

SB 21
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Tom Maloney

3215 Legacy Drive Anchorage, AK 99516

(907) 244-4119

Good evening, my name is Tom Maloney. I am a long term resident of South Anchorage and am providing personal testimony. My background includes having 3 accounting and financial certifications. Taxes matter and if you don't believe me, look at recent federal payroll taxes.

The Governor, his Administration and consultants, along with the Legislature and staff have done an outstanding job in examining our current production and tax system.

The DOR recently presented a graph on Crude Oil Production by State for 2011-2012. There were 15 locations. The number 2 and number 1 oil producing states, North Dakota and Texas, were up over 55% and 34% respectively for the year. Every other state was up for the year, except one. You guessed it. Alaska was down by 7.1%. Even California was up.

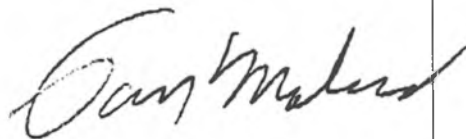
In the fall of 2007, the Resource Review published by RDC contained the following quote from then Commissioner Pat Galvin: "Frankly, we have not said that ACES improves the investment climate—clearly, there is going to be a larger state share and that isn't going to make economics of projects better."

This was a very astute observation ^{which} ~~with~~ has unfortunately been proven correct.

In calendar year 2007, North Slope oil production averaged 739 thousand barrels a day. In 2012, production shrank to 548 thousand barrels a day which is down 191 thousand barrels a day. Just think—5 short years ago, production was nearly 35% higher. Production ranged from a low of 399 thousand in August to a high of 624 thousand in January 2012. In 2012, the highest producing month was lower than the lowest producing month in 2007.

This is strictly not sustainable for a positive long term economy for Alaska. I urge the committee to focus on the Governor's guiding principles and to not be fine with production decline. Taxes and production really matter.

Alaskans need to remember that increased production generates higher royalties which builds up the Permanent Fund (minimum of 25%) and results in PFD's that are paid only to Alaska residents. We have a Need to Drill to Pay the Bill, and we have No Dough without Oil Flow.



Good Evening

My name is Eric Dompeling I am the New Ventures Manager for SolstenXP a project management and contracting service firm based here in Anchorage. I am also a past president of the Alaska Support industry Alliance, speaking in favor of the proposed changes to what is now the not so ACES tax.

The better part of the last year I have been working opportunities for my company in places like North Dakota, Wyoming, Texas and Oklahoma, because the opportunities that used to exist in Alaska are now more prevalent in the Lower 48. And the current tax structure in Alaska is impeding progress; investment flows where costs are most competitive.

I have lived in Alaska for almost 40 years. My children and grandchildren live here and I would like to see them have the same opportunities I did.

Deep down there is not a single person in this State that doesn't understand that you have to invest to make something happen, returning the capital to the industry to invest in Alaska is the only way to make that happen.

There are 5 billion barrels of know reserves on the North Slope, and multiple barrels of yet to be discovered resources. We could have a bright future, but we need to change the tax structure to realize those future opportunities.

Thank you this concludes my testimony.

TESTIMONY OF CARL PORTMAN
BEFORE HOUSE FINANCE COMMITTEE, TUESDAY, APRIL 9, 2013

Good afternoon. My name is Carl Portman and I am testifying on my own behalf.

I am here to express my support for meaningful oil production tax reform this session. The Legislature has been addressing this issue for years and has yet to pass significant reforms that will move the needle in attracting the investment we need to reverse the production decline.

Given the strong competition in the Lower 48 and abroad for corporate capital, Alaska needs to position itself as a compelling place for investment - where we stand out from the competition. Lower taxes will generate more investment, which in turn will boost production and lead to more state revenue over the long term. New investment and production will stimulate the private sector, create more jobs, and grow the economy. New production will also boost royalty income to the State.

Alaska's current oil production tax structure has generated billions of dollars in short-term revenues, but I fear at the expense of long-term investment, production, jobs, and a sustainable economy. Clearly, taxing ourselves to prosperity is a poor strategy and will undermine our future and the private sector, the foundation of Alaska's economy.

As I see it, under the current tax structure, the state is guaranteed lower production, guaranteed less revenue, and guaranteed higher budget deficits over the long term, resulting in a weaker economy and a lower standard of living for Alaskans. Under ACES, the state will face leaner budgets and greater challenges to funding state services and education as production declines.

The time is now for major oil production tax reform because the status quo of steadily declining production is unacceptable.

CS SB 21 is a big step in the right direction. I urge you as legislators to do sufficient due diligence to ensure the goals set out in the legislation are fully achieved.

Thank you for your service and for this opportunity to testify.

MACC TESTIMONY TO HOUSE FINANCE:**APRIL 9, 2013****Delivered by: Lynn Johnson @ Anchorage LIO**

Make Alaska Competitive Coalition was created because of our concern about the potentially serious consequences of declining oil production on our state's economy. Since we have a very limited amount of time to offer testimony, I will simply direct you to our web site for information about the broad composition of the group and its steering committee. We fund the operation from individual and company contributions, but do not accept any funds from the oil companies.

Thank you for:

- o **Recognizing and taking on the most critical problem Alaska has ever faced – declining production.**
- o **Understanding that the problem is complicated and that there are risks involved in any solution.**
- o **Recognizing that the biggest risk to Alaska's future is NO action. This is a tough decision, but is the right decision for the long-term health of Alaska's economy.**
- o **All the time and effort spent listening to and questioning consultants who are specialists in oil taxation.**

The decline curve has been presented to you from a number of independent sources, so we won't repeat that testimony. It is a known fact that we are on a serious decline.

The date on which the cost of state government exceeds the income from declining oil production is near enough that all of us with business interests have to factor it in today as we make investment decisions for the future.

Many of our members own or work for companies which have begun to see business opportunities growing as an offshoot of oil development elsewhere while opportunity here declines with the production curve.

We trust that the members of the House Finance Committee share these concerns.

We are supportive SB21, and the work the legislature has done to improve upon it based on the Governor's guiding principles. The important thing is that it gets done this year, and that it achieves a balanced, fair and competitive tax structure for Alaska, one that motivates investment so that Alaska's economic future can remain strong.

We sincerely appreciate the efforts of the Legislators who want to Make Alaska Competitive again and unleash the opportunity for investment and production.

SB21 is the right answer, and the time is now. Thank you.

3521 Andree Drive
Anchorage, AK 99517

April 9, 2013

RE: Testimony to House Finance Committee on HCS CSSB for SB 21

Co-Chairs Stoltze and Austerman and Members of the House Finance Committee:

My name is Peter J. Stokes a professional petroleum engineer working for Petrotechnical Resources of Alaska. I serve on the Board of the Alliance and Chair of the UAF's CEM Advisory and Development Council.

I live and work in Anchorage.

I am testifying on behalf of myself, my wife, and the future of my 3 offspring who work in Anchorage and my 2 grandsons.

Thank you for your service and for letting me and others of the public testify on this important piece of oil tax reform that is needed to increase investment and new production in Alaska.

I grew up on the Kenai Peninsula, went to college in Fairbanks and have worked in oil and gas, starting in Alaska, with jobs in other states and overseas and working for the last 10 years in Anchorage.

I support the Governor's concepts to make Alaska more competitive in attracting increase investments to increase Alaska North Slope production and I urge passage of legislation to make meaningful reforms this year.

In 2007, ACES was passed and it resulted in extracting much higher taxes. At these high tax rates, we all have seen that it made the state very uncompetitive for attracting new investment and thus has increased annual declines through the pipeline.

HCS for SB 21 is a good bill achieve this goal, especially

- 1) the elimination of progressivity
- 2) The tax rate, credits and GVR allow for a 62-63% government take for all price ranges to make Alaska investments attractive.
- 3) Developments for new production within existing PA's can achieve GVR with approval from DOR/DOG. These existing PA's are the areas that can bring the quickest and largest increases in new production.

I do suggest reinserting the exploration credit modification in place to allow drilling within 3 miles of existing wells which allows new explorers to continue to explore and allowing small explorer/developers to keep the QCE until end of 2015.

In summary, I applaud you in your efforts to allow Alaska to become more competitive in investments for new oil production for both explorers and existing producers. Without new exploration and the continued development of new production within existing PA's, the efforts to lower or flatten production decline will likely not occur.

Chairmen and Members, thank you again for all of your efforts.

April 9, 2013

Testimony of Ray Latchem before the House Finance Committee

Mr. Chairman,

For the record I am Ray Latchem and have been associated with the oil and gas sector in Alaska continuously since 1977. In 1985 I founded Norgasco, the gas distribution company in Prudhoe Bay/Deadhorse, of which I remain involved with. In 1992 I developed a company that became Fairbanks Natural Gas which I sold my remaining interest in 2004. Today I'm the president of Spectrum LNG which produces LNG for the motor fuel markets in Arizona and California. We are developing an LNG plant project in Prudhoe Bay now.

Unfortunately I had to leave Juneau prior to being able to present my testimony in person before your committee. I did attend most of the hearings you held on SB21 and survived the death by power point attacks from the many consultants, and only nodded off occasionally. I paid closer attention when we heard more directly from the Producers. Some of these guys are pretty slick and they all start to sound alike. Most of the questions from the committee members sounded a lot like "what's the right amount to achieve the goal we want". This is like the guy with two watches, he never knows exactly what time it is.

I should note that while I have a long history in the industry, I was not an automatic supporter of SB21. In fact, I've seen big oil do some things in the past that cause me to be skeptical of them.

Of all the testimony, that from Mr. Jepsen got my attention and he came close to saying something that I hadn't really thought about. We need to keep our nerds.

Lots of the slides made clear that most of the remaining known oil is in the legacy fields. This begs the question why provide incentives for what we already know is there? He explained that they are using 4-D seismic to find and target these smaller traps of oil. They require roads, pads, pipelines, and new drilling methods (Coil tubing) and several new technology tricks to get to these smaller traps that contain the oil. I know a little about some of the tricks they are using, a very little bit. But the point is, it takes really sharp folks to do this work. I guarantee that some of the sharpest folks (nerds) are working on Prudhoe Bay. And we need to make sure we keep these nerds, or else we will not get these smaller traps of oil.

Mr. Jepsen could have used a simple analogy. Like Alaska has an apple tree orchard. We have a couple of really tall trees and several regular sized trees. All loaded with fruit. We need to make sure we get as much of the fruit as possible out of all the trees. But it takes creativity to get the fruit from the upper levels of the tree. Creativity isn't as simple as tying a bunch of ladders together.

So the concern that was not addressed in the hearings that we need to look at is how good of a job are our apple pickers doing? I know a little about this having worked in several different oil provinces. Alaska has always had the most talented engineers working our fields. I wish Big Oil would have bragged more of their accomplishments in this area. I think the committee would be impressed when they learn that the Engineers that actually pick the orchard are some of the best in the world.

I believe that doing the best job of harvesting all the oil is more important to the State than any difference between the various versions of SB21.

In many other oil provinces, like the Gulf of Mexico Shelf, it is very common for mature fields to be sold to other companies. These companies can extend the life of the field, generally not by bringing in some new technology the first developer didn't have access to, but generally the new owner has a lower cost structure because they don't have a very deep technical staff. Someday this may happen to Prudhoe, and it will be a very sad day. I've seen both the Big Oil operators' methods and the lower cost structure companies' methods. Things like the luxury of flying workers back and forth on jets to an "onshore oilfield" are things that many of these operators will change as they lower the current high operating cost. You can imagine that the caliber of workers might fall given other opportunities in the world for their skills.

So please start thinking about SB21 in terms of keeping the best and the brightest working on our legacy fields to postpone the eventual turnover to the low cost operators. These guys set the bar very high with respect to recovery rates, just look back over the years at their own reserve estimates. Every time they invent a new gismo (and many were developed with Prudhoe in mind) they get to add to their reserves. Then after they have developed the gismo or new method, they use it on neighboring fields that might not have had the ability to justify the development cost of the new gismo.

So if you want some testimony that will be sure to keep everyone awake, ask them to show you some of their tricks to get the higher fruit out of the tree. It will make you feel a lot better voting for SB21.

Thank you for your time.

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APRIL 9, 2013

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Before House Finance Committee, Tuesday, April 9, 2013

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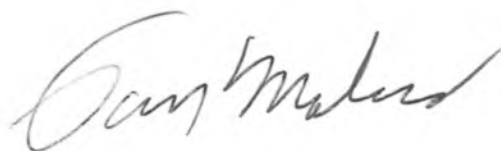
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Attachments

1 – North Slope Oil Production, January –December, 2007-2012

2 – Change in Average Daily Oil Production By State, 2011-2012

3 – Daily Oil Production in the Top 4 U.S. Oil-Producing States, 2002-2012

4 – Alaska North Slope Wells Drilled, 2002-2012

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North Slope Oil Production Barrels Per Day (bpd)

(in thousands)

	2007 bpd	2012 bpd	Better or (Worse) Than 2007
January	796	624	(172)
February	775	609	(166)
March	764	591	(173)
April	757	578	(179)
May	779	571	(208)
June	725	517	(208)
July	725	430	(295)
August	658	399	(259)
September	649	516	(133)
October	715	571	(144)
November	765	582	(183)
December	756	582	(174)
Average Per Day	739	548	(191)

January–December 2007 – 2012
(in thousands)

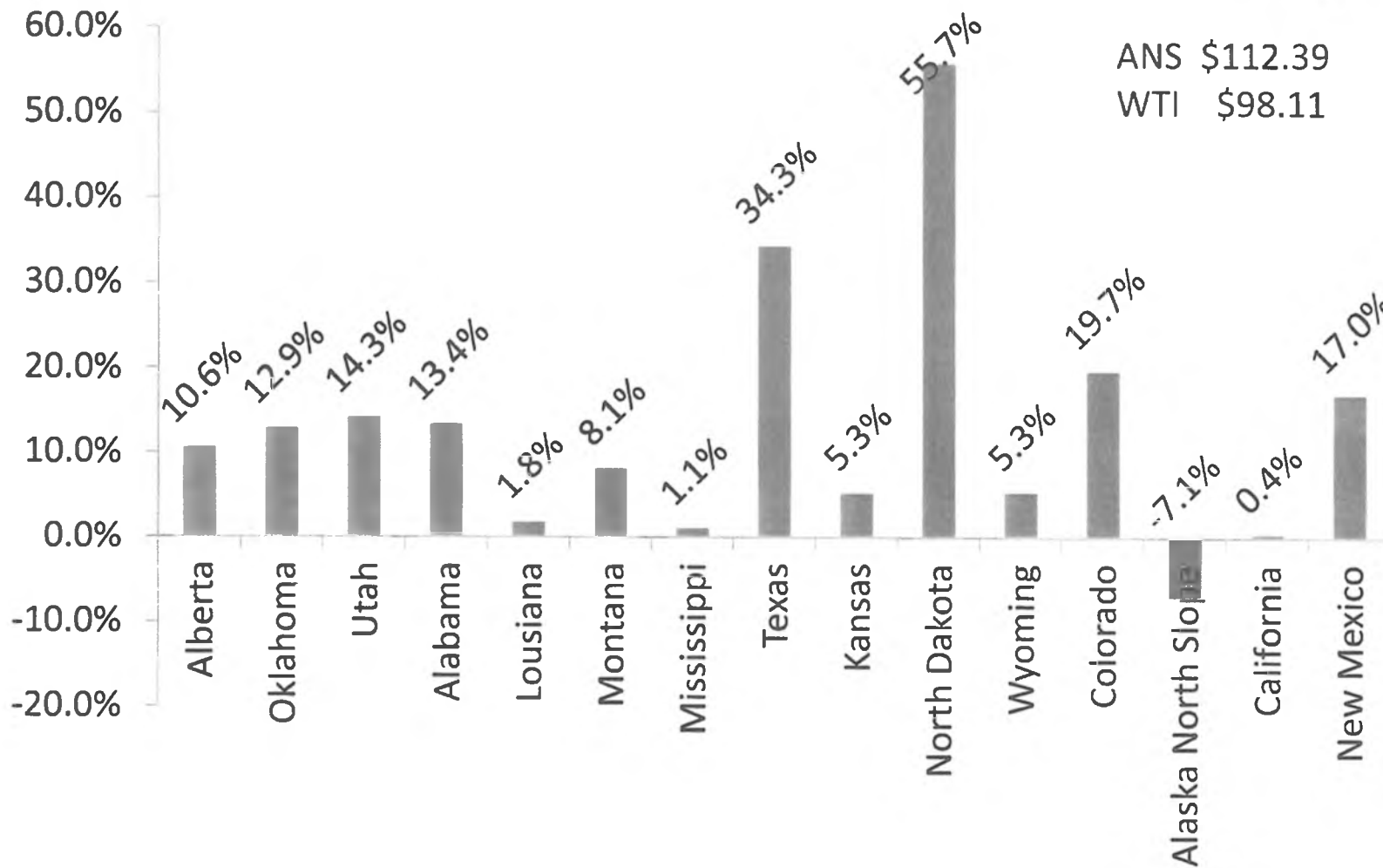
191,000 bbl x 365 x \$100
is approx. **\$7 BILLION**
DOLLAR reduction in
Alaska's Economy in **ONE**
YEAR alone.



Change in Average Daily Oil Production By State 2011-2012



Prepared by the Department of Revenue, Economic Research Group (March 18, 2013)



Source: EIA Crude Oil Production By State. Link: http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbb1pd_m.htm

horizontal lines

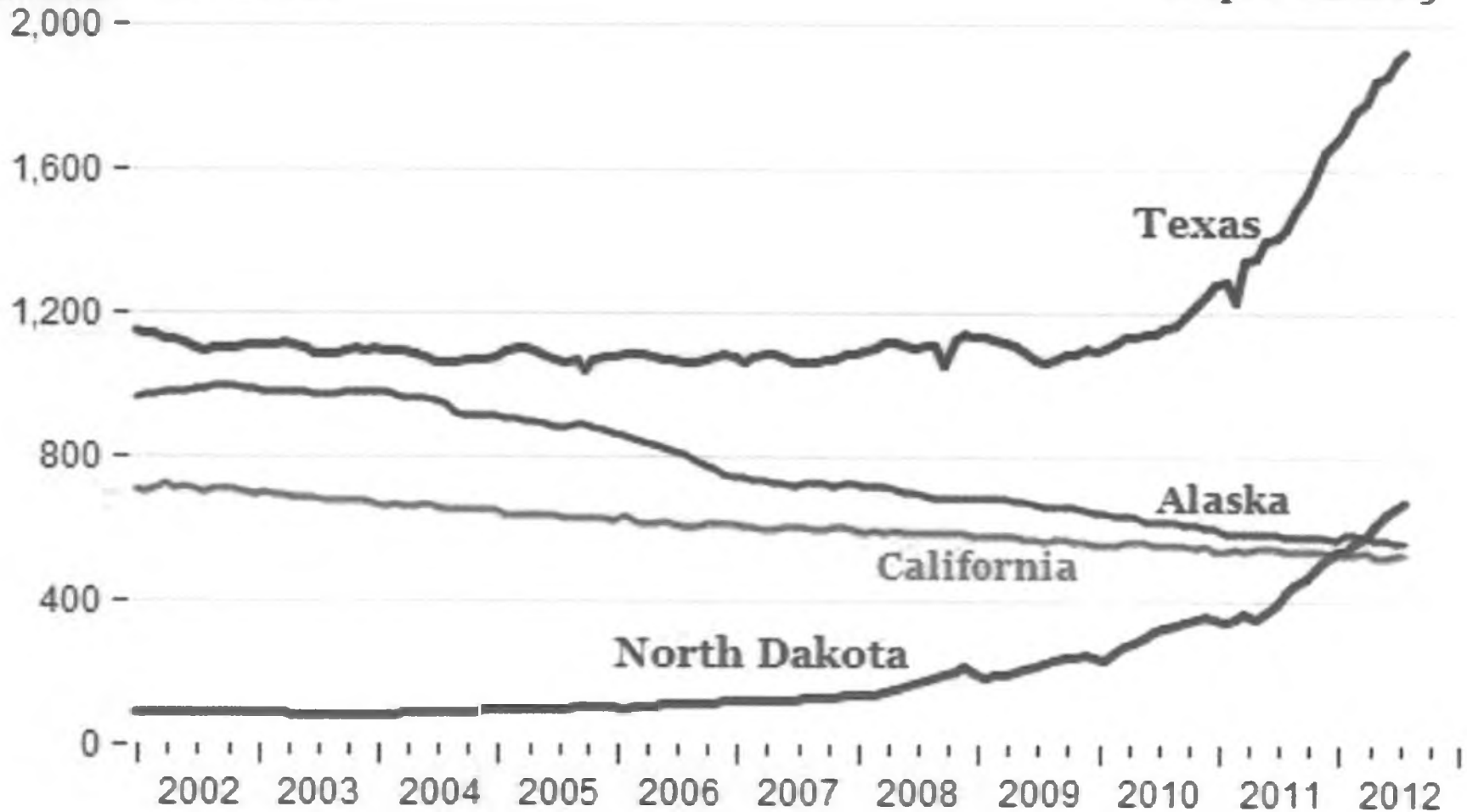
Alaska Headed Out of Medal Contention – 4th

Daily Oil Production in the Top 4 U.S. Oil-Producing States, 2002-2012

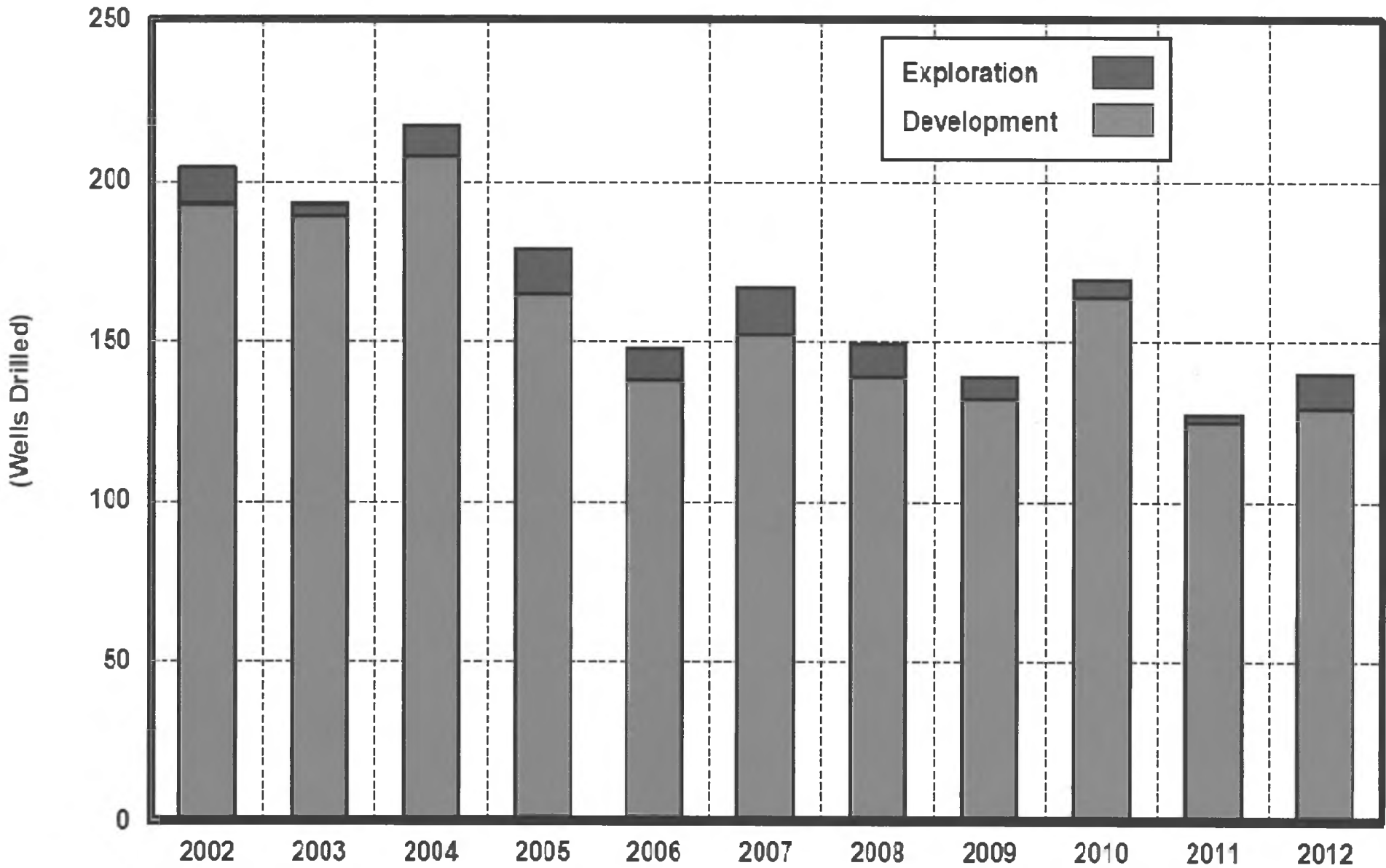
Thousands of barrels

Source: EIA

Carpe Diem Blog



Alaska North Slope Wells Drilled 2002 - 2012



Source: 2002-2010: DNR; 2011-2012: AOGCC.

2011-2012: AOGCC

Testimony on SB21 before the House Finance Committee, April 9, 2012 *

Richard A. Fineberg
Principal Investigator, Research Associates
PO Box 416
Ester, Alaska 99725

In our fifth decade since discovery at Prudhoe, we find ourselves in geologically troubled times of declining production, combined with economically uncertain times in which oil prices have skyrocketed. The North Slope province has produced what was, far and away, the nation's largest oil field. But the legacy fields are far away from their markets, and many informed observers believe that tax policies cannot trump geological realities.

This year, an appalling array of inconsistent and misleading numbers strongly suggest – and sometimes clearly demonstrate – that you are trying to forge oil policy from a foul amalgamation of oversimplified and poorly sourced charts from industry and consultants,** combined with an unhealthy mix of misinformation from an overworked and apparently overwhelmed bureaucracy.

Our collective North Slope experience contains many examples that suggest (and sometimes prove) that you cannot make good policy using bad numbers. Put otherwise: Bad numbers make bad policy with bad results.

Please put a stop to this madness.

* This testimony is supported by my working paper on SB 21 (offered to legislators April 6 and again yesterday). Many of the issues discussed, in turn, are reviewed in a longer report I prepared previously, Establishing a Rational Foundation for Review, Formulation and Implementation of Alaska's Oil and Gas Fiscal Policy.

** See, for example, Slides 5 and 6 presented to this committee by ConocoPhillips yesterday. I critiqued these slides (which were presented previously to the Senate and House Resources Committees [Feb. 20, 2013 and March 26, 2013, respectively]) in Section 5 and Exhibit 8 of my April 6 working paper on SB 21.

From the desk of

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**SB 21 and Petroleum Revenue Policy: Six Subjects Requiring Further Consideration
(A Report on Pending Legislation)**

**April 4, 2013
[Revised*]**

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* This revised version of the original report contains the following minor changes to the original, which was distributed April 6:

- Insertion of minor phrasing changes for clarification in Parts A and B of Section 6, as well addition of the final paragraph of Section 6.B (inadvertently omitted from the original version).
- Deletion of a superfluous comment on Exhibit 8 (removed from original draft but inadvertently appended to original report following Exhibit 9).

- RAF, April 8, 2013

SB 21 and Petroleum Revenue Policy: Six Subjects Requiring Further Consideration
A Report on Pending Legislation
by
Richard A. Fineberg

This communiqué reviews six subjects associated with state petroleum revenue policy that warrant consideration during current deliberations on SB 21. Footnotes and documents are provided for ease of reference, along with comments based on insights gained by this writer as an observer and participant in state petroleum development issues since TAPS construction.

Tax cut advocates say they are focused on one thing they can fix – tax rates. But they overlook data problems resulting from state failure to compile verifiably accurate numbers on petroleum development, production and transportation costs. In the resulting confusion, the tax policy dialogue is confounded by the absence of clear and comprehensive information.

The geological reality of declining North Slope oil production and the uncertainty of future oil prices have prompted public officials to try to do something to fix this bleak picture. Representatives of the oil industry assure panicked legislators that lower taxes will spur increased production. But they make no commitments. Long story short: The proposed tax cuts may not be necessary and are unlikely to work for this simple reason: Geology rules.

1. Failure to Audit Effectively

Alaska has been unable to complete timely audits of operating and capital costs, which are estimated (a) to have increased by more than 73% since 2006, compared to modest general inflation increase over the same period of approximately 10% and (b) to have reached levels to levels that far exceed estimated Lower-48 costs (Exhibit 1, attached).¹ At least some administration officials do not seem to understand the importance of the confusion created by poorly reported, superficially audited and sometimes inconsistent numbers on petroleum costs, price and the disposition of net revenue (see Section 6). In the ensuing chaos, important factors such as the following are overlooked:

1. Producer-owners can benefit from over-stating field costs, as demonstrated by the TAPS experience documented by the RCA in the TAPS tariff case (Exhibit 2).²
2. New barrels of oil in the legacy fields do not bear discovery costs; nor is it clear whether the cost of additional facilities in a legacy field (a) exceed the cost of new facilities in an undeveloped field or (b) are reduced by the use of existing infrastructure.
3. Economies of scale that benefit the large legacy fields on the North Slope, often overlooked, figure into producer economics and therefore warrant consideration.

To determine whether the proposed measures will be successful, an important first step is to assure accurate field cost, oil price and petroleum revenue reporting.

¹ For source data and calculations, see Alaska Department of Revenue, *Fall 2007 Revenue Sources Book*, p. 36 and *Fall 2012 Revenue Sources Book*, p. 35; PFC Energy, "Alaska's Days of 'Easy Oil' Are Gone: High Costs and High Government Take Present challenges" (in "Hydrocarbons Fiscal Systems," presented to Senate TAPS Throughput Committee, January 31, 2013, Slide 47) and the data sheet at Exhibit 1.

² See, for example, Regulatory Commission of Alaska, *Order Rejecting 1997, 1998, 1999 and 2000 Filed TAPS Rates: Setting Just and Reasonable Rates; Required Refunds and Filings; And Outlining Phase II Issues* (Docket P-97-4, Order No. 151), Nov. 27, 2002, p. 131. (This finding on TAPS overcharges was upheld by the state Supreme Court in 2008, was cited in 2011 in the state Superior Court decision on TAPS property tax valuation and was presented to state Senate Resources Committee in 2012 by Robin Brena, the lead trial attorney in both case. (See Exhibit 2).)

2. Why Estimated Percentages of Government Take Are Liable to be Inaccurate

In this era of information overload, there is a notable tendency for legislators to rely on simplified charts that may be based on bad data. Without considering data problems associated with over-simplification, note the focus on shares of government take during deliberations on SB 21 (Exhibit 3). The attempt to compare Alaska to other production areas in terms of the percentage of total net profit the revenue producer pays is liable to distract from fundamental economic and geological considerations. For example:

1. As noted in Section 1, above, Alaska has been unable to complete audits on operating and capital costs, which are estimated (a) to have increased dramatically since 2006, compared to the modest general inflation increase over the same period and (b) to have reached levels to levels that far exceed estimated Lower-48 costs.
2. Also as noted in Section 1, the calculations of company profits treats transportation costs as a deduction from profits, which tariff proceedings have shown are often significantly overstated, thereby (a) reducing production tax payments to the state and (b) enabling TAPS owners to shift those profits from one pocket to another (production arm to transportation arm) as shipper-owners, while competitors pay those costs to the owners out of pocket.
3. Percentage figures on government take assume federal income tax payments at the nominal 35% rate for pre-tax net profits, but tax deductions frequently lower that tax rate significantly. For example: [a] in some years ExxonMobil's deductions for foreign tax payments bring its domestic federal income tax to zero; and [b] a former North Slope official has estimated his company's North Slope federal income tax at 21% (Exhibit 4).³

For these reasons, the percentage measurement of government take may not be a reliable indicator of what the industry gains from investment. Moreover, the industry's primary concern is its bottom line and the rate of return on investment, but the percentage of government take doesn't tell you anything about the relationship between project investment and project pay-off. That's another reason the computed percentage of government take may be an unfortunately blunt tool for assessing Alaska's competitiveness.

3. Questionable Accounting Practices: What Is Going On Here?

In an introductory chapter to a 2007 book he co-edited on multinational oil corporations and resource development, Nobel Laureate Joseph Stiglitz portrayed Alaska as the poster-child of corporate cheating. Stiglitz's discussion of Alaska and the oil industry was based on his first-hand experience as a consultant to the state on Alaska royalty litigation during the 1980's. He wrote:

By overestimating their costs by just a few pennies per gallon (and multiplying those pennies by hundreds of millions of gallons) the oil companies would increase their profits enormously. They could not resist the temptation.

They also found other ways to cheat, such as selling their oil to their own subsidiaries, recording a lower than fair market value (see chapter 4 [of *Escaping the Resource Curse*]); or using other subsidiaries to ship their oil out and then reporting fictionally high shipping cost. Each piece of the cheating was hard to detect.⁴

³ For additional discussion of estimated federal income tax rates on North Slope production, see Richard A. Fineberg, *The Profitability and Economic Viability of Alaska North Slope and Associate Pipeline Operations*, Prince William Sound Regional Citizens' Advisory Council (April 2005), pp. 55-58.

⁴ Joseph E. Stiglitz, "What Is the Role of the State?" Macartan Humphreys, Jeffrey D. Sachs and Joseph E. Stiglitz (eds.), *Escaping the Resource Curse* (Columbia Univ. Press, 2007), pp. 24-25 (footnotes omitted).

When the preceding passage was published, Alaska state settlements were running at a four-year average of \$25.7 million per year; since then, settlements have increased ten-fold, averaging \$267.17 million per year between FY 2007 and 2012 (Exhibit 5).⁵

The significantly increased level of revenue underpayment collections since 2006 should be examined to determine the nature of those underpayments and their cause.

Without jumping to the conclusion that the sharp increase in underpayments constitutes a reason to change the petroleum revenue fiscal system, underpayments should be examined on a case-by-case basis to determine whether the creation of new payment categories would increase confusion, increasing the probability of underpayments while making them more difficult to identify and correct.

It is also reasonable to ask:

Would improvement of the audit process result in accelerated collection of revenue underpayments?

Would settlement amounts be significantly higher if the audit process were functioning effectively?

4. Implementation of Gross Revenue Exclusion Introduced in CSSB 21(FIN), Version Y, March 14, 2013

CSSB 21(FIN) was introduced Thursday, March 14 and passed out of Senate Finance that day in an unusual evening session. One of the changes from the previous version of this bill is in Sec. 30, at p. 22, where the proposed amendment to AS 43.55.160 adding language to the new subsection (f) at clause (3), lines 12 through 19; the same language appears in the version now in House Resources at Sec. 29 of CSSB 21(FIN) am(efd fld) at p. 21, line 17 through p. 22, line 1. This new language replaces the "participating area" requirement with language requiring that the new oil subject to the 20% gross revenue exclusion (GRE) must be accurately metered and measured by the operator to the satisfaction of the commissioner of Natural Resources and that the metered well must drain a reservoir or portion of a reservoir that was not contributing to production before January 1, 2013.

This new procedure warrants careful review to make sure that: (a) an operator will not elect not to produce old oil because the operator would rather receive the GRE; (b) the oil produced by a well qualified for the GRE is coming from a portion of the reservoir that would not have been produced without the GRE; and (c) the state expense of field monitoring this inherently complicated subsection is covered by a carefully analyzed fiscal note. The answers to these questions depend heavily on informal assessment by administration personnel. In this regard it must be noted that testimony of Department of Revenue officials before the House Resources Committee on Friday, March 22 regarding auditing issues raises concerns that administration officials may not be fully cognizant of the difficulties of implementing the legislation they are proposing. (See discussion of auditing issues in Section 6.) The fact that past oil and gas legislation that has not worked out as some legislators intended⁶ underscores the need to review new proposals for administrative practicality, fiscal effects and unintended consequences.

While I have not had the opportunity to review modifications to SB 21 such as those proposed by the administration before the House Resources Committee April 2 and 3, I believe that similar caveats apply.

⁵ See Alaska Department of Revenue, *Fall 2012 Revenue Sources Book*, p. 96 and data sheet attached to Exhibit 5.

⁶ See, Senator John Coghill's candid remarks on the capital credits provision of ACES at the Senate Majority Press Availability (Juneau), March 5, 2013 (http://www.360north.org/gavel-archives/?event_id=2147483647_2013031064).

5. Obscuring Federal Securities and Exchange Commission (SEC) Data: A Case Study in Two Parts

A. ConocoPhillips Historical Profitability Data (“Hurricane Gulch” Chart)

ConocoPhillips economic data on Alaska petroleum economics, as reported annually by the company to the federal Securities and Exchange Commission (SEC), enables analysts to cut through conflicting claims about North Slope profitability.⁷ Since 2005, I have occasionally prepared and presented these data for consideration. For example, in a 2011 report I compared CP’s remarkably consistent Alaska profits during the first years of the ACES cost-based production tax to that company’s erratic global performance, which included a dramatic, multi-billion-dollar loss in 2008. I referred to this graphic as the “Hurricane Gulch chart” because CP’s Alaska profits since 2006, when graphed, resemble the Parks Highway crossing over that dramatic ravine, while the company’s global loss in 2008 of approximately \$16 billion looked like the bottom of the gulch.

When I updated the “Hurricane Gulch” chart in October 2012 for publication in newspaper opinion columns in the *Anchorage Daily News* and *Fairbanks Daily News-Miner* ([Exhibit 6](#)), CP Vice-President for External Affairs Scott Jepsen responded, presenting a chart that removed the graphic line showing his company’s 2008 global earnings nose dive ([Exhibit 7](#)).⁸ The revised chart replaced CP global profits data with lines showing the oil price and the company’s estimate of the growing Alaska share of net income at high prices. Although I thought this substitution was a self-serving distraction from focus on the company’s bottom-line profits on investment. But I did not discover the significant defects in the substituted chart information until CP used the same graphic in testimony before both the Senate and House Resources Committees, on Feb. 20 and March 26 of this year ([Exhibit 8](#)).⁹

As presented to both Resources Committees, the revised chart (“Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska”) appeared directly below a bar chart, “Government and Industry Marginal Share in Alaska” in a slide headed, “North Slope Investment Challenges.” While percentage shares of net revenue are liable to be misleading for reasons summarized in Section 2, above, marginal revenue indicators are liable to take viewers even further away from the bottom-line cost and profit data that form the basis for assessing company profitability. Moreover, neither chart on the CP slide provided information on the costs that must be subtracted to determine the net revenue against which investment is measured to determine profitability. CP also failed to provide supporting information for its graphic depiction of the Alaska share, which was once again displayed in the lower chart, soaring above CP profits, in tandem with oil prices.

On March 26, CP used the chart to help frame tax issues for the House Resources Committee. Discussing that chart, Vice President of Finance Bob Heinrich said “The effects of progressivity and the high marginal tax rates are best illustrated through the CP Alaska earnings.” According to Heinrich, the slide showed that between 2007 and 2011 Alaska took “nearly all that upside... through the progressivity feature of ACES, which is represented by the orange line . . . on a per-barrel basis” as prices moved between \$60 and \$110 dollars per barrel but CP earnings hardly moved, staying between \$22 and \$25 per barrel. In contrast to Heinrich’s statement that CP earnings “hardly moved between 2007 and 2011, back in November, CP’s Jepsen wrote – and

⁷ The SEC requires oil companies to report financial data from regions in which they are heavily invested. CP, which is a large company but smaller than ExxonMobil and BP, is the only major North Slope producer required to break out detailed information on its Alaska operations under these requirements.

⁸ Richard A. Fineberg, “Oil profits weather ‘Hurricane,’” *Fairbanks Daily News-Miner*, Oct. 14, 2012, p. F2 (Community Perspective); Scott Jepsen, “The numbers show why oil tax reform is needed,” *Fairbanks Daily News-Miner*, Nov. 2, 2012 (Community Perspective). (See [Exhibit 7](#).)

⁹ ConocoPhillips Alaska, “ACES Observations” (in “SB21,” presented to the Senate Resources Committee, February 20, 2013, Slide 8 and “CSSB21,” House Resources Committee, March 26, 2013). (See [Exhibit 8](#).)

the chart he submitted to the press indicated – that over that period ConocoPhillips' net income from Alaska "increased from about \$22 per barrel to about \$25 per barrel."¹⁰

The fact that CP has used this chart to present inconsistent versions of the company earnings is only one of the problems associated with this chart. On review, it appears that the key figures associated with this chart simply don't add up. Here are two basic problems:

- The data displayed in the October 2012 press version of the chart indicated that between 2007 and 2011 the state share of net profits rose to take \$51 per barrel at an average price of \$106 per barrel. When these figures are coupled with the Department of Revenue's field costs of \$21 per barrel and transportation costs of \$9, the state's share of \$25 per barrel consumes the entire \$106 per barrel. But where were federal income tax payments? At the 35% nominal federal income tax rate analysts use to compare net revenue shares, the federal government would have taken approximately \$13.50 per barrel out of the \$106 per barrel average price.¹¹ Did CP pay no federal income tax in 2011 due to previous losses, or could CP's chart – and the company's vice president of finance – have mis-stated the facts when CP stated that Alaska's share of net revenue was \$51 per barrel?
- Comparison between CP's reported per-barrel revenue to the total petroleum revenue the state reported receiving in 2011 in the Fall 2012 *Revenue Sources Book* shows that CP estimate of state revenue exceed state figure by significant amounts; I estimate that CP's chart indicated industry payments to the state on North Slope production of somewhere between \$0.6 billion and \$2.8 billion more than the state reported receiving in 2011. Due to CP's lack of supporting data and idiosyncrasies in the state's fiscal year system, I have not been able to identify either the cause or the exact amount of the discrepancy between CP and state figures.¹²

(For more information on these problems, see the data sheet for Exhibit 8, which immediately follows those exhibits.)

While it may be the case that the level of progressivity at high oil prices under ACES needs to be adjusted, the data problems identified here suggest that the simplified charts being used in Juneau may not provide a reliable basis for estimating effects of proposed tax changes. In this chart, for example, ConocoPhillips replaced historical information on its annual profits reported by the company to the SEC, with graphics on estimated Alaska revenues that were (1) presented without supporting hard data, (2) apparently erroneous in significant respects and (3) inappropriate for understanding of company investment outcomes, which cannot be meaningfully assessed without information on field costs and bottom-line earnings.

¹⁰ "The numbers show why oil tax reform is needed" and accompanying chart (see Exhibit 7).

¹¹ The federal income tax and income tax base can be calculated from an after-tax profit using the following formula: Tax base = (after-tax profit)/(1-[tax rate]). In this case, assuming a per-barrel after-tax profit of \$25.00 and a tax rate of 35%, the pre-tax income would be \$38.46 and the federal income tax would be \$13.46 per barrel.

¹² The state's peculiar habit of presenting petroleum revenue on a fiscal year basis makes it difficult to compare state information to other data on petroleum economics, which is generally reported on a calendar year basis. For this analysis, I assumed that payments for CY 2011 would fall somewhere between FY 2011 and FY 2012 totals; ADOR data, as reported in the 2012 *Revenue Sources Book* show total petroleum revenue in FY 2011 of approximately \$8.3 billion; petroleum revenue collections paid at \$51 per barrel would have generated more than \$11.1 billion; for FY 2012, the state reported receiving \$10.2 billion in petroleum revenue, but receipt of \$51 per barrel would have produced nearly \$10.8 billion. (In order to estimate per-barrel shares of production revenue from the *Revenue Sources Book*, it is necessary to make sure that company payments that fall into the state's restricted funds category – e.g., royalties dedicated to the Alaska Permanent Fund and property taxes collected on behalf of municipal governments [often omitted from ADOR petroleum revenue figures because they are not unrestricted General Funds available for appropriation] – are included, while company payments to the Constitutional Budget Reserve Fund are not included.)

B. ConocoPhillips Future Profitability Estimates

SEC also asks companies required to file annual 10-K reports to present, in standardized form, company estimate of future costs and returns from the major producing regions in which the company is invested; for CP, one of those regions is Alaska. To permit comparison with other firms by investors, the SEC requires that the forward-looking analysis must be presented in terms of the fiscal regime and continued oil prices in place at the end of the current year. In the 2011 report and my October 2012 newspaper columns mentioned above, I also reported that analysis of these CP's filed data indicate that the company anticipates that Alaska, under the ACES tax regime, will outperform all other regions in the company's global portfolio in terms of return on investment.¹³ In his response, which appeared under the distracting and apparently erroneous chart discussed in the preceding section, Jepsen wrote:

Those who want to leave ACES unchanged frequently cite ConocoPhillips' earnings reports to support their arguments by comparing ConocoPhillips' Lower 48 earnings to its Alaska earnings. (*Editor's note: See Richard Fineberg, Daily News-Miner, Oct. 14, page F3*) But that is an apples-to-oranges comparison. In the Lower 48, natural gas and natural gas liquids make up a large part of ConocoPhillips' portfolio. Those products have lower value and margins than oil, especially after recent steep declines in natural gas prices. Conversely, the vast majority of our production in Alaska is oil, which has a relatively high value. This type of comparison to the Lower 48 provides no real insight into the relative health of Alaska's investment climate.

A better measure is capital investment,,,,,

The CP vice-president's arguments do not answer the fundamental questions raised by the data his company presented to the SEC:

If CP did not anticipate strong future returns from Alaska, how could his company report its expectation, under the ACES regime, that this region will outperform all other regions?

Others followed Jepsen in arguing that CP's high ranking of its North Slope petroleum operations should be dismissed as an apples-to-oranges comparison because Alaska's strong economic performance is not hampered by the less attractive economics of natural gas. In response, it should be noted that the "Hurricane Gulch" chart was explicitly designed to show the contrast between CP's strong Alaska performance and the company's natural gas failures elsewhere.¹⁴ The fact that CP's Alaska North Slope holdings under the ACES regime rank first among the company's annual analyses of the future performance of global regions affirms the conclusion that Alaska's petroleum economics are unusual, if not unique.

As for Jepsen's assertion that capital investment would be a better economic measure: This argument might be worthy of consideration if North Slope development took place in theory. But not in the real world, where the three major North Slope producers can withhold investment to get a better deal from Alaska. Consider in this regard another slide that Jepsen and Heinrich presented in their February 20 testimony, following the company's profits charts discussed in Section 5.A., above. According to the follow-up slide, "ConocoPhillips Capital Allocation," in the last three years CP's "Investment has remained flat in Alaska," while "Investment has tripled in the Lower 48" (Exhibit 9). In response to this argument, the following questions should be asked

¹³ For CP data on Alaska current and future operations, as filed with the Securities and Exchange Commission in January 2011, see Richard A. Fineberg, *Establishing a Rational Foundation for Review, Formulation and Implementation of Alaska's Oil and Gas Fiscal Policy*, April 7, 2011 (rev. April 2012), pp. 5-7 and Appendix A (historical data) and pp. 33-41 and Appendix D (future profitability).

¹⁴ It was natural gas that created CP's global losses, displayed in the "Hurricane Gulch" chart. Moreover, the article introducing that chart explicitly noted that "In contrast to ... excellent returns from Alaska, overall CP suffered a severe profit collapse in 2008 due to a loss attributed to natural gas investments in the Lower-48 that went sour as natural gas prices crashed" (see Exhibit 6).

– and answered – with substantive data and careful consideration to help resolve confusion regarding the economic attractiveness of North Slope exploration and development:

Does North Slope oil (benefiting from economies of scale and advancement on the economically important learning curve, and from significant infrastructure in place) enable the major producers at the legacy fields to continue to invest profitably at a lower level in Alaska than in the Lower-48, thereby continuing to compete with the Lower-48 investments?

Even if sweet spots in the Lower-48 temporarily out-perform North Slope legacy fields (perhaps in small volumes and/or for short periods of time), what would prevent CP from accepting a major Alaska tax cut, then using that revenue to invest in those sweet spots, when they might be willing to continue long-term investment in the North Slope (perhaps with a minor, modest correction to ACES)?

The history of large oil field development suggests that at some point – perhaps soon, perhaps (say) 20 years from now – the major producers may abandon their declining legacy fields, leaving the North Slope to producers experienced in coaxing smaller production quantities from the legacy fields and companies eager to explore.

Under these circumstances, does it make sense for the state to reduce taxes in hopes of inducing major oil companies to stay, instead of assuring a level playing field for independent developers?

To assure that level playing field, on which independent developers might to invest in Alaska, the state should focus on audit completion to ensure that independent companies are not handicapped by (1) continued overcharges by the TAPS owners on pipeline shipments (income omitted from most “Alaska share” analyses, which treat transportation as a cost and ignore its profit component) and (2) overcharges at legacy field facilities. Put otherwise:

Have state agencies developed audit procedures to identify and correct (1) transportation overcharges and (2) North Slope field facility overcharges?

6. Department of Revenue Representations to House Resources Committee March 22 Regarding Audits: Another Case Study in Two Parts

As the House Resources Committee welcomed senior Department of Revenue personnel to begin dealing with what Co-Chairman Eric Feige called “the long-awaited oil and gas production tax bill” March 22, there were some revealing moments. The fact that misinformation about audits from went uncorrected during that hearing provides another indication that members of the House majority leadership were no better informed than their counterparts in the Senate about petroleum audit problems and their significance.

A. Federal Transportation Regulations Cause Amended Tax Returns That “Go Both Ways”

Mike Pawlowski, who advises the department’s commissioner on oil tax issues, was walking the committee through the of the amended version of SB 21 that had just arrived in the House. The first change to provisions discussed March 22 was a reduction in interest rates on delinquent taxes. House Democratic minority member Rep. Chris Tuck asked whether lower interest rates on delinquent taxes might lead corporate tax payers to be “a little bit loose” calculating their taxes, Pawlowski balked at the use of the word “loose.” Noting that the deputy commissioner could talk about audit under-payments and over-payments, he observed, “it goes both ways.” For example, Pawlowski continued, transportation regulations at the Federal Energy Regulatory Commission (FERC) recently led to amendments to tax returns. The federal government, he said, can change tariffs, resulting in changes to taxes that were paid over time. “And in a complex net system where the tax rate varies monthly,” he continued, “an outside action by a federal agency could

have an impact on tax payments going back years.” Returning to the theme that it goes both ways, he noted that “both the state and the industry’s at risk on that type of thing.”

In portraying changes in tax payments as revenue-neutral matters that occur due to regulatory changes that cut both ways, Mr. Pawlowski’s assessment of the petroleum revenue collection process seems to fly in the face of the facts that include::

- (1) the history of TAPS tariff overcharges and resulting state underpayments, cited in Section 2, above (see Exhibit 2); and
- (2) the increase since 2006 of revenue settlement payments to the Constitutional Budget Reserve Fund (see Section 3 and Exhibit 5, sheet 3)

Pawlowski repeated that he preferred to let Deputy Commissioner Tangeman talk about the audit issue; Co-Chair Feige asked Tangeman to “shed some light on that.”

B. Misconceptions About Audits That “Couldn’t Be Further from the Truth”

Deputy Commissioner Bruce Tangeman shed light on this subject by offering the following comments:

“There’s a lot of misconceptions out there right now regarding audits. . . . since we’re auditing 2007, the misconception is that we have no clue what happened in 2008, 09, 10, 11 or 12. And it couldn’t be further from the truth.” Because oil companies pay taxes monthly, he continued, “we receive a vast amount of information on a monthly basis, and all an audit is, merely . . . a true-up of the previous twelve months of information we’ve already received . . . we have information from last month, two months ago, let alone 2007, 2008. So I’m glad I had the opportunity to get that on the record, that we have a vast amount of information from the monthly tax payments and it is in their best interest to be as accurate as possible. And it’s in our best interest to do a review of those monthly payments to make sure they’re accurate as possible. And then, in that true up that’s done on the 13th month, again we look at the previous 12 months . . . and then it gets in the cue for the audit.”

The deputy commissioner’s discussion of the petroleum audit process reflects an apparent lack of recognition of

- (1) the importance of quality assurance measures to verify the results of petroleum reporting audits; and
- (2) the distinction between narrowly-focused financial audits and broader audits that seek to shed light on the effectiveness and the consequences of the activities under review.

When asked if he had noticed systematic underpayment of taxes, Tangeman responded:

“They seem to be fairly accurate and they go both ways. As Mr. Pawlowski mentioned, there are some over-payments, some under-payments, and that is why it’s a two-way street for the interest rate provision.”

Rep. Tuck asked: Are we able to make corrections month by month? Tangeman responded:

“The monthly payments are an estimated payment. They estimate their capital and operating expenditures, so you’re automatically going to see pluses and minuses month to month. They are not going to be large swings but you are going to see a natural plus give and take month to month.”

These responses from the Department of Revenue representatives in the March 22 House Resources Committee hearing reflect lack of recognition of the history of significant pipeline tariff overcharges and revenue underpayments (noted in Section 1; documented in Exhibit 2), as well as the significant increase in revenue settlements paid to the Constitutional Budget Reserve Fund since 2006 (noted in Section 3; documented in Exhibit 5).

7. Conclusion and Recommendation: SB 21 Is Not A Practical Measure. Nor Does the Percentage of Government Take Work. Fix Data Systems First.

The issues discussed in this communiqué reflect the importance of understanding the complexity of (a) geological structures below ground and (b) organizational (industrial and government) structures above the ground. Both subjects require common sense and judicious application of economic data to the inherently complex situation Alaska now confronts. In the current, panic-prone situation, SB 21 represents a false hope that is neither practical nor adequately supported by the available data on North Slope production.

North Slope production decline is a geological reality, while the rise of Lower-48 investment in new shale oil and gas results from geology, technological innovation and high oil prices. Against this backdrop, review of Alaska's petroleum litigation history reveals that teams of industry personnel are well paid to help their companies to maximize the company bottom line. To serve the public interest under these circumstances, legislators would be well advised to pay careful attention to the details of the changes to petroleum revenue system they propose to enact.

In 2006, when Alaska switched its production tax base from the price of oil to the price of oil minus costs, some observers (this writer included) wondered whether the state would be able to audit production costs to assure compliance and evaluate the performance of the new, cost-based production tax. No worries, senior Department of Revenue personnel responded at the time; the Revenue Department was said to be quite capable of auditing. Moreover, oil and gas litigation was no longer a problem but was merely an artifact of the past, caused by the fact that during the 1970's our relatively young state was dealing with unprecedented oil price spikes.

However well-intended they may have been, in 2006 Revenue Department personnel were wrong: As the Legislature now knows, despite those assurances, the department has not been able to complete audits of cost-based taxes since 2006, while production costs have escalated dramatically, far exceeding both Lower-48 cost increases and the modest general inflation effect (see Section and Exhibit 1). During this period, petroleum revenue settlements have increased ten-fold. (See Exhibit 5, Source Sheet 1.) In this regard, as discussed in the preceding section it should be noted that financial audits are much simpler than performance audits that look at the operation under review in terms of its efficiency and its results. For these reasons, in dealing with petroleum policy, the Legislature would be well advised to examine litigation cases to determine the sources of contention.

Some legislators seem to equate getting rid of progressivity with simplicity. But because SB 21 retains a net profits tax system, this bill still requires cost accounting to determine the tax base. Moreover, this proposed bill also introduces new accounting systems with various new technical provisions that would make both the implementation of the statute and the reckoning of its financial effects more difficult to accomplish. Consider, for example, the gross revenue exclusion tax break allowed by Sec. 29 of CSSB 21(FIN) am(efd fld). Will this new tax break induce producers to claim that oil is new, rather than already existing? Have the technical difficulties of determining whether an oil source is actually new, or whether the industry simply got around to producing from an existing source, been carefully examined? In view of the history of petroleum litigation, putting this provision into law without assurance that it will not generate more litigation seems like a potential recipe for litigation disaster.

Corporate federal income taxes vary from the nominal 35% rate to zero (and sometimes even negative tax with rebates) and production costs increase at rates somewhere between inflation and the volatile price of oil. Since the percentage of government take is dependent on these variables, it makes little sense to rely on the percentage of government take as a benchmark for fiscal policy. On the other hand, once we have obtained a solid understanding of costs and profits under the state's existing tax structure, the principal problem – that ACES may take too much of the marginal gains at high prices – can be corrected with a very simple statutory adjustment to the progressivity regime.

LIST OF EXHIBITS

- Exhibit 1. North Slope Field Cost Increases**
- Exhibit 2. Trans-Alaska Pipeline System Overcharges**
- Exhibit 3. Average Government Take**
- Exhibit 4. Nominal v. Actual Federal Income Tax Rates**
- Exhibit 5. Prof. Joseph Stiglitz on Corporate Conduct in Alaska
(Supplement: Current Constitutional Budget Reserve Fund
Settlement Payments)**
- Exhibit 6. "Oil profits weather 'Hurricane'," *Fairbanks Daily News-Miner*,
Oct. 14, 2012**
- Exhibit 7. "The numbers show why oil tax reform is needed," *Fairbanks
Daily News Miner*, Nov. 2, 2012**
- Exhibit 8. Filling the Gaps: ConocoPhillips Presentations to Senate
Resources and House Resources Committees (Feb. 20 and Mar.
26, 2013)**
- Exhibit 9. ConocoPhillips Capital Allocation (Slide)**

Exhibit 1.

North Slope Field Cost Increases

North Slope Field Cost Increases

North Slope Field Cost Increases (2006 v. 2012)

[Exhibit 1 Data Sheet]

**Estimates of Current North Slope v. Lower-48
Field Costs**

[Exhibit 1 Source, Sheet 1]

ADOR Fall 2007 Revenue Sources Book, p. 36

[Exhibit 1 Source, Sheet 2]

ADOR Fall 2012 Revenue Sources Book, p. 35

[Exhibit 1 Source, Sheet 3]

North Slope Field Cost Increases (2006 v. 2012)

Exhibit 1 Data Sheet

1. Estimated North Slope Field Costs, FY 2007 (History)	\$3,659,000,000 (1)
2. Estimated North Slope Field Costs, FY 2013 (Forecast)	\$6,341,800,000 (2)
3. Percentage Increase (FY 2013 v. FY 2007)	73.3% (3)
4. CPI-U Indexed Inflation Factor (2007 – 2012)	9.2% (4)
<hr/>	
5. Current Lower-48 costs per barrel (operating + capital)	\$6.00 - \$22.00 (5)
6. Current Alaska costs per barrel (operating + capital)	\$32.00 - \$49.00 (5)

Sources and Notes:

(1) Alaska Dept. of Revenue, *Fall 2007 Revenue Sources Book*, p. 36. ($\$3,659 / [739.7] * 365 = \$ 13.55$ per bbl.) *

(2) Alaska Dept. of Revenue, *Fall 2012 Revenue Sources Book*, p. 35. ($6,341.8 / [552.8 * 365] = \31.43 per bbl.) *

(3) (Line 2 / Line 1) - 1.00.

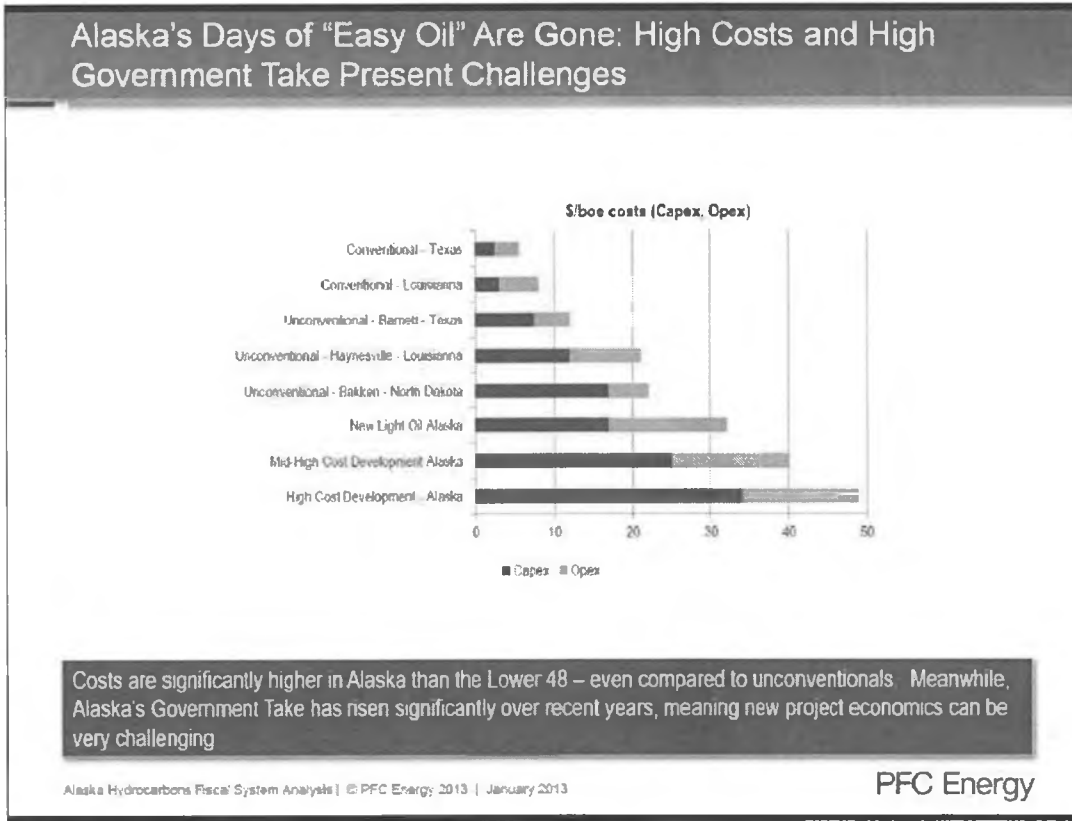
Note: The result shown above is calculated independent of production decline to present field expenditure increases on a per-dollar basis for comparison to inflation. If calculated on a per-barrel basis, between FY 2007 and FY 2013 estimated costs per barrel increased by 132.0%, calculated as follows: ($[\$31.43 / \$13.55] - 1.00$) = 131.96%.

(4) Calculated from CPI-U (U.S. Dept. of Labor Bureau of Labor Statistics, accessed Oct. 20, 2011; updated with EIA data).

(5), (6) PFC Energy, "Alaska's Days of 'Easy Oil' Are Gone: High Costs and High Government Take Present Challenges" (in "Alaska Hydrocarbons Fiscal Systems Analysis," presented to the Alaska Senate TAPS Throughput Committee, January 31, 2013, Slide 47. *

* See following exhibits.

Estimates of Current North Slope v. Lower-48 Field Cost



- PFC Energy, "Alaska's Days of 'Easy Oil' Are Gone: High Costs and High Government Take Present Challenges" (in "Hydrocarbons Fiscal Systems," presented to the Alaska Senate TAPS Throughput Committee, January 31, 2013, Slide 47.

"Days of Easy Oil
Are Gone"
(Above)

ADOR, Revenue
Sources Book
(Unaudited)

/-----\$/ boe (operating and capital) -----/

Lower-48:

Conventional (Texas) \$6.00 / bbl.
 Unconventional Bakken (North Dakota) \$22.00 / bbl.

Alaska

FY 2007 (Fall 2007 Revenue Sources Book) \$13.55 / bbl. *
 FY 2013 (Fall 2012 Revenue Sources Book) \$31.43 / bbl. **
 New Light Oil (Alaska) \$32.00 / bbl.
 High Cost Development (Alaska) \$49.00 / bbl.

* (3,659 / [739.7 * 365])
 Fall 2007 Revenue Sources Book, p. 36 (history)
 ** (6,341.8 / [552.8 * 365])
 Fall 2012 Revenue Sources Book, p. 35 (forecast)

[Exhibit 1 Source, Sheet 1]

Figure 4-6. Basic Data Used for ANS Oil & Gas Production Taxes

	FY 2007 History	FY 2008 Forecast	FY 2009 Forecast
State Production Tax Revenue from the North Slope			
Millions of Dollars	2,286.3	3,398.0	2,195.0
Key North Slope Assumptions			
Price of ANS WC in dollars per barrel	61.63	72.64	66.32
Transit Costs & Other in dollars per barrel	5.96	6.34	6.80
ANS Wellhead in dollars per barrel	55.67	66.30	59.32
Production in barrels per day	739,702	730,942	700,686
Royalty barrels per day	92,463	91,368	87,586
Taxable barrels per day	647,239	639,574	613,100
Lease Expenditures in Millions of Dollars			
Operating Expenditures (OPEX)	2,081	2,149	2,354
Capital Expenditures (CAPEX)	1,578	2,188	2,002
Total Expenditures	3,659	4,337	4,356
Implied North Slope Data			
Credits from CAPEX in Millions of dollars	315.6	219.0	418.9
Lease Expenditures per barrel of oil produced			
OPEX	7.71	8.05	9.21
CAPEX	5.84	8.20	7.83
Total Expenditures	13.55	16.25	17.03
Average Production Value per Barrel (Pre-Tax)	42.12	50.05	42.49
Production Tax Collected per Taxable Barrel	9.68	14.56	9.81

Notes

- 1 Costs for FY 2007 are unaudited and for the entire North Slope. Cost data reported July 2006 through December 2006 are actuals. January 2007 through June 2007 are estimates.
- 2 Costs for FY 2008 and FY 2009 are estimated after having reviewed the annual filings from oil companies and incorporating adjustments based on our assessment of future cost increases.
- 3 Assumptions for the transitional credits and the \$12 million credits are not included in the table.
- 4 The average production value per barrel presented in this table would differ from estimates the oil companies would prepare for tax liability purposes for several reasons: [a] the data in the chart are North Slope wide averages; [b] different companies have different cost structures and operate in different fields; [c] a company computing this average for tax liability purposes would only include the barrels it gets to keep, i.e., the company would exclude the barrels it pays in royalty.
- 5 FY 2008 ANS West Coast price forecast is as of November 30, 2007.

Figure 4-7. Basic Data Used for ANS Oil & Gas Production Taxes⁽¹⁾

	History		Forecast
	FY 2012	FY 2013	FY 2014
North Slope Price and Production			
Price of ANS WC in dollars per barrel	112.65	108.67	109.61
Transit Costs & Other in dollars per barrel	8.81	9.43	8.81
ANS Wellhead in dollars per barrel	103.84	99.24	100.80
Total ANS Production in thousands of barrels per day	579.1	552.8	538.4
Royalty and federal thousands of barrels per day ⁽²⁾	76.4	71.4	70.7
Taxable thousands of barrels per day	502.7	481.4	467.7

North Slope Lease Expenditures⁽³⁾⁽⁴⁾

Total North Slope Lease Expenditures in \$ millions			
Operating Expenditures [OPEX]	3,001.2	3,078.9	2,817.4
Capital Expenditures [CAPEX]	2,383.4	3,262.9	3,845.1
Total North Slope Expenditures	5,384.6	6,341.8	6,662.5
Deductible North Slope Lease Expenditures in \$ millions			
Operating Expenditures [OPEX]	2,862.2	2,832.8	2,779.0
Capital Expenditures [CAPEX]	1,543.0	2,393.0	3,338.6
Deductible North Slope Expenditures	4,405.3	5,225.8	6,117.6

State Production Tax Revenue⁽¹⁾

Millions of Dollars	6,146.1	4,353.2	3,778.8
Production Tax Collected per Taxable Barrel	33.4	24.8	22.1

State Wide Production Tax Credits⁽⁵⁾⁽⁶⁾

Credits Used against Tax Liability in \$ millions	360.0	490.0	615.0
Credits for Potential Purchase in \$ millions	353.0	360.0	400.0

⁽¹⁾ Production tax is calculated on a company specific basis, therefore the aggregated data reported here will not generate the total tax revenue shown. For an illustration of the tax calculation, see Appendix D.

⁽²⁾ Royalty and Federal barrels represents DOR's best estimate of barrels that are not taxed. This estimate includes both state and federal royalty barrels, and barrels produced from federal offshore property.

⁽³⁾ Lease expenditures and credits used against tax liability for FY 2012 were prepared using unaudited company-reported estimates.

⁽⁴⁾ Expenditure data for FY 2013 and FY 2014 are compiled from company submitted expenditure forecast estimates and other documentation as provided to the DOR. Expenditures shown here are shown in two ways: (1) total estimated expenditures including for those companies with no tax liability; and (2) estimated deductible expenditures for only those companies with a tax liability.

⁽⁵⁾ Production tax credits shown include all production tax credits and all areas of the state. North Slope CAPEX credits are spread out over two years as specified in the ACE5 production tax. Assumptions for the \$12 million credits for small Alaska producers are included in the table.

Exhibit 2.

Trans-Alaska Pipeline System Overcharges

Trans-Alaska Pipeline System Overcharges

**Trans-Alaska Pipeline System Overcharges,
1977-1996 (RCA 2002 Decision and Finding)**

[Exhibit 2 Data Sheet]

RCA, Order No. 151 (Docket P-97-4), Nov. 27, 2002

[Exhibit 2 Source, Sheet 1]

RCA, Order No. 151 (Docket P-97-4), Nov. 27, 2002

[Exhibit 2 Source, Sheet 2]

Trans-Alaska Pipeline System Overcharges, 1977-1996 (RCA 2002 Decision and Finding)

Exhibit 2 Data Sheet

1. TAPS Overcharges, 1977-1996	\$13,500,000,000.00	(1)
2. Barrels Shipped, 1977-1996 (estimated)	11,479,980,000	(2)
3. Carrier Overcharge per barrel, 1997- 1996 (1997 \$)	\$1.18	(3)
4. CPI-U Indexed Inflation Factor (1997 – 2012)	1.386	(4)
5. TAPS Overcharge per barrel, 1977 – 1996 (2012 \$)	\$1.63	(5)

6. Estimated Reduced Payments to State, 1977 - 1996 (2012 \$)	\$5,316,710 ,220.00	(6)
7. Est. Non-TAPS Owner Overpayments (1977 - 1996 (2012 \$))	\$1,216 ,303 ,881.00	(7)

Sources and Notes

(1) Regulatory Commission of Alaska, *Order Rejecting 1997, 1998, 1999 and 2000 Filed TAPS Rates: Setting Just and Reasonable Rates; Required Refunds and Filings; And Outlining Phase II Issues* (Docket P-97-4, Order No. 151), Nov. 27, 2002, p. 131.

(2) Estimated from Alaska Department of Revenue, *Fall 2002 Revenue Sources Book*, Appendix E (p. 130).

(3) = (Line 1 / Line 2)

(4) Calculated from CPI-U (U.S. Dept. of Labor Bureau of Labor Statistics, accessed Oct. 20, 2011; updated with U.S. Energy Information Administration data)

(5) = (Line 3 * Line 4)

(6) = (Line 2 * Line 5) * 0.3

(7) = (Line 2 * Line 5) * 0.1 * 0.65

Lines (1) through (5): the \$13.5 billion in 1997 dollars represents TAPS overpayments over a 20-year period in real or inflation-adjusted dollars, calculations 1 through 5 represent an estimate of these amounts in nominal (2013) dollars.

Line (6). This line represents the total reduced payments to the state resulting from the TAPS tariff overcharges from 1977 through 1996 (based on the assumption that over this 20-year period the state collected approximately 30% of net petroleum revenue in royalty and taxes). Since three TAPS shipper-owners accounted for approximately 90% of the North Slope production shipped through TAPS, over this 20-year period they retained approximately 90% of the overcharge total.

Line (7). This line represents the portion of TAPS overcharges paid out-of-pocket by independent TAPS shippers to the TAPS owners between 1977 and 1996, with payments reduced by an assumed 35% federal income tax rate on profits, as determined in the November 2002 TAPS tariff decision. (In this case, the RCA was not collecting refunds for the 1977-1996 period. Rather, the RCA was quantifying past tariffs to estimate the rate base for future TAPS tariffs and post-1996 refunds permitted by the statute of limitations. (Put otherwise: The TAPS owners did not refund the overcharges collected from shippers between 1977 and 1996.)

1		
2		<u>STATE OF ALASKA</u>
3		<u>THE REGULATORY COMMISSION OF ALASKA</u>
4	Before Commissioners:	G. Nanette Thompson, Chair
5		Bernie Smith
6		Patricia M. DeMarco
7		Will Abbott
8		James S. Strandberg
9	In the Matter of the Correct Calculation and Use of Acceptable Input Data To Calculate the 1997, 1998, 1999, 2000, 2001, and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System Filed by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; EXXONMOBIL PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; UNOCAL PIPELINE COMPANY; PHILLIPS TRANSPORTATION ALASKA, INC.; and WILLIAMS ALASKA PIPELINE COMPANY, L.L.C., and the Protest by TESORO ALASKA PETROLEUM COMPANY of the 1997 and 1999 Tariff Rates	P-97-4 ORDER NO. 151
10		
11		
12		
13		
14		
15		
16	In the Matter of the Petition of TESORO ALASKA PETROLEUM COMPANY for an Investigation into the Amounts Collected by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; and UNOCAL PIPELINE COMPANY for Dismantling, Removal, and Restoration of the Trans Alaska Pipeline System	P-97-7 ORDER NO. 110
17		
18		
19		
20		
21		
22		
23		<u>ORDER REJECTING 1997, 1998, 1999 AND 2000 FILED TAPS RATES; SETTING JUST AND REASONABLE RATES; REQUIRING REFUNDS AND FILINGS; AND OUTLINING PHASE II ISSUES</u>
24		
25		
26	BY THE COMMISSION:	
		P-97-4(151)/P-97-7(110) - (11/27/02)

Regulatory Commission of Alaska
701 West Eighth Avenue, Suite 300
Anchorage, Alaska 99501
(907) 276-6222; TTY (907) 276-4533

1 B. Comparing From the Beginning of Pipeline Operation, the Annual Past
2 Revenue Requirements of a DOC Methodology With the Annual Past Revenue
3 Requirements of TSM. Demonstrates That the Year-end 1996 Rate Base of \$669
4 Million Is Reasonable

5 We now compare the past annual DOC revenue requirements shown at
6 Exhibit 33 with the past annual TSM revenue requirements. Exhibit 7, Schedule 2
7 reveals that TSM has, on a cumulative basis,⁵⁴⁷ provided the Carriers with an
8 opportunity to recover \$9.9 billion more than their costs as determined by the DOC
9 revenue requirements.⁵⁴⁸ In 1997 dollars, the net present value⁵⁴⁹ of the cumulative
10 stream of revenue requirement differences is \$13.5 billion, far in excess of the \$669
11 million year-end 1996 DOC rate base.

12 Because the revenue requirements determined under TSM have been
13 higher than costs as determined under a DOC methodology applied consistently from
14 the beginning of pipeline operations, we find that the Carriers have had ample
15 opportunity to recover costs and no taking of Carrier property occurs if we adopt a \$669
16

17 ⁵⁴⁷Our finding regarding the appropriateness of TSM depreciation and the year-
18 end 1996 rate base is properly tested with reference to the Carriers' *cumulative*
19 historical opportunity to recover their full costs of service. In *Re Amerada Hess Pipeline*
20 *Corporation*, Order P-97-4(79), April 10, 2000, we directed the Carriers to show that
21 1997-2000 rates reflect costs. We found that evidence that rates are just and
22 reasonable over the life of the line is not sufficient to prove that the rates for specific
23 years are just and reasonable. *Id.*, at 11. The Carriers' "life of the line" argument
24 requires, among other things, a projection of costs of service into the future. Moreover,
25 it fails to address whether 1997-2000 costs are reflected in 1997-2000 filed rates. We
26 evaluate *historical* costs; we do so to determine whether 1997-2000 rates reflect the
costs of providing service for the years in question.

⁵⁴⁸Exhibit 7, Schedule 2, Line 1.

⁵⁴⁹Exhibit 7, Schedule 2, Line 2. The net present value calculation uses interest
rates equal to the Commission's overall weighted rate of return in each year. See
Exhibit 7, Schedule 1, Line 6. We note that the present value comparative revenue
requirement analysis indexes 1997 dollars, because those are the dollars with which the
remaining rate base is measured.

Exhibit 3.

Average Government Take

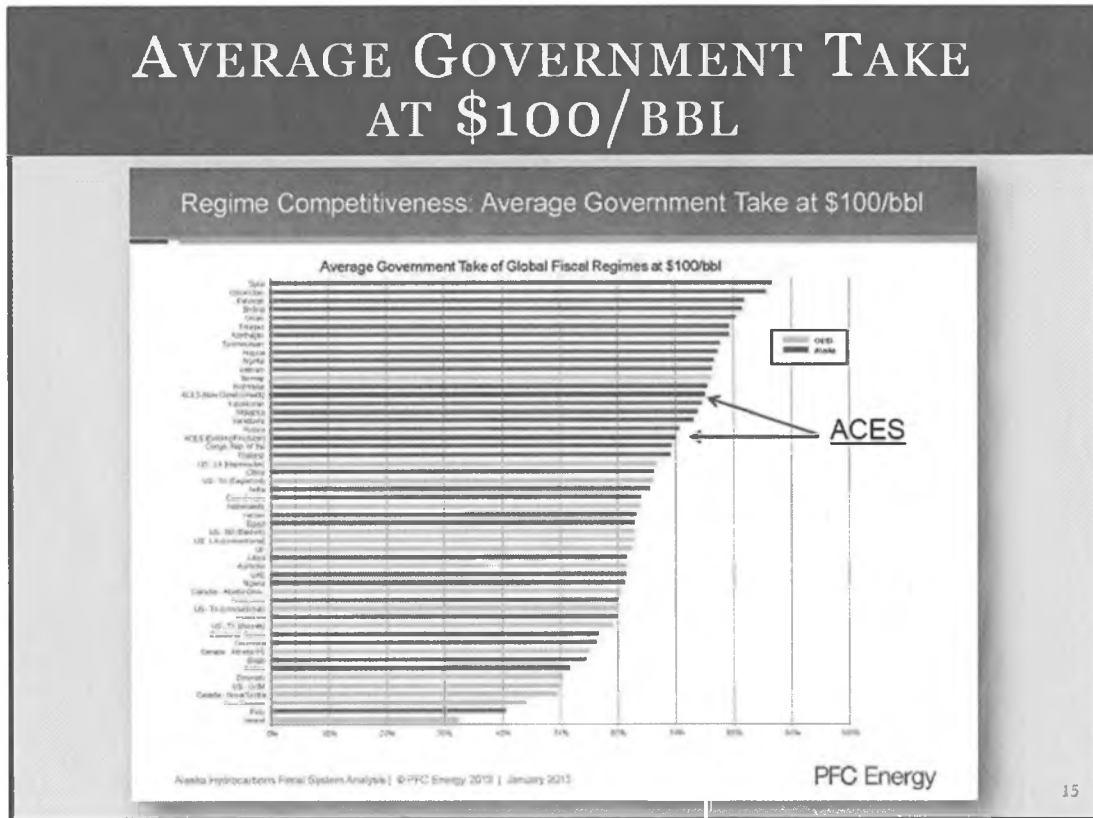
Average Government Take

Average Government Take at \$100 / bbl

Exhibit 3 (Sample Regime Competitiveness Slide)

Average Government Take at \$100 / bbl

Exhibit 3 (Sample Regime Competitiveness Slide)



- PFC Energy, "Regime Competitiveness: Average Government Take at \$100 / bbl" (from PFC Energy, "Alaska Hydrocarbons Fiscal Systems Analysis," January 2013; presented to the Alaska House Resources Committee by Commissioners Daniel S. Sullivan [DNR] and Bryan Butcher [DOR], in "Oil Tax Reform – Arresting TAPS Throughput Decline" (slide presentation), March 28, 2013, Slide 15).

The red bars in this chart estimate average North Slope government take of 70% (Existing Production) and 75% (New Development). These estimates: (1) reflect greatly increased field costs, (2) assume a nominal 35% federal income tax rate and (3) treat TAPS and marine shipments as costs excluding estimates of transportation profits. All three factors affect regime competitiveness. For example:

- If escalating but essentially unaudited field costs contain overcharges, independent producers, who must pay these costs out of pocket, will be handicapped.
- At a market price of \$100 per barrel, 2% reduction from the assumed nominal federal income tax rate of 35% would reduce a producing company's government take by approximately 1%. (Therefore, a company paying a 21% federal income tax would see a reduction in net revenue take percentages of approximately 7% and a company that paid no federal income tax on current-year operations due to offsetting overseas tax payments would see a reduction in government take of approximately 17%.).
- Inclusion of transportation profits would lower the average government take slightly at \$100.00 per barrel and would have greater effect at low oil prices by providing guaranteed profit. Producers who do not own these transportation systems pay these costs out of pocket and are therefore subject to competitive handicap.

Exhibit 4.

Nominal v. Actual Federal Income Tax Rates

Nominal v. Actual Federal Income Tax Rates

Nominal v. Actual Federal Income Tax Rates: The Problem

[Exhibit 4]

Analysis: Gas price spike revives fight over energy taxes

[Exhibit 4 Background Information, Sheet 1]

[Exhibit 4 Background Information, Sheet 2]

[Exhibit 4 Background Information, Sheet 3]

Nominal v. Actual Federal Income Tax Rates: The Problem

Exhibit 4

Most informed observers would probably agree that corporations are not likely to pay taxes at the nominal corporate federal income tax rate of 35%. But exactly what each corporation pays annually is by no means clear. Due to loopholes in this system and tax information shielded by confidentiality, it is difficult to determine exactly what corporations do pay annually. Citizens for Tax Justice (CTJ) joined the Institution on Taxation and Economic Policy to take what it called “a hard look at the federal income taxes paid or not paid by 280 of America's largest and most profitable corporations in 2008, 2009 and 2010.” The companies covered in that report – all from the *Fortune 500* and profitable in each of the three years analyzed – were ostensibly required to pay a 35 percent corporate income tax rate but only paid, on average, about half that amount. CTJ reported that “a quarter of the companies in our study paid effective federal tax rates on their U.S. profits of less than 10 percent, while some paid nothing at all.” However, CTJ was quick to add, “an almost equal number of our companies paid close to the full 35 percent official corporate tax rate.” CTJ concluded that “corporate tax loopholes are so out of control that most Americans can rightfully complain, ‘I pay more federal income taxes than General Electric, Boeing, DuPont, Wells Fargo, Verizon, etc., etc., all put together.’ That’s an unacceptable situation.”¹

Federal tax breaks identified by CTJ include accelerated depreciation, industry-specific tax breaks (including oil and gas), domestic deductions and credits offsetting foreign tax payments.² Assignment of tax returns to specific years is complicated by tax loss carry-forward and carry-back provisions. According to an on-line tax advisor:

A tax loss carry forward is a provision in the Tax Code to allow a business to use a to use a net operating loss in one year to offset a profit in one or more future years.... You can elect to carry forward an NOL up to 20 years.

A tax loss carry back is a similar type of provision, which allows the business to carry a net operating loss back to offset profits in previous years.³

CTJ's reportage on ExxonMobil's earnings gives an indication of the extent to which federal income tax payments can vary from the nominal 35% federal income tax rate of tax payments:

<u>Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Pre-Tax Profit (mm\$)	\$9,745.5	\$2,490.8	\$7,419.4	<n.a.>
Federal Income Tax	\$2,744.5	(\$953.8)	\$992.4	<n.a.>
Rate (%)	28.2%	-38.3%	13.4%	13.0%

2008 – 2010: *Corporate Taxpayers & Corporate Tax Dodgers*, 2008-2010, p. 44;

2011: Citizens for Tax Justice, as reported by Reuters “Big U.S. oil “effective” tax rates, 2011” (see Exhibit 4, Background Information, Sheet 2.

In assessing North Slope profits through 2005, former Atlantic Richfield projects manager who chaired the Trans-Alaska Pipeline Company owners committee wrote that “[t]he effective federal tax rate of 21 percent was approximately one-half the average federal corporate income tax rate over the investment period.”⁴

¹ Robert S. McIntyre (Citizens for Tax Justice), *et al.*, *Corporate Taxpayers & Corporate Tax Dodgers*, 2008-2010 (Citizens for Tax Justice & the Institute on Taxation and Economic Policy), November 2011, p. 1.

² *Corporate Taxpayers & Corporate Tax Dodgers*, 2008-2010, pp. 12-14 and 50-52 and 66.

³ Jean Murray (About.com Guide), “What’s the Difference between a Loss Carry Back and a Loss Carry Forward?” (accessed at <http://biztaxlaw.about.com/od/businessstaxdeductions//Difference-Between-A-Loss-Carry-Back-And-A-Loss-Carry-Forward.htm>).

⁴ John M. Miller, *The Last Alaskan Barrel: An Arctic Oil Bonanza that Never Was* (Caseman Publishing, 2011), p. 106.

Exhibit 4.: Background Information

Analysis: Gas price spike revives fight over energy taxes

(Exxon Mobil, the world's most profitable corporation, says it paid more than 45 percent of its 2011 income in taxes, while critics say it paid much less.

**By Kim Dixon– Mar. 26, 2012 (Washington, DC)
(Reuters)**

Accessed April 21, 2012 at <http://www.reuters.com/article/2012/03/26/us-usa-tax-biooil-idUSBRE82P0DX20120326>

So which is it?

The answer is that it depends on how the calculation is made and who is making it - a point that is becoming more important as gasoline prices and oil company profits soar.

Energy industry taxes are again a political issue, with just months to go before the November 6 congressional and presidential elections. President Barack Obama says he wants to kill \$40 billion in tax breaks enjoyed by giants such as Exxon, Chevron and Conoco.

"Oil companies are making more money right now than they've ever made," Obama said earlier this month. "On top of the money they're getting from you at the gas station every time you fill up, they want some of your tax dollars as well."

But the companies say they already pay among the highest corporate tax rates.

"We're the highest taxed industry that I'm aware of," Chevron Chief Executive John Watson said earlier this month.

The difference between the effective tax rate cited by Exxon and lower rates cited by groups such as Citizens for Tax Justice, a left-leaning tax activist group, has several causes.

One is that the company counts foreign taxes paid, while Citizens for Tax Justice does not. Another is that Exxon counts deferred taxes, as well, but the consumer group does not. Still another is which profits are counted by the company and critics.

There are other technical variations shaping the calculations of effective tax rates, but these subtleties are often lost in the sound bites of the ongoing tax policy debate.

Depending on your perspective, oil industry tax breaks are either a vital part of reducing U.S. dependence on foreign oil or a giveaway to rich and powerful corporations. Politicians from both parties play regularly on these themes.

Either way, as lawmakers slowly move toward revamping the U.S. tax code for the first time in 25 years, the oil industry's tax breaks and tax rates are under growing scrutiny.

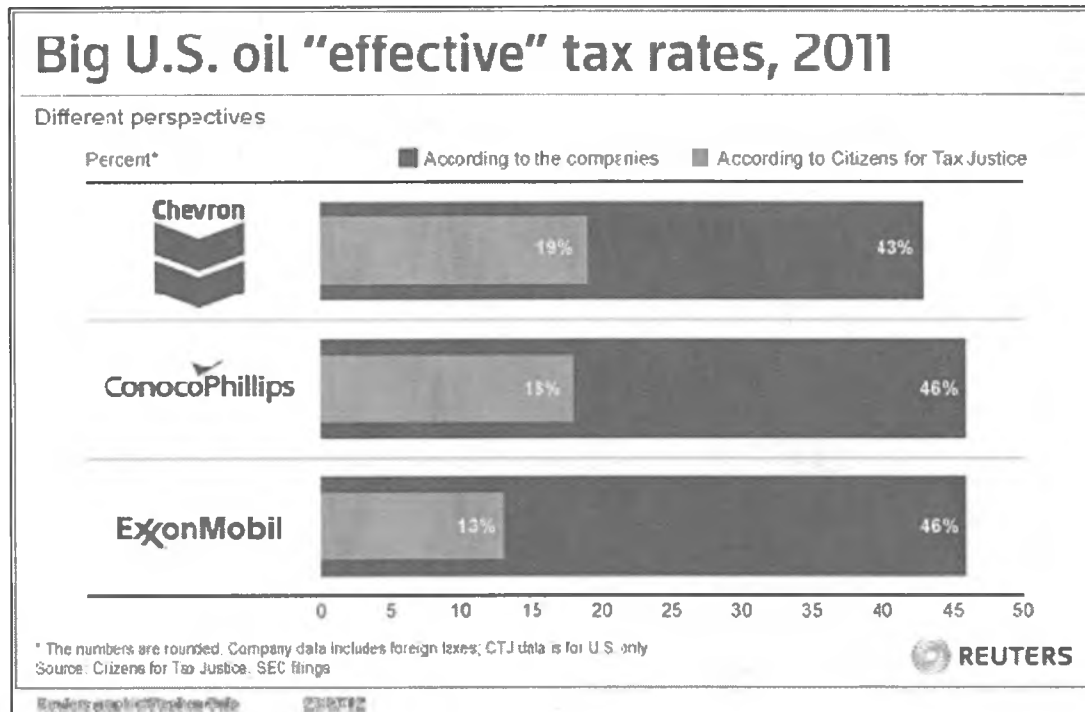
Democrats in the Senate on Monday will begin debate on repealing the tax breaks. There is little chance of repeal happening now, but the issue will carry into the campaign.

Republican presidential hopefuls Mitt Romney and Rick Santorum have blasted Obama for over-regulating the industry.

The next big action on taxes is expected at the end of the year, coinciding with the December 31 expiration of individual tax rates enacted under Republican President George W. Bush.

"That will be crazy and chaotic and anything can happen in that kind of scenario," said Jim Lucier, an analyst at institutional investor advisory Capital Alpha Partners.

Reuters Analysis (Continued)



– GRAPHIC-Big Oil's tax rates link.reuters.com/hvk37s

BIG OIL EARNS BIG

Four of the five biggest oil companies ranked among the top 10 most profitable companies in 2011, according to Fortune, with collective profits of about \$80 billion. BP Plc, beset by costs from the Gulf oil spill, had losses, bringing down the average.

The biggest oil companies' tax rates are relatively high when the foreign taxes that they pay are included. On a U.S.-only basis, their rates vary.

There are many ways to calculate how much a company actually pays in U.S. taxes. One roadblock to making independent tax rate estimates is that tax filings are confidential, and filings with securities regulators use a different accounting method.

"Most of what they are putting on their financial statements doesn't really tie to what they are putting into their tax returns," said George Yin, a former chief of staff at the congressional Joint Committee on Taxation.

When calculating the headline tax rates it displays to the public, the industry lumps together U.S. and foreign taxes. It includes taxes that are deferred and thus not paid yet. U.S. companies must pay taxes on profits earned abroad, but they can defer these taxes until they bring the cash into the country.

That is the method behind the American Petroleum Institute's 41 percent estimate for the industry as a whole.

Citizens for Tax Justice considers U.S. profits and U.S. taxes paid only. By that measure, Exxon Mobil paid 13 percent of its U.S. income in taxes after deductions and benefits in 2011, according to a Reuters calculation of securities filings.

Chevron paid about 19 percent by that method, near CTJ's average for all industries.

[Exhibit 4 Background Information, Sheet 2]

Reuters Analysis (Continued)

It is a far cry from the 35 percent top corporate tax rate.

Still, the three-year average for telecom companies is 8 percent; for information technology services companies, it is 2.5 percent, according to CTJ.

"A lot of the techniques that multinationals use to reduce taxes are simply not available to big energy companies," said Howard Gleckman, a fellow at the Tax Policy Center, a centrist think tank.

BIG OIL LACKS IP EDGE

One way big technology and drug companies cut U.S. taxes is by shifting intellectual property income to lower-tax countries. Oil and gas companies, in general, don't benefit from that.

Bob McIntyre, president of Citizens for Tax Justice, said the fact that oil companies still drill in high-tax countries like Saudi Arabia proves they will keep drilling if their U.S. taxes go up. "Their foreign tax rates are very high, and they don't leave Saudi Arabia," McIntyre said.

One major tax break for energy companies is a nearly century-old benefit letting them deduct "intangible drilling costs" (IDC) immediately rather than over time.

Most of the IDC is for the labor costs of drilling a well.

Legislation drafted by Democratic Senator Robert Menendez would limit this break, among others. Ending it completely would raise \$14 billion over a decade, according to the White House.

Energy companies liken this benefit to the research and development tax break employed by companies like Apple Inc.

"All the labor (that) tech companies spend on research and development, everything that Apple spends designing the next new product, they recover," said Brian Johnson, a tax expert at the American Petroleum Institute. "Cost recovery is cost recovery."

Not exactly. Many tax experts across the political spectrum said the IDC is a clear exception made for oil. As a rule, expenses that produce income in the future are not immediately deductible.

LITTLE OIL

Most oil companies are not as big as Exxon or Chevron. Mid-sized, independent producers include Devon Energy Corp and Chesapeake Energy Corp. These companies get even more generous benefits than the giants.

Indeed, the Center for Tax Justice finds Devon recorded a 5.5 percent three-year average tax rate and Chesapeake had an 8.1 percent average over the period.

"What is absolutely critical is the profound distinction between little oil and big oil - the smaller companies receive pretty generous breaks," said economist Alan Viard of the conservative American Enterprise Institute.

For example, the so-called percentage depletion allowance lets these mid-sized companies take an annual 15 percent deduction for depletion of oil and gas resources in the ground, instead of deducting the decline in value over time.

Obama wants to repeal this benefit as well.

The biggest oil companies don't get this benefit. Viard called it an "indefensible loophole."

Exhibit 5.

**Prof. Joseph Stiglitz on Corporate Conduct in
Alaska**

**(Supplement: Current Constitutional Budget
Reserve Fund Settlement Payments)**

***Questionable Accounting Practices and the
Importance of Audits***

Joseph Stiglitz on Corporate Conduct in Alaska
[Exhibit 5, Pages 1 & 2]

ADOR Fall 2012 Revenue Sources Book, p. 96
[Exhibit 5 Source, Sheet 1]

Questionable Accounting Practices and the Importance of Audits¹

The state's petroleum litigation history clearly demonstrates the importance of validating the revenue calculation starting point – particularly when transfer pricing from one arm of a company to another is involved.

In a 2007 study of multinational oil corporations and resource development, noted economist Joseph Stiglitz portrayed Alaska as the poster-child of corporate cheating. Stiglitz described his first-hand experience with Alaska – in royalty litigation during the 1980's – as follows:

“The prospects of cheating are very real and great, and can arise at every stage of the transaction. The government may get less for the lease than it should – there may even be attempts to restrict competition in bidding. Whatever the contract that has been signed, corporations are tempted to cheat – to pay less than they are supposed to – because the amount of money that can sometimes be made by doing so is so large. The occasions to cheat arise not just in developing countries. In the 1980s I worked on a case involving cheating by the major oil companies in Alaska. This oil-rich state had a mineral lease requiring the oil companies to pay at 12.5 percent of the gross receipts, less the cost of transporting the oil out from the far-flung site at Prudhoe Bay on the Arctic Circle. By overestimating their costs by just a few pennies per gallon (and multiplying those pennies by hundreds of millions of gallons) the oil companies would increase their profits enormously. They could not resist the temptation.

They also found other ways to cheat, such as selling their oil to their own subsidiaries, recording a lower than fair market value (see chapter 4); or using other subsidiaries to ship their oil out and then reporting fictionally high shipping cost. Each piece of the cheating was hard to detect, and government prosecutors had to analyze thousands of transactions- – at a cost of tens of millions of dollars. In the end, there was no doubt that cheating had occurred – and on a massive scale. There followed a series of settlements involving a whose who of global companies – including what are now BP, ExxonMobil and ConocoPhillips – for an amount in excess of 6 billion dollars.²

The \$6-billion estimate by Stiglitz was conservatively cast; state records compiled and reported on by this writer in 2003 showed that the Alaska Dept. of Law reported \$6.8 billion in oil and gas settlement payments for underpayments on taxes and royalties through 2001.³ Since that time,

¹ This exhibit has been updated from Richard A. Fineberg, *Establishing a Rational Foundation for Review, Formulation and Implementation of Alaska's Oil and Gas Fiscal Policy* (April 2011), Section VI., pp. 31-33, with data from the Alaska Department of Revenue's *Fall 2012 Revenue Sources Book*, p. 96.

² Joseph E. Stiglitz, “What Is the Role of the State?” Macartan Humphreys, Jeffrey D. Sachs and Joseph E. Stiglitz (eds.), *Escaping the Resource Curse* (Columbia Univ. Press, 2007), pp. 24-25 (footnotes omitted).

³ See: Richard A. Fineberg, “Securing the Take: Petroleum Litigation in Alaska,” in *Caspian Oil Windfalls: Who Will Benefit?* [New York: Open Society Institute, 2003], pp. 53-69 [Chapter 3]. (Stiglitz cited the author's 2003 compilation as the source for his statement that the state was short-changed and forced to litigate to recoup “in excess of 6 billion dollars.”)

Although I never met Prof. Stiglitz, while serving in the governor's office between 1987 and 1989 I worked on the royalty case that he discusses in this passage. During this period, in addition to serving with the governor's policy review team, I spent time with the state's contractual staff team tallying data on oil transactions; this experience enabled me to give first-hand information to the governor's policy review team. Given this common background, I can confirm the accuracy of Prof. Stiglitz's observations.

the Constitutional Budget Reserve Fund reports taking in another \$1.7 billion in oil and gas settlements, bringing the total revenue gained through petroleum litigation since Prudhoe Bay entered production to \$8.5 billion.⁴

Is trust or verification the wiser policy? It is difficult to answer this question because the critical facts about these settlements remain shielded behind the veils of taxpayer confidentiality and commercial propriety. However, the softness surrounding important numbers that have swirled around the current petroleum tax discussion suggest to me that at this time we do not have a firm grip on this issue. The following empirical indicators tip the scales toward verification:

- The Department of Law has put in a budget request for \$5 million for the coming fiscal year for outside counsel to assist with oil and gas litigation.⁵
- In my experience, litigation has typically yielded a pay-out on state investment conservatively estimated at 10:1.
- In 2006 and 2007, veteran state oil and gas personnel from the Departments of Revenue and Law assured me that the relatively large sums of money at issue in revenue disputes were a thing of the past – an historical artifact that reflected the fact that nation's largest oil field came on-line in the midst of the two significant price spikes of the 1970's, confronting both the industry and the state with a steep learning curve. Balanced against this sanguine historical interpretation is the fact that \$1.6 billion of the \$1.7 billion in litigation revenue collected since FY 2003 has been collected in the last six years.⁶ This six-year collection average of \$267.17 million per year represents a ten-fold increase over the period between 2003 and 2006.

– Richard A. Fineberg

⁴ *Fall 2012 Revenue Sources Book*, p. 96. (Under Article IX, Sec. 17 of the Alaska State Constitution, the state deposits all money received as a result of administrative proceedings or litigation on mineral lease payments or taxes on mineral income into this fund.)

⁵ Alaska Dept. of Law, "Oil and Gas Litigation (Non-Gasline)," Reference No. 51784, Feb. 16, 2011 [FY 2012 Governor Amended Capital Project Summary], pp. 1-2.

⁶ *Fall 2012 Revenue Sources Book*, p. 96. These figures do not include the settlement for revenue last due to the TAPS emergency shutdown in January 2011. Based on the settlement for this amount, the Revenue Department anticipates a deposit of \$255 million to the Constitutional Budget Reserve Fund from BP during FY 2013.

Alaska Department of Revenue • Tax Division

Exhibit 5 (Fall 2012 Revenue Sources Book)

A-5a Total Petroleum Revenue—History
 (\$ million)

FY	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Unrestricted Petroleum Revenue										
Petroleum Corporate Income Tax	151.1	298.8	524.0	661.1	594.4	605.8	492.2	445.1	542.1	568.8
Oil and Gas Production Tax	589.8	642.7	854.9	1,191.7	2,198.3	6,810.9	3,100.9	2,860.7	4,543.2	6,136.7
Oil and Gas Hazardous Release	9.2	9.2	8.3	7.8	10.1	11.7	11.1	10.3	9.7	9.4
Oil and Gas Conservation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum Property Tax	48.7	47.3	42.5	54.5	65.6	81.5	111.2	118.8	110.6	111.2
Oil & Gas Royalties	825.7	1,042.8	1,401.1	1,772.2	1,583.8	2,420.6	1,451.2	1,469.0	1,821.3	2,022.8
Bonuses, Rents & Interest	14.6	13.3	18.8	11.9	29.2	25.5	14.4	8.0	22.0	8.8
Total Unrestricted Petroleum Revenue	1,639.1	2,054.1	2,849.6	3,699.2	4,481.4	9,956.0	5,181.0	4,912.9	7,048.9	8,857.8
Restricted Petroleum Revenue										
NPR-A Rents, Royalties, Bonuses	34.8	2.5	31.6	4.5	12.8	5.2	14.8	21.3	3.0	4.8
Royalties to Permanent Fund	397.6	354.7	478.9	599.5	535.0	834.0	659.8	696.1	857.3	904.9
Royalties to Public School Fund	6.2	7.1	9.5	12.0	10.6	16.5	11.0	11.1	13.6	14.7
CBRF Deposits	22.3	8.4	27.4	43.7	101.9	476.4	202.6	552.7	167.3	102.1
Total Restricted Petroleum Revenue	460.7	372.7	545.5	659.7	660.3	1,332.1	888.2	1,281.2	1,041.2	1,026.5
Total Petroleum Revenue	2,099.8	2,426.8	3,395.1	4,358.9	5,141.7	11,288.1	6,069.2	6,194.1	8,090.1	9,884.3

Exhibit 6.

“Oil profits weather ‘Hurricane’”

Fairbanks Daily News-Miner, Oct. 14, 2012

“Oil Profits weather ‘Hurricane’”

**Richard Fineberg “Community Perspective”
column (with “Hurricane Gulch” chart),
*Fairbanks Daily News-Miner, Oct. 14, 2012.***

[Exhibit 6, Pages 1 & 2]

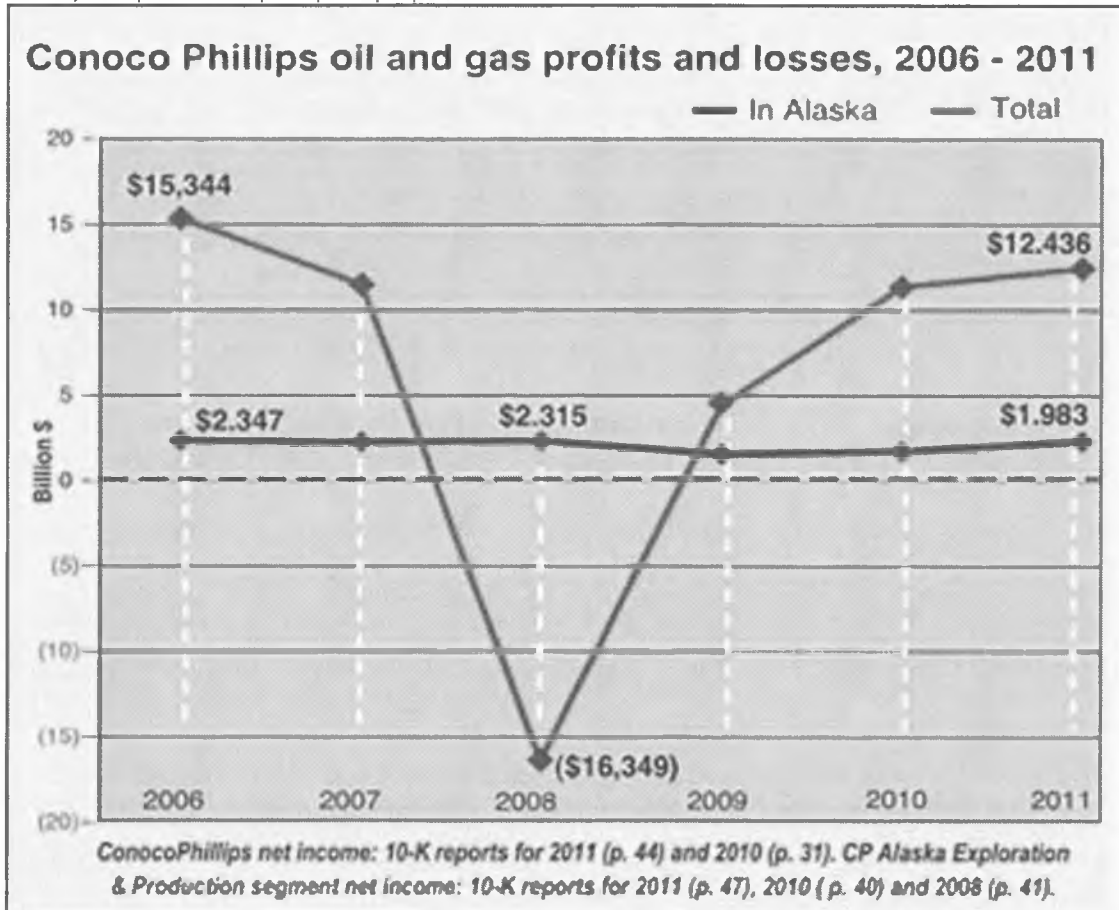
Oct. 14, 2012, p. F3

Oil profits weather 'Hurricane'

ConocoPhillips expects Alaska to outperform every other oil province

by Richard A. Fineberg

Oct 13, 2012 | 1252 views | 0 | 1 | | | |



Richard A. Fineberg (Research Associates), October 2012

They say one picture is worth a thousand words, but here's one picture that is worth \$2 billion per year: Using data that ConocoPhillips reports annually, the attached chart highlights the contrast between steady, after-tax profits the company earns in Alaska and the company's erratic results from its operations in the rest of the world.

Since Alaska switched to a cost-based petroleum production tax six years ago, ConocoPhillips has reported net profits from Alaska averaging more than \$1.9 billion per year. But ConocoPhillips is still recovering from a profit collapse outside Alaska in 2008, when it suffered a tremendous loss that was attributed to natural gas investments in the Lower 48 that went sour as natural gas prices crashed. ConocoPhillips' Alaska net profits of \$3.8 billion for 2008 and 2009 compares to the company's total net loss of \$11.9 billion during the same two years, as graphically demonstrated in the chart.

When ConocoPhillips' performance in Alaska and the rest of the world are viewed together, the resulting picture of the last six years looks like the Parks Highway crossing at Hurricane Gulch, 170 miles north of Anchorage. At Hurricane, travelers cruise across a spectacular, steep-sided gulch on a high bridge. ConocoPhillips' Alaska profits resemble the path of the highway, gliding smoothly over the abyss beneath the Hurricane bridge. Beneath the bridge, the steep slopes form a dramatic "V" that matches ConocoPhillips' overall 2008 profit plunge.

These data graphically demonstrate that the major North Slope producers do not need the \$2 billion annual giveaway in Alaska tax cuts that the governor, the industry and misguided citizens have been advocating for the last two years.

As a long-time observer of Alaska oil and gas policy issues, I have noticed that in the confusion that typically swirls around the controversial oil proposals, even the most basic facts can get lost. For example, ConocoPhillips is one of three companies that wield tremendous power by controlling roughly 95 percent of Alaska North Slope crude oil production; the same three companies also own a roughly similar percentage of the trans-Alaska pipeline system.

A host of facts buried in the company's dense reports to the U.S. Securities and Exchange Commission support the challenge to the tax cut proposal. For example:

- In the six years since the state shifted to a net profits tax, ConocoPhillips has raked in \$12.3 billion in after-tax profits from Alaska — an average of nearly \$4,000 per minute, day in and day out.
- During this period, while ConocoPhillips' Alaska production has declined by 34 percent, the company's reported Alaska net income for 2011 — \$1.983 billion — is only 16 percent less than its 2006 Alaska profits.

In addition to these historical facts, another important set of data in the ConocoPhillips SEC reports is also overlooked: Looking forward, ConocoPhillips' estimates of future performance, filed in conformance with SEC requirements, indicate that the company expects its Alaska investments to outperform its investments in every other part of the world by significant margins.

The facts that ConocoPhillips has earned remarkably steady profits from Alaska under the current tax regime and anticipates higher future returns from Alaska than from other regions undermines that company's plea for a big Alaskan oil tax cut.

While ConocoPhillips is required to file public information relevant to its Alaska operations in its annual 10-K report to the SEC, neither of the other two major North Slope producing companies — ExxonMobil and BP — are required to do so. Moreover, legislative hearings have demonstrated that state management entities such as the petroleum audit system are notoriously incapable of producing reliable data on petroleum expenditures.

In this troubled situation, I believe that state senators such as Joe Paskvan and Joe Thomas deserve great credit for their efforts to provide the public with basic facts as they seek constructive solutions to North Slope petroleum development issues.

The picture painted by the accompanying chart is worth \$2 billion per year. Look for candidates with the brains to recognize the significance of the SEC 10-K data on ConocoPhillips and the guts to use this information.

Richard A. Fineberg of Ester is an independent policy analyst who has studied and reported on Alaska oil and gas development issues for nearly four decades.

Accessed Oct. 14, 2012 at http://newsminer.com/view/full_story_opinion/20489500/article-Oilprofits-weather-%E2%80%98Hurricane%E2%80%99?instance=com_perspectives

Exhibit 7.

“The numbers show why oil tax reform is needed”

Fairbanks Daily News-Miner, Nov. 2, 2012

“The numbers show why oil tax reform is needed”

**Scott Jepsen “Community Perspective” column
(with CP v. State Net Revenue Chart)**

Fairbanks Daily News-Miner, Nov. 2, 2012
[Exhibit 7, Pages 1 & 2]

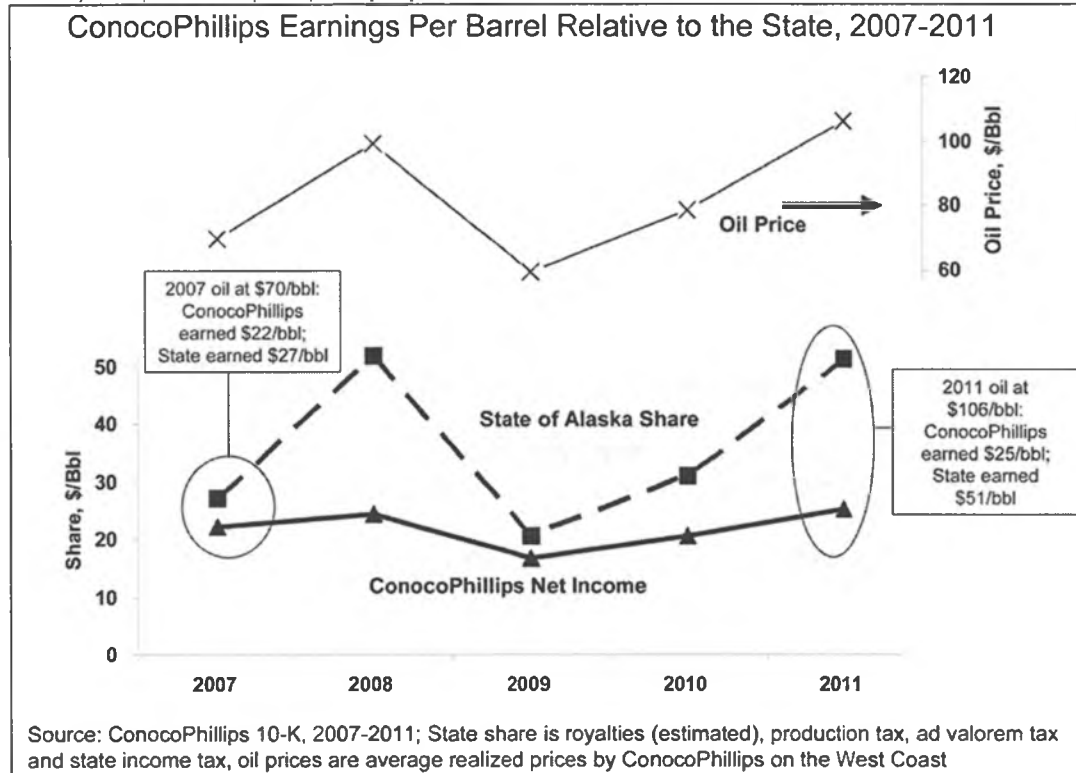
Nov. 2, 2012

The numbers show why oil tax reform is needed:

ConocoPhillips has a profit, but state takes much more

by Scott Jepsen

Nov 02, 2012 | 887 views | 4 | 8 | | | |



ConocoPhillips is proud to have been a partner with the state of Alaska in developing Alaska's oil and gas resources for more than 50 years. Today, ConocoPhillips employs more than 1,000 Alaskans directly and supports thousands of other Alaska jobs through our contractors. Working in partnership with the state and its citizens, we hope to continue to operate in Alaska for many more decades. However, high taxes on North Slope oil production, in particular the tax increases passed by the legislature in 2007 under a bill called Alaska's Clear and Equitable Share, are hurting the investment climate on the North Slope and ultimately the long-term health of Alaska's economy.

Like any publicly traded company, we are in business to make a profit to provide for sustained investment and growth. We invest billions in developing and producing oil and natural gas and pay billions in taxes and royalties, but also expect to make returns commensurate with the investment size and risk. Since ACES was enacted in 2007, through to year-end 2011, we have reported almost \$10 billion in net Alaska income.

While this is an impressive figure, it needs to be placed in proper context. During the same period, ConocoPhillips paid approximately \$16 billion in taxes and royalties to the state of Alaska — 60 percent more than we earned. Counting federal income taxes in that period, we paid approximately \$21 billion in taxes and royalties — twice what we earned. The ACES tax increases have skewed the balance between investor risk and reward.

The Legislature's consultant on oil taxes, PFC Energy, has pointed out on numerous occasions that Alaska's marginal tax rate is among the highest in the world.

The accompanying chart demonstrates the impact Alaska's marginal tax rate has on profits. From 2007 through 2011, oil prices rose from about \$70 per barrel to almost \$106 per barrel — an increase of more than 50 percent. But over the same period, ConocoPhillips' net income in Alaska only increased from about \$22 per barrel to about \$25 per barrel.

So, where did most of the price upside go? Due to the "progressivity" feature of ACES, the state's share rose from about \$27 per barrel to a peak of \$51 per barrel, an increase of almost 90 percent. This is the main problem with ACES: Due to its hyper-intensive progressivity element, the state takes the vast majority of the upside.

Those who want to leave ACES unchanged frequently cite ConocoPhillips' earnings reports to support their arguments by comparing ConocoPhillips' Lower 48 earnings to its Alaska earnings. (*Editor's note: See Richard Fineberg, Daily News-Miner, Oct. 14, page F3*) But that is an apples-to-oranges comparison. In the Lower 48, natural gas and natural gas liquids make up a large part of ConocoPhillips' portfolio. Those products have lower value and margins than oil, especially after recent steep declines in natural gas prices. Conversely, the vast majority of our production in Alaska is oil, which has a relatively high value. This type of comparison to the Lower 48 provides no real insight into the relative health of Alaska's investment climate.

A better measure is capital investment. Despite rising oil prices, ConocoPhillips' capital budgets in Alaska in 2010 to 2012 remained flat at about \$900 million per year. In the Lower 48, our capital budgets tripled, from \$1.6 billion in 2010 to \$4.8 billion in 2012, driven by attractive Lower 48 oil plays given today's high oil price environment.

This is the fundamental problem of ACES — it skews the risk-reward balance of investments at high prices, making the North Slope a less favorable place to invest.

Ultimately, oil taxation in Alaska is about the balance the state wants between business activity levels, production and state revenues. Today, the balance is heavily weighted to short-term state revenues and does not provide the incentives for increased investment that will result in more oil production. That does not bode well for the investments needed to help ensure a long-term, healthy state economy. We hope the next Legislature takes up the oil tax issue and enacts an oil tax bill that significantly improves Alaska's business climate.

Scott Jepsen, of Anchorage, is vice president for external affairs at ConocoPhillips Alaska.

Accessed Nov. 3, 2012 at Fairbanks Daily News-Miner - The numbers show why oil tax reform is needed ConocoPhillips has a profit but state takes much more

(For analysis of CP's chart, see Exhibit 8.)

Exhibit 8.
Filling the Gaps:
ConocoPhillips Presentations to Senate
Resources and
House Resources Committees
(Feb. 20 and Mar. 26, 2013)

**“ACES Observations” (Senate Resources
Committee, Feb. 20, 2013)**

[Exhibit 8, Sheet 1]

**“North Slope Investment Challenges” (House
Resources Committee, Mar. 26, 2013)**

[Exhibit 8, Sheet 2]

Salient CP Chart Deficiencies

[Analysis of Exhibit 8, Sheet 1]

Questions about the Earnings per Barrel Chart

[Analysis of Exhibit 8, Sheet 2]

**Worksheet: Understanding CP’s Earnings Per
Barrel Chart**

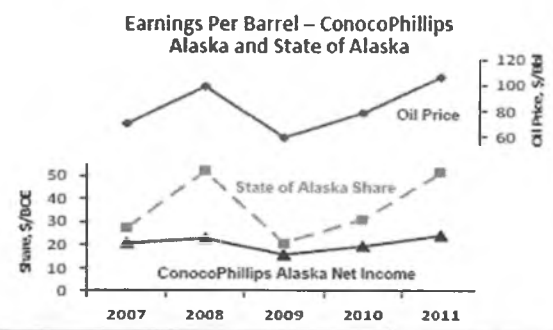
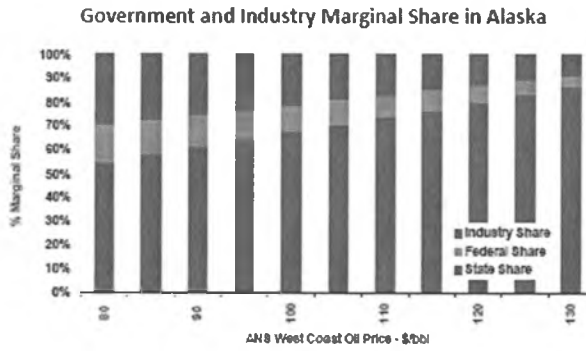
[Analysis of Exhibit 8, Sheet 3]

Exhibit 8.

ConocoPhillips: "ACES Observations" (Senate Resources, Feb. 20, 2013)

ACES Observations

- Positive Elements
 - Tax credits help offset Alaska's high cost environment
 - Tax credits provided for both new and legacy fields
- Negative Elements
 - High average tax rates
 - High marginal tax rates
 - Gross minimum tax
 - Tax still paid if revenues don't cover costs



Upper right plot based on Fall 2012 Revenue Sources Book data for FY2014
 Lower right plot based on ConocoPhillips 2007 - 2011 10-K reports; State share is royalties (estimated), production tax, ad valorem tax and state income tax; oil prices are ConocoPhillips average realized prices on the West Coast

Senate Resources Committee

SB21

Bob Heinrich, VP Finance
 Scott Jepsen, VP External Affairs
 ConocoPhillips Alaska

February 20, 2013

ConocoPhillips

Exhibit 8.

ConocoPhillips: "North Slope Investment Challenges" (House Resources, March 26, 2013)

North Slope Investment Challenges

- Challenged oil remains
 - Complex, high cost wells
 - Smaller reserve targets
 - Fault blocks, flank oil
 - Satellites, viscous oil
 - Facilities handling ~ three times as much water as oil
 - Significant resource
- ACES tax structure
 - High average & marginal tax rates
 - Progressivity eliminates upside
 - Tax credits attempt to offset high tax rates and high costs. Apply to both new and legacy fields

Government and Industry Marginal Share in Alaska

Year	Industry Share (%)	Federal Share (%)	State Share (%)
2007	65	25	10
2008	65	25	10
2009	65	25	10
2010	65	25	10
2011	65	25	10

Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska

Year	Oil Price (\$/Bbl)	State of Alaska Share (\$/barrel)	ConocoPhillips Alaska Net Income (\$/barrel)
2007	70	25	20
2008	110	45	25
2009	70	20	15
2010	80	30	20
2011	110	45	25

Upper right plot based on Fall 2012 Revenue Sources Book data for FY 2012
Lower right plot based on ConocoPhillips 2007-2011 10-K reports. State share is royalties (estimated), production tax, ad valorem tax and state income tax; oil prices are ConocoPhillips average realized price on the West Coast

2 ConocoPhillips

House Resources Committee

CSSB21

Bob Heinrich, VP Finance
 Scott Jepsen, VP External Affairs
 ConocoPhillips Alaska

March 26, 2013

ConocoPhillips

ConocoPhillips Chart Deficiencies: Filling in the Gaps

Analysis of Exhibit 8 (Sheet 1 of 3)

The background of the CP chart showing "Earnings Per Barrel – ConocoPhillips Alaska and State of Alaska" is discussed in Section 5A of this report; an earlier version of the chart, from the *Fairbanks Daily News-Miner* Nov 2, 2012, is shown in Exhibit 7.

Salient CP Chart Deficiencies

1. Sources of charts ConocoPhillips presented to House Resources, March 26, 2013 (Slide 2) and Senate Resources, February 20, 2013 (Slide 8) are stated without providing hard-number data or specific references. CP's sourcing information on both slides reads:

- "Upper right plot based on Fall 2012 Revenue Sources Book data for FY 2014."
- "Lower right plot based on ConocoPhillips 2007 – 2011 10-K reports; state share is royalties (estimated), production tax, ad valorem tax and state income tax; oil prices are ConocoPhillips average price realized on the West Coast."

2. These two ConocoPhillips charts are incomplete because neither one shows estimated costs, (which increased dramatically during the years covered by these charts (see Exhibit 1).

- This is an important omission because Alaska's production tax has been cost-based since 2006.
- Costs generally rise and fall with oil prices, but do not necessarily vary directly. It is therefore important to explore the relationships between oil price and field costs and their effect on the producer's bottom line?

3. The bar chart in the upper panel of both slides is not drawn to scale.

- The bar chart shows percentages of total revenue rather than dollars (for example, showing the \$80 bar at the left to be equal to the \$120 bar at the right). This panel therefore presents a distorted picture that makes it appear that ConocoPhillips net revenue per barrel decreased dramatically between 2007 and 2011 – contrary to the ConocoPhillips Net Income from Alaska production shown on the chart below in blue.
- On March 26, 2013 CP's Bob Heinrich told House Resources that between 2007 and 2011, "Our earning stayed between \$22 to \$25 per barrel" and "have essentially hardly moved" But when CP displayed a similar chart last November, Scott Jepsen wrote that over the same period ConocoPhillips' net income from Alaska "increased from about \$22 per barrel to about \$25 per barrel" – an increase of approximately 14 percent (exceeding inflation, despite declining production). .

4. ConocoPhillips has presented data in the top chart forecasted for a different year (fiscal year 20 14) from the years covered in the bottom chart (2007 through 2011), making analysis difficult.

- The presentation of different fiscal years in the two charts shown on this slide makes it difficult to assess hard-dollar impacts of the changing oil prices.
- The failure to present specific data makes it even more difficult to assess hard-dollar impacts of the increasing oil prices shown in the top chart.

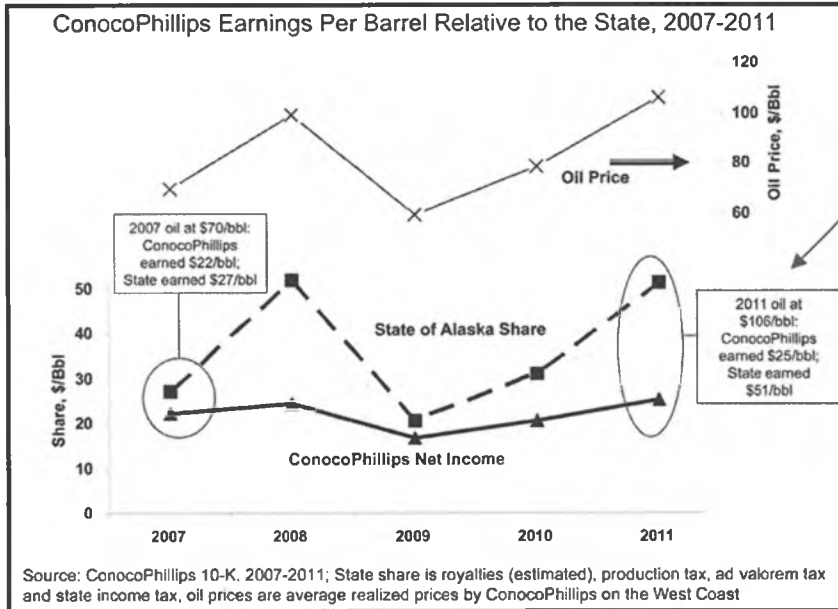
While the level of progressivity at high oil prices under ACES may need to be adjusted, the simplified charts being used in Juneau lack data. Legislators therefore do not have sufficient basis for estimating effects of proposed tax changes, which cannot be meaningfully assessed without field cost and bottom-line earnings information (not to mention a clear understanding of the importance of geology and economies of scale).

ConocoPhillips Chart Deficiencies: Filling in the Gaps

Analysis of Exhibit 8 (Sheet 2 of 2)

Questions about the Earning Per Barrel Chart

"The numbers show why oil tax reform is needed," *Fairbanks Daily News-Miner* (Nov. 2, 2012)



"2011 oil at \$106/bbl: ConocoPhillips earned \$25/bbl; State earned \$51/bbl"

With billions of dollars at stake and 3 companies in control of North Slope production, here are questions that deserve consideration:

Why don't CP's Alaska revenue "take" figures match State data? (See *Worksheet 2.*)

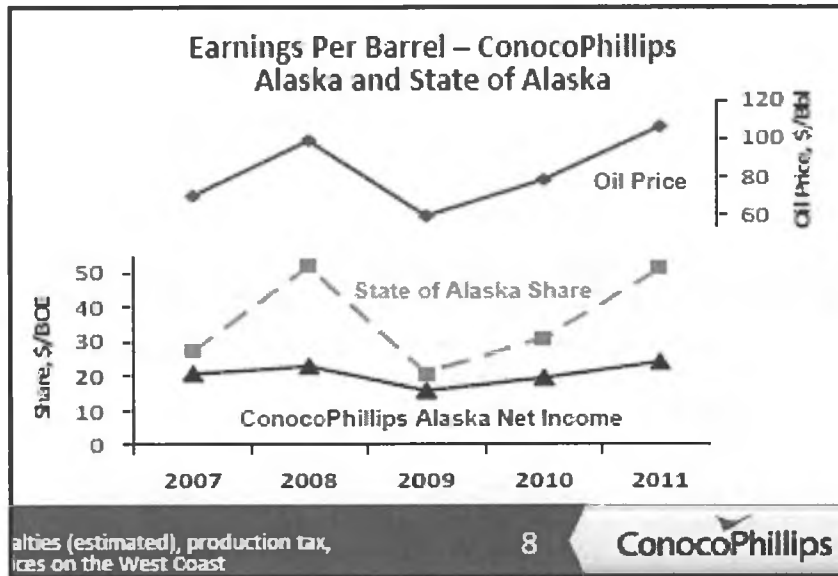
Why do these charts omit field costs, which have increased since 2007 at approximately eight times the rate of general inflation? (See *Exhibit 1.*)

Do CP profit totals count the smaller but significant profits from pipeline tariffs? (See *Exhibit 2.*)

Has the State determined whether pipeline overcharges, which reduce State revenue, might also inhibit North Slope Development?

Have CP numbers been verified by audits with quality control checks?

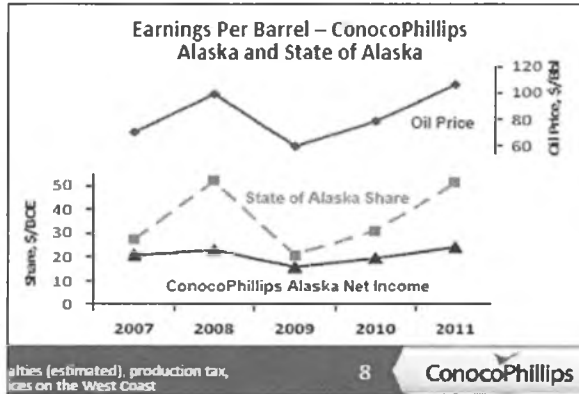
"ACES Observations" and "North Slope Investment Challenges," CP Presentations to the Senate and House Resource Committees (Feb. 20 and March 26, 2013)



ConocoPhillips Chart Deficiencies: Filling in the Gaps

Analysis of Exhibit 8 (Sheet 3 of 3)

Worksheet: Understanding CP's Earnings Per Barrel Chart



Due to fluctuating prices and production, State fiscal year (FY) data may not be comparable to calendar year (CY) data. When ADOR does not provide comparable CY data, conversion to CY display uses the following weighted average formula:

$$CY13 = ([FY12]^5 + FY13]^7) / 12$$

Trial Calendar Year 2011 Cost Estimates

	<u>Cost Estimate A</u>	<u>Cost Estimate B *</u>
1. Price per barrel (CP estimate)	\$106.00	\$106.00
2. Transportation (TAPS plus Marine)	\$8.13	\$8.13
3. Field Costs (Unaudited OPEX + CAPEX) *	\$24.20	\$22.45
4. Alaska Share (CP estimate)	\$51.00	\$51.00
5. CP Profits (CP Estimate)	\$25.00	\$25.00
6. Federal Income Tax *	<u>\$13.46</u>	<u>\$6.65</u>
7. Sum of Implied Cost Elements	\$121.79	\$113.23
8. Estimated Unaccounted Cost per-barrel	\$15.79	\$7.23
9. Annualized North Slope Unaccounted Costs	\$3,394,158,770.00	\$1,554,190,909,940.00

* For differences in Trial Cost Estimates A and B, see notes to Lines (3) and (6), below..

(1) Scott Jepsen, "ConocoPhillips Earnings Per Barrel Relative to the State, 2007-2011" (chart with "The numbers show why tax reform is needed: ConocoPhillips has a profit, but state takes much more" (Community Perspective), *Fairbanks Daily News-Miner*, Nov. 2, 2012 (see Exhibit 7).

(2) Weighted average transportation cost estimates from Alaska Dept. of Revenue, *Fall 2011 Revenue Sources Book*, p. 31 (FY 2011 history) and *Fall 2012 Revenue Sources Book*, p. 35 (FY 2012 history).

(3) Weighted average operating and capital cost estimates from Alaska Dept. of Revenue, *Fall 2011 Revenue Sources Book*, p. 31 (FY 2011 history) and *Fall 2012 Revenue Sources Book*, p. 35 (FY 2012 history). Field costs calculated as: (North Slope operating and capital expenditures) / ([Total ANS daily production] * 365).

Note: Trial Cost Estimate B subtracts \$360 million credits used against tax liability from field costs.

(4) "ConocoPhillips Earnings Per Barrel Relative to the State, 2007-2011."

(5) "ConocoPhillips Earnings Per Barrel Relative to the State, 2007-2011."

(6) Federal income payments are calculated from CP's stated after-tax profit (ATP) using the following formula: Income tax = ((ATP / [1- tax rate]) - ATP).

Note: Trial Cost Estimate A FIT calculated at nominal 35%; Cost Estimate B estimated at effective 21%.

(7) Sum of lines (2) through (6).

(8) Line (7) - Line (1).

(9) Line (8) * (estimated CY 2011 production, derived from weighted average fiscal year totals).

Exhibit 9.

**ConocoPhillips Capital Allocation
(Slide)**

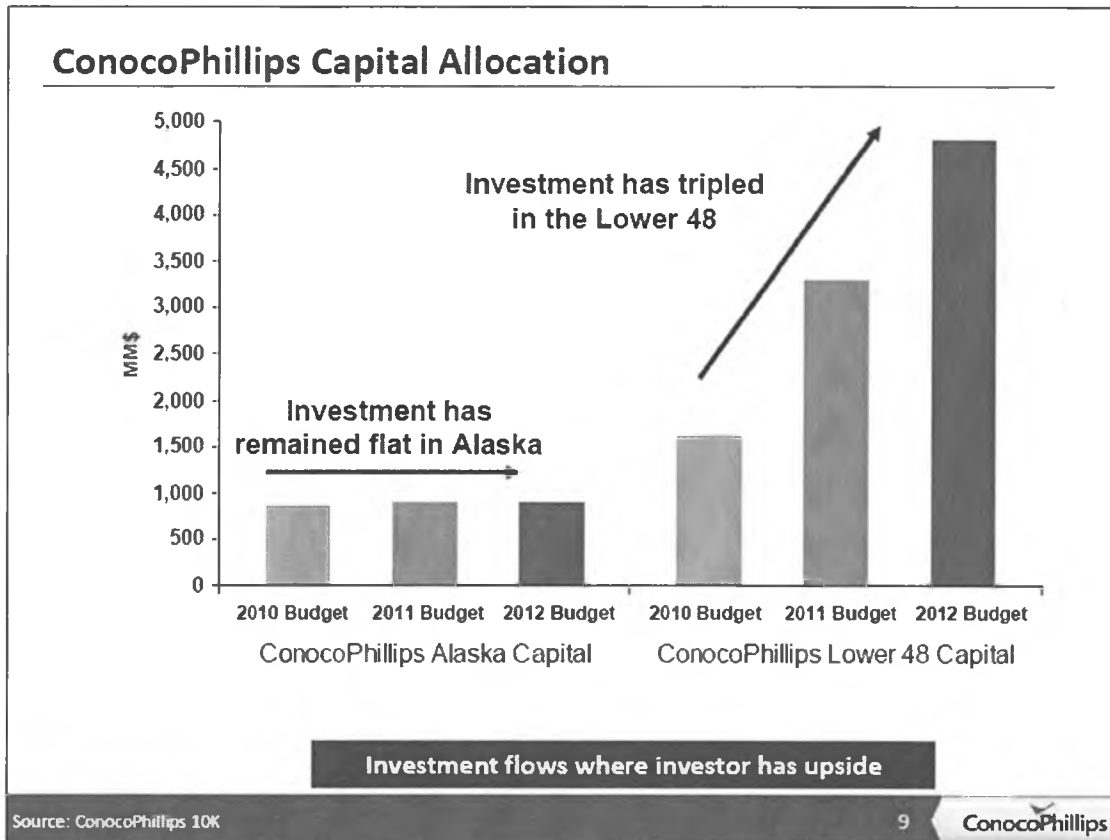
**“ConocoPhillips Capital Allocation” (Senate
Resources Committee, Feb. 20, 2013)**

[Exhibit 9, Sheet 1]

Exhibit 9.

ConocoPhillips: "ConocoPhillips Capital Allocation"

(Senate Resources Committee, Feb. 20, 2013)



Richard A. Fineberg is an independent, Alaska-based analyst who has reported on economic and environmental issues associated with Alaska petroleum development for more than three decades. In addition to the numerous reports he has prepared for non-government organizations (available on-line at <http://www.finebergresearch.com>), he has served as a senior advisor to the governor of Alaska on oil and gas policy, and as an occasional consultant to various state and federal agencies, including the U.S. Internal Revenue Service, the Alaska Department of Revenue and the Regulatory Commission of Alaska.

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E-mail: fineberg@alaska.net

**Alaska State Legislature
House Finance Committee
April 9, 2013**

**Testimony of Doyon, Limited
on CSSB 21 HRES Version K**

For the record, my name is Sarah Obed, and I serve as the Director of Government Relations for Doyon, Limited. I am also a tribal member from Minto, Alaska and a Doyon shareholder.

Doyon's mission is to enhance our position as a financially strong Native Corporation in order to promote the social and economic well-being of our shareholders, strengthen our Native way of life, and enhance our land and resources.

Doyon, Limited is headquartered in Fairbanks and is the largest private landholder with a 12.5 million acre land entitlement in the Interior. Our lands extend from the Brooks Range in the north to the Alaska Range in the south, and reach westward from the border almost to Norton Sound.

Our other asset is our people. We have over 18,700 shareholders, the majority of whom live here in Alaska. We also have over 2700 employees within the Doyon Family of Companies. And within the Doyon Family of Companies, several businesses provide oilfield services.

Doyon Drilling is our premiere company, owning seven advanced drill rigs which are specifically designed to operate in Alaska's northern climates.

Doyon Universal Services, a joint venture with Sodexo, prides itself on being the industry leader among support services contractors in Alaska and provides for both urban and remote-site catering, maintenance, janitorial and housekeeping services. DUS also provides high end security, and is the recognized leader in critical infrastructure protection.

We recently also got into the camp services businesses with our investment in Doyon Remote Facilities and Services, and Doyon Emerald provides engineering and technical support.

Doyon Associated, our joint venture with Associated Pipeline Contractors, is Alaska's premier pipeline contractor. Doyon Associated has skilled personnel and an extensive fleet of equipment. They work to continually improve North Slope construction efficiencies and also commit to environmental and workforce safety.

These companies employ over 1400 employees, and like Alaska, our livelihood depends on a healthy and sustainable economy, with a competitive investment climate. Therefore, we testify today in support of the oil tax reform effort.

We are supportive of oil and gas tax changes as beneficiaries and participants in oilfield support services. Doyon must look to the future for business opportunities on behalf of our shareholders and employees. We know oil and gas exploration and production are down, and that vast oil and gas opportunities remain in Alaska.

One of our highest priorities is looking for them on both State and Doyon owned lands. James Mery, our Sr. Vice President of Lands and Natural Resources is here with me today to highlight our exploration activities in Alaska's Interior.

For the record, my name is James Mery, and I am the Sr. Vice President of Lands and Natural Resources. I head up the Doyon oil, gas and hard minerals exploration efforts. Today, I want to talk about the areas where Doyon is exploring for hydrocarbons in areas outside of Cook Inlet and south of the Brooks Range, in an area affectionately known as Middle Earth.

Ultimately I want to focus on two sunset provisions in current State tax law that are not addressed in SB 21. Failure to extend these laws will affect greatly future exploration in Middle Earth. The first is AS 43.55.025(a). Exploration credits -- these are the 30% and 40% credits in place for several years and sunset in 2016. These credits have statewide application. And the second, AS 43.55.011(p), this Middle Earth specific is a limited production tax cap which sunsets at the end of 2021, and this provision passed last year.

Other ANCSA Corporations in Middle Earth, such as NANA and AHTNA; and while we don't speak for them, they are also affected in similar ways to Doyon, by these provisions. Here is more background information on our frontier exploration efforts in Middle earth, and why the extension of these provisions is vital to work.

If you limited our discussion on Middle Earth to only the Interior, it is a vast area that is larger than the size of the State of Texas, yet there is only one deep test well and a handful of seismic programs. Doyon is conducting frontier exploration, in an area where there are no commercial discoveries or production in Middle Earth. In fact, we are the only Company conducting frontier exploration onshore in Alaska, and because of that, the exploration risk is very high.

We have put together a great team of highly experienced exploration geoscientists and engineers, including Michael Richter, Arco Exploration Vice President, and Frank Brown, affiliated with Alpine field - and numerous others associated with Petrotechnical Resources of Alaska.

In a very short time, we have established that there are several deep sedimentary basins in Interior Alaska, and they have active petroleum systems-- they are generating wet gases and oil. We believe that these areas are capable of generating billions of barrels of oil.

Doyon's current exploration efforts focused on finding oil to put in to TAPS, and gas for local in-state use is also a secondary goal. Frontier exploration risk is shared currently with the State through the expiring exploration credits program, and without that assistance our exploration programs would not have taken place. The State has been a great partner, and in particular, we have received a lot of support from the Alaska Division of Oil and Gas.

We are exploring in the following areas:

1) We hold 400,000 acres in state leases in the Nenana Basin. These leases were converted from a state exploration license, and we also have licensed heritage data sets from major oil companies. We conducted two 2D seismic programs in 2005 and in 2013. We also drilled one well in 2009 and will be drilling again this summer. In fact, we just completed 8 mile road extension and completed the well pad. Nenana is our highest priority now, because we are on the clock - seven year state leases, time to make discoveries so we can extend some of them.

2) We are also exploring in Yukon Flats on 1.3 million acres of Doyon and village owned ANCSA lands. We conducted two seismic programs at Stevens Village, one 2D program in 2010 and one 3D program currently underway.

There are other geophysical and geochemical exploration in all three sub-basin, and hope to drill there soon. Success in the Yukon Flats could lead to renewed exploration in nearby Kandik area adjacent to Canada border.

All of these basins were areas of interest and enjoyed exploration efforts by major oil companies a generation or more ago, including ARCO, Shell, Exxon, Amoco, and Chevron. Yet there are numerous examples all over the world where majors came into frontier areas, got discouraged or company priorities shifted, and left. Then small companies come back in to the same areas a generation or two later and make major hydrocarbon finds using heritage data sets, new exploration and new ideas. This is our basic business model.

Doyon is just getting started in exploring these areas. Within Nenana and Yukon Flats basins, there are at least five large areas of promise, two at Nenana (North and South) and three in Yukon Flats (at Steven's Village, Beaver and Birch Creek); these areas are grossly under explored.

However, based on new and old data-- geophysical, geochemical and limited drilling, we believe each of these five areas are permissive of holding hundreds of millions of barrels of recoverable oil - some or all of these areas may be uneconomic. Only time and more exploration will tell.

That is why we respectfully request that you consider the five year extension (through 2022) for the 30 and 40% exploration credits found in AS 43.55.025(a).

Without this state risk sharing with us, or unlikely early exploration success in these frontier areas, exploration by Doyon in most, if not all of these areas of significant promise will likely cease. We need the State as our partner past 2016.

Finally, want to address legislation passed last year which places a cap of 4% on the gross value of production for a limited period on new production from Middle Earth. This legislation is found at AS 43.55.011(p).

This is a provision of critical importance for exploration in Middle Earth. If we were to make a discovery, it provides simple certainty during the capital investment recovery phase of new projects in Middle Earth, where there is no oil and gas production infrastructure and where we have unknown permitting and litigation risks.

The problem with current law is the provision requires a company to be in production by 2022 to take advantage of its provision. This is an unrealistic deadline for possibly all of the five areas we are exploring. Given the early stages of exploration there, and the well established time cycles 8-10 years or more to get to production once you make a discovery in a truly frontier basin. To make this important provision meaningful, the sunset date needs to be pushed out at least five years to 2027.

Thank you for the opportunity to provide these comments

Sarah E. Obed
Director of Government Relations
Doyon, Limited

70 & 148, LLC

• 1421 Blake Street • Denver, CO 80202 •
Phone 303-623-1821 • Fax 303-623-3019

April 9, 2013

The Honorable Bill Stoltze, Chairman
Alaska House Finance Committee
State Capitol, Room 515
Juneau, Alaska 99801

RE: Senate Bill 21

Dear Chairman Stoltze:

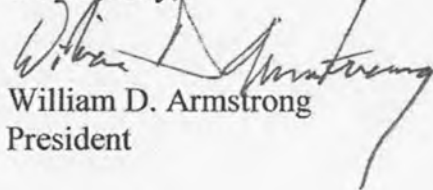
Thank you for giving me the opportunity to testify in front of the House Finance Committee today. I would like to commend the entire legislature for bringing forward a bill that not only encourages development of new and existing fields, but also protects the state from paying the big tax credit dollars to oil companies, that occurs under ACES.

We strongly support Senate Bill 21 (SB 21) and respectfully ask that it be passed into law with one small modification. As there have been numerous iterations of SB 21, I want to set forth what I believe are the terms of the current version:

Net Profits Tax: 33%
Loss Carry Forward Tax Credit: 33%
Gross Revenue Exclusion: 20%
Production Tax Credit: \$5 per barrel
Small Producer Tax Credit: Extended to 2022.

We believe that the Gross Revenue Exclusion should be increased to 30% in order to entice new companies to come to the North Slope and develop new oil fields. As a tradeoff, we feel the Net Profits Tax and the Loss Carry Forward Tax Credit could both be increased to 35%, if we were able to obtain the 30% Gross Revenue Exclusion (at least for the one sixth royalty leases). Thank you for your consideration of these comments.

Yours Truly,



William D. Armstrong
President

Savant Alaska, LLC
7501 Village Square Dr.
Suite 102
Castle Rock, CO 80108
Phone: 720-328-7186
Fax: 720-328-7183

SAVANT
ALASKA

VIA Email & Facsimile

April 9, 2013

Honorable Bill Stoltze
House Finance Committee Co-Chair
State Capitol, Room 511
Juneau, AK 99801

Dear Representative Stoltze,

Thank you for inviting Savant Alaska LLC ("Savant") to offer testimony regarding SB 21 Oil & Gas Production Tax. In lieu of having a representative present in person, Savant offers this written testimony.

Savant first began investing in North Slope state leases in May of 2006. In the winter of 2008, after licensing some 200 square miles of 3D seismic data, Savant drilled its first exploration well, a dry hole, from remote, man-made, ice island in the Beaufort Sea. In the winter of 2009, Savant, with its working interest partner ASRC Exploration LLC ("AELLC"), began actively drilling and exploring in the Badami Unit as a result of a commercial agreement with BP Exploration (Alaska) Inc. ("BP"). In the winter of 2010, Savant made its first discovery in a secondary Killian sand exploration target located within the Badami Unit. The primary horizon in this well was dry. During that same winter ice road season, Savant notably drilled the first horizontal well in the Badami Sands pool. Later that year, Savant and AELLC elected to restart the then dormant Badami processing plant and pipeline to resume production from some of the wells in the Badami Sands PA, the new horizontal well, and from the Killian Sands discovery well.

In January 2012, Savant succeeded BP as the Badami Unit operator and became just the fifth production operator on the North Slope of Alaska. The Badami Unit has produced over 1.1 million barrels of oil at an average of 1279 barrels of oil per day since production was resumed and new oil was brought on line in November of 2010. The Badami Unit continues to produce at about the same level today.

The Badami Unit, with low production and high operating cost, is a marginal oil project by any standard. There is no gravel road access from the main North Slope infrastructure, drilling activities are limited to winter when ice road access is available, open water barging operations only offer some minor well services support in summer, and air transport must be relied upon at all other times. Even so, production from the Badami Unit employs approximately 45 contractors and Savant employees, the majority of whom are residents of Alaska, to operate the Badami Unit. Without the herculean efforts of its contractors and employees, and the various tax credits available under the original ACES legislation, Savant and its

working interest partner, AELLC, could not have accomplished what they have to date at the Badami Unit.

The overarching issue facing the State of Alaska is that any new oil to be developed outside of the Prudhoe Bay – Kuparuk infrastructure, and perhaps Alpine, is likely uneconomic to develop or “marginal” for the following reasons:

1. The complete lack of road infrastructure to known or unknown accumulations makes it cost prohibitive to develop them. Savant has built an expensive, disposable ice road to Badami each year that it has been on production in order to drill new wells and service existing wells;
2. The lack of robust service company support for the intermittent use of independent oil companies. On numerous occasions in the past, Savant has been unable to secure ad hoc services for well work preventing it from increasing oil production from its operated wells;
3. The high operating costs associated with operating on the North Slope. Exploration targets and production levels must be significant in order to justify new processing facilities, transport employees and contractors to worksites, and carry the higher than average drilling and development costs. Savant could not economically produce oil from the Badami Unit if the existing pipeline and production facilities were not already in place; and
4. By any standard, the production tax rates are too high for the marginal quality exploration and development opportunities that are available to lead to new oil flowing down TAPS. The difference between the most recent developments by Savant, Pioneer and ENI on the North Slope and the mainstay fields is that without tax relief in the form of Qualified Capital Expenditures, Net Operating Loss Credits, and the Small Producers Tax Credit these “new oil” projects would not be economic to develop and produce.

The proposed SB 21 Oil & Gas Production Tax legislation will negatively impact Savant’s ability to maintain or grow existing production, both in the Badami Unit and on its leasehold outside of the Badami Unit, for the following reasons:

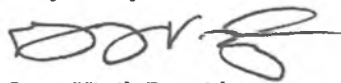
1. The elimination of “a credit for a qualified capital expenditure incurred to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude” after December 31, 2013 will cause Savant to invest less of its capital in the marginal exploration and development opportunities in the Badami Unit.
2. The Gross Revenue Exclusion (GRE) not being allowed for new oil within the existing Badami Sands PA will cause Savant to invest less of its capital in the marginal development opportunities within the Badami Sands PA.
3. By not extending the Small Producer Credit under AS 43.55.024 to 2022, Savant, a very small producer, will be less likely to explore for and develop any oil and gas deposits on its leasehold outside of the Badami Unit.

4. Removal of the modification of the Exploration Tax Credit (ETC) that eliminated the 3-mile buffer for drilling and extended the deadline for ETC's to 7/1/2022 removes any incentive for Savant to explore the small, one-well, marginal exploration targets within the Badami Unit not associated with any current production and on its leasehold outside of the Badami Unit.

In closing, Savant urges the House Finance Committee to consider certain changes to the proposed SB 21 to provide further incentives for small producers and new entrants to continue to explore and develop the smaller marginal targets, in and outside of existing units, on the North Slope of Alaska.

Thank you again for allowing Savant to submit this written testimony.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Greg Vigil", written over a horizontal line.

Greg Vigil, President

Mary Ann Pease Testimony – House Finance Committee SB21

April 9, 2013

Thank you, Chairs Stoltze and Austerman for holding this important hearing and allowing public comment on tax reform. My name is Mary Ann Pease, Communications Director for Consumers Energy Alliance - Alaska.

I am extremely concerned about the staggering decline in Oil production – We are down from a peak of over 2 million barrels a day to a little over 500 thousand barrels today and this rate continues the downward spiral decline of 5 - 7% per year during times of increasing oil prices.

Last Thursday, I attended the Alliance breakfast meeting and heard from Lydon Ibele as he described “My Bakken Adventure.” What a wakeup Call to the public and policy makers here in Alaska. Here are a few takeaways from that speech:

- The rapid growth and production of the Bakken is incredible
- ND has the 4th lowest tax rate at 9.8% and they are on a path of unprecedented prosperity and economic growth and development.

- We in Alaska need to once again become number 1 in terms of oil production! Texas, ND., California and Alaska is now in 4th place in terms of oil production. You, the Legislature, have that opportunity to reform taxes and enable our economy to grow and prosper.

High oil prices coupled with new technology have created a boom in the oil and gas industry across the country and world. Alaska, however, is missing out on this boom, and it is no secret why: Alaska's oil taxes are too high, and companies are taking their investment dollars elsewhere.

We need more oil in the pipeline to maintain jobs and strengthen the economy. The Alaska State Legislature must take action now to correct the problem.

The rates and progressivity structure of Alaska's current tax regime provide a disincentive to attracting risk capital to the state as evidenced by declining production during times of high oil prices.

Increased investment through increased global competitiveness will enhance Alaska's ability to fulfill its

constitutional mandate to develop natural resources for the maximum benefit of the people.

We certainly need to show the oil and gas industry that we are open for Business and serious about keeping, growing and expanding that business by making meaningful Tax Reform happen Now!



PRESS RELEASE

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FOR IMMEDIATE RELEASE

PRESS RELEASE

Contact: Kim Reitmeier
kim@ancsaceos.org
(907) 339-6053

Alaska Needs a Robust Oil and Gas Industry with a Stable Tax Regime
Our communities depend on these investments

ANCHORAGE, ALASKA (March 28, 2013) - The ANCSA Regional Association is calling on state leaders to continue moving on an oil tax reform bill. Tax reform for the oil and gas industry that truly results in increased production will give communities across the state access to important economic opportunities. Association members stress the importance of new and increased production with long-term benefits to Alaskans. The final bill must benefit all Alaskans, including rural residents. Ultimately, sustainable rural economies are at the heart of this issue.

Alaska needs a robust oil and gas industry in the state and requires a stable tax regime for new investments, according to Jason Metrokin, CEO of BBNC and chair of the ANCSA Regional Association. "Without it the entire state treasury is in jeopardy," he said. "Oil tax reform needs to be about sustainability. We support new and increased resource production in Alaska, which will have tangible results for all of Alaska."

"Alaska Natives have lived in their homelands for 10,000 years and we will be here for 10,000 more," stated Kim Reitmeier, president of the ANCSA Regional Association. "A healthy oil and gas industry is vital but must be guided by the values of responsibility to community and cooperation to sustain our connection to the land."

About ANCSA Regional Association

Incorporated in 1998 as The Association of ANCSA Regional Corporation Presidents and CEOs, Inc.; and includes a membership of the chairperson, president, and CEO/COO from each of the 13 Regional Native Corporations, as well as the President of AFN. The Association exists to promote the understanding and intent of ANCSA and the role of the Regional Corporations in creating a sustainable economic future for Alaska Native People. Learn more <http://ancsaregional.com/>

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**To the Honorable Co-Chairs of the House Resources Committee:
Representative Alan Austerman and Representative Dan Saddler:
And to the Honorable Committee Members: Rep. Mia Costello, Rep. David Guttenberg:
Rep. Peggy Wilson, Rep. Steve Thompson, Rep. Cathy Munoz, Rep. Mark Neuman, Rep.
Bryce Edgmon, Rep. Lindsey Holmes, Rep. Scott Kawasaki, Rep. Les Gara:
CC: Committee Staff : Peter Ecklund & Joe Michel:**

Testimony of Dan Donkel of Donkel oil and gas LLC, April 2, 2013;

Please allow me to introduce my small company and myself to you. My name is Dan Donkel and I am the founder of Donkel Oil and Gas LLC, and Danco Exploration Inc.

My primary reason for wanting to testify is to explain what I believe is necessary for this Legislature to do if it wants to see those smaller companies whose business is confined to exploration, production and sale of crude oil, companies commonly referred to as independents, flourish in Alaska. I am in the business of bringing such companies to Alaska and have been for thirty years. For my business and the business of those I bring to Alaska to be successful, I believe this legislature needs to do three things that are not being considered in this bill..

This Legislature should:

1. Adopt a simple easy to explain 75% exploration and production credit that can't be manipulated to exclude independents
2. While leaving a fixed royalty in place, provide a seven year exemption from taxes for all new production outside of the existing participating areas:
3. Leave the ACES tax, including its progressivity as is for all existing participating areas:

I am going to share some information with you that the Majors don't want you to know. By Majors, I mean companies that I mean those fully integrated companies that explore, drill, transport, refine, and distribute, refined products for wholesale and retail.

I began forming investment groups and partnerships to acquire, explore, drill, and otherwise promote small leases on the Kenai in the early nineteen eighties. My first big re-sales were to Arco, Amoco, and Unocal. In the mid-eighties I acquired over 100,000 leased acres in Cook Inlet. Today, part of that acreage is known as the Redoubt unit operated by Cook Inlet Energy. In 1995 I sold to Marathon a 50 % interest in the Sterling oil and gas unit which I acquired from Unocal. In 2010 we encouraged Apache to come to Alaska and purchase 200,000 acres we had leased in the Cook Inlet. The Osprey, the last platform to be built in the Cook Inlet, was built to access a formation that was made interesting by geological and geophysical reports developed and presented by Danco Exploration.

For thirty years I've made a living from the royalty and partnership interests I have retained in producing fields I helped bring into production. I have high expectations for royalty interests I have in the fields Renaissance/Buccaneer Energy plans to drill next summer. No company has interests more closely aligned with Alaska's need to attract companies willing to buy and drill leases.

When ACES passed I refocused to take advantage of new investment opportunities made possible on the North Slope by ACES. Today, an investment partner Samuel H. Cade and I hold leases on around 200,000 acres on the North Slope.

Since ACES was passed we've sold leases to Pioneer, Brooks Range Petroleum, Bald Eagle, True North Energy, Buccaneer, Apache, Aurora, and Fox Petroleum.— True North Energy partnered with Savant to drill a well in the Kupcake #1 exploration well near Liberty unit and the Duck Island unit. In total, we've sold around 200,000 leased North Slope acres. The hole True North Energy and Savant drilled was dry. True North Energy elected to put Alaska behind; citing harsh regulations and uncooperative regulators for their decision. Several of those who we have sold leases to told me that the credits made available through ACES is the biggest reason that they came to Alaska. My fear is what will happen to future markets when our prospects observe the difficulty the independents we have sold to will have getting the oil they find into the pipeline without being the victim of excessive charges by the owners of the feeder-lines, conditioning facilities and tankering.

We at Donkel Oil have been aggressively selling Polar Petroleum on Alaska's cost participation program and recently sold them 40,000 acres. Polar Petroleum opened an office in Alaska last month. As written by the Senate, SB-21 will enable the major oil companies, BP, ConocoPhillips, and EXXON, to elbow small companies like mine off the slope. It is our hope that the Alaska House will have the wisdom to use SB-21 to not only keep the participation program created by ACES, we hope you will also use it to level the playing field between us and the Majors. We will bring more small players to Alaska if you do.

My experiences have convinced me that the Majors' don't want companies we attract on the Slope. We threaten their control of the basin. To such ends, the Majors use the regulatory system to their advantage. Regulators give sway to the Majors but stand rigidly for independents and I will give you examples. The Majors have the time and financial strength to litigate and navigate regulations that keep smaller companies away. The Majors also have a need for reserve crude supplies that the independents do not. The Majors need crude they control as a back-up in the event a large source of crude is lost. A backup supply protects the Majors from losing their retail market share due to even a temporary interruption in their ability to meet their market share for retail refined products.

Smaller companies are not integrated from the well to the gas pump and have no such need. Smaller companies have a much shorter window of time to drill and produce before they are bled dry by an uncooperative regulatory system. It took a large company like Anadarko to challenge the excessive pipeline tariff. Companies of the size I deal with would likely go bankrupt if they had tried. Preferential treatment for the Majors comes in many forms and it is contributing to Alaska's production decline.

Hemi Springs is an example of regulators favoring the Majors. Hemi Springs is a proven approximate 500 bpd oil and gas field discovered by ARCO in 1984. Like point Thompson, Hemi Springs has had no production in 29 years. Repsol saw value and tendered a bid (North Slope lease sale 2011 tract #973) for the opportunity to develop it and their bid was denied. Last year (NS 2012) Donkel oil tendered a bid on the same tract and we are waiting for a response.

In contrast, just two miles from Point Thompson, Donkel oil made application for a unit to develop a discovery in the East Point Thompson Field, which was estimated by ARCO's former petroleum engineer, Mike Dunn to have between 150,000,000 and 420 million barrels of oil and is expected to flow at 700 to 800 barrels per day. Donkel planned to drill an exploration well in August of 2015. Commissioner Dan Sullivan and his D.O.G. Director Bill Barron denied Donkel oil's unit application and there are no immediate plans to develop the find at this time.

My first point is this. The biggest obstacle in the way of my ability to attract new interments to Alaska's oil patch comes from the interference run by the Majors and those regulators who pander to their every wish. the biggest selling point has been the credits and the profits guaranteed by ACES.

My second point is; — someone needs to ask why DNR DOG is allowing ConocoPhillips to store the Hemi Springs oil in the ground. This is one of many examples where I believe the Majors are using Alaska as a warehouse reserve to be accessed in the event of an interruption in supply. Other examples include the Kavik Field, also held by ConocoPhillips for nearly thirty years and the Mikkelsen OIL Field, which Exxon, Conoco, and Shell have all held an interest in for nearly thirty years.

As passed by the Senate, the only thing SB 21 will produce is a windfall profit and a tighter lock on the North Slope for the Majors. For the independent oil and gas companies it will provide lawsuits and bankruptcies. And it may well put me and everyone like me out of business.

The only thing that's clear about SB 21 is just how unclear everyone is on how credits will be managed. Based on my long, successful history in attracting oil and gas companies to Alaska, I believe SB 21 is a deal killer. I believe DNR DOG will use its complication to arbitrarily pour money into the pockets of the Majors, while sandbagging the independents. I believe the simpler way of doing things outlined below would cause the Majors to produce more oil and I know it would enable me to pick up the pace of bringing new independents into Alaska's exploration and production market.

(1.) The State should just keep the tax portion of ACES and its progressivity as is on all participating areas in producing units as of the effective date of this act. Doing so would provide the State with the revenue necessary to fund a simplified flat 75% E&P credit on all non-producing units and on all E&P expenditures spent drilling for new oil north of the Brooks Range. New discoveries and new participating areas north of the Brooks Range should receive a 7-year (fixed royalty only) tax holiday for all new production on non-producing units or leases. ACES allows an extraordinarily generous profit for existing proven fields whose investors have recovered their investments years ago. Keeping ACES won't discourage production, and applying it, with its existing progressivity, to companies like mine, after seven years of investment recovery, would be more than fair. The Majors should like such a plan. It should incentivize them to explore more and produce new oil. If they don't, it's a good bet that they, for reasons of their own, have no intention of drilling for new oil under any circumstances. The credit should be monetized annually within 90 days of the FY year-end after the money is spent on E&P cost to be effective to cause new oil production and royalty income currently received on an oil and gas lease contract.

(2.) The State should steer clear of complicated and hard to audit tax credits. Complicated regulations create opportunities for arbitrary decisions by regulators who favor Majors over independents. The credit should cover permitting, well cost, roads, all seismic work, production facilities, gathering systems, pipelines, geological and geophysical work and other relative costs that cause new investment, including reasonable promotional costs to find new investment partners to find new oil and produce. The tax holiday should begin when production of oil or gas is placed on line and end seven years thereafter.

I've spent 30 years in Alaska investing and bringing oil companies to Alaska to explore. A system that favors the Majors has prevented all small independents from ever making a profit in Alaska.

I realized this years ago and consequently chose to use my knowledge and experience to compete, where the Majors could not interfere. With the help of some of the world's best geologists I carefully select the most marketable oil and gas leases I can find, and display them year after year at the North American Prospect Expo, (NAPE). — NAPE typically has over 17,000 attendees. Many of

those attendees are there in search of exploration opportunity. My exhibiter booth is always well equipped and well staffed with maps, geophysical data, and Geologists familiar with the North Slope and the leases were promoting.

My goal at NAPE is to attract oil companies to Alaska who will drill and produce. The goal of Alaska's Legislature is to attract oil companies to Alaska who will drill and produce. No one has interests more clearly paralleled with Alaska's interests than Donkel Oil and Gas. If SB 21 is amended to reflect these recommendations, my job will be much easier and Alaska will be the biggest winner.

I have been studying the oil and gas Industry for decades. I've compared regulatory systems and tax regimes all over the world. From that learning experience, I believe there are three things Alaskans need to know. (1.) If you give a fully integrated major oil company control of your basin, they will abuse you. (2) No matter what tax regime you install, the Majors will always say it's not enough. (3.) Contrary to what the Majors would have you believe, ACES is generous in comparison to the majority of the tax regimes around the world. My ability to explain the generosity of ACES at my booth at NAPE has enabled me to attract several independents to Alaska.

If you want to ramp up the salability of Alaska, give us who do the selling the tools.

1. Adopt a simple easy to explain 75% exploration and production credit that can't be manipulated to exclude independents
2. While leaving a fixed royalty in place, provide a seven year exemption from taxes for all new production outside of the existing participating areas:
3. Leave the ACES tax, including its progressivity as is for all existing participating areas:

Alaska would then have one of the strongest producer magnets in the world.

Thank you for your time and consideration,

Best Regards,
Daniel K. Donkel
Donkel Oil and Gas LLC
386 677 2002 — 713 805 8952 — 407-375-8500
Email = donkeloil@gmail.com Website = donkeloilalaska.com



Alaska State Legislature
House Finance Committee
April 09, 2013

Testimony
of
ARCTIC SLOPE REGIONAL CORPORATION
by
Tara Sweeney, Senior Vice President of External Affairs
on
CSSB 21 HRES Version K

My name is Tara Sweeney, Senior Vice President of External Affairs for Arctic Slope Regional Corporation, or ASRC.

ASRC is Alaska's largest Alaskan-owned company, with approximately 10,000 employees nationwide, of which nearly half are Alaskan jobs. ASRC represents 11,000 Iñupiat shareholders of the North Slope, and we have been successful in striking a balance between representing the business interests with the subsistence needs of our shareholders. We have five major business lines: 1) energy support services, 2) petroleum refining and marketing, 3) government services, 4) construction, and 5) resource development.

The work performed by ASRC's family of companies within the oil and gas industry on the North Slope returns tangible benefits to our shareholders and thousands of Alaskans. We are a \$2.6 billion company and our enterprise is heavily invested in this state. I appreciate the opportunity to introduce to you some of the members of our family of companies.

ASRC Energy Services performs an array of oil field engineering, operations, maintenance, construction, fabrication, regulatory, permitting and other services to some of the world's largest integrated oil and gas companies. With more than 3,000 Alaska employees, Energy Services provides more jobs in Alaska than any other locally-owned employer and has emerged as the state's largest oil field services company. ASRC Energy Services also has a presence in Louisiana, California, Utah, Hawaii, Indiana, Washington, and a growing presence in North Dakota.

Another member of our family of companies is Petro Star. Petro Star is the only Alaskan-owned refining and fuel marketing company. Petro Star's two refineries located in North Pole and Valdez, draw crude supply from the Trans Alaska Pipeline System (TAPS) to produce highway, off-road and marine diesel, as well as jet fuel and home heating oil. The North Pole refinery supplies the mining industry, military operations at Eielson Air Force Base, and it provides heating oil to communities throughout Interior Alaska. The Valdez refinery produces and transports marine fuels to

coastal communities reaching as far as St. Paul Island. The Valdez refinery also produces ultra-low sulfur diesel, and it supplies jet fuel to commercial cargo carriers refueling at Ted Stevens Anchorage International Airport and to the military operating at Joint Base Elmendorf-Richardson. Through its operations in Dutch Harbor, Petro Star supplies fuel to the largest commercial fishery in the United States. In addition to its refining and distribution assets, Petro Star also operates fueling stations, convenience stores and heating oil distributorships.

We are a service provider and refiner. We are also a resource owner, developer and explorer in this state.

Some of our ownership interests are subject to Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA), and our ability to explore, develop and produce on those lands benefit every region in this state. The absence of a stable tax regime and positive investment climate for the oil industry has a material impact on how we develop or not develop those lands.

As a result of our land entitlement under ANCSA, ASRC owns nearly five million acres on the North Slope. In most cases, ASRC's subsurface holdings were primarily selected for their natural resource potential.

We have a significant royalty position in the Colville River Unit (CRU), home of the Alpine oil field, one of the largest oil producing fields on the North Slope. While the Alpine field production peaked four years ago, the CRU satellite developments have helped slow the rate of decline. These satellites currently account for nearly 35 percent of the oil production in the CRU and are processed through the main Alpine facility. Additional development in the CRU is challenged by a complex and unfriendly permitting regime that impedes timely development.

ASRC has also invested in the exploration and development of State-owned lands on the North Slope. With investment in the Badami and Placer Units, our exploration company experiences the same tensions regarding the State tax regime similar to other small producers and independent explorers.

As part of our investment in the Badami Unit, ASRC Exploration, LLC (AEX) owns a 32.5% working interest. AEX and operator Savant Alaska continue to work toward increased production. However, due to the high cost environment and current low throughput, it is extremely important that the Small Producer Credit stay intact and be extended in order for continued investment in the Badami Unit.

The tax reform discussion highlights good perspectives and has spurred meaningful debate. We ask that as you go forward you remain mindful of the Alaskan companies involved in the industry. There has been a lot of focus on the multi-national and independent explorers and small producers, so sometimes the local voice gets muffled in the process.

As an employer, service provider, resource owner, explorer, producer and developer, ASRC is in a unique position to provide comments. I submit our comments from the perspective of a local company with an enterprise involved in the value chain of oil development in this state, from exploration through refining product and all services in-between.

This committee substitute is an improvement over the current ACES and also the Senate version. There are several provisions we support and areas that still need improvement.

- We support the repeal of progressivity.
- We support the base rate change from 35% to 33%.
- The community sharing provision is a good start, and we encourage the Legislature to continue to consider linking it to a percentage of the tax, versus the current language of a legislative appropriation. We feel this is a more objective approach to sharing revenues with Alaskan communities.
- We support the 35% Loss Carry Forward (LCF) Credits, as currently written. They enable explorers, small producers, majors and organizations like ASRC to receive carry-forward loss credit, through a transfer, refund or tax deduction. This flexibility is attractive to us.
- We support the Gross Value Reduction (GVR) formula contained in the bill. It makes investment opportunities even in marginal fields more attractive for companies like ASRC. It encourages development of new production for all producers, as well as new entrants.
- We support linking the \$5 per barrel tax credit to the production subject to the GVR for the reasons listed above; this creates a more level playing field for all players.
- We support the 10% service credit because it stimulates the economy within the service industry. Our subsidiary, ASRC Energy Services, employs thousands of Alaskans, and this credit could help us revamp our fabrication and construction services in the state.
- We support the AIDEA bonding capability – this will give new entrants another avenue to finance facilities that have the capability to bring new production online.
- The sliding scale provision for non-GVR production provides for tax benefits to producers at low oil prices and increases the State's 'take' at higher oil prices. This, again, provides the right type of incentives in a changing price environment, and the State benefits on the upside swing of prices.

- Refining the definition of Lease Expenditures on what counts for tax filings provides necessary clarity to both the explorers, producers and the Alaska Department of Revenue.
- Finally, I want to impress upon the committee the importance of the small producer credit to ASRC. The extension of this credit to 2022 goes a long way for the "little guy". Through our subsidiary, AEX, this extension improves our ability and that of the other small producers, to maintain or grow existing production. This extension makes it more attractive for companies like AEX to explore for and develop oil and gas deposits on leaseholds outside of our units that could add new production to our unit positions. This is good. **Elimination of this credit would impact how we choose to invest our capital in this company, or if it makes more sense to invest in other parts of our business.**

There are two areas of concern for us. First, the expiration of the Qualified Capital Expenditures (QCE) in 2014 is too soon. We support a phase out program over a slightly modified period, like 2015. This is important because investments planned with the credit as part of project financing will require replacement of this source of investment capital or the project will be shelved. Phasing this out over a longer period makes more sense for the current explorers and potential developers.

Finally, deletion of the proposed modification of the Exploration Tax Credit (ETC) that eliminated the 3-mile buffer for drilling and extended the deadline for ETC's to 7/1/2022 would remove any incentive for a small producer to add new production to its unit or create other opportunities for new production.

In closing, on behalf of Arctic Slope Regional Corporation, I want to thank you for your leadership on this issue. We appreciate your dedication to public service and taking the time to work to reinforce Alaska's economic foundation. While some may be looking at this issue through a narrow lens, we have the fortune to see this issue from several important viewpoints. ASRC strategically plans for a sustainable future in Alaska and we support a healthy and robust oil industry here. Thank you for the opportunity to provide our perspective.



April 9, 2013
SB 21 Public Hearing
House Finance Committee

Testimony of Michelle Anderson, President

Good afternoon Co-Chairs Stoltze, Austerman and members of the House Finance Committee. My name is Michelle Anderson, President Ahtna, Incorporated.

Ahtna, Incorporated is one of thirteen Alaska Native Regional Corporations with land holdings within the Copper River Valley and Denali Borough. Our headquarters is in Glennallen, Alaska.

55-miles of the Trans-Alaska Pipeline System (TAPS) cross Ahtna land. For the previous 40-years Ahtna has provided pipeline maintenance, construction and spill response along the TAPS and storage facility in Valdez.

Ahtna encourages the legislature to remain focused on the ultimate goal of this legislation, increased production from both legacy and new oil fields by lowering the base tax rate from 35% to 33% and extending the small producer credit to 2022.

Currently 56% of Alaskans support oil production tax reform. Senate Bill 21 is not just about helping industry. It's about helping all Alaskans so we have a more prosperous future for the next generation by making Alaska more attractive for private sector investment.

Experts agree that if we maintain the current oil production tax status quo, we are guaranteed continued TAPS throughput declines in the 7% per year range indefinitely.

Ahtna strongly supports revising the New Frontier Basin tax credits by extending the exploration term and eliminating the 3-mile limit, making it comparable to the Cook Inlet Basin. This would incentivize new oil and gas exploration and production in Alaska's undeveloped regions and ultimately lower energy costs for many Alaskans.

Ahtna, like all of Alaska's Native Corporations, is dedicated to creating & sustaining local economic development that provides jobs for Alaskans, responsibly develops our natural resources, and makes it more affordable for families to remain in their home communities & regions. Exploration incentives such as the New Frontier Basin Tax Credits provide critical inducements to companies such as Ahtna to invest in natural resource exploration and development.

Thank you for the opportunity to comment.

P.O. Box 649 • Glennallen, Alaska 99588
Phone: (907) 822-3476 • Fax: (907) 822-3495

Written testimony on SB 21 by Karl Westgard

Alan Marasigan

From: Karl Westgard <hungry.ocean@hotmail.com>
Sent: Monday, February 25, 2013 11:15 PM
To: Alan Marasigan
Subject: SB-21 please respond with conformation

Okay let me see if I have this right. The wells pumping on the slope have been pumping for a long time. The flow contributing to the oil in the line is diminishing because it has been pumping for a long time. There has not been any sizable investment to increase the flow of oil to date? And what has increased the flow will pay extra dividends to oil companies?

There has been lots of money made over these decades. I'm sure if I say more than enough money to cover the investments over these decades would only insight those to say a modest return on the investment has been made.

So let's move on to the rise in taxes known as ACES. Yes it does pay the state high taxes at times of high prices. So by reason the oil companies make back there investment and a reasonable return on investment at low oil prices. Better yet under the current tax structure under low prices the state carries all the risk in cost. High prices are a bonus right? And the economy raises prices not oil companies' right? When prices for fuel are high this state in particular pays high prices just to do business. What I am getting at is we have a lot of real estate and it takes fuel to navigate, survive and thrive in it. These higher prices are paid by the citizens of the state of Alaska just to go through the motions of life. We're not going to get regular rebates to offset this cost so let use our states natural resources to run our government and remove that burden form our backs. After all it's our oil right? Why should the state not reap a bonus as well for the loss of a non renewable resource? ACES was overdue.

Like every developing state Alaska was raped for its natural resources and the rapists benefited greatly.

I would like to encourage our senators to stand tall and say when you invest you reap benefits and not before. If the current oil companies do not develop it another one will.

The slope is a proven producing oil field and the oil companies working it make a great deal of money from it and those funds contribute to a major portion of their flow of money.

I understand North Dakota has lower taxes but it won't be forever. As time moves on the citizens of that state will demand a greater share for the resources being extracted. And the same game will play over and over again as the oil companies play one site against another. To give away taxes for no return should be criminal.

For lack of a better plan if our misguided senators give back taxes without guarantees of increased production; they should reduce the states spending penny for penny not leave the burden on future generations to pay the price of their short sightedness.

Let's see if our senators have what it takes to be a representative of this state or should they move to North Dakota?

Karl Westgard

Doniece Gott

From: samndeb@acsalaska.net
Sent: Tuesday, April 02, 2013 7:25 PM
To: Sen. Pete Kelly; Sen. Click Bishop; Sen. Anna Fairclough
Cc: Sen. Kevin Meyer; Sen. Mike Dunleavy; Sen. Johnny Ellis; Sen. Charlie Huggins

Follow Up Flag: Follow up
Flag Status: Flagged

Senator.Pete.Kelly@akleg.gov

Senator.Kevin.Meyer@akleg.gov

Senator.Click.Bishop@akleg.gov

Senator.Anna.Fairclough@akleg.gov

Senator.Mike.Dunleavy@akleg.gov

Senator.Johnny.Ellis@akleg.gov

Senator.Charlie.Huggins@akleg.gov

I am writing in opposition to SB 21. Legislators are not serving as good stewards of Alaska's resources by giving tax breaks to oil companies with nothing promised in return. It makes no sense for the legislature to put Alaska's public education, needed infrastructure and public safety at risk with no guarantees. Purposefully putting the state budget in deficit spending will only hurt the state's economy. As the state makes cuts to public education funding, and other factors that create a stable quality of life in Alaska, it will be even harder for businesses to recruit and retain quality employees and their families.

I am asking you to vote no on SB 21. Any tax breaks for oil companies need to require an equal guarantee of investment.

Thank you for your consideration.

Debera Cokeley
Alaska resident 47 years



Sitka Conservation Society
 Box 6533
 Sitka, Alaska 99835
 (907) 747-7509
 info@sitkawild.org
 www.sitkawild.org

"Protecting the natural environment of the Tongass while supporting the development of sustainable communities in Southeast Alaska - since 1967."

Speaker of the House Mike Chenault
 State Capitol Room 208
 Juneau, AK 99801

April 4, 2013

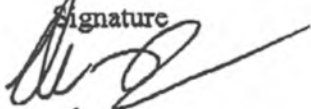
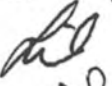

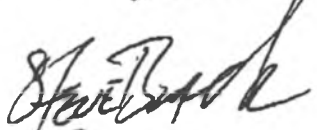

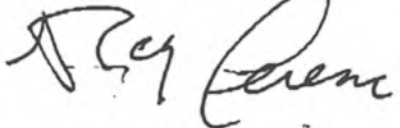
Speaker Chenault and members of the Alaska State House of Representatives,

The community of Sitka urges you to vote against Senate Bill 21. We believe this is a **wealth giveaway** to the oil industry with no guarantee they will act in the public's best interest, increase production, or create jobs. If this bill becomes law, savings Alaska has accrued from years of oil tax revenue will move back into the pockets of the world's most profitable corporations. Now is the wrong time: funding for our schools and critical services is being cut. We should not hand out tax breaks at the expense of our future.

Please add this petition to whatever file pertains to the bill, and let it serve as a testament that many in the Sitka community stand firmly against SB 21.

Thank you, Mr. Speaker.

Copied:
 Representative Jonathan Kreiss-Tomkins
 Senator Bert Stedman

Name	Signature	Address
ANDREW THOMAS		722 Blake, Sitka AK
LORRAINE INEZ LIL		105 AUSTIN ST SITKA ALASKA
IZABELA PENTUCCI THORNE		419 LINCOLN ST SITKA AK
STEVE BANSHAN		725 LAKE ST SITKA AK
CAROL FARNEY		716 A Street Sitka
DEY CLEM		747.5597



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 development of sustainable
 communities in Southeast Alaska -
 since 1967."

Name	Signature	Address
STEVE ASH		4014 HPR SITKA, AK
Connie LaPerriere	Connie LaPerriere	705 Lake ST Sitka AK
Marcel LaPerriere		705 Lake ST Sitka AK
Phyllis Hackett		500 Lincoln #B4 Sitka AK
Linda Waller	Linda Waller	1303 Geogeson Lp Sitka AK
Howard Peadell		Lot #6 Galatin Ls Sitka
DON MULLER	Don Muller	310 Islander Dr., Sitka
Michelle K. Putz	Michelle K Putz	131 Shelikof Way
Charles Bingham	Charles Bingham	404 Etowah Way, April 1983 99835
Bob Medinger	Bob Medinger	4270 HPR, Sitka AK 99835
Howard WYME		P.O. BOX 1925 SITKA
Cori Schumada	Cori Schumada	PO BOX 2182 SITKA
Mim McConnell	Mim McConnell	215 Smith ST #G Sitka
Marsh Skeele		507 Katlian St. Sitka



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communities in Southeast Alaska -
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Name	Signature	Address
Henry Larsen		106 Babcock
Lynn Wilbur		617 Kathian St A7
Cosal Cenna		3486 HPR
Patrick Cenna		" "
JACK OZMENT		2028 HPR
Sheryl Mayo		2800 SMC Sitka
L. Spencer Severson		P.O. Box 6224 Sitka



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Speaker of the House Mike Chenault
 State Capitol Room 208
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April 4, 2013

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Please add this petition to whatever file pertains to the bill, and let it serve as a testament that many in the Sitka community stand firmly against SB 21.

Thank you, Mr. Speaker.

Copied:
 Representative Jonathan Kreiss-Tomkins
 Senator Bert Stedman

Name	Signature	Address
ADAM ANDIS		PO Box 3165 SITKA, AK 99835
Clarice Johnson		506 O'Leary, Sitka
Chelsea Androozzi		121 John Brady Sitka, AK 99835
Sigurd Rutter		310 Tilsen St Sitka AK
Peter Williams		PO Box 6233, Sitka AK 99835
Kerry MacLure		PO Box 1665, SITKA AK
Faith Lee		142 walrus sitka
Erin Messinger		PO Box 1864 Sitka
		507 Mahine St Apr. 9, 2013 4:09PM

SITKA LEGISLATIVE INFORMATION OFFICE

Email: Sitka_LIO@legis.state.ak.us
907-747-6276/ phone -- 907-747-5807/fax

WRITTEN TESTIMONY

NAME: SITKA CONSERVATION Society
REPRESENTING: petition signers
BILL#/ SUBJECT: SB 21
COMMITTEE &
HEARING DATE: HFIN - 4/9/13

please find attached 7 pages



Sitka Conservation Society
 Box 6533
 Sitka, Alaska 99835
 (907) 747-7509
 info@sitkawild.org
 www.sitkawild.org

"Protecting the natural environment
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Name	Signature	Address
Ken Corson	Ken Corson	405 Mills St SITKA, AK
Helen Raschick	[Signature]	PO BOX 2893
Paul Rivoux	[Signature]	211B Kimsham St
MARJORIE HENNESSY	[Signature]	708 MARINE ST
Courtney Bobsin	Courtney Bobsin	105 Monastery St. Apt C
DORRIE FARRELL	Dorrie Farrell	3501 HPR
Erin Fulton	Erin Fulton	PO Box 946
Hilloah Courtney	Hilloah Courtney	208 Lakeview Dr
Nancy Short	Nancy Short	144 Wolff Dr
Susan Litman	Susan Litman	Box 1971 SITKA
MICHAEL LITMAN	Michael Litman	Box 1971 SITKA
Donna Donohoe	Donna Donohoe	1315 SMC Rd Sitka
Anthony J. Szevin	Anthony J. Szevin	715 SMC Rd Sitka
Karin Mullins	Karin Mullins	1110 HPR Sitka
NORMAN CAMPBELL	Norman Campbell	106 RANOS DR.
MEGAN PASTERNAK	[Signature]	Box 839 SITKA, AK
JUDITH OZMENT	Judith Ozment	2028 HPR SITKA AK
Ray Friedlander	Ray Friedlander	109 Jeff Davis Cir. Sitka



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Name	Signature	Address
WARD ELDRIDGE	<i>Ward Eldridge</i>	2213 SMC SITKA, AK. 99835
JOHN DEPALATIS	<i>John DePalatis</i>	2028 1/2 HPR SITKA AK 99835
<i>Judith Johnson</i>	<i>Judith Johnson</i>	306 Peterson
Kasuy Davis	<i>Kasuy Davis</i>	505 Hirst St.
<i>Jenny Sjogren</i>	<i>Jenny Sjogren</i>	221 Kesavumill Creek
<i>Deanna</i>	<i>Deanna</i>	3004 Sunflower St Anchorage AK 99508
KEVIN KNOX	<i>Kevin Knox</i>	320 WACHOSSETTS - JT
Margaret Gally	<i>Margaret Gally</i>	"



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*"Protecting the natural environment
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since 1967."*

Name

Signature

Address

Ashia Lane
Kent Barchew

PO Box 6138
Sitka, AK
12-3 12, 15E rd

WRITTEN TESTIMONY

Name: Don McNamara
Representing: SELF
Bill No./Subject: SB 21
Committee: House Finance
Date of Hearing: 4-9-13

Note NO ON SB 21
Don't Give Away Money
to Some of the Richest
People IN the world
TAKE BACK the Leases
not Being used! CHARGE
them For Burning off GAS
Waste. We need AN
Alaskan oil company owned
By the people.
GOOD Nite

WRITTEN TESTIMONY

Name: Donna Rae Faulkner
Representing: myself (An Alaskan Citizen)
Bill No./Subject: SB 21
Committee: House Finance
Date of Hearing: 4-9-13

I strongly oppose SB 21.

I came in to testify and your committee was called to the floor, so I'll just leave you this testimony instead of waiting till you're back (it's now nearly 9pm)

Thank you for all your hard work + attention to details. I feel SB 21 is a political tax give away to the big oil corporations + will hurt the Alaskan economy. It is not in the best interests of Alaskans in the short run or the long run.

Good night.

ANCHORAGE LEGISLATIVE INFORMATION OFFICE

Email: Anchorage_LIO@legis.state.ak.us
907-269-0111/ phone, 907-269-0229/fax

WRITTEN TESTIMONY

NAME: Sandy Harper

REPRESENTING: Self

BILL#/ SUBJECT: SB 21

COMMITTEE &
HEARING DATE: 04/09/13

I am here as a grand mother to
protect the special interests of my grand children
and their future by not voting for SB 21.

I also want to appeal to the pragmatism
of a bi-partisan legislature to practice statesmanship
and be visionary as Jim Hammond was in the
past and Vic Fiske is today to consider the long
term rather than short term as to what would serve the
citizens of Alaska rather than the influence of only big
oil vested interests. It is not a two way street
for mutual benefit at the moment.

ANCHORAGE LEGISLATIVE INFORMATION OFFICE

Email: Anchorage_LIO@legis.state.ak.us
907-269-0111/ phone, 907-269-0229/fax

WRITTEN TESTIMONY

NAME: Matt Johnson, Anchorage, AK
REPRESENTING: Self
BILL#/ SUBJECT: SB 21
COMMITTEE &
HEARING DATE: 4-9-2013

Thank you for this opportunity to testify.
I am opposed to SB 21 in its current form.
I urge you to move slowly on this matter,
and carefully consider the consequences of your
decisions. I'm a third-generation Alaskan, and
I'm concerned for the future of my kids in this
state. Giving billions to Big Oil with no commitment,
no contract, seems like pure folly to me.
What's the rush? When is the last time you
conducted important business with no contract?
Why are we giving billions to industry with
no contract?

ANCHORAGE LEGISLATIVE INFORMATION OFFICE

Email: Anchorage_LIO@legis.state.ak.us
907-269-0111/ phone, 907-269-0229/fax

WRITTEN TESTIMONY

NAME: Andrez Lang
REPRESENTING: Self
BILL#/ SUBJECT: 21 Oil Tax Bill
COMMITTEE &
HEARING DATE: 4/9/13

- I wish to speak out against SB21 pushed through the State House + Senate. The bill that:
- extracts \$1-2 billion of oil revenues from the state annually w/o requiring reinvestment.
 - ~~that~~ prevents AK from maintaining + building infrastructure
 - ~~that~~ does not require reinvestment or more production by the oil companies who are granted billions on top of record profits from AK's resources.
 - does not encourage exploration
 - promises nothing but to deplete our revenues + our savings from a tax structure called ACE3 that merely required an adjustment at the top end of progressivity
 - guarantees the monopoly of the big 3 oil companies + makes it more difficult for the independents to compete.
 - siphons money away from social + educational programs that benefit Alaskans.

Please reject SB21. Return to ACE3 + fix the progressivity at the top so that both the State AND Oil Companies benefit

Louise Taylor-Thomas

From: Dick Farnell <dickfarnell@hotmail.com>
Sent: Wednesday, April 10, 2013 2:35 PM
To: Louise Taylor-Thomas
Subject: Testimony on SB 21 Please Distribute to Committee

Please resist big corporate oil and instead vote for the well-being of Alaskans by rejecting SB 21, giveaway of billions to the oil companies. Thank You. Sincerely, Richard Farnell, Juneau resident

Louise Taylor-Thomas

From: Craig Mapes <mapescr@gmail.com>
Sent: Wednesday, April 10, 2013 12:43 PM
To: Louise Taylor-Thomas
Subject: Testimony on SB 21 Please distribute to committee

Honorable Elected Senators

4-10-2013

My name is Craig Mapes and I have been an Alaska Resident for 33 years. Furthermore I served Alaska youth as a secondary level educator for 20 years.

I am opposed to any tax break to the oil industry. It is a travesty and a sham to give oil companies a tax break to "encourage development". As long as there is a demand for oil and petro chemicals, there will be companies who will extract and sell the resource. There is no need for incentives to pursue this business. If extraction costs are high then the product will be sold for more to recoup costs. If the oil industry feels it cannot develop oil with the current tax structure, then the oil is money in the bank for all Alaskans who will benefit when the market would demand the oil extracted at higher prices.

Alaska oil belongs to Alaskans and should bring in revenue for Alaskans. The state of Alaska stands to earn more revenue over the long term by keeping oil taxes at there current level or increasing them.

A tax break on development of Alaska oil will result in even more money in the pockets of corporate executives and the elected officials supported by the oil industry with fewer dollars going to the vast majority of Alaskans. By giving away our oil at a reduced tax rate, we will have less money over time which will eventually necessitate a state income tax to meet government expenditures.

To conclude I am opposed to any tax break for oil exploration/extraction.

Sincerely,

Craig Mapes
PO Box 46
Tenakee Springs, Alaska 99841

ANCHORAGE LEGISLATIVE INFORMATION OFFICE

Email: Anchorage_LIO@legis.state.ak.us
907-269-0111/ phone, 907-269-0229/fax

WRITTEN TESTIMONY

NAME: Matt Johnson, Anchorage, AK
REPRESENTING: SELF
BILL#/ SUBJECT: SB 21
COMMITTEE &
HEARING DATE: 4-9-2013

Thank you for this opportunity to testify.
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Why are we giving billions to industry with
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Email: Anchorage_LIO@legis.state.ak.us
907-269-0111/ phone, 907-269-0229/fax

WRITTEN TESTIMONY

NAME:

Andrez Lang

REPRESENTING:

Self

BILL#/ SUBJECT:

21 Oil Tax Bill

COMMITTEE &

HEARING DATE:

4/9/13

I wish to speak out against SB 21 pushed through the State House + Senate. The bill that:

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- ~~that~~ prevents AK from maintaining + building infrastructure

- ~~that~~ does not require reinvestment or more production by the oil companies who are granted billions on top of record profits from AK's resources.

- does not encourage exploration

- promises nothing but to deplete our revenues + our savings from a tax structure called ACE 3 that merely required an adjustment at the top end of progressivity

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- siphons money away from social + educational programs that benefit Alaskans.

Please reject SB 21, Return to ACE 3 + fix the progressivity at the top so that both the State AND Oil Companies benefit.

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Email: Anchorage_LIO@legis.state.ak.us
907-269-0111/ phone, 907-269-0229/fax

WRITTEN TESTIMONY

NAME: Sandy Harper

REPRESENTING: Self

BILL#/ SUBJECT: SB 21

COMMITTEE &
HEARING DATE: 04/09/13

I am here as a grandmother to
protect the special interests of my grandchildren
and their future by not voting for SB21.

I also want to appeal to the pragmatism
of a bi-partisan legislature to practice statesmanship
and be visionary as Don Hammond was in the
past and Vic Fische is today to consider the long
term rather than ^{the} short term as to what would serve the
citizens of Alaska rather than the influence of only big
oil vested interests. It is not a two way street
for mutual benefit at the moment.

WRITTEN TESTIMONY

Name: KELLY JACKMAN
Representing: HOMER + MY CHILDREN + ALL CHILDREN
Bill No./Subject: SB 21
Committee: HOUSE FINANCE
Date of Hearing: 4/9/13

I AM FIRMLY AGAINST THE TAX CREDIT FOR OIL COMPANIES - SB 21
WE NEED TO LOOK @ FUNDING FOR OUR CHILDREN'S FUTURE - FUNDING FOR SCHOOLS, STATE PARKS AND IMPROVING ROADWAYS TO GET THERE.
IN THESE TIMES OF MASS OIL SPILLS HAPPENING TODAY - AS I SPEAK - I FEEL IT IS ^{OVER} TIME TO HOLD THESE RICH CORPORATE INDUSTRIES ACCOUNTABLE + QUIT GIVING THEM BREAKS ON THEIR SERVICE INDUSTRY EXPENDITURES !!! IN MY OPINION, ULTIMATELY AND OVERDUE - WE NEED TO START TRANSITIONING - TOWARDS ALTERNATIVE ENERGY AND MODES OF TRANSPORT. (IT'S POSSIBLE AND WOULD CREATE MORE JOBS). I AM SOOO TIRED OF GIVING BIG OIL COMPANIES TAX BREAKS AND ^{FREE} DOLLARS [AS THEY CONTINUE TO POISON US AND KILL OUR ECOSYSTEMS WORLDWIDE]. LET'S ~~NOT ONLY~~ WORK ON FREEING OURSELVES FROM OIL ADDICTION AND HOLD THEM ACCOUNTABLE TO PAY THEIR OWN COSTS.

PLEASE VOTE NO ON SB-21!!

 FAXED
4-9-13

WRITTEN TESTIMONY

Name: MARILIS KILGORE

Representing: self

Bill No./Subject: SB 21

Committee: (H) Finance

Date of Hearing: 4-9-13

I am a lifelong Alaskan.

I am strongly opposed to SB 21.

Giving the oil companies tax
breaks without a guarantee of
production is to me the very
worst approach to making sure
our resources ^{will} benefit our future
over the long term. Please do not
let this bill pass.

Have some backbone and insist
that we give get the biggest
bang for our buck, by being
business like + conservative.
Do not cheat Alaska!

Maril Kilgore

WRITTEN TESTIMONY

Name: Don McNamara
Representing: SELF
Bill No./Subject: SB 21
Committee: House Finance
Date of Hearing: 4-9-13

Vote NO ON SB 21
Don't Give Away money
to some of the Richest
People IN the world.

take BACK the Leases
not Being used! CHARGE
them For Burning off GAS
Waste. We need AN
Alaskan oil company owned
By the people.

Good Nite



WRITTEN TESTIMONY

Name: Donna Rae Faulkner

Representing: myself (An Alaskan Citizen)

Bill No./Subject SB 21

Committee: House Finance

Date of Hearing: 4-9-13

I strongly oppose SB 21.

I came in to testify and your committee was called to the floor, so I'll just leave you this testimony instead of waiting till you're back. (it's now nearly 9pm)

Thank you for all your hard work + attention to details. I feel SB21 is a political tax give away to the big oil corporations + will hurt the Alaskan economy. It is not in the best interests of Alaskans in the short run or the long run.

Good night.

