THE ALLIANCE & CSSB 192

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Presentation Organization

- Background
- Impact to Member Companies
- Observations
- Questions

Our story hasn't changed…

- Alliance members, at their own expense, have traveled to Juneau more than 10 times during the 27th Alaska Legislature
- We have consistently advocated for significant tax reform
- Members and their employees have participated in every public testimony opportunity in 2011/2012
- The McDowell Report confirmed the facts we've presented
  - Alliance companies average between 70% and 90% Alaska hire
  - Alliance companies employ non-residents who were formerly long-term Alaska residents
  - Record employment on the North Slope has not led to a reduction in the production decline

Alliance Member Composition

- The Alliance is comprised of 460 member businesses
- 35,000 employees
- Our membership is comprised of businesses in 43 different sectors from Automotive to Welding
- Our mission statement is to "promote responsible exploration, development and production of oil, gas and mineral resources for the benefit of all Alaskans"

The current investment climate impact on Alliance members

- Continued decline in projects
  - Three largest fabrication shops in the state are currently operating at a loss, with little to no work, in order to keep core employees on staff
- Alaskan companies are looking for work, resulting in many relocating or shifting resources and investment to the lower 48 (CIRI, Solsten, Fairweather, Builders Choice, Northern Industrial Training, Carlile, Lynden, Peak Oilfield Services, Cruz Construction…)

Jobs

- As indicated in the McDowell study, record high employment on the North Slope **does not** represent a thriving oil industry
  - 2000 – 108,000 barrels of annual production for every job
  - 2010 – 28,000 barrels of annual production for every job
- Loss of highly trained professionals to outside competition
- Reduction of jobs based in Anchorage and Fairbanks like engineers, fabrication work, etc.

My Company – Little Red Services

- Letter in your committee packet
  - Relocating an asset from production-related activity to maintenance activities that do not increase production
- Financing
  - Banks outside of Alaska are concerned about our current tax policy and its potential impact on future financial forecast of our service company

The future of Alliance members in the oil business…

Oil tax reform must address the following:

- Existing light oil production
- New light oil production
- Viscous
- Exploration
- New companies and investment in the Alaska market

Observations

- Existing production
  - Low-cost light oil (existing production)
    - "Government take of 70-75% is reasonable. It is maybe slightly on the high side." *(PVM slide 28, presentation to Alaska Support Industry Alliance)*

Observations

- New production
  - The allowance for production increases in CSSB 192 does not reflect the recommendation of Dr. van Meurs: "the 60-65% government take for more costly new light oil resources as proposed in HB 110 and HB 17 is a reasonable level from an international perspective." *(PVM slide 38)*
  - Dr. van Meurs includes in-field drilling of existing fields as new high-cost light oil production *(PVM slide 16)*
  - Dr. van Meurs "The main reason for major companies to be in a harvest mode is that projects outside Alaska are more attractive. No large attractive projects available in Alaska under current fiscal terms for major oil companies" *(PVM slide 15)*

Observations

- New Production, continued…
  - Both Gabon and Trinidad applied an approximate 12 percent drop in order to attract new investment in an effort to offset declining production *(PVM slide 31)*
    - Marginal government take in Gabon at $100/bbl is 52%
    - Marginal government take in Alberta is 57%
    - Marginal government take in Alaska under ACES is over 80%
      (PFC Energy, slide 49)

Observations

- Viscous (called heavy by Dr. van Meurs)
  - Dr. van Meurs "To be competitive Alaska would have to offer government takes for heavy oil at 55-60%." *(PVM Slide 42)*

- Exploration
  - Tax credits have stimulated significant exploration this season
  - Will this result in the required investment to bring new discoveries to production under the current ACES tax structure?

Observations

- New companies in the Alaska market
  - CSSB 192 does not simplify our tax structure for companies looking to invest in new markets and it does not make us competitive for new projects
  - ACES does not compete well when developing higher cost light oil *(PVM slide 37)*
  - "ACES inhibits the development of new projects and resources that might help stem or even reverse decline." *(PFC slide 28)*

Observations

- There is probably a point where industry and the State share the pain of low prices
  - Industry should not have to give up total profits to taxes
  - The State treasury should not collect zero tax at low prices
- A healthy partnership should exist on both ends of the price spectrum

Observations

- Decoupling may be in the State's best interest if it is revenue-neutral to industry
- The Alliance feels this bill, in its current form, does not go far enough to encourage a significant shift in investment
- Although we have touched on several points from Dr. van Meurs on different types of production and corresponding tax rates it would be difficult to implement the approach
- The method and levers to be adjusted is the challenge before the senate but we support a magnitude of change that would place us in the middle of a comparative chart produced by PFC Energy