Why is Policy Important?
Oil & Gas Drives Alaska’s Economy

• 1/3 all Alaska jobs (110,000 jobs) attributed to industry

• Every direct job = 20 more jobs

• Every dollar in wage = $8 more

• 85% of State’s Unrestricted General Fund since statehood

• No other industry even comes close
Alaska Oil and Gas Tax Policy Changed 6 times in a decade

• February 2005 – March 31, 2006: Aggregated ELF – Decision that altered gross production tax
• April 1, 2006 – July 2007: Petroleum Production Tax (PPT)
• July 2007 – 2013: Alaska’s Clear and Equitable Share (ACES) *
• 2010: Cook Inlet Recovery Act
• 2014 – present: SB 21 & SB 138
• 2016: HB 247 – Governor Walker’s proposal – changed policy

* Some provisions of ACES made retroactive to enactment of PPT, others to 1/1/2007

No other region considers oil/gas changes more than Alaska.
HB 247 represented a major shift in tax policy

- Cook Inlet credits are reduced by half in 2017, eliminated in 2018
- Exploration credits on the North Slope were allowed to expire
- Limits are placed on how many tax credits one company can earn
- Interest rate calculations changed
- Industry opposed the bill from the beginning and in the end
A description of SB 21 in June 2014:

"It will not produce more oil, it will not provide more revenue to the state of Alaska,"

- Sen. Bill Wielechowski (Anchorage)
SB 21 generates more revenue to the state at low prices

Jan. 26, 2015: DOR Commissioner Randy Hoffbeck:

SB 21 brings in “substantially more” revenue to the State at low prices than ACES

(Senate Finance testimony)
North Slope Production Increased for the first time since 2002

OIL PRODUCTION UP BY 3%

Source: DOR FALL 2016 RSB
Alaska Oil Production

2002 - 2016

(Average in Thousands of Barrels per Day)

Source: Alaska Department of Revenue
## Improved North Slope Production - Even as prices declined

### Average ANS Price – FY 13:
- **$107.33**

### Average ANS Price – FY 16:
- **$43.34**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fall 2013 Forecast</th>
<th>Fall 2016 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>487.6</td>
<td>514.9</td>
</tr>
<tr>
<td>2017</td>
<td>482.7</td>
<td>490.3</td>
</tr>
<tr>
<td>2018</td>
<td>459.5</td>
<td>455.6</td>
</tr>
<tr>
<td>2019</td>
<td>429.1</td>
<td>442.1</td>
</tr>
<tr>
<td>2020</td>
<td>399.6</td>
<td>428.6</td>
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<tr>
<td>2021</td>
<td>368.8</td>
<td>413.5</td>
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<tr>
<td>2022</td>
<td>340.1</td>
<td>398.2</td>
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<tr>
<td>2023</td>
<td></td>
<td>380.4</td>
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<td>2024</td>
<td></td>
<td>363.4</td>
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<tr>
<td>2025</td>
<td></td>
<td>345.9</td>
</tr>
</tbody>
</table>

Source: DOR Fall Sources Book – 2013 & 2016
Policy Matters in Cook Inlet
Oil production up 102%

Source: DOR Fall Sources Book – 2013 & 2016
Case Study: The Monopod

2012 royalties paid: $90,000/month
2016 royalties paid: $500,000/month
Why? Incentives = more production
Policy Matters – Environmental Concerns
Current Environmental/Regulatory Issues

• Access & Regulations
• Hydraulic Fracturing – AOGCC Hearing, Dec. 15th
• OCS 5-year leasing plan
• Compensatory mitigation
• ESA listing petitions and regulations
• Bearded Seal Listing
• Chukchi Sea ITR Lawsuit
• Polar Bear Critical Habitat
Good Policy necessary to counter Alaska’s High Cost Environment

Average ANS Price – Jan 2016 – Dec 2016 $43.17

Transportation Costs ($9.88)
Total Operating Expenditures ($16.53)
Total Capital Expenditures ($14.71)

Total Average Cost Per Barrel Before Tax & Royalty ($41.12)

Source: DOR Fall 2016 Forecast & DOR Historical ANS Prices
Costs per barrel in other regimes

Source: PFC Energy, Jan 2013, Presentation to Alaska Legislature
Good Policy necessary to unlock Mega Resource Potential

**Resource Potential**

<table>
<thead>
<tr>
<th>State Land</th>
<th>Federal Land</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cook Inlet</strong></td>
<td><strong>Offshore Arctic</strong></td>
</tr>
<tr>
<td>599 mbo and 19 tcf gas</td>
<td>27 bbo and 132 tcf gas</td>
</tr>
<tr>
<td><strong>Onshore North Slope</strong></td>
<td><strong>NPR-A</strong></td>
</tr>
<tr>
<td>Conventional:</td>
<td></td>
</tr>
<tr>
<td>5 bbo and 35 tcf gas</td>
<td>896 mbo and 53 tcf gas</td>
</tr>
<tr>
<td>Heavy/Viscous:</td>
<td><strong>ANWR</strong></td>
</tr>
<tr>
<td>24-33 bbo</td>
<td>10 bbo and 3.5 tcf gas</td>
</tr>
<tr>
<td>Unconventional:</td>
<td></td>
</tr>
<tr>
<td>2 bbo and 12 tcf gas</td>
<td></td>
</tr>
</tbody>
</table>

mbo - million barrels of oil  bbo - billion barrels of oil  tcf - trillion cubic feet

Source: USGS
Will policy allow Alaska to develop Major Alaska Discovery?

ALASKA’S NORTH SLOPE OIL FIELDS - ESTIMATED ULTIMATE RECOVERY

Data based on the “Historical Resource and Recovery Growth in Developed Fields on the Arctic Slope of Alaska” – Alaska DNR Division of Oil & Gas, 2004

- Prudhoe Bay: 13.875 Billion
- Endicott: 572 Million
- Nuna: 100 Million
- Oooguruk: 115 Million
- Alpine: 465 Million
- Kuparuk River: 2.881 Billion
- Lisburne: 192 Million

= CAELUS FIELDS
Calculation based on coded inferred estimates
Cook Inlet Oil and Gas Activity
State of Alaska, Department of Natural Resources, Division of Oil and Gas, as of December 2016

Source: Department of Natural Resources
Good Policies making things happen

• Point Thomson is operating, planning to triple production
• ConocoPhillips’ CD-5 now in production in NPR-A
• Hilcorp in permitting phase for Liberty opportunity, Moose Pad
• BlueCrest is operation in the Cosmopolitan field
• Caelus’ Smith Bay is a potential game changer
• ANWR?
Help! I've fallen and I can't get up.