



Testimony on SB2001/HB2001

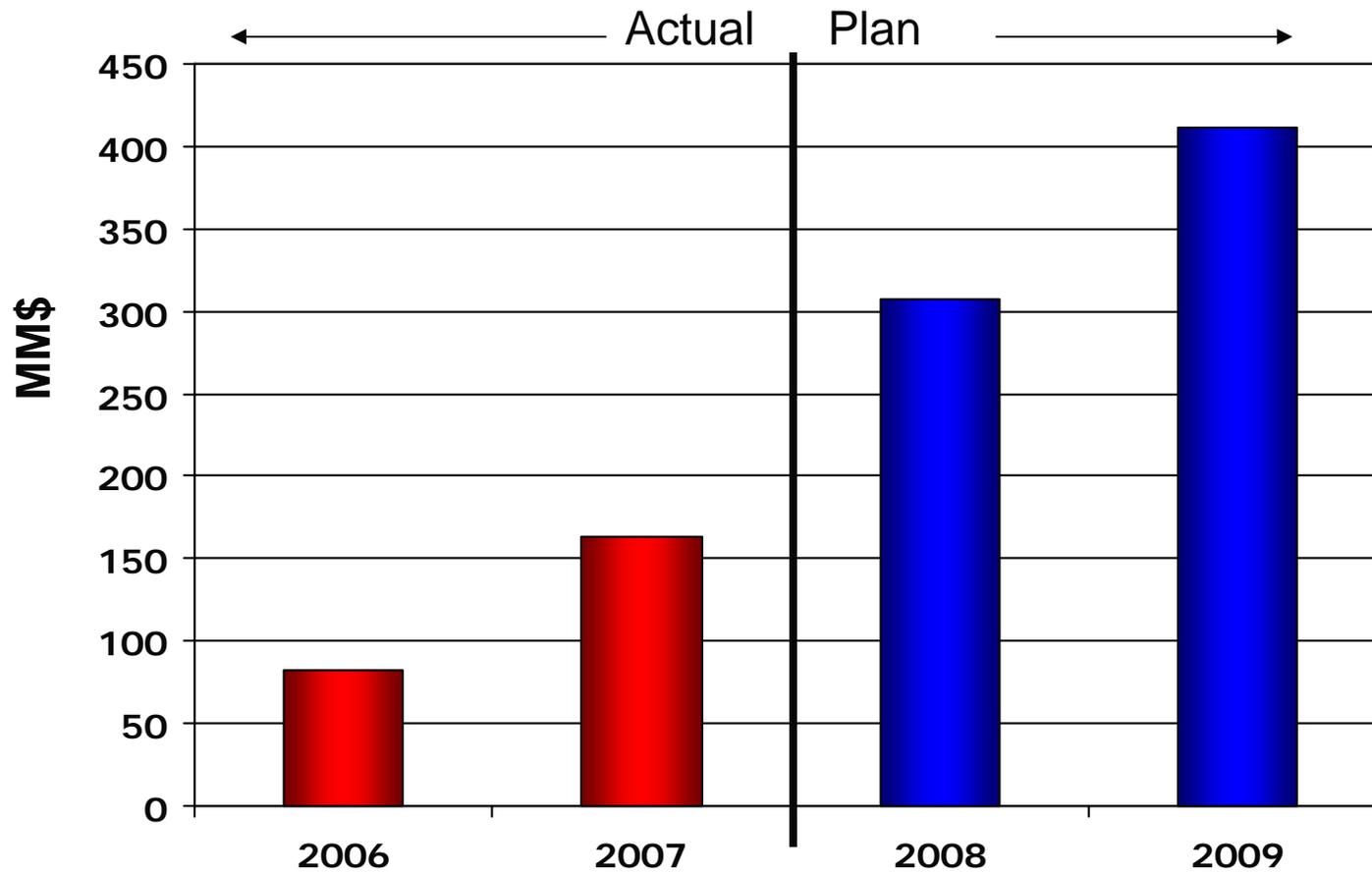
John P. Zager
General Manager, Alaska

Juneau, Alaska
November 8, 2007



Chevron is increasing investment in the Cook Inlet and North Slope exploration under PPT

Capital Investment





Taxing the upside will deter investment

ACES EXAMPLE

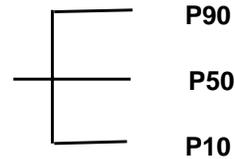
RISKED ECONOMIC ANALYSIS, 4 pt Economic Model

Example A – decision is to drill the well

MEAN EXPECTED VALUE
3.6

DRILL WELL ?
YES

POS
15.0%
Value
20.625



POF
85.0%
Value
-17

FAILURE

NPV

300
100
25

-20

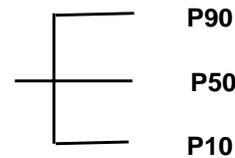
Heavily taxing the upside, can change the investment decision today

Example B – decision is to not drill the well

MEAN EXPECTED VALUE
-0.9

DRILL WELL ?
NO

POS
15.0%
Value
16.125



POF
85.0%
Value
-17

FAILURE

NPV

200
100
25

-20



Look at this bill as it morphs from the original version – is there any balance remaining?

- Base tax rate increase
- Aggressive progressivity
- Transitional Investment Credits reduced or gone
- Retroactive effective date
- Disallowance of certain costs & SB80 language
- Weakening of taxpayer confidentiality
- Multiple layers of penalties for mispayments and errant reporting

Please consider this bill as a whole and find places to restore some balance

Why should we be concerned about costs?



Cambridge Energy Research Associates Report issued 4/24/2006

"RISING CAPITAL COSTS BEAR DOWN ON E&P PROFITABILITY"

"Higher oil and gas prices have encouraged a wave of new investments for discovering and developing resources. However, the soaring costs of exploration and production (E&P) programs and the volatility of energy prices have left many producers uneasy about future profit margins."

"* E&P capital costs are accelerating and have increased approximately 42 percent from 2000 to 2005 (third quarter) compared with a 15 percent rise in the Consumer Price Index."

"* Increasing costs and energy price volatility are having an impact on investments. Oil and gas projects that were profitable at \$22 per barrel in 2002 now require \$35 per barrel to achieve similar returns."

*Actual Slides from Testimony to House Finance Committee on April 28, 2006*₅



Parting Questions

- To what degree are you willing to risk future oil and gas investments in Alaska?
- To what degree are you willing to risk the Alaskan economy?
- Is Alaska “open for business”?
- Will Alaska have more or less opportunity for our children after this bill passes?