



## Testimony on SB2001/HB2001

**John P. Zager**  
**General Manager, Alaska**

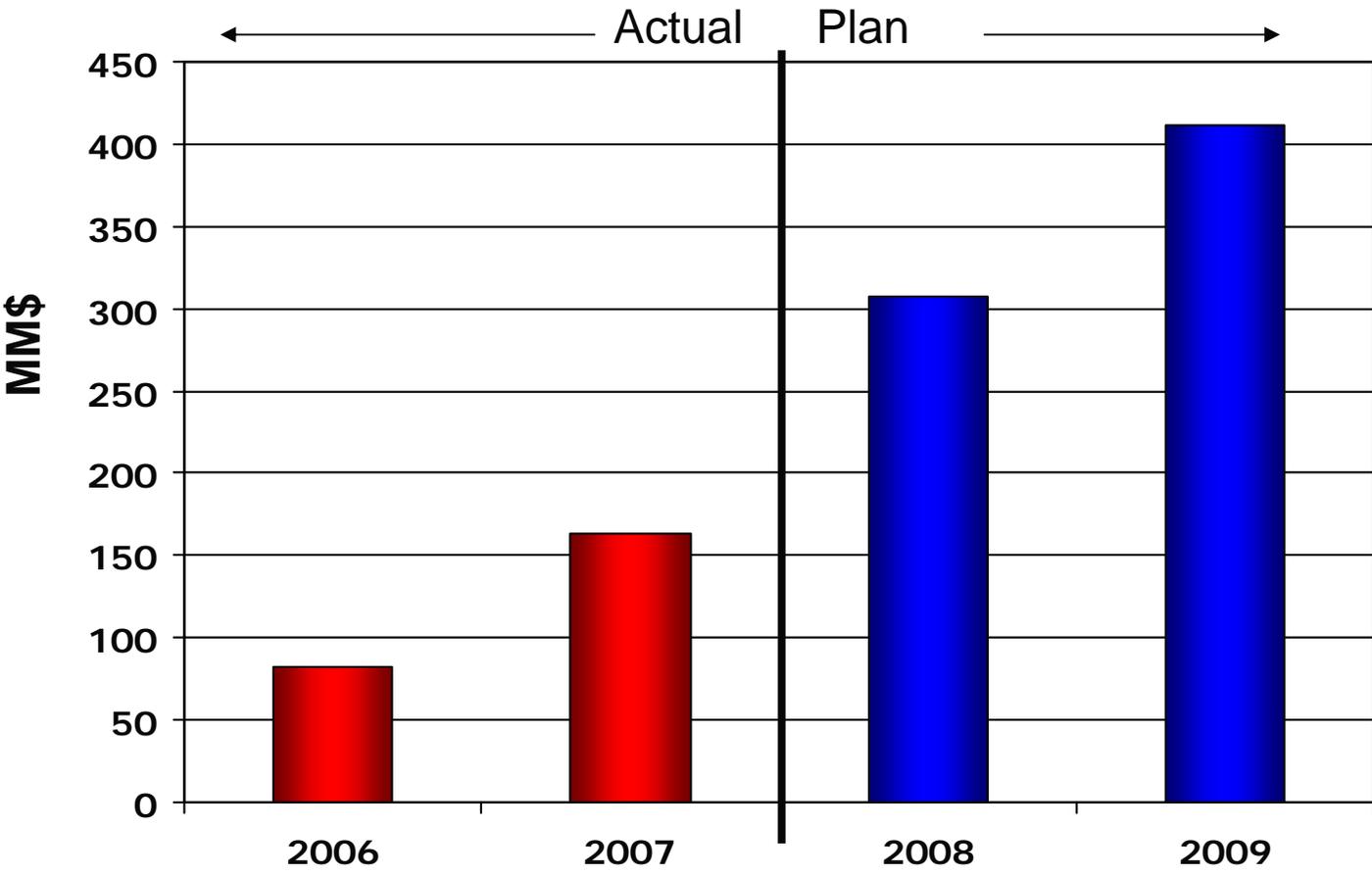
**Juneau, Alaska**  
**October 23, 2007**

# Chevron's Alaska Presence

- 4<sup>th</sup> largest producer in state
- 3<sup>rd</sup> largest operator
- ~500 employees or full time contractors
  - >300 on the Kenai Peninsula
- Chevron is the only producer in the state with a relative balance of assets in the Cook Inlet and on the North Slope
  - Cook Inlet production – 23M BOPD
    - Old oil production, very high lifting cost
  - North Slope production – 15M BOPD
  - In early stages of increased capital program
    - Extend life of Cook Inlet O&G production
    - North Slope exploration on state lands
    - Investment decisions made under PPT

# Chevron is increasing investment under PPT

## Capital Investment



# Introductory Comments

- We do have a common enemy – decline
- Disappointing to be back so soon after passage of PPT
  - Lack of actual PPT results to revise tax policy
  - Review scheduled for 2011
  - Too soon for a change
- Need to strike a balance between tax rate and investment climate

# Factors that affect investment decisions

- Corporations have a responsibility to operate safely, seek returns, and increase shareholder value
- Corporate Cash Flow Management
  - Corporate uses of cash:
    - ▶ Operating Costs
    - ▶ Investment: upstream, downstream, technology, acquisitions
    - ▶ Pay down debt, build cash
    - ▶ Pay dividends to shareholders
    - ▶ Buy back stock

# Upstream Investment Decisions

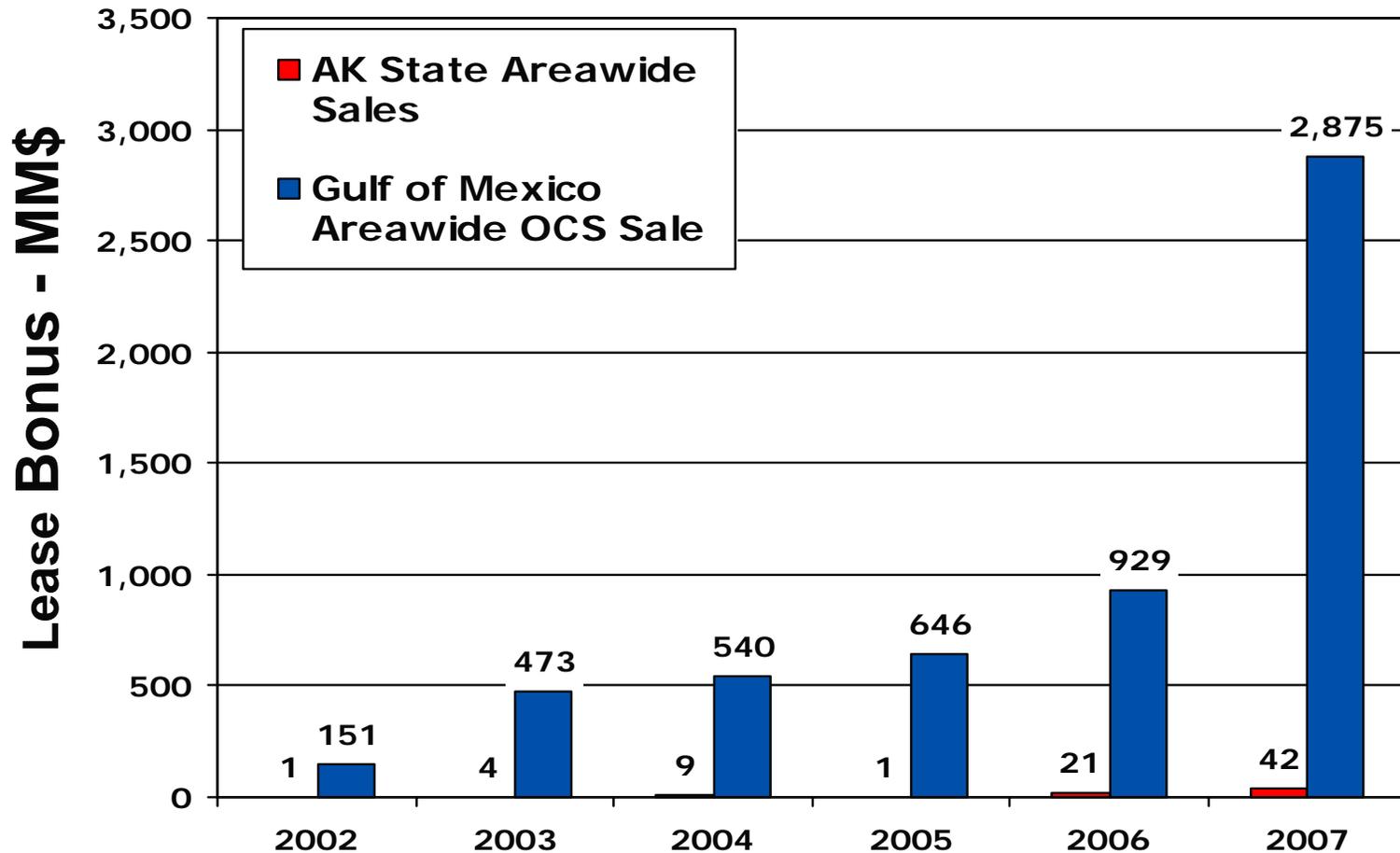
- Always more opportunities than can be funded or staffed
- Key Factors – How do Alaska state lands stack up?
  - Rocks – What is the reserve and production potential?
  - Cost – How much will it cost to find, develop, and produce?
  - Time – How long will it take to realize revenue?
  - Risk - What is the probability of success?
  - Fiscal regime – How much revenue does the investor get to keep?
- Economic models are developed, opportunities ranked, and investment decisions are made on an After-Tax Net Present Value (NPV) basis
  - Does the investor get enough to justify the investment?
    - Great rocks can trump poor fiscal terms

**How does Alaska stack up? Let's look at a real data point!**

# How attractive is Alaska as an investment?



Let's look at results of recent lease sales as a scorecard: This is industry voting with their dollars

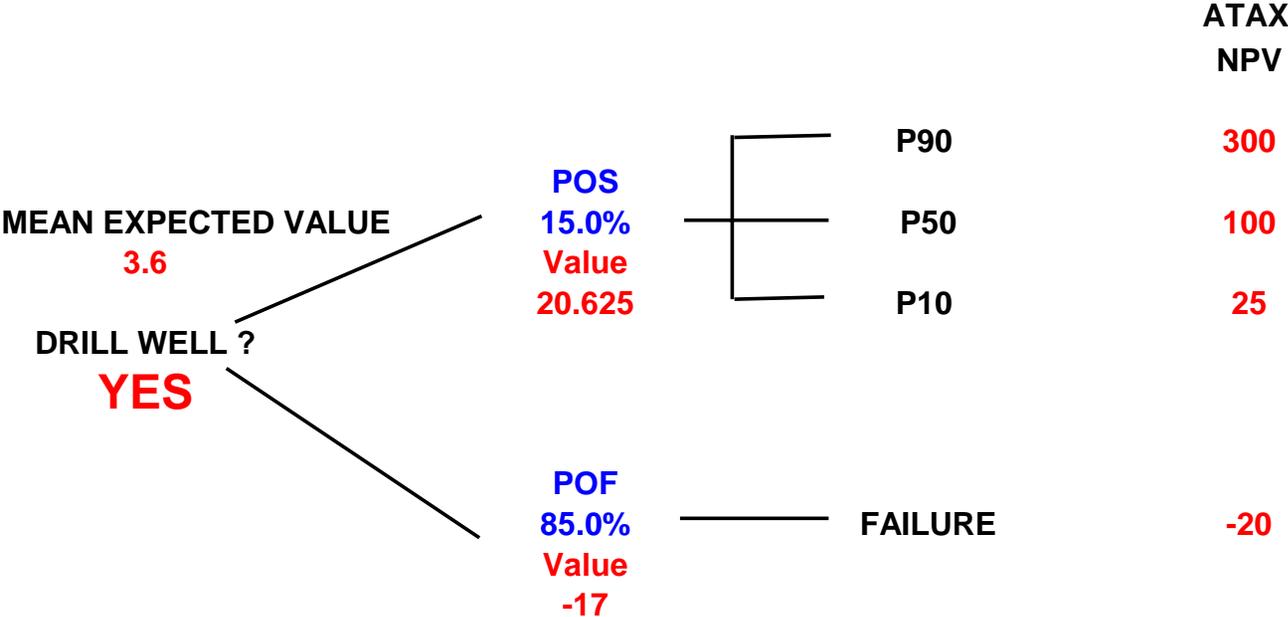


# Exploration – How taxing the upside can deter investment decision



## ACES EXAMPLE

### RISKED ECONOMIC ANALYSIS, 4 pt Economic Model

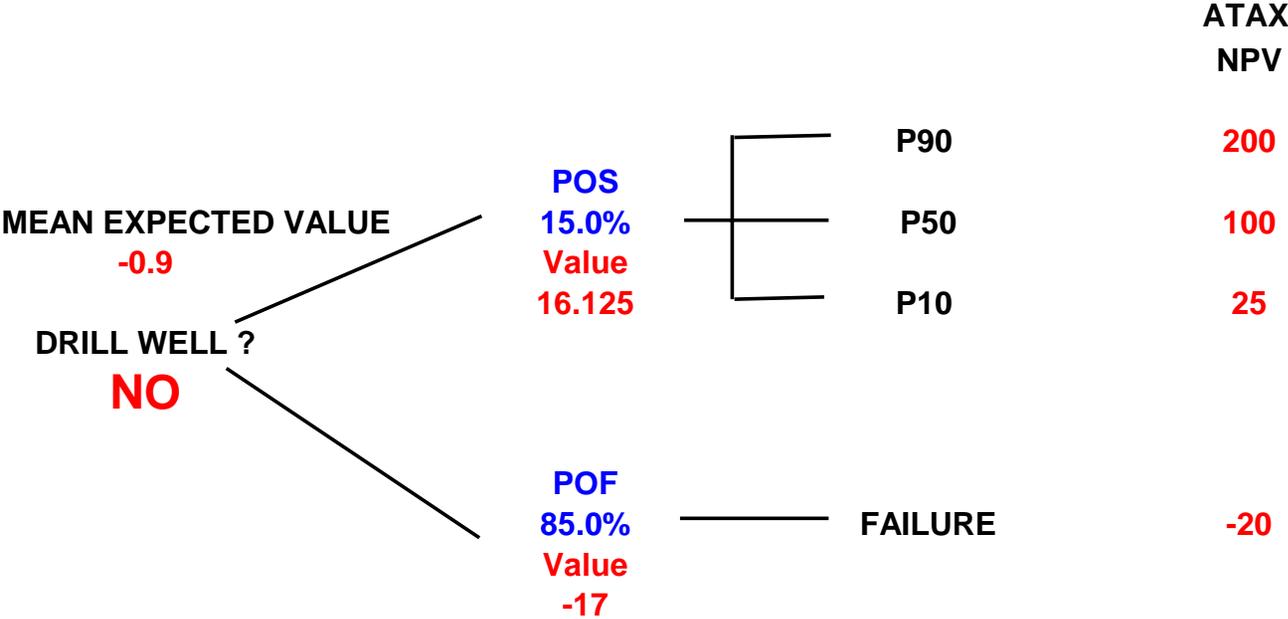


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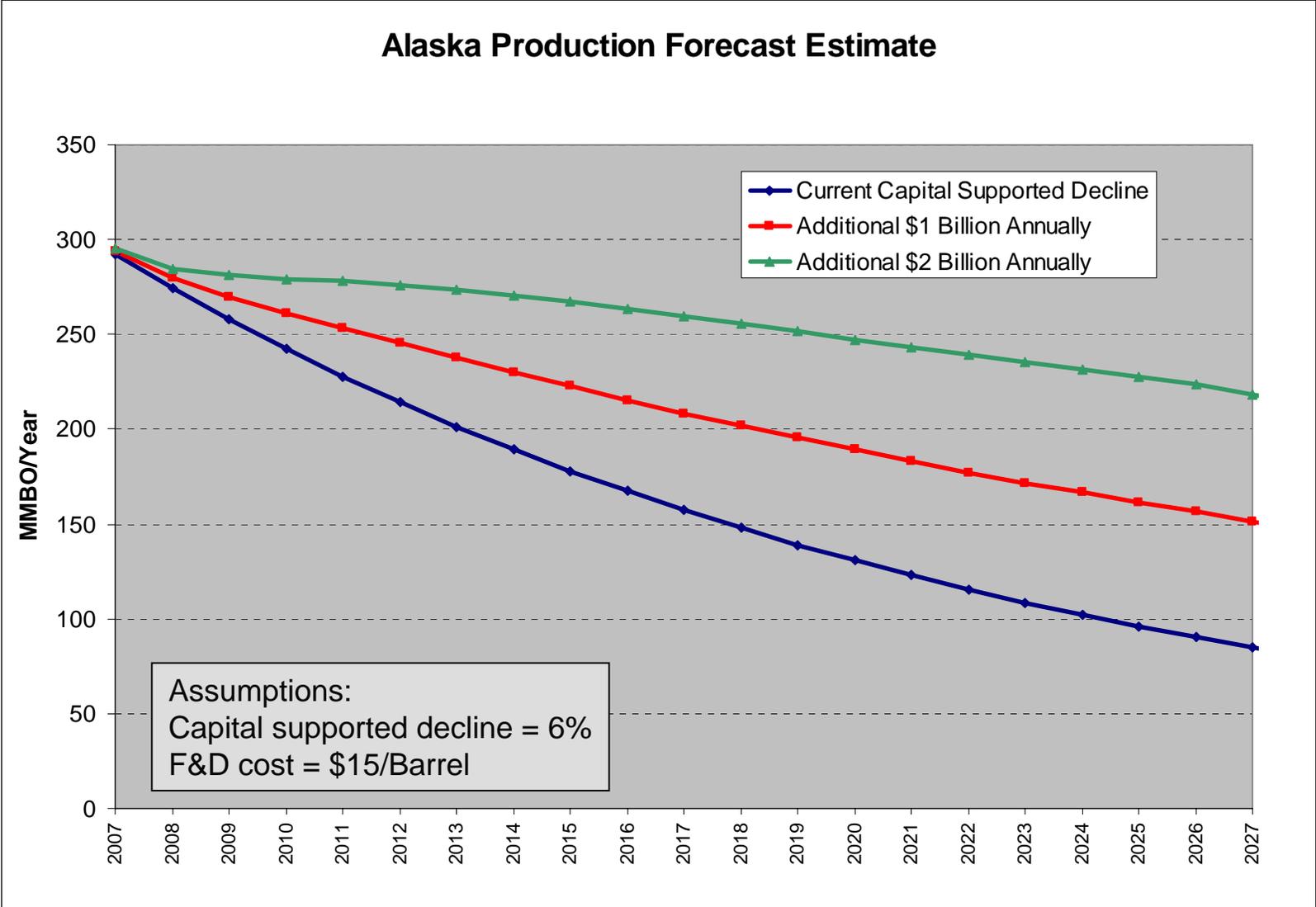


## ACES EXAMPLE

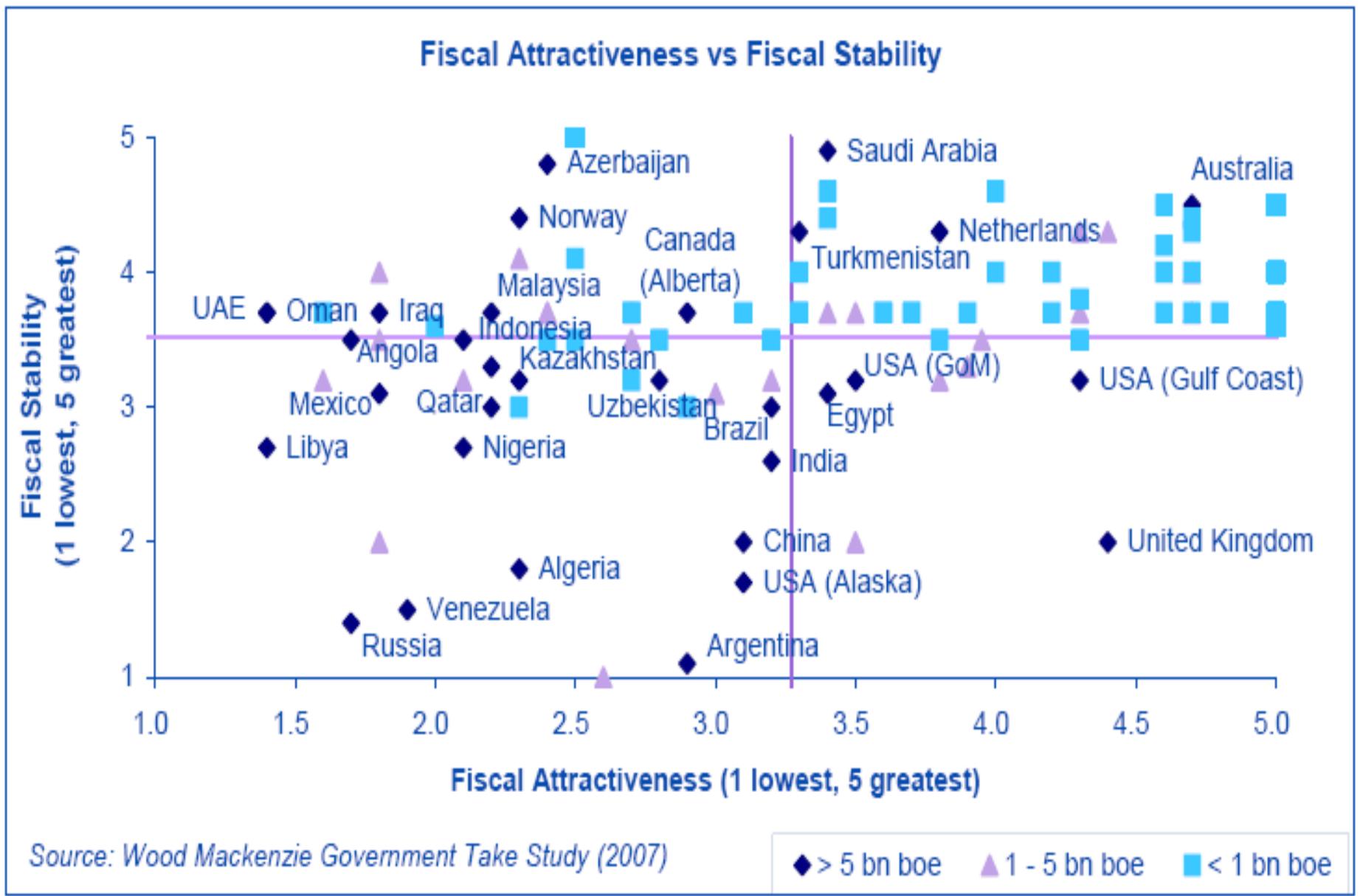
### *RISKED ECONOMIC ANALYSIS, 4 pt Economic Model*



# Investment is Needed to Maintain Production at Reasonable Levels



# Chart 14 – Fiscal Attractiveness Rating versus Fiscal Stability Rating



Source: Wood Mackenzie Government Take Study (2007)

# Summary Comments



- You have the power to increase short term state revenue through raising taxes
- Energy companies have the responsibility to invest where they see the best risk/reward ratio
- The common enemy is decline,
- Investment is the only way to stem decline
- How do you price Alaska's product ?
  - Lowest possible taxes and stability will encourage investment
- Chevron intends to invest and grow in Alaska, but ACES makes investing in Alaska more difficult

