AOGA Legislative Luncheon
Kara Moriarty, President/CEO
January 19, 2017
AOGA members

GLACIER

Hilcorp

CAELUS Energy Alaska

BlueCrest Energy

PETRO STAR INC.

Chevron

TESORO

bp

ExxonMobil

FURIE Operating Alaska LLC

Alyeska pipeline Service Company
Policy matters

*Incentives work in achieving these important Alaska policies*

More production

Competitiveness

Stability

Predictability
Why is policy important? Oil & gas drives Alaska’s economy

- Healthy industry supports healthy state economy.
- 1/3 all Alaska jobs (110,000 jobs) are 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 oil tax reform/increase

* 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.
Policy matters – North Slope tax policy

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)

Source: Alaska Dispatch News
North Slope production increased for the first time since 2002
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: $43.18

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

Source: DOR Fall Sources Book – 2013 & 2016
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)
Industry pays more in government revenue than it receives in credits

Total FY16 revenue: $2.1 billion

FY 16 credits: $598 million

- Used against tax liability: $100 million
- Eligible for state purchase ("cashable"): $498 million

Source: DOR FALL 2016 RSB
HB 247: Significant policy change - AGAIN

- Sunsets ALL major Cook Inlet credits in 2018
- Caps North Slope refundable credits (effective $61.5 million annual company limit)
- Decreases the value of North Slope new oil provision (GVR) significantly
- Creates Alaska hire provisions
- Allows additional credit data to be published to the public
- Interest rate calculation changes
- ONE North Slope “cashable” credit remains: Loss Carry Forward (aka “NOL”)
  - Pivotal component to net tax system
  - Helps to level playing field for new producers

Signed into law by Governor Walker 6/30/16
Very few credits remain

- Following HB 247, no capital or intangible drilling credits remain in Cook Inlet after 2019.
- FY 18 Forecast for non-North Slope credits: $866 million (This includes credits that were funded in prior years, but vetoed.)
- FY 19 Forecast for non-North Slope credits: $142 million
- Following HB 247, only 1 “cashable” credit is available on the North Slope, but each company is limited to ~$61.5 million in “cashable” credits per year.
- Total FY 18 “cashable” credits: $961 million – but it includes $646 million in credits that were previously funded, but Governor Walker vetoed.
- Actual estimate for “cashable” credits earned for FY 18: $315 million.

For FY 2020 and beyond, the forecast of credits available to be purchased by the state is held constant at $150 million per year.

Source: DOR FALL 2016 RSB
Tax credit vetoes: Saving money or creating uncertainty?

• June 30, 2015: Governor Walker vetoes $200 million for earned credits
  
  • “Though the 200 million veto only defers our obligations, and does not change the state’s bottom line...” – Gov. Walker, ADN, 6/30/15

• June 30, 2016: Governor Walker vetoes $430 million in retroactive FY 16 funding.
  
  • Governor confirms in press conference there is no actual savings to the State and credits will have to be paid at some point.

$646 million of the $961 million forecasted for “cashable” credits is a carried forward balance due to the Governor’s vetoes.

Source: DOR FALL 2016 RSB
Good policies & incentives create activity

• Point Thomson is operating, consistent production.
• ConocoPhillips’ CD-5 now in production in NPR-A.
• Hilcorp in permitting phase for Liberty opportunity, getting a new rig online and is working on Moose Pad.
• BlueCrest’s Cosmopolitan field is now in production, is drilling new wells that will begin to provide substantially more production by mid-2017.
• Caelus: Smith Bay world-class discovery, Nuna project sanctioned & 22-acre pad constructed.
• Furie made a significant natural gas discovery and is in production, lowering utility costs
• New discoveries show HUGE potential: Armstrong, Caelus’ Smith Bay, ConocoPhillips Willow Field
• ANWR?
Will policy allow Alaska to develop major Alaska discovery?

John Hendrix, Governor’s Oil & Gas Advisor: “We must expedite oil and gas discoveries and move them into production.” – 1/13/17
Outside groups cause uncertainty
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
• Cook Inlet Beluga Whale Habitat & Mgmt. Plan
Federal regulatory policy causes instability & is not predictable

Good policy necessary to counter Alaska’s high cost environment

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Average ANS Price – Jan 2016 – Dec 2016</td>
<td>$43.17</td>
</tr>
<tr>
<td>Transportation Costs</td>
<td>($9.88)</td>
</tr>
<tr>
<td>Total Deductible Operating Expenditures</td>
<td>($16.53)</td>
</tr>
<tr>
<td>Total Deductible Capital Expenditures</td>
<td>($14.71)</td>
</tr>
<tr>
<td>Total Average Cost Per Barrel Before Tax &amp; Royalty</td>
<td>($41.12)</td>
</tr>
</tbody>
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Source: DOR Fall 2016 Forecast & DOR Historical ANS Prices
Alaska has higher costs than competitors

Source: PFC Energy, Jan 2013, Presentation to Alaska Legislature
Good policy & incentives necessary to unlock mega-resource potential

<table>
<thead>
<tr>
<th>RESOURCE POTENTIAL</th>
<th>STATE LAND</th>
<th>FEDERAL LAND</th>
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<tbody>
<tr>
<td><strong>STATE LAND</strong></td>
<td><strong>FEDERAL LAND</strong></td>
<td></td>
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<tr>
<td>Cook Inlet</td>
<td>Offshore Arctic</td>
<td></td>
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<tr>
<td>599 mbo and 19 tcf gas</td>
<td>27 bbo and 132 tcf gas</td>
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<tr>
<td>Onshore North Slope</td>
<td>NPR-A</td>
<td></td>
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<tr>
<td>Conventional:</td>
<td>896 mbo and 53 tcf gas</td>
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<tr>
<td>5 bbo and 35 tcf gas</td>
<td>ANWR</td>
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<tr>
<td>Heavy/Viscous:</td>
<td>10 bbo and 3.5 tcf gas</td>
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<tr>
<td>24-33 bbo</td>
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<tr>
<td>Unconventional:</td>
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<tr>
<td>2 bbo and 12 tcf gas</td>
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mbo – million barrels of oil  
 bbo – billion barrels of oil  
 tcf – trillion cubic feet

Source: USGS