The State of the Oil & Gas Industry
Kara Moriarty- Alaska Oil & Gas Association
Anchorage media briefing
September 26, 2016
AOGA MEMBER COMPANIES
What does AOGA do?

Acts as the voice of the oil and gas industry in Alaska

How:

• Advocate on behalf of industry as a whole
• Testify on legislation affecting industry
• Develop comments and litigate on issues involving endangered species, environmental regulations (e.g. air and water permits), etc.
• Inform the public about oil and gas’ importance to Alaska
• Interact with policymakers
• Get involved with ballot measures, as needed
What doesn’t AOGA do?

• AOGA is mandated by its bylaws to remain nonpartisan
• AOGA does not endorse, support or otherwise get involved with political candidates. AOGA does not have a Political Action Committee (PAC)
• AOGA is not an employment coordinator for oil and gas companies
• AOGA members all must either produce, explore, transport or refine oil and gas; our members are NOT contractors
Industry partners

• Contractors = Alaska Support Industry Alliance ("The Alliance")

• Resource development across industries (mining, fishing, tourism, timber, oil and gas) = Resource Development Council

• Statewide business advocacy, including resource issues = Alaska Chamber (formerly the State Chamber of Commerce)
Myth #1: Alaska is in its last days of an oil economy; decline continues
Fact: Production CAN be increased with good policies.
Alaska Oil Production

2002 - 2016

(Average in Thousands of Barrels per Day)

- Alpine comes online
- ACES becomes law
- Record high oil prices
- Senate Bill 21 becomes law
- Senate Bill 21 upheld by voters
- Record low oil prices
- Up 3% in FY16
Production forecasts are up
Cook Inlet oil production up 102%

Cook Inlet oil production 2005-2015

Production (thousand bbls/day)

Source: DOR, Fall 2015 RSB
Case study: The Monopod

2012 royalties paid: $90,000/month
2016 royalties paid: $500,000/month
Why? Incentives= more production
Myth #2: Alaska is running out of oil
FACT: Lots of oil remains in Alaska. Question: Do our policies support developing it?

<table>
<thead>
<tr>
<th>RESOURCE POTENTIAL</th>
<th>STATE LAND</th>
<th>FEDERAL LAND</th>
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<tbody>
<tr>
<td></td>
<td><strong>Cook Inlet</strong></td>
<td><strong>Offshore Arctic</strong></td>
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<tr>
<td></td>
<td>599 mbo and 19 tcf gas</td>
<td>27 bbo and 132 tcf gas</td>
</tr>
<tr>
<td></td>
<td><strong>Onshore North Slope</strong></td>
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<td></td>
<td><strong>Conventional:</strong> 5 bbo and 35 tcf gas</td>
<td><strong>NPR-A</strong></td>
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<td><strong>Heavy/Viscous:</strong> 24-33 bbo</td>
<td><strong>896 mbo and 53 tcf gas</strong></td>
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<tr>
<td></td>
<td><strong>Unconventional:</strong> 2 bbo and 12 tcf gas</td>
<td><strong>ANWR</strong></td>
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<td></td>
<td>10 bbo and 3.5 tcf gas</td>
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</tbody>
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mbo – million barrels of oil  
bbo – billion barrels of oil  
tcf – trillion cubic feet
Myth #3: Oil tax credits are “free money”, given to the “richest corporations in the world”
TAX CREDITS

1. PLANNING
   LAND OF OPPORTUNITY

2. INVESTMENT & WORK
   EXPLORE
   NEW WELLS

3. STATE BENEFITS
   ALASKA ECONOMY GROWS VIA DOLLARS INVESTED

4. CREDIT APPLICATION
   COMPANY APPLIES FOR CREDIT

5. CREDIT EARNED
   STATE ISSUES CERTIFICATE ON APPROVED EXPENSES

STATE BENEFITS:
    NEW JOBS
    NEW TAX REVENUE
    NEW ROYALTIES (for PFD)
    MORE OIL
FACT: Tax credits are designed to help offset Alaska’s high cost environment

- Companies must spend money in Alaska FIRST
- Work is done: seismic testing, wells drilled, roads built, etc.
- AFTER work is complete, companies may apply for credits
- Not all work qualifies for credits
- Large oil producers do not receive refundable (cash) credits
Other states offer various credits

Some examples of incentives or credits:

• California: Enhanced oil recovery
• Louisiana: Deep wells, drill rig conversion, trucking and/or barging fees, tertiary recovery, more
• Texas: Clean energy, enhanced oil recovery, high-cost gas, marginal wells, more
Myth #4: The State of Alaska does not receive enough ROI to justify oil tax credits.
FACT: Some projects will generate more than a 300% return to the State. State also benefits from investment $, oil production, and jobs.
Myth #5: The Legislature failed to pass meaningful changes to oil taxes during the last session.
FACT: House Bill 247 represents a major shift in tax policy:

- Cook Inlet credits are reduced by half in 2017, eliminated in 2018
- Exploration credits on the North Slope sunsetsed
- Limits are placed on how many tax credits one company can earn
- Interest rate calculations changed to industry’s detriment
- Industry opposed the bill from the beginning and in the end
Myth #6: Oil job losses in Alaska don’t matter; most employees are nonresidents
FACT: The Alaska hire rate in the oil & gas industry averages **70 percent**

- This number **INCLUDES** contractors
- Among direct companies, number is closer to 90 percent
- Companies **PREFER** to hire Alaskans: makes good business sense
- Estimate 3,000 oil jobs lost so far in this downturn
- These are Alaskans: Our friends, neighbors
- No other state tracks resident hire
100% Alaska hire for long-term field operations employees.
Myth #7: Nothing exciting or important is happening in Alaska’s oil and gas industry these days
FACT: Activity increased after passage of the Cook Inlet Recovery Act (2009) & SB 21 (2013), remains high
Myth #8: Senate Bill 21 was a “giveaway” to industry and is responsible for the State’s revenue shortfall.
FACT: Historically low oil prices are to blame for the State’s deficit

SB 21 generates more revenue for the State than ACES at low oil 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)
Government “Take” Comparison

<table>
<thead>
<tr>
<th>Fiscal System</th>
<th>Average Government Take</th>
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<tbody>
<tr>
<td>Canada BC - Unconv Gas</td>
<td>20%</td>
</tr>
<tr>
<td>UK - Offshore</td>
<td>40%</td>
</tr>
<tr>
<td>Canada AB Unconv Gas</td>
<td>60%</td>
</tr>
<tr>
<td>Canada AB Conventional</td>
<td>80%</td>
</tr>
<tr>
<td>Canada AB Unconv Oil</td>
<td>100%</td>
</tr>
<tr>
<td>US-GOM</td>
<td>80%</td>
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<tr>
<td>Brazil (non-presalt)</td>
<td>60%</td>
</tr>
<tr>
<td>Canada NFL</td>
<td>40%</td>
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<tr>
<td>Russia</td>
<td>20%</td>
</tr>
<tr>
<td>Canada NS</td>
<td>40%</td>
</tr>
<tr>
<td>Alaska</td>
<td>60%</td>
</tr>
<tr>
<td>Norway</td>
<td>80%</td>
</tr>
<tr>
<td>Angola</td>
<td>100%</td>
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Source: IHS
Myth #9: Proponents of tax reform “promised” a million barrels per day through TAPS
FACT: One million barrels was a goal, and included oil from the Arctic offshore, ANWR, and State land.
Myth #10: Alaska can just transition to an LNG economy and get out of the oil business
FACT: Any successful gas project will require a healthy oil business to be economically viable
Some Bright Spots

• Pt. Thomson in production, initial planning to triple production is underway
• ConocoPhillips’ CD-5 now in production in NPR-A
• Hilcorp in permitting phase for Liberty opportunity
• BlueCrest first commercial sale of oil from Cosmo
• Caelus’ Nuna project on the horizon
• Hilcorp advancing the Moose Pad project
HELP! I'VE Fallen AND I CAN'T GET UP

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