

SENATE FINANCE COMMITTEE
January 19, 2022
9:01 a.m.

[9:01:10 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Donny Olson
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman

ALSO PRESENT

John Crowther, Deputy Commissioner, Department of Natural Resources; Maduabuchi Pascal Umekwe, Petroleum Reservoir Engineer, Department of Natural Resources; Corri Feige, Commissioner, Department of Natural Resources.

SUMMARY

PRODUCTION FORECAST: DEPARTMENT OF NATURAL RESOURCES

[9:01:55 AM](#)

AT EASE

[9:05:39 AM](#)

RECONVENED

Co-Chair Stedman discussed protocol for COVID-19. He stated that mask-wearing would be required in the Senate Finance Committee room until further notice. He anticipated ongoing discussions with Legislative Council.

Co-Chair Stedman introduced his staff and discussed the roles in his office, which included the operating budget.

Co-Chair Stedman discussed the role of Co-Chair Bishop and his staff. He explained that Co-Chair Bishop worked on the capital budget and legislation.

Co-Chair Stedman introduced Senator von Imhof and her staff.

[9:09:31 AM](#)

Co-Chair Stedman introduced Senator Olson and his staff.

Co-Chair Stedman introduced Senator Wielechowski and his staff.

Co-Chair Stedman introduced Senator Wilson and his staff.

Co-Chair Stedman introduced Senator Hoffman and his staff.

[9:11:58 AM](#)

Co-Chair Stedman introduced the Senate Finance Committee staff. He introduced the staff from the Legislative Information Office.

[9:13:22 AM](#)

Co-Chair Stedman explained that the committee would engage in the budgetary process in a manner like the previous year. The committee would take the executive branch's submitted budgets, remove non-recurring funds and fund adjustments to work with a base budget that would appear as "Committee Substitute Zero." He thought it was important to have a base document to work from to provide accuracy, after which the committee would layer on other fund sources such as federal funds and COVID-19 relief funds. He discussed recurring revenue and the opportunity to recognize a structural deficit.

Co-Chair Stedman discussed committee decorum. He reminded that there was no eating allowed at the table, nor outside reading materials. He commented that the current committee had the most experienced finance staff ever assembled, in terms of years of experience and background. He noted that the members did not agree on all matters, and there would

be thorough discussion and analysis as the members worked through issues.

[9:16:14 AM](#)

Co-Chair Stedman commented that there were two new committee aides. He wanted to recognize that meetings were for the public and the material was presented in an easily understood format. He asserted that understanding was the goal.

[9:18:29 AM](#)

Co-Chair Bishop commented on safety and noted that the staff tables had been refinished and had sharp edges. He noted the emergency exits in the room.

[9:19:23 AM](#)

Co-Chair Stedman introduced the presenters.

^PRODUCTION FORECAST: DEPARTMENT OF NATURAL RESOURCES

[9:20:33 AM](#)

JOHN CROWTHER, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, introduced himself and relayed that Corri Feige, Commissioner, Department of Natural Resources was also online.

[9:21:00 AM](#)

MADUABUCHI PASCAL UMEKWE, PETROLEUM RESERVOIR ENGINEER, DEPARTMENT OF NATURAL RESOURCES, introduced himself.

[9:21:32 AM](#)

CORRI FEIGE, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, explained that the Department of Natural Resources (DNR) she shared that the oil sector had experienced recovery from the beginning of the global pandemic in 2020. She stated that demand was currently ahead of supply. She noted that Alaska crude closed just above \$89/bbl the previous day. She relayed that 2022 could see a rebound in oil prices, which could change quickly due to the volatile nature of the oil market. She related that at a meeting on January 4, 2020, Oil Producing and Exporting Countries

(OPEC+) nations announced that they planned to continue their restrained month increase in supply. She said that the restrained approach could indicate that the idle capacity of these nations could make it difficult to return to production. She said that this market sentiment had driven prices over the past few weeks. She stated that stronger and more stable prices and increased demand was good for Alaska's industry. She lamented that operators in Alaska faced significant headwinds due to the current political climate. She opined that all companies faced pressure to exhibit capital discipline and to increase shareholders profits and returns, that combined with climate activism had resulted in financial barriers and slower reinvestment in the sector. She said that even during uncertain times, Alaska's operators were taking full advantage in the price rise and near-term stability to capture efficiency and production from existing assets. She asserted that this had resulted in decline rates across several of the state's North Slope fields.

[9:24:18 AM](#)

Mr. Umekwe introduced the presentation, "Fall 2021 Production Forecast".

[9:25:07 AM](#)

Mr. Umekwe looked at slide 2, "Agenda":

- Introduction
- Background:
 - FY2021 in Review
 - DNR Production Forecasting Approach
- Fall 2021 Forecast Results
- Summary

[9:25:28 AM](#)

Mr. Umekwe showed slide 3, "BACKGROUND: FY 2021 IN REVIEW."

Mr. Crowther referenced slide 4, "FY 2021 AS FORECASTED BY DNR IN FALL2020: HOW DID WE DO?":

•DNR forecast proved reliable for State revenue planning, as actual FY 2021 production came in within DNR's forecasted range.

- DNR expected case forecast was ~5% under actual FY 2021 production
- New factors to watch for that are currently shaping the forecast horizon**
 - Strong Environmental Social and Governance (ESG) influences introduce a new terrain for capital allocation decisions in the Arctic, especially for early-stage oil projects under development/evaluation
 - Current Production: Varied operator responses to the many phases of the covid-19 pandemic influencing several aspects of field management and redevelopment efforts

Mr. Umekwe looked at the bar graph entitled 'DNR FY2021 North Slope Forecast (Generated in Fall 2020)' and noted that the black bar showed actual production. The grey bars represented forecasts. He reported that production had fallen within the projected range. He pointed to two of the factors that were active in shaping the forecast - strong environmental social and governance influences and current production due to Covid-19.

Mr. Umekwe discussed how the COVID-19 pandemic had affected production.

[9:28:59 AM](#)

Senator von Imhof appreciated slide 4 showing the high, middle, and low forecasts. She asked whether there was a slide that showed how the forecasts translated to revenue to the state at various prices.

Mr. Crowther stated he would be happy to work with the Department of Revenue (DOR) to prepare a summary of the information.

Co-Chair Stedman relayed that the request would be directed to DOR. He explained that "all oil was not the same" as far as it translated to dollars into the treasury. He noted that all oil was the same in the pipeline but there were significant differences in price depending on where the oil came from.

[9:30:51 AM](#)

Mr. Umekwe commented that the appendix of the Revenue Sources Book contained a list of various oil prices.

[9:31:16 AM](#)

Mr. Umekwe turned to slide 5, "FY 2021 SUMMARY: NORTHSLOPE":

Highlights (FY2021 vs FY2020)

- All fields are generally expected to see a year-on-year decline
- Compared to FY2020, in FY 2021 North Slope production increased by ~2% (~10,000 bopd)
- Increases**
 - GPBU: 5% production growth due to well/facility optimization efforts
 - MPU: 20% production growth due to consistent drilling efforts
 - PTU: Over 40% growth; improved facility reliability
- Decreases**
 - KRU: Production essentially held flat at FY20 levels
 - GMT1: Over ~50% drop. Reservoir challenges persist
 - Oooguruk: Absence of drilling since 2016

Mr. Umekwe thought slide 5 showed a snapshot of production. He drew attention to the graph on the bottom right, 'Production Changes Across North Slope Assets (FY21 vs FY20),' and noted the 5 percent production growth due to significant well and facility optimization efforts.

Mr. Umekwe drew attention to the Point Thomson unit shown on the graph and noted the transition from Exxon Mobile to Hilcorp. He said that in the last years that Exxon ran the unit they had made many upgrades. He said that the wells were currently always online. He discussed the fields where a decrease had been noted.

[9:35:30 AM](#)

Senator Wielechowski referenced Point Thomson, and thought the state had a settlement agreement with the previous operators. He recalled that 10,000 barrels were supposed to be produced every day. He asked Mr. Umekwe to discuss Point Thomson development, and whether the operators had followed the settlement agreement.

Mr. Umekwe recalled that the goal of the agreement had been to produce 200 million cubic feet of gas per day. He deferred to the Alaska Oil and Gas Conservation Commission (AOGCC).

Co-Chair Stedman asked Mr. Umekwe to get back to the committee with more information, including more information on the tariff structure. He discussed getting the condensate out of Point Thompson and into Trans-Alaska Pipeline System (TAPS) was of interest to the committee.

Mr. Crowther agreed to provide the information.

[9:37:46 AM](#)

Senator Wielechowski had a budget briefing with the governor's office a few weeks previously. He thought that gas that had been previously shipped and reinjected was no longer being handled in the same manner and that oil was now being counted toward production that had not been previously counted as such.

Mr. Umekwe asked whether Senator Wielechowski was referencing NGOs that had been previously moved. He explained that over the previous two years, natural gas liquids had been shipped from the Prudhoe Bay unit to the Kuparuk River unit for use in enhanced oil recovery. He relayed that that practice had stopped, and the pipeline was now being used for the transfer of gas to use as fuel in the Kuparuk River unit. He summarized royalties were paid on natural gas liquids that left the Prudhoe Bay unit because it crossed unit boundaries. He said that when the liquid went to the Kuparuk River unit, royalties were paid upon production. He said that the cost in the projection was adjusted within the total revenues the operators had to pay at the Kuparuk unit.

[9:40:27 AM](#)

Senator Wielechowski asked whether the situation caused an increase or decrease in any of the forecast numbers.

Mr. Umekwe replied in the negative. He said that the numbers in the source book were based on what came out of the ground.

[9:40:49 AM](#)

Co-Chair Stedman asked Mr. Umekwe to discuss processing facilities on the North Slope. He wondered how many facilities there were, and which were operating at full capacity. He asked about the reasons for increases at Prudhoe Bay and Melanie Point and wondered whether those gainful processes could be applicable elsewhere.

Mr. Umekwe stated that the Prudhoe Bay unit had 6 processing facilities and the Kuparuk River unit had 3. He said that all the facilities were operational. He said that the gains seen at the Greater Prudhoe Bay unit was the result of the utilization of the capacity of that facility.

Co-Chair Stedman asked Mr. Umekwe to provide more information about the processing facilities. He asked for more information about the change in operators in Prudhoe Bay and the benefits of enhancing processing facilities to increase production.

[9:44:10 AM](#)

Senator Wielechowski discussed production facilities. He had heard that Oil Search had reached out and tried to use ConocoPhillips's facility. He wondered whether the request had been honored.

Mr. Crowther was aware of the negotiations between companies, as it related to sea water treatment and oil and liquids processing. He relayed that the Pikka project, as designed by Oil Search, included a significant processing facility, which could add to the capacity of the western North Slope and be beneficia to the state.

Senator Wielechowski understood there were negotiations between companies. He wondered to what degree the administration was participating in those negotiations. He queried whether the legislature should encourage the negotiations since the state would benefit from the access.

Mr. Crowther thought Senator Wielechowski had made a fair point. He thought the commissioner would want to comment.

Co-Chair Stedman interjected that any new entrants could build their own facility and would have to negotiate access into other facilities.

[9:46:31 AM](#)

Commissioner Feige clarified that Oil Search had opted to construct their own seawater treatment facility for the Pikka Development. She said there had been issues surrounding the chemistry of the water that could be used for maximizing oil production out of Pikka if the water was sourced through ConocoPhillips's existing water treatment facility. She understood that to accommodate production in Willow, ConocoPhillips would need to expand their Oliktok Point seawater treatment facility. She relayed that Oil Search had always intended to construct their own oil processing facilities, which would be modularized in two phases. She said the plan was to begin with 80,000/bbl per day with a maximum of 160,000bbl/ pre day in phase two with the second module. She related that overlapping need and use was found with access roads that the two parties were currently negotiating commercial arrangement for long-term access. She said that in both the Colville and Pikka unit cases included state resources being developed with state leases on state land. She asserted that the administration had the authority to engage the state should the parties not arrive at a commercial agreement.

[9:48:56 AM](#)

Co-Chair Stedman asked Commissioner Feige to discuss how the department monitored the time-value of money regarding the developments.

Commissioner Feige affirmed that the time value of money was very important. She explained that the department was watching proposed timeline closely. She had been told that the final investment decision (FID) was due in June 2022. She reiterated that the department was monitoring the access agreement closely.

[9:50:14 AM](#)

Senator von Imhof thought that the issue was timely for the access to landlocked leases. She questioned the incentive for available state land to be leased that was challenging to access. She thought access was becoming a problem for companies trying access parcels in a timely manner.

Commissioner Feige mentioned that the nuance of the situation was because this was the first time a party was developing a new field that was not a working interest owner in the unit. Historically, there had been co-working

owners that had been able to work out commercial arrangements. She furthered that even in the instance where companies needed to utilize facilitates, a commercial arrangement had been reached. She thought it was important to know that there was no exclusivity in access across state leases. She stated that the language in the leases and unit agreements spelled out that other operators would be able to cross because there was no exclusive use granted to the lessor. She said that through statutes and regulation there was a path for the state when negotiations failed.

[9:53:15 AM](#)

Senator Wielechowski understood that typically the state should take a "light hand" in involvement in negotiations between private companies. He hoped the state would get involved and encourage some sort of settlement.

Co-Chair Stedman asked Commissioner Feige to keep the committee apprised of the situation over the following months.

[9:54:17 AM](#)

Senator Wielechowski reference Point Thompson. He understood that two years ago it had been determined that three things had needed to happen at Point Thompson: companies were to produce more than 10,000/bbl per day of condensate oil, there was to be a major gas sale at Prudhoe Bay and was going to be a blown down of gas at Prudhoe Bay. He noted that none of those things had come to pass, and he was curious why a new settlement agreement was signed.

Commissioner Feige thought Senator Wielechowski was referencing the letter agreement signed under the previous administration, previous DNR commissioner, and the owners and operators of Point Thompson. She shared that the letter agreement expanded the trigger date within the original Point Thomson settlement agreement, which at the time was intended to give more time for negotiation for a major gas sale. She offered to provide a thorough update of the Point Thompson settlement agreement.

Commissioner Feige noted that the prior developer, Exxon, had made significant investment in high-pressure compressor heads. She stated that the investment had led to stability

in the maximization of liquids projection. She announced that process was over challenging technical hurdles, and with stabilized production and a new operator the production process had improved. She reiterated that the department would present the committee with an update on the project.

[9:57:14 AM](#)

Co-Chair Stedman asked that the information on Point Thompson be consolidated into a presentation by the department. He asserted that the state had a significant financial stake in Point Thompson through distributed credits. He thought Senator von Imhof and Senator Wielechowski had brought up some good points.

[9:58:39 AM](#)

Mr. Umekwe considered slide 6, "FY 2021 SUMMARY: COOK INLET":

Highlights (FY2021 vs FY2020)

- Oil from the Cook Inlet basin critical to the supply of in-state refineries, as well as yielding revenues from Royalty-in-Kind sales
- Compared to FY2020, in FY2021 Cook Inlet production decreased by ~22% (~3000 bopd)
- All fields are generally expected to see a year-on-year decline

•Decreases

- Redoubt Shoal & McArthur River: Fields were taken offline in June 2020 due to pandemic-related price crash. Fields brought back online in September/October 2021.

Mr. Umekwe pointed to the graph on the top right of the slide. He said that the fallout from the pandemic had resulted in the 22 percent decrease.

Co-Chair Stedman recalled that the tax structure in Cook Inlet terminated in 2022. He thought that the issue merited discussion.

[10:00:17 AM](#)

Senator von Imhof was interested in whether production would go up in 2022. She wondered about demand and supply

reserves. She questioned how production would look in the future and if the state needed to create more demand. She mentioned an in-state bullet line from Makenzie Point to Fairbanks. She wondered what the state could do to boost production and demand in Cook Inlet so that the state would never have to import gas.

Mr. Crowther thought Mr. Umekwe could speak to Senator von Imhof's questions. He added that the slide was focused on oil production from the basin.

Mr. Umekwe stated that currently the department had several studies ongoing to better understand the basin. He said that gas was being studied but that most of the presentation would be based on oil.

Senator von Imhof acknowledged that she had been thinking of gas rather than oil and thought a discussion on gas could take place later.

Co-Chair Stedman thought Department of Revenue (DOR) could discuss the tax structure of Cook Inlet later.

[10:02:40 AM](#)

Senator Wielechowski shared concerns about declining production. He understood that the state currently had zero percent production taxes and zero percent royalties in Cook Inlet, and still Anchorage had the highest natural gas prices in North America.

Mr. Umekwe replied that the revenue sources book laid out the tax structure for the basin. He added that prices were publicly available.

Co-Chair Stedman thought some of the questions could be directed to DOR. He contended that it was not a high tax structure that was affecting the prices. He asserted that there was no meaningful oil tax structure in Cook Inlet. He thought that an update on Cook Inlet would be in order.

[10:04:25 AM](#)

Senator von Imhof asked if oil production stopped in Cook Inlet whether it would affect gas production.

Mr. Umekwe replied that some of the gas would be affected. He added that much of the gas in the inlet was independent from oil.

[10:05:15 AM](#)

Mr. Umekwe displayed slide 7, " STATUS UPDATE OF KEY FUTURE PROJECTS: NORTH SLOPE:

CRU - Fiord West Kuparuk

Status: January 2021 - 6 wells planned

Status: January 2022 - Extended reach drilling (Doyon 26 "The Beast")

Production Rate Estimates - Reaching ~20,000 BOPD

CRU - CD5 2nd Expansion

Status: January 2021 - Ongoing drilling by YE 2020 after Covid-related interruptions

Status: January 2022 - Ongoing; 3 injectors drilled so far by Nov. 2021

Production Rate Estimates - Reaching over 10,000 BOPD

CRU - Narwhal

Status: January 2021 - N/A

Status: January 2022 - First oil Dec. 2021. Produced ~1600 BOPD. More drilling expected from CD4 to total ~12 wells and full dev't of 20 to 40 wells from CD8 in ~2028.

Production Rate Estimates - Initial peak from single start-up well: 1,000 to 5,000 BOPD; full peak DNR estimates >32,000 BOPD.

GMT2

Status: January 2021 - GMT2 First oil YE 2021

Status: January 2022 - First oil Nov. 2021 (1,326 BOPD); 4 wells drilled by Nov 2021.

Production Rate Estimates - Peak rate: 35,000 to 40,000 BOPD; 2022 update: 30,000 BOPD.

Pikka

Status: January 2021 - Now planned for 2-phases; start of production (Phase 1: 2025); To move FEED 2021; FID & 15 percent AK divestment YE2021 through 2022.

Status: January 2022 - Ongoing FEED; start of production (Phase 1: 2025; Phase 2 FID expected by ~ 2024/2025); Santos/Oil Search Merger completed.

Production Rate Estimates - Peak design capacity rate, Phase 1: 80,000 BOPD.

Willow

Status: January 2021 - Plan to submit Supplemental EIS. Record of decision achieved; FEED FID expected YE2021. Announced first oil: 2025-2026.

Status: January 2022 - Addressing AK District Court remand; likely to target a new BLM Record of Decision anticipated by YE2022. Construction expected to start Q12023. First oil post 2025/2026.

Production Rate Estimates - Peak rate: 130,000 BOPD

[10:09:17 AM](#)

Mr. Umekwe displayed slide 8, "DNR FALL 2021 PRODUCTION FORECASTING APPROACH; Recap: No Change in methodology from last year's forecast [Fall 2020 Forecast]."

[10:09:40 AM](#)

Mr. Umekwe looked at slide 9, " DNR FORECAST PROCESS: PROJECTS/POOLS INCLUDED IN FORECAST":

- DOG performed ground-up Decline Curve forecasts for all producing pools (Public).**
 - Forecast of Current Production uses AOGCC publicly available data
 - ~37 pools (ANS and CI), producing as of 6/30/2021
- DOG engaged with operators through DOR-arranged in-person and written interviews**
- 20 projects under development/under evaluation were considered/researched/reviewed (Confidential)**
 - Forecast for these projects use confidential information from operators
 - Future production from these projects were adjusted and risked for scope of contribution, chance of occurrence and start date
- No modifications in forecast approach between Fall 2020 and Fall 2021 forecasts**

[10:11:42 AM](#)

Mr. Umekwe addressed slide 10, "CATEGORIES OF PRODUCTION: ONGOING/CURRENT VS FUTURE PRODUCTION":

Ongoing/Current production

- **Current Production (CP)**

- Features and considerations:
 - Well and facility uptime
 - Operator spending to maintain base production
 - Reservoir management

Future production

- **Projects Under Development (UD) and Under Evaluation (UE) :**

- Rate contribution:
 - Uncertainty in future well performance
 - Uncertainty in project scope
- Project occurrence and timing:
 - Uncertainty in timing (incl. outright project cancellation/deferral)
 - Commerciality risk (economic, regulatory etc)

[10:13:41 AM](#)

Co-Chair Stedman asked whether the industry reported every six months to one year on future capital spending. He asked for a reminder on how the interaction worked between the department and the industry.

Mr. Umekwe explained that companies reported on capital spending and detailed future project plans to DOR annual basis, which DNR used in the forecast.

Co-Chair Stedman asked how far out into the future did companies report.

Mr. Umekwe stated that the typical range of information was 10-years out.

Co-Chair Stedman asked whether it would be more accurate to project spending trends out 6 months to 1 year, rather than 10 years.

Mr. Umekwe answered in the affirmative. He said that the near-term provided a clearer projection.

[10:15:08 AM](#)

Senator Wielechowski asked whether there were any fields or developments that were getting royalty relief or that had requested royalty relief.

Co-Chair Stedman reminded that royalties were within DNR, while other tax structures were within DOR.

Mr. Umekwe offered to provide information later.

Co-Chair Stedman asked about the interest DNR had in requesting information pertaining to royalty relief.

Mr. Crowther agreed to provide the information.

Co-Chair Stedman explained that the royalty relief option had been on the books for many years. He added that it was not related to oil tax structure changes that had occurred over the last 15 years.

[10:17:18 AM](#)

Senator Wielechowski recalled that the governor had requested \$199 million in cash credits in FY 23. He asked whether there had been an analysis of production return on the cash credits.

Co-Chair Stedman thought the question would be better directed to DOR. He suggested that Mr. Umekwe or Mr. Crowther answer the question to their capabilities.

Mr. Umekwe thought DOR could more appropriately answer the question.

Co-Chair Stedman reminded the committee that all credits were not equal and were targeted at different fields under different ownerships.

[10:19:18 AM](#)

Mr. Umekwe advanced to slide 11, "MAJOR PROJECTS [UNDEREVALUATION/DEVELOPMENT] CONSIDERED IN FALL 2021 FORECAST":

Generalized characteristics

- Projects that were not online as at end of FY2021 (data cut-off date of 6/2021)
- Higher risk factors than currently producing fields

- Known discoveries with identifiable operators
- Require major investments

Mr. Umekwe relayed that the yellow represented federal land, pink represented Native owned land, and blue represented state-owned land. He reiterated that not all oil was the same, and that oil produced from different projects in different segments of the state resulted in different amounts of royalties and worked under different production taxes. He said that the projects on the chart were meant to provide an outlook over a 10-year timespan. He said that only discoveries were considered for the analysis.

[10:21:43 AM](#)

Co-Chair Bishop asked if Commissioner Feige had an update on the Liberty development.

Commissioner Feige recalled that the Liberty development sat in federal waters, and there had been a legal challenge to the permits. The 9th Circuit Court of Appeals had made the determination that Liberty had to go back to the beginning of the permitting process. She agreed to check with LAW and get back to the committee with more information.

Co-Chair Stedman asked Commissioner Feige to include a historical synopsis of the project.

Commissioner Feige agreed to provide the information.

[10:23:45 AM](#)

Senator Wilson asked whether the department had seen an increase or decrease in new or ongoing projects.

Commissioner Feige relayed that the previous year the department had seen application for 4 new units; applications for 2 new until had been received in 2022.

Mr. Crowther commented that the map on slide 11 showed blue outlined blocks that indicated leases that were not yet unitized nor part of a developing field. He said that the lease positions were new and reflected new geological interest.

[10:26:02 AM](#)

Mr. Umekwe showed slide 13, "FALL 2021: NORTH SLOPE ANNUALIZED FORECAST":

Short Term:

- DNR forecasts FY2022 annualized average daily statewide production at 500 MBOPD, and North Slope production at 492 MBOPD, with a range of 430 MBOPD and 555 MBOPD

Long term:

- Long term forecast reliability is gauged by general ballpark comparison between DNR and operators' aggregate forecasts. Operators' long-term outlook falls within DNR's long term forecast range
- Specific differences are expected and do highlight DNR's ground-up uncertainty analysis on all included projects
- Outlook on production assumes that operators' plans and other project drivers stay unchanged

Co-Chair Stedman thought some of the chart on slide 13 could be reflected in the DOR revenue forecast numbers.

Mr. Umekwe agreed.

[10:28:41 AM](#)

Senator von Imhof asked Mr. Umekwe to speak to the blue line and define "operator" and the overlay with the projected numbers.

Mr. Umekwe explained that all the operators of currently producing assets provided 10-year projections to DOR. The department plotted the numbers in an aggregated view to investigate the long-term and compare DNRs numbers with those of the operator.

Senator von Imhof understood that there were written analysis and oral interviews with operators. She summarized that the operators told DNR their projected capital investments, both current and future and the department used that information to create a high, medium, and low analysis.

Mr. Umekwe agreed.

[10:30:53 AM](#)

Senator Wielechowski observed that the operator forecasts tended to be optimistic, and then actual production numbers would come in lower. He pointed to the divergence in 2029 and thought that DNR was projecting 20,000 barrels more than operators.

Mr. Umekwe directed attention to the notes below the chart:

- Comparison of DNR vs Operator Forecasts across the same group of NS fields.
- Excludes DNR's forecasts for non-producing units; operators' numbers in charts also excludes not-yet producing fields.

[10:32:57 AM](#)

Senator Wielechowski asked about the anticipated projects that would create the 20,000bbl in 2030.

Mr. Umekwe listed Pikka and Willow as projects that would add to production numbers.

Co-Chair Stedman thought that the committee could break the issue down into deeper detail in future discussions.

[10:34:04 AM](#)

Mr. Umekwe referenced slide 14, "ALASKA STATEWIDE OIL PRODUCTION FORECAST-FALL 2021 EXPECTED CASE and CATEGORIES OF PRODUCTION," which showed a graph entitled 'AK Fall 2021 Production Forecast (Expected Case): Production Categories.' The slide broke down production into different areas. The blue section showed current production; the rust color showed projects under development; the grey represented projects under evaluation:

- Current Production (CP) remains backbone of state production in near and medium term
- Under Development (UD) segment represents production expected from wells drilled in FY2022
- Under Evaluation (UE) begins to play a more significant role in production in the next 5-10 years

□ Production outlook depends on several factors including operators' plans, oil price, fiscal system

Mr. Umekwe relayed that the numbers from the industry were snapshots in time and as conditioned changed, changes in the outlook would be expected.

[10:35:40 AM](#)

Senator Wilson wondered why the numbers for the projects under evaluation were considered in FY 22 and FY 23 on the chart. He felt that the production from those projects would not factor into the numbers until well after 2023.

Mr. Umekwe explained that the numbers did play a bigger role in future projections, there would be minor, or low, volumes in the first fiscal year.

Co-Chair Stedman noted that there was a new firm at work in Prudhoe Bay that was doing work on enhancing the area. He asked how DNR was taking account of the new interest in Prudhoe Bay by Hilcorp and how would that interest impact the chart on slide 14.

Mr. Umekwe responded that the current operator in Prudhoe Bay saw potential in the asset. He said that during technical conversations about plans for development, operators described areas where opportunities existed. He said that the numbers on the slide included year out look at well that operators planned to drill in the next few years. He said for DNR included the outlook within the asset when generating projections.

[10:39:25 AM](#)

Co-Chair Stedman asked whether DNR had to increase future expectations for Prudhoe Bay over the past few years as it changed ownership. He asked about the marginal difference. He thought there had been significant positive change in Prudhoe Bay.

Mr. Umekwe thought another slide would show 5 percent growth in Prudhoe Bay. He stated that in the first year of the new operatorship there had been an improvement in facilitates and infrastructure. He shared that improvement in drilling and other operating activities were now evident. He noted that the decline rate had also improved.

Co-Chair Stedman recalled previous decline rates of 2 and 3 percent. He thought that the decline rates had been very predictable over the last decade. He appreciated the new operatorship and investment and added that decline was a natural result of an aging field.

[10:41:43 AM](#)

Senator Wielechowski did not want the state to get caught in a future situation that resulted in the loss of production. He pointed to the UE projects on the slide.

Mr. Crowther responded that the UD and UE categories included large fields that were several years out and would create a large change in the production profile. He said that projects that were not in production or not being drilled by June 30, 2021, would be represented in the "under development" or "under evaluation" categories of the graph. He stated that the category included a spectrum of different projects.

Co-Chair Stedman asked whether the chart could be broken down by field and project type for better risk adjustment by the committee.

Mr. Crowther noted that some of the information was based on confidential discussions with operators.

Co-Chair Stedman responded that the committee was aware of the confidentiality. He suggested a new color of category titled "super-secret" could be established for such information.

[10:44:08 AM](#)

Senator Wielechowski asked whether there were any leases on the North Slope that the department believed were not being explored or developed for production.

Co-Chair Stedman noted that the question was controversial.

Mr. Crowther deferred to Commissioner Feige.

Commissioner Feige stated there were several leases currently being held that had not yet commenced exploration work. She furthered that over the previous several years the state had injected terms into the leases that shortened

the initial primary term. She said that there had been analysis within the department that showed an approximate 7-year timeframe from leasing to first exploration well. She continued to explain that the primary term had been shortened, which placed additional pressure on the operators to prioritize the acreage and commence exploration before the primary term. Additionally, the state had established a significant escalation in the annual per acre rent. She said that leasees could apply for a waiver of the increased rent by demonstrating sufficient work or could apply for an extension beyond the primary term. She felt that all the new mechanisms put pressure on companies to work the acreage in a meaningful way that led to discovery. She did not believe that any companies were currently "warehousing" any acreage.

[10:47:29 AM](#)

Senator Wielechowski wanted to see a list of operators and what had been leased, and details on exploration, production, and development of projects. He thought the committee would benefit from the information. He had seen fields that were extremely profitable, and the state was giving out tax breaks, deductions, and credits to companies for simply doing their job.

Commissioner Feige stated that the list of lessors was available on DNR's Division of Oil and Gas website. She said that she could investigate, by company, the work that had been done on the leases.

Co-Chair Stedman asked for the commissioner's help on the matter. He noted that newer leases had clauses to encourage develop sooner than later. He asked about older leases.

Commissioner Feige answered affirmatively.

[10:49:37 AM](#)

Mr. Umekwe went back to slide 14 and noted that some of the projects would include projects like the GMT2 project that had just come online and would be included in the grey bar beginning in 2022.

Co-Chair Stedman asked for the information to be in another format to include 2025 and 2026. He thought this would provide further clarity.

[10:50:12 AM](#)

Mr. Umekwe turned to slide 15, "FALL 2021 PRODUCTION FORECAST-SUMMARY":

- DNR Forecast continues to use the best information available to DNR/DOR, to generate production outlook for oil fields within the state, with a focus on generating accurate near-term, and realistic long-term, forecasts.
- Fall 2021 Forecast is a static view on production; DNR's outlook is updated annually (Fall and Spring) to incorporate latest operator plans and the State's official updated price outlook.
- DNR's Fall 2021 outlook shows mean annual production of approximately 500 MBOPD across much of the outlook period, based on the current snapshot of operators' plans.
- Production from projects under evaluation reflects uncertainty in operators' plans towards return to pre-pandemic activity levels, specific project uncertainties, as well as project scope and timing risks.

Mr. Umekwe explained that the slide was a summarization of the presentation.

[10:52:08 AM](#)

Mr. Umekwe showed slide 16, "THANK YOU":

Thank you on behalf of the DOG Fall 2021 Production Forecasting Core Team: John Burdick, Linda Liu, Travis Peltier, Shaun Peterson, Chalinda Weerasinghe, Glenn Lau, Maduabuchi Pascal Umekwe, Ph.D.

[10:52:14 AM](#)

Senator Wilson asked what the legislature could do to assist DOR and DNR to get first oil as quickly as possible for some of the current projects.

Mr. Crowther thought there were several pieces of legislation that the department had introduced. He stated there was a tremendous effort ongoing by DNR to actively manage leases to promote development. There was a robust

effort underway through the appropriations and authority given by the legislature. There was a very dynamic, uncertain, and competitive global environment, which he hoped the committee would consider.

Co-Chair Stedman thanked the presenters. He thought that a combine meeting with DNR and DOR could be fruitful as the legislature worked to close the structural deficit.

Co-Chair Stedman discussed housekeeping.

#

ADJOURNMENT

[10:54:46 AM](#)

The meeting was adjourned at 10:54 a.m.