

straight talk

Alaska Oil and Gas Association



May/June 2012



Voters to Decide Critical Ballot Initiative in August

This August, Alaska voters will decide whether to reestablish a coastal management program for Alaska, commonly referred to as “ACMP.” While creating a coastal management program for the state sounds like a laudable goal, the reality is the issue is very complex. In fact, the actual initiative is 15 pages long. While the subject may not sound very exciting, the potential impacts from the proposed, overly broad ACMP program could have lasting, harmful effects for Alaskans.

The ballot initiative would create a new, far-reaching and duplicative permitting process with open-ended timelines for permitting of all types of projects in Alaska. The ballot initiative as written gives broad approval authority to local entities when deciding how a particular coastal area will be developed. While that sounds good on its face, in reality, the ballot initiative could allow a small group of individuals that make up the Coastal Policy Board to make binding decisions that impact large numbers of people, even private property owners. Want to build a dock at your lakeside cabin? The project could be vetoed under the rules proposed by the ACMP ballot initiative, as any project anywhere in Alaska could be brought into ACMP’s purview if the project is believed to have impacts on a coastal use or resource, even if the project isn’t in the coastal area.

AOGA joins several other industries in opposing this initiative. If passed, the initiative eliminates the progress the state has made in streamlining its permitting process and creates a program that is unpredictable and unworkable. This proposed ACMP program would likely stifle exploration and development in Cook Inlet and on the North Slope, both onshore and offshore.

The State of Alaska must be able to develop its resources for the benefit of all Alaskans. An overreaching ACMP program, as this initiative would establish, sends a strong signal that Alaska is not open for business, which is exactly the opposite of the message we should send at a time of accelerated oil decline. Alaska voters should learn as much as possible about this initiative and make an informed decision on Aug. 28. ♦

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Hydraulic Fracturing is an Established Technology in Alaska

“Hydraulic fracturing isn’t new,” announced Pioneer Natural Resources Drilling Engineer Dustin Bruce before a crowded room of legislators, staffers and reporters who came to the bi-weekly House Resources Committee “lunch and learn” about hydraulic fracturing in March. “Hydraulic fracturing is a safe and effective technique that’s been used for over 60 years,” Bruce explained.

Developed in the American Midwest during the 1940s, hydraulic fracturing is a drilling completion technology that has helped produce more than 600 trillion cubic feet of natural gas and seven billion barrels of oil.

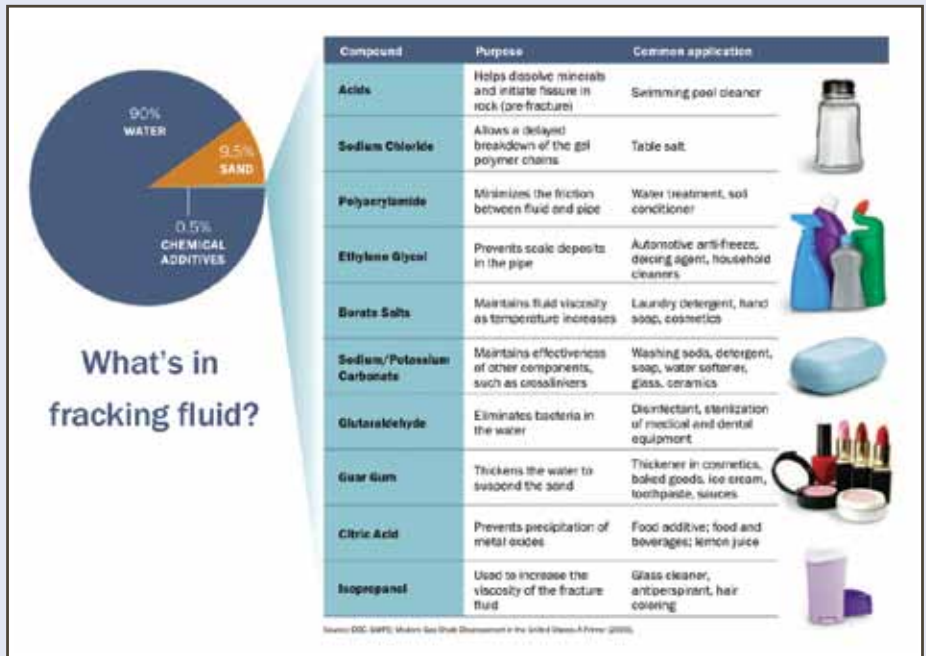
“Since that time, the use of hydraulic fracturing has developed into a routine procedure that is frequently used in the completion of oil and gas wells,” Bruce stated. “Not many people know this, but according to the Alaska Oil and Gas Conservation Commission (AOGCC), approximately 25 percent of all wells drilled to date in Alaska used hydraulic fracturing.”

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– Dustin Bruce, Drilling Engineer
Pioneer Natural Resources

The process of fracturing is used on both vertical and horizontal well bores to create spaces in the surrounding rock to release more oil or gas. Wells are drilled generally thousands of feet below ground and far below fresh water aquifers to a targeted oil and gas producing zone. Once completed, water and sand are injected under high pressure into the producing formation, creating fissures that allow oil and gas to move freely from rock pores where they are trapped.

“While the contents of the ‘fracturing fluids’ have been criticized, more than 95 percent of the total volume is a mixture of water and sand. The remaining volume is a mixture of common chemicals used every day in household products,” Bruce explained to the crowd.



Hydraulic fracturing allows for companies to improve well production in reservoirs that might not be economic or were once believed impossible to produce. The Bakken shale plays of North Dakota and the Permian Basin in Texas are examples where hydraulic fracturing has helped energize basins that were thought dead many times over. Experts believe that 60 to 80 percent of all wells drilled in the United States over the next 10 years will utilize hydraulic fracturing.

The industry must abide by rigorous regulations and is making information more readily available to the general public. In Alaska, there are stringent regulations for proper well construction and to ensure mechanical integrity during production and injection operations. Prescription and enforcement of the regulations falls to the AOGCC.

On a national level, there is a Web-based national hydraulic fracturing chemical registry, called FracFocus, that’s managed by the Ground Water Protection Council and the Interstate Oil and Gas Compact Commission. The purpose of the website (www.fracfocus.org) is to provide factual information concerning hydraulic fracturing and groundwater protection.

In his closing to the group, Bruce summarized: “Hydraulic fracturing is a safe and effective way to enhance oil and gas production. In combination with drilling advancements, it has really changed the entire oil and gas landscape as we know it.”



EMPLOYEE SPOTLIGHT:

Michael Macrander, Shell Alaska

Michael Macrander, Lead Scientist for Shell Alaska, spent 15 years waiting to get to the Arctic. Now that he's there, he couldn't be more excited.

Growing up on a farm in northwest Missouri, Michael always enjoyed working with animals, but it wasn't until an inspirational high school teacher

turned him on to biology that he began to consider it as a career. He worked his way through college on the farm, then headed off to graduate school, first for a master's degree at Northern Arizona University and then to the University of Alabama for his doctorate studies focusing on predatory birds. He took a job working on a natural heritage program at the university's School of Mines and Energy Development and stayed in Alabama nearly a decade – until one day a job ad in Science Magazine caught his eye. Shell Oil was looking for a wildlife ecologist in Alaska. Michael was very interested in Shell's work in the Arctic.

"The ad looked like it had been written specifically for me," says Michael.

Michael excitedly started work at Shell on August 1, 1991. About a week later, Shell pulled out of Alaska.

Michael ended up in Houston, where he spent about 15 years doing other "extremely interesting and important work," and was very happy – but in 2005, when Shell acquired its leases in the Beaufort Sea, he leaped at the chance to get back to the Arctic. After commuting back and forth from Houston for a couple of years, in 2008 Michael and his wife and grown son moved north (two adult daughters stayed in Houston), and now Alaska is home.

So, after all that waiting – what's it like to finally be in the Arctic?

"It's been everything and more," Michael says. "We're contributing in a very meaningful way to the science of understanding the Arctic offshore. It's even more than I had anticipated."

Now in its fifth year, the Chukchi Sea Environmental Studies Program (a partnership between Shell, Conoco and Statoil) has led to a completely new understanding of how the

northeast Chukchi Sea ecosystem works. The multidisciplinary program looks at everything from large marine mammals like whales "down to the creatures that live in the mud on the sea floor," Michael says. One significant finding has been the diversity of ecosystems in the Chukchi, where shallow channels can be very different ecologically, indicating that physical oceanography is very closely tied to the physiography of the sea floor. The team is currently preparing its findings for publication.

"It's important that we demonstrate how we as oil companies understand this area we're trying to operate in, but it's also important in terms of science and the decisions we make in the Arctic offshore," Michael says.

Shell and its partners are also doing research with acoustics and the Arctic underwater "soundscape" to learn more about how marine animals react to industry activities. Part of that is looking at the migration of the bowhead whale, but they're also studying walrus, belugas and other species in the Beaufort and Chukchi seas.

"If we take the two seas together, this is probably the largest deployment of acoustic listening devices for biological purposes outside of the military," Michael says. "It's quite significant. We are generating huge volumes of data on a daily basis."

Michael is quick to point out that he doesn't do any of the work on his own.

"We rely very heavily upon collaborating and working jointly with a lot of other people," he says. Shell works closely with ConocoPhillips and Statoil, as well as federal agencies, the University of Alaska and the scientific community at large. All told, there are about 200 people on the research team.

"It's the network, it's the community we participate in that is accomplishing all this wonderful work," Michael says. "It's a privilege to be a part of it."

And, he adds, the research doesn't just benefit the industry.

"The presence of the oil interests in the Arctic offshore is generating a real value. At a time when federal agencies are being challenged with their funding and the money's really not there otherwise to do a lot of research in this remote system, the presence of oil and gas development as an economic driver has provided an impetus to really understand this system that we otherwise wouldn't be gaining an understanding of," Michael says. "It's scientifically and intellectually rewarding, and it's also rewarding in terms of understanding the importance of the Arctic in decision making and national policy." ♦



AOGA EXECUTIVE DIRECTOR MESSAGE: Planning for the Future of Alaska

Now that the dust has settled in Juneau and the Alaska State Legislature’s discussion of oil tax reform ended for the year, it’s time to reflect on the lessons learned and plan for the future.

Gov. Parnell recognized the need for oil tax reform and introduced HB 110/SB 49 in January 2011. The House passed HB 110 in March 2011. The Senate opted not to address the Governor’s bill and instead introduced Senate Bill 192 in February 2012. SB 192 spent weeks in the Senate Resources Committee, where debate focused on how or even whether to change the current oil tax structure. Eventually, the bill made very minor tweaks to ACES and added several provisions that made the tax structure more onerous. SB 192 was far short of the “meaningful” changes that industry leaders testified were necessary to change their investment behavior and spur more production. AOGA testified against the bill and its various forms several times, and it eventually died when the bill failed to reach the Senate floor for a vote.

On the second to last day of the regular session, the Senate introduced a new concept and language to provide incentives for new oil produced outside of existing units. The new language was added to House Bill 276. The House did not have adequate time to vet this new concept, and the measure failed.

Finally, after the Legislature ended its regular session without any changes to oil taxes, Gov. Parnell called a special session and introduced House Bill 3001,

a comprehensive bill that would have provided meaningful reform not only for brand new players to Alaska, but also for the state’s existing production in small and legacy fields. It was quickly observed that the Legislature was fractured on oil taxes, and the right solution for oil tax reform for all fields likely would not be found during the special session. Eventually, the governor removed the topic from the Legislature’s special session agenda.

So, where does that leave us? Unfortunately, oil production continues to decline at a rate that should alarm Alaskans. With production under 600,000 barrels per day (bpd) and declining by 40,000 bpd every year, it won’t take long for Alaska’s oil production problem to become a revenue problem for the state. So far, record high oil prices have largely hidden the effects of accelerated production decline, but unless changes are made and new oil is brought online, the day is coming in the near future when the State of Alaska could find itself with plummeting production and budget deficits. The impact of declining production will adversely impact the private sector economy as jobs associated with the state’s largest economic driver will be lost as a result of inactivity on the North Slope.

AOGA will continue advancing our mission “to foster the long-term viability of the oil and gas industry for the benefit of all Alaskans.” We still need meaningful reform, and we will continue to inform the public about how a thriving and successful oil and gas industry creates a healthy, robust economy for all citizens. The job is too important to neglect, and we will work with policymakers until Alaska has a more competitive tax system for all fields. ♦



INDUSTRY NEWS

Matt Gill is now Manager of External Affairs for Tesoro Alaska. In his new role, Matt will manage the company’s strategic programs and objectives related to state and local government affairs for Alaska and Washington state.

Matt has significant government affairs experience. Prior to joining Tesoro, Matt was an independent government affairs consultant to Marathon Oil. Previously, he was a lobbyist in Alaska representing a number of clients in the mining, building and retail industries. He also worked in the Alaska State Legislature. ♦



AOGA Executive Director Kara Moriarty testifies at an April field hearing with Congressman Don Young on the impacts of the National Ocean Policy. Also pictured are Fred Parady with the Alaska Miners Association, and John Sturgeon with the Alaska Forest Association.

SPECIAL ANNOUNCEMENTS:

Marathon Oil Sells Cook Inlet Assets to Hilcorp

Marathon Oil Company recently announced that it has agreed to sell substantially all of its Alaska assets to Hilcorp Alaska. Marathon Oil is a major natural gas producer in the Cook Inlet basin with a long history of Alaska operations. Last year, Hilcorp purchased all of Chevron's Cook Inlet assets.

With an effective date of Jan. 1, 2012, the sale includes 17 million barrels of oil equivalent of net proved reserves across 10 fields in Cook Inlet, as well as natural gas storage and interests in natural gas pipeline transmission systems. In 2011, net production averaged approximately 93 million cubic feet of natural gas per day and 112 barrels of oil per day. Additionally, Marathon Oil had approximately 12.5 billion cubic feet of natural gas in storage at the end of 2011.

Wade Hutchings, Marathon Oil's Alaska asset manager, said the decision to sell was driven by the company's strategic focus on liquids-rich resource plays.

The sale does not include Marathon Oil's Alaska onshore drilling rig, which is being sold to Buccaneer. ♦

Fairbanks Labor Leaders Recognize Moriarty



Recently, Fairbanks labor leaders presented AOGA Executive Director Kara Moriarty with an award recognizing her recent promotion at AOGA, as well as her years of service to the Fairbanks community. Left to right: Jim Sampson, Director of the Fairbanks Pipeline Training Center and former Fairbanks North Star Borough Mayor; Rick Boyles, Secretary-Treasurer for Teamsters Local 959; Kara Moriarty, Executive Director of the Alaska Oil and Gas Association; Jim Whitaker, Vice President of Development for the Fairbanks Pipeline Training Center Trust and former Fairbanks North Star Borough Mayor; and Jim Laiti, retired Business Manager for Local 375 Plumbers and Pipefitters. Moriarty and AOGA board members visited Fairbanks in March as part of their annual outreach trip to the Interior.

MEMBER PROFILE:

Alyeska Pipeline Service Company



Q: What is the nature of Alyeska Pipeline's business?

A: Alyeska Pipeline was formed to design, build, operate and maintain the Trans Alaska Pipeline System (TAPS). TAPS is a complex system that includes pump stations, oil spill response bases, a ballast water treatment facility, metering stations, maintenance bases, a power plant, oil spill response vessels and barges, and urban offices. Alyeska's operations begin at Pump Station 1 on the North Slope, where Alaska crude oil enters TAPS, and extend through Prince William Sound, where oil tankers leave the system.

Q: How many employees does Alyeska have in Alaska?

A: Approximately 800. At its inception, Alyeska also made a commitment to the Alaska Native community that the company and its major contractors would train and hire Alaska Natives.

Q: What types of safety measure or precautions does Alyeska have in place to protect the environment?

A: Alyeska's people are trained year-round to work safely and protect the environment. Employees are unified in this focus; TAPS personnel live, work and play in the pipeline corridor and call Alaska home. TAPS' design focuses on environmental protection. It includes 178 valves and specially engineered earthquake fault line crossings that allow the pipe vertical and horizontal movement. Additionally, TAPS' iconic above-ground design was an engineering decision, knowing that attempting to run the warm-oil pipeline in semi-frozen permafrost would result in an unstable situation. TAPS also has an extensive leak detection system. Out of Valdez, the high-powered tugboats in Alyeska's Ship Escort/Response Vessel System escort outbound tankers and provide world-class oil spill prevention and response capabilities. Alyeska's workforce includes an environmental team with employees based along the pipeline and in urban offices in Anchorage, Fairbanks and Valdez. ♦



Alyeska Recognized as One of 2012 World's Most Ethical Companies

Alyeska Pipeline Service Company was recently recognized as one of the 2012 World's Most Ethical Companies by the Ethisphere Institute.

Former Secretary of State Madeleine Albright provided the keynote speech and stressed the importance and value of ethical business standards. Secretary Albright congratulated the winners and noted that all of the award recipients went beyond mere statements about doing business ethically and translated words into action. ♦

Alaska Oil and Gas Association

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. 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; Marathon Oil Company; Petro Star Inc.; Pioneer Natural Resources Alaska, Inc.; Repsol; Shell Exploration & Production Company; Statoil; Tesoro Alaska Company; and XTO Energy, Inc.

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