April 25, 2012

The Honorable Representative Paul Seaton
The Honorable Representative Eric Feige
Co-Chairmen, House Resources Committee
State Capitol Building, Room 124
Juneau, Alaska 99801-1182

Dear Representatives Seaton and Feige:

Thank you for the invitation to testify before the House Resources Committee on HB 3001 and on the need for meaningful reform to Alaska’s high production tax structure and please accept my apologies as work commitments do not allow me to appear in person to provide ExxonMobil’s views on these important topics. I am grateful for the time we spent together yesterday discussing these issues.

ExxonMobil appreciates the careful examination by your committee and other committees within both bodies of the Legislature on these critical issues to ensure the appropriate balance between the level of government take and encouraging an active, healthy oil and gas industry in Alaska.

Simply put, Alaska’s production tax is too high to attract the additional investment necessary to fully develop Alaska’s oil and gas resources in the decades ahead. It is essential that Alaska develop a tax structure that will encourage long-term, material development of all of Alaska’s resource potential to support State revenues, secure jobs and stem production decline. Meaningful tax reform like that proposed in HB 3001 is an important and necessary first step to achieving that goal.

HB 3001 is a substantial improvement to Alaska’s current production tax as it provides significant reform across all levels of production, both new fields and resource development opportunities in existing fields. Alaska needs new production from all fields, not just new developments, but also from existing fields which represent the only known resources capable of stemming Alaska’s production decline.

Alaska is currently producing approximately 600,000 barrels of oil per day from the North Slope. Industry currently invests more than $1 billion per year just to maintain current North Slope oil production decline at six to seven percent and without that continued investment, the annual production decline would be in the range of 12 to 15 percent annually. While economic investments in existing fields will continue, the number of economic opportunities decreases with each successive year.
Without meaningful tax reform that includes the legacy fields, Alaska should expect to continue at, or likely below, the Department of Revenue’s production forecasts.

Production from the legacy fields not only provides the core of the State’s revenues, it sustains the current North Slope infrastructure and the operation of TAPS. The legacy field production and these assets are essential to allow the producers of the existing non-legacy fields on the North Slope, and the developers of any new fields that may be discovered, to economically process and transport their oil from the North Slope to refinery destinations. Without healthy legacy fields, the prospects of any future new fields or developments become even more economically challenged and the probability of Alaska reaching its desired goal of long-term sustained production levels more difficult.

HB 3001, as proposed, will begin to address this critical issue. The proposed enhanced in-fill drilling tax credits and reduction to the progressivity tax would encourage additional drilling and well work activity in legacy fields such as the Prudhoe Bay Unit. This kind of developmental drilling in the core field on the North Slope is critical to Alaska’s future, particularly over the next five to ten years. Production decline must be stemmed until new developments can be discovered, progressed and brought on production.

Considerable attention has been placed on making Alaska more competitive relative to other taxing regimes and while that focus is extremely important, it is only part of the overall examination that needs to be undertaken. Benchmarking government take against other areas is a useful tool for gauging basic competitiveness, but that analysis alone does not provide the full picture of investment health. Another key indicator is whether investment in new production activities is growing. That growth is not occurring in Alaska.

As your consultants and the Department of Revenue have testified, spending on the North Slope has remained relatively flat since the enactment of ACES. But what needs to be clarified is that the majority of that investment has not been for new exploration and development opportunities that would bring new production. It is also worth noting that costs for this investment activity have gone up, so while some may argue there has been additional investment, it does not necessarily translate into more activity.

At today’s oil prices, fiscal policy that encourages investment should result in near record levels of activity, yet that is not happening in Alaska. Under ACES, the State is not attracting the necessary investment to increase production. Without meaningful reform, Alaska’s fiscal regime will prevent the State from attracting the necessary investments to enable Alaska to reach its goal of significantly increasing oil production.

ExxonMobil continues to support Governor Parnell’s and the Legislature’s efforts toward substantive tax reform and we believe the Governor’s HB 3001 provides meaningful change. While Alaska’s fiscal regime will still remain one of the highest progressive tax structures in the world if HB 3001 is enacted in its current form, it is ExxonMobil’s firm belief that investment activity in Alaska will significantly increase, leading to greater development, increased production and reliable, long term state revenues. Although ExxonMobil does not currently operate production in the state, we fully support both of our operators, ConocoPhillips at Kuparuk and BP at Prudhoe Bay in their continued commitment to invest in Alaska and to pursue all additional investments that become viable with meaningful tax reform such as that proposed in HB 3001.
The need for Alaska to develop a competitive fiscal regime to attract the levels of investments that the North Slope requires is one of the most important issues facing the State’s economic future. ExxonMobil remains hopeful that the dialogue in your Committee and with the entire Legislature for needed, meaningful tax reform will continue and will ultimately lead to the development of a competitive fiscal regime to support the full development of the State’s vast oil resources.

Thank you again for the opportunity to provide ExxonMobil’s input on HB 3001 and the need for meaningful tax reform.

Sincerely,

[Signature]

DDP:jpc

xc: Governor Sean Parnell
Members of the House Resources Committee
Members of the House Energy Committee