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HILCORP ALASKA, LLC
Testimony on House Bill 247
Resources Committee
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For the record my name is Dave Wilkins, I'm the Senior Vice President for Hilcorp Alaska. Mr. Chairman and members thank you for the opportunity to address the committee about HB 247 today. Before I get into my formal testimony, I'm fairly new to Alaska, so I'd like to tell you a little bit about myself. I'm a petroleum engineer and I've been in the industry for more than 30 years. I've had the privilege of working in many areas of the world including Russia, Texas, Oklahoma, Arkansas, Ohio, Pennsylvania, Louisiana, Wyoming and now Alaska. I'm proud to say I moved my family here last summer to lead the Hilcorp team here in Alaska because, one, it's an amazing place to raise my 3 children two, I'm excited about the opportunities available to Hilcorp in Alaska and three, I'm proud to work beside some of the most talented and dedicated people I have seen in 30+ years. I truly look forward to continuing the legacy of responsible development of Alaska's resources so that my children might also have the opportunity to both live and work in such a great state.

For those of you who aren't familiar with our company, Hilcorp is the largest privately-held oil and gas company in the United States.

Headquartered in Houston, TX, Hilcorp has operations in areas that include the Gulf Coast of Texas and Louisiana, the Northeast United States. Then in 2012 we entered into Alaska's Cook Inlet and in 2014 the North Slope.

Hilcorp was founded 1989 and has more than 1350 full-time employees.

Just over 500 of those employees support our operations here in Alaska and I'm proud to say that nearly 90% are Alaskan residents.

Here in Alaska we operate approximately 53,000 gross barrels of oil per day and 150 million cubic feet of gross gas per day from approximately 500 producing wells, for a total net production to Hilcorp of approximately 57,000 barrels of oil equivalent per day.

Hilcorp's assets are primarily (although not exclusively) older fields with extensive production histories, steady and predictable performance that carry incredible opportunity for getting more oil and gas out of the ground safely and responsibly while extending production life through efficiency and thousands of smaller scale projects. We hope the State sees a need to

attract more companies like Hilcorp as fields and infrastructure continue to age.

That brings me to why I sit before you here today. Hilcorp's production in Alaska represents approximately 40% of what we produce company-wide, so our success here in Alaska is critical to Hilcorp's overall success.

So, we absolutely agree with all of what the Alaska Oil & Gas Association presented on HB 247. The credits in question have resulted in more investments here in Alaska. We stand by our commitment to serve Alaskans' energy needs first.

It's no secret that Hilcorp has been a big part in reviving energy security in Southcentral Alaska. Over the past 4 years, we have invested over \$1 billion in projects and have drilled over 50 wells in the Cook Inlet Area. As a result of this investment and the positive results, we're sending more oil to be refined and used in Alaska and we're currently making gas supply commitments into the year 2023 with local utilities and continue to work to ensure a reliable energy source for Alaska's largest population hub. As you're well aware, prior to Hilcorp's entry into Alaska, there was

widespread concern that utilities would need to import natural gas to meet demand.

Those commitments certainly don't come without challenges. Developing oil and natural gas in the Cook Inlet basin carries a very high cost of production coupled with decline rates that vary from 15-50% annually depending on the field. The simple fact is that if we are not spending money on projects that bring on new production we cannot curb these declines. So we believe it is in both Hilcorp's best interest and the state's best interest that we continue to spend dollars on trying to produce more oil and gas both in the Cook Inlet and the North Slope.

It's also no secret that Alaska's tax credit system and the Cook Inlet Recovery act were key drivers in bringing Hilcorp to Alaska in our investments to date. Since 2012, Hilcorp has spent approximately \$3.2 Billion dollars in capital and acquisition costs here in the State of Alaska. Those investments were aimed at one primary goal – increasing oil & gas production. Since 2012, we have increased overall organic (non-acquisition) production by approximately 40% in Cook Inlet. A lot of people like to ask us how we do it, and the answer is simple. First, we have a talented and

dedicated workforce here in Alaska and second, we have and continue to make significant investments; investments that were encouraged by the State's tax credit program and investment that did just what the credits were meant to do... **Increase energy supply for Alaskans.**

I would argue that our success has been meaningful to many, including the State. Increased production levels of oil and natural gas in the Cook Inlet basin has resulted in increased royalty rates, property taxes, jobs and more. One example of this is looking at our Monopod offshore platform. In January 2012, right after Hilcorp took over operations, the realized oil price was approximately \$95 per barrel. Production was approximately 600 barrels of oil per day, a marginal rate for an offshore platform that has a high operating costs. As the royalty owner, the State's take from the Monopod at that time was approximately \$90,000 per month... when oil was about \$95 a barrel. Because of this marginal rate and low profitability, the Monopod qualified for royalty relief under HB 185 passed in 2003. The royalty rate was restructured to help maintain profitability for the platform so it would not be shut-in and/or permanently abandoned. Over the past 4 years, Hilcorp has done over 150 projects on the Monopod alone, most of

which were smaller in scope, and they have increased production to a current rate of approximately 3,000 barrels of oil per day. Because of this increase, the state's royalty share is back up to the standard 12-1/2% and even with oil prices at \$35 per barrel; the state's royalty take from the Monopod has increased to approximately a half a million dollars per month. That's over a 10x increase in royalty barrels and a 5X increase in royalty dollars going to the state, despite oil prices declining more than 60%. I would offer, we need more results like this. I will also offer that the industry needs a system in place that incentivizes not jeopardizes continued investments in that type of activity. It's a really good example of the State putting good policy in place and aimed at and achieving a positive result.

I can tell you today that the credits Hilcorp EARNED were absolutely reinvested in Alaska. Our current production rates prove it. We have managed to work our way above the 50K Barrel threshold both through acquisition and A LOT of hard work. Breaking the 50K mark means we can no longer cash in the very credits that HB247 proposes to take away. But other budding companies can, and Hilcorp is a company that always welcomes competition in the market. We want to help promote a healthy

industry throughout the state. An active industry means additional service companies will be attracted to Alaska which creates competition and will help drive down costs.

A lot of the discussion surround HB247 has involved the Cook Inlet basin, primarily because of the notable increase in production and activity that the existing tax structure intended to generate was wildly successful. Our success in Cook Inlet is what fueled Hilcorp's interest in expanding to the North Slope... And we did just that in November of 2014 when we purchased 20% BP's assets on the Slope.

It's been just over a year since we arrived on the North Slope and I am so excited about the amount of opportunity up there. We have a comprehensive list of projects we can invest in... projects that will put more oil in the pipeline and support literally hundreds, if not thousands, of jobs for Alaskans.

BUT, in today's price environment and in the face of an uncertain state fiscal structure, it is difficult to determine what projects move forward and when. We have to be very thoughtful with every penny we spend. We have

to continue to work hard to build efficiencies and cut costs, while ensuring we do it safely and without causing harm to the environment. Cutting COSTS, not corners, is the only way we will survive the current downturn.

I know that we aren't the only ones faced with difficult decisions and realities during this challenging time. I also recognize the members of this committee and the legislature have much to consider about what is best for the state and our future.

So, in closing I'd just like to remind you that the uncertainty we are currently facing threatens our ability to plan our investments and that the decisions you make today will impact the economics of the opportunities to increase tomorrow's production both in Cook Inlet and on the North Slope.

Thank you.