HOUSE OIL & GAS TESTIMONY
on HB 2001
October 24, 2007

Thank you, Chairman Olson and members of the House Oil & Gas Committee. My name is Eric Dompeling. I'm a technical representative at Baker Oil Tools and president of the Alaska Support Industry Alliance, a trade organization representing companies and individuals that provide goods and services to Alaska's oil, gas and mining industries. I'm testifying on behalf of the Alliance.

Our 400 member companies and their 35,000-plus Alaska employees don't <u>make</u> the multibillion-dollar investments in oil and gas development that fuel Alaska's economy ... they make the investments <u>work</u>.

As companies and workers whose livelihoods depend on oil and gas investment, we're deeply concerned about constant changes in fiscal policy that put some of those investments at risk.

It's difficult for us to understand why you're back in Juneau so soon to fix a system that hasn't even had time to work, let alone for compelling evidence that it's broken. Regulations for the PPT adopted just 14 months ago haven't even been finalized, and the first returns haven't been audited.

So far, proponents of this tax increase have presented you with a plethora of projections and a paucity of proof.

We don't know if a 22.5% tax rate with the current escalator and credits strikes the right balance between ensuring the state its fair share of oil revenues and encouraging long-term investment and production. We don't know if 25% is the right rate ... or 20 ... or 15.

None of us does ... not the Alliance, not the legislature, not the administration and not even the producers.

We <u>do</u> know that every dollar in additional taxes is a dollar that won't be invested in sustaining production, in creating business opportunities for Alaska companies like Alliance members, in generating good-paying private sector jobs for Alaskans.

We <u>do</u> know that while the extent to which yet another tax increase will <u>discourage</u> investment is debatable, the fact that it will do absolutely nothing to <u>encourage</u> new oil production and construction of a gas project is not.

Isn't that what this discussion should be about: how we can work together to promote investments ... how we can ensure our "fair share" of long-term jobs and business opportunities for Alaskans, rather than how much more money we can extract from the private sector without further risking our long-term future ... just so state government can have more money to spend in the short term?

When you adopted the new PPT in 2006 after months of deliberations, debate and countless votes, you included provisions requiring a complete review of the system five years later - in 2011. You understood then that it would take several years to reasonably determine how and if it's working. That hasn't changed.

Do what you need to do in the short term to make the PPT work - hire more auditors, pay them more, take steps to ensure the timely flow of accurate data from the producers to the state, authorize the state to buy back credits.

But we urge you to reject premature, fundamental changes to the PPT that will increase taxes, increase costs, jeopardize the economics of critical long-term investments and put production, Alaska jobs and business opportunities at risk.

The testimony of Jerry McCutcheon

The taxes as proposed are FAR TOO LOW.

Increasing AK take will decrease the Fed's take,a good thing. The percent attributed to the Fed's take is much more than the oil companies actually pay.

Van Meurs pointed out that the State's take should be more and made that argument to Governor Murkowski in memo withheld from the legislature. Van Meurs also pointed out that PPT and Governor Palin's ACES' take, the percentage of the State of Alaska's take, actually declines with the increasing price of oil and they, Johnston also, thought that was stupid; the state percentage should increase with the increasing price of oil. Van Meurs quoted takes from 75% to 85% as usual and customary and takes of 90% to 95 % as not unusual and some takes were up to 98.5% and still the oil companies came. Johnston concurred.

Gross take on Alaska oil should approach 90%. See Shell oil's contract on North Star; it was over 90%, not the 80% that Johnston guessed for an example and that was when oil was $18/barrel.

Also see the other lease about the same time, those were willing bids; nobody held a gun to their heads. Maybe AK should go back that system.

AS both van Meurs and Johnston pointed that having the oil companies threaten to leave Alaska or actually leaving Alaska is not a bad thing and it maybe in Alaska's best interest for the long term if some of the oil companies did leave. Alaska should not be magnet for every body.

However, considering the fact that the FBI and the grand jury have not completed their investigation and the fact the grand jury may bring a RICO Act indictment against not only the oil companies but also some legislators, not yet investigated, when the FBI begins to address the mechanics of passing legislation and what happed in the process. Remember the standards of proof are much lower under RICO and far broader in scope.

It would appear the legislature should adopt a clean tax on the gross pending the completion of the FBI and grand jury investigations. Then modify I, aft, to include any tax credits thought necessary.

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