2012 was a banner year for Cook Inlet investment

Cook Inlet continues to be the bright spot in terms of new oil and gas investment in Alaska, with 2012 arguably being a banner year for both exploration and new investments.

Cook Inlet is poised to shine again in 2013. Newcomer Hilcorp is positioned to become the dominant player in the area after acquiring Marathon Oil’s assets, while Apache continues its major seismic survey and has begun drilling its first well. Smaller independents are also continuing to explore the historically hydrocarbon-rich basin.

Both Hilcorp and Apache are bullish on the future of the Cook Inlet basin. Specifically, Apache spudded its first well in the inlet in late 2012 and acquired additional acreage, adding to the company’s already significant 850,000 acres currently under lease. Ultimately, after securing the necessary permits, Apache plans to continue its state-of-the-art seismic survey on its leased areas, including onshore, offshore and near shore.

Hilcorp has also been an aggressive new player in the Cook Inlet. They added 82,560 new acres in the Cook Inlet area-wide lease sale last spring. The company also spent $230 million in Alaska last year, with about half of that amount going to new development and roughly a third going to revitalizing an aged infrastructure. Hilcorp continues to make gas development a priority and will be operating more drilling and workover rigs than Cook Inlet has seen in recent years.

With supplies of Cook Inlet’s natural gas projected to be insufficient in future years, the addition of new players like Apache and Hilcorp is welcome news for Southcentral Alaskans, who count on a steady source of reliable energy to power thousands of homes and businesses in the region.

Straight Talk wins Award of Excellence

AOGA’s newsletter, Straight Talk, was recently honored with a 2012 Public Relations Society of America (PRSA) Alaska Chapter “Award of Excellence” for an external publication. The awards recognize exemplary design, creation and production of a single public relations tool.

Hilcorp has been an aggressive player, adding 82,560 new acres in the Cook Inlet area-wide lease sale last spring.
Photo courtesy of Hilcorp.
Recently, the National Marine Fisheries Service (NMFS) decided to list two distinct population segments (DPS) of bearded seals and three subspecies of ringed seals as threatened under the Endangered Species Act (ESA), and one ringed seal subspecies as endangered under the ESA.

AOGA disagrees with NMFS’s decision for several reasons:

- The ESA and the scientific record do not support such listings. Ringed and bearded seals are currently healthy and very abundant, particularly the Arctic subspecies of the ringed seal and the Beringia DPS of the bearded seal.
- NMFS’ use of a 100-year foreseeable future to forecast population decline is inconsistent with recent listing decisions for other Arctic species and far exceeds the reliability of the best available climate models and forecasts.
- Oil and gas exploration, development and production are not a threat to ringed and bearded seals. The oil and gas industry has been operating in the Alaska Arctic Ocean and adjacent shoreline for more than 30 years with no more than negligible impact on ice seals or other marine mammals.

“AOGA members care as much about protecting Alaska’s environment and wildlife as anyone else, but we also recognize the need to responsibly develop our natural resources in order to keep the state’s number one economic driver healthy,” said AOGA Executive Director Kara Moriarty. “We are convinced that development can be done safely and without major impacts to the wildlife that call these areas home.”

Feds plan to list new species as threatened, endangered

In a major victory for resource development, the State of Alaska and Alaska Natives, U.S. District Court Chief Judge Beistline recently vacated the Fish and Wildlife Services’ (FWS) designation of a huge swath of land as polar bear critical habitat.

In perhaps the strongest language contained within Judge Beistline’s ruling, he admonished the FWS for going too far in its designation. He wrote: “There is no question that the purpose behind the Service’s designation is admirable, for it is important to protect the polar bear, but such protection must be done correctly. In its current form, the critical habitat designation presents a disconnect between the twin goals of protecting a cherished resource and allowing for growth and much needed economic development. The current designation went too far and was too extensive.”

In 2011, AOGA and the American Petroleum Institute (API) jointly filed a lawsuit challenging the designation, which was joined by similar lawsuits filed by the State of Alaska and a coalition of Alaska Native groups, including the Arctic Slope Regional Corporation.

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Left: Kara Moriarty and former BP Alaska President John Minge dressed up in Batman-themed costumes before jumping into frozen Goose Lake for Special Olympics Alaska.
Right: Kara Moriarty welcomes Sen. Lisa Murkowski before a recent meeting with AOGA’s board of directors.
Crude oil out of the ground, in its original state, can’t be used for much – until it’s refined. Then it becomes one of the world’s most valuable commodities. But shipping back and forth to the Lower 48 is expensive, so “upstream” oil producers on the North Slope depend on “downstream” refineries like Flint Hills Resources to turn North Slope crude into just those commodities people need. And they do it right here in Fairbanks, Alaska, which greatly reduces the retail prices of those fuels.

General Manager of Alaska Marketing Darren Tiemstra leads the commercial side of Flint Hills’ business. He’s the point man for clients, negotiating contracts, arranging schedules and overseeing logistics.

“Our customer base is generally well-defined,” he says. “[My department and I are] responsible for making sure that the refinery’s production is brought to market. I’m lucky enough to work with a very capable and experienced team.”

Born and raised in Edmonton, Alberta, Darren came to Alaska on a hockey scholarship. He played defense for University of Alaska Fairbanks, then played semi-pro in Georgia for the East Coast Hockey League Columbus Cottonmouths. He even suited up for a few games in the American Hockey League with the New Jersey Devils’ affiliate team.

But he didn’t go alone. He took an Alaskan with him: Darren married his college sweetheart, Sherry, before their senior year. His biggest fan, Sherry traveled with him, cheering from the stands and living the hockey-wife life for several years.

When the couple realized that hockey wasn’t going to pay the bills long-term (and that Georgia gets rather hot in the summer), they returned to Fairbanks, where Darren went back to school, eventually graduating from UAF with a master’s degree in capital markets.

“My father owned his own cable plowing and heavy-equipment company, so I always had an interest in business,” he says. “And coming from Alberta, oil and gas has always been a big part of the local economy.”

Hockey is good for more than just exercise. It also reveals character. The wife of his UAF coach was the human resources director at Flint Hills and, when the company had a job opening, she knew a hard-working young guy with solid character.

Darren started in the HR Department at Flint Hills, but quickly became an account manager handling transportation of refined fuels to customers. “The unique part of business in Alaska,” he says, “is that we are involved in just about every transportation mode you can think of, including rail, air, automobile and then pipelines and barges on top of that.”

It’s the sort of work that requires attention to detail and a talent for coordinating a lot of moving parts. Eventually, Darren was promoted to general manager of Flint Hills marketing.

“We’re fortunate to work with a number of different industries within Alaska,” he says, “including major North Slope producers, waterborne customers serving rural Alaska, the Alaska Railroad, mining operations, local retailers, jobbers and airlines operating out of Fairbanks and Anchorage.”

Flint Hills is a wholesaler serving a diverse roster of clients, from rural communities to large corporations, with the majority of its fuel going to Ted Stevens International Airport in Anchorage.

“The best part of my job,” Darren says, “is that it allows me to interact with great people and companies across Alaska. We’re very good at our job, which is to get the product to our customers on spec and on time while ensuring long-term value for our customers, our company and our state by efficiently manufacturing and competitively supplying energy.”

Alaska companies like Flint Hills depend on healthy production in Alaska. But the producers know that with great people like Darren Tiemstra on staff, they can depend on first-class downstream partners right here in state. Lucky for us, the Tiemstra family isn’t going anywhere. Darren’s wife also works in the oil and gas industry, for BP, and with two young children, they’ve gotten a good start on building their own Alaska hockey team.
High oil prices coupled with new technology have created a boom in the oil and gas industry across the country and world. Alaska, however, is missing out on this boom, and it is no secret why: Alaska’s oil taxes are too high, and companies are taking their investment dollars elsewhere.

With more than 90 percent of the State’s spending money coming from oil and gas revenues, and thousands of jobs at stake, it’s imperative that the Legislature act now.

AOGA supports Governor Parnell’s guiding principles that any oil tax reform plan must adhere to:

• Tax reform must be fair to Alaskans.
• Tax reform must encourage new production.
• Tax reform must be simple, so that it restores balance to the system.
• Tax reform has to be durable for the long term.

AOGA member companies want to do business in Alaska. Some have been exploring and producing in Alaska for decades, while others have arrived more recently. Both groups have a strong desire to be able to remain in Alaska for their own and the state’s mutual benefit.

The members of AOGA desire the same outcome that the governor and the people of Alaska want – more oil in the pipeline, providing a solid future for our industry and continued revenues to the State for the benefit of all Alaskans.

We are committed to working with members of the Legislature and the administration on advancing fair oil tax legislation that increases new production and promises to stand the test of time.

AOGA EXECUTIVE DIRECTOR MESSAGE:
Now is the time to reverse Alaska’s oil production decline

The Alaska Oil and Gas Association (AOGA) is pleased to announce that Nikki Campbell Martin has joined AOGA as regulatory and legal affairs manager.

Raised in Palmer, Martin is a seasoned legal professional with years of experience in the state, most recently as an associate attorney for Anchorage-based Foley & Foley, P.C. Martin also worked as a law clerk for Judge Andrew Guidi and for the Western Resources Legal Center. Martin’s prior legislative positions included acting as a legislative aide to Alaska State Legislature House Majority Leader Ralph Samuels and as a legislative correspondent for U.S. Senator Ted Stevens.

As AOGA’s regulatory and legal affairs manager, Martin will be responsible for evaluating government actions and initiatives, and coordinating AOGA’s review of and response to such initiatives, including preparing written and oral testimony at public hearings; managing litigation issues with outside counsel; and directing AOGA’s committees, especially those dealing with regulatory and environmental issues.
In a recent speech in Anchorage, BP Alaska Vice President of External Affairs Phil Cochrane explained how BP’s Alaska business model has changed since ACES (Alaska’s current oil tax structure) was enacted in 2007.

Cochrane explained that while BP is adding rigs to the Slope this year, the news is not the positive development many had hoped for. Why? Currently, only one in five of BP’s North Slope staff is involved in finding new oil or building projects; most are involved in maintaining safe operations for existing projects. In 2012, only $1 out of every $4 in BP’s capital expenditures went toward enhancing production in BP-operated fields. The remainder was spent on operations, maintenance and repairs.

In stark contrast, investment and production in other oil basins have soared - places like Alberta, the Gulf of Mexico, Texas and North Dakota. While new technology has definitely helped in these areas, their more-competitive fiscal policies have created an environment more appealing to investors.

Cochrane said that, in BP’s opinion, Alaska has chosen a short-term, “going-out-of-business” policy, and that it should be no surprise when oil companies respond by choosing not to invest in a state where the return on investment is so much less than elsewhere in the U.S. and world.

Cochrane also said that the company’s focus has shifted to accelerating production from existing reserves, not developing new ones.

On the plus side, Cochrane said that BP is hopeful about the future. He reiterated that BP has not given up on its vision for a 50-year future in Alaska, and that the key to realizing a longer and more prosperous future will require Alaskans to work together to achieve a fair, competitive business climate that meets all Alaskans’ needs.

INDUSTRY FOCUS:
BP: Not one large-scale project sanctioned since ACES was enacted

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MEMBER PROFILE:
BP

Q: What year did BP arrive in Alaska?
A: 1959

Q: Where does BP operate in Alaska?
A: Anchorage and the North Slope

Q: Where else does BP do business?
A: BP is one of the world’s leading international oil and gas companies, providing its customers with fuel for transportation, energy for heat and light, retail services and petrochemical products for everyday items. Upstream and midstream, BP operates in 30 countries. BP has invested more in the United States over the last five years than any other oil and gas company. With more than $52 billion in capital spending between 2007 and 2011, BP invests more in the US than in any other country.

The company is the second-largest producer of oil and gas in the U.S., a major oil refiner and a leader in alternative energy sources, including wind power and biofuels. BP provides enough energy each year to light the entire country. With 23,000 U.S. employees, BP supports nearly a quarter of a million domestic jobs through its business activities. For more information, visit www.bp.com.

Q: How many employees does BP have in Alaska?
A: 2,300 employees and about 6,000 contractors

Q: What type of exploration/new development plans does BP have for Alaska?
A: BP Alaska is taking steps right now to adjust our strategy to conform to the State’s policy:

• We’re focused on light oil development at Prudhoe Bay and Milne Point.

• BP will stop its investment in the heavy oil pilot project within a few months. Currently, there are three heavy oil pilot wells and a test facility at Milne Point, which will be shut in (turned off) over several months.

• We’re using efficiency and technology to make the dollars go further. The goal is to offset decline as much as possible to grow the cash flow through more barrels.

• Other steps include additional investments in light oil, de-bottlenecking projects and looking at taking some infrastructure out of service.

BP will start up two new rigs in 2013, but these rigs will be dedicated to accelerating short-term, easier light oil.

• Our critics will say, “Told you so.” But it’s only good news if you take a short-term view of Alaska’s future.

• These rigs will not be developing new, long-term resources.

• In 2007, BP had 11 rigs working on the North Slope; with the addition of the two new rigs, we will have seven rigs in 2013.
AOGA Staff

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The Alaska Oil & 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.

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**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.