ATTACHMENT 2

Summary of Comments Received on DNR's Preliminary Findings and Determination for a Proposed Royalty Modification to Nuna Development Leases

Pursuant to AS 38.05.180(j)(11)(A), the State of Alaska, Department of Natural Resources (DNR) has completed the following summary of the public comments received on the Preliminary Findings and Determination on the application for royalty modification filed by Caelus Natural Resources Alaska, LLC (Caelus). DNR received 26 comments, three of which opposed providing royalty modification. Two of the three comments in opposition, by Kuukpik Corporation (Kuukpik) and Kevin Banks of Anchorage (Banks), covered many similar points. These two commenters objected to the Preliminary Finding on a number of methodological points after having reviewed not only the Preliminary Findings but also the subsequent public presentation on that Preliminary Findings to the Legislative Budget and Audit Committee (LB&A). The third comment, by Alaska State Representative Les Gara, focused on his concern that the royalty modification is too generous given the State's production tax incentives.

The 23 comments received in favor of royalty modification emphasized the economic benefits to the State from the Nuna development.

I. SUMMARY OF COMMENTS IN OPPOSITION AND DNR'S RESPONSE

The following section provides a summary of comments received in opposition to the proposed royalty modification (underlined) and DNR's response (italicized).

1. <u>Caelus has stated in words and in actions that it would develop the project even if it did not receive royalty relief.</u>

Kuukpik states that DNR erred in considering Caelus's statement that it would develop the project as probative. In addition, Kuukpik states that Caelus has been equivocal about whether they would develop the project in the event it did not receive royalty modification. Kuukpik also points to Caelus obtaining permits as evidence that it planned to do the project even if royalty relief were not granted. Finally, Kuukpik points to recent expenditures by Caelus to further Nuna as evidence that Caelus was planning to develop the project even when not assured of receiving royalty modification.

Response: *Caelus stated in its royalty modification application that it would need royalty modification in order to develop the project. While DNR did not accord much evidentiary weight to this statement, the statement was necessary in order to initiate DNR's analysis. Equivocal statements ("it would be difficult to proceed without royalty modification…") made at a presentation before the LB&A appear more polite than definitive. Caelus's actions aren't inconsistent with its assertion that royalty modification is necessary. Caelus could have obtained permits so that if it received royalty modification it would be ready to proceed in a timely manner. Recent spending might be in reliance on the preliminary decision by DNR that royalty modification is warranted, even if the decision has not been finalized.*

2. <u>The field life extension provision of the royalty modification statute should not be used for a new investment</u>

Banks stated that using AS 38.05.180(j)(1)(B), the extension of field life provision of royalty modification, early in the field's life will create an "unbounded precedent" for future royalty modification decisions. He stated that the decision to use this provision is unprecedented.

Banks suggests that "any field might qualify for a lease modification to prolong its field life at any time in its life cycle, including Prudhoe Bay." He suggests that an applicant can always "manufacture a forecast of production, costs, and revenues to show that the life of the field will be extended with lower royalty rates." It must be shown how Nuna is "somehow unique" or "there may be no limit to the number of fields in Alaska that might qualify for relief."

Banks recounts the history of the adoption of the amendments to the royalty modification statute to add (1)(A), the royalty modification for a new, sufficiently delineated, field to then existing royalty modification provisions for field life extension and shut-in fields. Adding (1)(A) made the royalty modification decision depend on forecasts, and because of this, the Alaska Legislature added the requirement that royalty modification be supported by "very thorough geological and economic analysis" so that robust forecasts could be used to make a "clear and convincing case" that royalty modification was warranted.

Kuukpik also states that it is inappropriate to use the field life extension provision for a new field for Nuna. Kuukpik argues that the Preliminary Findings are confused as to what standard to apply. Kuukpik states that the DNR in the Preliminary Findings uses the standard applicable to a new field, though its basis is the field life extension provision. Kuukpik argues that because the Nuna development will have no impact on the Offshore Drill-Site's (ODS) life, that it is inappropriate to use the field life extension provision.

Response: DNR interprets the field life extension provision to apply not only to extending the life of current facilities, but extending the productive life of the pool or reservoir. Consistent with this reading, DNR is not providing royalty modification for oil produced from the Torok reservoir into the ODS facilities. DNR is not trying to extend the life of the wells drilling into the Torok reservoir from the ODS. Rather, DNR is attempting to extend the productive life of the Torok reservoir by providing an incentive to add facilities (the Nuna drillsite) that will achieve that goal.

DNR does not think it is establishing an unbounded precedent. This royalty modification decision is limited to a field or pool that due to lack of connectivity requires substantial investment to add facilities to access the field's oil. That oil must be inaccessible from current facilities. DNR determined that the resources to be produced from the Nuna drillsite cannot be produced from the ODS because of the lack of connectivity between the resource accessible from the ODS and the resource accessible from the Nuna drillsite.

The economics of the additional investment must also be shown, by clear and convincing evidence, to be infeasible without royalty modification. DNR reviews the production forecast and cost projections for *reasonableness. In the case of private equity financing, DNR verified that the assumptions used for royalty modification reflect assumptions provided to potential capital providers. Though not done in this instance, DNR can also hire, at an applicant's expense, an expert to check the veracity of the "manufactured" numbers. See AS 38.05.180(j)(7).*

For a new investment, the economic feasibility test of AS 38.05.180(j)(1)(A) and (B) are similar. In both, the applicant must show by clear and convincing evidence that the investment would not be economically feasible under current royalty terms.

3. <u>The Preliminary Findings fails to make a clear and convincing case for royalty modification</u>

Banks and Kuukpik criticize the Preliminary Findings as being inadequate.

The "logic and content of the commissioner's decision" is not explained in any detail in the Preliminary Findings. The public in not given an "assessment of the quality of Caelus' application." This raises questions about the "process undertaken by the division to evaluate the application," but also means the public "has no insight into the conditions that the division considered in granting royalty modification."

They state that the Nuna Preliminary Findings and Determination decision is remarkably short on substance when compared to the care taken by the division in the previous Oooguruk and Nikaitchuq royalty modification decisions.

Because the Nuna Preliminary Findings and Determination was so short on substance, Banks alleges that the "process" to evaluate the application was inadequate. Further, he worries that the public can't evaluate the royalty modification decision because there isn't enough "insight" into the conditions considered. Finally, he worries that there will be a flood of applications because nothing makes Nuna "unique."

Kuukpik does not believe that the Preliminary Findings adequately explains the basis for the proposed "waivers of State rights," and states that the basis for the royalty modification must be sufficiently explained so that the citizens of Alaska must see that the reduction is justified. The justification must be clear and convincing. Though Kuukpik does not have access to the confidential information that DNR has, it cannot see how having access to that information would alter Kuukpik's opposition.

Response: In the Preliminary Findings, DNR summarized the applicable law and DNR's findings, and took care to protect confidential information. While providing notice, the Preliminary Findings did not contain discussion of the Torok Formation geology, a full discussion of the economic modeling DNR undertook, and the decision criteria used. This brief document did not mean that DNR's analysis was similarly summary in nature. DNR spent months reviewing the production forecasts and running sensitivities on price and costs. The presentation before the LB&A sought to provide more background to the decision than was provided in the Preliminary Findings. In fact, the public LB&A presentation provided an unprecedented disclosure of the decision criteria and financial metric results used to determine the economic feasibility of a royalty modification. In previous public documents related to royalty *modification, DNR had not revealed the hurdle rate/discount rate it had used in its analysis. In previous public documents related to royalty modification, DNR did not reveal the internal rate of return and net present value/expected monetary value of the project at different discount rates. For the sake of transparency, DNR provided the financial metric results (IRR, EMV) of the project in the LB&A presentation, something it had not done in previous royalty modification decisions. It is easy to see why Kuukpik believes it has received enough information to adequately evaluate the royalty modification decision. DNR has provided enough information to an interested member of the public to adequately evaluate the royalty modification decision to the extent that person could without running their own analysis.*

To carry its burden of obtaining royalty modification, the applicant must present a clear and convincing case to DNR. Part of the applicant's burden is to provide proprietary cost and production/reservoir performance information with which DNR can perform its own economic modeling. Due to the confidentiality provisions included in the royalty modification authorizing statute, a member of the public cannot perform economic modeling informed by the same inputs. DNR cannot in its public findings make the same "here is the data, prove to yourself that royalty modification is necessary" showing that Caelus had to make.

4. <u>The DNR should not have taken into account the applicant's cost of capital when setting an appropriate discount rate. The discount/hurdle rate should be based on the risks of the investment, not the financing options of the applicant.</u>

Kuukpik states that the statute AS 38.05.180(j)(B) was intended to apply equally and objectively and that differences between applicant oil companies cannot be considered per the statute. In determining the appropriate hurdle rate the focus should be on the field, not the applicant. Also, finding Caelus had a higher cost of capital would encourage companies like Caelus to borrow money at higher rates.

Caelus's actual cost of capital should be considered to be lower. Apollo, Caelus's source of funds, has a surplus of funds. Banks also states that "based on current interest rates for funds, capital market are still hunting for investment opportunities."

Banks states that using a 17.5% hurdle rate based on a subjective assessment of Caelus's cost of capital rather than an objective "prudent investor rule" creates the impression that the Commissioner might play favorites in making these decisions. Banks asks what evidence DNR used to reach a higher hurdle rate.

Banks refers to testimony to say when modeled at a lower 15% IRR the project is successful in 50 percent of the runs. He asks whether royalty relief is appropriate at a 15% IRR.

Banks states that the division's stochastic modeling techniques already accommodate for risk and uncertainty, so "raising the hurdle rate to include a factor for risk and uncertainty is double-counting the costs of the project." Kuukpik focuses on the "failure leg" scenario, and states that including this cash flow scenario double-counts for risk that is incorporated in the higher discount rate.

Response: *DNR has considered the certain characteristics of the applicant in evaluating economic feasibility in prior royalty modification decisions. Under Alaska's production tax code, a lessee or oil producer pays taxes based on their total North Slope cash flow. In that respect, DNR has considered the impact of the project on a particular applicant's cash flow, rather than the impact the project would have on another hypothetical applicant's cash flow. Also, to the extent the Nuna project shares certain facilities with the ODS (certain gathering lines and the OTP), DNR has taken into account in its cash flow analysis how the Nuna project will extend ODS field life. Like its tax position or facility ownership, an applicant's cost of capital will also affect the economic feasibility of the project from the applicant's perspective. Taking into account the applicant's position will not necessarily create bias or unfairness; doing so just provides a more complete picture of the economic feasibility analysis.*

DNR based its higher hurdle rate on a number of different pieces of information. When the Permanent Fund invests in oil and gas projects offered by master limited partnerships, a 25% rate of return is sought. From agreements examined by DNR in different contexts, the cost of capital for many small, private equity type companies in Alaska is higher than the 15% prudent investor rate of return.

Royalty relief could be justified at a 15% rate of return, but the justification is weaker. In more than 50% of the scenarios, the Nuna project returns less than 15%. The extreme, high price/high production scenarios drag up the EMV to be slightly positive at 15%. DNR believes a higher than 15% rate of return is appropriate here.

In prior evaluations of the stochastic modeling done for royalty modification DNR has always used a discount rate that incorporates a risk premium. The prudent investor rate of 15% also includes a risk premium. The 17.5% rate was based on the cost of capital in the private equity markets. DNR is not double counting by doing so. DNR is assuming that an investor in an oil and gas project is not risk neutral but rather risk averse. A more rigorous way of taking this risk aversion into account would be to translate Net Present Values derived using a risk-free rate for a given cash flow into a certainty equivalent. These certainty equivalents will be lower than the project cash flow the smaller the investor is relative to the project. DNR used a higher discount rate to match the smaller firm's cost of capital, and to some extent estimate the impact of using certainty equivalents.

5. <u>In determining State value, DNR should have used a higher discount rate than 3% real.</u>

Banks questions that if the Permanent Fund would not invest unless it received higher rates, "why is DNR willing to invest foregone Permanent Fund royalty deposits to evaluate these revenues at just 3%?" Banks believes that the State should use a higher discount rate than 3% to measure future State revenues. He states that the 3% discount rate "is lower than rates ever used by division." Banks sees the use of the 3% discount rate as a way to mask the "State's tax and royalty revenue stream by underestimating early revenues versus later revenues." Banks states that using the 3% discount rate impacts the size of Caelus's $1.25 billion Gross Revenue Target when the lease rate is supposed to be re-established."

Response: *DNR does not believe it is investing foregone royalty deposits in order to obtain revenues from the project. DNR believes that the applicant has made a clear and convincing case that if royalty relief is* *not provided, the project will not occur. If the project does not occur, then the State will receive no royalty revenue from the project. DNR believes it does not have the option to obtain full royalties on the project because doing so will make the project uneconomic. If DNR believed it could receive full royalties from the project, then it would not offer the royalty modification. DNR, however, could be wrong. This is why it is helpful to know how much the State would lose if DNR is incorrect in finding that the project would not occur if full royalties had to be paid. However, this potential loss is not the investment DNR believes it is making.*

In previous royalty modifications the State had used a 5% real discount rate. In modeling for the Alaska Gasline Inducement Act (AGIA) using the NPV model, the State had used a 5% nominal discount rate and assumed a 2% inflation rate, roughly equating to a 3% real discount rate. Richard Newell, a State consultant, in 2002 recommended a 3% real discount rate. This social discount rate reflects the tradeoff between social services provided this year, versus social services provided the next year. Using a rate tied to Permanent Fund returns would yield a rate closer to a 5% real rate.

Using a 3% discount rate, the State gained a mean return of around $1.25 billion. Increasing to a 5% discount rate decreased that return to around $984 million. If DNR is mistaken and Caelus would develop the project without royalty modification, then the State forgoes $60 million (NPV5) rather than $68 million (NPV3) in total state revenue. Using a higher discount rate for the State slightly changes the number. It does not change the sign of the number, or represent an order of magnitude change.

The Gross Revenue Target is in undiscounted terms, so the discount rate used will not impact the number.

6. <u>DNR should have modeled prices using the mean-reverting, Brownian motion method it used in evaluating the Nikaitchuq royalty modification application.</u>

Banks states that the "[n]ormal distribution of price ignores price fluctuation and assumes a single price forecast in each run of the model. This fails to account for the fact that prices fluctuate periodically at levels that can materially affect the success of the project."

Response: Banks concludes that price fluctuations can materially affect the success of a project in a way that an average level or prices cannot capture. These types of price models generate a more realistic looking price path, which is important when evaluating specific year cash flows or constraints on capital due to timing. However, when simply evaluating the life cycle economics of a project, the volatility of price changes between years is averaged out over time and model iterations. Due to the assumed normality of the price distributions, and the aggregation of the time series into a single value, DNR determined that the simplifying use of an average price over time would adequately represent the total value, especially in the central tendency summary statistics being relied on in this analysis.

7. <u>DNR erred in considering P50 or median case rather than looking exclusively to EMV or average statistic, and in not putting enough weight on the good chance that Caelus could make greater than 17.5% on its investment.</u>

Kuukpik states that DNR's graph of internal rates of return shows that there is a good possibility that Caelus will achieve more than a 17.5% rate of return. Kuukpik questions DNR's emphasis on the median statistic as the median doesn't consider the upside. Kuukpik points out that the mean IRR is very close to the 15% prudent operator rate of return.

Response: *DNR has examined the median as well as mean values as useful measures of central tendency in prior royalty modification decisions. The median provides additional, valuable information about a distribution of returns. While some difference between the median and mean is expected given a lognormal distribution of returns, a large difference between the mean and median might show that the mean is unduly influenced by extreme maximum input values.*

8. <u>DNR should consider the Fall DOR forecast prices when evaluating this royalty modification application, and doing so would cause DNR to reject the royalty modification.</u>

Banks states that the price forecast was too high. He point out that today's prices and the Department of Revenue's most recent forecast are deeply below that range. Banks states that these lower prices will mean that the modification should not be granted because the modification would fail to make a difference at these low prices.

Kuukpik points out that DOR forecasts prices will be low over the next few years, and then will increase. So the State benefits if we delay selling the oil for a few more years.

Response: *DNR in September did not have access to December prices or December price forecasts. Lower oil prices will make the project less economic, thereby making the finding that the project without royalty modification is uneconomic more clear and convincing. In determining whether royalty modification will make a difference, DNR has traditionally been hesitant to second guess an applicant's stated commitment to do the project if it receives the royalty modification. To receive the royalty modification, the applicant must sanction the project by March 31, 2015, and have first production (and meet spending targets) within two years. Forecasts of oil prices two versus five years out are somewhat speculative and the State will benefit from production sooner rather than later.*

9. <u>DNR probably did not model the project cash flows and their impact on State revenues correctly.</u>

Banks states that the Nuna project's costs and revenues will "delay net profit share payout that triggers the cessation or royalty relief granted in 2006 for production from Kuparuk and Nuiqsut formations." Banks states that this benefit to Caelus was "not likely modeled for this present application as it should be."

Response: *Regarding NPSL modeling, DNR compared the incremental economics of Nuna plus existing ODS production with the economics of ODS production alone. In doing so, DNR modeled the NPSL accounting of ADL 355036, the lease whose payout leads to the termination of royalty modification for Kuparuk and Nuiqsut production. Nuna reaches the portion of the Torok reservoir that is south of ADL 355036. The tract factors provided by Caelus for the Nuna project did not include ADL 355036. For that* *reason, Nuna costs and revenues were not allocated to ADL 355036, and had no direct impact on the NPSL accounting for that lease*

10. The Preliminary Findings understate the cost to the State of providing royalty modification.

Kuukpik states that the claimed benefit of $1.4 billion is highly questionable, as is the supposed cost of $44 million. Kuukpik computes the State loss of $107 million and believes the $44 million is "entirely unsupported and conflicts with the only calculation possible from the available information."

Response: *The $107 million number is undiscounted while the State revenue presented in the LB&A presentation were arrived at by taking the net present value of future revenue differences using a discount rate 3%. Also, just looking at royalty revenue provides an incomplete picture of the total revenue impact to the State as the lower royalty rate increases NPS as well as production tax payments. The $44 million figure reflects modeling on an annual rather than a monthly basis. If the year cumulative revenue exceeds the gross revenue target the royalty rate reverts to the higher royalty rate for the entire year, then the impact to the State is $44 million EMV3. If cumulative revenue is measured on a monthly basis, and the royalty rate reverts to the higher lease rate in the month (rather than the year) that the cumulative revenue exceeds the gross revenue target, then the modeled impact to the State is $66 million (with an 8% backout the impact is $68 million) EMV3. With annual revenue in the hundreds of millions of dollars, an intra-year period modeled with the lower 5% royalty rate will show a higher State revenue impact.*

DNR found by clear and convincing evidence that the project would not proceed without royalty modification. DNR therefore would not use as a base case royalty revenue from a project that did not receive a royalty modification.

11. The terms of the royalty modification should be adjusted.

Banks states that the royalty modification contains a term that requires Caelus to sanction the project before the Final Findings and Determination is likely to occur.

Response: *DNR demanded this term in the preliminary decision, and erred in setting the term too soon. In the Final Finding, the sanction date is moved to March 31, 2015.*

Banks states that if royalty relief is justified, the royalty modification should include a term that sets out a not-less–than-zero-state-revenue at any time during production. Providing such a provision would prevent the actual commitment of the State's purse in the project from being obscured.

Response: *DNR is requiring an annual minimum of zero for the calculation of the gross revenue target. While DNR can modify royalty terms as part of a royalty modification, DNR cannot modify the terms of the production tax.*

Banks suggests that the $1.25 billion gross revenue target might be too large given the high prices used by DNR in evaluating the project.

Response: *The $1.25 billion Gross Revenue Target is a negotiated figure. DNR has always negotiated the terms of the royalty modification for two reasons. First, the royalty modification amends the terms of a bilateral contract, a lease. To implement royalty modification, the lessee/applicant must agree to amend the leases consistent with the royalty modification. Second, DNR wants the applicant to commit to sanction the project and will only provide royalty modification if the applicant so commits. To obtain this quid pro quo requires a negotiation.*

The price deck has no impact on an undiscounted basis on the incentive provided for a given Gross Revenue Target. If prices are higher, the target will be reached sooner, all else equal. If prices are lower, the target will be reached later, all else equal. The undiscounted amount of benefit provided by the target doesn't change.

12. <u>The State already provides sufficient incentive through the production tax credits and deductions. Additional help via royalty modification is unfair to the State.</u>

Representative Les Gara points out that the Nuna project already receives plenty of incentives through the production tax. Nuna production would qualify for a 20% gross value reduction, and a per barrel credit that is deductible against the North Slope minimum tax of 4%. In addition, for Nuna spending in 2015 that causes Caelus's annual cash flow to go negative there is a 45% tax credit. As Representative Gara points out, the State on a discounted basis receives negative production tax revenue from projects like Nuna. Representative Gara suggests that it is not in the State's best interest to reduce royalty revenues given the negative production tax revenues (on a discounted basis) expected.

Response: *DNR took into account the production tax incentives in modeling the economics of the project, and found clear and convincing evidence that the Nuna project was not economically feasible notwithstanding those incentives. The incentives helped but did not make the project economic. Then, the question was whether it was in the State's best interest to have the Nuna project go forward when the production tax revenue on a discounted basis was negative. With the Nuna project, the State still received substantial royalty revenue even with the temporary 5% royalty rate. In addition, the State received substantial net profit share payments. The Legislature could have prohibited a lessee from receiving both royalty modification and a gross value reduction when it enacted Senate Bill 21. The Legislature had made receiving royalty relief and a 30% gross value reduction under AS 43.55.160(g) incompatible, but did not have the same provision under (f) for the 20% gross value reduction.*

13. <u>Encouraging Caelus is not in State's best interest because Caelus is a short term investor that will seek to make a quick profit by taking advantage of the State.</u>

Kuukpik states that Caelus's ownership structure and approach indicates they are short term investors in Alaska. They'll seek to take advantage of the State.

Response: *The purported investment horizon of a company has not been a criterion DNR has used in evaluating royalty modification applications. DNR has included a term in the decision, which is present in the royalty modification statute) preventing the royalty modification from being transferred without approval, thereby mitigating the danger that Nuna will be "flipped." It is undeniable that Caelus has* *brought new money into the State, kept many of the employees of its predecessor company in Alaska, and was active in the last North Slope lease sale.*

II. SUMMARY OF COMMENTS IN SUPPORT OF ROYALTY MODIFICATION

1. Aaron M. Schutt, President and CEO of Doyon Limited (Doyon), wrote in favor of the royalty modification. Doyon is an exploration company in the Nenana Basin and a parent of subsidiaries that provide oil field services in Alaska. Doyon states that it understands both the high cost of developing a field and the difficulty in finding investment capital. Doyon states that an independent company like Caelus, taking risks that the major operators are unwilling to take and with a proven track record of raising private equity capital, is the type of company that will "drive future development on the North Slope." Doyon points not only to the state revenue benefits identified in the Preliminary Findings, but also to "hundreds of jobs, more oil flowing in TAPS, and follow-on developments."

2. Brad Osborne, President Nana Oilfield Services writing in support of the Nuna royalty modification, also stresses the "hundreds of construction and operation jobs, with the probable potential for follow-on developments from activities" brought about by the Nuna development.

3. Carl Portman, Deputy Director of the Resource Development Council, states that the temporary royalty reduction (to be in place until around 2020) would prompt production from a field "expected to produce for 30 years with production peaking at 15,000 barrels per day." This would bring "hundreds of jobs" and "about $1.3 billion" in state revenue.

4. Helvi K. Sanvik, President of Nana Development Corporation, writes in support of royalty modification. Nana's 13,000 shareholders can benefit from the investment, and the State needs to encourage independent companies in Alaska. The Caelus investment will bring more oil, more state revenue in the long run, while supporting "businesses, jobs, and families today."

5. Patrick M. Walsh, Senior Vice President of Peak, an Oil and Gas Service Contractor, emphasizes the "new opportunities for jobs, both in the short term during construction and also long term with drilling support and operational & maintenance services." Peak also points out the importance of having more oil flow down TAPS.

6. Kara Moriarty, President and CEO of the Alaska Oil and Gas Association (AOGA), points out that the Nuna project will have a positive impact on the State economy and "create hundreds of jobs for Alaskans." AOGA also states that Caelus is the "type of company Alaska needs to bridge to the future of Alaska North Slope development."

7. Ben Anglen, a project engineer working on the project, states that the Torok pool is "a highly fractured reservoir with low connectivity…like a bunch of kiddy pools side by side rather than one large Olympic pool." Due to this low connectivity, both production and injection wells will

have to be "horizontally and then hydraulically fractured." Then, because of the Torok pool's low pressure, ESPs (electronic submersible pumps) will have to be installed on these "horizontal frac'd wells." Anglen characterizes the development risk as "huge." Anglen also states that if the development is successful, there will be a "flurry of new field developments targeting the same type of reservoir as the Torok pool."

8. Bill van Dyke, former director of the Division of Oil and Gas and a consultant, writes in favor of royalty modification.

9. Scott Stewart, president of Arctic Controls, Inc., in writing in favor of the royalty modification decision, points out that Caelus is a "new independent that's already making great strides in Alaska as seen during the most recent state lease sales where Caelus was the apparent high bidder." Stewart refers to the Torok pool as a "pool that will require unconventional type approaches to maximize recovery of the resources." Nuna "holds an approximate 100 million barrels and is anticipated to produce a peak of 18,000 barrels per day." Stewart also emphasizes the "technical knowledge" for Nuna development, the "hundreds of construction and operations jobs, manufacturing activity, potential follow-on developments" along with the State revenue and oil down TAPS.

10. Greg Sanders writes in favor of the royalty modification, stating it would show other independents how working with the State as a partner is possible. The Nuna development will bring "tremendous economic benefit for jobs and the community."

11. Harry McDonald, Managing Director of Saltchuk Alaska also writes in favor of royalty modification. "Moving the project will result in economic activity, jobs and considerable revenue to the State."

12. Clint and Erin Renfro write in favor of royalty relief, stating that the State needs to encourage independent oil companies in Alaska.

13. Michael Moore of Wasilla, an employee of Caelus, states that if the royalty modification is not approved then the State would be sending a message to other small independent producers that they are not wanted here. Moore states that Nuna not going forward would mean "hundreds of future construction, operations, and drilling related jobs may never come available."

14. Gregory A. Beishcher, President & CEO of Millrock Resources, Inc., urges the DNR to stick with its decision to provide royalty modification. The State will benefit financially from the Nuna development project.

15. Jeanine St. John, Vice President of Lynden Inc., points out that the royalty modification statute was written to encourage development. It has been difficult to get royalty modification; only

two out of six total applications have been accepted since 1996. Lynden benefits "both directly and indirectly" from increased resource development, and encourages DNR to issue a final finding consistent with the Preliminary Finding so "Alaskans can get to work."

16. Jonah Lloyd of Big Lake states that he supports the royalty modification in this case though he generally isn't supportive of oil tax breaks or royalty reductions. However, production from Nuna will help the United States become energy independent. It is expensive to produce oil in Alaska, and it is important for the State to entice industry into our state. Caelus is willing to "sign on the dotted line" that they will do the project, and bring "growth and jobs to the slope," something more than other companies were willing to do "when ACES was rolled back."

17. Michael Jesperson of Anchorage also stressed that Caelus is guaranteeing that it will sanction the project if it receives royalty modification. Here, we are giving an incentive to a company in return for a commitment to do a project.

18. Elliott Neal of ERA Helicopters, LLC, writes that ERA can attest to the "significant economic benefit that is resulting from Caelus' ongoing activities on the North Slope." ERA provides logistics support, and a majority of the employees providing this support live in Alaska. Coupled with other contractors, ERA states that "the cumulative impact on the Alaskan job market is substantial."

19. Sagen Juliussen, VP Alaska Operations, Grand Isle Shipyard (GIS) states that GIS employs hundreds of workers in Alaska, including "over 200 people at our fabrication facility in Big Lake, Alaska." They are working on Nuna process modules and living quarters. The first stage of development is forecast to create "over 200,000 man-hours of work" to GIS and to the Mat-Su region. Tens of millions of dollars will be added to the Alaska economy over the next two years, and afterward, Alaskan workers will be maintaining and operating the field. GIS urges maintaining the finding that royalty modification is necessary and in the best interests of Alaska.

20. Greg Sanders of Anchorage writes in support of royalty modification, stressing the "tremendous economic benefit for jobs and the community" from the development.

21. Rebecca Gitzen also writes in favor of royalty modification, urging DNR to "not hold up more opportunity for this great state and keep our workers doing what they do best!"

22. Harold Hollis, Vice President of WHPacific Inc. also writes in support of royalty modification. The benefits of more State revenue, hundreds of construction and operation jobs and the possibility of follow-on investment will bring benefits to all Alaska stakeholders.

23. Dale Hoffman of Anchorage also wrote in favor of royalty modification. The reduction of royalty on five Caelus leases over the short-term will insure long-term gains for the State in the continued development of Torok.