

An offshore oil rig is shown at sunset or sunrise, with the sun low on the horizon creating a bright glow and reflecting on the water. The rig is a large, dark structure with a tall derrick and various pipes and tanks. The sky is a mix of blue and orange. The water is dark and calm. The overall scene is industrial and serene.

Alaska's Oil and Gas Competitiveness Report 2015

Alaska Oil and Gas Competitive Review Board

March 13, 2015

Overview

- ▶ History and Goals of the Oil & Gas Competitiveness Review Board (OGCRB)
- ▶ Alaska's vast natural resources
- ▶ Lands and lease sales
- ▶ Exploration and Development Activity
- ▶ Infrastructure
- ▶ Labor and Employment
- ▶ Regulatory and Permitting Structure
- ▶ Alaska Oil and Gas Fiscal System
 - ▶ Elements of Alaska's system
 - ▶ Comparison to other areas
- ▶ Goals and Future Work of OGCRB

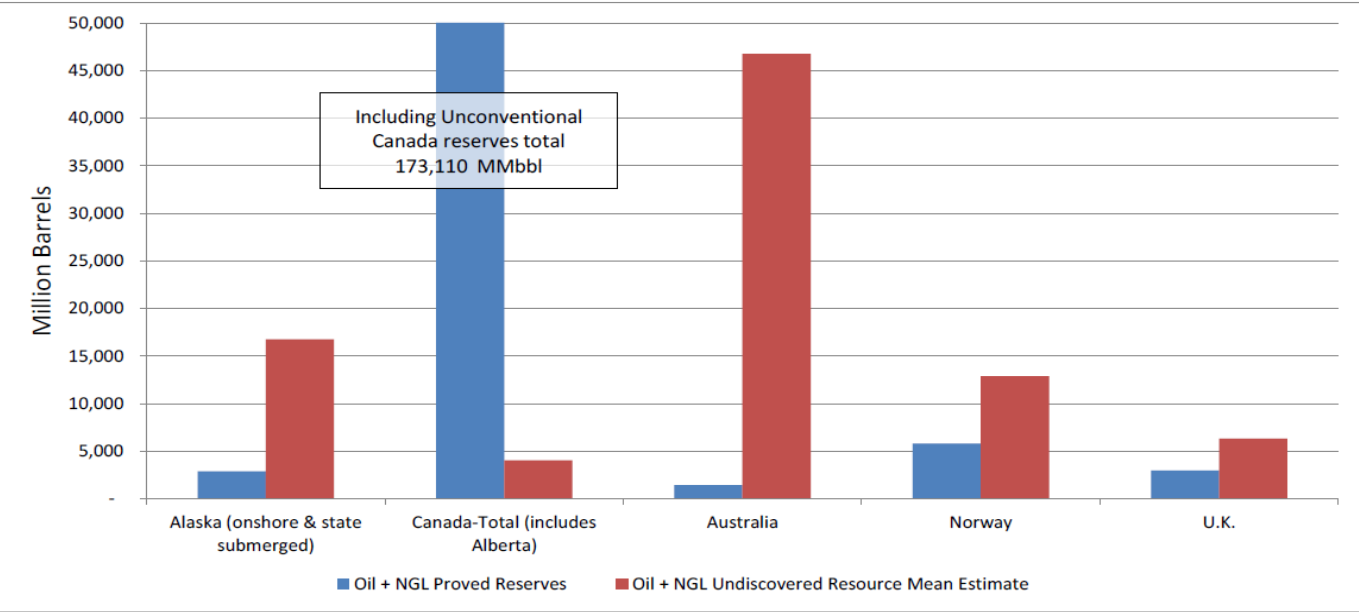
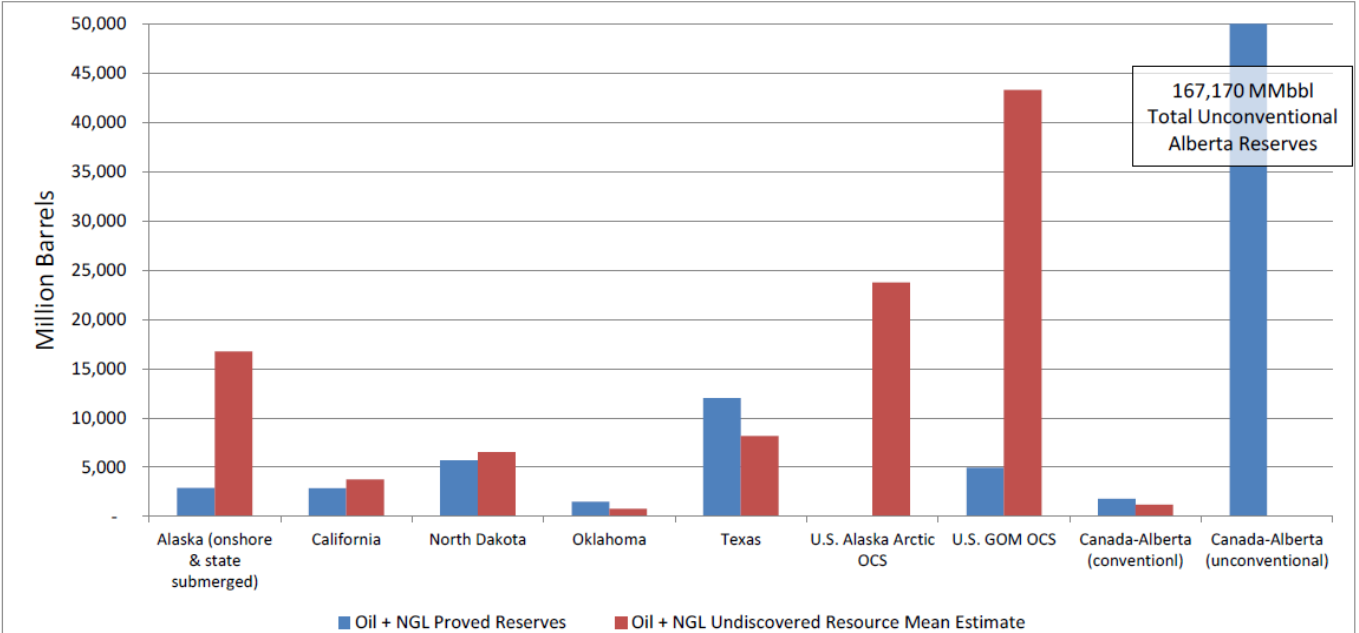
Oil and Gas Competitive Review Board

- ▶ Formed as part of SB 21
- ▶ Created to
 - ▶ Establish and maintain salient data regarding oil and gas exploration, development, and production
 - ▶ Advise the Alaska Legislature on the state's fiscal system, labor pool, and regulatory competitiveness
- ▶ Comprised of:
 - ▶ 2 public members
 - ▶ 3 administration department heads
 - ▶ 1 commissioner from the Alaska Oil and Gas Conservation Commission
 - ▶ 3 oil and gas subject matter experts
 - ▶ 2 industry trade group representatives
- ▶ Initial goal- to produce a report to the legislature in early 2015 comparing Alaska's competitiveness to oil and gas producing peers around the world

Alaska's Peer Groups

Jurisdiction	Type	North America	Europe	Pacific	Arctic
Alaska	State	X		X	X
California	State	X		X	
North Dakota	State	X			
Oklahoma	State	X			
Texas	State	X			
US GOM OCS	Federal	X			
US AK OCS	Federal	X			X
Alberta	Province	X			
Canada- Northwest Territories	Federal	X			X
Canada- Beaufort Sea	Federal	X			X
Australia	Federal			X	
Norway	Federal		X		X
United Kingdom	Federal		X		

Alaska's Vast Reserves/Resources



Land and Lease Sales

Federal (61%)

- ▶ Onshore leases in Cook Inlet region and North Slope
 - ▶ Managed by Bureau of Land Management
- ▶ Offshore leases in OCS- 3-200 nautical miles from shore
 - ▶ Managed by Bureau of Ocean Energy Management

Private Lands (12%)

- ▶ University of Alaska- 3 oil and gas leases on Kenai Peninsula
 - ▶ Combination lease structure that supports University Scholars Program and research programs
- ▶ Alaska Mental Health Trust Authority
 - ▶ Land in Southcentral and Interior Alaska
- ▶ Alaska Native Corporations
 - ▶ Owners of surface and subsurface oil and gas estates on North Slope and Cook Inlet, and lands proximal to frontier basins

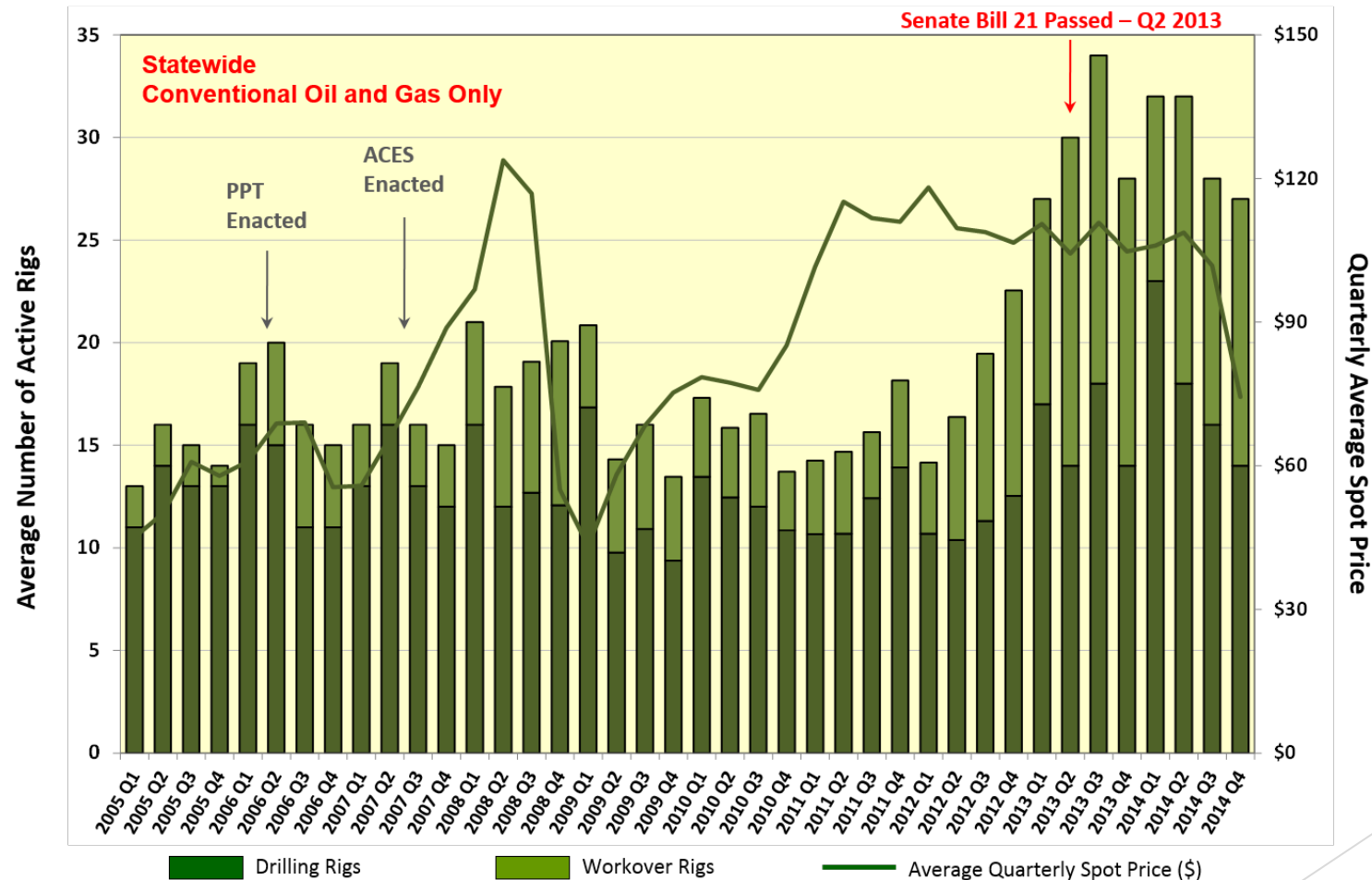
State of Alaska (27%)

- ▶ Managed by the Department of Natural Resources in 5 year leasing programs
- ▶ Conventional oil and gas leases
 - ▶ Moderate to high potential for development
 - ▶ Annual area-wide leasing
 - ▶ More efficient exploration and earlier development and production decisions
- ▶ Exploration licenses
 - ▶ Encourages exploration outside known areas
 - ▶ Competitive leasing, must commit to direct expenditures for exploration
 - ▶ Exclusive rights to explore for 10 years
 - ▶ State is provided most geological and geophysical information

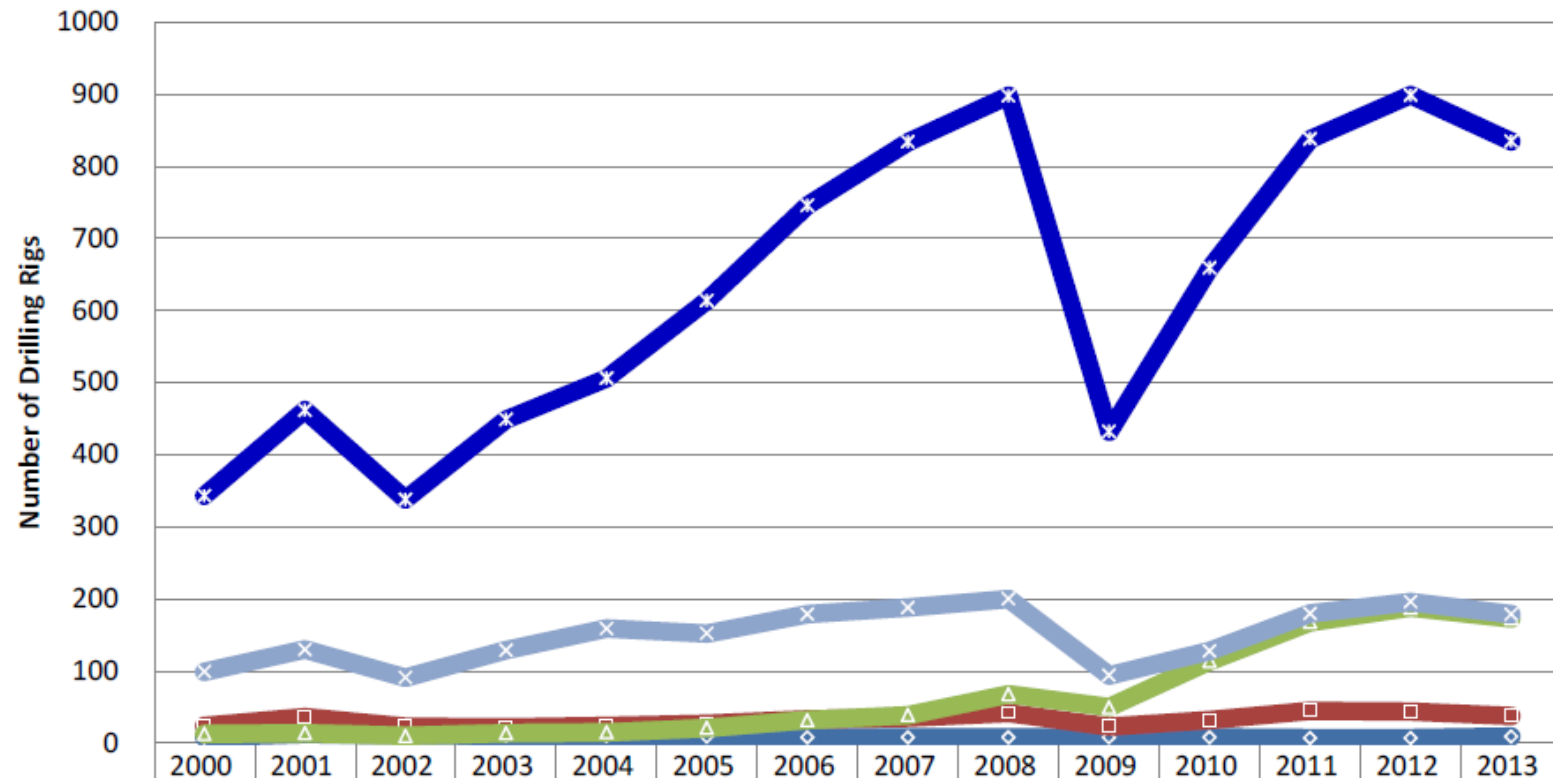
Drilling Activity in Alaska

Active Drilling and Workover Rigs for Each Quarter (2005 - 2014*) Statewide: Conventional Oil and Gas Only**

Background: West Coast Quarterly Average Spot Price for Alaska North Slope Crude Oil (Dollars per Barrel)



Drill Rigs - State Comparison



Source: Baker Hughes.

Current North Slope Infrastructure and Challenges



Current North Slope Infrastructure

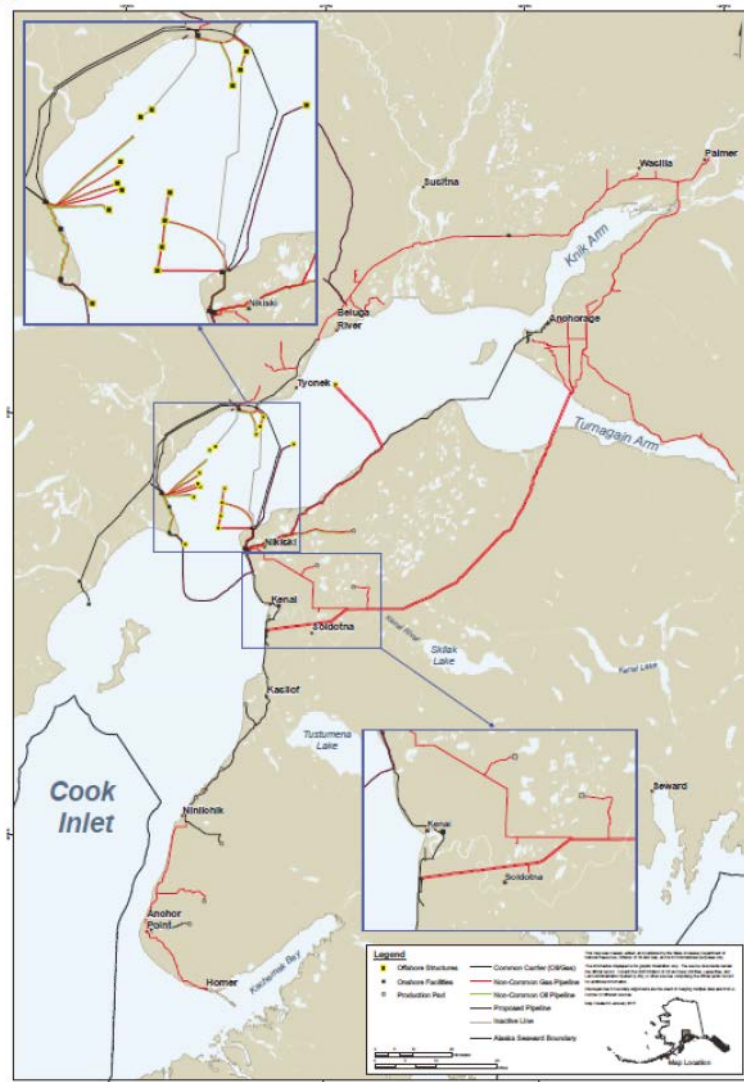
- ▶ TAPS
- ▶ State owns and maintains Dalton Highway and Deadhorse Airport
- ▶ Oil and gas related infrastructure predominately owned and operated by industry
 - ▶ Pads and wells
 - ▶ Processing facilities and pipelines
 - ▶ Transmission and utility corridors
 - ▶ Roads, air strips and fields, and coastal landings
 - ▶ Bridges and culverts
 - ▶ Borrow sites and mine sites
- ▶ Ice roads and ice pads

Current North Slope Challenges

- ▶ Incident response
- ▶ Increased water handling capability
- ▶ TAPS oil flow contingencies



Cook Inlet and Frontier Basins Infrastructure



Cook Inlet

- ▶ 34 units/fields- all connected to infrastructure to bring oil or gas to processing facilities
- ▶ Oil pipelines, dockage, gas storage facilities

Frontier basins

- ▶ 6 frontier basins for exploration
- ▶ Generally lack infrastructure
- ▶ Regulations will involve multiple agencies

Labor and Employment

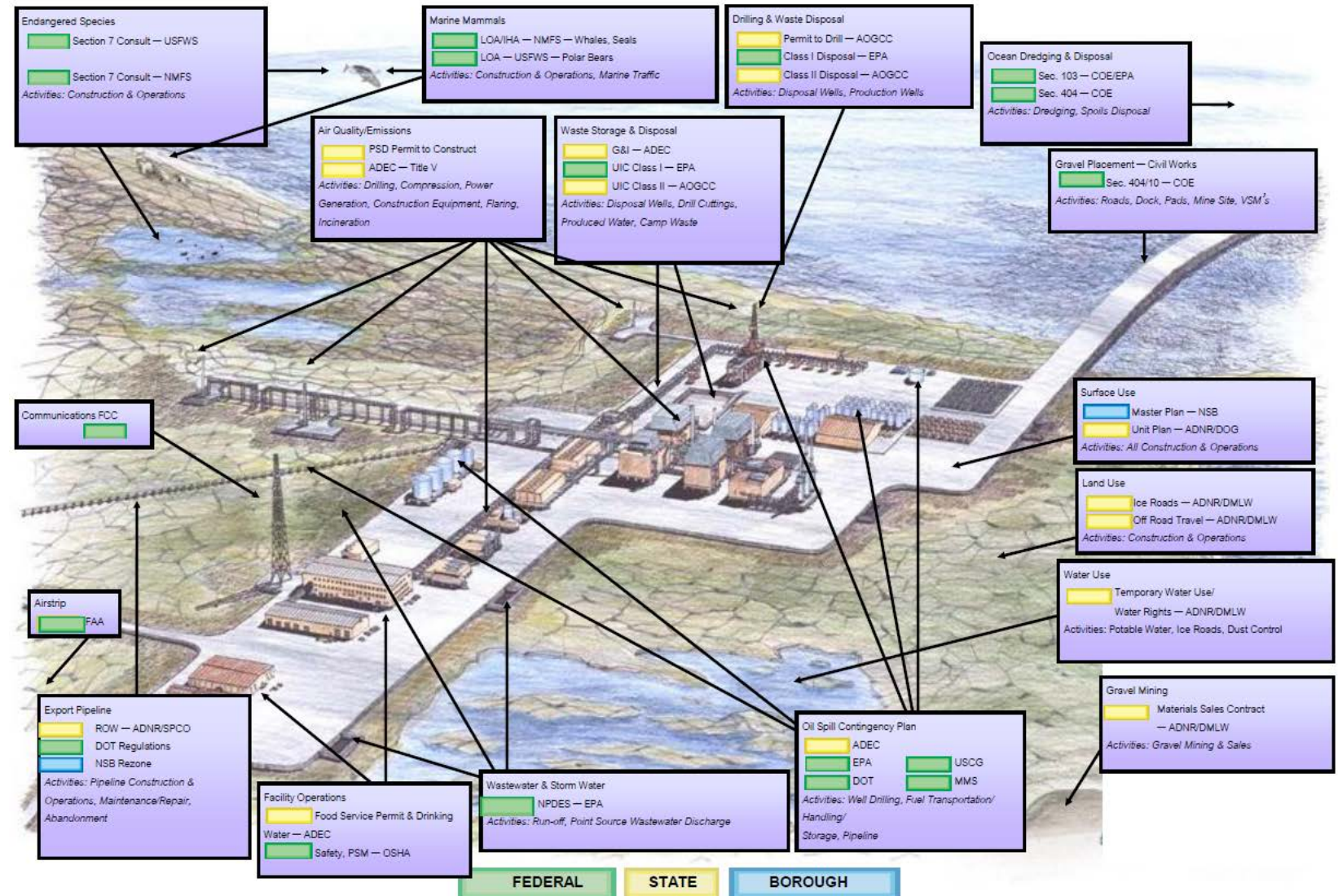
- ▶ Oil Industry-related direct and indirect jobs: 45,000 workers
Wages: \$2.65 billion
- ▶ Oil and gas industry jobs at an all time high for Alaska and on North Slope
- ▶ Alaska Department of Labor and Workforce Development
 - ▶ Apprenticeship programs
 - ▶ Fairbanks Pipeline Training Center
 - ▶ Construction Academy
 - ▶ Alaska Oil and Gas Industry Workforce Development Plan 2014- 2018



Regulatory and Permitting Structure

- ▶ Aim to minimize the impact of oil and gas activities on the environment- air and water quality, habitat, fish and wildlife, and the placement and preparedness for the storage and spillage of fuel or hazardous substances
- ▶ Multiple agencies administer and manage various permits, engage at multiple levels through the project to monitor, and conduct on-site inspections

Representative Development Project: Typical Approvals



Typical Permitting Requirements

Onshore Exploration: State Lands

Federal

- Camp wastewater discharge permit*
- Polar bear Letter of Authorization

State

- Land use permit (ice road, off-road travel)
- Fish habitat permit
- Water use permit (ice road, drilling, camp)
- Lease/Unit Operations approval
- Air Quality Permit – drill rig and camp
- Oil Discharge Prevention and Contingency Plan / C-Plan
- Drilling waste storage
- Permit to Drill

NSB

- Development Permit (or admin approval)

Offshore Exploration: OCS

Federal

- BSEE Exploration Plan
- Permit to Drill
- Oil Spill response plan
- Wastewater discharge
- Endangered species consultation
- Polar bear Letter of Authorization
- Seal / whale Incidental Harassment Authorization
- Air Quality Permit – drill rig and camp

State

- Land use permit (ice road, off-road travel)
- Water use permit (ice road, drilling, camp)

NSB

- Development Permit

Onshore Development: State Lands

same requirements as exploration permits plus:

Federal

- Environmental Impact Statement or Assessment
- Endangered species consultation
- Section 404/10 permit for gravel fill
- Injection well authorization

State

- Gravel materials sales contract
- Lease/Unit Operations approval
- Waste management facility / wastewater disposal
- Pipeline right-of-way
- Wastewater and stormwater discharge permit*

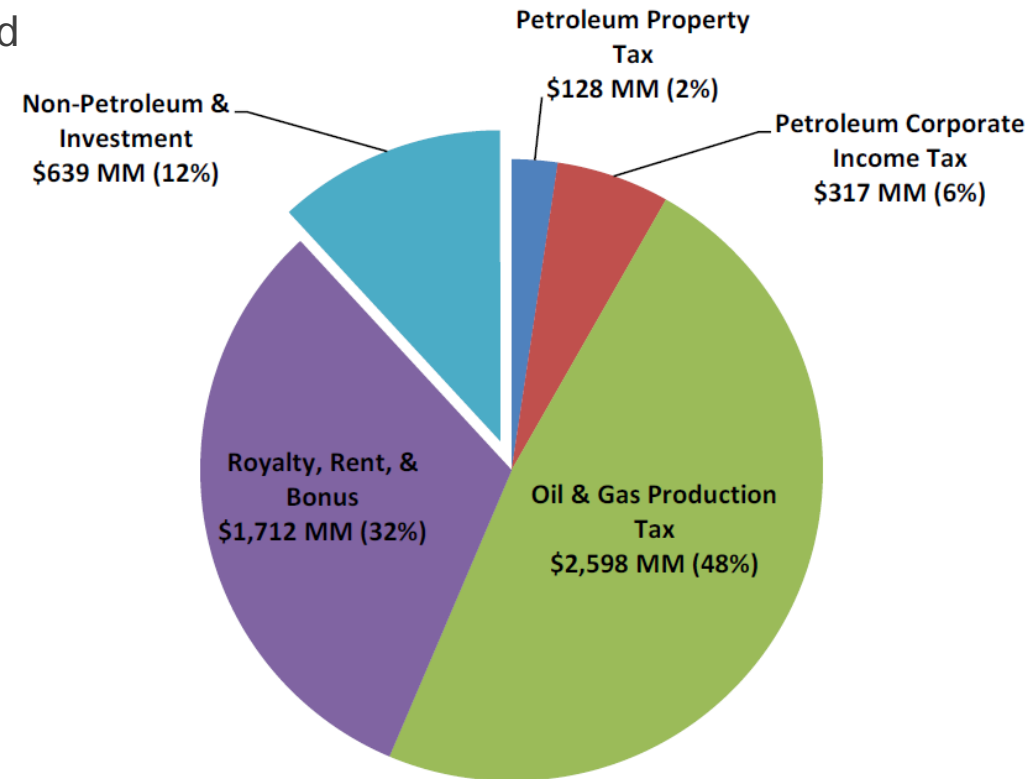
NSB

- Rezoning

Alaska's Oil and Gas Fiscal System

Four major components that generate State revenue in FY 14:

- ▶ **Royalties**
 - ▶ On state land, 12.5 - 16.67 percent
 - ▶ Royalties account for more than 30% of unrestricted revenue paid to the state
- ▶ **Property tax**
 - ▶ Assessed by DOR, tax rate 20 mills
 - ▶ Important component to local governments- up to \$400m/year split among 10 local governments
- ▶ **State corporate income tax**
 - ▶ Administered by DOR using modified apportionment method
 - ▶ Progressively graduated to top tax rate 9.4 percent
- ▶ **Production (severance) tax**
 - ▶ Largest revenue generating components of Alaska's fiscal system
 - ▶ SB 21- taxes net profits of production after opex and capex
 - ▶ Credits for taxable barrels produced, exploration, and companies producing less than 100,000 barrels per day



Petroleum fiscal regime peer group highlights:

Jurisdiction	Royalty (% of Gross Production)	Rental Fees (\$ per Acre)	Property /Ad Val. Tax	Federal Corp. Income Tax Rate	State/ Province Corp. Income Tax Rate	Net Tax / Profit Share (net of costs)	Gross / Severance Tax	Indirect Sales / VAT Tax Rate	Partici- pation
U.S./States									
Alaska	State: 12½% - 16½% Federal: 12½%	State: \$1 - \$3 Federal: \$1.50 - \$2	Yes	35%	9.4%	North Slope: 35% and up	Gross minimum tax may apply	none	-
California	Federal: 12½% Private: 16½% - 25%	Federal: \$1.50 - \$2 Private: \$5 - \$30	Yes	35%	8.84%	-	\$0.1063/bbl. \$0.1063/MCF	7%	-
North Dakota	State: 16½% Private: 12½% - 25%	State: \$0 - \$1 Private: \$1	None	35%	6.4%	-	5% - 11.5%	5%	-
Oklahoma	Private: 12½% - 20%	Private: \$1	Yes	35%	6%	-	7.2% (reduced at low prices)	4.5%	-
Texas	Private: 12½% - 30%	Private: \$3.50	Yes	35%	1% of Net Taxable	-	\$0.0063/bbl. \$0.0667/MCF plus 0 - 4.6% oil and liquids and 7.5% gas value	6%	-
U.S. GOM OCS	Federal: 18½%	Federal: \$7 - \$16	None	35%	-	-	-	none	-
U.S. Alaska OCS	Federal: 12½%	Federal: \$2.50 - \$20	None	35%	-	-	-	none	-
Canada/Provinces									
Alberta	Province: 0% - 40%	Province: \$1.35	None	16.5%	10%	-	-	5%	-
Northwest Territories	Province: 1% - 5%	work commitment, no rental	None	16.5%	11.5%	-	-	5%	-
Canada - Beaufort Sea	Federal: 1% - 5%	work commitment, no rental	None	26.5%	-	-	-	5%	-
International									
Australia - Deepwater	none	Federal: \$0 - \$1	None	30%	-	40%	-	10%	-
Norway	none	Federal: \$20 - \$80	None	28%	-	50%	-	25%	20%
U.K.	none	Federal: \$0.1 - \$30	None	30%	-	32%	-	20%	-

Not meant to be a comparison.
There is no perfect fiscal system.

Goals and Future Work

- ▶ Broad- range survey of companies to better understand Alaska's perceived strengths and weaknesses with global peers
- ▶ **Need Appropriation for RPF to fund survey**
- ▶ Create a dashboard of critical measurements-track past, current, and projected future statistics/trends/progress



Future Deliverables

- ▶ Next deliverable due January 15, 2017: Provide written findings and recommendations regarding:
 - ▶ The state's tax structure and rates on oil and gas produced south of 68 degrees North latitude;
 - ▶ A tax structure that takes into account the unique economic circumstances for each oil and gas producing area south of 68 degrees North latitude;
 - ▶ A reduction in the gross value at the point of production for oil and gas produced south of 68 degrees North latitude that is similar to the reduction in gross value at the point of production in AS 43.55.160(f) and (g); and
 - ▶ Other incentives for oil and gas production south of 68 degrees North latitude.
- ▶ Final statutorily required deliverable due January 31, 2021: Provide written findings and recommendations regarding:
 - ▶ Changes to the state's fiscal regime that would be conducive to increased and ongoing long-term investment in and development of the state's oil and gas resources;
 - ▶ Alternative means for increasing the state's ability to attract and maintain investment in and development of the state's oil and gas resources; and
 - ▶ A review of the current effectiveness and future value of any provisions of the state's oil and gas tax laws that are expiring in the next five years.