Fitzpatrick testifies before House Resources Committee on Alaska tax legislation

BP Exploration (Alaska)

BP, along with other North Slope producers and the Alaska Oil and Gas Association, is actively supporting efforts to reform Alaska's oil production tax. At an Alaska House Resources Committee hearing, BP Alaska Chief Financial Officer Claire Fitzpatrick said tax-reform legislation introduced by Gov. Sean Parnell would help make Alaska more competitive.

In testimony before the House Resources Committee in Juneau Feb. 16, BP Alaska Chief Financial Officer (CFO) Claire Fitzpatrick said the ACES oil production tax has weakened oil industry investment in Alaska. She described how the oil industry must compete for investment capital on a national and global scale. The governor's bill, HB 110, would improve the tax structure in several ways, and she believes it would generate more investment opportunity here for existing and new companies.

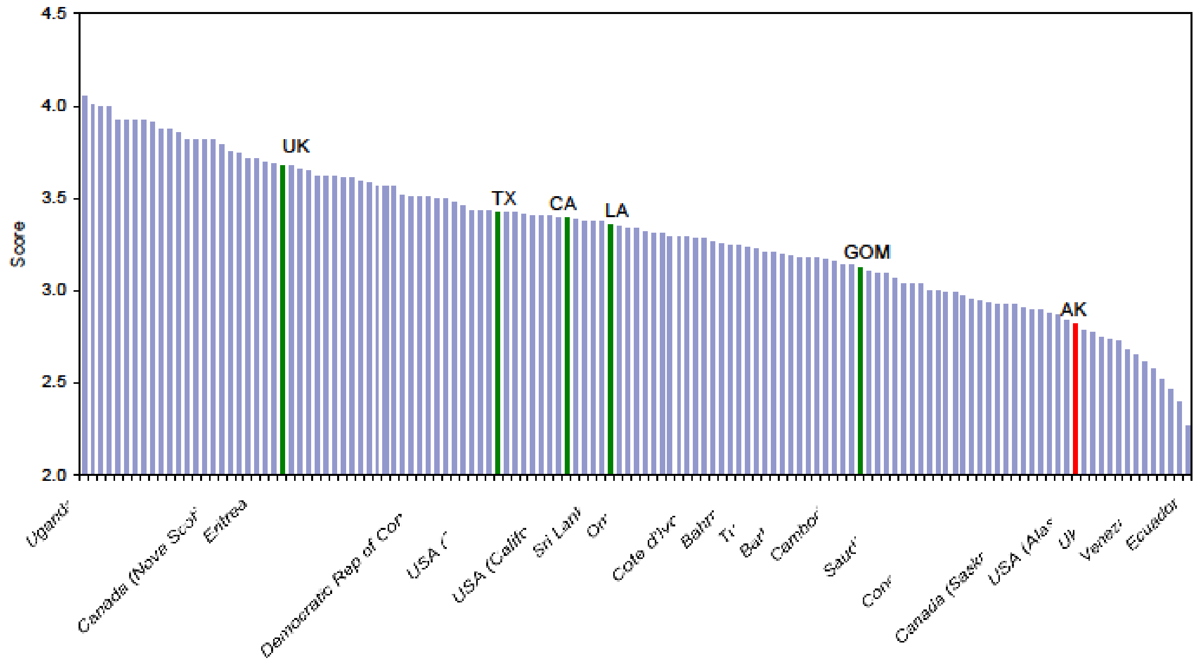
She encouraged legislators examining the new tax proposal to look at the whole picture of oil industry payments.

"We have state royalties, income tax, property tax and other assessments that combined with the production tax, make Alaska the highest tax region in the U.S.," she said.

Citing a study in 2010 by Wood Mackenzie, an independent research and consulting firm, Fitzpatrick said BP Alaska ranked nearly last in fiscal terms –117 out of 129 oil producing regions– across the world. Simply, the study shows Alaska is one of the least attractive places to invest in the oil and gas industry.

This is the opposite from what's needed, Fitzpatrick and other industry representatives told the committee. With North Slope production in steady decline, Alaska needs more investment, to put more oil in the Tran Alaska pipeline and extend the economic life of its oilfields, they said. Extending the life of the fields means more revenue for the state.

Alaska is uncompetitive



Alaska's fiscal terms rank 117 out of 129 when compared to other regions

Source: Wood Mackenzie Petroleum Fiscal index Report 2010

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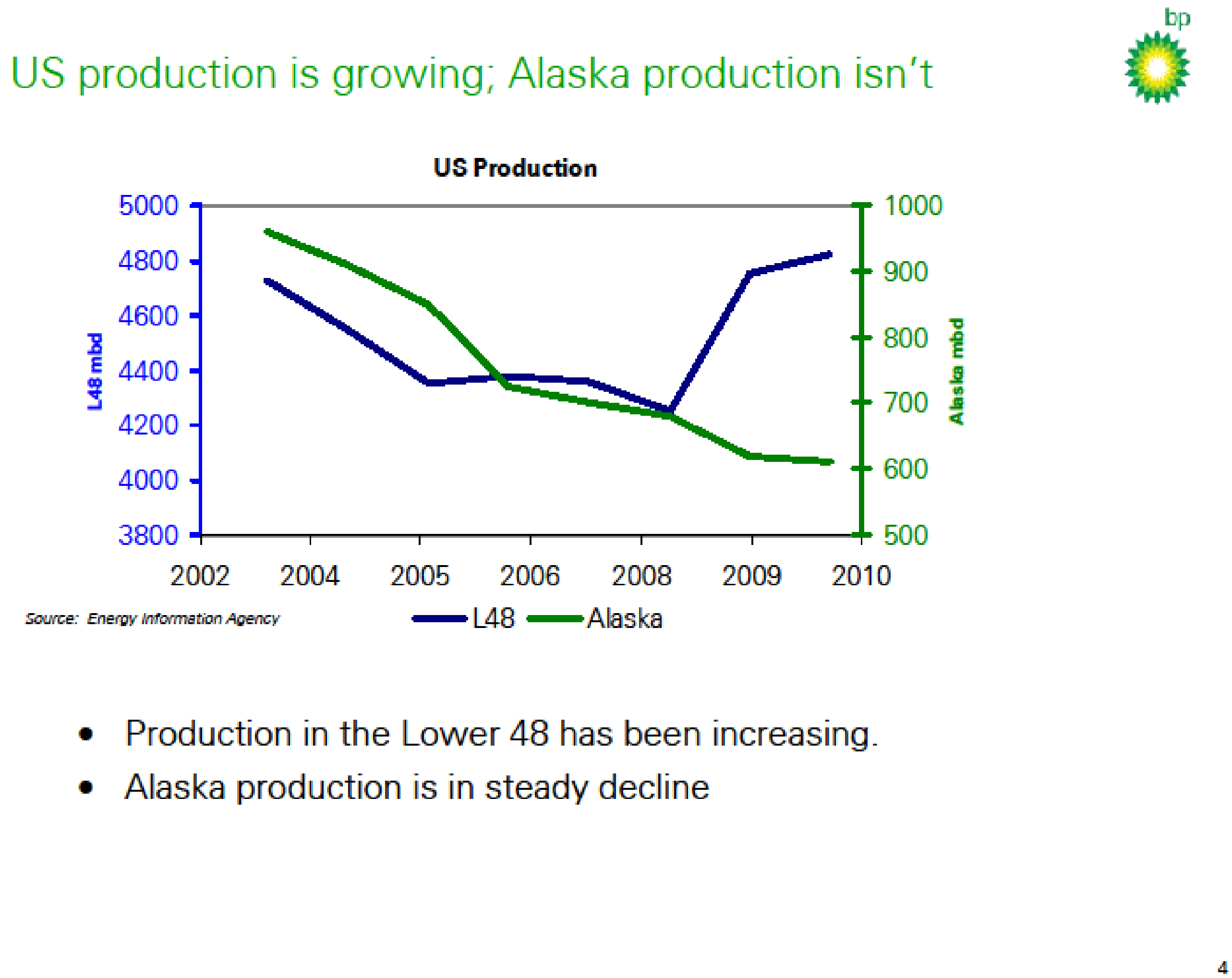
Effect of ACES: Fitzpatrick introduced data showing that since the adoption in 2007 of ACES – "Alaska's Clear and Equitable Share" – industry activity to increase North Slope production has slowed.

"While overall investments by BP Alaska have remained high since ACES, investments to add production have ranged from flat to decreasing, compared to an increase in the lower 48 states," she said. "BP operated footage drilled in Alaska has also been on a steady decline, while it has increased in the lower 48."

ACES raised the oil production tax base rate to 25 percent, applied against the production tax value, which is basically the per-barrel West Coast price minus the cost of production and transportation. And, it set a progressivity rate of 0.4 percent, which significantly boosted taxes, particularly when oil prices are high. Under ACES, as oil prices increase the marginal tax rates can climb to over 80 percent.

While BP has access to significant resource potential here, some 4.7 billion barrels of oil equivalent, Alaska remains uncompetitive within BP's portfolio, Fitzpatrick said. In her presentation, she listed 15 large sanctioned projects ($20 billion net spend) that ranged from the Gulf of Mexico to the North Sea to Angola; but none for BP Alaska.



Looking forward: The tax reform proposal would reduce the progressivity rates and use tax brackets, much like the federal income tax system. This would reduce the overall government take, and it would restore the earnings opportunity at higher prices – the source of investment capital.

The legislation also contains a number of administrative provisions to improve the tax system. For example, the production tax calculation would be done on an annual basis, rather than monthly. "This matches cost with revenues and increases predictability," she said.

With tax reform, additional resource opportunities on the North Slope could become competitive, Fitzpatrick told legislators.

With working interest owner approval, the possibilities include increased drilling and well work, potentially adding another drilling rig, and development projects. Two that she mentioned to the committee were the Gas Partial Processing (GPP) plant and a 50-well I-Pad in western Prudhoe, totaling an estimated $1.7 billion. Tax reform would also encourage evaluation of "at scale" development of viscous oil, she said, and would promote increased research and development work with heavy oil.

"The sooner the bill takes effect, the sooner increased activity can happen," she concluded.

Others testifying before the House Resources Committee Feb. 16 included the Alaska Oil and Gas Association (AOGA); Pioneer Natural Resources Alaska, Inc., ConocoPhillips Alaska, Inc., and ExxonMobil.