

TESTIMONY OF RICHARD OWEN
ON PROPOSED CSHB 488 TO THE HOUSE RESOURCES COMMITTEE

March 15, 2006

Mr. Chairman, Members of the Committee:

Good afternoon. My name is Richard Owen and I am the Production Manager for ExxonMobil in Alaska and Vice President of ExxonMobil Alaska Production.

I am here today to express ExxonMobil's concerns with the proposed Committee Substitute to HB 488. On February 28, I testified about our key concerns with HB 488 as originally proposed. While we have not yet seen the substitute bill, we have been made aware of the key changes being considered by this Committee. These changes exacerbate the concerns I described on February 28. Specifically, I will make comments on two areas: the proposal to change the tax rate; and the proposal around reduced transition provisions.

HB 488, as originally proposed, represented a dramatic tax increase on the industry. As I previously testified, we expressed concern that the higher tax rate included in the bill could prevent some of Alaska's challenged resources from being developed. We understand the Committee is now considering even higher tax rates.

Too high a tax rate discourages investment. Companies are willing to accept the risks of long-term, capital intensive investments when there is a corresponding opportunity for

upside potential through a variety of factors, such as increased production or higher prices. When you cap or limit the benefit that Companies can achieve from the upside factors, you reduce the attractiveness of those investment opportunities. The proposal to increase the already high base tax rate as prices increase does reduce or limit the upside potential and will result in Companies recalibrating investment decisions. Reduced investment will result in reduced resource recovery, diminished state revenues and fewer employment opportunities, with a resultant negative impact on the state's economy.

ExxonMobil is concerned with the significant change from the ELF based system to the PPT system and the need for sufficient transition provisions to mitigate the adverse impact on recent investments. We understand the Committee is considering reducing those transition provisions. While the benefits from a typical oil and gas investment take many years to be realized, the Administration's proposed five year transition into the higher tax PPT system represented a reasonable transition. The Committee Substitute's proposed transition provisions do not sufficiently address the significant increase in tax burden these past investments will now have to bear.

Despite our concerns with HB 488 as originally proposed, we are prepared to move forward under that system since it sought to provide a balance of revenues to the state and producers across a range of oil prices, provided sufficient incentive for producers to undertake exploration and development risks, and included reasonable transition provisions for past investments. And, most importantly for ExxonMobil, oil fiscal contract terms consistent with the Administration's proposal would provide the predictability and durability necessary to advance the gas project to the next phase.

It is important that the quality of the resources, the risks undertaken by a producer, and the impact on the state's overall investment climate be factored into the design of the tax system. While industry needs predictably and durability under which to gauge investment decisions, the attractiveness of that predictably and durability is lost if it comes at too high a cost.

As I mentioned earlier, the Committee's proposed substitute exacerbates our key concerns regarding both tax rates and transition provisions. We urge this Committee to support HB 488 as originally proposed.

Thank you again Mr. Chairman for the opportunity to testify today.