

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

Anchorage, Alaska

November 15, 2021

1:10 p.m.

MEMBERS PRESENT

Representative Josiah Patkotak, Chair

Representative Zack Fields

Representative Calvin Schrage

Representative Sara Hannan

Representative George Rauscher

Representative Mike Cronk

Representative Tom McKay

MEMBERS ABSENT

Representative Grier Hopkins, Vice Chair

Representative Ronald Gillham

COMMITTEE CALENDAR

PRESENTATION(S): Assessment of Recent Trends in Upstream Oil & Gas and the State of Alaska's Competitive Position, by GaffneyCline

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

MICHAEL CLINE, Strategy Advisor/Legal Counsel

GaffneyCline

London, United Kingdom

POSITION STATEMENT: Presented an informational PowerPoint titled, "Assessment of Recent Trends in Upstream Oil & Gas and the State of Alaska's Competitive Position."

ACTION NARRATIVE

[1:10:24 PM](#)

CHAIR JOSIAH PATKOTAK called the House Resources Standing Committee meeting to order at 1:10 p.m. Representatives Rauscher, Fields, McKay, Patkotak, and Cronk (via Teams), were present at the call to order. Representatives Hannan and Schrage arrived as the meeting was in progress.

PRESENTATION(S): Assessment of Recent Trends in Upstream Oil & Gas and the State of Alaska's Competitive Position, by GaffneyCline

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MICHAEL CLINE, Strategy Advisor/Legal Counsel, GaffneyCline, presented an informational PowerPoint titled, "Assessment of Recent Trends in Upstream Oil & Gas and the State of Alaska's Competitive Position." He explained that GaffneyCline does management and technical consulting for the oil and gas industry, and that the presentation would be a high-level overview of industry trends and Alaska's competitive position. He began his presentation with slide 3, "Agenda," which read as follows [original punctuation provided]:

- The Oil and Gas Industry Today
- Alaska in the Global Context
- Considerations for Alaska's Oil and Gas Taxation Policy

MR. CLINE presented slide 4, "The Oil and Gas Industry Today," and moved immediately to slide 5, "Volatility and Disruption in the Oil & Gas Industry," which read as follows [original punctuation provided]:

- The oil & gas industry has been battered by deeply disruptive events in recent years, including the oil price collapse of 2014-2016, the COVID-19 pandemic, the emergence of alternative energy platforms, and a related shift in the longterm prospects of the industry.
- Oil and gas companies have performed poorly, while investors have demanded better financial performance and action on energy transition.
 - Divestments and restructurings have occurred and are ongoing, a renewed focus on capital discipline and investor returns has meant fewer projects are sanctioned, and there is a laser focus on strategy and core assets.

- Resource owners are finding it challenging to attract capital and good operators.
- For governments and states, lower prices and decelerating demand has meant reduced revenues and tax receipts and contraction of the tax base.

MR. CLINE presented slide 6, "Crude Oil Price Volatility: 2000-2021 Key Events Timeline," which displayed a graphic representation of the events on slide 5 over time. Notable points on the line graph read as follows [original punctuation provided]:

2003-08: Supply uncertainty due to Iraq war and onset of Asian demand growth drives prices upwards

2008-09: Demand uncertainty due to financial crisis causes price crash, but resilient demand supports price recovery

2011: Price rises due to supply uncertainty from the Arab Spring

2015-16: A price environment re-set due to: strengthening Dollar, retained OPEC production levels, growing global inventory, a weakening economy, and removal of Iran economic sanctions

2020-21: Price fall due to COVID-19-related demand destruction and 'supply war' double whammy, followed by price recovery as demand re-starts

Fracking sparks US Shale Oil Production and contributes to **2014-16** price collapse

2018+: Banks begin to restrict lending to fossil fuel projects

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REPRESENTATIVE RAUSCHER pointed out the downward trend in oil prices beginning in May 2008, and he asked whether prices are still trending downward.

MR. CLINE replied, "It's the million-dollar question that everybody's trying to answer." He said countries without their

own energy supplies, such as European countries, may experience difficulties. He hypothesized about demand being met by oil and gas, versus growing renewable energy platforms, and he said renewals are also trending upward but are not replacing fossil fuels quickly enough to meet demand.

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REPRESENTATIVE FIELDS asked whether it's reasonable to suspect that oil won't remain much higher than \$60 per barrel, considering shale production.

MR. CLINE expressed that Representative Fields' perspective is reasonable.

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MR. CLINE presented slide 7, "Energy Transition and Oil & Gas," which read as follows [original punctuation provided]:

- Many technologies essential to the transition to alternative energy platforms are still in development, and face significant hurdles in terms of addressing intermittency, energy storage and the sheer complexity and cost of implementation.
- While the transition period is uncertain (circa 20-to-40 years), the trends are clear:
 - Innovation and investment focus are leading to new applications and rapid cost reduction.
 - Renewables and other sources of clean power generation are growing rapidly, electric vehicles are established and on the cusp of rapid growth, and decarbonisation has been elevated to 'core strategy' for businesses from ExxonMobil to Blackrock.
 - The debate is no longer whether energy transition will happen but how quickly it will happen.
- For resource-rich governments and states, the question is how to address the knock-on impacts of energy transition and, in particular, how to optimize oil and gas resources in a responsible manner while transitioning to alternative energy platforms.

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MR. CLINE presented slide 8, "Energy Transition is an Issue for the Capital Markets," which listed 50 financial institutions, and which read as follows [original punctuation provided]:

- The Institute for Energy Economics and Financial Analysis maintains a tally of the number of financial institutions/companies who have decided to eliminate or significantly reduce their financial support for oil & gas and coal.

- Over 80 global financial institutions are restricting lending and over 100 have announced their divestment from fossil fuels including coal, oil, LNG, gas, oil sands and arctic drilling.

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REPRESENTATIVE RAUSCHER referred to "recent actions from the U.S. President," which he characterized as "worrisome," and he asked whether those actions have significantly impacted investment compared to a year ago.

MR. CLINE expressed that some actions by President Joe Biden have increased the regulatory burden on some oil projects.

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REPRESENTATIVE FIELDS asked what institutions are still lending to oil and gas companies.

MR. CLINE replied that lenders that see opportunity, especially when there exists tightness in the market, are still lending for oil and gas projects.

REPRESENTATIVE FIELDS asked what specific institutions are still lending.

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CHAIR PATKOTAK interjected that it's important to consider the cost of financing oil and gas development projects when it comes to discussions on tax policy.

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MR. CLINE presented slide 9, "Oil & Gas Portfolio Restructuring due to Energy Transition," which displayed a line graph of the carbon dioxide emission intensity of several oil and gas companies over time, and which read as follows [original punctuation provided]:

- Oil and Gas companies are now restructuring their portfolios to respond to growing climate change pressures.
- But is Big Oil simply shifting carbon to 'Little Oil' and claiming credit?
- In any event, restructuring will occur over an extended period, along with the energy transition process.

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REPRESENTATIVE FIELDS asked whether the carbon dioxide emission trends on slide 9 are self-identified goals of each company, or analysis of the direction and rate each company is actually trending.

MR. CLINE replied that he believes the data points are goals announced by the companies, and that the companies are creating their own metrics.

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MR. CLINE presented slide 10, "Decelerating Demand and the Competition for Investment Dollars," which read as follows [original punctuation provided]:

- The trends relevant to Alaska and other oil producers are increasingly clear:
 - The lowest cost producers (Saudi Arabia and Gulf countries) will have an increasing advantage in a lower demand environment, with strong drivers to maximize production to meet budgetary requirements, and a goal to extract as much value as possible from their oil and gas resources while they can.
 - Shale oil will remain a potent force with its ability to react quickly to demand/price spikes, which will restrain upward price pressure.

- Decelerating demand and a muted price environment will likely mean less upstream investment and activity through 2050, especially for 'big ticket' long lead time investments.
- For oil and gas producers such as Alaska, the competition for oil and gas investment dollars is fierce and getting fiercer.
 - Oil and gas companies will impose high profitability / return hurdles for upstream investment.
 - Oil and gas companies are making decisions today that will determine the extent to which Alaska is able to monetize its oil and gas resources in the future.

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MR. CLINE presented slide 11, "Government Actions to Promote Investment and Production," which read as follows [original punctuation provided]:

- Governments compete on the global stage for exploration and development capital, which provide the long-term basis for tax revenues.
- In response to such changes in market conditions, it is common for proactive governments to reassess existing fiscal terms and to consider incentives to ensure continued exploration and development in the domestic energy sector.
- There have been substantial changes made to upstream oil and gas terms stemming from the change in market conditions in 2014 as well as some responses to the price decrease observed in 2020.
- It should be noted that due to the time required to review and approve fiscal changes, particularly at a national legislative level, there is often a delay in their implementation and a time lag after implementation before they have effect.

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REPRESENTATIVE RAUSCHER asked what the future prediction for Alaska is.

MR. CLINE responded that there are large projects in development in Alaska. He said Alaska needs to be able to attract many diverse types and sizes of companies.

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REPRESENTATIVE MCKAY asked whether there is a country or state that Alaska could emulate in diversifying industry.

MR. CLINE replied that Norway has been very successful in attracting different kinds of assets, and the United Kingdom is a good example of having large companies migrating out, with small companies migrating in.

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MR. CLINE said his presentation would now focus more on Alaska than on the larger oil and gas industry. He presented slide 13, " Alaska's Oil and Gas Sector is Maturing and Facing Headwinds," which read as follows [original punctuation provided]:

- Alaska has been a destination of choice for many leading oil and gas companies with its attractive resources, access to market, skilled workforce and service company base.
- In recent years, however, Alaska's oil and gas sector has faced challenges:
 - Key assets like Prudhoe Bay are maturing and producing far less oil.
 - Bringing new assets on stream to replace declining production from maturing fields has not been straightforward (consider Willow as an example).
 - Alaska is a difficult and high-cost operating environment, with only a short window of time each year for key activities when ice roads are available.
 - At the same time, Alaska has faced the same headwinds as others globally.
- SB 21 (MAPA) introduced the Per Barrel Tax Credit to reverse investment and revenue declines.
 - Since MAPA became law, the production decline trend appears to have stabilized

- Fiscal changes typically take time to take effect and can be overwhelmed by events.

MR. CLINE presented slide 14, " Maturing Assets lead to Oil Production Decline from 1980s' Highs," which displayed a graph showing the oil and gas production rate from 1960-2020, and which read as follows [original punctuation provided]:

- Alaskan crude oil production averaged 448 MBPD in 2020, equivalent to 4% of US oil production.
 - 75% less than peak production of more than 2 MMBPD in 1988.
- Exemplified by Prudhoe Bay, where production of circa 1.5 MMBPD during the 1980s has declined steadily, reaching 215 MBPD in 2020.
- Other assets are also maturing with production in decline, save for Oooguruk + Nikaitchuq + Point Thomson.
 - Production from this grouping commenced in 2008, reaching circa 34 MBPD in 2020.
- Alaska's newest fields, Point Thomson and Greater Moose's Tooth Unit began regular production in April 2016 and May 2018, respectively.
- Despite declining production, oil and gas continues to provide substantial revenue.
- During 2014-16, petroleum revenues decreased from US\$4.8 billion to under US\$0.9 billion); circa 11,700 jobs were lost*.

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REPRESENTATIVE MCKAY asked whether the 11,700 job loss was in Alaska or in the United States.

MR. CLINE replied that it was in Alaska, and he said the figure was from a 2018 report from the McDowell Group.

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REPRESENTATIVE RAUSCHER asked for the timeframe of the job loss.

MR. CLINE responded that the report was in 2018, and that the period of job loss was from 2014-2016.

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MR. CLINE presented slide 15, "Sustaining Petroleum Revenues for Alaska," which read as follows [original punctuation provided]:

- To reverse or offset crude oil production declines, not only must existing projects be nurtured and sustained for as long as economically feasible, new projects must be sanctioned and brought online to 'fill the gap.'
 - The economy and many high paying jobs for Alaskan families are reliant upon continued oil revenues.
 - Alaska is focused on alternative energy platforms to drive the economy in the future, but oil revenues are critical to subsidize the decades-long transition to alternative energy platforms.
- ConocoPhillips' Willow project is key.
 - An US\$8 billion development expected to create more than 2,000 construction and 300 permanent jobs if sanctioned, and become the largest project on the North Slope since Alpine in the late 1990s.
 - Resources estimated at circa 600 MMBOE are envisaged to produce over 160 MBOED at peak from a new stand-alone processing facility tied into TAPS.
 - In August 2021, a federal court vacated the Bureau of Land Administration's 2020 approval.
- Aside from Willow, other projects include Oil Search/Repsol's Pikka project, which envisions production of 80 MBPD from Phase 1, at a US\$3 billion development cost, and up to 120 MBPD when fully built-out at a cost of ~US\$6 billion.

MR. CLINE presented slide 16, "Protecting the Petroleum Tax Base and the Economy," which read as follows [original punctuation provided]:

- Petroleum-related revenues are a significant contributor to Alaska and have been and will continue

to be under pressure as the industry changes with a move toward alternative energy systems, increasing asset maturity, and other factors.

- To sustain those revenues and the high paying jobs provided by the industry, Alaska needs the participation of as many companies as possible, from the very large to the small, to explore, develop and produce its diverse resource base and sustain and build the tax base.

- Large projects like Willow and Pikka are essential and require significant investment, application of human and technical resources, and an appetite for risk - which typically requires large companies making long-term strategic commitments.

- Mature assets are essential too, and the participation of smaller, nimble companies is key to optimizing these assets and tax revenues from them.

- Attracting oil and gas investment and participation is a 'competitive activity', with major producers in the US and globally competing for the same participants and investment dollars - considerations around tax burden and overall costs are critical in that competition.

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REPRESENTATIVE RAUSCHER asked whether there exist brokers to assist oil companies in establishing developments.

MR. CLINE said, "I think that the power broker is, in essence, the state." He said that by understanding its assets and developing competitive processes, with the right financial terms, and then offering attractive assets for development, the state would attract good competition.

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MR. CLINE moved to the next section of the presentation, "Considerations for Alaska's Oil and Gas Taxation Policy," and presented slide 18, "Tax Policy Considerations," which read as follows [original punctuation provided]:

- Alaska's strategy to extract more revenues from the oil & gas sector will need to consider not only near-term revenue capture objectives, but also medium- and longterm impacts on oil and gas development and production and the tax base.

- Ensure that companies are not discouraged from taking on big investment, step-change developments that will replace declining revenues from existing fields; and

- Ensure that existing companies and new entrants continue to invest in mature fields, and so extend the productive life of existing assets.

- Global experience suggests that if the taxes are too high:

- Companies will seek to exit and/or go into 'harvest mode', and - Invest in other more tax friendly jurisdictions.

- All of which will contribute to reduced investment and activity in the oil and gas sector and to production declines.

- Tax policy must be crafted and sufficiently nuanced to support effective revenue capture while maintaining healthy participation across the different asset types.

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MR. CLINE presented slide 19, "The Existing Tax Credit and Alaska's Competitive Position," which read as follows [original punctuation provided]:

- For Alaska, the key has always been striking the right balance between tax revenue capture and maintaining a healthy and vibrant oil and gas sector that is competitive with other major oil and gas producers around the world.

- Is Alaska competitive with its current tax structure in today's global supply and demand market?

- This is a complex question but the indications suggest that Alaska has a competitive fiscal system at this time.

- Stabilization of production levels from the steady decline pre-MAPA is positive.

- New entrants taking over large mature assets and the willingness of companies to invest in big projects like Willow and Pikka are positive.

- Important to note that Alaska's competitiveness is not a given or static - the competitive landscape changes constantly and continuing assessment is necessary to ensure that Alaska's fiscal terms capture robust revenues for the state, while at the same time promoting exploration, development and production of vital oil and gas resources.

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REPRESENTATIVE RAUSCHER asked why oil companies don't want to invest when oil prices are extremely low, considering how much cheaper transportation is, then they invest when prices rise.

MR. CLINE explained that oil and gas companies undertake long-term projects, and they tend to be very cautious about long-term or expensive projects when operating in a volatile environment.

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REPRESENTATIVE MCKAY commented that the More Alaska Production Act (MAPA) was passed six to eight years ago, and he said that should be enough time to assess whether it was effective. He commented on the "pro-oil, pro-fossil fuel, pro-Alaska" Trump administration, and he expressed the belief that the Biden administration is antagonistic towards Alaska, due to the closing of the Arctic National Wildlife Refuge (ANWR) leasing program and the halting of ConocoPhillips Alaska, Inc.'s Willow project by a federal judge. He opined that "\$4, and \$5, and \$6 gasoline" won't be tolerated, and he talked about the strength of the country and how the U.S. can't have a "weak" oil industry." He asked Mr. Cline to comment on his opinions.

MR. CLINE replied that GaffneyCline has not done a detailed analysis on MAPA, and he said there are many factors, including the COVID-19 pandemic, that have been disruptive to the industry. He said he suspects there is enough capacity in oil and gas production to "take the edge off" in the markets.

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:30 p.m.