Low oil prices, new projects make for a mixed bag for Alaska’s oil industry to date

The sudden and dramatic drop in oil prices has created unforeseen challenges for Alaska’s oil industry, especially in the last six months. With low prices appearing to be the “new normal,” companies began identifying ways to operate more efficiently while still advancing projects on the North Slope and in Cook Inlet.

At our last annual meeting a year ago, Alaska North Slope crude sold for $109 a barrel. Today, that number has fallen by almost half, to around $60 per barrel. A drop in price that dramatic means companies must find new ways of doing business while still advancing projects that make economic sense in the long term.

Progress on new projects have been the silver lining in this otherwise tough 12 months. At this time last year, and in the wake of oil tax reform, companies announced plans for exciting new projects in Alaska. One year later and those plans are still moving ahead.

Newcomer Caelus Energy Alaska began work on its new project, called Nuna. With plans to spend more than $1.5 billion on this new North Slope field, Caelus eventually hopes to pump up to 20,000 barrels of oil a day from Nuna into the pipeline. Work on this project started in 2015 and will continue for several years.

Repsol, also a relative newcomer to Alaska, is nearing a final investment decision after years of exploring on the North Slope. Applications for permits will be made this summer, a step that begins the process of moving the company one crucial step closer to development.

Investments made by legacy North Slope producers are also moving forward. BP still plans to move another rig to Prudhoe Bay, bringing the total number of rigs at the venerable field to seven. ExxonMobil continues work at Point Thomson, which is expected to begin producing oil early next year.

Cook Inlet still performing, attracting investment

In a turnaround that can be labeled as nothing short of remarkable, Cook Inlet continues to draw new investment, and produce more oil and gas for Southcentral Alaska. After looming energy shortages and years of barely meeting consumer demand for natural gas, the Cook Inlet Recovery Act of 2009 marked a turning point for the historic...
Advocating for safe, responsible development

Some of the most crucial aspects of AOGA’s advocacy efforts relate to monitoring relevant legal and regulatory developments and proactively engaging with agencies to address industry concerns through public comments, litigation and/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.

Over the past several years, AOGA has acted as the lead plaintiff in ongoing litigation related to the USFWS’ Polar Bear Critical Habitat designation. Originally, USFWS had designated critical habitat that encompassed more than 187,000 miles of North Slope Alaska, which is an area larger than California. AOGA challenged that listing, arguing that the designation lacked the requisite scientific support. The U.S. District Court for the District of Alaska agreed and emphasized that “an unknown, unquantifiable population reduction, which is not expected to occur until nearly 100 years in the future, is too remote and speculative to support a listing as threatened,” and such a rationale “could logically render every species in the Arctic and sub-arctic areas potentially ‘threatened.’” Accordingly, the court vacated the listing as arbitrary and capricious. This case is currently on appeal in front of the Ninth Circuit, where AOGA continues to represent both the state and industry’s best interests.

Following the U.S. District Court’s decision on the bearded seal listing, AOGA has also initiated a legal challenge regarding the ringed seal listing for the same reasons mentioned above. Currently, that litigation is ongoing and AOGA expects the briefing to be concluded this summer, with a decision from the court shortly thereafter. Shortly after this litigation began, NMFS proposed critical habitat for the ringed seal that encompasses 350,000 square miles of marine territory in the Beaufort Sea off northern Alaska, the Chukchi Sea off northwestern Alaska and the northern Bering Sea off the state’s western coast. This would represent the largest critical habitat designation in history and one completely lacking in scientific support. AOGA continues to work with NMFS in attempting to create a more reasonable and scientifically valid critical habitat designation.

The National Marine Fisheries Service (NMFS) has listed both the bearded and ringed seal as threatened. However, each of those species currently numbers in the millions and populates the entirety of their historical range.

As a result, AOGA had challenged both listings. For the bearded seal, AOGA argued that there was no scientific evidence linking climate change impacts to any harm to the bearded seal. Essentially, AOGA contended that the listing decision was predicated on conjecture regarding what theoretically could happen over the next century as a result of global climate change, if the species responds in a manner that has not been observed and if the future impact on the species is of a magnitude that is scientifically impossible to determine.

The U.S. District Court for the District of Alaska agreed and emphasized that “an unknown, unquantifiable population reduction, which is not expected to occur until nearly 100 years in the future, is too remote and speculative to support a listing as threatened,” and such a rationale “could logically render every species in the Arctic and sub-arctic areas potentially ‘threatened.’” Accordingly, the court vacated the listing as arbitrary and capricious. This case is currently on appeal in front of the Ninth Circuit, where AOGA continues to represent both the state and industry’s best interests.
Alaska’s recent oil and gas milestones

- **2013**
  - **March 2013** Alaska Legislature passes SB 21, oil tax reform
  - **May 21, 2013** SB 21 signed into law
  - **September 2013** SB 21 repeal certified for August 2014 primary election

- **2014**
  - **Winter 2014** North Slope drilling reaches record levels
  - **Summer 2014** TAPS’ throughput levels off for the first time in decades
  - **August 19, 2014** SB 21 repeal effort rejected by voters

- **2015**
  - **February 2015** Alaska’s Department of Revenue predicts increased oil production in the near-term
  - **Fall 2015** Cook Inlet oil production increases by 80 percent since Cook Inlet Recovery Act passed
  - **Late 2015** Hilcorp expands operations to the North Slope, buying some BP assets
  - **Winter 2015** Repsol drills three wells on the North Slope
  - **Winter 2015** BP completes $78 million, 190-square mile, 3D seismic shoot in Prudhoe Bay

- **2016**
  - **March 2016** Repsol prepares to submit permit applications for discoveries on the North Slope
  - **June 2016** BP completes $78 million, 190-square mile, 3D seismic shoot in Prudhoe Bay
  - **March 2016** Caelus sanctions its $1.5-billion Nuna project
  - **Spring 2016** Repsol prepares to submit permit applications for discoveries on the North Slope

- **2017**
  - **February 2017** BP expects to take delivery of new rig at Prudhoe Bay
  - **Spring 2017** Shell expected to drill exploratory wells in the Chukchi Sea
  - **Late 2017** Hilcorp expands operations to the North Slope, buying some BP assets

**Price of Oil**

- **2013**
  - **March 2013** Alaska Legislature passes SB 21, oil tax reform
  - **May 21, 2013** SB 21 signed into law
  - **September 2013** SB 21 repeal certified for August 2014 primary election

**2014**

- **Winter 2014** North Slope drilling reaches record levels

**2015**

- **Early 2015** Alaska’s Department of Revenue predicts increased oil production in the near-term
  - **Fall 2015** Cook Inlet oil production increases by 80 percent since Cook Inlet Recovery Act passed

**2016**

- **Spring 2016** Repsol prepares to submit permit applications for discoveries on the North Slope

**2017**

- **Fall 2017** Production expected from Point Thomson

- **2013 2014 2015 2016 2017**

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**AOGA by the numbers**

- **7,930 Facebook likes**
- **45 Speeches, presentations and debates**
- **24 official comments filed on regulatory issues**
- **50 Media interviews**
- **1,683 Twitter followers**

- **1 ballot measure defeated**

**2013**

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Continued from front cover

basin. In just five years, oil production from the Cook Inlet has increased by a whopping 80 percent. With oil comes gas, and local utilities now have a stable and more predictable year-round supply of natural gas. Above all, Cook Inlet proves that production decline in aging fields can be reversed given the right incentives.

Optimism for the future: the Arctic Offshore

The Outer Continental Shelf, or OCS, represents the next generation of oil and gas development in Alaska. With huge reserves of both oil and gas, development of the Arctic Offshore’s resources increases the likelihood of billions more barrels of oil, as well as thousands of jobs for Alaskans. Assuming all permits are secured, Shell is preparing for exploration work this summer.

AOGA PRESIDENT/CEO MESSAGE:

A tough year, but key wins move Alaska forward

When I wrote this letter for last year’s annual report, I tried to explain the significance of oil tax reform and why keeping it was crucial for Alaska’s future. At that time, the state was in the middle of a contentious referendum to repeal the new oil tax law, a possibility that had the potential to chill investment in oil and gas projects.

Thankfully, voters chose to give oil tax reform a chance to work, and evidence of why that was a good idea is visible in a number of ways. From the State of Alaska’s perspective, keeping oil tax reform was wise, to the tune of almost $1 billion in taxes over two years. This is because at low oil prices, the new tax law generates more revenue to the state than the old tax law. With the State already struggling with staggering budget shortfalls, the added hundreds of millions in revenue are especially welcome.

Secondly, despite the crash in prices, Alaska is bucking the trend many oil-producing regions in North America are experiencing; unlike many of our counterparts, Alaska’s new oil-producing projects are currently moving forward. For years, Alaskans have agreed that more oil is the easiest solution to our fiscal challenges. For the first time in a long time, we are making real, measurable progress toward that lofty and challenging goal.

One area where Alaskans really got hammered this year was in the federal government’s desire to limit Alaska’s oil development. With an apparently insatiable appetite for Alaska’s land and resources, the federal government made several decisions that restrict access to our proven oil and gas reserves. Moves made by the president’s administration to lock up parts of ANWR’s coastal plain and portions of the OCS and otherwise restrict activities in federal areas only create more hurdles for Alaskans to clear before we can realize our full resource potential. Alaskans stood united against these egregious examples of federal overreach, but these actions serve to slow or block development.

On the positive side, Shell is preparing to move forward with OCS exploration in 2015, assuming it gets all the necessary permits. With mega potential, the Offshore continues to offer Alaska a future filled with jobs and prosperity. I know I speak for the majority of Alaskans when I wish Shell the best as it embarks on this critical undertaking.

Potential for the Alaska LNG project is also a bright spot in an otherwise tough year. Historic progress was made toward finally monetizing our vast natural gas reserves, as well as bringing natural gas to new Alaska markets. Many issues need to be resolved before this project comes to fruition, but Alaska is closer than ever to a viable natural gas project.

“Thankfully, voters chose to give oil tax reform a chance to work, and evidence of why that was a good idea is visible in a number of ways.”

Above all, it is important to remember that even though times are tough, we Alaskans have historically maintained the spirit and can-do attitude that makes us so different from other states. When challenges come up, as they have many times before, our willingness to rally around a common goal is remarkable. I have no doubt that Alaskans will get through this rough period by working together and creating more opportunities in the process.
Alaska sets its sights on the Arctic Offshore

The next big thing for Alaska’s oil and gas industry is the Arctic Offshore. Experts predict that developing Alaska’s offshore oil reserves would create an annual average of 54,700 new jobs nationwide through the year 2057, as well as billions in government revenue.

Assuming all permits are obtained, Shell embarks on its Arctic drilling program in the Chukchi Sea this summer. With more than 27 billion barrels of oil and incredible economic opportunity on the line, it is critical the company obtain all the necessary permits to begin exploring this vast and important resource. Several other oil and gas companies, including Statoil, have leases in Alaska’s Arctic Offshore and are waiting to see how Shell is allowed to proceed before starting their own programs in earnest.

Refining: Fueling Alaska

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, 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.

Moving oil: 17 billion barrels and counting

This year, the Trans-Alaska Pipeline System passed a huge milestone - moving its seventeen billionth barrel of oil. Since 1977, the pipeline has moved Alaska’s oil to market safely and reliably.

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. Alyeska continues to make and research modifications to respond to lower throughputs.

That is why it was welcome news in 2015 to see the State’s Department of Revenue predicting oil production to hold steady and even tick upward in the next few years. Following years of annual decline rates, even leveling off the drop is hugely important not only for the pipeline, but for the Alaskans who rely on the revenue oil provides.
The Alaska Oil and Gas Association (AOGA) is a professional trade association whose mission is to foster the long-term viability of the oil and gas industry for the benefit of all Alaskans.

Our 14 member companies represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

Learn more about the issues facing the largest economic driver in the Alaska economy 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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