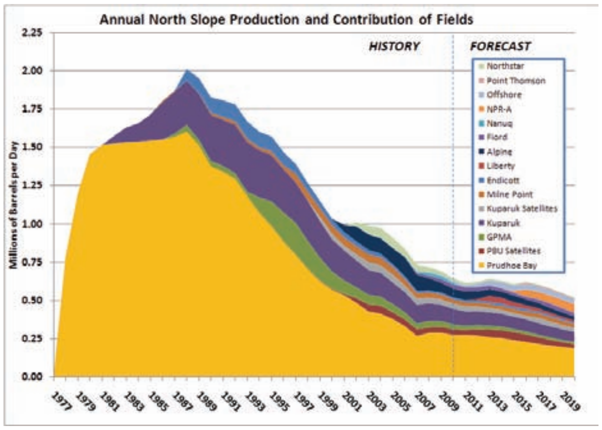
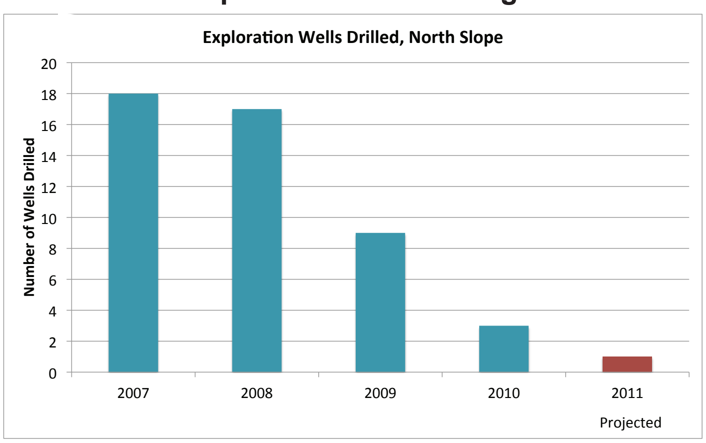
We're Being Trumped By ACES

Production is Declining



Source: Fall 2010 Revenue Sources Book

Exploration is Declining



Source: Alaska Oil & Gas Conservation Commission and Alaska Department of Natural Resources

• Alaskans are very concerned about the decline in oil production and investors see taxes as way too high to encourage new exploration or development in existing core fields. We must take a leap of faith by lowering taxes now to make Alaska a compelling place for industry to invest.

• The North Slope production decline has accelerated since the enactment of ACES in November 2007. In 2010 production declined 48,000 barrels, a 7% drop from the previous year.

• Exploration activity on the North Slope has fallen sharply from 18 wells in 2007 to only one well outside existing discoveries in 2010.

• Only 110 development wells were drilled on the North Slope in 2010, compared to 142 in 2005. Development drilling is critical to sustaining production from existing fields.

• The average monthly employment in the oil and gas industry fell to 11,800 jobs in 2010, a loss of 1,000 over the 2009 monthly average, according to the January 2011 edition of *Alaska Economic Trends*. This represented a 7.8% decline, the largest drop of any sector.

• *Alaska Economic Trends* stated: "The outlook for the oil patch in 2011 is uncertain, though it appears maintenance such as replacing pipe and old infrastructure will dominate."

• Alaska is now the highest taxed oil region in North America. When combined with other factors, Alaska is among the highest cost regions in the world.

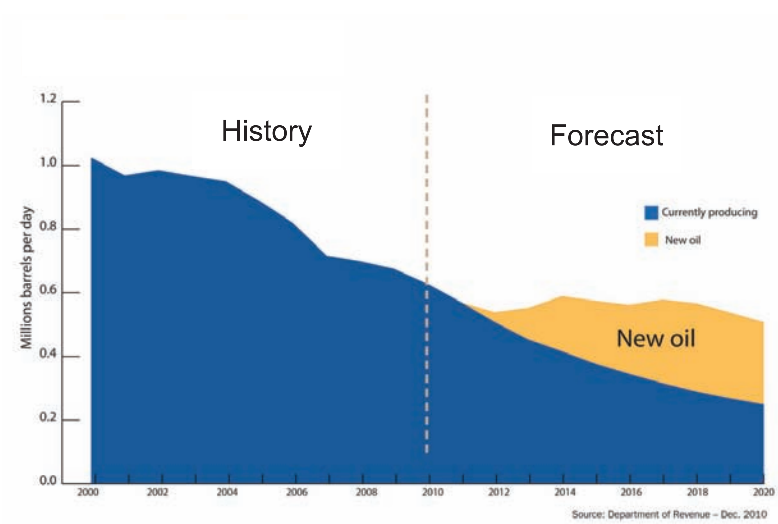
We need to drill to pay the bill

• Alaska cannot tax its way into prosperity. To sustain its economy, Alaska needs to encourage new investment to get more oil in the pipeline.

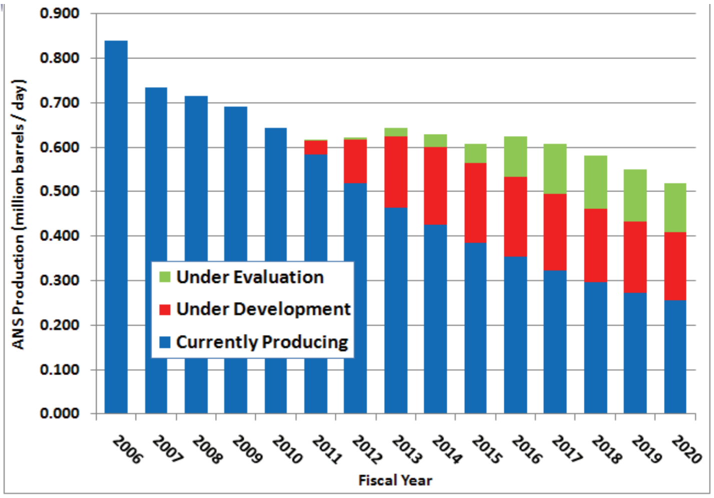
• The current production tax is a disincentive to invest here, especially when oil prices are high, given the progressive surcharge which captures most of the upside for the state and not the investor who incurred the risk. As a result, Alaska becomes less competitive at high oil prices, and investors have turned indifferent to investing here whether oil is $70 or $120 a barrel.

• Lower taxes will lead to increased investment in exploration, which will ultimately result in higher revenues to the state over the long term. Conversely, the more Alaska taxes companies to produce a commodity, the less it will produce here, and the more it will produce elsewhere.

Without New Investment, Oil Production Falls More than 50% by 2020



Investment Needed In New & Old Fields Alike



Source: Fall 2010 Revenue Sources Book

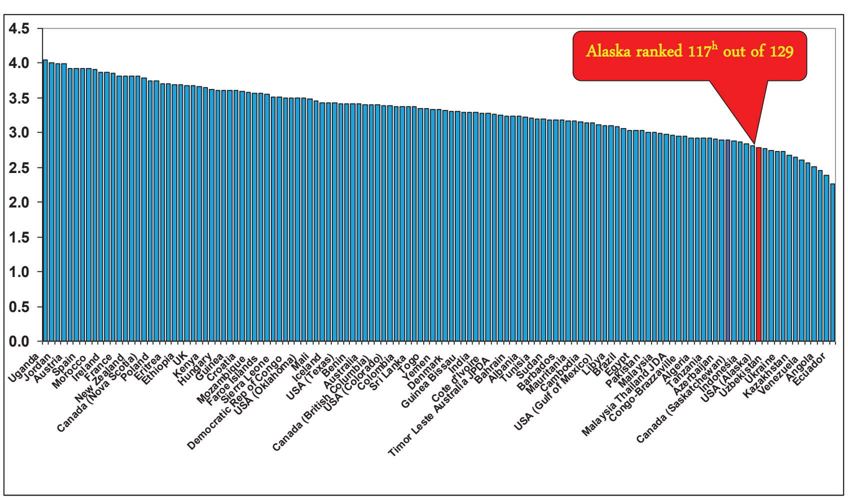
• An accelerated TAPS throughput decline could lead to the premature shut down of the pipeline, stranding billions of dollars in state royalty payments, which exceeded $2 billion in 2010 alone.

• With an annual production decline of 7%, which the state incurred last year, TAPS could be non-functional within 5 to 10 years. How would the state pay for essential public services and meet long-term obligations if this were to happen?

• There is no denying that lower tax rates could reduce revenue flowing into state coffers in the short term, but it is clear Alaska is competing in a global market and in the long term this reduction will make the state a more desirable place to invest, which ultimately will lead to higher revenues.

• Alaska's current oil production tax will result in less revenue to the state in the long term as critical investment dollars needed to slow the decline in North Slope production are directed to other projects outside Alaska with better rates of return.

Wood MacKenzie: Alaska's Fiscal Terms Rank 117 of 129



History has shown higher taxes lead to less production

• More than 50% of total North Slope production in 2020 is forecasted to come from new oil, but most of that production will require huge investment from industry that is currently not occurring, despite high oil prices.

• The state is forecasting oil production could fall to 386,000 barrels per day in 2015 and 255,000 bpd in 2020. Significant investment is needed to stem the current and forecasted decline.

• We need to do more than just grow the state's savings accounts because a strong private sector will do more over the long term to sustain Alaska's economy. The state cannot save or tax its way to prosperity, nor can a savings account replace the oil industry.

• Billions of barrels of oil remain on the North Slope and offshore in the Arctic, but the resources are challenging and expensive to develop. Since 2003, the decline in production in Texas has been virtually arrested, demonstrating that mature energy regions with the right fiscal terms can mitigate decline.

• Alaska needs 2 to 3 fields like Eni's Nikaitchuq each year to help stem the decline. Decreasing taxes will help encourage more exploration so more projects like Nikaitchuq are in Alaska's future.

• Critics of lowering taxes claim capital expenditures have gone up since 2007. Investments primarily went up because of needed maintenance and repairs, as well as TAPS reconfiguration, activity in federal waters, Point Thomson, and pre-ACES sanctioned exploration and development.

• It is imperative our lawmakers act now to improve Alaska's business climate. Cutting taxes will move the needle and draw major investment back to Alaska.

• In the area of fiscal terms, a key element the state can control, the Fraser Institute ranked Alaska 34th of 38 in North America, and in a Wood MacKenzie study, Alaska's fiscal terms ranked 117th of 129 globally.