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**TESTIMONY OF CRAIG HAYMES**

**ON PROPOSED CS SB 2001 (RES)**

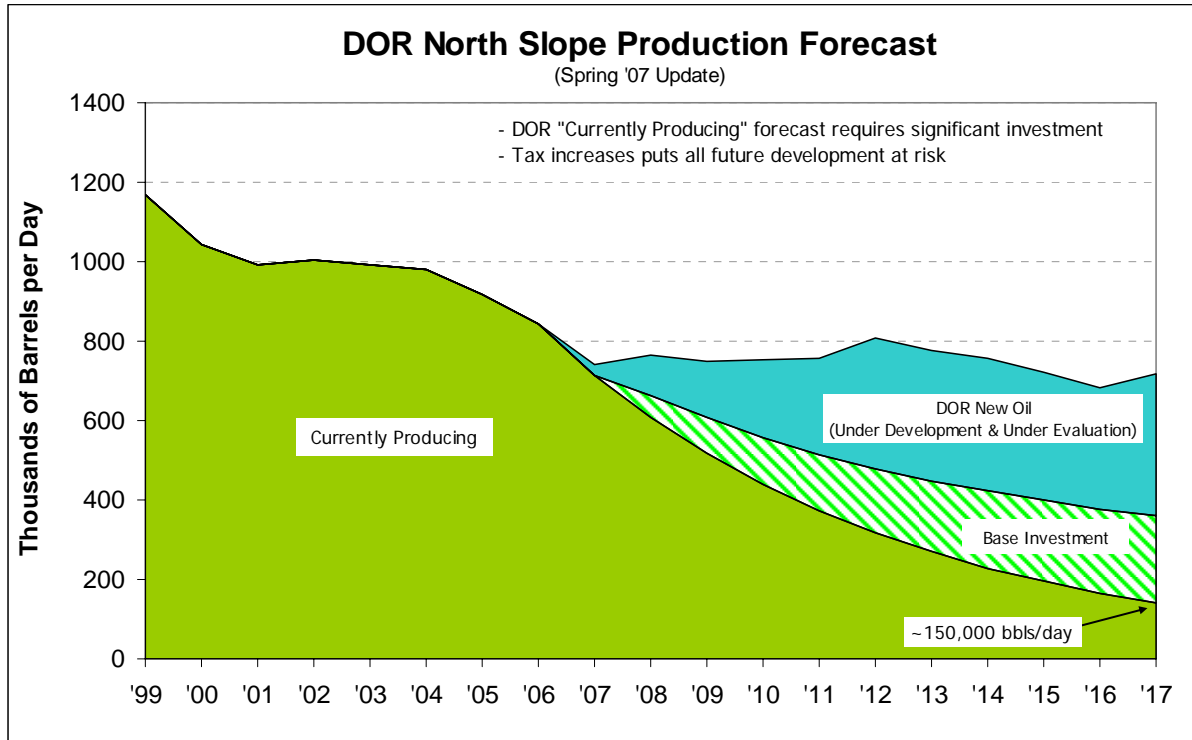
**TO THE ALASKA SENATE FINANCE COMMITTEE**

**NOVEMBER 8, 2007**

**EXECUTIVE SUMMARY**

# Alaska's Future

- **Alaska has significant resource potential**
  - Produced 17 billion barrels of oil, world class result, production today 1/3 of peak
  - Undiscovered technically recoverable resources – 53 BB oil; 259 TCF gas
  - Alaska's world ranking of proved reserves is declining - 14th in 1977, 30th today
  - Prudhoe Bay/Kuparuk > 70% of North Slope production – hubs for future opportunities
- **Alaska's high cost environment challenges pace of exploration & development**
  - Severe arctic conditions, remote, sensitive environment, exploration restrictions
  - Effective application of technology critical
- **Alaska & industry collaboratively need to create a resource development policy**

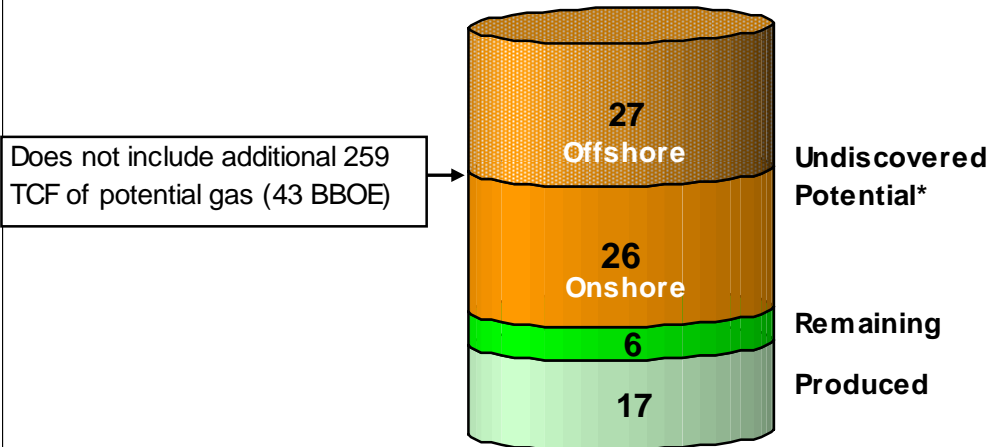


**In 10 years, 75% of oil production will come from new investments. Such production will need > \$30-40 Billion of new investments**

# Alaska Needs a Long-Term Resource Development Policy

- **We propose a collaborative approach to develop a sustainable long-term resource policy:**
  - Characterization of state-wide resource potential
  - Identification of key issues challenging exploration and development
  - Determination of key factors that impact resource value
  - Establishment of goals and measurement of progress
  - A fiscal policy that will encourage development of remaining resources
  - Regular meetings with industry and agency representatives

## Alaska Resource Assessment 76 Billion Barrels of Oil



**How do we commercialize Alaska's full resource potential?**

SOURCE: USGS, MMS, DNR

\* mean undiscovered technically recoverable resource

**ExxonMobil**

# **Fiscal Predictability Is Important**

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- **Industry needs a predictable fiscal environment**
  - Investments are capital intensive and typically evaluated over decades
- **Changing fiscal environment for capital projects reduces attractiveness of investments**
  - For every well or project not progressed, production and State revenues are forgone
- **Support the concept of a net based tax**
- **PPT has only been in existence for slightly more than one year**
  - Department of Revenue has not completed regulations or started an audit
  - Willing to work with DOR and its auditors to improve understanding of joint interest billings

**Policies established today will impact attractiveness of potential future projects**

# **Proposed Tax Increase More Complicated**

- **Proposed CS SB 2001 creates greater uncertainty**

- Additional reporting requirements for exploration tax credits - credit qualification linked to release of proprietary information
- Exploration confidentiality protection diminished
- Additional information requests ambiguous – “other records and information the department considers necessary....”
- Actual transportation costs versus “reasonableness” standard
- Qualified lease expenditures restricted to those incurred within lease/property
- Disallowance of costs associated with unscheduled interruption of production/”improper maintenance”
- Disallowance/Limitation of costs associated with refineries/crude oil topping plants

**Proposed changes increase complexity and costs**

# **Proposed Tax Increase Significant**

- **Proposed CS SB 2001 increases administrative burden for Department and Industry**
  - Increasing statute of limitations from 3 to 6 years
  - Elimination of requirement for JI Billings as starting point for audits
- **Proposed CS SB 2001 unreasonably excessive**
  - Elimination of transitional tax credits for existing producers
  - Excessive reporting and document submission penalties
  - Publication of proprietary tax information

## **At today's prices**

- **ACES would increase production taxes by 350% since 2005**
- **CS SB 2001 would increase production taxes by 470% since 2005**