AOGA Member Companies
Industry facing economic struggles, Alaska not exempt

April 2016 avg. ANS Price
Downstream Costs
ANS Marine Transportation ($3.28)
TAPS Tariff ($6.41)
Other ($0.87)
Total Transportation Costs ($10.56)
Royalty ($5.63)
Lease Expenditures
Operating Expenditures ($18.48)
Capital Expenditures ($17.68)
Total Lease Expenditures ($36.14)

ESTIMATED FY16 COSTS OF PRODUCTION BEFORE TAXES ($52.33)

Source: DOR, Fall 2015 RSB

Source: NASDAQ 1/13/16
PRODUCTION: WHERE ARE WE & WHERE ARE WE HEADED?

TAPS Throughput Historical & Forecasted
(Thousand barrels/day)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fall 2013 Forecast</th>
<th>Spring 2016 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>487.6</td>
<td>517.7</td>
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<tr>
<td>2017</td>
<td>482.7</td>
<td>507.1</td>
</tr>
<tr>
<td>2018</td>
<td>459.5</td>
<td>488.8</td>
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<tr>
<td>2019</td>
<td>429.1</td>
<td>484.4</td>
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<tr>
<td>2020</td>
<td>399.6</td>
<td>454.1</td>
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<tr>
<td>2021</td>
<td>368.8</td>
<td>418.6</td>
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<tr>
<td>2022</td>
<td>340.1</td>
<td>387.1</td>
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<tr>
<td>2023</td>
<td>312.9</td>
<td>356.8</td>
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<tr>
<td>2024</td>
<td>327.0</td>
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<tr>
<td>2025</td>
<td>300.0</td>
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</tbody>
</table>

Source: DOR Spring 2016 RSB
From 2005 to 2012, even though spending was rising, we ran big General Fund **surpluses**. Since 2013 we have been running big General Fund **deficits**.
Industry Trends in North America

Low Prices
- Unprecedented drop in oil price; lower than mid-80s

High Costs
- O&G development costs grew 90% since 2000, greater than 2x inflation

Significant Losses
- Companies filing for bankruptcy, leaving regions (e.g., AK), laying off workers, cutting spend, deferring projects and stopping drilling
- Changing tax policy only makes it worse vs increasing taxes

Sources
1. Price: Brent Crude (EIA)
2. Cost: Upstream Capital Cost Index (IHS / CERA)
3. Inflation: Consumer Price Index (US Department of Labor)
Oil & Gas Revenue Primary Contributor to State Government

Petroleum Revenue has constituted ~85% of the state’s unrestricted revenue since statehood

TOTAL: $141 Billion

Royalties: $51 billion (36%)
Production Tax: $56 billion (40%)
Other: $34 billion (24%)

Source: DOR Fall 2015 RSB
Is it competitive?
Does it provide stability?
Will it provide predictability?
Tax credits:

- An investment in Alaska’s future
- Generating jobs, investment, and production
- Key in attracting new and smaller companies to Alaska
Cook Inlet oil production up 102%

Cook Inlet oil production 2005-2015

Source: DOR, Fall 2015 RSB
Governor’s Oil & Gas Tax Credit Reform Bill (HB 247) Components

• Increases minimum tax by at least 25%
• Net Operating Loss tax credits lose value
• Set limits on credits
• Cook Inlet credits eliminated
• Interest rates increase significantly
• Confidentiality provisions waived
• Change of application of Gross Value at the Point of Production
Alaska LNG project

- Legislature authorized TransCanada buy-out and $160 million funding
- Requires healthy oil industry
Will this lead to greater production and more investment and jobs in Alaska?
First, do no harm.
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May 25, 2016

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