Oil industry overview

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Alaska Oil and Gas Association

The voice for the oil and gas industry in Alaska

Governed by a Board of Directors made up of member companies

Represent the majority of oil and gas exploration, production, refining,
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

Occasionally get involved with ballot measures
Industry partners

Contractors = the 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)
Throughout the state, there is an annual average of 110,000 jobs and about $6 billion in total wages generated from the oil and gas industry.
Largest private sector in Alaska

1 oil and gas industry job generates 20 other jobs through industry spending:
9 private sector jobs and 11 government jobs.

Source: “The Role of the Oil and Gas Industry in Alaska’s Economy,” McDowell Group, May 2014
Investment lagged in recent years
Oil tax reform

April 2013: Oil tax reform - SB 21
Summer of 2014: Referendum to repeal oil tax reform bill
August 2014: Repeal defeated
New projects announced since tax reform passed are currently moving forward

- **New player on the North Slope** – acquiring 100% of 2 smaller fields & 50% of 2 others
- **Conducting seismic within Prudhoe** – adding a new rig in 2015, another in 2016
- **Over $1 billion more**
- **Drilling to continue at Spy Island for potential new expansion**
- **Spending $240m on seismic and drilling this winter**
- **Construction of Pt Thomson field** – on track for 2016 production
- **New Rig at Kuparuk & $1 billion in additional investment**
- **Production expected in 2015 in NPRA**
- **New leases acquired** – potential $1 Billion investment
Employment on the Slope remains high

Oil Industry Employment Keeps Hitting New Highs

During The Past Decade Prudhoe Bay Employment Counts Have More Than Doubled

Source: Neil Fried presentation to RDC, Nov. 14 - Alaska DOLWD, Research and Analysis Section
Oil and gas puts Alaskans to work

State Government: 7%
Refineries and Pipelines: 7%
Health Care and Social Assistance: 10%
All Sectors (Private and Public): 20%
Prof., Scientific, and Technical Services: 23%
All Private Sectors: 24%
Oil and Gas Drillers: 27%
Combined Oil and Gas Industry*: 30%
Oilfield Support Services: 34%
Accommodations: 42%
Scenic and Sightseeing Transportation: 52%
Seafood Processing: 74%

Source: McDowell, Economic Impact of Oil and Gas Report, 2014
Department of revenue is projecting a near-term increase in production

“Greater investment by the oil and gas industry on the North Slope and solid performance of state investments makes Alaska’s overall financial health sound.”
–Marcia Davis, DOR

Source: Alaska DOR Revenue Sources Book, Fall 2014
Even at low oil prices, Alaska’s oil tax regime is competitive with other states.
If industry is paying the minimum tax, they are not eligible for the per barrel tax credit

AS 43.55.024(j) “A tax credit under this subsection may not reduce a producer’s tax liability for a calendar year under AS 43.55.011 (e) below the amount calculated under AS 43.55.011(f).

The hard floor of SB21 specifies the per-barrel credit for non-GVR production cannot reduce the tax liability below 4%. In contrast, with ACES the .023 qualified capital expenditure credit would have been able to reduce tax liability below 4%, all the way to zero.

–Department of Revenue
All oil-producing states are challenged at low prices, regardless of tax system

Oil and gas tax declines hurt Alaska, North Dakota revenues

WASHINGTON Thu Dec 11, 2014 4:09pm EST
WASHINGTON (Reuters) - Declines in oil and gas severance taxes contributed to large drops in overall revenues for Alaska and North Dakota in the third quarter, a public policy research group reported on Thursday.

On to Plan B as Oil Work Stalls in Texas

By CLIFFORD KRAUS
The New York Times
MIDLAND, Tex. — With oil prices plummeting by more than 50 percent since June, the gleeful mood of recent years has turned glum here in West Texas as the frenzy of shale oil drilling has come to a screeching halt.
Tax credits are a key driver at attracting smaller companies

Cook Inlet:
- Apache
- Furie
- Miller Energy
- Blue Crest Energy

North Slope:
- Caelus
- Eni
- Respol
- Great Bear
- Brooks Range
Incentives matter. What’s next for Cook Inlet?

- Ongoing increased investment – resulting in new exploration/appraisal wells & increased production
- Applied for five year offshore seismic period with National Marine Fisheries Service
- Ongoing work for new gas production platform
- Acquired additional state acreage with $1.5 million work commitment
- Constructing new subsea pipeline to Tesoro refinery
- Plan to drill 3 delineation wells – planning for onshore and offshore development
- Seeking financing to restart Nikiski fertilizer plant
- LNG export reauthorized by DOE of up to 40 BCF thru Feb 2016
Refining in Alaska continues to provide gasoline, jet fuel, diesel for Alaskans
The market sets gasoline prices

Gasoline Prices Are Set Globally by International Crude Prices

- Spot Gasoline Prices
- U.S. Gasoline Prices vs. International & Domestic Crude Prices

Refined product prices around the world track each other demonstrating that US gasoline prices are set globally.

Refined product prices more closely track international crude prices (Brent) than US domestic crude prices (WTI).
The next generation: Alaska OCS

Mega Potential

◦ 27 billion barrels of oil
◦ 132 trillion cubic feet gas
◦ Prefer the pipeline to move oil
◦ 54,700 potential U.S. jobs

◦ Shell has spent $6B to date in prep for 2015
◦ Mobilization of ships begins Jan. 24
◦ Operations planning is underway—vessels, aircraft, hiring and training workers and finalizing permitting
Regulatory issues

State:
- 470 Fund
- DR&R
- Arctic Geotechnical permits
- Air permitting
- DNR Plan of Operations submittals

Federal issues:
- Clean Air Act emissions regulations
- Ringed Seal litigation
- Bearded Seal litigation
- Polar Bear critical habitat
- Arctic Regulations/ NMFS Arctic EIS
Principles of Arctic policy:
- Predictable, timely and efficient state and federal permitting
- Support access and advocate for multiple use of arctic public and ANILCA lands; promote prudent oil and gas exploration and development in the arctic
- Encourage capital investment through stable, predictable and competitive tax policies

2017-22 OCS leasing plan due out this week
Proud partnership