



PUBLIC POLICY REPORT:

HOW NORWAY DEVELOPS ITS OIL AND GAS

A Presentation to the House Special Committee on
Economic Development, Trade and Tourism
January 26, 2012

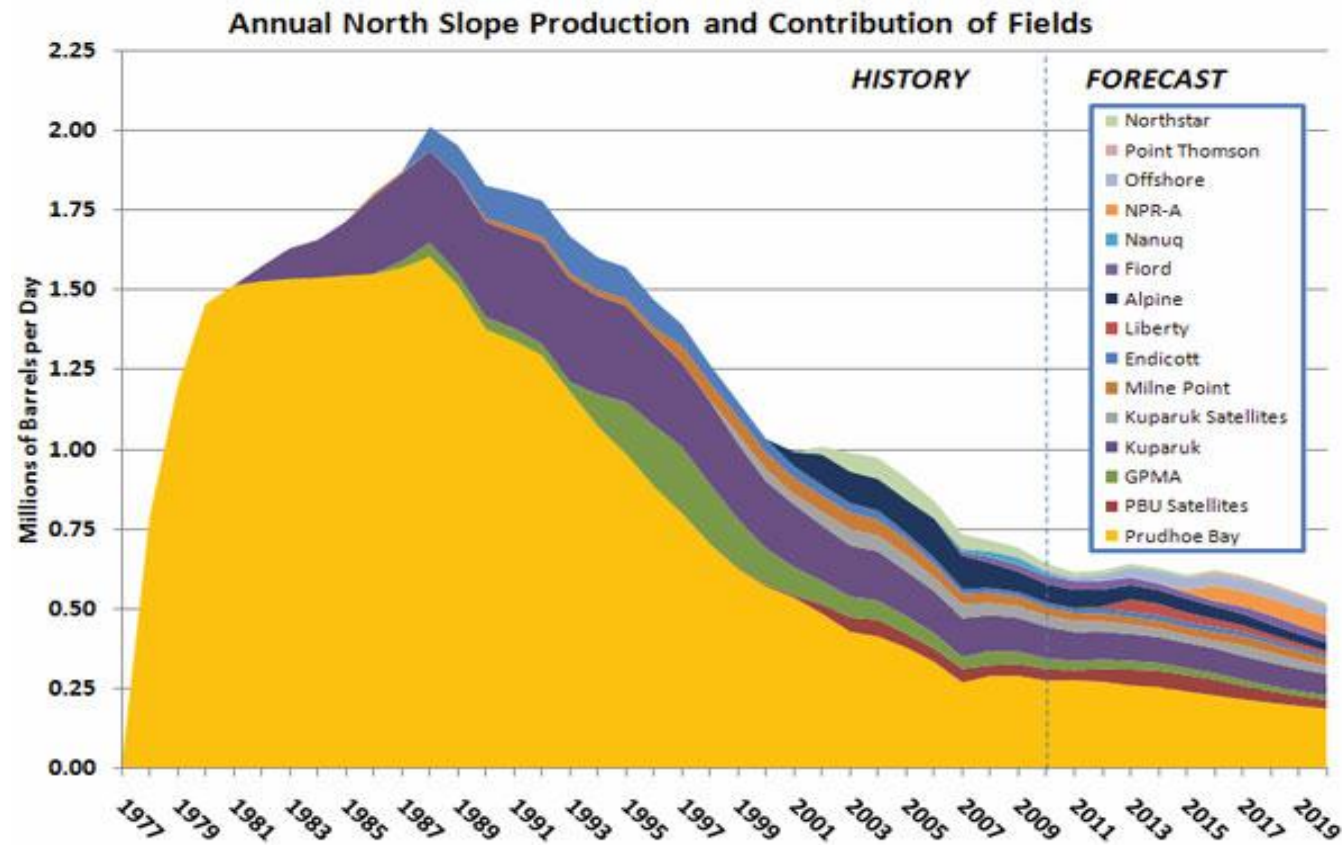
The NORTH



Why We Went:

Oil Production in Decline

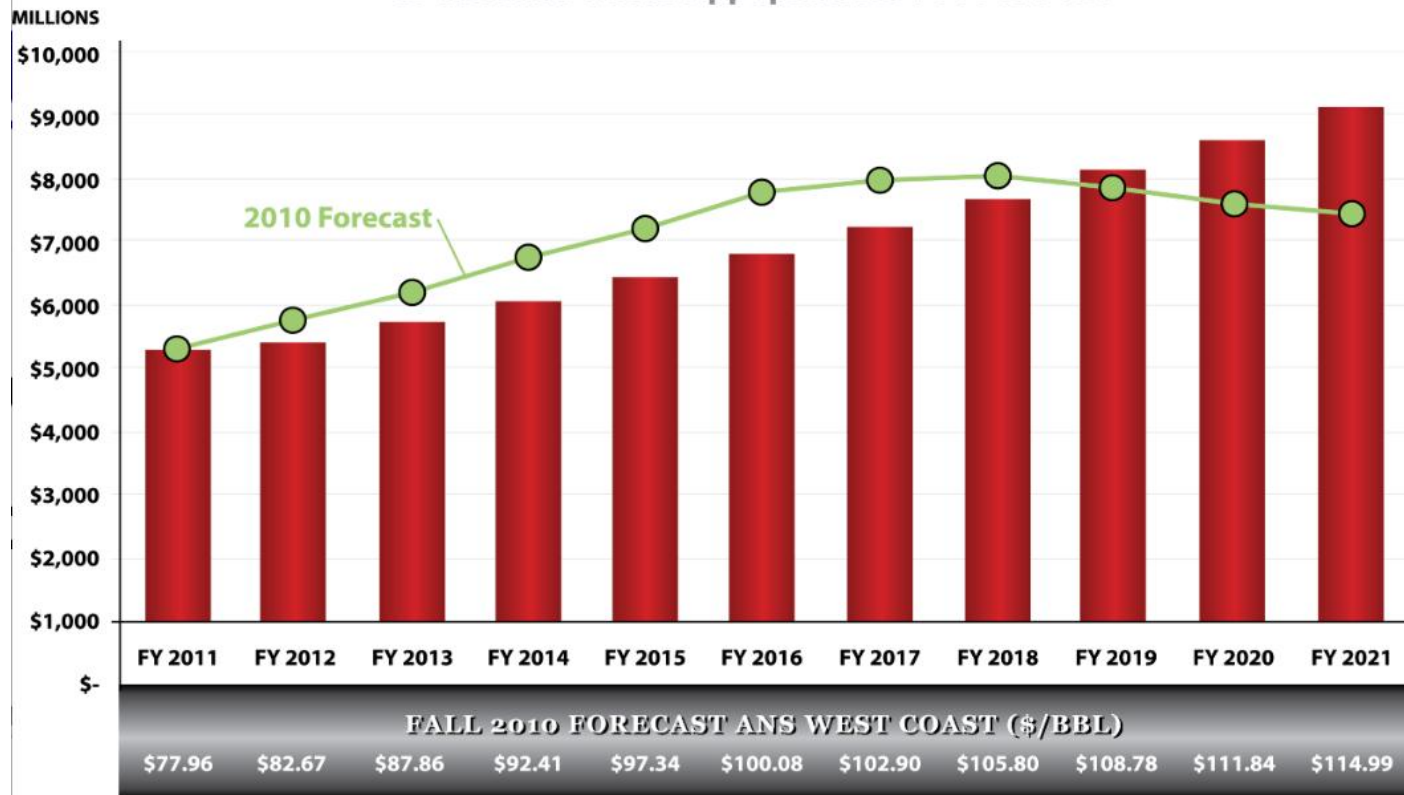
Alaska's Economic Future is Uncertain



7 Years of Surplus Ahead; Then What?

FY 2012 Governor's Budget with 6% Annual Expenditure Growth

GF Revenue versus Appropriations FY11 to FY21



Source: State of Alaska, Office of Management & Budget, FY2012-10 Year Plan.

NORWAY

with Alaskan cities at corresponding latitudes

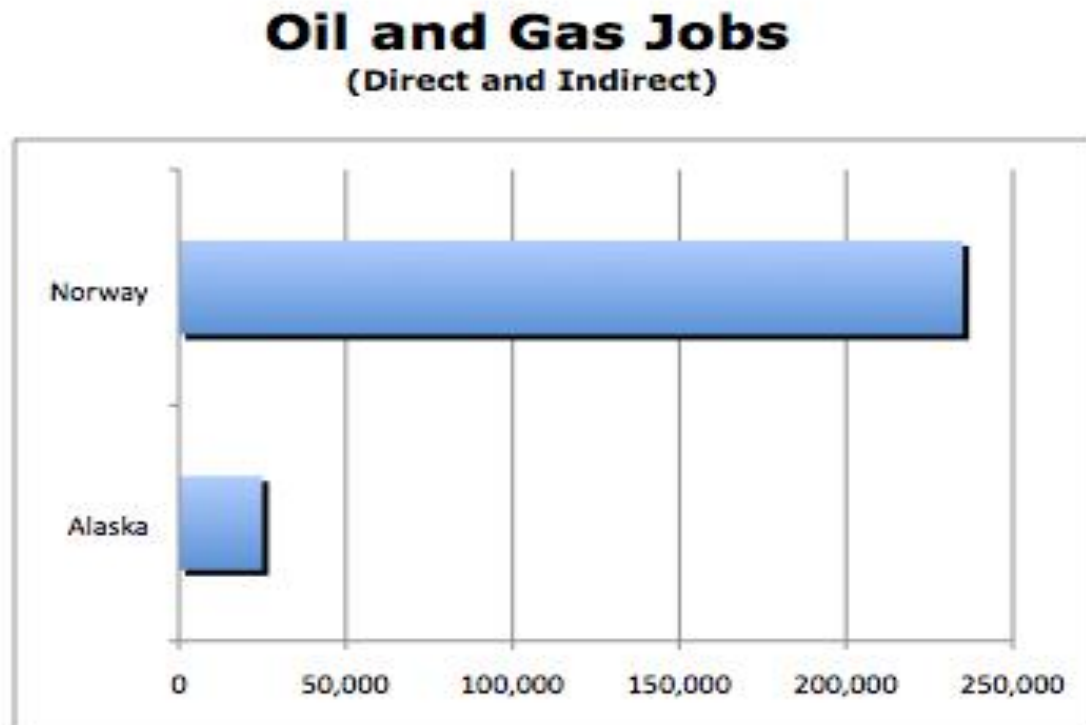


WHAT WE FOUND

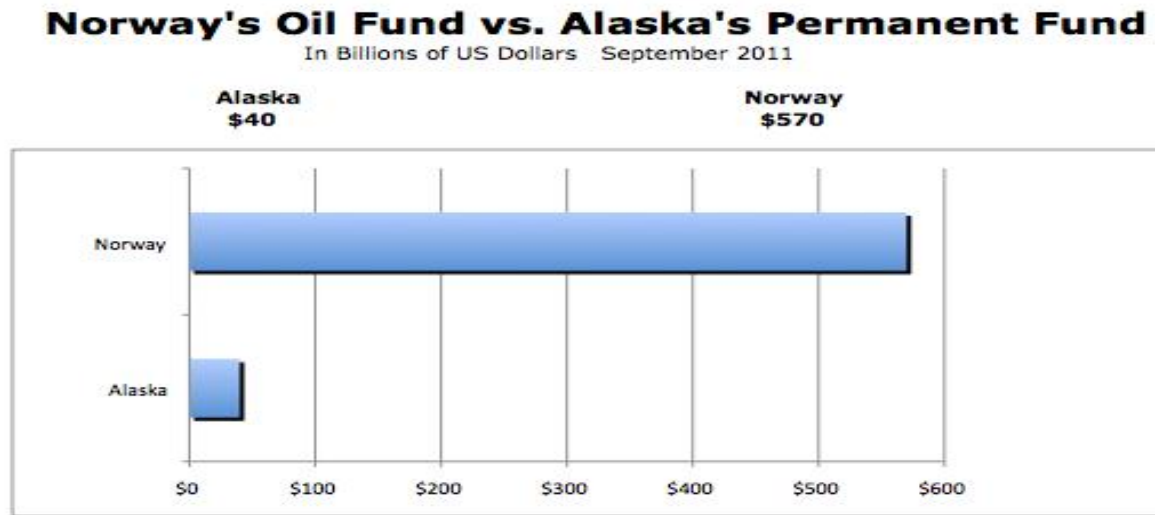
Norway Today: Prosperous



Norway has more jobs in the oil and gas sector than Alaska.



Norway's version of a Permanent Fund is much bigger than ours.



Norway: First deposit in 1996. 12 billion barrels produced since 1996.
Alaska: First deposit in 1977. 19 billion barrels produced since 1977.

\$3 Trillion before oil & gas run out.

Snapshot of Norway (2010):

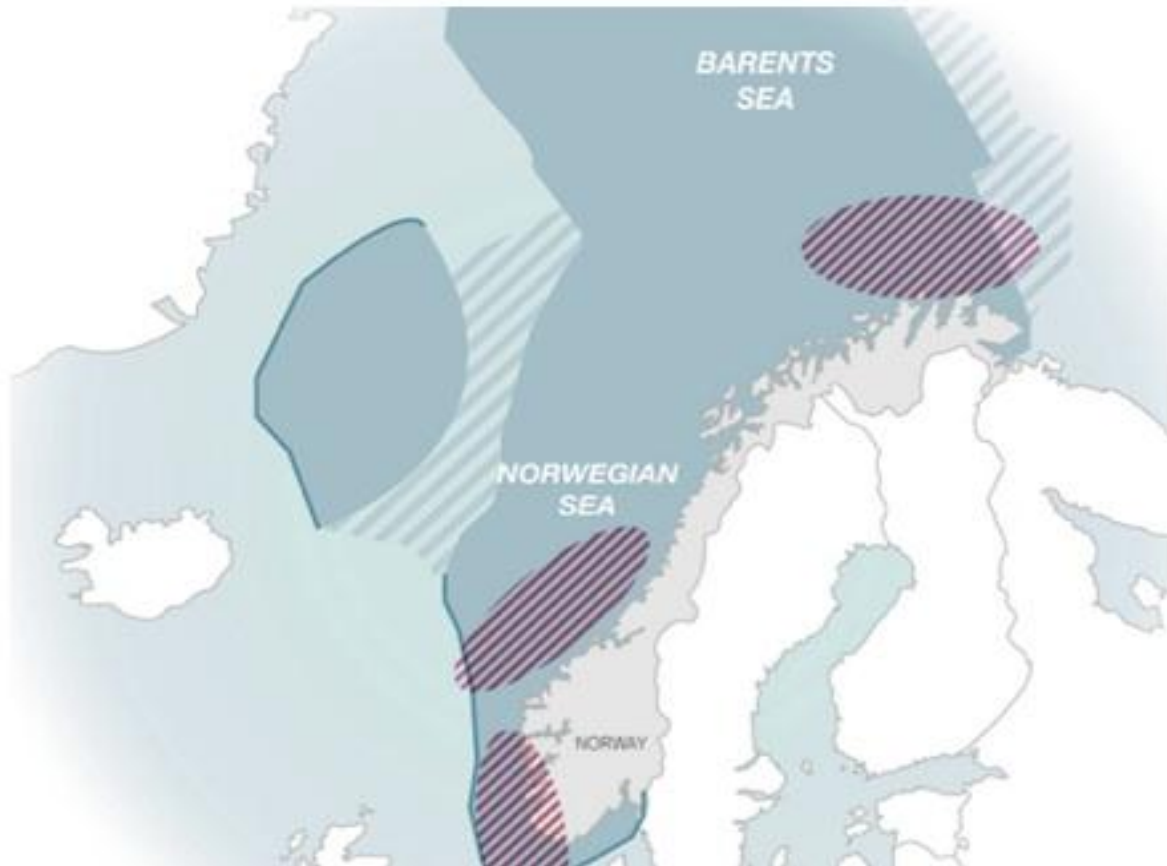
- Population: **4,888,000 (7x that of Alaska)**
- Income Per Capita: **\$88,400 (vs. \$43,209 AK)**
- Income: GDP/PPP: **\$59,100 (vs. \$47,700 U.S.)**
- Unemployment Rate: **3%**
- % of Government annual expenditure paid by oil and gas revenues: **10 - 26% (vs. 80-90% AK)**
- Democratically elected unicameral Parliament. Plus ceremonial monarch.

Norway's Oil and Gas

- **Primarily for export**
- **World's sixth largest oil exporter**
- **Europe's second largest gas exporter**

Norway's Continental Shelf

100% of Oil and Gas is Offshore/State-owned



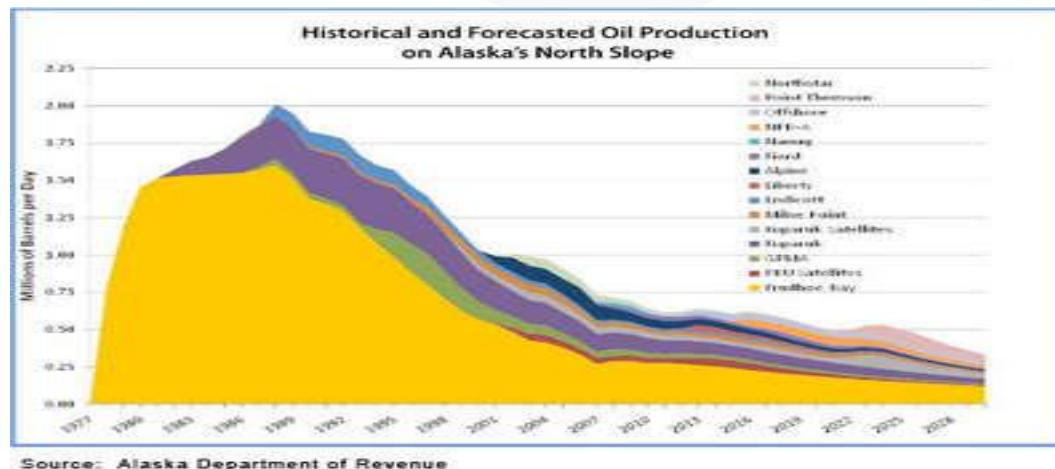
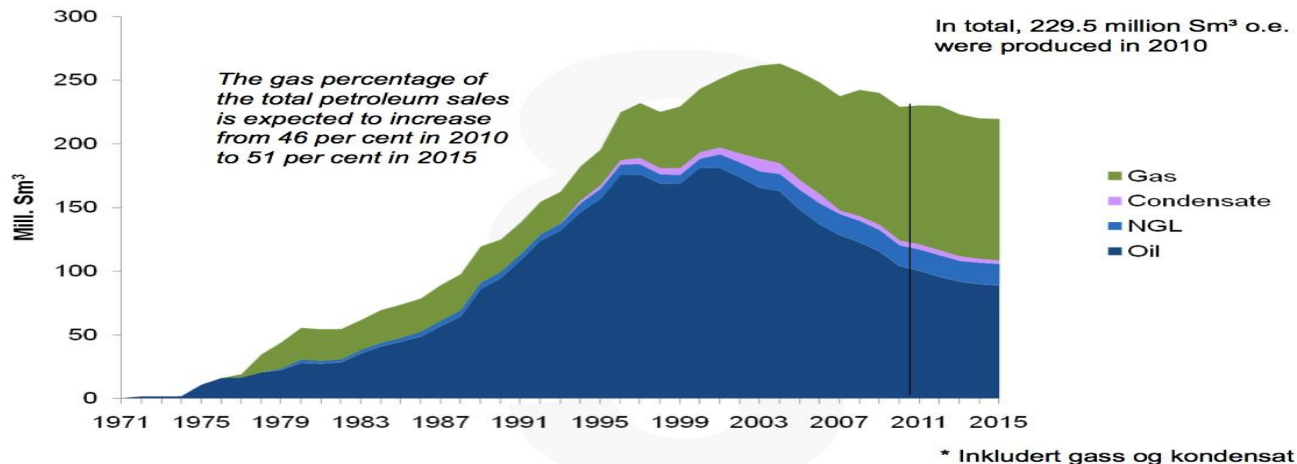
A Summary of What We Learned:

- Norwegians are not worried about their economic future.
- Norway has flattened oil and gas production decline.
- How:
 - By attracting investment capital, and
 - Co-investing in its own oil and gas development.

Norway's Oil and Gas Production:

Production Decline Delayed for 10 – 20 years

Petroleum production



Lesson Learned

Norway successfully attracts private investment to help develop its oil and gas resources:

60+ International oil and gas producers are investing in Norway.

60+ Oil and Gas Companies Invest in Norway



Norway's Licensing System:

- Norway **selects tracts to license** (6 year initial term) after consultation with stakeholders
- Norway **conducts initial seismic** (2D); results are made public
- **Industry submits applications** consisting of a work plan, financial strength, safety record (no bonus bid, no royalty)
- Licenses are **awarded based upon work plan** and qualifications; 6 years = “Drill or Drop”

Norway's Licensing System (cont.)

- Environmental and other **approvals are included in license**
- License **may include several partners** and specifies state (Petoro) share as part of terms
- Going forward, **all partners are part of decision process**, share investment, expenses and information

**BUT: The #1 investor in Norway's
oil and gas development is.....**

NORWAY

**Through State Direct Financial
Interest (SDFI)**

What is SDFI

- **State invests and participates directly** (the same as a producer) in the development of the resource
- State substitutes ...
 - ... **definitive work and investment commitments**, for upfront lease bonus,
 - ... **participation in development decisions** and access to information, for passive royalty role
- **State becomes an active participant** rather than a passive, back seat driver

Most significant lesson learned

- SDFI creates **alignment of interests** between the State and producers
 - State gains **understanding of investment dynamics**
 - State has full access to data and **better understands field dynamics and development**
 - State participates directly and has the **ability to help drive development decisions**
 - **Increases State understanding**, reduces State suspicion
- Norway once used **bonus and royalty system**, but transitioned away from it because they concluded it **impaired investment decisions**

Implementing SDFI in Alaska

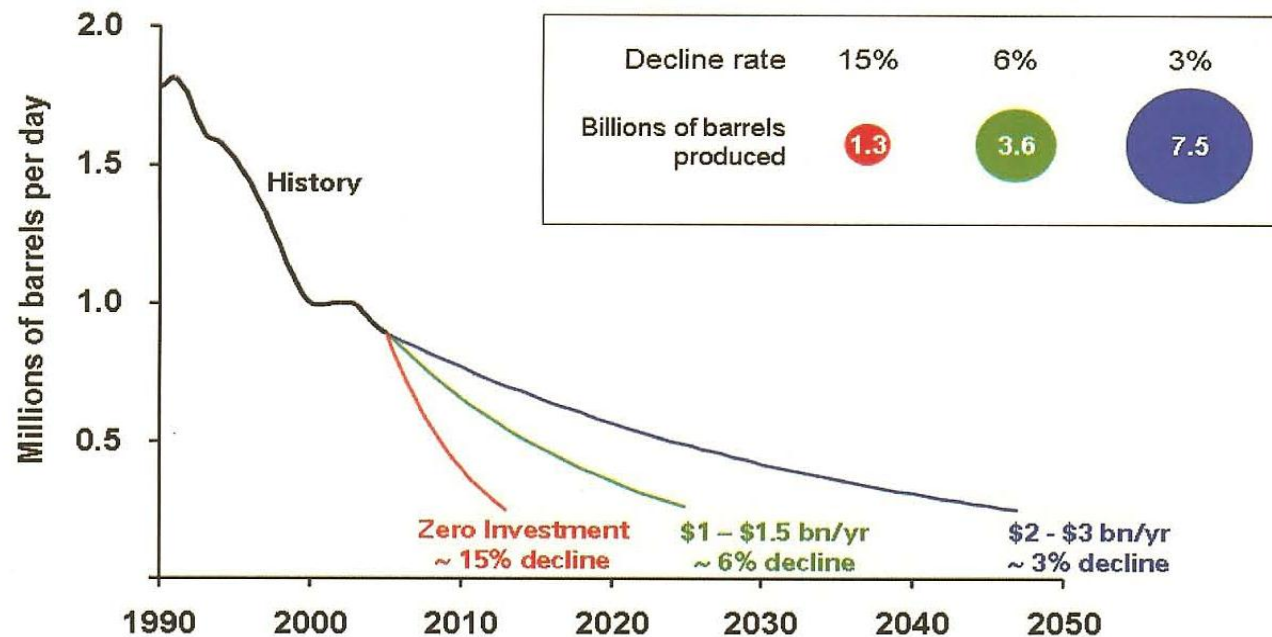
- Can be added as an option in new leases
- But, that does not reach “low hanging fruit”
 - Challenge is to make SDFI available as an option to help immediately in developing existing resources
- Important part of Norwegian model: create a professional, non-politicized corporation (similar to Permanent Fund Board) to administer state’s interest

A Way Forward

- Create **an option for converting to SDFI** under existing leases (upon mutual agreement)
 - Focus on undeveloped or underdeveloped horizons
- Potential approach
 - State exchanges royalty for specified ownership percentage, fixes fiscal terms, becomes a participating owner
 - Parties (including State) agree to a specified work commitment for the agreed areas

The Goal: Change the Curve

Investment & Decline



Source: BP Presentation on Proposed PPT
(Alaska State Legislature House & Senate Resources
Committees 2006)

RECAP: Private Companies Like: Norway's Investment Incentives:

- **Reduced Risk** (2D seismic provided by Norway)
- **Reduced Up-Front Costs** (no \$ bids)
- **Shared Risk/CO-INVESTMENT** (SDFI)
- **Alignment** between Norway and industry
- **Predictability:** Quick permitting, consistent environmental and safety rules, limited judicial interference. License to Production in 3 years.
- **Tax Stability:** 78%; non-progressive. Rapid deductibility of development costs

SUMMARY:

The Norway Model:

1. **SAVE**

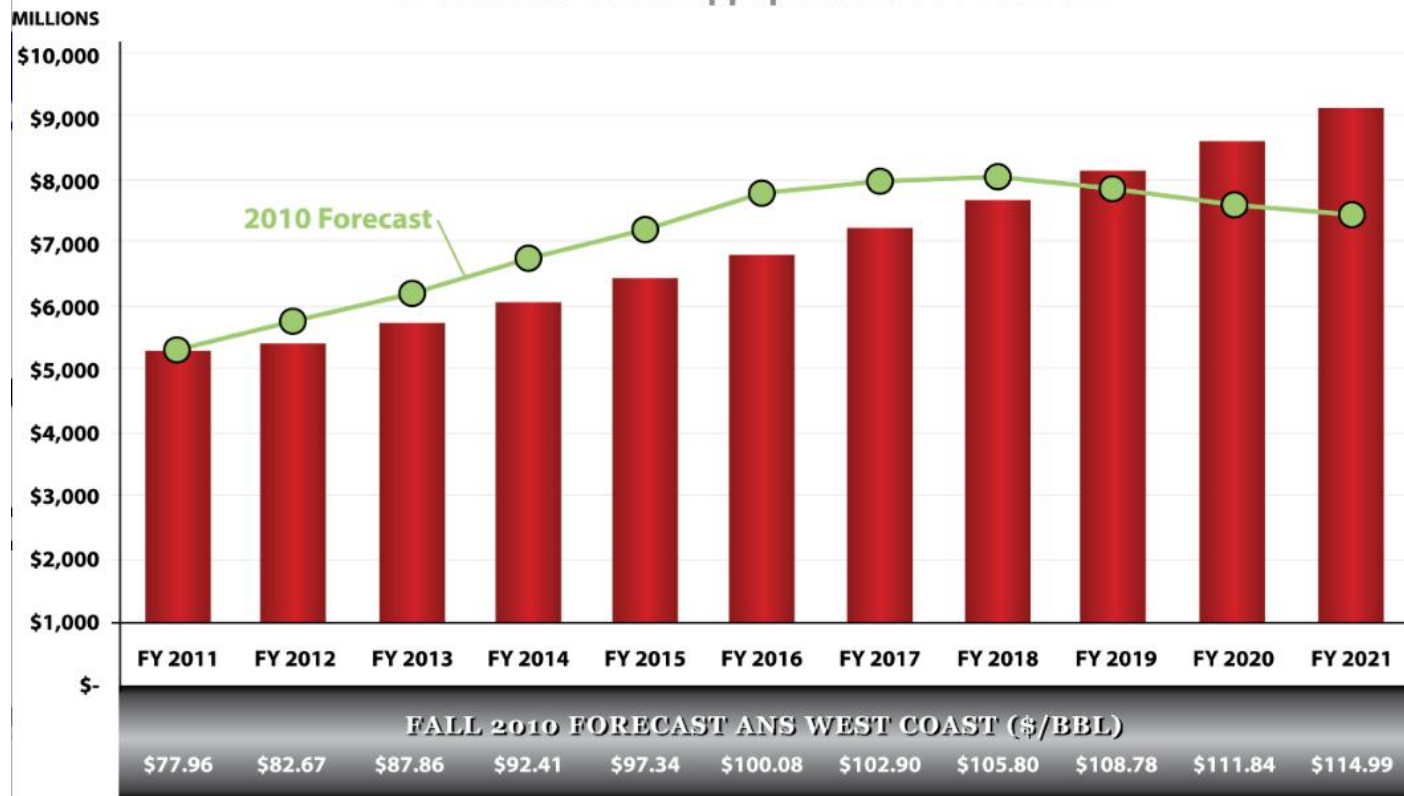
2. **CO-INVEST**

3. **PROSPER**

7 Years of Surplus Ahead; What Should We Do?

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THANK YOU!



W A L T E R J . H I C K E L , F O U N D E R