State predicts $10 billion in new investments after oil tax reform

The State of Alaska now predicts an additional $10 billion in new investments on the North Slope beyond what was predicted last year. The Department of Revenue’s latest Revenue Sources Book cites oil tax reform as the driver for these additional investments in Alaska’s oil fields.

According to the report, the increased forecast “reflects company plans to significantly increase spending at legacy fields, as evidenced by recent announcements of rig additions and investment in new drilling areas.”

In the months since tax reform was signed into law, both legacy and new players in the Alaska oil and gas industry have announced major new projects. Among the highlights:

- **BP plans to add $1 billion in new investment and two drilling rigs** to its Alaska fields over the next five years. These plans call for an increase in drilling and well-work activity, the upgrading of existing facilities and the addition of 200 new jobs in the state.

In addition, BP has successfully secured support from the other working interest owners at Prudhoe Bay to begin evaluating an additional $3 billion worth of new development projects. These projects, located in the west end of the Greater Prudhoe Bay Area, could continue for nearly 10 years, further increasing the state’s oil production and providing additional jobs. This new investment would add a new pad to Prudhoe, something that hasn’t happened in more than a decade.

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Murkowski: U.S. lags behind in Arctic development

As most Alaskans know, the Arctic is considered to represent the future of oil and gas development in the state, and countries across the globe are investing billions of dollars into projects. Senator Lisa Murkowski, R-Alaska, says the United States, however, is behind the curve when it comes to capitalizing on opportunities becoming available in the country’s Arctic region.

“On par with the other Arctic nations, we are behind - behind in our thinking, behind in our vision,” Sen. Lisa Murkowski said. “We lack basic infrastructure, basic funding commitments to be prepared for the level of activity expected in the Arctic.”

At a meeting in late 2013 with Secretary of State John Kerry, Murkowski suggested he name a U.S. ambassador or envoy to the Arctic - someone who could coordinate work on the Arctic being done by more than 20 federal agencies and take the lead on increasing U.S. activities in the region. The global momentum towards the Arctic led Italy and Singapore to seek “observer status” on the Arctic Council and China and India to invest in icebreakers.

Murkowski says most Americans don’t even consider the United States an Arctic country. “People in Iowa and New Hampshire need to view the U.S. as an Arctic nation, and the time is now to make the case and blaze a trail. Otherwise, when you talk about funding, you’re never going to get there and we’ll be on the sidelines as other Arctic nations succeed,” Murkowski said.

Vast oil and gas resources are believed to be contained within Alaska’s Arctic region, including 27 billion barrels of oil and 132 trillion cubic feet of natural gas. Two AOGA members, Shell and Statoil, are currently exploring the area in hopes of producing the resource.

BP reports 81 percent Alaska-hire rate

With an overall workforce of roughly 2,300 employees in the state, BP’s Alaska-hire rate is 81 percent, and the company spent more than $1.59 billion with Alaska companies in 2012.

Those are just two of the facts available in the newly published 2013 BP Alaska Hire report. The report is BP’s annual update to Alaskans of BP’s Alaska recruiting, training, and purchasing initiatives. The publication also introduces Alaskans to some of the dozens of summer interns and new employees BP hires each year in in engineering, business, sciences and legal.

“Each year, we maintain a commitment and focus on building a strong workforce of Alaskans and increasing our Alaska-hire numbers,” says BP Alaska President Janet Weiss. “When it comes to developing our state’s oil and gas resources, we know Alaskans have the knowledge, commitment and desire to do it safely and efficiently.”

INDUSTRY SPOTLIGHT:
The oil business is my business, too

By Richard Schok
Owner, Flowline Alaska

It’s often said that the oil industry is the lifeline of the Alaska economy. While that is undeniably true, most people usually think of oil rig workers, suited executives or heavy equipment operators when they think about the industry, like they are somehow disconnected from what goes on in the oil fields. I’m here to tell you that the oil business is my business, too. Not directly, of course. I’m not an oil company employee. But my employees and I absolutely depend on the health of the oil industry to keep things humming in our shop.

Fairbanks-based Flowline Alaska Inc. provides pipe corrosion coatings, pipe insulation, pipe spool fabrication, double joint welding and module/skid fabrication to our clients, all of whom explore and operate on the North Slope. We are a privately held, family-owned and -operated company that employs dozens of Alaskans, most of whom live in Fairbanks. We are proud of our ability to hire local residents and retain them by providing a good living for local families.

For years, we thrived right alongside the Alaska oil industry. Back in the mid-2000s, we handled several dozen inquiries every year for new projects planned for our clients on the North Slope. At our peak, we employed 90 full-time workers, most of them from local labor organizations. When the State increased oil taxes in 2007, it was like someone turned off a faucet; the inquiries for new projects dwindled to a half dozen in as many years. Today, our full-time staff numbers close to 37, more than a 40 percent loss.

We have survived as a company by trimming staff and becoming efficient, but that’s not our goal. We want to grow and prosper and provide jobs for Alaskans. That’s why I am so supportive of the oil tax reform passed by the Legislature and signed into law this year. Without question, the signal to the oil industry was, “let’s get going.” I can say that with such certainty because I have already witnessed renewed interest in new projects on the Slope. We are already receiving requests for bids for projects planned for this winter and the winter after that. It’s not quite as busy as it was before the slump, but it’s an encouraging start and I am confident more new work will come our way. Our employees are happy with the increased activity, too. As a manager, that is gratifying to see.

My takeaway from this experience is simple: the oil business is ALL of Alaskans’ business. Whether you work in a fab shop or balance the books for a nonprofit, we are all directly impacted by the health of the oil industry. With the billions of barrels still in the ground, there’s no reason why Alaska should not be part of the energy boom going on across the rest of the United States. On a more local level, it’s about jobs and providing a comfortable living for our families both now and in the future.

Kaladi Bros. and Shell ring in the New Year by giving

Kaladi Brothers Coffee always begins the year by giving. For more than 20 years, the local coffee roaster has donated 100 percent of its New Year’s Day drink sales to an Alaska nonprofit. For the second year, Shell Alaska matched the donation. This New Year’s Day generated $14,277 in coffee drink sales. That means, with Shell’s match, The Children’s Lunchbox received $28,554.

Kaladi and Shell employees chose the Children’s Lunchbox, a Bean’s Café program, for the third time in an effort to ensure that no child goes hungry. The first year The Children’s Lunchbox was selected was before Shell’s partnership.

“Shell was excited to partner with Kaladi again. Our partnership makes sense, since we’re both committed to the communities where we operate and The Children’s Lunchbox is a very worthy cause that helps feed hungry children,” Shell Alaska Vice President Pete Slaiby said.

This year’s campaign saw a 19 percent boost in drink sales from 2013. According to Bean’s Café Executive Director Lisa Sauder, the donation provides a full year of weekend food for 280 Anchorage children.

“I am completely humbled by the level of support that we received for New Year’s Day Giving 2014,” said Dale Tran, the chief operating officer of Kaladi Brothers. “New Year’s Day Giving is a team effort and, once again, the first day of the year is about helping local kids.”
State predicts $10 billion in new investments after oil tax reform

- ConocoPhillips is budgeting $1.7 billion for 2014 capital costs in Alaska, twice what it spent in 2012 and $600 million more than was budgeted for 2013.

ConocoPhillips also announced plans to bring an additional rig to the Kuparuk Field, construct a new drill site on the southwest flank of the Kuparuk River Field, and progress the Greater Moose’s Tooth #1 development in the National Petroleum Reserve-Alaska.

- Newcomer Repsol will drill three North Slope exploration wells this winter.

More good news for Cook Inlet

The Revenue Sources Book also predicts that Cook Inlet’s oil and gas resurgence will continue in 2014.

According to the report, projections of increasing Cook Inlet production are attributed to intense redevelopment work in aging fields by independent companies. The Department of Revenue expects production to exceed an average of 13,500 barrels per day in the current fiscal year, a 52 percent increase since 2010.

Read the full report at http://www.tax.alaska.gov.

U.S. posts largest annual increase in oil output since the beginning of U.S. commercial production in 1859

Change in Annual U.S. Crude Oil Production, 1860 to 2013

Based on monthly U.S. crude-oil production from the Energy Information Administration (EIA) through October and weekly U.S. crude oil production through the end of 2013, it can now be reported that the U.S. had the largest annual increase in oil output last year since the beginning of U.S. commercial crude-oil production in 1859.
AOGA PRESIDENT/CEO’S MESSAGE

Tax reform at work:
Jobs for Alaskans

I usually use this space to let readers know how I feel about the state of the oil and gas industry in Alaska. Often, I will cite economists, engineers or other experts who back up their opinions with data and statistics. They make a compelling case for keeping the industry healthy. This time, however, I want to hand over the microphone to regular working Alaskans who are seeing real, positive changes resulting from oil tax reform.

These Alaskans work 40 hours (or more), five days a week like so many of us. They don’t work for oil companies, but they depend on a robust oil industry to stay in business. Read what THEY have to say about why tax reform has been a game changer for their businesses.

Mike McGinnis works at Weona Corporation, a fabrication shop in South Anchorage. He says:

“I’ve been in South Anchorage since 1983, and I like to think I have the drive most Alaskans do to work hard and play hard. But you cannot do that if you don’t have industry … We’ve doubled our man hours because our work has doubled since tax reform passed. If everybody’s working, they’ve got dollars in their pocket, they’re spending and everybody’s happy. And that’s just healthy.”

Chris Loranger also works for Weona Corporation. He says:

“We’ve definitely seen ups and downs in this industry … since SB21 (tax reform), it’s been easier to keep our main guys busy and also employ a few new ones. It’s definitely helped out a lot.”

So don’t take my word for it: Tax reform is already working for Alaskans. Let’s keep it in place so that future generations can continue to enjoy a unique (and we would say the best!) quality of life in Alaska.

You can watch Mike and Chris’ video testimonials on Vote No on 1’s facebook page, https://www.facebook.com/VoteNoOnOneAlaska. The site also contains other information that is useful to Alaskans who are thinking about this referendum and how they should vote.

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The Alaska Oil and Gas Association (AOGA) is a business 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.**

Learn more about the issues facing the largest economic driver in the Alaska economy at [www.aoga.org](http://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.

**Contact information:** 907-272-1481 or info@aoga.org

**Facebook:** AlaskaOilAndGas  **Twitter:** @AOGA

**Our member companies:** Alyeska Pipeline Service Company; Apache Corporation; BP Exploration (Alaska) Inc.; Chevron; eni petroleum; ExxonMobil Production Company; Flint Hills Resources, Alaska; Hilcorp Alaska, LLC; Petro Star Inc.; Pioneer Natural Resources Alaska, Inc.; Repsol; Shell Exploration & Production Company; Statoil; Tesoro Alaska Company; and XTO Energy, Inc.