminate progressivity, but it would put the state in the same position ConocoPhillips is in today and said, "We wouldn't be very happy." He did a quick calculation before coming to the meeting taking out progressivity, and the average aggregate overall effect to the treasury would be an effective rate of about 17.5 percent. Under ELF back in 80s the rate would have been somewhere in the high teens and low 20s and he said, "I think we were squealing back then." He understood the desire to head in that direction, but it wasn't likely that they would end up there - but maybe somewhere in the middle.

MR. JEPSEN said they understand, too, but wanted to make the point that even without progressivity the state's share increases with the oil price and it's actually greater than industry's share.

SENATOR STEDMAN said the state has the impact of credits on top of an effective tax rate of 25 percent, and if you take out progressivity it would be a very attractive fiscal system for the big three.

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MR. HEINRICH said that is part of the challenge in analyzing one moving part of many; the credits are another lever in that equation. He moved on to slide 5 that adds Amendments B.8 and B.18, which reduce the cap of the existing progressivity element from 50 percent to 35 percent and (B.18) inserts and adjusts the trigger points. He said there are caps past the \$200 barrel mark that come into play, but they are well outside of this analysis. And the \$100 to \$150 price range is where they think they will be working for some time.

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SENATOR STEDMAN asked him to explain what Amendments B.18 and B.8 mean.

MR. HEINRICH replied that the current ACES has a base rate of 25 percent and a progressivity add-on of 50 percent; Amendment B.8 would cap that [50 percent] at 35 percent for a total rate of 60 percent. B.18 reduces the second trigger point of progressivity where the rate goes from .4 percent to .1 percent from \$92.50 PTV to \$67.50 (changing the slope of the increase).

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MR. HEINRICH said amendments B.4 and B.5 (slide 6) relate to the bracketed structure, the approach that provides for higher tax rates on an incremental income basis so as the price rises the higher tax rate applies to only the incremental income and not the entire income stream - how the federal income tax system works for a personal return. It indicated a more equitable split as prices rise and a material enough change to result in a measurable change in investment activity.

CO-CHAIR PASKVAN said PFC indicated a \$3 billion/year reduction in production tax at the \$150 barrel range and asked if that was accurate.

MR. JEPSEN said that range was about right. He said it was a good point, because small changes end up being large numbers. He pointed out that if this change makes Alaska a better place for capital investment, the \$5 billion is just the leading edge of investment by not just the big three but more outside companies coming in. It has happened in Canada and other places around the world. This is a snapshot in time and doesn't take into account the fact there might be increased production if the severance tax is lowered or that new reserves would mean more property taxes and more jobs. This is just a potential outcome that is sensitive to one point in time.

CO-CHAIR PASKVAN said he understood that, but people are trying to comprehend if it's \$2 billion or \$3 billion a year and how that compares to the \$5 billion investment over a 10-year period. Even assuming the \$5 billion is actually invested over the next 10 years, he asked if there will be any throughput above 600,000 barrels or would that investment just continue the decline curve at a lesser slope.

MR. JEPSEN replied that was difficult to answer, because people don't know the entire suite of projects that would materialize if ACES is changed significantly. ConocoPhillips has a lot of geologists, engineers and geophysicists and it's their job to come up with new projects; projects are sitting in line right now that are challenged by ACES. ConocoPhillips is doing projects now that they never envisioned doing 20 years ago and industry as a whole is spending \$2 billion a year now just as it is. At this point in time a lot of these decisions are made at the board level and he fully believed other projects are out there that will be identified.

SENATOR WIELECHOWSKI asked if none of those projects will go forward over the next 10 years unless a bill similar to HB 110 is passed.

MR. JEPSEN replied that some portion of these projects may actually get done, but the real challenge is the pace. Eastern northeast West Sak is a project that is challenged by ACES as well as from a technical recovery point of view.

CO-CHAIR PASKVAN asked his thoughts on viscous heavy oil and new production versus the legacy fields.

MR. JEPSEN replied that today's production is based on the tens of billions of past investment when the tax environment was quite a bit lower. Trying to isolate old versus new production is fraught with all kinds of technical problems and he could envision all kinds of discussions about where to draw the line and how expenses get allocated. ConocoPhillips is developing a new oil field as he speaks inside Kuparuk in the Kuparuk reservoir using 3D seismic to identify specific fault blocks which they cannot reach using conventional drilling. They are drilling horizontal wells to hit those fault blocks, and this for all practical purposes is new oil.

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CO-CHAIR PASKVAN said maybe they could change the definition slightly from "new" to "incremental."

MR. HEINRICH said he looked at a couple of amendments that were attempting to target incremental oil, but they didn't move the needle.

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MR. JEPSEN said he wanted to finish his presentation comparing B.5 bracketing with ACES (slide 7). It showed the state's share goes up 2 times between \$100/barrel and \$150/barrel and industry's share goes up about 1.4 times. This would be sufficient to attract additional capital investment into the state, but it would have to be looked at with the entirety of everything else that comes out.

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MR. JEPSEN summarized that bracketing is not the only way; a bigger change could be made in progressivity. The cap could be decreased or progressivity reduced. They hadn't talked about inflation indexing progressivity at trigger points and that has the potential to provide more durability because inflation wouldn't creep up on you and change what was intended by the brackets or trigger points.

He reiterated that CSSB 192(RES) as currently proposed won't change the investment climate, but they are encouraged that the committee is looking at progressivity and look forward to having the dialogue.

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CO-CHAIR PASKVAN said one interesting presentation was the analysis under both a low cost and a high cost development, and because it's hard to use the homogenized look he asked if he could talk about any specific project.

MR. JEPSEN replied that as soon as a project is executed it becomes a part of the portfolio; it's not independent and that's how they look at it.

CO-CHAIR PASKVAN said he was trying to focus on incremental production which would be ConocoPhillips's high cost development. Better numbers would give them an idea of what it would take on incremental production to move the needle.

SENATOR STEDMAN said several years ago Kuparuk had a zero severance tax and asked why there wasn't a big build out then.

MR. JEPSEN replied in 1998 to the mid-2000s ConocoPhillips brought on the first viscous oil projects at 1C and 1B; the Tabasco oil field, the Tarn field, Melt Water, West Sak 1B, 1E and 1J; in the Prudhoe Bay area: the Midnight Sun, Polaris, Aurora, Borealis, and Orion were brought on stream; and Alpine was brought on stream as were the Fjord and Nanuq satellites. ConocoPhillips was "on fire" and they are still investing. They have done a tremendous amount to offset the base field decline plus bringing other fields on stream. The main fields aren't declining at the same rate and there is a good chance they could turn the corner now with a good investment climate.

SENATOR STEDMAN asked where Prudhoe Bay and Kuparuk are on the parabolic global curve of legacy fields. What amount should they be looking at in the flattening tail in barrels and in time?

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MR. JEPSEN asked him to clarify.

SENATOR STEDMAN said they notice a lot of money is being spent to slow the decline curve and asked about keeping just the status quo.

MR. JEPSEN replied he couldn't tell him at what point the existing investment would flatten out the decline. Probably some place south of where they are now.

CO-CHAIR PASKVAN observed that decisions were made in the early 2000s so throughput would be where it is today, because Alaskans have heard it takes 7 to 10 years to bring a development on line. That is when the state had essentially a zero percent production tax rate and asked his thoughts on that.

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MR. JEPSEN asked if he remembered the "no decline after 99" mantra. They didn't succeed but it was their intention to make the investments to flatten out the decline and this is still their intention. "As an oil company it is not our intention to ride production into the ground if we think we have opportunities." Alaska just has a handicap right now on attracting investment capital to ramp up their activities.

MR. HEINRICH said they did work last year around CAPEX in the earlier 2000 timeframe versus today and by trying to normalize those costs to today's dollars (comparing apples to apples) they

actually spent significantly more on an average basis during that timeframe than in the last three or four years.

CO-CHAIR PASKVAN asked if Alaskans should expect to see 1 million barrels a day from state lands in conventional oil with the \$5 billion investment over the next 10 years.

MR. JEPSEN asked from the projects that have been identified.

CO-CHAIR PASKVAN said yes.

MR. JEPSEN said the 1 million barrels a day is a good aspirational goal, but he didn't think they could get there. It would probably take some other types of technologies than what is in the state right now. He hoped shale oil pans out and that Great Bear plus some offshore help. State lands have potential, but he didn't know where they would see the upside in terms of getting to that 1 million barrels a day.

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SENATOR WIELECHOWSKI said they heard the \$5 billion potential investment over 6 to 10 years may get us 200 million barrels of recoverable oil and asked how many barrels per day that equates to. About 20,000 barrels?

MR. JEPSEN replied that it is difficult to project the future on a lot of these projects and he would like to come back with a better estimate, but probably considerably more than that.

SENATOR WIELECHOWSKI asked what a typical 200-million barrel field generates per day.

MR. JEPSEN replied there is no typical production rate. It depends upon reservoir quality, the quality of the oil, what kinds of completions are used and the pressure of the reservoir.

CO-CHAIR PASKVAN expressed appreciation for the presentation and comments, and held SB 192 in committee.

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CO-CHAIR PASKVAN adjourned the Senate Resources Standing Committee meeting at 5:08 p.m.