

**Testimony of James D. Weeks  
On CS SB 305  
Oil and Gas Production Tax  
Alaska State Senate Resources Committee**

**06 April, 2006**

Madam Chairman, distinguished members of the Senate Finance Committee. For the record, my name is Jim Weeks, and I am here today representing UltraStar Exploration LLC, a very small all Alaskan owned independent explorer, with strategically located leases on the North Slope. The Company was formed in 2002 by John Winther, Dale Lindsey and me, for the purpose of exploring and developing leases on the North Slope. UltraStar is 100% owned by Alaskans. I am Managing Member, and moved to Anchorage in 1984 with ARCO, and have had a presence here ever since. Dale, whom most of you know, was born and raised and still lives in Seward. John, whom most of you also know, was born in Fairbanks and raised in Juneau. He currently lives in Petersburg. Thanks for the invitation to testify on what I believe to be a very bad bill.

During the last several weeks, I've listened to a lot of testimony on the Governor's original proposal, not only in this committee, but in the other committees in both houses of the legislature. I have witnessed an already complicated PPT proposal become so complicated that I sincerely doubt it can ever be fully and fairly administered, and the cost of such administration, for both the State and industry, will be huge. It will be even more overwhelming for small start-up guys like us, who don't have tax accountants and tax attorneys on staff, and will need to acquire these services at market prices outside of our organizations. This bill is so bad that if it were the only alternative, we'd be better off with what's now on the books. But that's not the only alternative. The proposal by the Administration was complicated, but one we supported, and still could, but we can't support this one. Gross simplification is needed. Some taxes are to be applied to net profits, others to gross revenues. Sometimes ANS prices at the North Slope are to be used. Other times ANS West Coast prices are to be used. This creates un-necessary complexity and opens the door to years of disputes and lawsuits. The Charter for Development may be a good example of how simple things can be made.

I will now offer a few specific comments on the bill. You've heard lots of testimony supporting the 20-20 tax and exploration/development incentive split, and the arguments in favor of these provisions have been articulated very thoroughly and clearly, and I certainly cannot embellish on them, so I won't even try. I'll just add UltraStar's strong support for the positions of the existing producers and independents and explorers on these issues.

Of more concern to me is the so called need for a progressive feature, where the State takes a higher percentage at higher oil prices. Wildcatters gamble for the upside. Upside reserves and upside prices. Taking away that upside will cause exploration investment to decrease. This smells to me like the federal windfall profits tax that so successfully drove industry from our shores in the early 1980's.

There needs to be a mechanism for the State to buy back or otherwise allow use of any un-used exploration credits. The market for these credits is very limited, and I expect any that we may have would be sold at a considerable discount. It would help if the State provide an option to buy them, or allow holders of the credits to use them for other oil and gas related expenditures, such as bonus bids, lease payments, permitting and filing fees.

The bill grants a 5000 barrel per day exemption to companies with less than 55,000 barrels/day production. This is a provision with which we can agree, but I don't think it goes far enough. If the Committee wants every company, large and small, current producer, or wannabes like us, to be looking for new oil, then the 5000 barrels per day should apply to all new oil, regardless of the size of the company that drilled found it. I suggest the following:

When the PPT becomes effective, establish a "ring fence" around existing, producing units. If peripheral drilling outside of that ring fence confirms commercial hydrocarbons and justifies unit expansions, then production from those expanded areas should be eligible for the tax exemptions and exploration and development credits in the bill, regardless of the size of the company that drilled them. Deeper and shallower accumulations, drilled within existing units after the effective date of the bill, should also be eligible. If the big, current producing unit owners were to receive the 5000 barrel per day allowance for exploration credits on new pools within an existing or expanded unit, it would provide a more meaningful incentive for all the industry.

I question the need for a 7 year time limit after which the tax exemption will expire. UltraStar is a small, start-up company that is poking around the fringes of existing units and known reservoirs. Our leases are too small to stand alone, so access to existing facilities, owned mostly by the major producers, is the only way we can develop anything we might find. It took our sister company, Winstar, 6 years to negotiate access with the KRU to enable the drilling of the well they completed in 2003. UltraStar has been in negotiations with the PBU for over 3 1/2 years now to get seismic data and facility access to enable the drilling of our Dewline Prospect. It takes a long time for these things to get done, and I question why our investments should be put at risk with this relative short sunset provision, whereas the major producers demand a 30 year period of assured fiscal certainty.

Thanks for the opportunity to comment.

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