

Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK. 99801-1182

The Honorable Sean Parnell
Governor of Alaska
555 W 7th Ave., Suite 1700
Anchorage, Alaska 99501

December 4, 2009

Dear Governor Parnell,

There have been several recent developments in the state's petroleum industry that have us worried about the future of oil and gas exploration and production in Alaska. At last month's Resource Development Council conference the news from two of the state's three major producers was disconcerting to us and many other Alaskans.

ConocoPhillips Alaska has been the number one explorer on the North Slope for decades. The company announced it will not drill any new exploration wells for the first time since 1965. A ConocoPhillips Vice-President explained the decision by saying her company has stated repeatedly that it believes the state's recent revisions to oil taxes under the ACES legislation will harm industry investment and cause job losses.

Instead, ConocoPhillips will partner with Shell to explore its OCS leases in the Chukchi Sea. That is welcome news, however, we all know those leases are in federal waters and will not result in any production tax or royalty for the state.

BP Exploration announced it will reduce its capital budget in Alaska by 15 percent due to declining oil production, rising costs and significantly higher state taxes created by ACES. A BP executive stated that the risk versus reward analysis for Alaska made other oil producing regions in the United States, like the Gulf of Mexico, far more attractive for capital investment.

ACES significantly increased the state's take of oil profits on the North Slope. As legislators we recognize that it has increased the amount of revenue for the state budget while providing tax credits to the oil companies operating in Alaska.

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We are troubled by the mounting evidence that ACES may wind up doing more harm than good to future oil development. That possibility needs to be examined as quickly as possible.

We respectfully request that the following questions be addressed by the Department of Natural Resources, Department of Revenue, the Department of Labor and Workforce Development and the Alaska Oil and Gas Conservation Commission.

1. For each year, 2005 through 2009, what was the average number of bidders and average dollar amount per acre for each oil and gas lease property offered by the state?
2. What are the employment numbers attributable to the oil and gas industry in Alaska per year, 2005 to 2009, expressed in terms of average annual employees and average annual salary? How do the actual numbers for 2005 through 2009 compare to the employment numbers forecast by the state in the year prior?
3. Has there been a reduction in the number of new drilling permits since the enactment of the PPT and ACES compared with the number of applications for permits anticipated under the tax structure in effect before the enactment of PPT? Was there a change in the number of applications projected after the enactment of PPT compared with the number projected after the enactment of ACES?
4. What is the number for active drilling rigs and new holes drilled per month from 2005 through 2009?
5. How many drilling permits has DNR issued, month by month, from January 2005 through November 2009?
6. Has the industry increased its level of exploration and development in general and, in particular, increased interest the development of smaller fields? Has the response to the enactment of the credits been consistent with the response expected at the times PPT and ACES were enacted compared with the credits in effect before the enactment of PPT and ACES?
7. Are the lease expenditures, including capital expenditures, that are permitted under the PPT and ACES effective in developing enhanced recovery projects and extending the period in which production from a particular field is commercially viable? Are there significant expenditures

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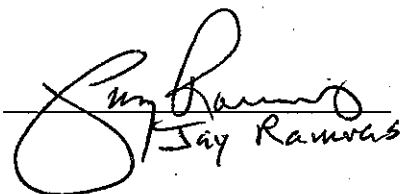
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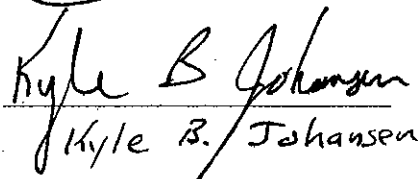
that are not currently allowed as lease expenditures that should be or lease expenditures that are allowed that are irrelevant or unnecessary?

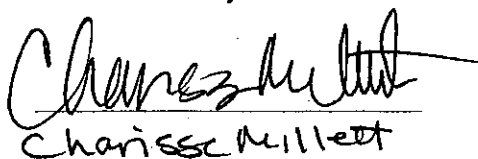
8. In general, considering the tax credits, allowable lease expenditures, and the tax rates in ACES, what effect have the changes had on the level of new exploration, development, and enhanced recovery projects? In particular, are the tax credits offered in ACES sufficient to encourage new exploration and development? Does the effective tax rate have an effect on new exploration and development and enhanced recovery projects in existing fields?

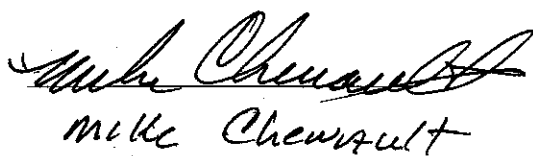
9. What recommendations does the administration have for changes to ACES that will encourage exploration and development for the oil and gas industry in the state and, in particular, encourage exploration to guarantee sufficient oil in TAPS for its ongoing operation?

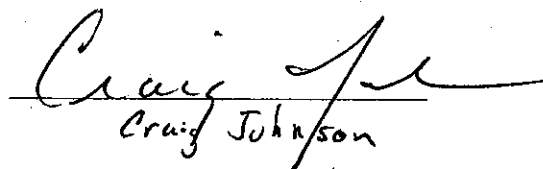
If you need any further information or would like to discuss the issue please contact our offices. We look forward to working with you on this important matter.

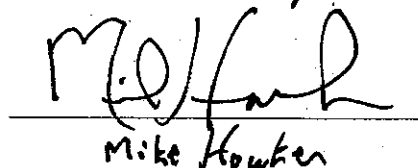

Jay Rammas

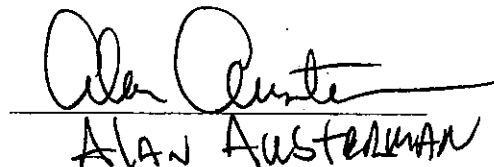

Kyle B. Johansen

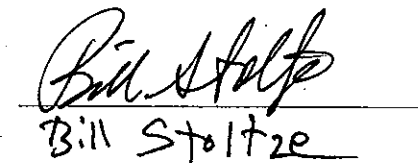

Charisse Millett


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