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July 14, 2015

Via Email: Senator.Cathy.Giessel@akleg.gov

The Honorable Senator Cathy Giessel
716 W, 4th Ave., Suite 511
Anchorage, AK 99501

Dear Senator Giessel:

Caelus Energy Alaska (Caelus) appreciates the opportunity to provide comments regarding the Alaska oil and gas tax credit programs available under AS 43.55.023 and AS 43.55.025.

Caelus is supportive of the tax credit programs, which have been and will be very important to our exploration and development activities on Alaska's North Slope. The fundamental purpose of the credit program is to foster and encourage investment with the expectation that success will deliver substantial tax revenue in the future. The tax credit program is working, as shown by our ongoing activities, which include: the Oooguruk Drill Site (ODS); the Nuna Development (first oil in 2017); Smith Bay Exploration (exploration well(s) in winter of 2016); and a new 325,000 acre lease block south and east of the Prudhoe Bay Unit that was the subject of a high resolution 3-D seismic shoot last winter.

Caelus expects to timely receive a pending tax credit certificate and its direct reimbursement despite the veto that reduced the appropriation for tax credit purchases by $200 million. However, the reduced appropriation negatively impacts our confidence in the program, as it may compel lenders to raise interest rates to reflect the higher *perceived* risk of the state's not paying for tax credit certificates over the next 2-3 years. This perceived risk causes anxiety for capital providers, whether debt or equity, and is extremely troubling for companies like Caelus, who rely upon their cooperation in getting projects approved and completed.

Although we support the tax credit program as it currently exists, if it must change, we ask that any changes be carefully considered in light of tax rates and project economics, and that they be allowed at least 3 years of transition time before taking effect. This time would allow companies to digest the changes and enable them to plan and execute accordingly.

Additionally, we have heard discussion of alternatives to the tax credit program, including state loan programs and state working interest participation. We would like to advise that such options are likely to be less attractive to Caelus, as they are in no way an equivalent substitute for the current program.

Thank you for your ongoing support for the Alaska oil and gas production tax credit program.

Sincerely,

Matt Musselman
Senior Vice President