
TESTIMONY OF CRAIG HAYMES

ON PROPOSED CS SB 2001 (RES)

TO THE ALASKA SENATE FINANCE COMMITTEE

NOVEMBER 8, 2007

EXECUTIVE SUMMARY

Alaska's Future

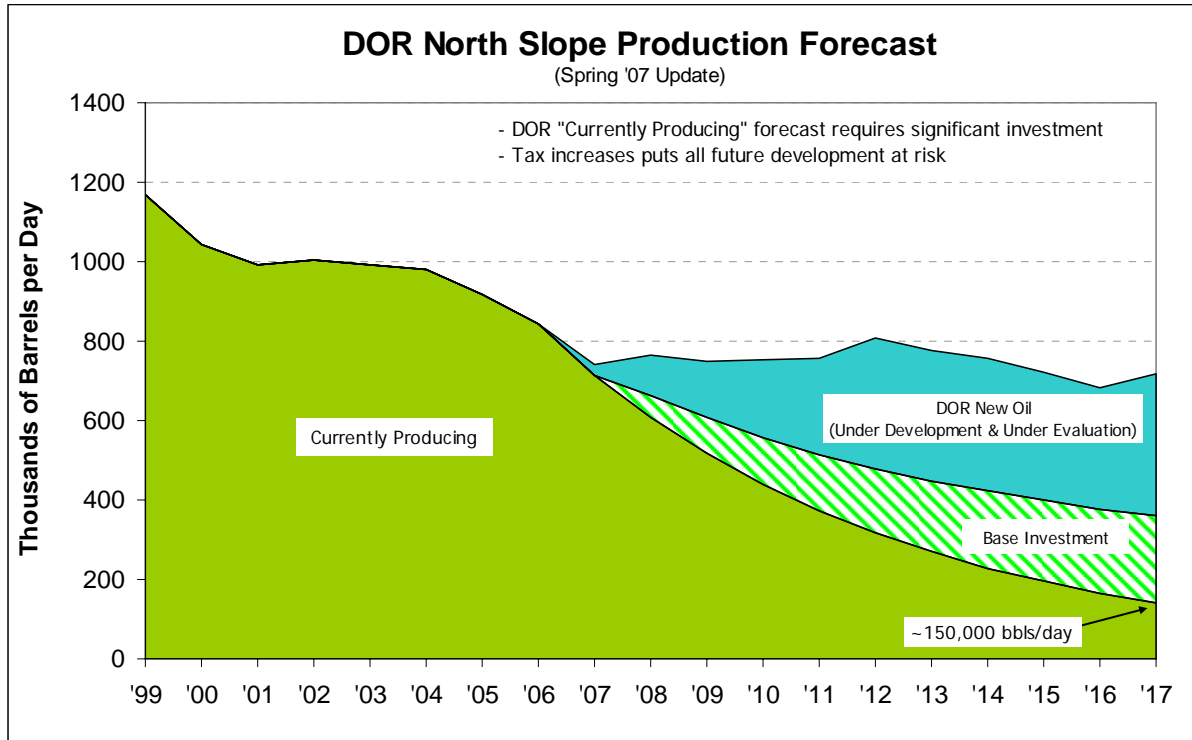
- **Alaska has significant resource potential**

- 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**

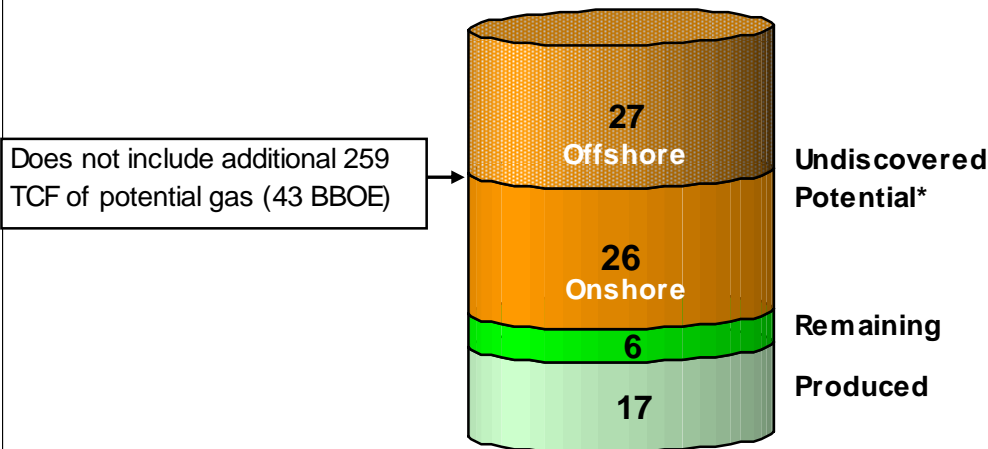


In 10 years, 75% of oil production will come from new investments. Such production will need > \$30-40 Billion of new investments

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

- **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**