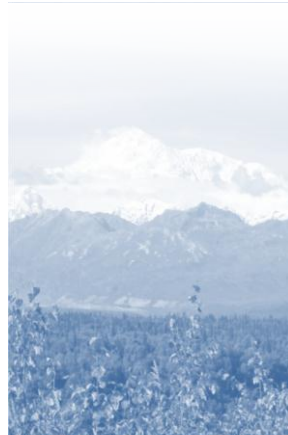




State of ALASKA

Department of Natural Resources



House Finance Committee

DNR FY2014 Budget Overview

January 28, 2013

Commissioner Daniel S. Sullivan
Alaska Department of Natural Resources
www.dnr.alaska.gov

AGENDA



PART I: DNR Overview

PART II: Looking Back – A Promising 2012

PART III: 2013 Legislative Session & Beyond

PART IV: FY 2014 Budget Highlights

Part I



DNR OVERVIEW

State of Alaska

Department of Natural Resources



Article 8, Section 1 of the Alaska Constitution provides:

- *“It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.”*

DNR Mission Statement:

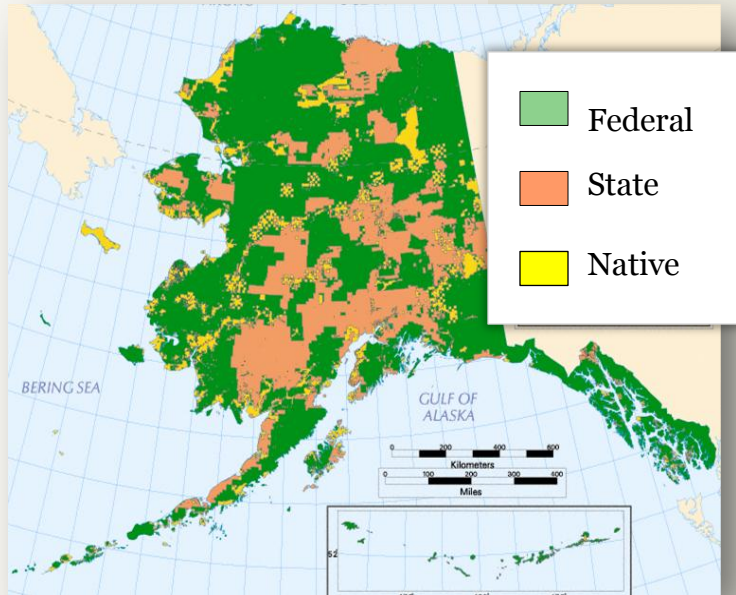
- *Responsibly develop Alaska’s resources by making them available for maximum use and benefit consistent with the public interest.*

DNR Core Services:

1. Foster responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment
2. Provide access to state lands for public and private use, settlement, and recreation
3. Ensure sufficient data acquisition and assessment of land and resources to foster responsible resource development
4. Mitigate threat to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geological hazards

State of Alaska

Department of Natural Resources



Land Ownership

- *Federal Land*: More than 200 million acres
- *State Land*: Approx. 100 million acres of uplands, 60 million acres of tidelands, shore lands, and submerged lands, and 40,000 miles of coastline
- *Native Corporation Land*: 44 million acres

DNR:

- Manages one of the largest portfolios of oil, gas, minerals, renewable resources, water, and land in the world
- Manages all oil and gas fields on state land, including two of the largest oil and gas fields in North America
- Oversees all activities that occur on state land

Alaska *as a* Storehouse

Hydrocarbons



North Slope

USGS estimates that Alaska's North Slope has more oil than any other Arctic nation

- **OIL:** Est. 40 billion barrels of conventional oil (*USGS & BOEMRE*)
- **GAS:** Est. over 200 trillion cubic feet of conventional natural gas (*USGS*)
- Alaska has world-class unconventional resources, including tens of billions of barrels of heavy oil, shale oil, and viscous oil, and hundreds of trillions of cubic feet of shale gas, tight gas, and gas hydrates
 - Positive methane hydrate test production

Cook Inlet

USGS estimates that significant undiscovered volumes of hydrocarbons remain to be found in the Cook Inlet:

- 19 trillion cubic feet of natural gas
- 600 million barrels of oil
- 46 million barrels of natural gas liquids

Compared to most basins, Alaska is relatively underexplored, with 500 exploration wells on the North Slope, compared to Wyoming's 19,000.



Alaska *as a* Storehouse

Strategic & Critical Minerals



The State of Alaska Ranks in the *Top Ten in the World* for Important Minerals, Including:

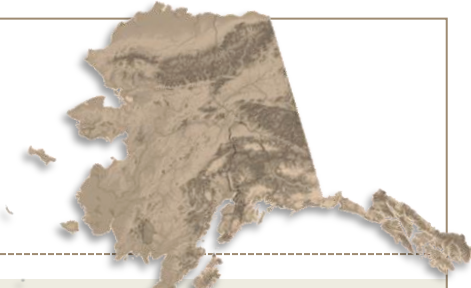
- **Coal:** 17% of the world's coal; *2nd most in the world*
- **Copper:** 6% of the world's copper; *3rd most in the world*
- **Lead:** 2% of the world's lead; *6th most in the world*
- **Gold:** 3% of the world's gold; *7th most in the world*
- **Zinc:** 3% of the world's zinc; *8th most in the world*
- **Silver:** 2% of the world's silver; *8th most in the world*

USGS estimates

According to the USGS, Alaska has over 70 occurrences of Rare Earth Elements (REE).

State of Alaska

DNR has 7 Divisions



1. Division of Agriculture (DoA)

- Franci Havemeister, Director
- 47 full and part-time budgeted positions
- 4.6% of DNR's FY14 Operating Budget Request
- \$7,760.8 budget request (all sources)
- Promotes and encourages development of an agriculture industry in Alaska



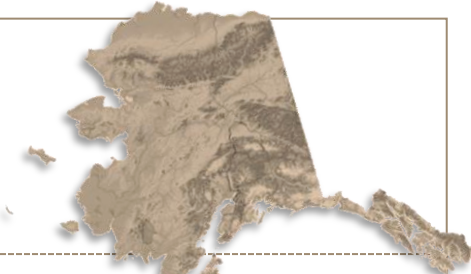
2. Division of Forestry (DoF)

- Chris Maisch, Director
- 276 full and part-time budgeted positions (does not include the hundreds of fire season crews)
- 27.5% of DNR's FY14 Operating Budget Request
- \$46,737.3 budget request (all sources)
- Serves Alaskans through forest management and wildland fire protection



State of Alaska

DNR has 7 Divisions



3. **Division of Geological & Geophysical Surveys (DGGS)**

- Bob Swenson, Director
- 55 full and part-time budgeted positions
- 5.6% of DNR's FY14 Operating Budget Request
- \$9,468.5 budget request (all sources)
- Determines the potential of Alaskan land for production of metals, minerals, fuels, and geothermal resources, the locations and supplies of groundwater and construction material, and the potential geologic hazards to buildings, roads, bridges, and other installations

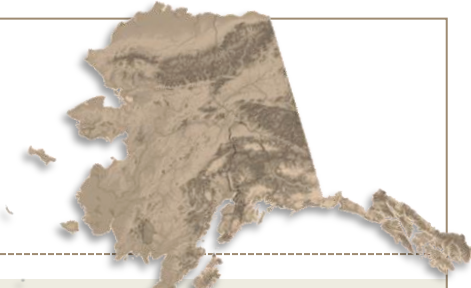


4. **Mining Land and Water**

- Brent Goodrum, Director
- 227 full and part-time budgeted positions
- 16.8% of DNR's FY14 Operating Budget Request
- \$28,631.2 budget request (all sources)
- Provides for the appropriate use and management of Alaska's state owned land and water, aiming toward maximum use consistent with the public interest

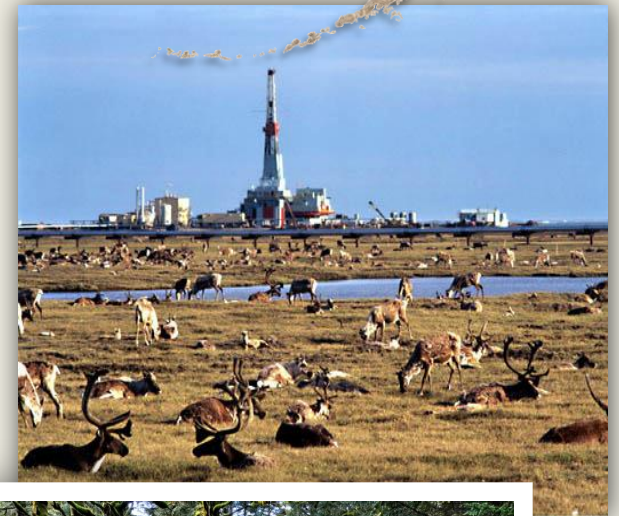
State of Alaska

DNR has 7 Divisions



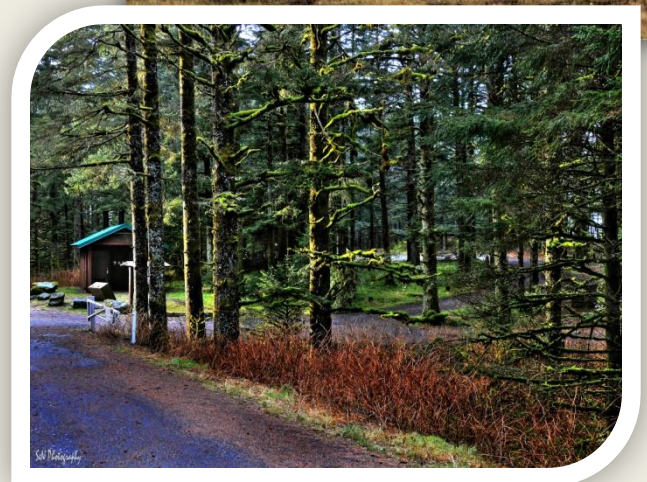
5. Oil & Gas

- Bill Barron, Director
- 100 full and part-time budgeted positions
- 10.1% of DNR's FY14 Operating Budget Request
- \$17,138.5 budget request (all sources)
- Responsible for the leasing of state lands for oil, gas, and geothermal exploration



6. Parks & Outdoor Recreation

- Ben Ellis, Director
- 185 full and part-time budgeted positions
- 9.6% of DNR's FY14 Operating Budget Request
- \$16,399.1 budget request (all sources)
- Provides outdoor recreation opportunities and conserves and interprets natural, cultural, and historic resources for the use, enjoyment, and welfare of the people



State of Alaska

DNR has 7 Divisions



7. Support Services

- Jean Davis, Director
- 130 full and part-time budgeted positions
- 7.7% of DNR's FY14 Operating Budget Request
- \$13,162.6 budget request (all sources)
- Provides client-focused, efficient and cost-effective financial, budget, procurement, human resource, information technology and recording services to DNR and the public

Office of the Commissioner

- Dan Sullivan, Commissioner
- 10 full-time budgeted positions
- 1.00% of DNR's FY14 Operating Budget Request
- \$1,712.3 budget request (all sources)



State of Alaska

DNR Offices



Gas Pipeline Project Office

- Eric Hatleberg, Acting Director
- 7 full-time budgeted positions
- 1.8% of DNR's FY14 Operating Budget Request
- \$2,997.8 budget request (all sources)
- Monitors efforts by the Alaska Pipeline Project (APP) to design, develop, construct and operate a 48-inch natural gas pipeline to commercialize North Slope natural gas

State Pipeline Coordinator's Office

- Mike Thompson, State Pipeline Coordinator
- 30 full and part-time budgeted positions
- 4.6% of DNR's FY13 Operating Budget Request
- \$7,870.1 budget request (all sources)
- Issues leases of state land for pipeline rights-of-ways and implements the state's policy set forth in Alaska Statute (AS) 38.35.010 concerning the development, use, and control of a pipeline transportation system within the state



State of Alaska

DNR Offices



Office of Project Management & Permitting

- Tom Crafford, Director
- 16 full-time budgeted positions
- 4.7% of DNR's FY14 Operating Budget Request
- \$7,964.3 budget request (all sources)
- Coordinates the review of larger scale projects in the state

Alaska Mental Health Trust Land Office

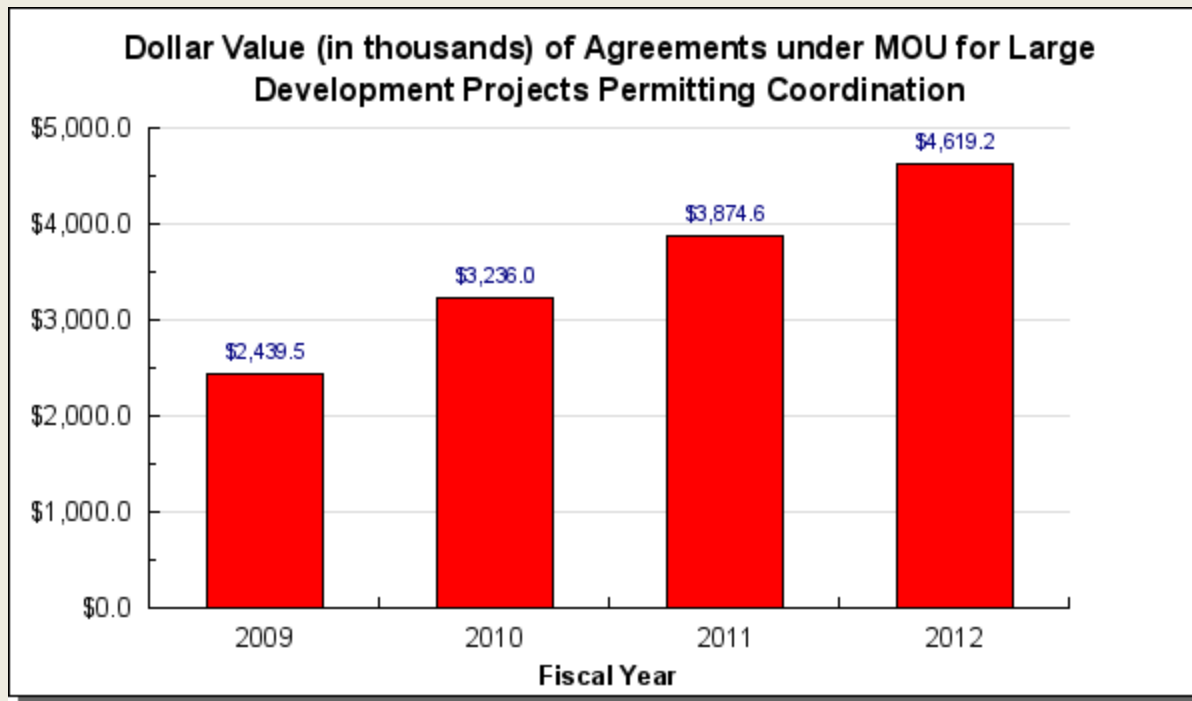
- Greg Jones, Executive Director
- 18 full and part-time budgeted positions
- 2.4% of DNR's FY14 Operating Budget Request
- \$3,996.1 budget request (all sources)
- Protecting and enhancing the value of Alaska Mental Health Trust Lands while maximizing revenues from those lands over time



Key Performance Measures



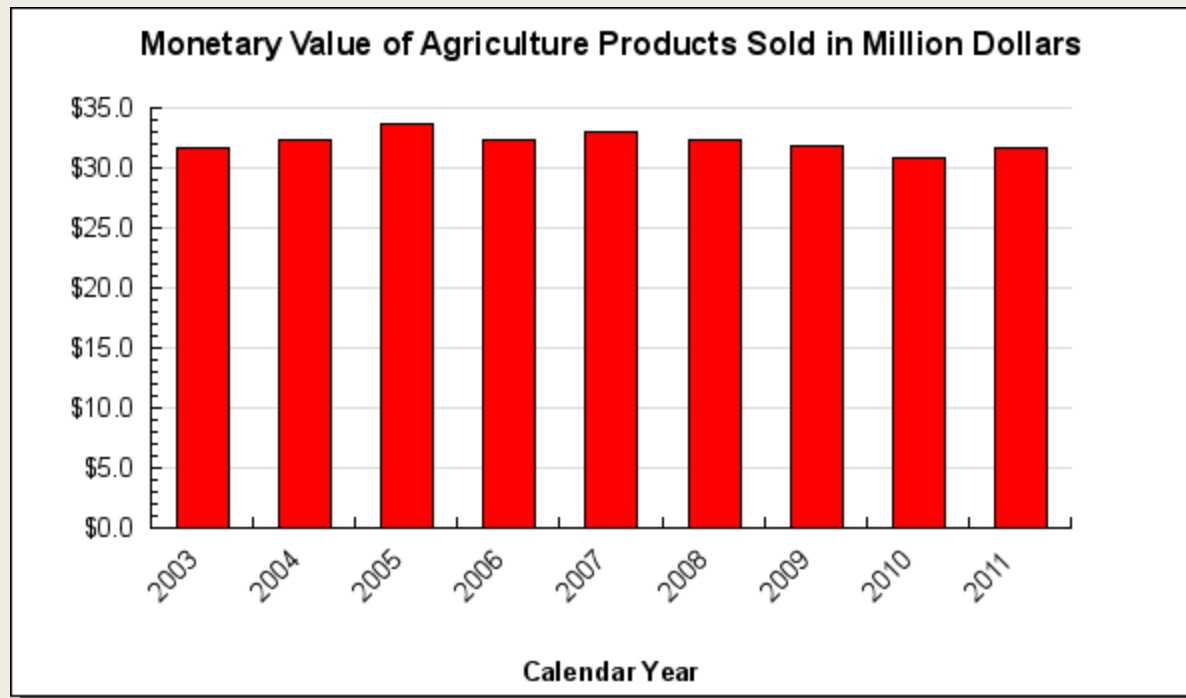
TARGET: Review, coordinate, and manage 100% of large resource development projects that request Office of Project Management & Permitting services to assist companies in navigating the state and federal permitting process.



Key Performance Measures



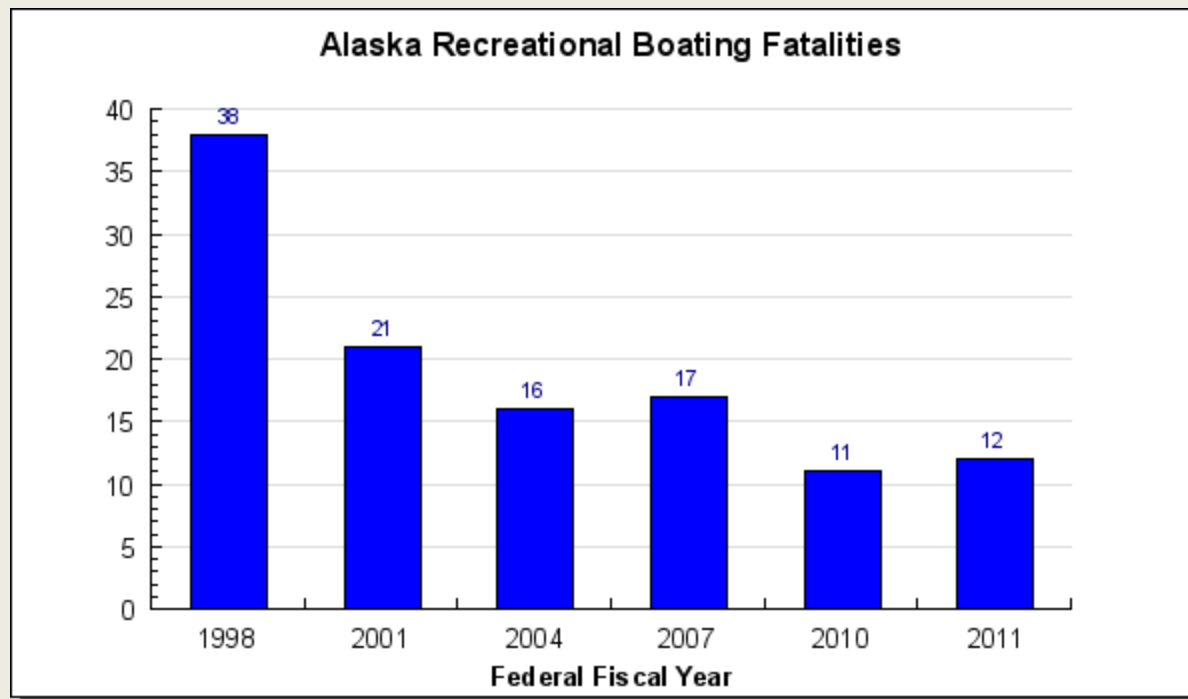
TARGET: Increase awareness of Alaska Grown products and market options, expand gross product sales.



Key Performance Measures



TARGET: The Boating Safety program started in Alaska in 1998. Boating Safety program actions result in saved lives.

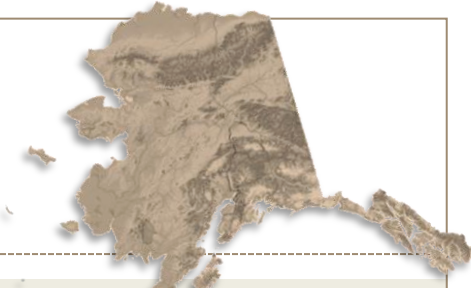


Part II



LOOKING BACK – *A Promising 2012*

Secure Alaska's Future: *Oil*



- TAPS has transported over 16.3 billion barrels of oil and natural gas liquids since June of 1977. Production peaked at 2.2 million barrels per day in the late 1980s, representing 25% of U.S. domestic production
- Since its peak, however, throughput has steadily declined; today, TAPS is 2/3 empty and declining at 6% per year
- TAPS throughput decline threatens economic disruption and the very existence of our pipeline
- We must encourage industry to invest in exploration and development of conventional and unconventional resources on state and federal land, onshore and offshore
- TAPS has plenty of capacity for increased throughput
- Most near-term critical economic issue facing the state
- Less oil in the pipeline year after year takes away revenue from future generations—the ultimate giveaway

Declining oil through TAPS is the most critical economic issue facing our state.

Secure Alaska's Future: *Oil*



*The State of Alaska's
Comprehensive
Strategy to Increase
TAPS Throughput to
One Million
Barrels/Day*

- I. Enhance Alaska's global competitiveness and investment climate
- II. Ensure the permitting process is structured and efficient
- III. Facilitate and incentivize the next phases of North Slope development
- IV. Promote Alaska's resources and positive investment climate to world markets



Cook Inlet, NS & Beaufort Sea Lease Sales



Cook Inlet, 2011 & 2012 Lease Sales

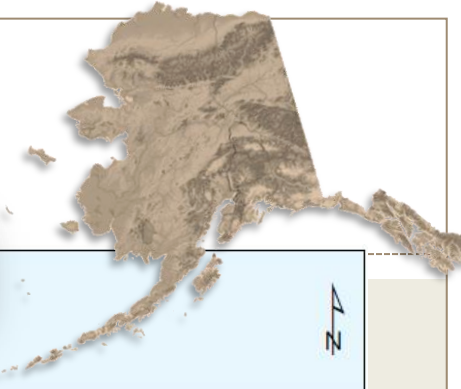
- In June 2011, the state received the highest number of Cook Inlet lease sale bids in 28 years, totaling over \$11 million
 - Total tracts sold: 108
 - Total high bonus bids: \$10,986,826.20
- In May 2012, Cook Inlet lease sale bids totaled more than \$6.8 million
 - Total tracts sold: 44
 - Total high bonus bids: \$6,865,835



NS & Beaufort Sea, 2011 & 2012 Lease Sales

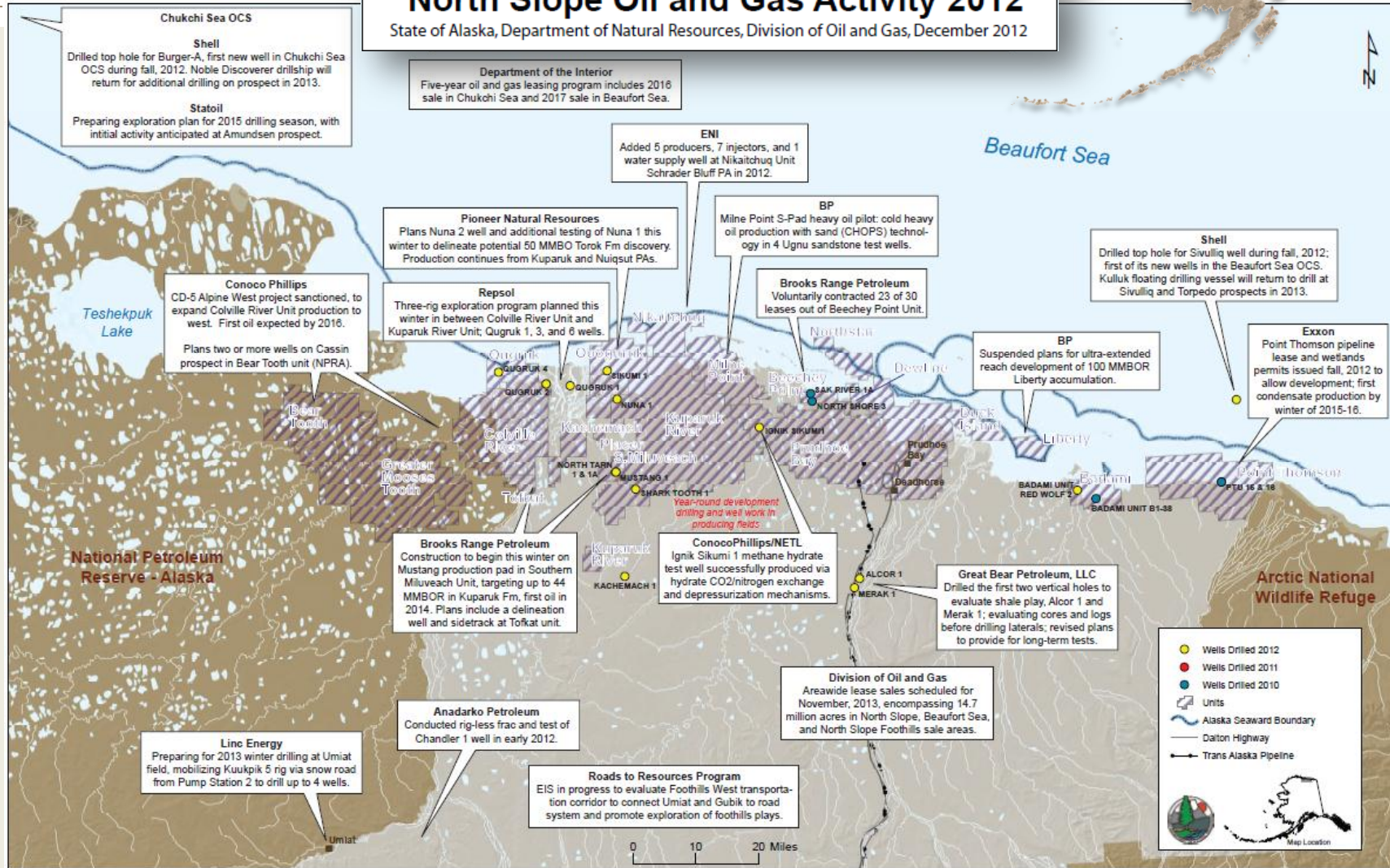
- In December 2011, the Division of Oil and Gas received more than 300 bids from more than 15 bidders, totaling more than \$21 million, signifying one of the most successful sales in recent Alaska history
 - Total tracts sold: 239
 - Total high bonus bids: \$18,712,945.98
- In November 2012, bids for all areas totaled more than \$14 million with tracts sold in the Foothills area for the first time since 2009
 - Total tracts sold : 122
 - Total high bonus bids: \$14,240,333.73
- State needs billions of dollars in new investment to meet the Governor's one-million-barrels-a-day goal

North Slope *Recent & Proposed Activity*



North Slope Oil and Gas Activity 2012

State of Alaska, Department of Natural Resources, Division of Oil and Gas, December 2012



Next Phases & New Areas

Of Exploration for NS Oil & Gas



- Shale oil exploration – ongoing
 - July 31st conference in Anchorage on Shale Oil
- Shell finally was able to drill its first exploratory wells in the Beaufort and Chukchi Seas
- Record of federal permitting delays should be a continued source of concern for the State
- Eastern North Slope open, PT settled
 - PT permits issued by the State and the Corps of Engineers
- Linc Energy drilling operations at Umiat are moving forward
- New players, operators and exploration on state land
 - Shell, Repsol, Brooks Range, Great Bear, Savant
 - Exxon Mobil, Conoco Phillips
- These developments, while positive, are just scratching the surface of our overall potential



Cook Inlet

Oil & Gas Activity



- Legislative tax and investment incentives are working
- Old and new players exploring and investing: Apache, Hilcorp, Armstrong, Linc, Buccaneer, Nordaq, Furie, Cook Inlet Energy, ConocoPhillips, CIRI
- Hundreds of millions invested in 2012
- Dramatic increase in number of drill rigs in inlet – either idle, available or stacked
 - In November 2006, 9 rigs
 - In November 2009, 12 rigs
 - In November 2012, 17 rigs (includes 2 jack-up rigs)
- Companies shooting major 3-D seismic over large areas of the basin
 - Never previously done at this scale with this sophisticated technology
 - Presents huge opportunities for development
- New gas storage project on line; important for supply security and more steady year-round production, and peak availability
- Attractive price for gas relative to Lower 48 markets – but challenged by a relatively small market
- State continues to focus on safe, responsible development and operations



WSJ Article, August 27, 2011:

“New Energy Estimate Breathes Life Into a Declining Alaskan Oil Field”

Cook Inlet

Oil & Gas Activity

Cook Inlet investment surges in 2012

By MICHAEL
For Petroleum News

Cook Inlet undoubtedly went through a renaissance in 2012. While dwindling supplies remain a concern, the year saw companies large and small making significant investments in the basin after years without exploration and only limited development. If the most ambitious companies were successful, the region would see increased oil and natural gas volumes some 55 years after production began.

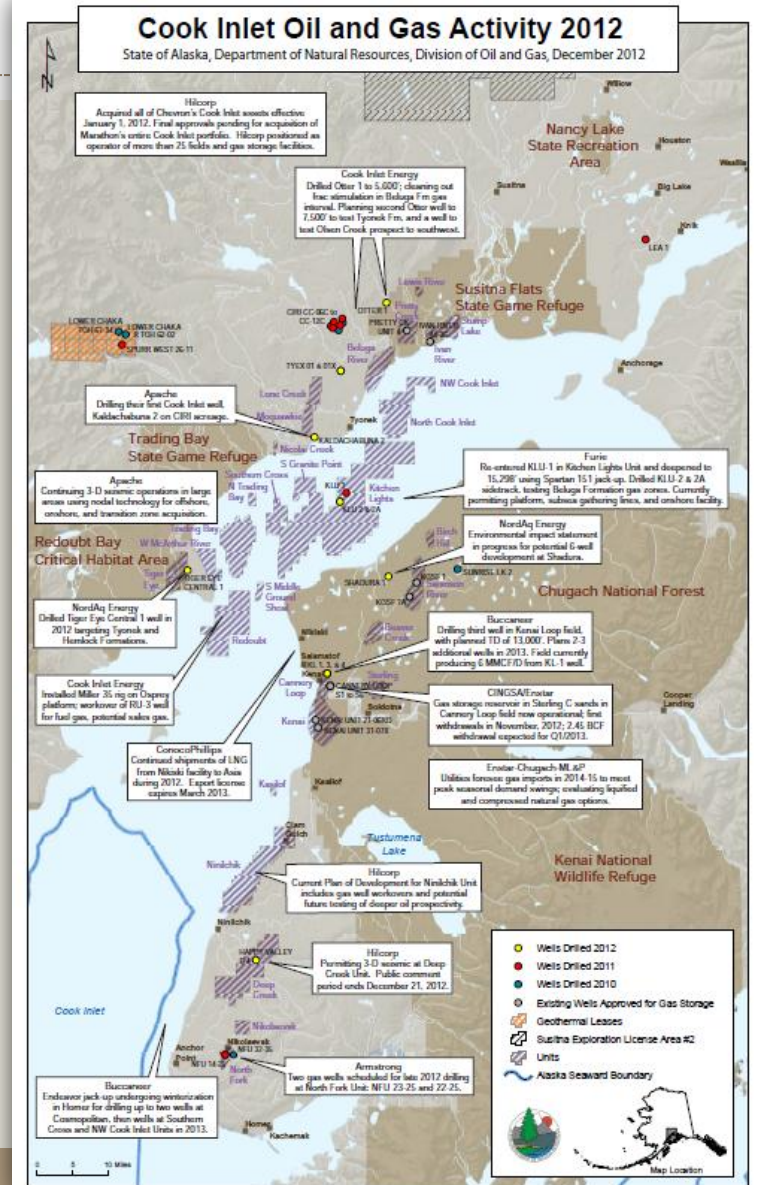
Apache drills
Although it arrived in the state in mid-2010, Apache Corp. made itself at home in Alaska in 2012, both literally and figuratively. Literally, the large Houston-based energy giant opened a new Alaska office in Anchorage in early 2012. Figuratively, it began its

oil and gas operations in the basin after years without exploration and only limited development. If the most ambitious companies were successful, the region would see increased oil and natural gas volumes some 55 years after production began.

Petroleum News, January 13, 2013:

"Cook Inlet undoubtedly went through a renaissance in 2012."

"While dwindling supplies remain a concern, the year saw companies large and small making significant investments in the basin after years without exploration and only limited development. If the most ambitious companies were successful, the region would see increased oil and gas volumes some 55 years after production began."



Commercializing NS Gas

2012 State of the State and Benchmarks



Key principles for any project

- Gas to address Alaska's in-state needs for abundant supplies of low-cost energy and economic growth
- Gas that will maximize the value of the state's massive resource base through high-volume and export markets
- A project that incentivizes exploration and investment in continued oil and gas development

Governor's Roadmap to Gasline

1. Resolve Point Thomson
2. Align during the first quarter of 2012
3. Two projects—under AGIA and AGDC—complete discussions by third quarter of 2012 determining what potential exists to consolidate projects
4. Harden numbers on an Alaska LNG project by the third quarter of 2012, and identify a pipeline project and associated work schedule
5. If milestones are met, the 2013 Legislature takes up gas tax legislation designed to move the project forward

Commercializing NS Gas

Significant Progress



ExxonMobil

ConocoPhillips



March 30, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501

Dear Governor Parnell,

Our three corporations, collectively and individually, value our relationship with Alaska and believe that its citizens across the state, as well as our shareholders around the world, share a common interest in responsible resource development. We write today to inform you of our progress in working together on the next generation of North Slope resource development.

Alaska's vast North Slope holds over 35 trillion cubic feet of discovered natural gas. To date, this gas has been used to enhance North Slope oil production, adding several billion barrels to Prudhoe and Kuparuk recoveries. However, under the right business climate, the full commercial potential of this world-class resource can be unlocked. North Slope gas commercialization will bring new job opportunities, increased state revenues, reliable in-state energy supplies and new exploration opportunities, which will further enhance Alaska's North Slope oil and gas. This will be key toward reaching your goal of 1 million barrels of oil per day through the Trans-Alaska Pipeline System.

Serious discussions between our companies have taken place along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing Alaska natural gas resources will not be easy. Unprecedented issues that must be resolved, and we cannot do it alone. Unprecedented capital for gas development will require competitive and stable fiscal policies in Alaska first be established. Appropriately structured, stable fiscal policies will create new opportunities around the world, and will play a pivotal role in the global market and unlocking the economic potential of North Slope gas.

Point Thomson is an excellent example of a challenged, world-class resource. With approximately 25% of known North Slope natural gas, Point Thomson development is an important element in consideration of North Slope gas commercialization. However, economic models must span decades into an uncertain future to estimate economic returns. Your Administration has taken the lead in forging a Point Thomson settlement that will bring long-term resources, revenues and jobs to help Alaska's economy. With settlement now finalized, our companies are moving forward, as participating co-venturers, with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.

We agree the next generation of North Slope resource development is achievable, working together with the APP parties, as well as with the State of Alaska. Thank you for your leadership and your confidence in us to take on these challenges. We join you in a vision of prosperity and promise. There is much work to do and opportunities yet to discover.

Sincerely,

Rex Tillerson

Jim Mulva

Bob D. Hines

Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing NS Gas

Significant Progress



October 1, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1790
Anchorage, Alaska 99501

Dear Governor Parnell:

On March 30, 2012, ExxonMobil, ConocoPhillips and BP are working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its Alaska Producer Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

We established an integrated team, depicted on Attachment 1, to assess the feasibility of the project. The efforts of over 200 professionals to date to progress this work have included the use of our respective talents and experience to advance a collective understanding of the opportunities and challenges associated with liquefied natural gas (LNG) exports from Southcentral Alaska to refine and understand the opportunities and challenges associated with development.

Our companies bring together specific expertise in Arctic operations and in LNG plant design and operation. Since our joint work began in 2001, we have spent over \$700 million in past work by our collective companies through the Alaska Producer Pipeline Team effort in 2001-02, the Denali Project effort in 2003-04, and our ongoing work through AGIA. As a result, our work on an LNG development project has advanced to a new level of understanding. Specifically, the focus of our work is to make decisions on an LNG development project.

- Developing a design basis for the pipeline, including permafrost
- Investigating multiple ways to remove and dispose of CO₂ and other contaminants
- Assessing use of existing and addition of new Prudhoe Bay field facilities
- Mapping multiple pipeline routing variations
- Assessing multiple pipeline sizes
- Providing for at least five in-state gas off-take points
- Completing preliminary geohazard and marine analysis of 22 LNG site locations
- Developing a design basis for the required LNG tanker fleet
- Evaluating multiple LNG process design alternatives
- Confirming a range of gas blends from the Prudhoe Bay and Point Thomson fields can generate a marketable LNG product

We have narrowed the broad range of alternative development concepts and assessed major project components, including the gas pipeline, gas treatment to remove CO₂ and other impurities, natural gas liquefaction, LNG storage, and marine terminal facilities as described on Attachment 2. Individually,

Governor Sean Parnell

- 2 -

October 1, 2012

each of these components would represent a world-class project. Combined, they result in a mega-project of unprecedented scale and challenge; up to 1.7 million tons of steel, a peak construction workforce of up to 15,000, a permanent workforce of over 1,000 in Alaska, and an estimated total cost in today's dollars of \$45 to \$65+ billion.

Additional accomplishments include:

On March 30, 2012, ExxonMobil, ConocoPhillips and BP submitted a letter informing you of progress in working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its participation in the Alaska Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

We have narrowed the broad range of alternative development concepts and assessed major project components, including the gas pipeline, gas treatment to remove CO₂ and other impurities, natural gas liquefaction, LNG storage, and marine terminal facilities as described on Attachment 2. Individually, each of these components would represent a world-class project. Combined, they result in a mega-project of unprecedented scale and challenge; up to 1.7 million tons of steel, a peak construction workforce of up to 15,000, a permanent workforce of over 1,000 in Alaska, and an estimated total cost in today's dollars of \$45 to \$65+ billion.

Alaska's North Slope natural gas resources must compete in the global energy markets in order to deliver state revenues, in-state energy supplies, new job opportunities and other economic benefits to Alaskans. While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska. We will continue to keep you advised of our progress and stand committed to work with the State to responsibly develop its considerable resources.

Sincerely,

Randy Broiles
ExxonMobil
Production Company

Trond-Erik Johansen
ConocoPhillips Alaska, Inc.

John Mingé
BP Exploration Alaska

Tony Palmer
TransCanada

Attachments

Commercializing NS Gas

Significant Progress



The State of Alaska has made significant progress on commercializing North Slope gas

- Much of the upstream infrastructure is in place
- There is a renewed focus from key stakeholders on monetizing the massive reserves of North Slope gas
- Hundreds of millions of dollars have been spent on critical engineering and environmental regulatory and commercial work required for a gas project

WSJ: Alaska, Gas Firms Clear Way For Pipeline

*Point Thomson settlement
“...paves the way for a pipeline project to ship natural gas from the North Slope, unleashing the state's massive gas reserves.” - WSJ, 3/30/12*

FT: Oil Groups Agree on \$40bn Alaska Gas Project

“ExxonMobil, BP and ConocoPhillips have reached agreement with the state of Alaska to take a significant step forward on a \$40bn-plus project to export liquefied natural gas to Asia, resolving a long-running lease dispute that had been holding up progress.

In a joint letter, the chief executives of the three companies said they were “aligned” on a plan to develop the huge gas reserves of Alaska’s North Slope, which until now have been stranded without a route to market.” - Financial Times, 3/30/12



Commercializing NS Gas

Significant Progress



The companies 3Q announcement attracted significant national and international press.

WSJ: Natural Gas Glut Pushes Export

“The long-awaited effort is expected to have a significant impact not just on Alaska and its economy, but also on U.S. construction and manufacturing companies that would supply steel and other materials for an 800-mile pipeline and the plant that would convert the gas into liquid for export on tankers.” - WSJ, 10/4/12

The Globe and Mail: Alaska plan intensifies gas race to Asia

“A massive new proposal to export natural gas from Alaska brings a major competitor into the race to carry North American gas to Asia, and adds pressure on Canadian export projects to build quickly or risk losing out...”

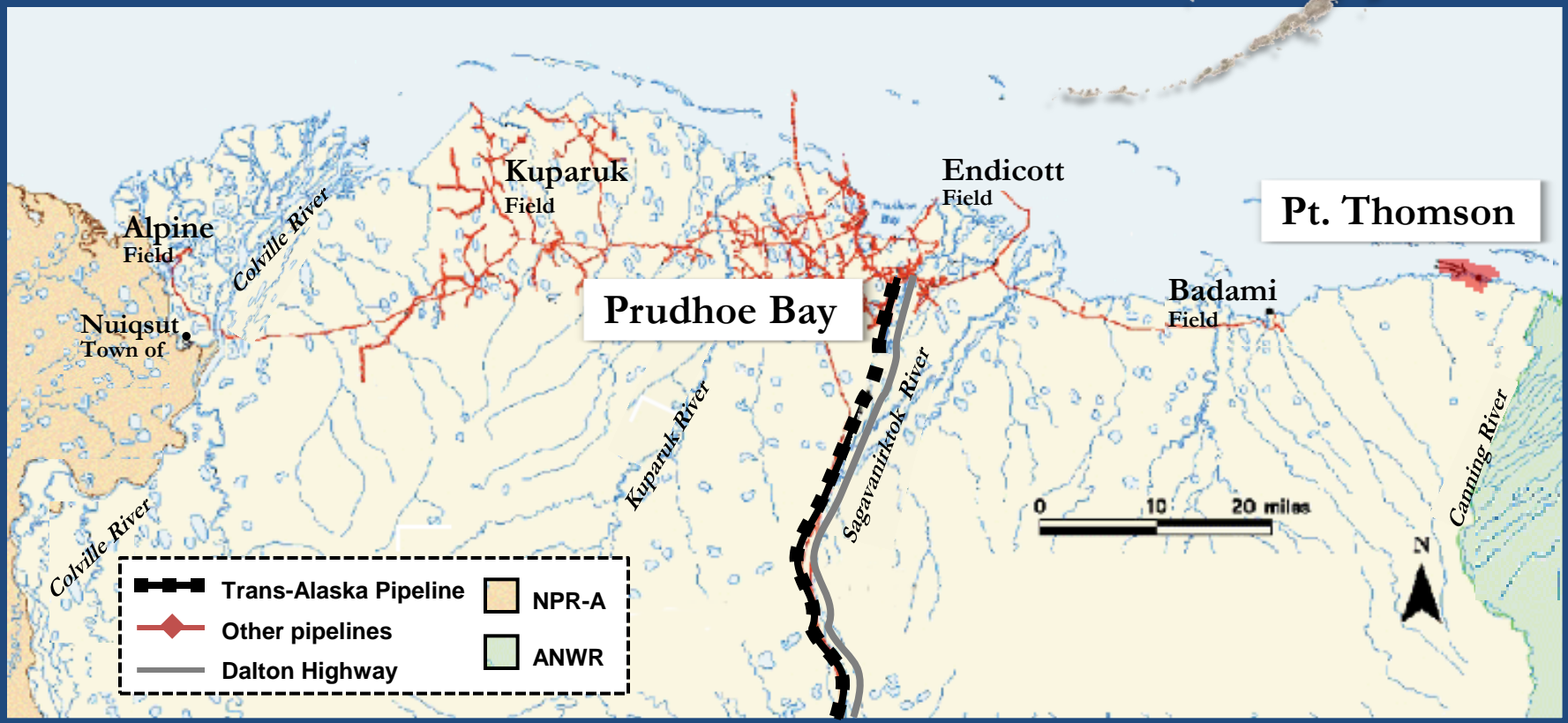
It is notable for the stature of its backers—BP PLC, Exxon Mobil Corp., ConocoPhillips Co. and TransCanada Corp., which have now joined forces after dueling for years over separate gas pipeline projects—and for its scale.” - Globe and Mail, 10/4/12



Photo: Getty Images courtesy of WSJ

Commercializing NS Gas

Point Thomson

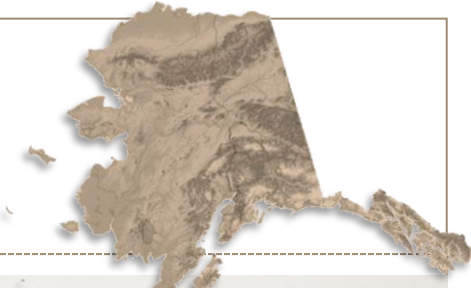


Commercializing NS Gas

Point Thomson



- Point Thomson is a multi-billion dollar project
- Beginning construction now
- Producing Point Thomson liquid condensate into TAPS as part of Phase 1
- Big prize – gas commercialization for LNG
- Significant portion of infrastructure being built for Phase 1 is applicable to a gas line or LNG project
- Three phases of development in 2012: explaining/defending settlement; permitting; and getting to work



Commercializing NS Gas

Comparative Advantages



- The North Slope of Alaska is estimated to have over 200 trillion cubic feet of conventional gas
- Conventional gas is not controversial—unconventional gas in the Lower 48 U.S. states remains controversial
- 35 trillion cubic feet of known reserves
- Prudhoe Bay reinjects 8 billion cubic feet of gas per day, which is enough to meet Canada's daily gas needs
- These numbers do not include the trillions of cubic feet of shale gas, tight gas, and gas hydrates estimated for the North Slope
- This is an almost inexhaustible supply of gas with new technology
- North Slope gas is “wet” gas with a high energy content (BTU value)
- An Alaska LNG project has complete certainty of supply; not all other projects do



Commercializing NS Gas

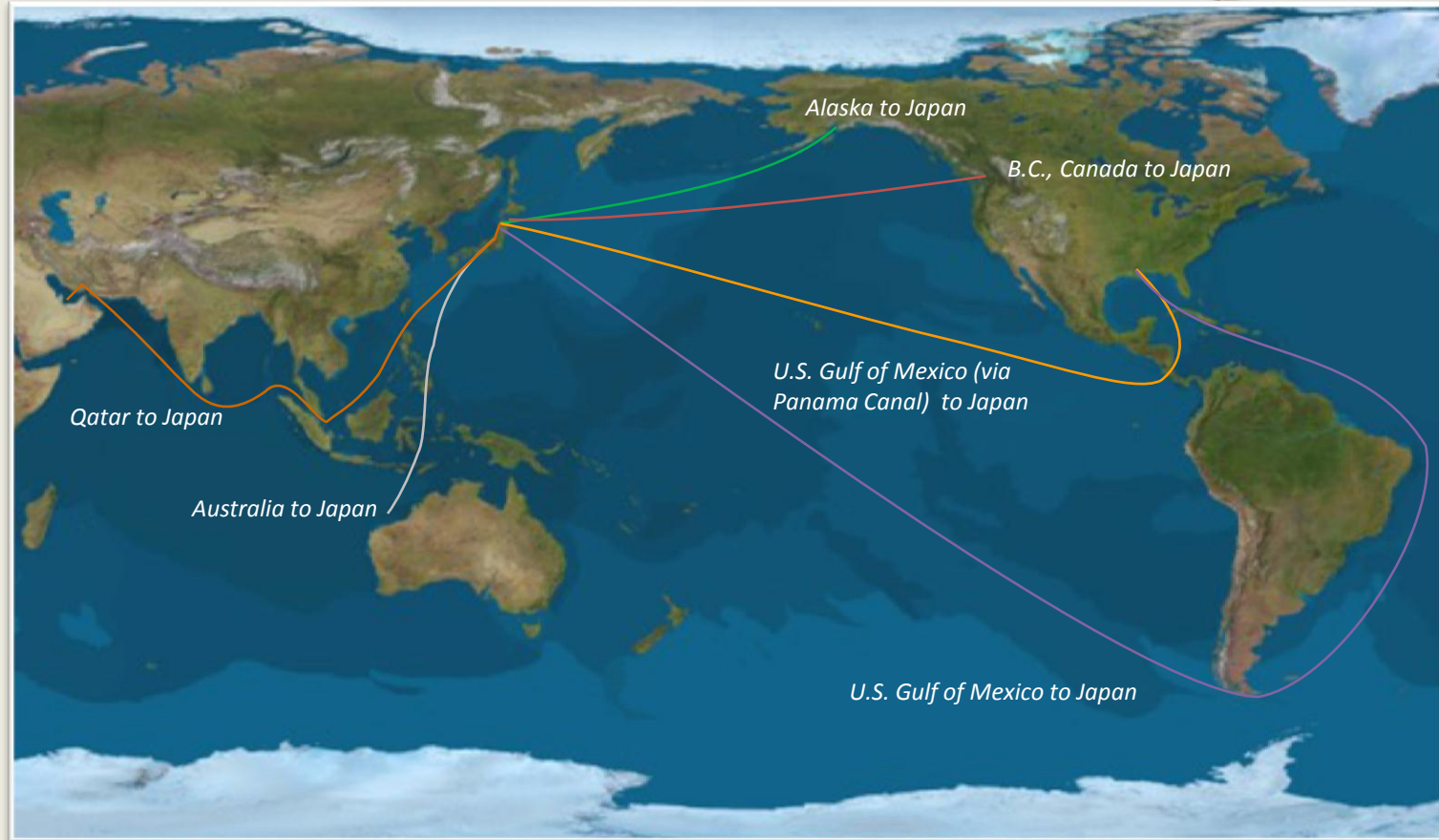
Comparative Advantages



- Existing oil and gas infrastructure on the North Slope can be utilized for a large-scale LNG project
- The route for a large-scale LNG project would be the same or similar to the existing Trans-Alaska Oil Pipeline route, which will save on costs and have a limited impact on the environment
- Alaska has a longstanding tradition of reliably exporting LNG to Asia
 - Alaska has been exporting LNG to Japan for over 40 years
 - Alaska has transported 2.5 trillion cubic feet of gas to Asia (the majority to Japan) over this time
 - Alaska has never missed a LNG cargo shipment to Asia
- Alaska is the only place in the United States exporting LNG
- Alaska does not use gas supplies for political purposes
- Avoids strategic shipping choke points that other sources of LNG must traverse
- Benefits from American legal and political stability and the rule of law
- No looming conflicts in the region
- Proximity/shipping costs are very low
- Use of existing infrastructure and pipeline routes reduces costs
- Cold weather efficiencies significantly decrease processing costs compared to warmer climates

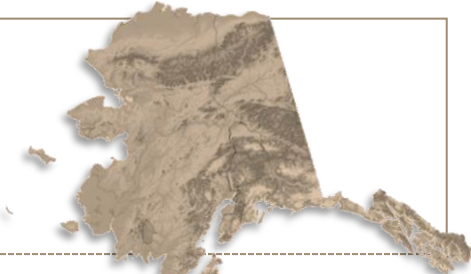
Commercializing NS Gas

Comparative Advantages



Secure Alaska's Future:

Strategic & Critical Minerals



Objective:

To highlight Alaska's potential for exploration, development, and processing of strategic and critical minerals, including Rare Earth Elements (REEs)

“Secure Alaska's Future: Strategic Minerals” is a comprehensive strategy that will:

- I. Undertake a statewide assessment of Alaska's strategic mineral potential—millions budgeted for this project
- II. Provide support for the development of known or highly prospective strategic mineral occurrences throughout Alaska through infrastructure partnerships and incentives
- III. Improve the structure and efficiency of permitting processes in order to expedite mineral development, including strategic minerals
- IV. Deepen partnership and cooperation with the federal government, local governments, Native corporations, and other potential new entrants to encourage domestic exploration, development, and processing of REEs and other strategic minerals
- V. Attract new investment and markets for Alaska's abundant mineral resources



Strategic & Critical Minerals

Recent Mining Activity



In 2011, the gross mineral production value from Alaska totaled \$3.8 billion, up 16% since 2010.

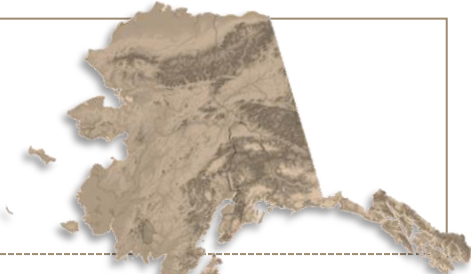
Mineral ore production had an export value of \$1.8 billion in 2011, nearly 40% of Alaska's total exports.

- **Producing Mines in Alaska**

- **Red Dog:** one of the world's largest zinc mines, produced over 555k tons of zinc and 78k tons of lead in 2011
- **Greens Creek:** among the world's top 10 silver mines, produced over 9.48 million ounces of silver, 56k ounces of gold, and 73k tons of zinc in 2011
- **Pogo:** produced 356k ounces of gold in 2011
- **Fort Knox:** produced 289.8k ounces of gold in 2011
- **Usibelli:** produced a record 2.2 million tons of low sulfur coal in 2011, exporting half of its production
- **Nixon Fork:** gold and copper mine re-opened in 2011 and still in pre-commercial production phases
- **Kensington:** 2011 was first year of production for this new gold mine—produced 88,420 ounces of gold

Strategic & Critical Minerals

Recent Mining Activity



In 2011, mineral exploration investment in Alaska totaled \$365 million - accounting for about one-third of the total spent on exploration in the U.S.

- **Advanced exploration projects include:**
 - **Donlin:** ~ 42.3 million ounces of gold (the only project currently in the permitting phase)
 - **Pebble:** ~ 80.6 billion pounds of copper, 107.4 million ounces of gold, and 5.6 billion pounds of molybdenum
 - **Bokan Mountain:** enriched in yttrium, dysprosium, and critical heavy Rare Earth Elements
 - **Money Knob:** ~20.6 million ounces of gold
 - **Niblack:** ~7.3 million tons of polymetallic (copper, gold, silver, and zinc) volcanogenic massive sulfide project
- 30 exploration projects spent over \$1 million each in 2011
- \$2.8 billion has been spent on mineral exploration in Alaska since 1981

Strategic & Critical Minerals

Statewide Assessment & Outreach

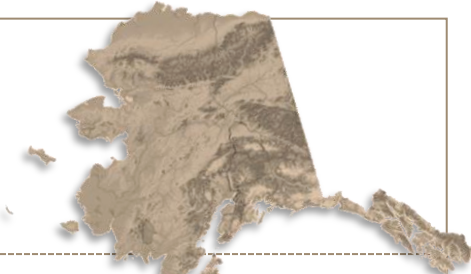


- State is undergoing a statewide assessment for strategic and critical minerals - \$2.7M appropriated in FY2013 budget (and \$2.7M requested to continue in FY2014)
 - One of largest undertakings in the country
 - Looking to work with other public and private groups
 - Information will be made available to public
- Held first “Alaska Strategic & Critical Minerals Summit” in Fairbanks in 2011. The event had:
 - Huge turnout
 - Very favorable national press



Strategic & Critical Minerals

Statewide Assessment & Outreach



- Held second annual “Alaska Strategic & Critical Minerals Summit” in Fairbanks on November 30, 2012, at the Fairbanks Princess Riverside Lodge
- Speakers included:
 - State and Federal Government Officials and a representative from Japan Oil, Gas and Metals National Corporation (JOGMEC)
 - University of Alaska
 - Native Corporation leaders
 - Private Industry



Permitting Reform

Statewide Strategy



Objective:

Improve the State of Alaska's permitting processes in order to advance the public interest by ensuring projects are permitted in a timely, predictable and efficient manner while safeguarding the environment.



DNR has been working with a team from DNR, DEC, ADF&G, and LAW to develop and advance strategies that aim to:

- I. Improve agencies' internal permitting structure to create a more efficient, timely, and certain process
- II. Enhance coordination within different state departments and with different entities and stakeholders throughout the state
- III. Seek input from the public about the permitting process including input from municipalities, industry and non-governmental organizations
- IV. Improve coordination between the state and the federal government—federal permitting issues have a strong influence on state projects
- V. Anticipate and plan for permitting the next phases of resource development, e.g. the Shale Oil Task Force

Permitting Reform

Significant Progress



- In FY12, the Legislature provided approximately \$2.7 million in operating funds for the Division of Mining, Land & Water to create efficiency, timeliness and certainty in the permitting process
- We are utilizing capital funding from FY12 (\$2.5M for the Unified Permit Project and Document Management) to focus on business management software and services
- In FY13, the Legislature approved the continuation of FY12 operating funds as part of the ongoing base for permitting and an additional \$950.0 to cover increased personnel costs and fill vacant positions focused on permitting
 - FY13 capital budget included \$3.3M to continue work on the Unified Permit Project, including the continuation of IT strategies and Business Process Management
- We have filled and trained new and vacant positions
- We reclassified and updated over 50 position descriptions
- Since the beginning of FY12, the backlog has been reduced by 38.2% (1,015 authorizations)
- We have conducted public meetings statewide for input on state permitting processes
- We are evaluating internal processes to identify and fix inefficiencies

Permitting Reform

Statutory Changes



2012 Legislature - HB361

- The Division of Mining, Land and Water identified over 30 statutory changes that would help reduce applicant costs, create efficiencies, reduce redundancies, and reduce opportunities for legal challenges
- During the 2012 Legislative session, the Governor introduced HB 361, which included the highest priority changes related to leasing and disposal programs that would help reduce the permitting burden on the applicant and free more time for staff to work on processing applications
- HB 361 was passed and signed by the Governor

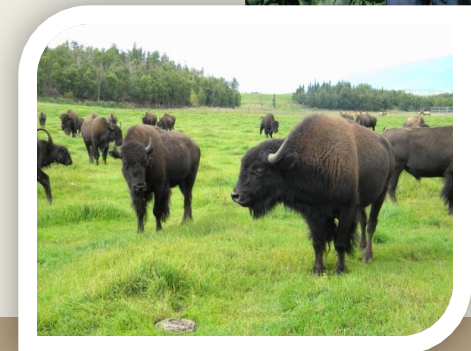
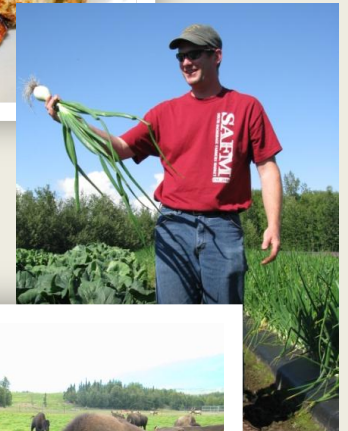
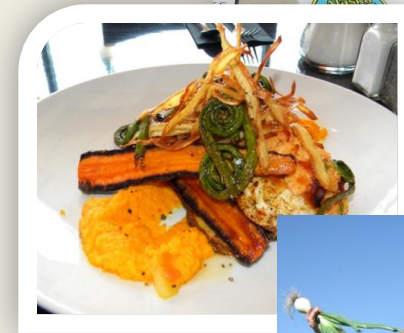


Agriculture

2012 Overview of Accomplishments

The Division of Agriculture continues to be very busy promoting and encouraging development of the agriculture industry in Alaska

- Worked to increase the demand for Alaska grown products; created strong advocacy for the Alaska grown program throughout the state
- Deepened DNR cooperation and coordination with the farming community
- Explored new marketing ventures to promote Alaska Grown program; instituted Restaurant Rewards Program to encourage the use of local produce
- Provided support and promotion to over 40 Farmers Markets throughout the state, which continue to grow in popularity
- Farm to School Program is recognized as a national leader
 - Program is actively engaged in 47 out of 54 school districts; 100% of the school districts have received the Alaska Seasonal Availability Chart. Five recipes utilizing Alaska Grown products have been developed that meet federal school meal requirements.
- Sold 1,327 acres of agricultural land in the Northern Region
- Added 52 new farms to the Alaska Grown user list
- Published the *Alaska Forage Manual* (2012) and was nationally recognized for the following publications: *Alaska Coastal Revegetation and Erosion Control Guide* (2010) & *Interior Alaska Revegetation & Erosion Control Guide* (2012)



Parks & Outdoor Rec.

2012 Overview of Accomplishments

Serves the Alaska public through outdoor recreation, educational programming, and access to public lands

- Recruited, hired and trained more than 700 park volunteers who donated more than 95,000 hours to the park system—a cash value of more than \$2 million
- Permitted 1,104 individuals to provide commercial recreational services in state park areas, which resulted in millions of dollars in direct and indirect economic benefit to the state
 - In 2011 (the most recent data available), sportfish guide businesses operating in 10 different state park areas generated approx. \$7.7 million in revenue; businesses that offered guided hikes in 14 different park areas generated approx. \$790,000 in revenue
- Lower Chatanika SRS was reinstated into active management thanks to local and legislative support
- 3 new public use cabins in Southeast (2 Eagle Beach SRA, 1 Juneau Channel Islands SMP); PUC occupancy increased 9% and overnight camping increased 3%
- 4 “Arts in the Parks” events statewide
- National honors, including: Joe McCullough, National Boating Safety Educator of the Year, and Judy Bittner, Dept. of Interior National Partners in Conservation Award

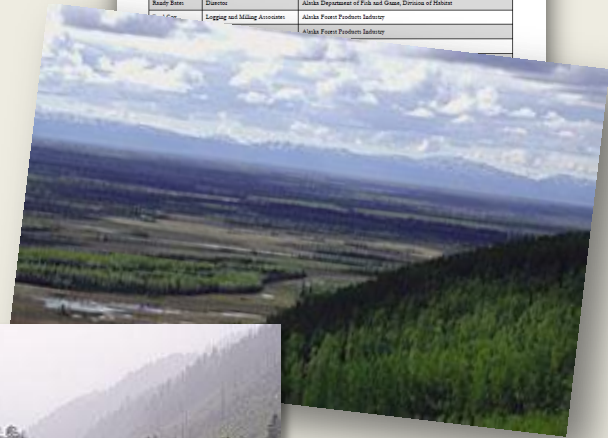
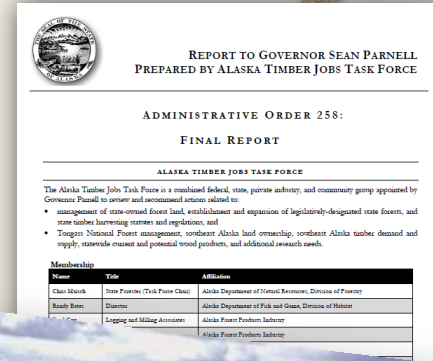


Forestry – Timber Resources

2012 Overview of Accomplishments



- Finished final report for Governor’s Alaska Timber Jobs Task Force per AO 258; report makes 35 specific recommendations that span 8 substantive areas of the industry sector
- Sold 18,786,000 board feet of lumber to 34 Alaskan businesses
- Provided direct and indirect support to over 80 woody biomass projects – this is important work that is assisting many small, remote communities and larger roadside communities that are struggling with high energy costs for space heating and electrical needs
- Continue to work through the State Tongass Team to provide coordinated comments to USFS in regard to federal timber sales in the Tongass National Forest—a continual challenge
- Worked with Department of Law to support their efforts in appealing the invalidated Tongass National Forest exemption from the Roadless Rule in the 9th Circuit
- New marketing tag line: “Triple Bottom Line: Environment, Economy and Communities”



*Alaska has 17%
of the nation's
forest land*

Forestry – *Wildland Fires*

2012 Overview of Accomplishments



- Contained 95% of the fires in Critical and Full Protection Options at 10 acres or less during the 2012 season
- Responded to late-season wildfires in Dillingham and the Mat-Su Valley
- Provided assistance to Municipality of Anchorage in response to extreme wind and rain events and to the Mat-Su Borough in response to flooding
- Played a major role in providing firefighting assistance to the lower 48 states during a particularly difficult fire season for the Nation
- Provided a critical tactical asset for use by wildland fire managers in the form of fire retardant air tankers to supplement the USFS national air tanker fleet that has shrunk to an inadequate fleet
- Instructed 40 rural students in basic fire fighting and 34 students in advanced fire fighting at the Tok Wildland Fire Academy

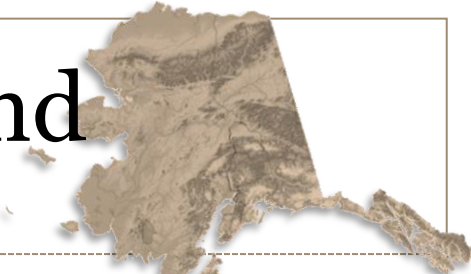
Part III



2013 LEGISLATIVE SESSION & BEYOND

2013 Legislative Session & Beyond

Oil Tax Reform

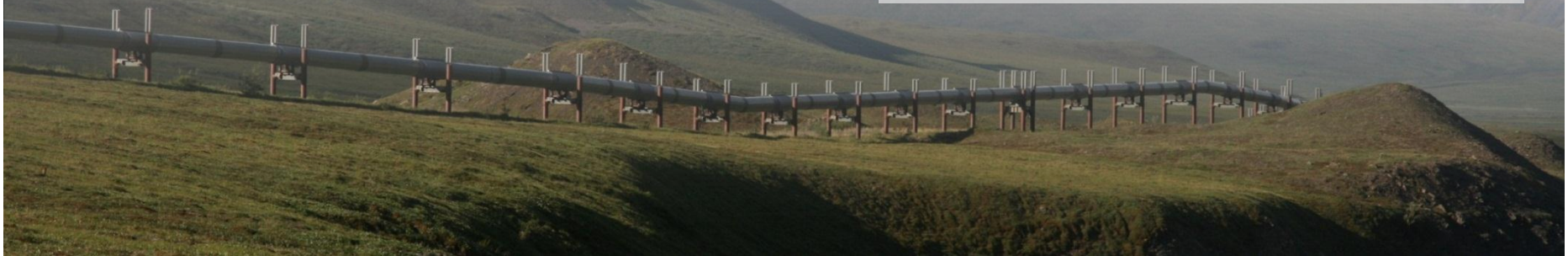


- The Governor has been encouraged by the consensus that has emerged over the past year
- Alaska should be in the forefront of this American energy renaissance rather than watch oil production continue to ebb
- Alaskans agree that something needs to be done
- Implementing comprehensive plan—tax reform remains key

Core Principles of Tax Reform:

- Must be fair to Alaskans
- Encourage new production
- Simple so that it restores balance to the system
- Durable for the long term

Status quo favored by some is unfair to Alaskans and unacceptable.



2013 Legislative Session & Beyond

Other Efforts



Gas Commercialization

- Governor's new benchmarks in 2013 State of the State
- We will work to accelerate gas line development because of our urgent need for in-state energy
- The window of opportunity to sell Alaska LNG to Asian markets will not be open indefinitely
- Global competition is fierce
- Continued work on demand-pull

Permitting Reform

- Progress has been made but we will again pursue significant legislative efforts to create efficiencies by streamlining processes, reduce redundancies, and reduce opportunities for legal challenges
- Introduction by Governor of HB 77 builds on our comprehensive reform efforts; critical to state's future

Promoting the State

- Mineral Exploration Roundup Conference, Vancouver, January 28-31, 2013
- North American Prospect Expo, Houston, February 5-8, 2013
- "Alaska Grown" produce
- Alaska State Parks hosting "Arts in the Parks" throughout the summer
- Example: *Oil & Gas Journal* feature on Alaska

Part IV



FY2014 OPERATING BUDGET HIGHLIGHTS

DNR FY 2014 Budget

Employees & Budget Structure

- DNR currently employs about 1,100 Alaskans in full-time and seasonal positions, with main offices in Anchorage, Juneau, Fairbanks and Palmer, and regional offices throughout the state
- The budget structure reorganization implemented by the Legislature in FY2012 has simplified the reporting and presentation of the budget. The FY2014 Governor's budget retains this structure.



DNR FY2014 Budget

Budget Growth Analysis (Prepared by Legislative Finance)



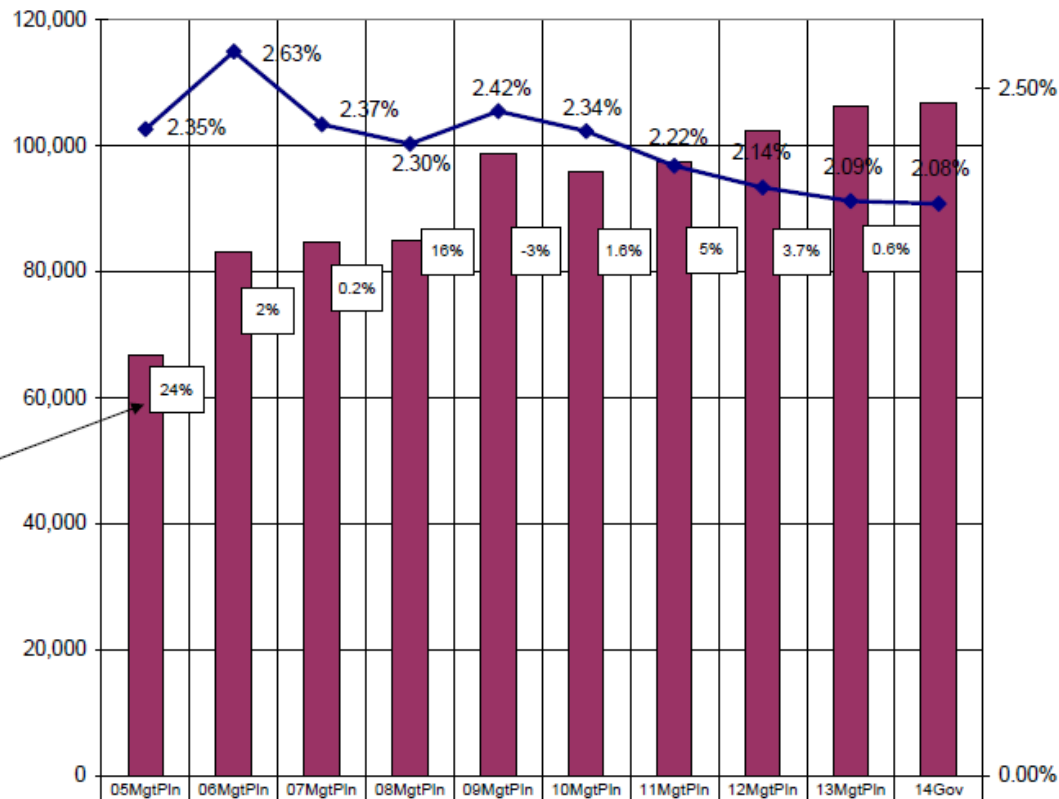
Department of Natural Resources Share of Total Agency Operations

(GF Only)
(\$ Thousands)

DNR's GF budget grew by \$40 million between FY05 and FY14 -- an average annual growth rate of 5.3%.

The FY14 GF budget equates to \$325 per resident worker (based on 328,611 Alaskan workers).

Percentage change year over year



Total Agency Budget (GF Only)	05MgtPin	06MgtPin	07MgtPin	08MgtPin	09MgtPin	10MgtPin	11MgtPin	12MgtPin	13MgtPin	14Gov
% of Agency Budget to Total Agencies' budgets	2.35%	2.63%	2.37%	2.30%	2.42%	2.34%	2.22%	2.14%	2.09%	2.08%

DNR FY2014 Budget

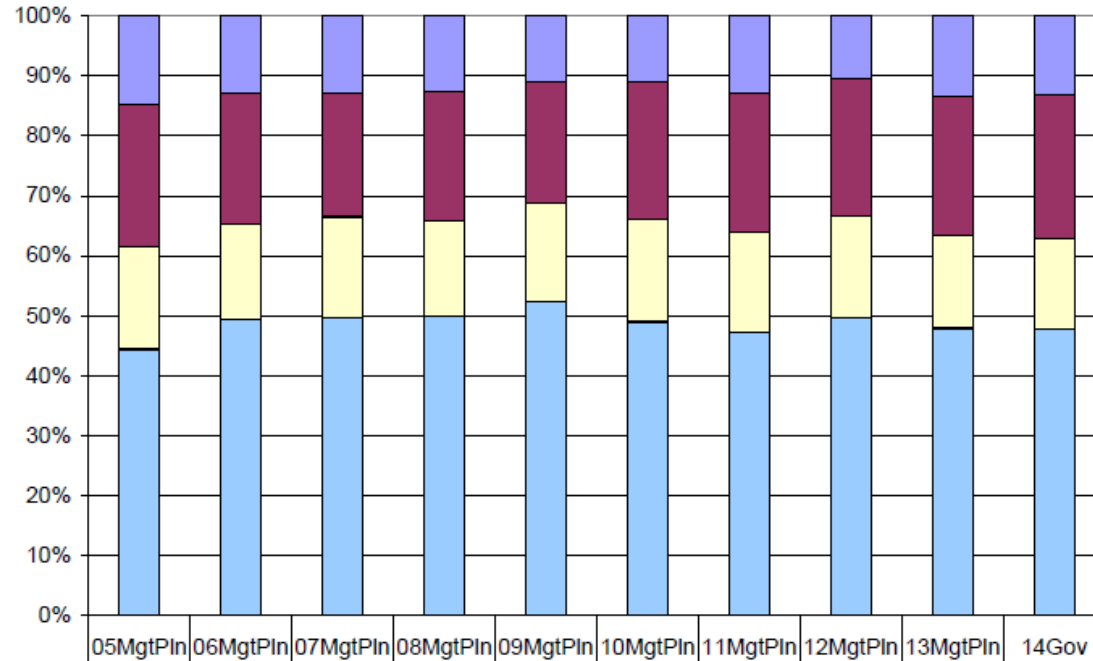
Budget Growth Analysis (Prepared by Legislative Finance)



Department of Natural Resources
Percent of the Total Department's Budget by Fund Group

(All Funds)
(\$ Thousands)

General Funds (UGF & DGF) were 61% of the total budget in FY05 and now are 63% of the FY14 Gov budget.



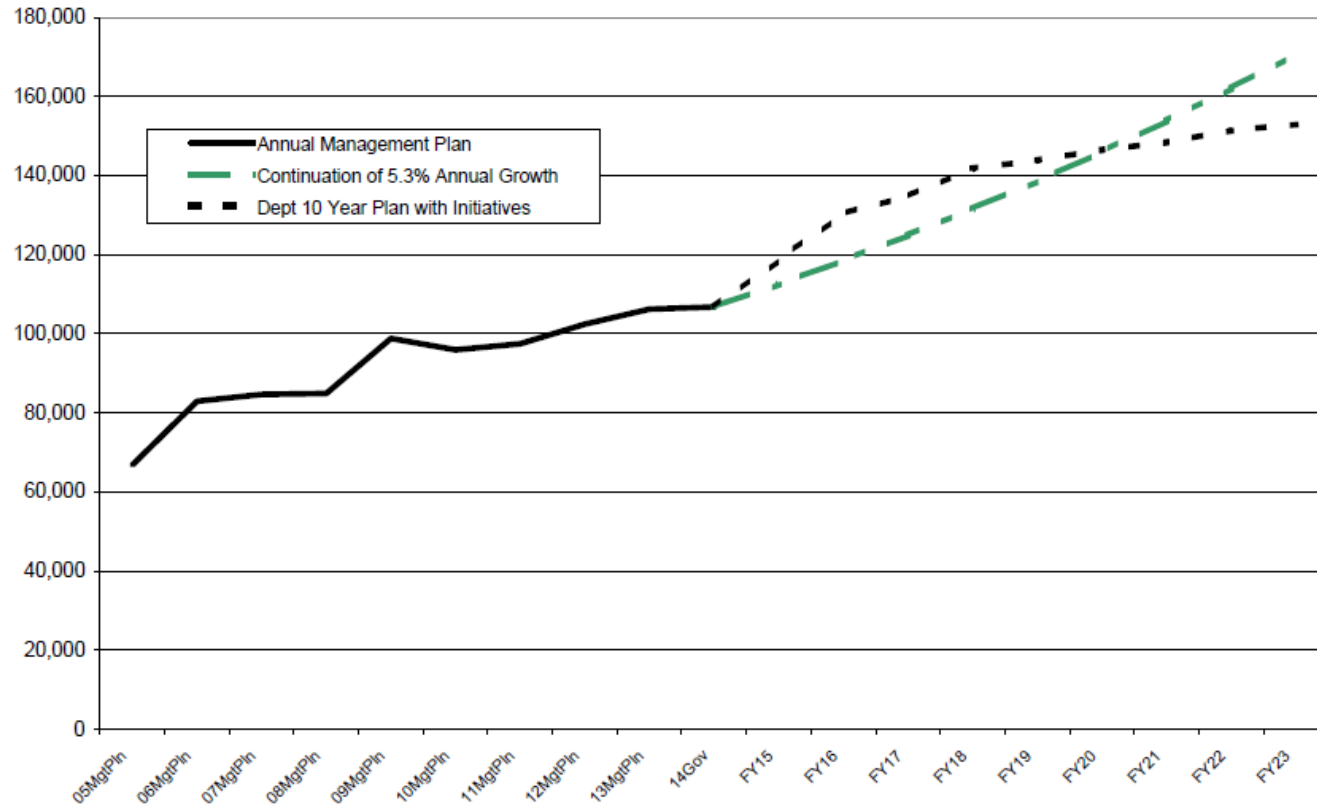
Federal Receipts (Fed)	16,180.6	16,302.3	16,445.1	16,392.9	15,835.0	16,054.3	19,782.7	15,961.7	22,555.2	22,434.1
Other State Funds (Other)	25,800.8	27,717.9	26,313.9	27,696.2	29,164.5	33,216.9	35,185.3	35,353.9	38,727.1	40,675.8
Designated General (DGF)	18,629.5	20,326.3	21,511.8	20,635.7	23,715.7	24,919.8	25,513.6	26,229.9	26,027.7	25,649.5
Unrestricted General (UGF)	48,230.2	62,678.1	63,220.8	64,301.9	75,105.2	71,058.6	72,011.3	76,240.0	80,212.5	81,192.9

DNR FY2014 Budget

*Budget Growth Analysis (Prepared by
Legislative Finance)*



Department of Natural Resources
Continued Budget Growth Compared to 10-Year Plan
(GF Only)
(\$ Thousands)

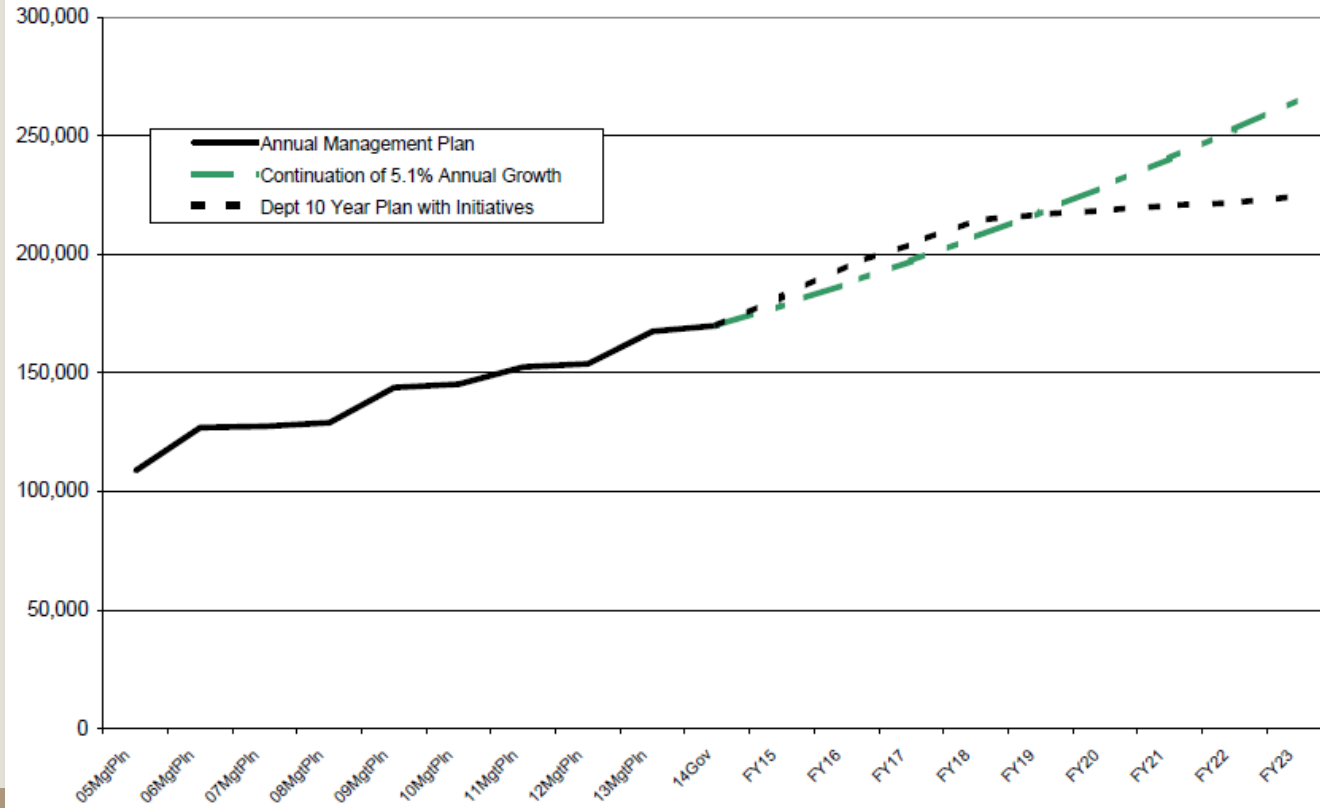


DNR FY2014 Budget

Budget Growth Analysis (Prepared by
Legislative Finance)

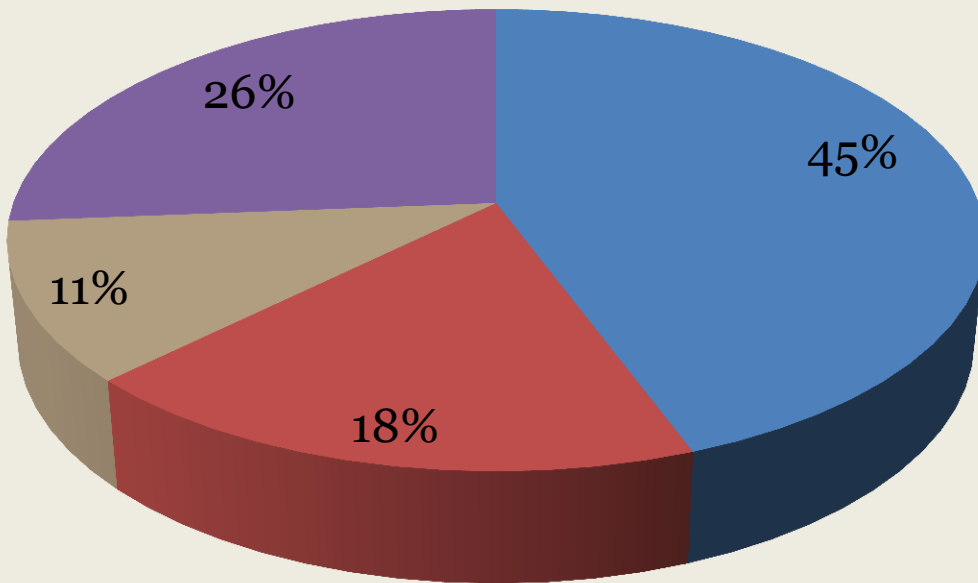


Department of Natural Resources
Continued Budget Growth Compared to 10-Year Plan
(All Funds)
(\$ Thousands)



DNR FY2014 Budget

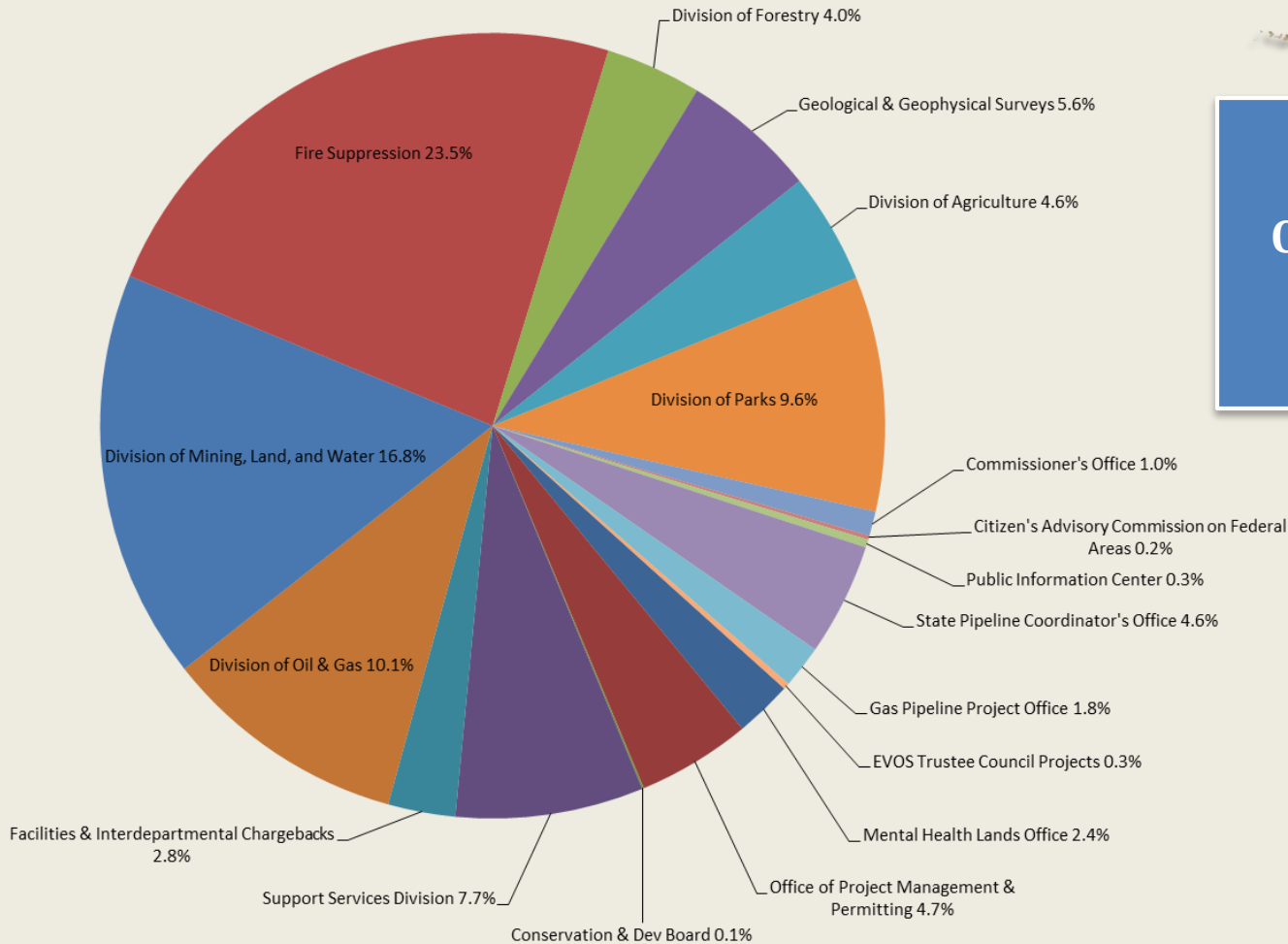
Operating Budget by Core Services



- Foster Responsible Development
- Provide Access to State Lands
- Sufficient Data Acquisition and Assessment
- Mitigate Natural Hazard Threats

DNR FY2014 Budget

Operating Budget by Division/Office



**Total FY2014
Operating Budget:
\$169,952.3**

**FY2013
Authorized
Operating
budget :
\$167,522.5**

DNR FY2014 Budget

Operating Budget by Core Services



	FY2013 Management Plan					FY2014 Adjusted Base					Change from FY2013 Management Plan
	UGF	DGF	Other	Federal	Total	UGF	DGF	Other	Federal	Total	
Foster Responsible Development	34,307.6	12,344.1	25,055.1	3,423.7	75,130.5	29,937.9	12,344.5	24,777.3	3,424.6	70,484.3	(4,646.2)
Provide Access to State Lands	11,685.4	10,920.1	5,830.1	1,900.7	30,336.3	11,633.1	10,922.5	5,834.7	1,900.7	30,291.0	(45.3)
Sufficient Data Acquisition and Assessment	8,832.7	1,885.3	4,342.9	3,546.5	18,607.4	8,755.3	1,789.5	4,309.8	3,546.5	18,401.1	(206.3)
Mitigate Natural Hazard Threats	25,386.8	878.2	3,499.0	13,684.3	43,448.3	25,405.0	878.2	3,500.7	13,685.7	43,469.7	21.4
TOTALS	80,212.5	26,027.7	38,727.1	22,555.2	167,522.5	75,731.3	25,934.7	38,422.5	22,557.5	162,646.1	(4,876.4)

Key Changes from FY2013 Mgt Plan to FY2014 Adjusted Base

	UGF	DGF	Other	Federal	Total
Salary and Health Insurance Increases	69.4	2.8	33.2	2.3	107.7
Reversal of Multiple One-Time Items (OTI)	(4,550.5)	(95.8)	(337.8)		(4,984.1)
	(4,481.1)	(93.0)	(304.6)	2.3	(4,876.4)

DNR FY2014 Budget

Operating Budget by Core Services



Department of Natural Resources Operating Budget by Core Services FY2014 Adjusted Base To Governor Request Comparison

	FY2014 Adjusted Base					FY2014 Governor Request					Change from FY2014 Adj	
	UGF	DGF	Other	Federal	Total	UGF	DGF	Other	Federal	Total	Base	% Incr
Foster Responsible Development	29,937.9	12,344.5	24,777.3	3,424.6	70,484.3	34,330.7	12,161.5	26,819.0	3,224.6	76,535.8	6,051.5	8.6%
Provide Access to State Lands	11,633.1	10,922.5	5,834.7	1,900.7	30,291.0	12,250.5	10,979.4	5,940.6	1,962.0	31,132.5	841.5	2.8%
Sufficient Data Acquisition and Assessment	8,755.3	1,789.5	4,309.8	3,546.5	18,401.1	9,069.2	1,719.3	4,384.8	3,561.8	18,735.1	334.0	1.8%
Mitigate Natural Hazard Threats	25,405.0	878.2	3,500.7	13,685.7	43,469.7	25,542.5	789.3	3,531.4	13,685.7	43,548.9	79.2	0.2%
TOTALS	75,731.3	25,934.7	38,422.5	22,557.5	162,646.1	81,192.9	25,649.5	40,675.8	22,434.1	169,952.3	7,306.2	4.5%

% Increase from FY2014 Adjusted Base to FY2014 Governor Request (GF Only) 5.1%

Key Changes from FY2014 Adjusted Base to FY2014 Governor

	UGF	DGF	Other	Federal	Total
Restore One-Time Item Marketing of Statewide Resource Development Initiative	50.0				50.0
Restore One-Time Item GPPO Operations, Contractors, and Consultants	2,440.0				2,440.0
Restore One-Time Item AGIA Commercial Monitor and Advisor	600.0				600.0
Restore One-Time Item Guide Concession Area Program Development	125.0				125.0
Continue Farm to School Program Funding	181.0				181.0
SPCO Operating and Facility Costs and Multi-agency Reimbursement for Pipeline Permitting			85.0	200.0	285.0
OPMP Permitting Projects including Susitna-Watana, Foothills West, and Tongass				1,285.0	1,285.0
Arbitration of Oil and Gas Issues	300.0				300.0
Guide Concession Area Program Implementation	450.0				450.0
Navigable and Public Waters Research and Assertion of State's Access Rights	350.0				350.0
Regulation Packages and Amendments to Support Permit Efficiency and Reform	125.0				125.0
Oversight and Community Liaison for the Offshore Gold Dredging Lease Sales at Nome		20.0			20.0
Information Systems Coordinator and Land Surveyor for Capital Projects Support			172.6		172.6
Mining, Land, and Water Anticipated Federal Grants				153.3	153.3
Two Geologists and Existing Staff to Support Strategic and Critical Minerals Assessment			634.4		634.4
Parks Maintenance and Operations Increased Costs		165.5			165.5
Fund Source Switch LDIF to GF for unsustainable fund balance	555.7	(555.7)			0.0
Department of Administration Core Services Rates	284.8				284.8
Cost Allocations to Comply with Vacancy Factor Guidelines			175.8		175.8
Delete Excess Authorization			(214.5)	(276.7)	(491.2)
TOTALS	5,461.5	(285.2)	2,253.3	(123.4)	7,306.2

DNR FY2014 Budget

Operating Budget Highlights



Secure Alaska's Future - OIL	Strategic Minerals	Gasline	Permitting	Forestry/Agriculture /Parks
Statewide Resource Development Marketing Initiative (Commissioner's Office) (\$50.0 UGF)*	Geologic Staffing for Strategic & Critical Minerals Assessment (DGGs) (\$634.4 Other)	AGIA Commercial Monitor & Advisor (O&G) (\$600.0 UGF)	Expanded Permitting Coordination for Large Projects (OPMP) (\$1,285.0 Other)	Continue Farm to School Program (DOA) (\$181.0 UGF)
Oil & Gas Royalty Arbitration (O&G) (\$300.0 UGF)		Gas Pipeline Project Office Operations and Contractors (GPPO) (\$2,440.0 UGF)	Pipeline Permitting, Construction Oversight, Operational Monitoring, and Facilities Costs (SPCO) (\$285.0 DGF & Other)	Parks Maintenance and Operations Costs (DPOR) (\$165.5 DGF)
			Nome Gold Dredging Oversight (MLW) (\$20.0 DGF)	
			Regulation Packages for Permit Efficiencies (MLW) (\$125.0 UGF)	
			Guide Concession Implementation (MLW) (\$450.0 UGF)	

* This increment contributes to multiple initiatives

DNR FY2014 Budget

Capital Budget Highlights



Secure Alaska's Future - OIL	Strategic Minerals	Access	Permitting	Forestry/Agriculture/Parks
Oil and Gas Litigation and Arbitration (DOG) (\$500.0 UGF)	Strategic and Critical Minerals Assessment (DGGs) (\$2,745.0 UGF)	Public Access/Facilities at Mouth of Kasilof River (MLW) (\$1,400.0 UGF)	Unified Permit Project and Document Management (SSD) (\$3,300.0 UGF)	Forest Access Roads and Bridge Replacement (DOF) (\$800.0 UGF)
Characterization of Conventional and Unconventional Oil/Gas Resources (DOG/DGGs) (\$700.0 UGF)		ANCSA 17b and RS2477 Trailhead Access Improvements (MLW) (\$750.0 UGF)	Water Monitoring and Data Collection for Water Rights Adjudication (MLW) (\$300.0 UGF)	Deferred Maintenance of Parks and Forestry Facilities (DOF & DPOR) (\$3,872.0 UGF)
				Timber Inventories and Federal Coordination on Timber Sales (DOF) (\$300.0 UGF)
				River Bank Stabilization and Improvements at Bing's Landing (DPOR) (2,000.0 UGF)
				Wildland Fire Engine Replacements (DOF) (\$800.0 UGF)

* This increment contributes to multiple initiatives

In Conclusion



- The FY2014 Budget reflects our focus on DNR's core services and the Administration's major statewide initiatives
 - Many challenges and opportunities
- Opportunities far outweigh the challenges, in large measure due to our abundant natural resource wealth
- Partnerships are key: public, stakeholders, legislature, private sector, Administration