AOGA Informational Seminar

Kara Moriarty
President & CEO
Alaska Oil & Gas Association
January 6, 2020
AOGA Membership

Alyeska Pipeline Service Company
BlueCrest Energy
bp
ExxonMobil
Chevron
ConocoPhillips Alaska
Hilcorp
GLACIER OIL & GAS
Marathon
Petro Star Inc.
Shell
Operating Alaska LLC
Furie
Repsol
Eni
AKOG
PEOPLE • PRIDE • PETROLEUM
Oil & Gas Industry Produces Most Jobs

- Direct quotes from McDowell reports:

  "No other private sector comes close to generating more economic impact in Alaska than Alaska’s oil and gas industry."

  "The seafood industry directly employs more workers than any other private sector industry. Including multiplier effects, it is the third-largest basic sector job creator in Alaska after the oil and gas and visitor industries."

- Oil & gas represents nearly a third of all wage and salary jobs in Alaska; meaning oil and gas creates more jobs than seafood, visitor and mining combined.
Oil & Gas Jobs are Impacted by Oil Price

Employment and Oil Price

Source: Alaska Departments of Revenue & Labor
Alaska O&G Jobs follow National Trend

Source: US Bureau of Labor Statistics & AK Department of Revenue
Oil & Gas = Most Revenue by Industry

Projected FY 2020 Revenue Comparison

- Total Oil Revenue to State/Local: $182,600,000
- Total Mining Revenue to State/Local: $140,000,000
- Total Comm. Fishing to State/Local

$2,603,800,000

Source: DOR Revenue Sources Book & Presentations to House Resources Committee, April 2019
## Positive Revenue to the State

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Production Tax</td>
<td>2,606</td>
<td>382</td>
<td>177</td>
<td>126</td>
<td>741</td>
<td>587</td>
<td>770</td>
</tr>
<tr>
<td>Prop. Tax-State</td>
<td>128</td>
<td>125</td>
<td>112</td>
<td>120</td>
<td>122</td>
<td>120</td>
<td>121</td>
</tr>
<tr>
<td>Prop. Tax-Local</td>
<td>418</td>
<td>447</td>
<td>440</td>
<td>443</td>
<td>440</td>
<td>447</td>
<td>439</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>308</td>
<td>95</td>
<td>(59)</td>
<td>(59)</td>
<td>66</td>
<td>48</td>
<td>95</td>
</tr>
<tr>
<td>Taxes Subtotal</td>
<td>3,460</td>
<td>1,049</td>
<td>670</td>
<td>630</td>
<td>1,369</td>
<td>1,372</td>
<td>1,425</td>
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<tr>
<td>Royalty</td>
<td>2,471</td>
<td>1,570</td>
<td>1,237</td>
<td>1,016</td>
<td>1,341</td>
<td>1,460</td>
<td>1,516</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>220</td>
<td>187</td>
<td>160</td>
<td>497</td>
<td>178</td>
<td>239</td>
<td>247</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td><strong>6,151</strong></td>
<td><strong>2,807</strong></td>
<td><strong>2,067</strong></td>
<td><strong>2,143</strong></td>
<td><strong>2,888</strong></td>
<td><strong>3,070</strong></td>
<td><strong>3,188</strong></td>
</tr>
<tr>
<td>Yearly Ave. Oil Price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar/Barrel of Oil</td>
<td>$107.57</td>
<td>$ 72.58</td>
<td>$ 43.18</td>
<td>$ 49.43</td>
<td>$ 63.61</td>
<td>$ 69.46</td>
<td>$ 67.64</td>
</tr>
</tbody>
</table>

Sources: 2019 Fall Revenue Sources Book: Pages 34, 63 and 89
Royalties Include: Unrestricted Royalties to General Fund, Royalties to Permanent Fund, and Royalties to Public School Trust Fund
Other includes: Constitutional Budget Reserve Fund Deposits; Bonuses, Rents & Interest; NPRA Rents, Royalties and bonuses; and Oil & Gas Hazardous Fund (470 Fund)
Cook Inlet

BlueCrest Energy

Furie Operating Alaska LLC

Glacier Oil & Gas

Hilcorp

Marathon
Refining in Alaska

**Petro Star Valdez Refinery**
- 60,000 barrel/day crude distillation unit
- 12,000 barrel/day distillate hydrotreater hydrotreater and associated process units (Clean Fuels Unit)
- Primary products are commercial & military spec jet fuels and ULSD (JP-5 for USCG Kodiak)

**Petro Star North Pole Refinery**
- 22,000 barrel/day crude distillation unit
- Primary products include commercial and military spec jet fuels, home heating oil, low-sulfur diesel, asphalt oil and turbine fuel

**Marathon Nikiski Refinery**
- 68,000 barrel/day refinery
- Primary products include gasoline, gasoline blend stocks, jet fuel, diesel fuel, heavy fuel oils, propane and asphalt
- 31 Tesoro and other retail locations across the state
Core Fields are Key for Future

Investing in Core Fields: Prudhoe, Kuparuk River, Colville River (Alpine)

Prudhoe Bay, Kuparuk River and Colville River Units thru 2029 (estimated*): $11B capital
380 MM Bbls produced peaking at ~150,000 BOPD

*All numbers are gross estimates.
North Slope “Renaissance”

Based upon publicly available sources and ConocoPhillips estimates.

CORE FIELDS
Alpine: Fiord West, Narwhal
Kuparuk: Nuna, Eastern NEWS
Prudhoe Bay: I Pad, M Pad, VLBX
Core Fields Development Drilling

Hilcorp: Liberty
development

COPA: Willow
Appraisal and
Development

GMT2
Development

2020 COPA
Exploration:
Harpoon

NEW 2016-2019
COPA Leases

NEW 2017-2018
COPA Leases

Oil Search & Repsol
Pikka exploration &
Nanushuk
development

2018 COPA
Exploration:
Seismic Acquisition

Brooks Range Petro Co.:
Mustang development
and pad expansion

Hundreds of Thousands of New Barrels/Day and ~$24 Billion in Capital

Based upon publicly available sources and ConocoPhillips estimates.
United States - Largest Producer in World

Estimated petroleum and natural gas production in selected countries

Quadrillion British thermal units

**Petroleum**

- United States
- Saudi Arabia
- Russia

**Natural Gas**

- United States
- Russia
- Saudi Arabia

Source: U.S. Energy Information Administration, based on International Energy Statistics
Note: Petroleum includes crude oil, condensate, and natural gas plant liquids.

Future: World Needs Oil & Gas

Figure 3.5  Global oil demand by sector in the New Policies Scenario

![Graph showing oil demand by sector for 2000, 2017, and 2040.]

Figure 3.13  Oil production with no new investment from 2018 and demand in the New Policies and Sustainable Development scenarios

![Graph showing oil production and demand over time.]

Figure 10.15  Shares of fuels in world primary energy demand today and in 2040 by scenario

![Graph showing fuel shares in energy demand for 2017, NPS, FIES, and SDS scenarios.]

Promoting energy security is an important policy consideration; electrification, together with energy efficiency and other alternative fuels, can help achieve this goal.

Note: NPS = New Policies Scenario; FIES = Future is Electric Scenario; SDS = Sustainable Development Scenario.

Note: EHOB = extra-heavy oil and bitumen; NGLs = natural gas liquids; NPS = New Policies Scenario; SDS = Sustainable Development Scenario.

With no new investment, global oil production would halve by 2025: an average loss of nearly 6 mb/d every year.
Alaska: 6th in U.S. Production

Six Month Average – Daily Production
April 2019 – September 2019

- Texas: 5.1 million
- New Mexico: 906,000
- North Dakota: 1.40 million
- Oklahoma: 582,000
- Colorado: 508,000
- California: 444,000
- Alaska: 447,000

Is the Current Tax Structure Working?

Through FY19:
~80,000 BOPD more production than projected under ACES

Estimated $1.5B+ additional State revenue vs ACES
What about Credits?

The state of Alaska no longer offers “cashable credits”

- Only companies with less than 50,000 barrels per day of production were eligible.
- The units targeted by the ballot measure never qualified for cashable credits.
- Program ended with legislation passed in 2016 and 2017.
- State still owes hundreds of millions in credits earned under this previous program.

The Per-Barrel “Credit” is not a cash payment – it is a deduction

- The per-barrel credit was designed in SB 21 to create an element of progressivity.
- The purpose is to lower the effective tax rate when prices are low.
- Without the per-barrel credit, the state would have a flat 35% tax rate.
Experts Agree - Per barrel is not a “credit”

The credit against the production tax is not really a credit; it has an explicit tax-rate-setting goal.

- Analytica, Legislative Consultant, June 17, 2015

With SB 21, the [per barrel] credit is an offset to the tax and is designed to create a progressive element; a little bit lower tax rate at lower prices, a higher tax rate at higher prices. So, it’s hard to really consider them a credit in the context of an inducement to doing work. It’s really what we are calling an integral part of the system.

- Ken Alper, DOR Tax Division Director, June 17, 2015
Per Barrel Keeps Alaska Competitive

Effective Production Tax Rate (Post-Credits) - Non-GVR oil

Effective Tax Rate Without P/BBL Credit - Flat 35% at all prices

Effective Tax Rate With P/BBL Credit

Source: Department of Revenue, House Resources Hearing Follow-Up, April 2019 (with additions)
Kenai Refinery 50th Anniversary - 2019

CELEBRATING 50 YEARS

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