

Alaska Oil and Gas Association



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AOGA: Nuna development is exactly what Alaska needs to increase oil production

Dec. 2, 2014, ANCHORAGE- The Alaska Oil and Gas Association (AOGA) supports Caelus Energy's application for limited royalty modification on the pending Nuna project. Caelus stands ready to invest more than \$1 billion in the project, which will positively impact the State economy, and create hundreds of jobs for Alaskans.*

Equally as important is the very real opportunity to add more oil to the Trans Alaska Pipeline, a long-time goal of every Alaskan who wants to sell our oil and enjoy the millions in royalties and tax revenue that come with it. Alaskans don't make any money from oil left in the ground.

In this case, royalty modification make sense because oil on the North Slope requires investment to be produced, and a small, independent producer like Caelus Energy takes all the upfront risk. Furthermore, this process of requesting modification is a long-standing tool created by the Legislature to spur new developments when project economics are challenging.

The Division of Oil and Gas staff worked this application for more than three months and came to a sound conclusion that granting modification is in the 'best interests of the state'. Politics should not stop a solid, exciting new project on the North Slope from moving forward.

The deal put together by Caelus Energy Alaska and the State Department of Natural Resources is prudent and includes guarantees, and protects Alaska's interests via the so-called "no reduction without production":

- If Caelus does not meet near term investment or production milestones, *the royalty returns to normal*.
- Even at reduced royalty, the State of Alaska is poised to gain millions in royalty revenue, not to mention property taxes, jobs, etc. Certainly, the millions in collected revenue will be more than if the oil is not produced.
- The team at Caelus has a track record of success: they brought the Ooguruk field to production in record time, and the field has safely produced more than 16 million barrels of oil to date.
- With the North Slope's short construction season, time is of the essence. Delays could push the project back an entire year, if not indefinitely. Caelus is a small, independent operator, and needs clarity sooner rather than later in deciding whether to advance the Nuna project.
- Governor Walker has repeatedly stated that he wants to see 50 new independents on the Slope. Caelus is the type of company Alaska needs to bridge into the future of Slope development.

Above all, Alaskans from across the political spectrum have made it clear repeatedly that we need more oil in the pipeline to move our economy forward, especially when low oil prices present new challenges thought unlikely just six months ago. Thanks to voters, Alaska has a stable, predictable and durable tax policy in place that allows companies like Caelus to plan for long-term investments. The North Slope is the bread and butter of Alaska's economy, and we should not squander the opportunity to add new projects, new jobs, and new oil when it benefits all Alaskans.

AOGA, page 2

The Alaska Oil & Gas Association is a private, business trade association. Its 14 member companies represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska. More information about the organization is available at www.aoga.org.

*The Alaska hire rate among the 15 primary oil and gas companies, including Caelus, was 88 percent in 2013. Source: McDowell Group, 2014.

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