

ALLIANCE 2007 LEGISLATIVE PRIORITIES

1. Legislative approval of a gas fiscal contract that:

- encourages earliest possible construction of a pipeline;
- promotes use of Alaskan contractors and suppliers in all aspects of design, construction and operations;
- guarantees fair and open competition for pipeline work among union and non-union contractors & vendors alike;
- provides for in-state access to supplies;
- ensures 3rd-party access and expansion capability.

The Alliance believes it's critical that the gas fiscal issue be resolved right and quickly. Steel prices have increased dramatically, jeopardizing project economics. Midwest utilities, a key market for North Slope oil, have begun making long-term commitments for other energy sources. The threat of being displaced from the market by LNG imports is increasing as well.

We believe a "highway project" with a pipeline crossing Canada and supplying the Lower 48 states is the best option for commercializing North Slope gas. Such a project would yield the greatest revenues to the state by ensuring the highest netback price, while losing less than half as much gas through liquefaction and fuel use as the LNG scheme proposed by proponents of a so-called "all-Alaska" gas line.

2. No reconsideration of the Petroleum Profits Tax (PPT) adopted in 2006.

It's been barely six months since the legislature retroactively imposed the largest tax increase in Alaska's history on North Slope oil production. Rather than taxing production on the gross value of oil, which ignores the rising costs involved in North Slope production, the new PPT is based on net value. Additional changes at this time will further undermine Alaska's reputation as a stable and predictable regime for investment.

The Alliance endorses the structure of the current PPT: a production tax based on net value, coupled with incentives for exploration and development. We remain concerned about the magnitude of the tax increase - significantly more than the \$1 billion a year originally agreed to by the administration and the major North Slope producers. But we believe it's premature to start "tweaking" or revamping it altogether.

3. Promote a positive business climate for oil and gas reinvestment.

The futures of North Slope oil and gas development are intricately intertwined. Without a healthy, long-term oil business, there will be no gas project. Without a gas project, there cannot be a healthy, long-term oil business.

It's estimated there are 10 billion barrels of heavy oil on the North Slope, and the cost challenge of getting it to market is enormous. According to a recent analysis, **Alaska's oil industry needs to reinvest \$60 billion over the next 10 years to sustain base production and pursue new exploration and development opportunities**, including heavy oil. Alaskan jobs and Alaska's economic future depend on these investments.

In order to compete successfully for them, Alaskan investments must offer the prospect of returns and terms that stack up favorably against other investment options globally. That means Alaska must provide a stable business climate that includes a fair and predictable state fiscal system.

4. Fiscal responsibility.

Like nearly every other pro-business and resource development organization in Alaska, the Alliance continues to advocate a long-term fiscal plan for the state. We've been advocating it so long - and with the same futility - that we're all feeling like Bill Murray in *Groundhog Day*.

The time to develop & implement such a plan is now, while the state still is experiencing budget surpluses, rather than in a crisis mode when there are budget shortfalls. With state spending increasing, oil production declining and oil prices falling by nearly a third from their record highs, prospects for sustaining balanced budgets are becoming increasingly bleak.

A long-term fiscal plan should include the use of Permanent Fund earnings, a "percentage of market value" management structure and, as a last resort, broad-based statewide taxes. We oppose depositing budget surpluses into the Permanent Fund.

5. Support legislation that promotes the development of a highly skilled and globally competitive resident Alaskan workforce that will meet the current and future needs of the oil, gas and mining industries.

With the gas line pending and many other large Alaskan resource development projects on the horizon, **substantial public and private investments must be made to ensure a qualified Alaskan workforce and maximize in-state hire.**

The Alliance supports long-term funding through a combination of public education monies, public/private grants and public/private coalitions such as the Alaska Business Education Compact and Putting Alaska's Resources to Work (PARW). The Alliance is a member of the PARW coalition.

6. Oppose any legislation pre-empting or undermining the regulatory and permitting process for the Pebble project.

The Pebble project - like any project - deserves a fair hearing through the normal regulatory process, where decisions are based on fact, not emotion. Pebble could provide thousands of jobs for Alaskans over the next 50-80 years, and it's too important to the region's and the state's economy to be denied an objective review.

Northern Dynasty won't complete the permitting process until December 2008, allowing plenty of time for proper scrutiny to make sure the project is environmentally safe and complies with Alaska's stringent regulations. Ensuring a fair hearing for Pebble will send a message to prospective investors interested in natural resource development that all plans will be treated fairly and objectively, and judged on their merits.