Welcome to “straight talk”

John Zager, Alaska General Manager, Chevron

As the President of the Alaska Oil and Gas Association (AOGA), I’m pleased to introduce the inaugural issue of “Straight Talk.” To respond to Alaskans who have told us they want a better – and more in-depth – understanding of the oil and gas business, we are committed to publishing “Straight Talk” six times a year to discuss exploration, production, transportation, refining, and marketing activities in Alaska.

The state of Alaska and the industry have enjoyed a strong partnership for over 50 years, and our future successes continue to be explicitly intertwined. The Department of Revenue is forecasting total oil revenue of over $6.8 billion for the current fiscal year, providing 89% of the unrestricted revenue that the Legislature uses to create the State’s budget. However, if prices fluctuate by just $10 per barrel, state revenues will increase or decrease by about $1.5 billion.

The biggest challenge facing both the state and the industry is the decline in oil production. In five short years, our production has fallen from 1 million barrels per day to about 743,000. While the focus has been on the natural gas pipeline, maintaining crude oil production near current levels will be essential to bridge the gap until the gas pipeline becomes a reality.

We invite you to visit our website at www.aoga.org to let us know what YOU want to know about our industry. We are proud to produce this publication and want it to be an open dialogue. Thank you for taking the time to read “Straight Talk.”

Chukchi Sea lease sale breaks records

It was a record setting day for the Chukchi Sea lease sale conducted by the Minerals Management Service (MMS) of the U.S. Department of Interior on February 6, 2008. The preliminary total high bids amounted to over $2.662 billion – making it the largest lease sale in Alaska to date.

The sale set a national record as well, with bids totaling 667 on 488 blocks. Companies submitted bids totaling almost $3.4 billion. The highest bid for one track was over $105 million by Shell, making the highest bid per acre, $18,496.

Over 2.7 million acres were leased by the federal government. The closest lease is over 54 miles from the shoreline.

“Wow! What an exciting day for the oil and gas industry in Alaska and the nation,” stated AOGA Executive Director Marilyn Crockett. “We are pleased to see numerous companies excited about Alaska’s rich offshore resources.”

Seven companies submitted bids: Shell, ConocoPhillips, Repsol, Chevron’s Monopod Platform located in Cook Inlet, Alaska.
On the Job

Meet Flint Hills’ Dave... and Dave

In each issue of “Straight Talk,” AOGA will feature the men and women behind the scenes who commit their talents, hard work, tenacity, and know-how every day in moving Alaska’s oil and gas industry forward.

For our first issue, we have selected two long-time and dedicated employees that keep Alaska’s largest refinery going.

Dave Freedle, Machinist Mechanic, Flint Hills Refinery, North Pole, Alaska

Dave Freedle hails from Montana, but he’s a true Alaskan with firmly-planted roots in Fairbanks. Dave has worked at what is now the Flint Hills Refinery outside of Fairbanks for more than 30 years.

As a mechanic, Dave currently helps to keep equipment at the refinery running at peak performance. His years of experience and understanding of plant operations has made him one of the “go to” guys for other employees – especially new engineers. He takes it all in stride: “I’ve gotten used to it by now... when they [employees] need to have information about a particular unit or some history on it, they’re always told to come and see me,” said Dave.

Dave enjoys Fairbanks overall but like many Alaskans would not mind being somewhere else this time of year, “…like Mexico or Hawaii,” he says.

Dave Nelson, Maintenance Planner/Scheduler, Flint Hills Refinery, North Pole, Alaska

Like his coworker, Dave Nelson has a long history with the refinery. Born and raised in Fairbanks, Dave started his career in the oil and gas industry as a pipeline worker on TAPS, working on that historic project from start to finish in various capacities. “It was an exciting part of my life to come right out of high school and have the opportunity to make lots of money being a young guy,” Dave said about the pipeline construction days.

Dave joined the refinery in 1979 and has primarily worked in operations. He now is the Maintenance Planner/Scheduler for the plant and is responsible for scheduling work activities for the maintenance personnel.

“There’s always something unexpected happening... especially on a day like today when it’s minus 40,” Dave said about his typical days at work. His vast experience and overall understanding of operations at the refinery have proved to be invaluable in his current position.

Dave and his family enjoy the Fairbanks summers and whenever retirement comes, plan to spend the winters where it’s warm while still keeping his roots in Alaska.

Chukchi Sea lease sale

StatoilHydro, Eni Petroleum, Iona Energy, and North American Civil Recovery.

While the results of the lease sale indicate huge interest in an area that has been described as the most proven prolific but undeveloped hydrocarbon basin in the United States, actual production in the Chukchi Sea is at least a decade away. In addition to the environmental impact studies conducted by the MMS prior to the sale, which found no significant adverse impacts to polar bears, multiple studies, public hearings and environmental reviews will be conducted to ensure safe development of this new oil and gas region.

“Development of the Chukchi Sea is a necessary component to addressing the decline of oil production in Alaska,” concluded Ms. Crockett.
As I write this we are awaiting the Department of Interior’s (DOI) decision on whether to list the polar bear as “threatened” under the Endangered Species Act (ESA). According to the Center for Biological Diversity’s website, it’s been 636 days, 2 hours, 51 minutes, and 36 seconds, since a U.S. species has been listed under the ESA. (Never mind that species likely haven’t been listed because their listing isn’t warranted.) Such alarmist tactics are the usual strategy for this group who has filed over 500 ESA petitions and lawsuits since its formation in 1989 and who has led the way in efforts to list the polar bear and many other species.

The CBD petitioned the courts to list the polar bear under the guise of future sea-ice loss based on some projections due to climate change. If listed, this will be the first listing of a species that is healthy both in size and distribution. CBD has admitted its goal is to affect changes to U.S. policies on climate change.

DOI has acknowledged that oil industry operations over the past 40 years in the Arctic have not negatively impacted this population. Yet if the polar bear is listed, onshore and offshore areas of the North Slope could be designated as critical habitat, creating new challenges for industry to obtain permits which are likely to be appealed and litigated, stalling or halting operations altogether.

How ironic that the only industry that has consistently monitored these bears and funded important research is the one who will pay the price.

Courtesy of BP

Alaska Oil & Gas: By the Numbers

<table>
<thead>
<tr>
<th>Daily Oil Production</th>
<th>Alaska Oil &amp; Gas Prices</th>
<th>State Revenue from Oil &amp; Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak ANS Production (1989)</td>
<td>2.1 million bpd*</td>
<td>Average ANS FY 2007</td>
</tr>
<tr>
<td>2007 Yearly Average</td>
<td>758,000 bpd*</td>
<td>Average Henry Hub Gas Price FY 2007</td>
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<tr>
<td>January 2008 Average</td>
<td>743,715 bpd*</td>
<td>Average ANS January 2008</td>
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</tbody>
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*bpd = barrels per day  
ANS = Alaska North Slope  
FY = Fiscal year  
Btu = British thermal unit  
*Revenue numbers include all royalties and property tax payments
Worth the Investment

Drilling in all directions

New drilling technology reduces surface impact and increases recovery. Extended reach directional drilling allows companies to reach deposits as far as eight miles from the drilling rig. Horizontal drilling techniques enable companies to open up more of the oil reservoir, which increases the production rate of wells.

Drilling advances make it possible to reach parts of a reservoir once considered uneconomic and to tap the North Slope’s huge viscous reserves.

Horizontal production wells allow producers to run long sections of horizontal casing through a layer of oil as thin as six feet, draining the deposit through openings in the casing. At least 90 percent of the wells now drilled at Prudhoe Bay, Kuparuk and Alpine are horizontal and this technology helps keep production up by tapping into deposits once thought not producible.

Horizontal wells expose more of the reservoir, which results in higher production rates. An historic vertical well might expose 200 to 300 feet of reservoir rock. The new wells can use multiple horizontal sections to expose more than 20,000 feet of reservoir rock in one well.

Companies began experimenting with multilateral horizontal wells at the turn of the decade to increase viscous oil production. These are multiple wells drilled off a common hole to the surface. BP drilled Alaska’s first five-legged well in 2005 into the viscous oil pool at Polaris. Multilateral wells are key to raising the North Slope’s viscous oil production. Significant investments will need to be made to bring these multi-lateral wells online.

Technology in Action

PIONEER’S OOOGURUK POSSIBLE BECAUSE OF ADVANCES IN DRILLING TECHNOLOGY

Ten years ago the technology didn’t exist to make Oooguruk a reality. Cutting edge advances in drilling technology put the Oooguruk project ahead of schedule to become the newest offshore field on the North Slope – and the first to be produced by an independent operator.

Vance Hazzard, Pioneer’s Drilling Superintendent, said that advances in drilling technology, specifically with regard to highly accurate and efficient “rotary steerable” tools have made projects such as Oooguruk achievable.

“In the past three to five years rotary steerable tools have progressed to be more accurate, efficient and reliable,” said Mr. Hazzard. “The accuracy of the directional drilling
Another unique feature of the Oooogurk Unit is that it will be developed exclusively with extended reach lateral wells. “We’ve been able to incorporate many of the experiences from the Alpine project into our development plan,” explained Mr. Hazzard. “Given the fact that we have one of the most logistically challenged operations on the North Slope, an efficient drilling program will be critical to the project’s success.”

The Oooguruk Drill Site is located in approximately five feet of water in the nearshore of the Beaufort Sea, eight miles east of Oliktok Point. The project is on track to make Pioneer the first independent company to operate a producing field on the North Slope.

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Tim Dove, President and COO, Pioneer Natural Resources Company
So what is the Alaska Oil and Gas Association, or “AOGA”?

AOGA is a private, nonprofit trade association whose 16 members represent the majority of the exploration, production, transportation, marketing and refining activities in Alaska. Our role is to provide a forum for discussion and a point of decision on issues that affect the industry. Governed by a Board of Directors, major industry issues are managed through discipline-specific committees and task groups.

AOGA’s members encompass a broad mix of those with a long history in Alaska as well as those who hope to make history. Integrated oil companies BP, Chevron, ExxonMobil, and Marathon have been exploring and producing in Alaska since the 1950s and 60s. Also active in the early days of Alaska’s oil industry, Shell has returned to the Last Frontier to renew its efforts in the offshore.

Independent companies are playing an increasingly important role in Alaska. Anadarko and XTO are currently producers and Pioneer is poised to bring the Oooguruk field online in 2008. Petro-Canada is participating in exploration activities this winter and Eni Petroleum has recently announced its intent to develop the Nikaitchuq field.

AOGA’s newest member – Norwegian company StatoilHydro – is the world’s largest offshore subsea operator.

AOGA’s members also include the value-added companies that came into being because of the discovery of oil and gas: Tesoro, Petro Star, Flint Hills, Agrium Kenai Nitrogen Operations and Alyeska Pipeline Service Company.

Together we work to ensure a vital oil and gas industry that contributes to a vibrant economy in the State of Alaska.