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March 27, 2013

Representative Eric Feige
Co-Chair
House Resources Committee
Alaska State Legislature
State Capitol Building
Barnes 124
Juneau, AK 99801

Representative Dan Saddler
Co-Chair
House Resources Committee
Alaska State Legislature
State Capitol Building
Barnes 124
Juneau, AK 99801

Dear Co-Chairs Feige and Saddler:

On behalf of Arctic Slope Regional Corporation, I am writing to share with you ASRC's position on oil tax reform, specifically SB 21. Thank you for your leadership on this issue and for the opportunity to weigh-in on this important piece of legislation.

By way of background, ASRC is the largest Alaskan-owned company with approximately 10,000 employees worldwide, with approximately 5,000 employees in Alaska. ASRC represents the business interests of 11,000 Iñupiat shareholders who primarily reside within the boundaries of the North Slope.

The ASRC enterprise is heavily invested in this state. In Alaska we provide quality services to the oil and gas industry through our subsidiary ASRC Energy Services; we draw crude from the Trans Alaska Pipeline System to process through our refineries in North Pole and Valdez- supplying marine, jet and home heating fuel and ultra-low sulfur diesel to the Alaskan market through our subsidiary Petro Star, Inc.; we are involved in commercial construction projects through our subsidiary ASRC Construction Holding Company; and, we are a resource owner, developer and explorer in this state.

Some of our ownership interests are subject to Section 7(i) of the Alaska Native Claims Settlement Act, and our ability to explore, develop and produce on those lands benefit every region in this state. The absence of a stable tax regime and positive investment climate for the oil industry has a material negative impact on how we develop or not develop those lands.

I submit our comments from the perspective of an employer and a company with an enterprise involved in the value chain of oil development in this state, from exploration through refining product and all services in-between.

There are some positive aspects to SB 21, and areas in need of improvement. Here are some areas of the bill ASRC wishes to highlight:

- The community sharing provision is a good start, and we encourage the Legislature to continue to consider linking it to a percentage of the tax, versus the current language of a legislative appropriation. We feel this is a more objective approach to sharing revenues with Alaskan communities.

- We support the 35% Loss Carry Forward (LCF) Credits, as currently written. They enable explorers, small producers, majors and organizations like ASRC to receive carry-forward loss credit, through a transfer, refund or tax deduction. This flexibility is attractive to ASRC.

- We support the $5 per barrel tax credit for producers of oil.

- We support the 10% service credit because it stimulates the economy within the service industry. Our subsidiary, ASRC Energy Services, employs thousands of Alaskans, and this credit could help us revamp our fabrication and construction services in the state.

- As currently written, we are concerned that this legislation will negatively impact our ability as a small producer, through our subsidiary, ASRC Exploration LLC, and the ability of other small producers, to maintain or grow existing production for the following reasons:

    1. The elimination of "a credit for a qualified capital expenditure incurred to explore for, develop, or produce oil or gas deposits located north of 68 degrees North latitude" after December 31, 2013 would cause small producers to invest less of their capital in marginal exploration and development opportunities in their leaseholds. It is not good for new investment.

    2. As currently written, the Gross Revenue Exclusion (GRE) does not allow for new oil within the existing small producer units or PA's. This will cause the small producer to invest less of its capital in marginal development opportunities within their units or PA's.

    3. By not extending the Small Producer Credit under AS 43.55.024 to 2022, current small producers would be less likely to explore for and develop any oil and gas deposits on leaseholds outside of their units that could add new production to their unit positions.

    4. Deletion of the proposed modification of the Exploration Tax Credit (ETC) that eliminated the 3-mile buffer for drilling and extended the deadline for ETC's to 7/1/2022 would remove any incentive for a small producer to add new production to its unit or create other opportunities for new production.

- With respect to gross revenue exclusions (GRE), while we feel the base tax rate of 35% is too high, we could support it ***if*** it were coupled the following changes:

    1. Remove language contained in **Section 29** that currently requires the well to be "accurately metered and measured to the satisfaction of the Commissioner of the Department of Revenue." It is unclear what "to the satisfaction of the Commissioner" means, and it creates ambiguity at a time when we need certainty. This language implies that there is an absence of this practice, and ASRC, as a small producer, stands by its metering and measuring practices, which are currently monitored by the AOGCC. Further, in its current form, producers do not have certainty that a new well will be eligible for the 20% GRE. If the State wants new oil, then any new well should count for that exclusion.

        Layering on an addition approval process between ADOR and ADNR for "new oil" would be onerous and inefficient. We support having new wells eligible for the GRE. Removing this language would eliminate the dual approval process obligation and give incentives for new production, thus making investments that grow production more attractive.

    2. Remove the language also contained in **Section 29** that creates a requirement that the producer "demonstrates to the Department of Revenue the volume of oil or gas produced from that well." This requirement would be burdensome, expand State bureaucracy, and would inhibit oil and gas investment. If a well is drilled and it produces oil or gas, simply put, it should qualify.

This has been a long and challenging process. I sincerely believe we all want what is best for Alaska, our economy and the industry on which our state is dependent. As an employer, service provider, resource owner, explorer, producer and developer, ASRC is in a unique position to provide comments. While some may be looking at this issue through a narrow lens, we have the fortune to see this issue from several important viewpoints. ASRC strategically plans for a sustainable future in Alaska and we support a healthy and robust oil industry here. Again, thank you for your leadership on this issue and for the opportunity for input into the process.

Respectfully,
ARCTIC SLOPE REGIONAL CORPORATION

Richard K. Glenn
Executive Vice President
Lands and Natural Resources

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Alaska State Legislature
House Finance Committee
April 09, 2013

Testimony
of
ARCTIC SLOPE REGIONAL CORPORATION
by
Tara Sweeney, Senior Vice President of External Affairs
on
CSSB 21 HRES Version K

Good morning. Co-Chair Stoltze, Co-Chair Austerman, Vice-Chair Neuman and distinguished members of the committee; I am Tara Sweeney, Senior Vice President of External Affairs for Arctic Slope Regional Corporation, or ASRC.

ASRC is Alaska's largest Alaskan-owned company, with approximately 10,000 employees nationwide, of which nearly half are Alaskan jobs. ASRC represents 11,000 Iñupiat shareholders of the North Slope, and we have been successful in striking a balance between representing the business interests with the subsistence needs of our shareholders. We have five major business lines: 1) energy support services, 2) petroleum refining and marketing, 3) government services, 4) construction, and 5) resource development.

The work performed by ASRC's family of companies within the oil and gas industry on the North Slope returns tangible benefits to our shareholders and thousands of Alaskans. We are a $2.6 billion company and our enterprise is heavily invested in this state. I appreciate the opportunity to introduce to you some of the members of our family of companies.

ASRC Energy Services performs an array of oil field engineering, operations, maintenance, construction, fabrication, regulatory, permitting and other services to some of the world's largest integrated oil and gas companies. With more than 3,000 Alaska employees, Energy Services provides more jobs in Alaska than any other locally-owned employer and has emerged as the state's largest oil field services company. ASRC Energy Services also has a presence in Louisiana, California, Utah, Hawaii, Indiana, Washington, and a growing presence in North Dakota.

Another member of our family of companies is Petro Star. Petro Star is the only Alaskan-owned refining and fuel marketing company. Petro Star's two refineries located in North Pole and Valdez, draw crude supply from the Trans Alaska Pipeline System (TAPS) to produce highway, off-road and marine diesel, as well as jet fuel and home heating oil. The North Pole refinery supplies the mining industry, military operations at Eielson Air Force Base, and it provides heating oil to communities

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throughout Interior Alaska. The Valdez refinery produces and transports marine fuels to coastal communities reaching as far as St. Paul Island. The Valdez refinery also produces ultra-low sulfur diesel, and it supplies jet fuel to commercial cargo carriers refueling at Ted Stevens Anchorage International Airport and to the military operating at Joint Base Elmendorf-Richardson. Through its operations in Dutch Harbor, Petro Star supplies fuel to the largest commercial fishery in the United States. In addition to its refining and distribution assets, Petro Star also operates fueling stations, convenience stores and heating oil distributorships.

We are a service provider and refiner. We are also a resource owner, developer and explorer in this state.

Some of our ownership interests are subject to Section 7(i) of the Alaska Native Claims Settlement Act (ANCSA), and our ability to explore, develop and produce on those lands benefit every region in this state. The absence of a stable tax regime and positive investment climate for the oil industry has a material impact on how we develop or not develop those lands.

As a result of our land entitlement under ANCSA, ASRC owns nearly five million acres on the North Slope. In most cases, ASRC's subsurface holdings were primarily selected for their natural resource potential.

We have a significant royalty position in the Colville River Unit (CRU), home of the Alpine oil field, one of the largest oil producing fields on the North Slope. While the Alpine field production peaked four years ago, the CRU satellite developments have helped slow the rate of decline. These satellites currently account for nearly 35 percent of the oil production in the CRU and are processed through the main Alpine facility. Additional development in the CRU is challenged by a complex and unfriendly permitting regime that impedes timely development.

ASRC has also invested in the exploration and development of State-owned lands on the North Slope. With investment in the Badami and Placer Units, our exploration company experiences the same tensions regarding the State tax regime similar to other small producers and independent explorers.

As part of our investment in the Badami Unit, ASRC Exploration, LLC (AEX) owns a 32.5% working interest. AEX and operator Savant Alaska continue to work toward increased production. However, due to the high cost environment and current low throughput, it is extremely important that the Small Producer Credit stay intact and be extended in order for continued investment in the Badami Unit.

The tax reform discussion highlights good perspectives and has spurred meaningful debate. We ask that as you go forward you remain mindful of the Alaskan companies involved in the industry. There has been a lot of focus on the multi-national and independent explorers and small producers, so sometimes the local voice gets muffled in the process.

As an employer, service provider, resource owner, explorer, producer and developer, ASRC is in a unique position to provide comments. I submit our comments from the perspective of a local company with an enterprise involved in the value chain of oil development in this state, from exploration through refining product and all services in-between.

This committee substitute is an improvement over the current ACES and also the Senate version. There are several provisions we support and areas that still need improvement.

- We support the repeal of progressivity.

- We support the base rate change from 35% to 33%.

- The community sharing provision is a good start, and we encourage the Legislature to continue to consider linking it to a percentage of the tax, versus the current language of a legislative appropriation. We feel this is a more objective approach to sharing revenues with Alaskan communities.

- We support the 35% Loss Carry Forward (LCF) Credits, as currently written. They enable explorers, small producers, majors and organizations like ASRC to receive carry-forward loss credit, through a transfer, refund or tax deduction. This flexibility is attractive to us.

- We support the Gross Value Reduction (GVR) formula contained in the bill. It makes investment opportunities even in marginal fields more attractive for companies like ASRC. It encourages development of new production for all producers, as well as new entrants.

- We support linking the $5 per barrel tax credit to the production subject to the GVR for the reasons listed above; this creates a more level playing field for all players.

- We support the 10% service credit because it stimulates the economy within the service industry. Our subsidiary, ASRC Energy Services, employs thousands of Alaskans, and this credit could help us revamp our fabrication and construction services in the state.

- We support the AIDEA bonding capability – this will give new entrants another avenue to finance facilities that have the capability to bring new production online.

- The sliding scale provision for non-GVR production provides for tax benefits to producers at low oil prices and increases the State's 'take' at higher oil prices. This, again, provides the right type of incentives in a changing price environment, and the State benefits on the upside swing of prices.

- Refining the definition of Lease Expenditures on what counts for tax filings provides necessary clarity to both the explorers, producers and the Alaska Department of Revenue.

- Finally, I want to impress upon the committee the importance of the small producer credit to ASRC. The extension of this credit to 2022 goes a long way for the "little guy". Through our subsidiary, AEX, this extension improves our ability and that of the other small producers, to maintain or grow existing production. This extension makes it more attractive for companies like AEX to explore for and develop oil and gas deposits on leaseholds outside of our units that could add new production to our unit positions. This is good. **Elimination of this credit would impact how we choose to invest our capital in this company, or if it makes more sense to invest in other parts of our business.**

There are two areas of concern for us. First, the expiration of the Qualified Capital Expenditures (QCE) in 2014 is too soon. We support a phase out program over a slightly modified period, like 2015. This is important because investments planned with the credit as part of project financing will require replacement of this source of investment capital or the project will be shelved. Phasing this out over a longer period makes more sense for the current explorers and potential developers.

Finally, deletion of the proposed modification of the Exploration Tax Credit (ETC) that eliminated the 3-mile buffer for drilling and extended the deadline for ETC's to 7/1/2022 would remove any incentive for a small producer to add new production to its unit or create other opportunities for new production.

In closing, on behalf of Arctic Slope Regional Corporation, I want to thank you for your leadership on this issue. We appreciate your dedication to public service and taking the time to work to reinforce Alaska's economic foundation. While some may be looking at this issue through a narrow lens, we have the fortune to see this issue from several important viewpoints. ASRC strategically plans for a sustainable future in Alaska and we support a healthy and robust oil industry here. Thank you for the opportunity to provide our perspective.