About AOGA

The Alaska Oil and Gas Association (AOGA) is a professional trade association that represents the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

Our mission is to foster the long-term viability of the oil and gas industry in Alaska. Our purpose is to be the voice of Alaska’s oil and gas industry.

We provide:

- A forum for communication and cooperation with members, the public, and local, state and federal governments
- Development of common industry positions through our Board of Directors, five standing committees and several work groups
- Input on local, state and national legislative and administrative actions that affect the petroleum industry in Alaska

Our Member COMPANIES

AOGA Officers 2013-14

President: Pete Slaiby, Shell
1st Vice Chair: Janet Weiss, BP
2nd Vice Chairs: Karen Hagedorn, ExxonMobil & John Hendrix, Apache
Treasurer: Pat Foley, Caelus Energy Alaska
Secretary: Kara Moriarty, AOGA

Learn more about the issues facing the state’s largest economic driver at www.aoga.org. Sign up for our newsletters and follow us on facebook and twitter for the latest information on the oil and gas industry in Alaska.

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AOGA STAFF

Pictured Left to right:
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Sarah Erkmann, External Affairs Manager
Kara Moriarty, President/CEO
Josh Kindred, Legal and Regulatory Affairs Manager

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From the PRESIDENT/CEO

What an exciting year it has been for the members of the Alaska Oil and Gas Association. This past year saw oil tax reform passed and signed into law, and the change is producing results.

By far, the banner headline for the past year is the progress the industry has made in responding to the positive change in the state’s oil tax structure. Just this spring, the Department of Revenue revised its Fall 2013 Revenue Forecast to account for 13,600 additional barrels of oil flowing down the Trans Alaska Pipeline. The list of new projects companies have announced since tax reform passed is impressive and encouraging, and gives us reason to be optimistic about the future of the industry in the state, especially when we know companies are evaluating even more opportunities.

Another major development was the news that BP plans to sell some of its assets to relative newcomer Hilcorp. This is huge news for the state, and represents a turning point in the industry’s history in Alaska. As BP said, the sale allows the company to focus on maximizing production from Prudhoe Bay and advancing the Alaska LNG opportunity. For its part, Hilcorp says its ability to bring new life to mature basins is a great fit for these North Slope assets.

Also big news this year is the alignment around the massive LNG project. With the passage of the legislation approving the heads of agreement, the State and industry can continue to work toward moving a project forward. Alaskans’ hopes for moving gas resources to market appear closer than ever to reality.

Good news continued to flow from Cook Inlet, as well. In what can only be described as a Cinderella story, and after favorable incentives were put into place, oil and gas production increased by 33 percent this year in a basin that was once thought to be in irreversible decline. Hilcorp alone invested more than $300 million in Cook Inlet in 2013, and Apache continues to progress its state-of-the-life seismic operation. As a result, Cook Inlet is booming and the residents of Southcentral Alaska are sleeping better on cold, dark nights knowing that local utilities have the gas they need to heat their homes and businesses through at least 2018.

Of course, challenges remain. Regulatory and permitting issues can slow or stymie progress on critical projects, as can litigation and species listings. This was certainly the case for players in the Offshore. The Ninth Circuit Court of Appeal’s decision on Lease Sale 193, which along with continued delay in the Bureau of Ocean Energy Management’s Arctic rules, caused Shell another frustrating year of delay. Refineries had a tough year as well, with the expected exit of Flint Hills from North Pole. That said, AOGA continues to work with the appropriate stakeholders to address and resolve these challenges.

Overall, however, for the first time in several years, the year ahead looks brighter than the one behind us, and that is saying a lot given the positive developments we’re already seen in just the last six months. AOGA is proud to be at the table when it comes to advocating for the industry that provides so much to so many Alaskans.

Kara Moriarty, President/CEO
Oil & Gas: **FUELING ALASKA’S ECONOMY**

- **92%**
  - Oil and gas revenues provide **92%** of the state’s unrestricted general funds
  - Source: Alaska Dept. of Revenue Fall 2013 Revenue Sources Book

- **$35,143**
  - Amount received by Alaskans who qualified for every Permanent Fund Dividend payment since 1982
  - Source: State of Alaska Permanent Fund Dividend Division

- **$6 billion** in both private and public payroll in 2013
  - Source: McDowell Group, 2014

- It is estimated that **1/3** of all Alaska’s wage and salary jobs, approximately **110,000**, are tied to the oil and gas industry
  - Source: McDowell Group, 2014

- For each primary company direct job, **20** jobs are generated in Alaska’s public and private sectors
  - Source: McDowell Group, 2014
VOTE NO ON 1

to protect Alaska’s economic future

One dark cloud on Alaska’s economic horizon is the ballot measure to repeal tax reform that will appear on the primary ballot on August 19.

Repeal of Senate Bill 21, the legislation that reformed Alaska’s oil tax structure, jeopardizes the progress made to boost oil production and put Alaskans to work at producing new oil. That is why a diverse, statewide coalition of supporters has come together to oppose the repeal effort, and to inform Alaskans about the critical role of the industry to the state’s economy.

Members of the Vote No on 1 coalition believe that a strong economic future for Alaska depends on a thriving oil sector, for job creation, expanding oil production, and a stable fiscal future for Alaska. The coalition is built upon a common interest in securing Alaska’s future through a strong economy.

For more than 50 years, the oil industry has been the life-blood of the Alaskan economy. Today, the oil industry accounts for a third of all Alaska jobs and nearly 90 percent of all state tax revenue. Tax reform will support a bright, prosperous future for generations to come.

AOGA is a proud member of the Vote No on 1 coalition and encourages supporters to join the effort and learn about ways to help ensure Alaska’s economy continues to move forward.
New projects, more rigs, MORE JOBS FOR ALASKANS

Both the North Slope and Cook Inlet are humming with activity, and oil production is on the upswing.

In good news for Alaska’s economy, employment in the industry is also on the rise. Increased spending on well workovers and field activity means more jobs and economic activity within the state. According to the Alaska Economic Report, “industry job growth is likely to continue as new development projects move from engineering to pre-construction to construction.”

Member NEWS:

BP’S CAPITAL BUDGET HAS INCREASED BY 25 PERCENT THIS YEAR AS THE COMPANY COMMITS TO SPENDING MORE DOLLARS IN ALASKA. AMONG THE PLANNED PROJECTS:

• 700 employees will work this summer on Prudhoe Bay facility “turnaround” projects
• 200 employees will work on two new drill rigs in the field, increasing the rig total from seven to nine
• 150 employees will work on a major seismic project in the northern Prudhoe Bay area

EXXON’S CONTINUED INVESTMENT IN POINT THOMSON IS CREATING AN ECONOMIC BOOM FOR MANY ALASKA BUSINESSES.

• In 2013, ExxonMobil employed 600 people at Point Thomson
• Of those, 85 percent were Alaskans
• 65 local companies worked on the Point Thomson project
• Almost $2 billion invested in the project to date

CAELUS ENERGY ALASKA IS AOGA’S NEWEST MEMBER AFTER BUYING ASSETS FROM PIONEER NATURAL RESOURCES IN APRIL.

• The company plans to invest $1.5 billion in Alaska during the next five to six years
• It also plans to expand the Oooguruk field’s operations and quickly develop the Nuna field
REPSOL DRILLED TWO APPRAISAL WELLS AND AN EXPLORATION WELL THIS WINTER, AND ALSO HAD TWO SEISMIC PROJECTS GOING. IN THE FUTURE, THE COMPANY HAS PLANS TO:

• Study results of the appraisal wells and seismic projects
• Continue exploring its acreage

In another positive signal about the health of the industry and the investment climate, BP plans to sell some of its smaller assets to Hilcorp. This is welcome news, because BP is free to invest more in the aging but still promising Prudhoe Bay field, as well as prepare for the Alaska LNG project. Hilcorp is able to apply its proven experience in revitalizing more mature fields to these smaller reservoirs that still hold great promise for more oil production.

Cook Inlet maintains its momentum as well. Rig counts and activity levels remain on a steady incline, and oil production increased by a third in just one year.

Given all the new project announcements, it is not surprising but nonetheless encouraging to see the State Department of Revenue announce in April 2014 that oil production is exceeding forecasts from just a few months ago.

“Oil and Construction Jobs on the Rise”
– KSRM Radio
April 15, 2014

“Oilpatch jobs at record as industry hustles new projects”
– Alaska Economic Report
April 13, 2014

“Production exceeds Revenue forecast”
– Alaska Journal of Commerce
April 11, 2014
fueling: retail
More than 35 years after oil first started flowing down the Trans Alaska Pipeline, Alaska’s North Slope still contains enviable reserves of oil and gas. The industry is actively pursuing new ways to develop these remaining, more challenging resources such as heavy and viscous oil, light oil from small, more remote fields, and natural gas, including gas hydrates.

If the technical and economic hurdles can be overcome, these remaining deposits will be important to sustaining Alaska’s oil production long into the future.

Access to resources is another priority for AOGA. The National Petroleum Reserve-Alaska (NPR-A), the Arctic National Wildlife Refuge (ANWR) and the Arctic Offshore all hold immense promise for the future of oil and gas development in the state. AOGA leadership continues to advocate for access to federal lands for the sake of safe, responsible development and the economic growth that would accompany it.

In addition to the economic boost such access would create were Alaska permitted to produce oil in the ANWR, NPR-A and both the Beaufort and Chukchi Seas, the United States could reduce foreign imports by 25 percent by 2030, and Alaska’s natural gas resources could heat every American home for the next 34 years. Source: Consumer Energy Alliance.
fueling: service
Cook INLET
The Renaissance Continues

Service Master of Alaska

“Oil and gas means job stability and a good economy for all of Alaska and continued success for our business.”

– Kara MacDonald, Co-owner, Service Master of Alaska

Kara MacDonald and Rick Gerwin purchased Service Master from family friends in 2012. The business first opened in 1962 and currently employs 15 Alaskans.

Cook Inlet is the poster child for what can happen when an aging basin is made newly attractive to investors through financial incentives. Just a few years ago, the Alaska State Legislature passed legislation creating additional incentives to explore and develop Cook Inlet’s oil and gas reserves.

The “Cook Inlet Renaissance” continues its comeback story. According to the Department of Revenue’s Fall 2013 Revenue Forecast, production is expected to exceed an average of 13,500 barrels per day in this fiscal year, an increase of 52 percent since 2010.

Even though the Cook Inlet is a small player compared with the North Slope, its importance to Southcentral Alaskans is difficult to overstate. Cook Inlet oil and gas has supplied the majority of homes, schools and businesses in the area with reliable heat and electricity for more than 30 years. With contracts between oil and gas producers and local utilities in hand through 2018, Southcentral residents are assured that their energy needs are met for the short-term. In the long-term, additional production and investment in the Cook Inlet will be required. Fortunately, the prospects for more oil and gas being discovered and produced from the Inlet are good, thanks to the positive investment framework.

The economic boom underway on the Kenai Peninsula is also tied to Cook Inlet’s return to center stage. The McDowell Group’s 2014 economic study of the oil and gas industry in Alaska showed strong growth in employment and payroll contributions to the Peninsula in the past three years.
fueling: entrepreneurship
The ARCTIC OFFSHORE
The Next Big Thing

The Arctic Offshore represents what some call “the next generation” of oil and gas development in Alaska. If estimated reserves are developed, it is predicted that the Outer Continental Shelf (OCS, or the Offshore) would create an annual average of 54,700 new jobs nationwide through the year 2057, with 68,000 being created during production and more than 91,000 jobs at peak employment. (Source: Northern Economics and ISER)

Besides jobs, developing Offshore oil and gas is predicted to bring in $167 billion to the federal government, $15 billion to the State of Alaska, and $4 billion to local governments.

Another positive aspect of potential activity in the Arctic Offshore is the commitment to science demonstrated by the explorers. One joint industry project called the Chukchi Sea Environmental Studies program, or CSESP, has invested $95 million so far in research aimed at understanding ice conditions, ecosystems, sea life and physical oceanography in the Alaska Arctic. As a result, volumes of new scientific data on Arctic environmental conditions are available to the scientific community.

The last year has been a challenging one for supporters of developing Alaska’s offshore oil and gas reserves. Legal and regulatory issues have created obstacles that will take time and resources to resolve. Inevitably, this means delay. Regardless, AOGA is optimistic about the future of the Arctic Offshore and looks forward to Shell, Statoil and others moving forward with their exploration and development plans.
fueling tradition
Alaska’s refineries are an important piece of the state’s economy. Without local refining capabilities, Alaskans would rely on outside sources of energy that could be disrupted due to unforeseen world events or weather factors.

Alaska’s refineries provide essential fuels to local businesses and consumers, like military jet fuel for Alaska’s military bases, marine diesel and home heating oil, low sulfur diesel, and propane and gasoline. Many local industries rely on these fuels, including tourism operations, long-haul trucking, and commercial fishing.

That said, refining in Alaska is a tough business. The small market presents challenges unique to the state, like higher than average costs of crude oil and energy, as well as dramatic seasonal swings in demand for products. This year saw the announcement from North Pole’s Flint Hills Resources that it would shut its doors because of challenged economics, as well as other factors. The loss of such a large employer and taxpayer in the Fairbanks area is profoundly negative for the community.

Despite the Flint Hills setback, AOGA remains committed to the success of Alaska’s homegrown refineries. Without them, Alaskans would likely pay more for refined products, and would feel acutely the loss of hundreds of high-paying jobs offered by the major employers.

Kuspuks by Chloe

"Oil helps Alaskans no matter where they live because it supports just about everything. A healthy economy is good for business.”

– Chloe Keller, Owner, Kuspuks by Chloe

Chloe Keller grew up in Unalakleet and started designing Kuspuks in 2010 to honor the legacy of her grandmother from Shishmaref. She now designs and sells both modern and traditional Kuspuks.
Advocating for safe, RESPONSIBLE DEVELOPMENT

Among the most crucial aspects of AOGA’s efforts relate to monitoring relevant legal and regulatory developments and proactively engaging to address industry concerns, whether that be through public comments, litigation, or education. This year was no exception, as AOGA worked to address myriad ongoing legal and regulatory issues.

AOGA continues to work with the U.S. Fish and Wildlife Service (USFWS) to foster a balance between responsible oil and gas development with conservation of marine mammals in the Arctic, including the development of an incidental take regulation petition for the Beaufort Sea. Those efforts will provide both industry and marine mammal protection for activities occurring between 2016 and 2021.

Currently, AOGA, through a third-party mediator, is attempting to work with USFWS and all other parties in the creation of a legally defensible and scientifically supported new critical habitat designation for the polar bear.

AOGA is also working with the USFWS in the creation of its Polar Bear Recovery Plan.

In March of 2013, AOGA filed its intent to challenge the decision of the National Marine Fisheries Service (NMFS) to list certain populations of the Arctic bearded seal as threatened under the Endangered Species Act. There is no scientific evidence linking climate change now, or in the future, to adverse impacts on these species. Recently, AOGA filed its initial briefing challenging NMFS’s decision to list this species as threatened when its populations are currently healthy, abundant, wide-ranging, and are experiencing no adverse effects linked to climate change.

• Alaska Oil and Gas Conservation Commission (AOGCC) Hydraulic Fracturing regulations

AOGA members, in more than 50 years of oil and gas production, successfully used hydraulic fracturing without any instance of subsurface damage to an underground source of drinking water.

That track record of success provided the backdrop for a series of comments and testimony AOGA provided during the AOGCC’s promulgation of new regulations relating to hydraulic fracturing. All told, AOGA provided written and oral comments on a half-dozen occasions in an effort to assist the AOGCC in drafting appropriate hydraulic fracturing...
Advocating for safe, responsible development, AOGA and others gained some valuable concessions.

- National Oceanic and Atmospheric Administration (NOAA) acoustic criteria

  In this guidance, the National Marine Fisheries Service (NMFS) provided new thresholds for acoustic-related marine mammal injury, specifically “temporary threshold shift” and “permanent threshold shift”. AOGA and others provided comments regarding the proposed acoustic criteria to address a litany of perceived flaws in the guidance.

- Alaska Department of Environmental Conservation (ADEC) anti-degradation regulations

  The proposed regulations impose a broad, stringent and complex set of new requirements, which would constitute an addition to the rigorous water discharge permit technical standards that already are in effect. AOGA provided comments detailing those aspects of the proposed regulations which would chill future development while failing to provide any additional protection to already excellent water quality in Alaska.

- ADEC and the Environmental Protection Agency (EPA) geotechnical permits for Arctic waters

  AOGA has been steadfast in its efforts to clear the path for Arctic development in Alaska. ADEC and the EPA released respective draft geotechnical permits late last year. AOGA provided detailed comments taking issue with a number of flaws in those draft permits, which, as constructed, would serve to discourage efficient and productive geotechnical work in the Arctic Outer Continental Shelf.

AOGA continues its work alongside the Alaska Department of Environmental Conservation (ADEC) to propose a new approach to ensure that national ambient air quality standards continue to be met.

WORKING COOPERATIVELY WITH REGULATORS

AOGA is frequently called on to discuss important oil and gas issues with top-level regulators and policymakers. In just the past year, AOGA members met with Secretary of the Interior Sally Jewell; Environmental Protection Agency Administrator Gina McCarthy; and Tommy Beaudreau, Director of the Bureau of Ocean Energy Management.

AOGA has a long history of collaboration with State agencies, as well. In addition to the frequent written comments and oral testimony provided by AOGA through the public process, AOGA has also repeatedly made itself available to State agencies to provide industry insight.
Alyeska Pipeline Service Company formed in 1970 to design, build, maintain and operate the Trans Alaska Pipeline System, or TAPS. The pipeline today is recognized as a landmark engineering marvel and arguably serves as Alaska’s economic artery.

With a primary focus on safety and sustainability, Alyeska works today to respond to the challenges posed by declining throughput. With the lower levels of oil, the crude oil takes longer to reach the Valdez Terminal – about two weeks, on average – and the oil is colder on arrival. The slower, colder oil has more potential for water and wax to settle and drop out, and as throughput declines further, the potential for ice to form during shutdown or flowing conditions increases. Alyeska continues to make and research modifications to respond to lower throughputs.

That is why it came as good news to Alyeska officials when the State of Alaska’s Department of Revenue announced in April that oil production would exceed an earlier forecast by 13,600 barrels per day because of increased North Slope activity. Alyeska Pipeline Service Company President Tom Barrett said, “We know Alaskans depend on us to safely deliver the oil that funds so many state services. That’s why Alyeska and the TAPS owners have aggressively pursued solutions to declining flow. But, as I have often said, ‘the best and most direct solution for TAPS is more oil.’”

Alyeska’s 800 employees are proud of the pipeline’s history – one enriched by teamwork, innovation and a commitment to safety, reliability, and the integrity of TAPS. The company values its strong ties to Alaskans and to its communities, with a comprehensive philanthropy program and its unique Alaska Native Program, dedicated to creating professional growth opportunities for Alaska Natives.
AOGA by the numbers: 2013

1,800 facebook followers
35 public presentations & speeches
800 twitter followers
17,000 attendees at Energy Day at the Alaska State State Fair, sponsored by AOGA
40 media interviews
6 statewide newsletters

Good news flows from Alaska's oil patch after tax reform implemented

Most recently, Ms. Weiss served in Alaska as regional vice president. In her new role, she will be responsible for BP's oil and gas related activities.

Karen Hagedorn is ExxonMobil's newest Alaska production manager.
Photos:
Photos in this report provided by Judy Patrick Photography and AOGA member companies. Full page photos on pages 6, 8, 10 & 12 shot by Andre Horton Photography.

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