

ARCO

&

BP (AK)

2/15/95

HOUSE RESOURCES COMMITTEE
Roll Call and Members' Bill Votes

* (indicates first public hearing)

Room 124, Capitol Bldg.

Mon., Wed. Fri.

Date: 2-15-95

Tape# 95-16 Joint _____

Time: 8:04 (am/pm) Time Adjourned: 9:35 (am/pm)

ROLL CALL:	PRES	ABS	TIME AR	_____	_____	_____
Rep. Joe Green	✓	_____	_____	_____	_____	_____
Rep. Bill Williams	_____	_____	<u>8:10</u>	_____	_____	_____
Rep. Scott Ogan	_____	_____	<u>8:08</u>	_____	_____	_____
Rep. Alan Austerman	✓	_____	_____	_____	_____	_____
Rep. Ramona Barnes	_____	_____	<u>8:40</u>	_____	_____	_____
Rep. John Davies	_____	_____	<u>8:08</u>	_____	_____	_____
Rep. Pete Kott	_____	_____	_____	_____	_____	_____
Rep. Eileen MacLean	_____	_____	<u>8:35</u>	_____	_____	_____
Rep. Irene Nicholia	_____	_____	<u>8:09</u>	_____	_____	_____

Other Legislators Present _____

AGENDA:

Bill No.	Short Title	Action Taken
	<u>Presentations by ARCO Alaska + BP Exploration (Alaska)</u>	
_____	_____	_____
_____	_____	_____
_____	_____	_____
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Mary Pagenkopf

House Resources
2-15-95 8:04 am
Tape #95-16, Side A, #000

Testimony
of
J. Ken Thompson
President, ARCO Alaska, Inc.
to
the
House Resources Committee
February 15, 1995

Slide 1: Agenda

- Hello. For the record, I'm Ken Thompson, President of ARCO Alaska, Inc.
- Pleasure to be here. Thanks for opportunity to testify.
- Here today to talk about common goals shared by ARCO Alaska and the state.... and what its going to take to achieve our goals.
- I'll be sharing information about what other oil provinces are doing to boost production and create jobs for local residents. And I'll talk about some steps we can take today and in the future..... to ensure that oil and gas investment opportunities in Alaska remain competitive. When I'm done, I hope you'll be persuaded that the state can make a difference..... that the state can change the economic equation for marginal oil accumulations on the North Slope.

Slide 2: Common goals

- State and ARCO share common goals.
- The first is to mitigate the production decline now occurring in existing fields through the discovery and development of new oil accumulations and the development of marginal horizons in existing fields.

- Second..... we need the incremental revenue that will be derived from new production.
- Let me underscore the words "New Production." ARCO is not seeking changes in the tax or royalty treatment of existing production. Instead, we're asking that the state be willing and able to consider changes in the regulatory, tax and royalty treatment of marginal projects which can't go forward without such consideration. In short..... we must work together to turn zeroes into positive numbers.... which show up on our balance sheet and in your treasury. Or as was said on a recent Juneau news report..... half a loaf is better than none.
- If we can turn zeroes into positive numbers..... then you'll have the opportunity to increase Permanent Fund contributions over what they would otherwise be.... while maintaining current contribution rates.
- Finally.... we want to create jobs and economic opportunity for Alaskans. Those who work in our industry and those who don't.
- The only way to reach these common goals is through sustained oil and gas development. That means:
 - Continued exploration of Alaska
 - Development of marginal oil accumulations
 - And by extending the economic lives of existing fields.
- To have sustained oil and gas development we must be competitive.
- Companies like ARCO must reduce costs through improved operating practices and development of new, more cost effective technologies.
- And the state must be willing and able to consider changes in the tax, royalty and regulatory treatment of proposed oil and gas

projects when change is necessary to turn a zero.... into new production..... new revenues..... and new jobs.

- We both have parts to play.
- There's a lot at stake.
- 85 percent of current state revenue dependent on oil production. According to state projections.... North Slope oil production will decrease more than 30 percent over next five years.

Slide 3: World fiscal regimes more competitive

- Other countries are turning zeroes into jobs, production..... and incremental revenue.
- Norway abolished royalties on new fields in 1986 and removed sliding scale state participation in new leases in 1992.
- Australia introduced a Resource Rent Tax in 1985 for offshore projects.
- Venezuela cut the income tax rate for heavy crude development from 67 to 34 percent. Removed onerous tax provisions for multinational firms and improved bidding structure for operating contracts for marginal fields.
- In Alberta, Canada fiscal reformations led to oil & gas industry turnaround after the 1986 crash.
- Why all this change? Simple. Oil Prices are down and have been down for some time. Investment capital is in short supply and there is an abundance of oil and gas investment opportunities available.
- Mr. Chairman... members of the committee I'm an here today as one of Alaska's oldest and best customers. We've been doing business here more than 40 years. It's been a tremendous relationship. I like shopping in your store. I like the merchandise

you carry. I want to keep shopping here. But a giant discount warehouse has moved in across the street. The merchandise is excellent.... and the terms are better. To survive.... to prosper.... Alaska and the companies that do business here must meet that competition.

Slide 4 -- UK fiscal history

- This graph shows how the United Kingdom has moved, incrementally.... and systematically to ensure the continued competitiveness of the North Sea.
- In 1984 they eliminated royalties on new fields.
- In 1993 they eliminated the Petroleum Revenue Tax, which is similar to Alaska's severance tax on new fields.
- Today....depends on 33 percent corporate income tax to collect incremental revenue on new production.

Slide 5 -- Fiscal regime comparison as of 1994

- This slide compares fiscal regimes in UK, offshore Australia and Alaska.
- All have corporate income taxes. In Alaska combined state and federal take is about 39 percent. (35% federal plus 9.4% state equals 39% total because of deductibility of state taxes on federal returns.)
- Of the three.... only Alaska has royalty, severance and ad valorem on new fields.
- Now, you've had a look at the competition. Now.... what can we do to ensure that oil and gas investment in Alaska remains competitive with opportunities elsewhere in the world?

Slide 6 - Summary of world wide fiscal regime comparisons

- During 1994, Petroconsultants surveyed the oil and gas fiscal regimes in 70 countries.
- Survey shows that 18 of the 22 nations with production greater than 200 M bopd rely on production or profit sharing arrangements to derive revenue from oil and gas production.
- Alaska, and the United States are not among the 18. Alaska and the United States are among only three countries which still employ a fixed rate royalty.

Slide 7 - What it takes

- Industry, state must work together to create competitive environment.
- Industry must focus on keeping cost structure low.
- State -- faced with declining production and revenues -- faces many of the same challenges. We support efforts to gradually balance spending with revenues, closing fiscal gap and achieving soft landing.
- Encouraged by what we're hearing from Administration, Legislature about budget discipline. Closing fiscal gap will increase investor confidence in Alaska.... and give us confidence that any incentives you provide today..... will be honored tomorrow.
- State must develop a more competitive tax and royalty structure for new fields. Alaska must meet the competition.
- Finally, the state must be willing and able to consider alternative business arrangements when necessary for marginal projects. Current regulations may not provide necessary flexibility.

Slide 8 -- Immediate actions

- I know that many of you are eager to take immediate action to improve Alaska's competitiveness. I'm encouraged by your enthusiasm and willingness to consider positive change. However, we must move carefully, coordinate among the legislature, the administration and industry and ensure that the steps we take are the right steps and will be effective.

- That's why I'm recommending today that your first step be a comprehensive review of the incentives the Legislature has already approved.

- Are they being used effectively? Are they being used in the way you intended? Are they obtaining the results you expected?

- **Exploration Incentive Credits:** State has exploration incentive credit program. DNR still grappling with how to administer. Rules, guidelines unclear as to what qualifies, what doesn't. In fact, regulations don't exist yet.

- In the last year, we've approached DNR three times. We've been turned down three times. We're concerned about the final form these regulations will take and believe that in order to be effective, the incentive must apply to a broad range wells.

- For example.... any well that meets the IRS / SEC definition for an exploratory well. Simple, straightforward application of exploration incentive credits could increase the number of exploratory wells drilled in Alaska every year, attract outside capital to Alaska and increase the likelihood of additional commercial oil discoveries.

- **Lease Sale / Land Access:** Existing program not working well. State having difficult time maintaining sale schedule. Even when sales occur, lawsuits likely. Increased certainty created by HB 308 appreciated. The administration and legislature worked well together to enact that law.

- **Discovery Royalty Credit:** Currently covers only the lease on which the discovery well is drilled. Good for ten years from date of discovery. Time required to permit, develop Alaska

discoveries reduces value / incentive of this credit. This credit would provide more of an incentive if, for example, the credit were applied for five years from date initial production and / or were applied to leases covering the entire discovery. This would make investment in the new fields more attractive because the credit would lower our up front development costs.

SUPPORT FLEXIBILITY DNR ROYALTY RELIEF

- **Prolonging Economic Life:** Statutes allow DNR to reduce royalty in specific circumstances on fields nearing the end of their productive, economic lives. However, this relief is difficult to attain. Companies sometimes required to jump through impossible hoops. For example, one Cook Inlet operator was asked to provide detailed cost records back to field discovery. The company couldn't provide those records because it didn't have them. It had purchased the field from another operator. And yet, that was the reason the royalty reduction was declined.
- **Lease Sale Terms:** Existing lease sale program not working. Number of bidders participating in sales is half what it was six years ago. Your old customers aren't coming in the door anymore. They are going where the deals are better, the returns are higher.
- Lease sale bonus bids not major source of revenue for state, especially when compared to severance, royalties. Revenue results from production. State should be doing all it can to encourage evaluation and exploration of its lands.
- Existing law gives DNR authority to vary lease terms, relying less on bonus bids and offering more attractive royalty terms.... net profit share royalties, for example, in place of fixed percentage.
- In fact, we have proposed a net-profit share royalty for State Lease Sale 79 scheduled later this year. We think this approach will increase interest and participation in the lease sale.

- **Smaller Discoveries:** Exploration may yield discoveries which are too small or too marginal during periods of low oil prices to carry the royalty rate under which they were originally leased. DNR has flexibility to reduce royalties in certain circumstances. However, that authority may not extend to new discoveries.
- There should be a means through which the state can help bring these fields on production by reducing the royalty burden. We need a mechanism which allows us to ask for royalty relief and the state to grant it if the state deems action necessary and beneficial.
- **Federal Tax Incentives:** As you saw earlier.... in the UK, Australia, Alaska comparison..... Alaska is the only jurisdiction in which industry is taxed by multiple jurisdictions. There have been some discussions of federal incentives for the oil and gas industry. We would urge you to express your support for those proposals.
- State support of efforts to open ANWR and lift the Export Ban are also necessary.

COMPETITIVENESS

- Finally, we urge you to support and participate in a broad-based process to develop recommendations aimed at enhancing Alaska's international competitiveness.

Slide 9: Next steps

- Making the changes necessary to keep Alaska competitive will not be simple or easy. The initiatives the state undertakes must be chosen carefully, through an open, public, bi-partisan process which involves the legislature, the administration and the industry.
- We must ensure that the steps we take are the right steps. We must understand the competition. We must know and understand what other oil provinces are doing to attract oil industry investment.

- Only then can the administration and the legislature begin to develop options.
- This process will take time. I know that many are eager to act today. But this is far too important a process to hurry along. We must build public consensus if this effort is to succeed.
- I know concern has been expressed that variable or sliding scale royalty rates would adversely impact contributions to the Permanent Fund.
- Again..... I'd ask you to remember that the changes we're asking you to consider are changes designed to turn oil accumulations which are zeroes today --- into jobs, production and additional revenues. Contributions to the Permanent Fund will be higher than they would otherwise be.
- You..... as legislators will decide how to allocate incremental revenues from incremental production.

Slide 10: Conceptual "fixed / variable" royalty

- This slide shows one of the options available to you. The vertical axis is the royalty percentage. Here the royalty percentage increases as a function of oil price, well productivity or field size..... increasing from a low of 6.25 percent ramping up to percentages which would exceed the traditional 12.5 percent.

That's the variable portion of the royalty.

- The shaded area shows the contribution to the Permanent Fund. For this illustration..... we've set the minimum contribution at 6.25 percent, which is the prescribed contribution for production from leases issued since 1979.

As you can see..... the permanent fund contributions could be protected.... and even enhanced if the royalty rate exceeded 12.5 percent because of high oil prices or the discovery of a very large field.

Slide 11: Project partnering

- No matter what the oil price is..... no matter what the state's ultimate tax and royalty regime..... there may be projects on the margin.
- ARCO will look for ways to make these projects happen..... by lowering their cost....developing new technology..... reducing their scope. Those efforts may not always be successful.
- If we can't make a project work on our own ... we may ask you to help us find innovative ways to make the project happen.
- We envision a process in which we explain the project.... in which we explain the economics.... in which we lay our cards on the table. Then it's up to the state to evaluate the data and determine whether the proposal offered is in the state's best interest.
- West Sak might fall into this category.
- We are re-evaluating West Sak at this time. Our goal is to find a way to begin West Sak production at current and expected oil prices. This is a difficult challenge. It will take new technology and continued reduction in our operating costs. We don't know if we can get there from here.
- If we can't, we may be coming to you with a proposal. We'd like to think the state is willing and able to consider and implement new ideas for making West Sak happen.
- The state can make a difference. State can change the economic equation for marginal oil accumulations in Alaska. I'd like to close this presentation by showing you what can happen..... what did happen in the UK.
- Other areas which might benefit from project partnering are the Lease Sale 79 area, the Western Colville and for fields near

abandonment..... which would not impact ARCO, but might help some Cook Inlet operators.

Slide 12: Capital expenditures UK

- This slide shows capital investment in the UK after the UK began turning zeroes into positive numbers by reducing the tax and royalty burden on new fields...
- The slide shows that \$45 billion has flowed to the UK North Sea for development of new fields. 23 new fields have come on production since 1985. Twelve new fields are scheduled to come on line this year. That's 35 new fields.....

Slide 13: UK North Sea production

- Production from new fields totals more than 1 million barrels a day and accounts for 40 percent of UK North Sea production. UK North Sea production is at record levels.
- The UK changed the economic equation for new, marginal North Sea fields.
- If we work together.....the legislature, the administration and the industry..... we can do it here.

Agenda



Common Goals

International Competitiveness

What it Takes

Immediate Actions

Next Steps

Common Goals



The State and ARCO Share Important Common Goals

Jobs for Alaskans

Incremental Revenues

- **No Changes in Producing Reservoirs in Existing Fields**
- **Opportunity to Increase Permanent Fund Contributions, While Maintaining Current Contribution Levels**

Achieved By Sustained Economic Development

- **Exploration**
- **Marginal Developments**
- **Extension of Field Lives**

To Achieve Sustained Economic Development the Environment Must be Competitive

Worldwide Fiscal Regimes are Getting More Competitive



EXAMPLES:

Australia introduced Resource Rent Tax in 1985 for offshore projects.

Venezuela:

Income tax rate for extra heavy crude developments lowered from 67% to 34%

Removal of onerous tax provisions for multinational firms

Alberta/Canada: Fiscal reformations lead to oil&gas industry turnaround after 1986 crash.

Norway abolished royalties on new fields in 1986. Removal of Sliding Scale state participation for new leases in 1992.

UK abolished royalties on new fields in 1984 and PRT for new fields in 1993, leading to a revival of UK oil industry.

Fiscal Regime Comparison as of 1994 (New Fields)

	<u>Alaska</u>	<u>U.K.</u>	<u>Australia</u> (Offshore)
Profit taxes			
Corp. Income Tax	39%	33%	33%*
Revenue Taxes			
Royalty	13%	0% after 1984	0% after 1985
Production Tax	0-15%	-	-
Other			
Ad Valorem Tax	2%	-	-

* In addition a Resource Rent Tax kicks in once oil co's earned a return on investment. For marginal developments, this would add 0 to 5%pts at today's prices, and about 10%pts at \$20 WTI.

Summary of Worldwide Fiscal Regimes (Petroconsultants, 1994)



Number of Fiscal Systems by Category

<u>Production Sharing Contract</u>			<u>Tax/Royalty System</u>			<u>Total</u>
Standard PSC	w/ Royalty		Profit- Based Tax Only	Royalty		
	Variable	Fixed		Variable	Fixed	
19	7	9	8	10	17	<u>70</u>
<u>Countries > 200 MBOPD</u>						
9	1	5	3	1	3	<u>22</u>
Indonesia Oman Qatar Egypt Ecuador India Libya Angola Syria	China	Yemen Malaysia Algeria Columbia Gabon	U.K. Norway Australia	Canada	U.S. Argentina Nigeria	

What it Takes



Work With the State to Develop That Competitive Environment

- **Support State's Effort to Achieve Soft Landing**
- **Develop Competitive Tax / Royalty Structure**
- **Transition to More Flexible Regulatory Environment**
- **Industry Must Focus on Keeping Cost Structure Low**

Immediate Actions for the Short Term



Review / Clarify Legislative Intent for Application of Existing Incentives

- **Exploration Incentive Credits**
- **Lease Sale Schedule**
- **Discovery Royalty Credit**

Review / Support Flexibility in DNR to Provide Royalty Relief

- **Lease Sale Terms**
- **Smaller Discoveries**
- **Prolonging Economic Life**

Support Calls for Federal Tax Incentives for Oil and Gas Development

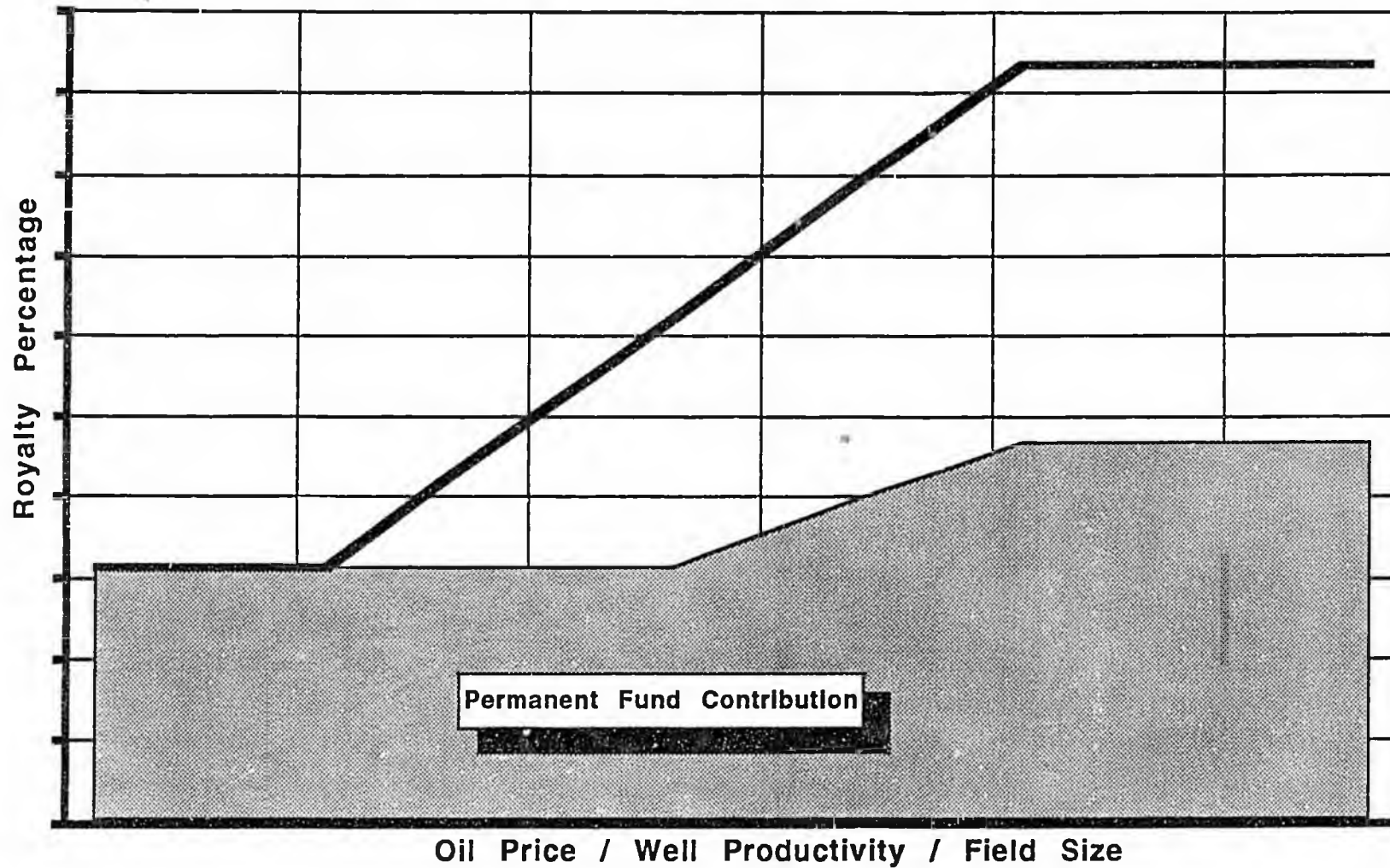
Next Steps for the Long Term



Implement the Process Described Below to Examine Alaska's Long Term International Competitive Position and Recommend Alternative Proposals for Legislative Consideration

- **Legislative / Administrative / Industry Cooperation**
- **Focus First on Gathering Information on Competitive Fiscal Regimes**
- **Develop a Broad Range of Options**
- **Narrow Finally to Specific Proposals for Legislative Action**

Conceptual "Fixed-Variable" Royalty



Potential "Project Partnering"



Whatever the New Tax/Royalty Regime Decided for Alaska
— There May Still be Projects on the Non Competitive Margin

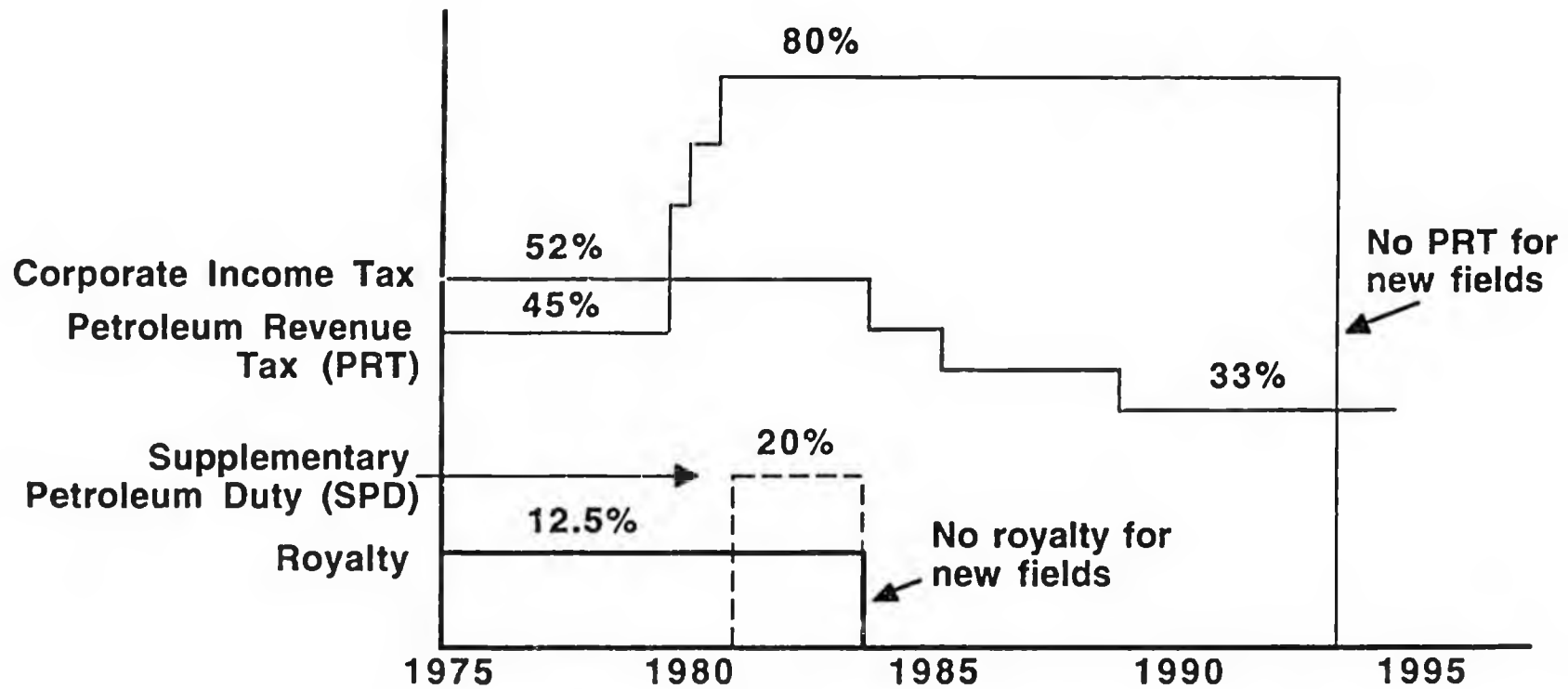
For Those Projects Where the State's New Changes Aren't Enough
— ARCO Will Propose a "Project Partnering" Approach

ARCO Would Come Forward With Information Shared Openly
— The State Would Decide

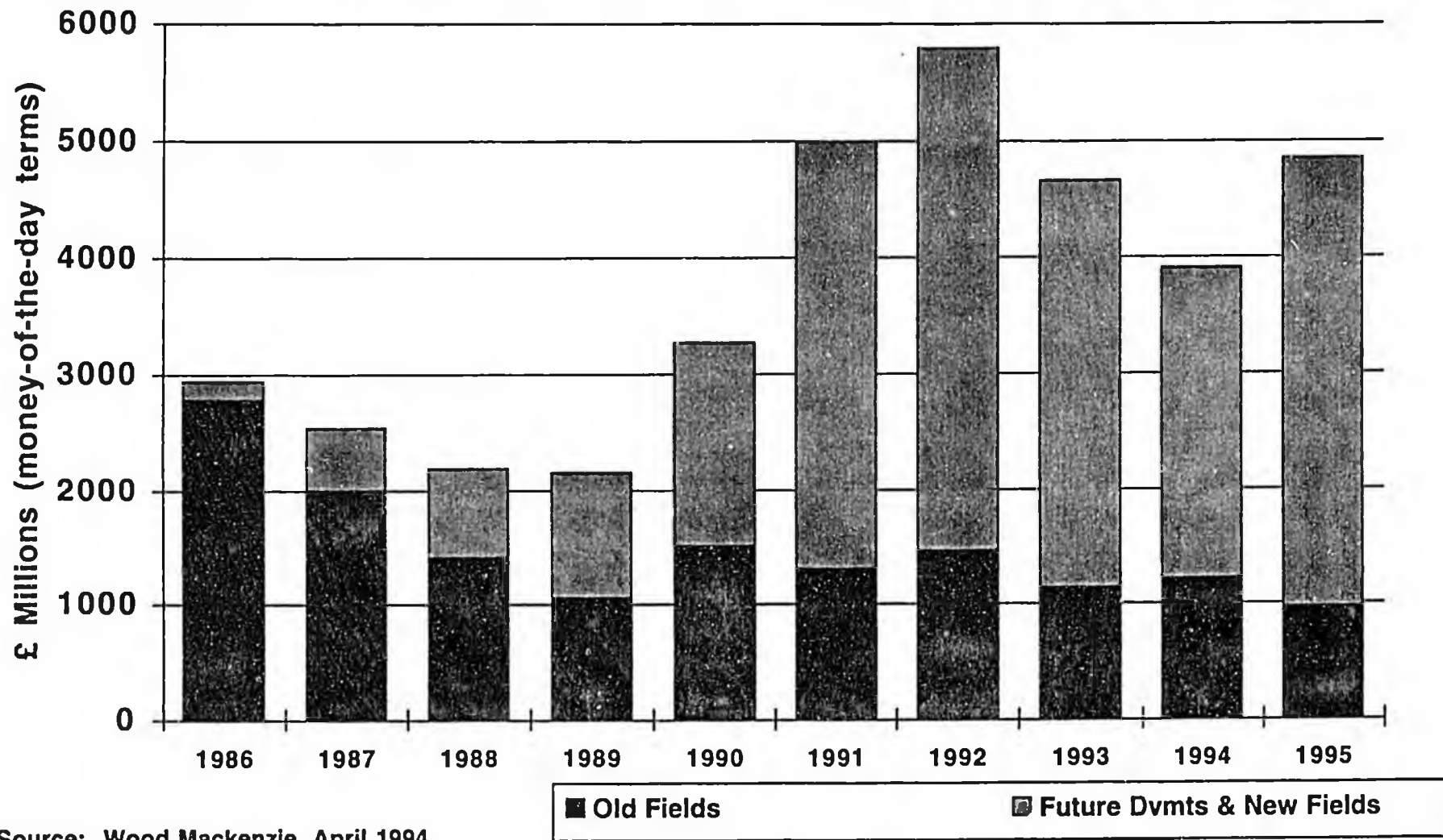
Potential Categories of Projects For This "Project Partnering" Process

- **New Marginal Exploration** (eg, Lease Sale 79)
- **Marginal Development, New Field** (eg, West Colville)
- **Marginal Development, Existing Field** (eg, West Sak)
- **Fields Near Abandonment** (eg, Cook Inlet or Kenai)

U.K. Taxation History Overview (New Fields)

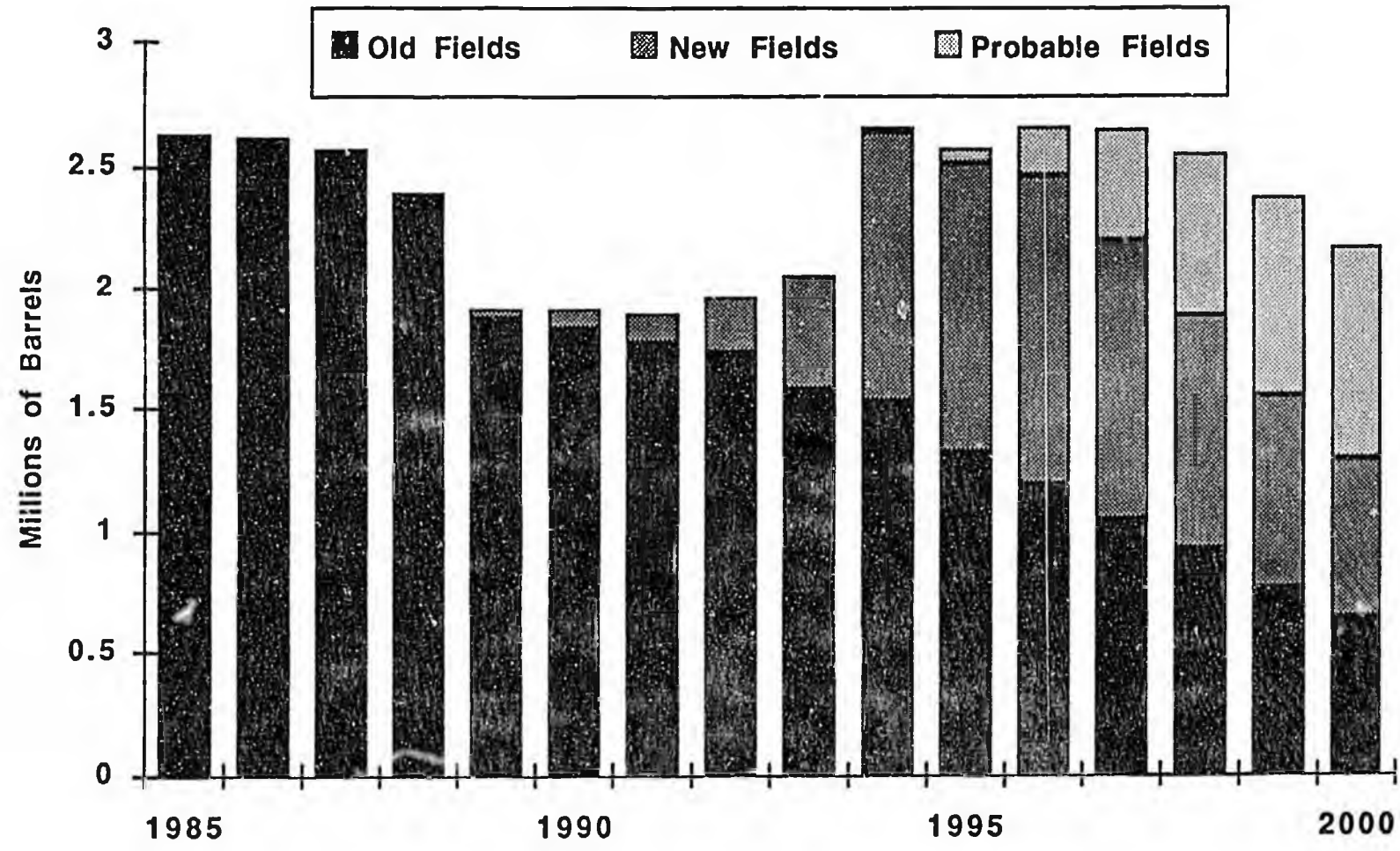


Capital Expenditures U.K. North Sea



Source: Wood Mackenzie, April 1994

UK North Sea Production Profile



Testimony of

**James A. Palmer
Director, External Affairs
BP Exploration (Alaska) Inc.**

to the

**House Resources
&
House Oil & Gas committees**

**Juneau, Alaska
February 15, 1995**

Good morning. My name is James A. Palmer, and I am director of external affairs for BP Exploration (Alaska) Inc.

Given our common challenges and shared opportunities as an industry and as a state, it's particularly fitting that we're gathered here together today to explore how we can work together to attract new industry investment to Alaska. BP is pleased to be part of this new dialogue, which we hope will lead to a new era of cooperation between state government and the state's largest investors and taxpayers.

Our industry has gone through an extended period of unprecedented change -- often painful -- to arrive at our current crossroads. We've experienced downsizing, rightsizing, restructuring, realignment, outsourcing, alliancing, shared services, streamlining, technological breakthroughs and countless other innovations and upheavals in the way we do business in order to remain competitive in the global market.

As a result, we've been able to reduce costs in a climate of declining production, we've been able to hold overall production decline on the North Slope to less than 5% per year. We have been able to hold decline to these levels only by continuing to invest in new and existing fields on the North Slope. This year we plan to invest more than a half a billion dollars of capital in Alaska, successfully competing within BP for those funds.

These investments generate jobs for Alaskans and revenues for Alaskan businesses. They help to sustain the flow of revenues that fund state government spending and fuel future investments in the Alaskan oil industry. They extend the lives of our North Slope operations, and they hold one of the keys to Alaska's economic future.

Despite our best efforts within the industry, however, we remain under siege from a variety of forces undermining our efforts to attract additional investments to Alaska. In real terms, the price of oil has been on a downward trend for the past 15 years. This, combined with declining production in Alaska, has slowed the flow of revenues that fund future investments.

At the same time, a world of new investment opportunities -- literally as well as figuratively -- has been opening up to the oil industry due to falling political barriers, new technologies and friendlier relationships with many host governments in oil provinces around the world. In this global environment, companies are limiting the scope of their activities and becoming increasingly selective in choosing which projects to pursue. Investments are directed to areas offering the highest returns with the lowest risks.

Alaska is disadvantaged in this fiercely competitive environment for increasingly scarce investment capital due to our remoteness, our high transportation costs, our restricted markets, a state budget deficit that casts a cloud of uncertainty over all of our investments and a history of antagonism between industry and the state. Furthermore, the opportunities that do exist on the North Slope consist of marginal new oil fields or marginal projects within existing fields.

The first step toward capturing the significant potential for new investments, revenues and jobs in Alaska in this emerging era of marginal development on the North Slope is redefining "us and them" to mean Alaska's *unity* as we compete globally for increasingly scarce investment capital rather than our *divisiveness* as we fight among ourselves. It's imperative that we work together to take tangible steps *today* toward a strong and stable industry, toward a strong and stable Alaskan economy *tomorrow*.

We're encouraged that the legislature is taking initiatives such as your hearing today to provide forums for the dialogue that will enable us to work together to develop win-win solutions to our common challenges. We're also encouraged that the governor has made unity between government and business a theme of his new administration and has reinforced his words with his actions since he took office.

The progress the State of Alaska and BP have made in the past year working cooperatively to lift the federal ban on North Slope oil exports is testimony to what we can accomplish together. Ending the ban will truly be a win-win outcome that will both enhance the flow of revenues to producers and the state and enhance the competitiveness of Alaskan investments.

Resolution of significant past tax disputes during 1994 have improved the investment climate in Alaska. We can now focus our efforts on the future without looking over our shoulders at liabilities of the past.

Recently enacted tax regulations have helped to clarify how to value oil for tax purposes for companies that refine their own oil. However, the same vagueness that led to past disputes continues for companies like BP that sell or trade the oil they produce on the North Slope. Vagueness equals uncertainty, uncertainty equals risk, and risk equals competitive disadvantage in our efforts to attract capital to Alaska.

Tax clarity for all producers would reduce our risk and would be a significant win for us and a significant win for the state. By helping to minimize our risk, you can strengthen our position to compete for investments that will benefit us all.

The fiercely competitive global environment in which we operate makes it an uphill struggle, and the marginal nature of projects we have to pursue on the North Slope makes the hill even steeper. We in BP and in the oil industry are doing all we can to compete for these investments.

Consider the Badami discovery about 30 miles east of the producing Endicott field on the North Slope. This field is typical of the projects in the 100- to 150-million-barrel range we expect will be developed over the short and medium terms. The first hurdle we must clear is confirming the size and quality of the reservoir. We're currently drilling two appraisal wells and hope to have the results assessed by this fall. We believe Badami must hold at least 100 million barrels of recoverable oil in order to have a *chance* to make it commercially viable.

If we clear that hurdle, we're still a long way from having a project. When we first began to evaluate Badami about a year ago, we identified four primary obstacles: it was too costly, there was too much time between discovery and production, there were time-consuming regulatory roadblocks, and there was no hedge against the risk of low prices. All four still remain, and we've been doing everything within our power to overcome them.

The cost hurdle is enormous. Our initial projection of the development cost, based on doing things the "old" way, was \$800 million. We must reduce the pricetag by more than half in order to enable Badami to compete effectively for development funding.

In our effort to reduce costs without compromising safety or the environment, we've considered a myriad of innovative development techniques -- a buried, chilled pipeline, facility sharing and remote operations, to name a few. We've also assembled a team of key contractors who are working with us to find solutions to the cost challenge.

Traditionally, we'd be waiting for the results of this winter's wells before taking this step. However, traditions that have evolved over the past two decades of North Slope oil field development won't overcome the challenges posed by the marginal development opportunities of the future.

Timing is crucial, and it's imperative that we shorten the period between discovery and production. That's why we've assembled contractors now rather than later and asked them to work together as a team. It's also why we initiated discussions with state, federal and borough regulators months ago instead of later, when we filed for permits.

This approach unquestionably adds to our up-front risk. We understand there are no guarantees, but it's a risk we believe we *must* assume in order to have a *chance* to make this project viable. We also believe it will help to incorporate the best ideas into the planning process, and we hope it will help to resolve official and public concerns about the project and help to expedite the permitting process.

There's one other risk that we must manage, and that's the risk of low prices. That's why we're interested in a sliding-scale royalty for Badami that would be sensitive to oil prices. This would help to minimize our risk exposure to low prices, and it would enhance our prospects for making development commercially viable.

The sliding-scale royalty concept would enable us to share the risks of low prices and the rewards of higher prices with you, our co-beneficiary, if you will, in having Badami developed.

Badami is neither competitive nor commercially viable today. Our shared goal with the State of Alaska must be to *make* it competitive and commercially viable so we can share the benefits of the production, the revenues and the Alaska jobs the project would generate.

If we're to work together to successfully attract investments to Alaska, we must all be flexible in approaching the challenges and opportunities posed by each new project. We believe this suggests a broader discussion in the legislative arena of the use of royalties as a development incentive tool.

We believe it is appropriate for the legislature to consider giving the commissioner of Natural Resources the authority to adjust royalty terms on new developments on a case-by-case basis if changes are needed in order to make a project viable.

Some of the criteria that might be considered in reviewing royalty terms are:

- Does the project need a major cost breakthrough in order to be competitive?
- Even if it overcomes the initial cost hurdle, will it still be vulnerable to low oil prices?
- Could it bring jobs and new technology to Alaska?
- Could it make other exploration, appraisal or development projects more attractive?

We're not suggesting that flexible royalty terms are necessary -- or even appropriate -- for every project. But to the extent that they can be used to enhance the competitiveness of projects whose funding otherwise might go elsewhere, it's important that the state have the tool available and ready for use.

Whether to grant flexible royalty terms -- and what kind -- will be a judgment call on the state's part. It will be incumbent on companies like BP that are seeking them, therefore, to be completely open and forthcoming with the information state regulators need in order to make that determination. Only then can we deal with each other in an honest and collaborative manner and work together toward our common objective of securing new investments.

This is not the time for demands. It's not the time for threats or hollow promises, and it's not the time for brinkmanship or posturing. It is the time, if we're truly committed to working together to capture Alaska's share of industry investments, for constructive, open, productive dialogue such as we're having today that leads to win-win solutions for the industry, for state government and for all Alaskans.

I pledge BP's complete, unconditional cooperation and support in this endeavor.
Thank you.