

**1/25/12
OVERVIEW:
DANIEL
SULLIVAN,
COMMISSIONER,
DEPARTMENT OF
NATURAL
RESOURCES**

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SULLIVAN, COMMISSIONER, DEPARTMENT OF NATURAL
RESOURCES</SUBJECT><COMM>SRES27</COMM></TARGET>

State's opportunities are great in 2012

By Dan Sullivan

January 1, 2012

Fairbanks Daily News-Miner

As we ring in the New Year, it is a good time to reflect on the past year and anticipate what lies ahead in 2012. From the Department of Natural Resources' perspective, 2011 was a promising year for responsible resource development — Alaska's most vital economic sector. This underpins our optimism for the coming year.

First, we defined the most critical economic issue facing our state — the declining oil flow through the trans-Alaska pipeline system. To arrest the decline, Gov. Parnell set an ambitious goal to increase production to 1 million barrels per day within a decade and outlined a five-part strategy to increase our competitiveness and attract the billions of investment dollars needed to achieve this goal.

Increasing oil production starts with meaningful oil tax reform when the Legislature convenes again Jan. 17. If the Legislature passes meaningful tax reform, companies have indicated they will commit many billions of dollars in new investment — money that will bring new oil and jobs from our legacy fields.

Second, our strategy to increase oil production is beginning to bear fruit with new projects under way. The upcoming North Slope exploration season will be one of the most active in years. Our December North Slope lease sale brought the state nearly \$21 million from various companies and investors. These included new players targeting shale oil and world-class companies such as Shell, ConocoPhillips and Repsol staking out new positions on state land. New exploration means jobs now and new production in the coming decade.

Third, we are seeing signs of a Cook Inlet renaissance. In June, spurred by tax and investment incentives and a U.S. Geological Survey study that showed substantial estimates of oil and gas, the state received the highest number of Cook Inlet lease sale bids in 28 years. New players — such as Apache, Hilcorp, Armstrong, Linc, Buccaneer, and Nordaq — are pursuing opportunities in this region.

Fourth, we are seeing cause for optimism in the mining sector. The latest figures show mineral exploration investment in Alaska exceeded \$260 million in 2010, accounting for about one-third of all exploration in the country. Exploration was broad-based, with spending on 34 Alaska projects each exceeding \$1 million. Longtime operations such as Red Dog, Fort Knox and Greens Creek have shown that responsible mining comes with high wages and positive economic and social impacts on entire regions.

On Sept. 30, we hosted a sold-out Alaska Strategic and Critical Minerals Summit in Fairbanks. The 250 guests included Gov. Parnell, who laid out the state's strategy to increase mineral development; other government leaders; scientists; mining executives; investors, and foreign

government representatives. The discussions were lively, new connections were made, and many left the summit with great hope that an opportunity has opened to expand Alaska's mining industry, promote our economy, and enhance national security through the development of rare earth elements.

And, fifth, we saw signs in 2011 that the federal government was finally starting to back away from its hard-line, anti-development policy in Alaska, which in 2009 and 2010 could only be described as hostile. We need the federal government as a partner in responsible resource development, not an obstacle.

This is all good news for Alaskans. We are a resource development state — when this sector of the economy thrives, so do most others. The framers of the Alaska Constitution knew the state's resource wealth would play the critical role in spurring private-sector activity, so they enshrined the policy of making our natural resources “available for maximum use” in Article 8, Section 1 of the Alaska Constitution.

But Alaska still faces significant challenges. We must reverse the TAPS throughput decline. Oil production is booming in other hydrocarbon basins, but not here. We must make Alaska more competitive, especially through tax reform.

We must redouble our efforts to work to commercialize North Slope gas. We must address in-state needs, including exorbitant energy costs in Interior and rural Alaska, and maximize the value of our gas resources for future generations. And, we must continue to encourage resource development while safeguarding the environment.

Striking that balance is not always easy, but the state has a proven record of doing it well.

None of these challenges are new to Alaska, but they are surmountable. Indeed, Alaska's opportunities in 2012 clearly outweigh the challenges, due in large measure to our vast resources. By working together and capitalizing on the successes of 2011, Alaskans can move toward increased opportunity, economic well-being, and healthy communities. Let's get to work.

Dan Sullivan is commissioner of the Alaska Department of Natural Resources.

Briefing Note: One Million Barrels a Day within 10 Years**I. SETTING AMBITIOUS GOALS**

An important part of public policy leadership is setting ambitions, compelling visions and goals that citizens and policy makers of the state can unite behind and support. In the realm of social policy, Governor Parnell has done this with the "Choose Respect" campaign and its goal to eradicate Alaska's epidemic levels of sexual abuse and domestic violence.

In the realm of economic policy, the TAPS throughput decline is the most urgent and critical issue facing our state. The Governor is addressing this issue by laying out the vision and goal of increasing TAPS throughput to one million barrels per day within 10 years. The Secure Alaska's Future strategy was designed to support this goal.

II. THRESHOLD ISSUE

The threshold issue for policy makers is whether Alaska has a hydrocarbon basin large enough to meet the one-million-barrels-a-day goal. We believe we do. By any measure, the North Slope of Alaska remains a world-class energy basin, estimated by the USGS to hold about 40 billion barrels of oil and 236 trillion cubic feet of natural gas. In addition, the North Slope has tens of billions of barrels of unconventional resources such as heavy, viscous, and shale oil. Despite its vast potential, the North Slope is still relatively underexplored, with approximately 500 exploration wells drilled. In Wyoming, for example, comparable in size to the North Slope, more than 19,000 exploration wells have been drilled.

Continued oil production decline need not be the fate of our great state. Throughput declines can be reversed. There are examples of other major hydrocarbon basins, such as the North Sea and areas of Texas and North Dakota, where production declines have been reversed as a result of a combination of changes in government policy, increased investment, sustained high oil prices, enhanced recovery, and technological innovation.

III. SECURE ALASKA'S FUTURE—FIVE-PART STRATEGY

The Governor's goal of increasing TAPS throughput to one million barrels per day within 10 years is strongly supported by the Administration's five-part strategy to arrest the decline—"Secure Alaska's Future—Oil." This strategy consists of the following main components.

1. Enhance Alaska's global competitiveness and investment climate (the cornerstone being meaningful tax reform)
2. Ensure the permitting process is structured and efficient
3. Facilitate and incentivize the next phases of North Slope resource development
4. Unlock Alaska's full resource development potential through partnerships with key stakeholders
5. Promote Alaska's resources and positive investment climate to world markets

Over the past year, we have been relentlessly implementing all aspects of this plan. We need the support of and action from the Legislature to fulfill all elements of this important strategy.

IV. POSSIBLE ROADMAP TO ONE MILLION BARRELS

The Governor's goal of one million barrels will require tens of billions of dollars of additional private sector capital investment in Alaska. Improved cooperation between industry, state and federal policy makers is also necessary. We believe there is a general sequencing of development opportunities on the North Slope that can get us to one million barrels within a decade. There are many scenarios, but one example would be the following, where each preceding development builds upon earlier developments:

In 2-5 years:

- Increased infield production from legacy fields
- Development of smaller pools of conventional oil (Oooguruk, Nikaitchuq)(the North Slope is estimated to have "dozens" of such untapped fields ranging from 25 million to 350 million barrels)
- Production from the eastern North Slope, including Point Thomson, which will create economies of scale to explore and develop the eastern North Slope

In 4-7 years:

- Production from shale, viscous and heavy oil plays coming online in substantial quantities (Alaska is endowed with billions of barrels of unconventional resources)
- Development of northeast NPR-A (CD-5 and other satellite fields)
- Development of near offshore (Liberty, etc.)

In 7-10 years:

- Exploration and production from ANWR and other eastern North Slope state and federal lands

In 10 years and beyond:

- Development of OCS (Chukchi and Beaufort)
- Commercialization of North Slope gas, which will lead to additional oil discoveries

V. MANY VARIABLES AFFECTING SUCCESS

Getting to one million barrels of oil per day within a decade is an ambitious goal. It will not be easy. Nevertheless, it is a goal that has garnered broad-based public support and is worth striving for. Whether or not the state can achieve this goal will depend on several factors, some of which we as a state have more control over than others.

We will need significant increases in the level of sustained private sector capital investment. Reforming our tax system is critical in this regard as is a continued high price range for oil. Ideally, this investment will come from all types of companies – legacy producers and other super-majors,

as well as medium and small companies. Similarly, increased and new production will likely need to come from a variety of resource development plays on the North Slope – legacy fields, smaller pools of conventional oil, unconventional oil plays, and federal on-shore and offshore lands. It will also be critical for the federal government to fully support Alaska’s one-million-barrels-per-day goal and encourage development and access to federal lands, such as NPR-A, the OCS, and ANWR. Federal policies that continue to prohibit or cause unreasonable delays in exploration and development will significantly undermine this state goal. Indeed, without the federal government as full partners in development and increased access to federal lands, meeting the one million barrels-per-day goal will be very difficult. And lastly, we will need a timely, certain, and predictable permitting process with regard to both state and federal land.



State of ALASKA

Department of Natural Resources

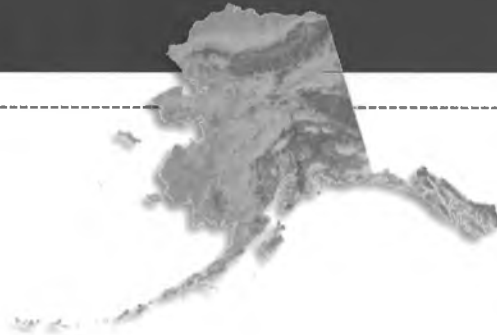


Senate Resources Committee

DNR Overview
January 25, 2012

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

AGENDA

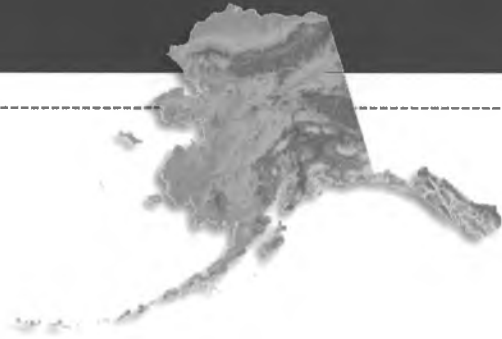


PART I: DNR Overview

PART II: Looking Back on 2011-A Promising Year

PART III: 2012 Opportunities & Challenges

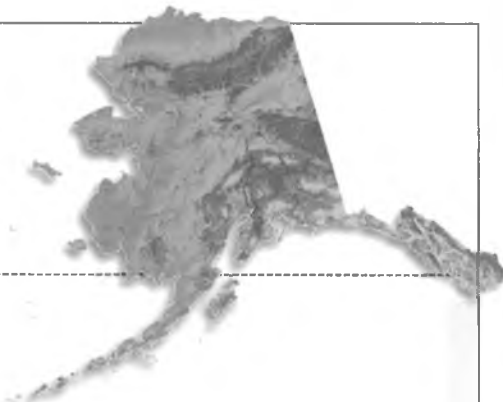
Part I



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:

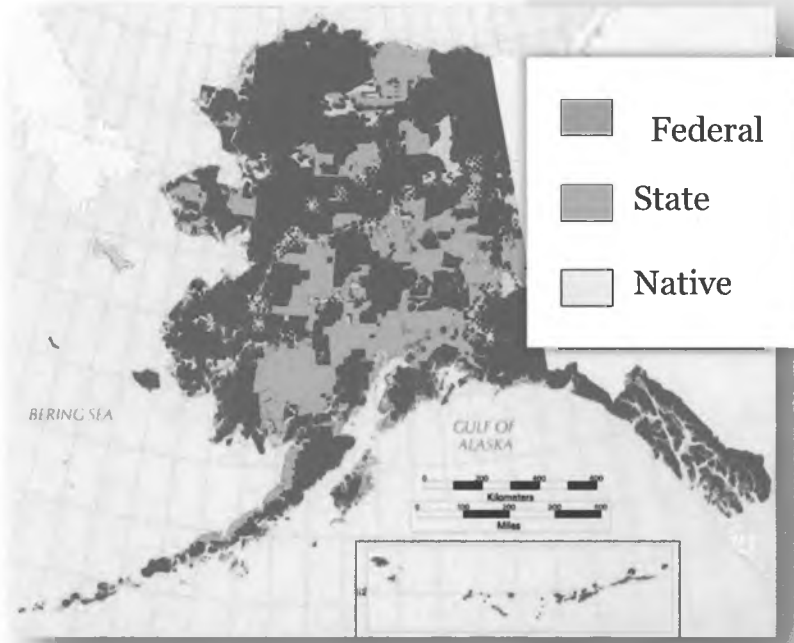
- *Responsibly develop Alaska's resources by making them available for maximum use and benefit consistent with the public interest.*

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

State of Alaska

DNR Has 7 Divisions



1. **Division of Agriculture (DoA)**

- Franci Havemeister, Director
- Promotes and encourages development of an agriculture industry in Alaska

2. **Division of Forestry (DoF)**

- Chris Maisch, Director
- Serves Alaskans through forest management and wildland fire protection



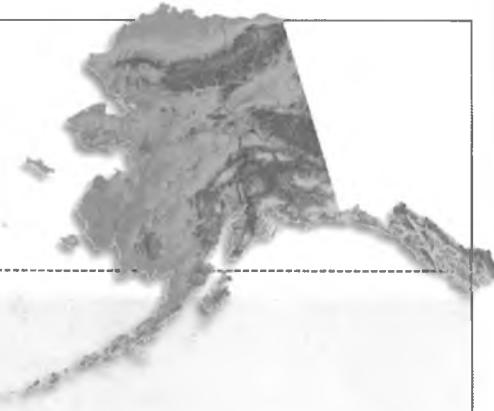
3. **Division of Geological & Geophysical Surveys (DGGS)**

- Bob Swenson, Director
- 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



State of Alaska

DNR Has 7 Divisions



4. **Mining Land and Water**

- Brent Goodrum, Director
- Provides for the appropriate use and management of Alaska's state owned land and water, aiming toward maximum use consistent with the public interest

5. **Oil & Gas**

- Bill Barron, Director
- Responsible for the leasing of state lands for oil, gas, and geothermal exploration

6. **Parks & Outdoor Recreation**

- Ben Ellis, Director
- Provides outdoor recreation opportunities and conserves and interprets natural, cultural, and historic resources for the use, enjoyment, and welfare of the people

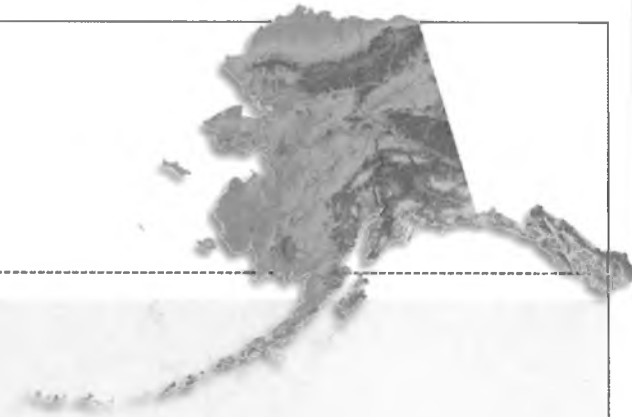
7. **Support Services**

- Jean Davis, Director
- Provides client-focused, efficient and cost-effective financial, budget, procurement, information technology and recording services to DNR and the public



State of Alaska

DNR Offices



- **Gas Pipeline Project Office**

- Kurt Gibson, Director
- 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

- **Office of Project Management & Permitting**

- Tom Crafford, Director
- Coordinates the review of larger scale projects in the state

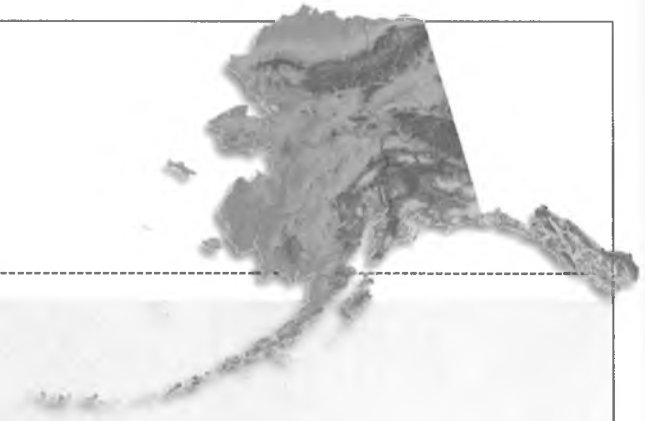
- **State Pipeline Coordinator's Office**

- Mike Thompson, State Pipeline Coordinator
- 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



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. 236 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

Cook Inlet

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

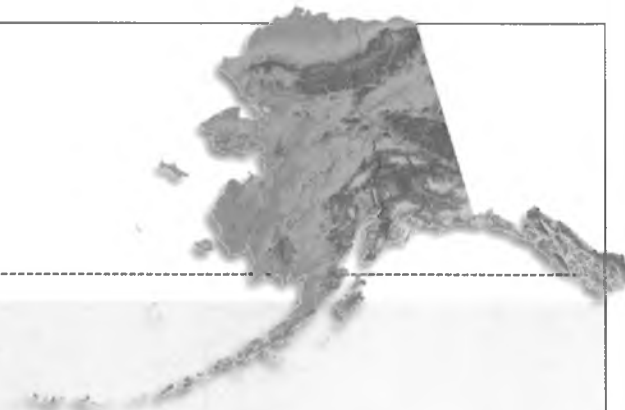
- 19 trillion cubic feet of natural gas
- 600 million barrels of oil
- 46 million barrels of natural gas liquids
- In June 2011, the State of Alaska received the highest number of Cook Inlet lease sale bids in 28 years, totaling more than \$11 million

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



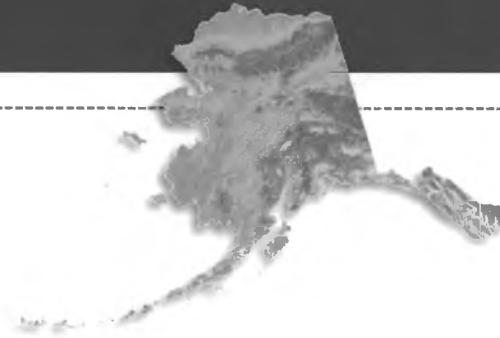
The State of Alaska Ranks in the *Top Ten in the World for Important Minerals, Including:*

- **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).

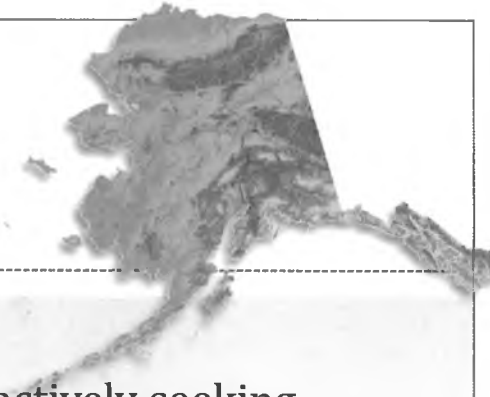
Part II



**LOOKING BACK ON 2011—
*A Promising Year***

TAPS

Arresting Throughput Decline

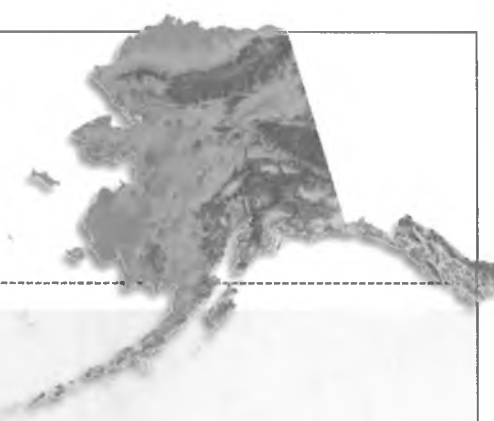


- TAPS has transported over 16.3 billion barrels of oil and natural gas liquids since June of 1977. Production peaked at 2.2 million barrels per day in the late 1980s, representing 25% of U.S. domestic production
- Today, TAPS is producing ~ 600,000 barrels per day, representing about 12% of U.S. domestic production
- The State of Alaska is actively seeking investment 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
- Federal officials are interested in making this a national priority

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*

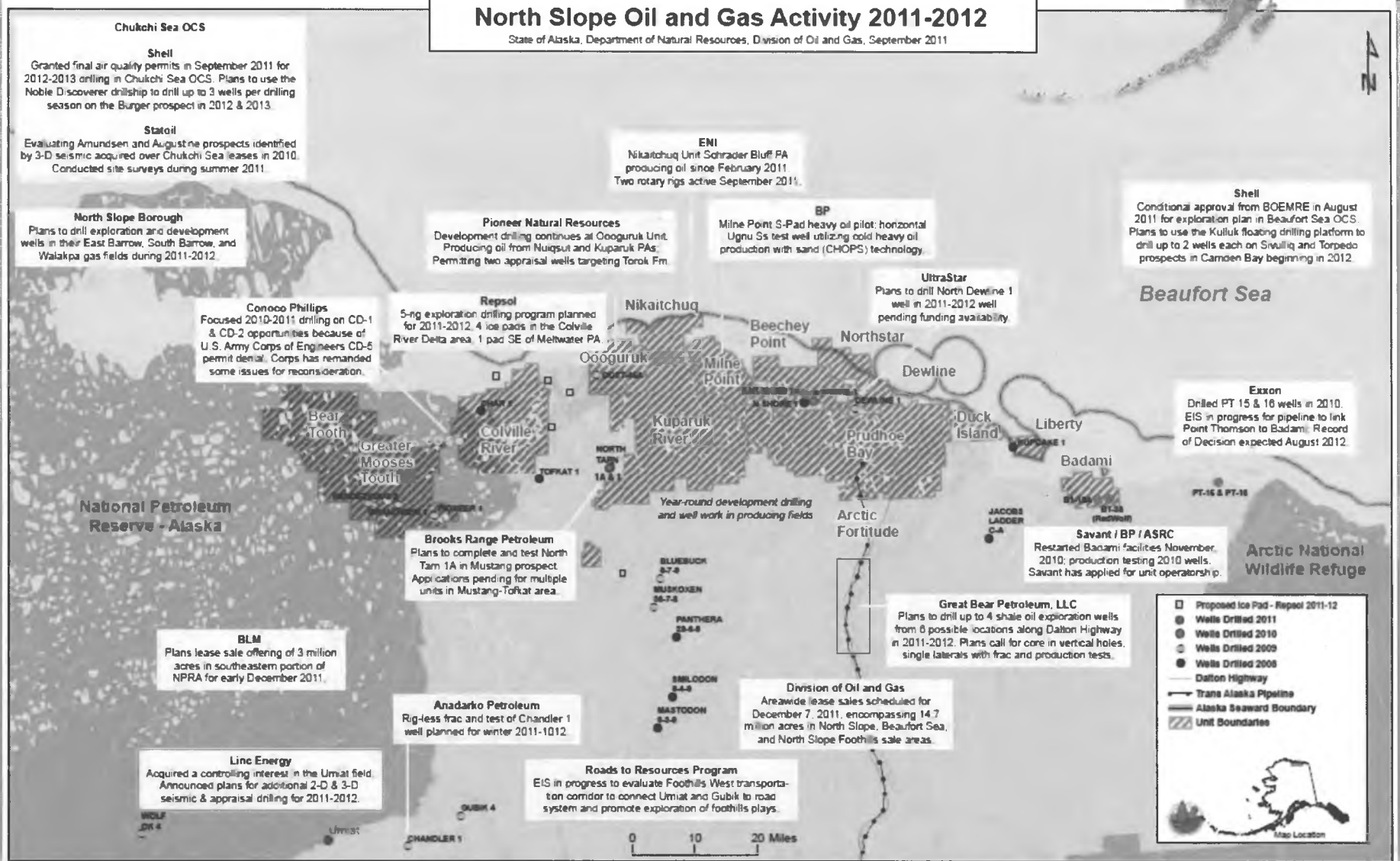


- I. Enhance Alaska's global competitiveness and investment climate
- II. Ensure the permitting process is structured and efficient
- III. Facilitate and incentivize the next phases of North Slope development
- IV. Unlock Alaska's full resource development potential through partnerships with key stakeholders
- V. Promote Alaska's resources and positive investment climate to world markets

North Slope *Recent & Proposed Activity*

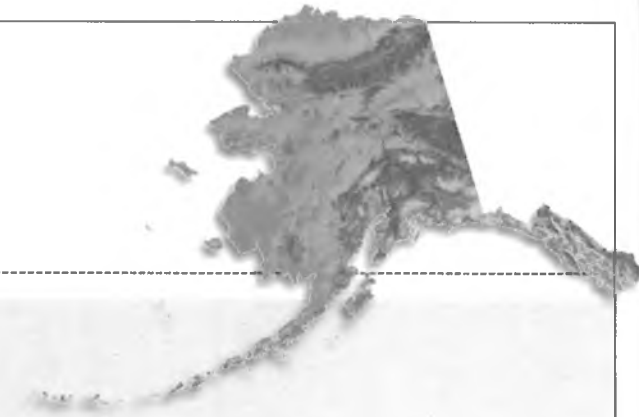
North Slope Oil and Gas Activity 2011-2012

State of Alaska, Department of Natural Resources, Division of Oil and Gas, September 2011

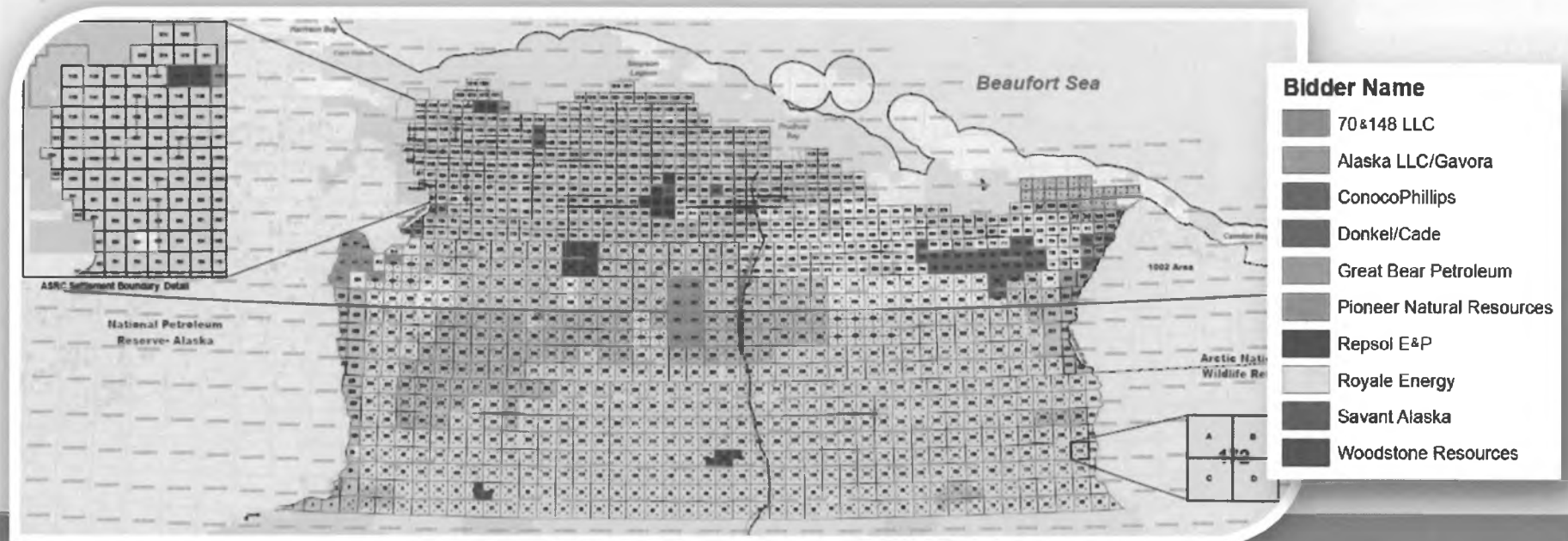


NS & Beaufort Sea

December Lease Sale



- Nearly \$21 million from various companies and investors
- Included new players targeting shale oil
- Attracted world-class companies such as Shell, ConocoPhillips, and Repsol, who are staking out new positions on state land
- New exploration means jobs now and new production for decades to come
- State needs billions of dollars in new investment to meet the Governor's one-million-barrels-a-day goal



Cook Inlet Renaissance



In June 2011, the State of Alaska received the highest number of Cook Inlet lease sale bids in 28 years, totaling more than \$11 million.

Cook Inlet Estimates

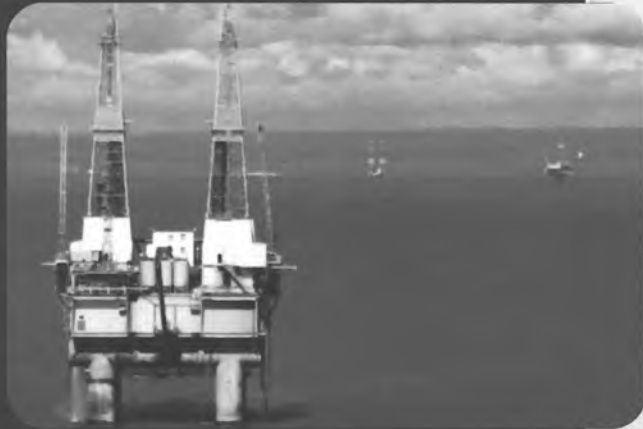
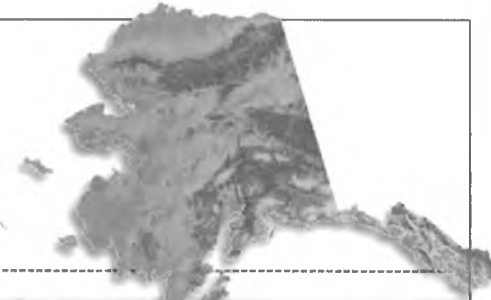
Significant undiscovered volumes of hydrocarbons remain to be found in the Cook Inlet (*USGS*):

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

Cook Inlet Lease Sale Results

- In June 2011, the State of Alaska received the highest number of Cook Inlet lease sale bids in 28 years, totaling more than \$11 million
- Total tracts sold: 109
- Total high bonus bids: \$11,125,063.80

Cook Inlet Renaissance



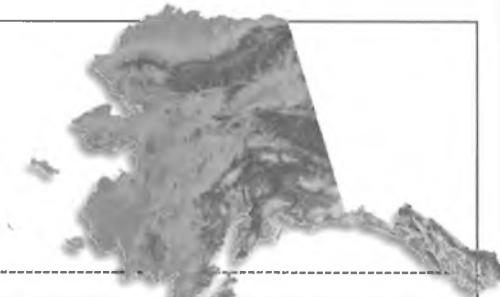
*Wall Street Journal,
August 27, 2011:
“New Energy
Estimate Breathes
Life Into a Declining
Alaskan Oil Field”*

Recent Cook Inlet Activity

- New players investing: Apache, Hilcorp, Armstrong, Linc, Buccaneer, Nordaq, Escopeda
- Significant exploration activity: 8 new exploration wells, one jack-up rig (and one—*possibly two*—on the way), and companies shooting 3-D seismic over large areas of the basin
- 3 new gas supply contracts with utilities
- New gas storage project
- State continues to focus on safe, responsible development and operations

Strategic & Critical Minerals

Recent Mining Activity

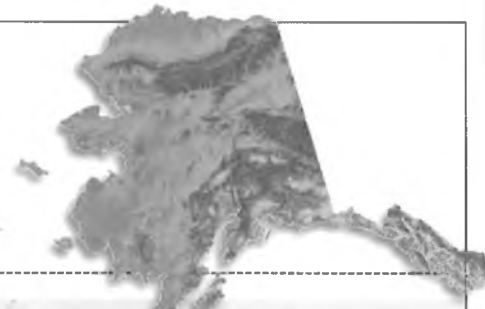


- Alaska has six lode producing mines, including one of the world's largest zinc mines, the world's 5th largest silver mine, and 4 major gold mines
- **Red Dog:** one of the world's largest zinc mines, produced over 593k tons of zinc, 121k tons of lead, and 6.7 million ounces of silver in 2010
- **Greens Creek:** world's 5th largest silver mine, produced over 7.2 million ounces of silver, 68k ounces of gold, and 75k tons of zinc in 2010
- **Pogo:** produced 383k ounces of gold in 2010
- **Fort Knox:** produced 350k ounces of gold in 2010
- **Usibelli:** produced over 2 million tons of low sulfur coal in 2010
- Two new gold mines came online in 2010: Kensington and Nixon Fork

The value of mineral production from Alaska totaled an estimated \$2.9 billion in 2009 and \$3.1 billion in 2010.

Strategic & Critical Minerals

Recent Mining Activity

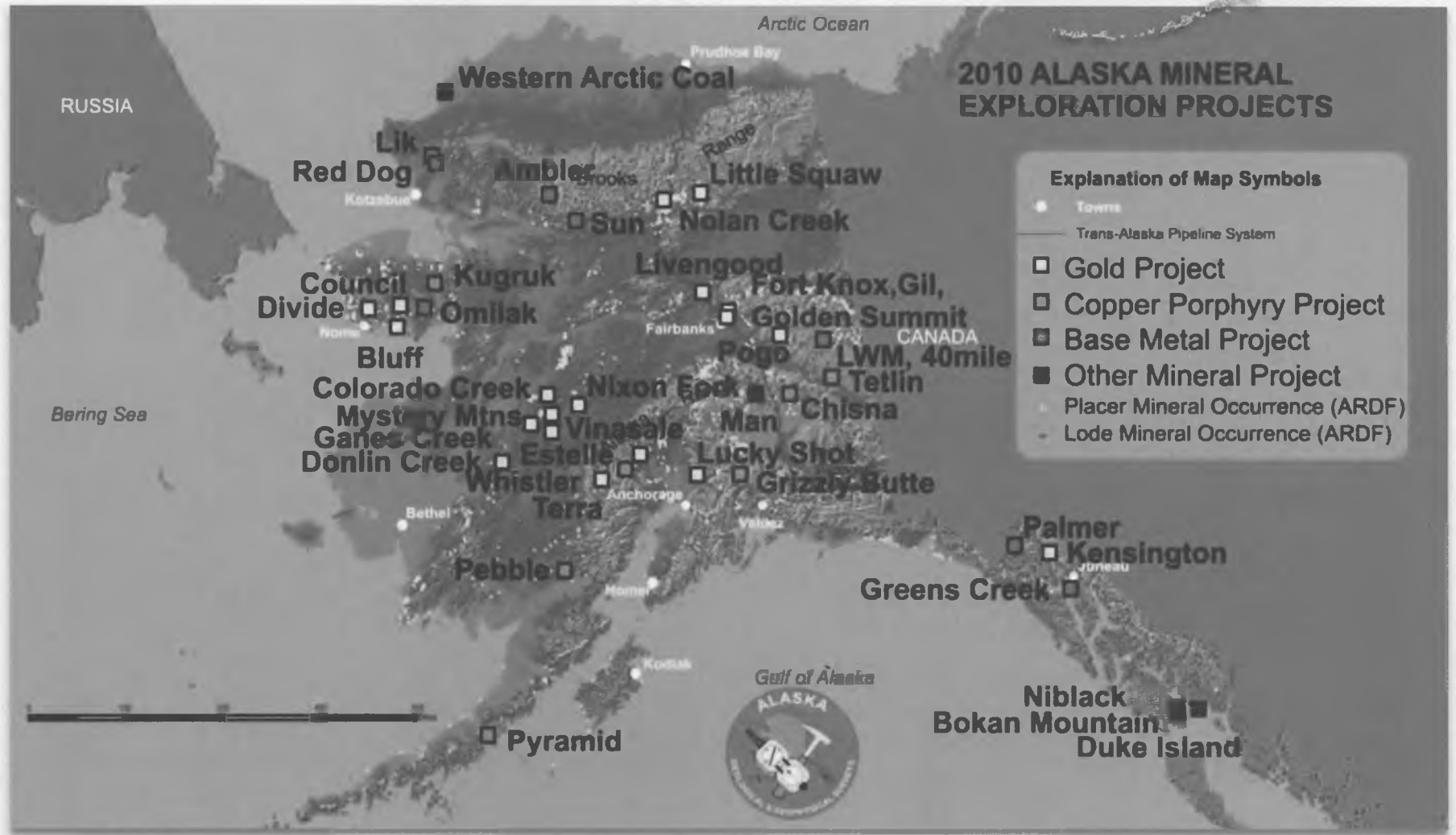
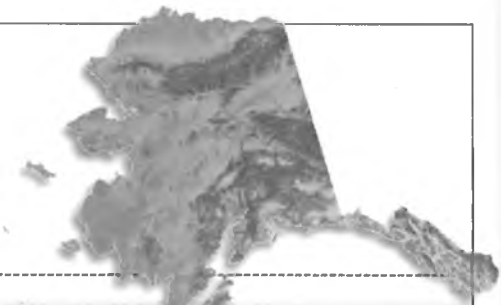


In 2010, mineral exploration investment in Alaska totaled \$264 million - accounting for about one-third of the total spent on exploration in the U.S.

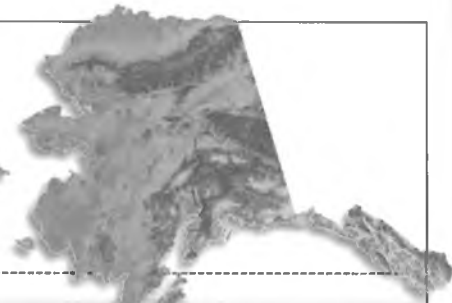
- **Advanced exploration projects:**
 - ***Pebble:*** ~ 80.6 billion pounds of copper, 107.4 million ounces of gold, and 5.6 billion pounds of molybdenum
 - ***Bokan Mountain:*** enriched in yttrium, dysprosium, and critical heavy Rare Earth Elements
 - ***Donlin:*** ~ 42.3 million ounces of gold
 - ***Money Knob:*** ~20.6 million ounces of gold
 - ***Niblack:*** ~7.3 million tons of polymetallic (copper, gold, silver, and zinc) volcanogenic massive sulfide project
- 34 exploration projects spent over \$1 million in 2010
- 2011 Nome offshore mineral (gold) lease sale received over \$7.6 million in winning bids for 84 tracts on approximately 24,000 acres

Strategic & Critical Minerals

Recent Mining Activity



Alaska Strategic & Critical Minerals Summit, Fairbanks, 9-30-11



OPENING REMARKS

Welcome Remarks: Mayor Jerry Cleworth, City of Fairbanks, and Mayor Luke Hopkins, Fairbanks North Star Borough

Day's Overview: Dan Sullivan, Commissioner, DNR

PRESENTATIONS: Strategic Minerals—A Global Perspective

General Joe Ralston, Vice Chairman of The Cohen Group and Former NATO Commander/Supreme Allied Commander, Europe

Jeff Doebrich, Acting Program Coordinator, U.S. Geological Survey, Mineral Resources Program

Jonathan Price, State Geologist and Director, Nevada Bureau of Mines and Geology

Jack Lifton, Founding Principal of Technology Metals Research, LLC, and Consultant, Author, and Lecturer

KEYNOTE ADDRESS

The Honorable Governor Sean Parnell

Networking Break & Press Conference

LUNCHEON ADDRESS

Honorable U.S. Senator Lisa Murkowski

PRESENTATIONS: Alaska's Strategic Mineral Wealth and Potential

Bob Swenson, DGGS, DNR

Dwight Bradley, Research Geologist, U.S. Geological Survey, Minerals Program, Alaska Science Center

Jim Barker, Alaska Project Manager, Ucore Rare Metals, and Former Physical Science Supervisor with the U.S. Bureau of Mines

PRESENTATIONS: University of Alaska Research on Strategic Minerals and REEs

The Honorable Lieutenant Governor Mead Treadwell

Mark Myers, Vice Chancellor of Research, UAF

Dan White, Associate Vice Chancellor of Research, UAF

Rajive Ganguli, Department Chair, Mining & Geological Engineering, UAF

AFTERNOON ADDRESS

Michael Silver, President and Chairman of the Board, American Elements

ROUNDTABLE DISCUSSION: Moving Forward on Strategic Mineral Exploration, Development, and Processing in Alaska

Moderator: Dan Sullivan, Commissioner, DNR

The Honorable U.S. Representative Don Young

Susan Bell, Commissioner, Alaska Department of Commerce, Community, and Economic Development, and Vice-Chair of AIDEA

Steve Borell, Executive Director, Alaska Miners Association

Jim McKenzie, President and CEO, Ucore Rare Metals

Ken Peak, President, Contango Ore

Curtis Freeman, President, Avalon Development

Matt Ganley, Vice President, Resources and External Affairs, Bering Straits Native Corporation

Closing Remarks: Ed Fogels, Deputy Commissioner, DNR

Reception and Investor Networking at the Museum of the North

VIDEO ADDRESS: The Honorable U.S. Senator Mark Begich

Agriculture

2011 Overview of Accomplishments



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

- Worked to increase the demand for Alaska grown products
- Explored new marketing ventures to promote Alaska Grown program
- Formed partnership with commerce for agricultural tourism
- Provided support and promotion to 33 Farmers Markets throughout the state, which continue to grow in popularity
- Continued to update the division's long-range plan
- Excited about a burgeoning peony export program in Alaska
- ARLF continues to revolve and is successful
- Sold 202 acres of state agricultural land this year, which is a good figure

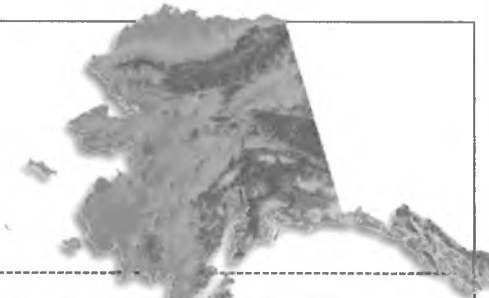
Farm to School Program

- Developed a "School Garden Food Safety" Guidelines
- Completed a product feasibility study and local product recipe book
- Contributed to the national movement
- Worked with 55% of school districts statewide



Parks & Outdoor Rec.

2011 Overview of Accomplishments



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

- Provided direct public service through a highly successful volunteer program—in 2011, 462 volunteers collectively donated nearly 70,000 hours to support state parks
- Instituted new initiatives to increase visitation and interest: “Arts in the Parks” and “First Day Hike”
- Built new public use cabins statewide
- Oversaw successful grant programs that support community efforts in historic preservation, recreation and trails
- Provided research necessary to support state’s claims to submerged lands under navigable waters and for right-of-ways on historic trails across federal lands

The Alaska Boating safety program is a model for the U.S.

- 299 classes taught in 2011=6,570 students
- Since its inception, 19 kids’ lives have been saved as a result of the “kids don’t float” life jacket loaner program

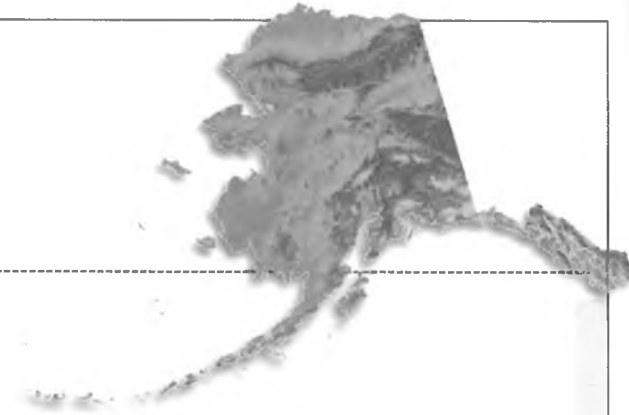


Timber Resources

Alaska has 17% of the nation's forest land

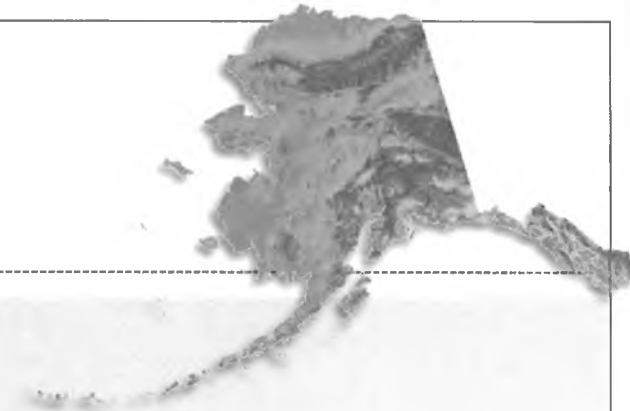


- The Governor's initiative to double the size of the Southeast State Forest (first est. in 2010) was successful with the help of the legislature (*now approx. 50,000 acres total*)
- Alaska Timber Jobs Task Force was established by Administrative Order 258 to advise the Governor on specific actions he can take to grow and revitalize the state's timber industry
 - An example would be the increased use of woody biomass for space heating in schools and other public buildings (*Tok and Delta*)
- 69 individual timber sales statewide, totaling 30.9 million board feet –on target for local job creation and community support
- Director Maisch is now a member of the National Assoc. of State Foresters (NASF) Executive Board



Wildland Fires

2011 Season & Wildland Fire Academy



2011 Wildfire Season

- Between April 1 and Sept. 12, there were *511 fires*
 - 365 were 1 acre or less
 - Largest: 54,217 acres (East Volkmar DAS)
 - 373 were human-caused (25,234.8 acres)
 - 138 were lightening-caused (267, 783 acres)
- Payroll for Alaskan EFF (mostly rural-based) crews in 2011 was \$7.7 million, which contributes to local communities
- Air tankers were deployed to Lower-48 for 3 months



Wildland Fire Academy

- 2011 Interior Wildland Fire Academy was held in Tok on June 11th; 33 graduates came from across Alaska

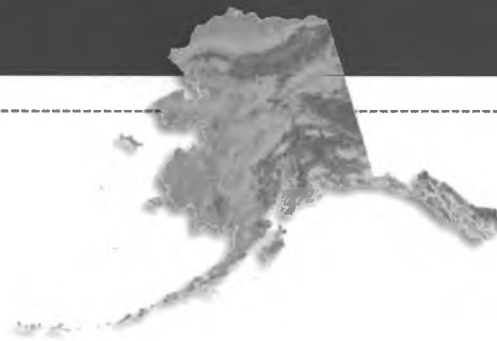
Less Hostile Federal Government in 2011?

- In 2011, we saw signs that the federal government was finally starting to back away from its hard-line, anti-development policies in Alaska
- We are actively involved in ongoing engagement with federal agencies
- We are still frustrated by mixed messages and delay tactics; progress feels like 2 steps forward, 1 step back
- CD-5
 - Fed 2010 decision was a shocker; since then, the permit has been pending
 - Permit was finally approved this fall, with an alternative that supports the best interests of the state

- EIS for Point Thomson
 - Recently issued by Corps of Engineers
 - Places emphasis on ANWR's proximity to the project and implies that the state should manage its adjacent lands as if they are part of the refuge
 - This is a serious overreach and an attempt by the USFWS to regulate oil and gas activities on state lands



Part III

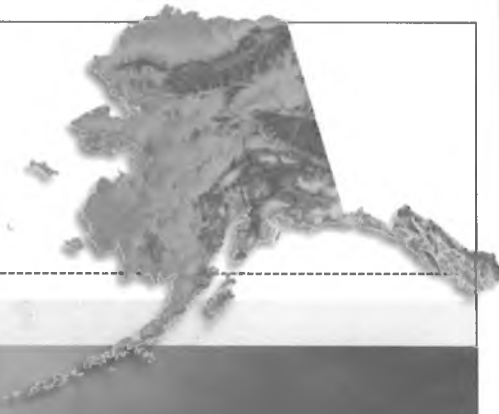


2012

OPPORTUNITIES & CHALLENGES

Building on 2011 Progress

It Was a Good Year for Alaskans



- Progress and achievements in 2011 are good news for Alaskans
- We are a resource development state—when this sector of the economy thrives, so do most others
- The framers of the Alaska Constitution knew the state’s resource wealth would play a critical role in spurring private sector activity and so enshrined the policy of making Alaska’s natural resources *“available for maximum use”* in Article 8, Section 1

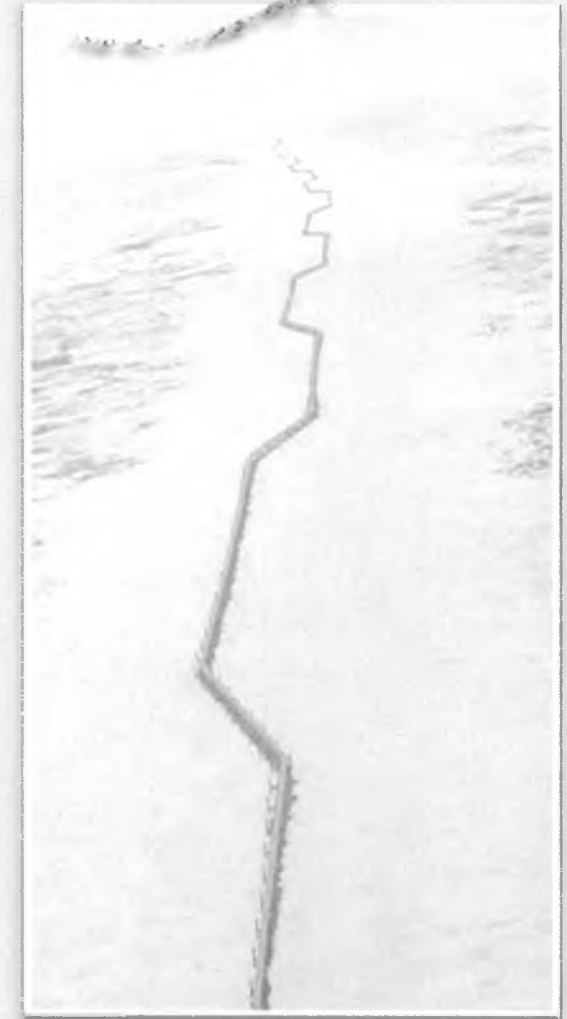


TAPS Throughput Decline

An Urgent Issue



- Alaska has many opportunities, in large measure due to our abundant natural resource wealth
- **But we still face significant challenges**
 - *We must arrest TAPS throughput decline*
 - This is an urgent issue
 - Governor Parnell has laid out an aggressive 5-part strategy to increase production
 - Oil production is booming in other hydrocarbon basins, but not here
 - *We must make Alaska more competitive, especially through meaningful tax reform*



Commercializing NS Gas

Comparative Advantages of AK LNG

- Huge conventional resources next to existing infrastructure
- Massive resource potential: area is underexplored; unconventional resources
- Liquid-rich gas
- Longstanding tradition of exporting to Asia—40 years of LNG exports to Japan
- Stable investment and political climate
- Geo-strategic portfolio diversification
- World-class businesses already investing
- Trained workforce
- Close proximity to markets
- Cost competitive



Changes in market demand has led the State of Alaska to shift its focus to exporting LNG to Asia

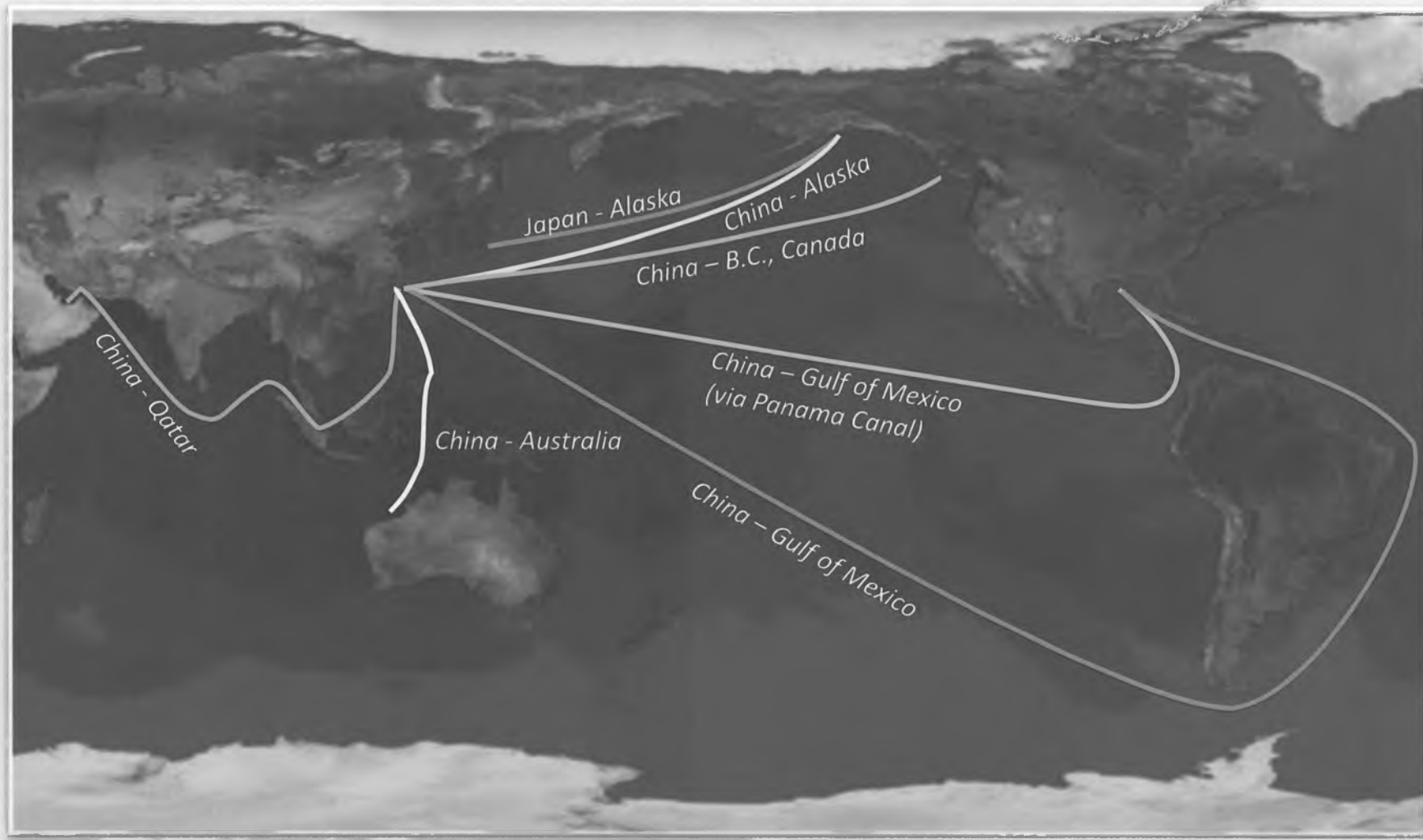
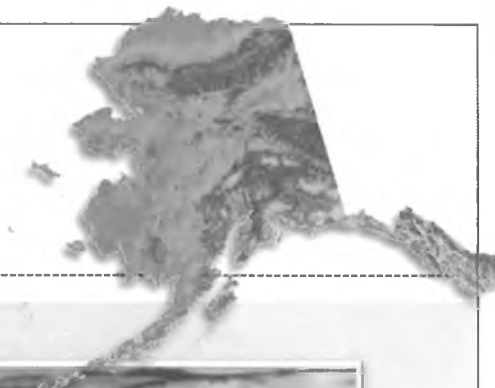
“Alaska eyes LNG pipeline to Pacific Rim” Financial Times, 11/6/11

“If market demand for gas has truly shifted from the Lower 48 to Pacific Rim markets, then the state of Alaska should be ready to shift along with that. And we are.”
– Gov. Parnell, 10/2/11



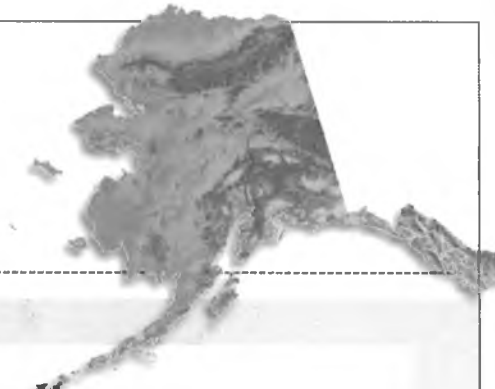
Commercializing NS Gas

Proximity of Alaska LNG to Asia



Commercializing NS Gas

Key Principles & Roadmap



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



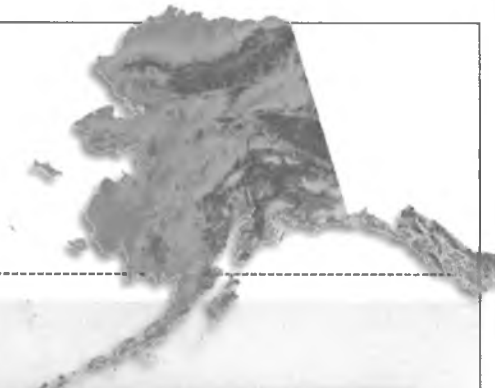
Responsible Development

Striking a Balance

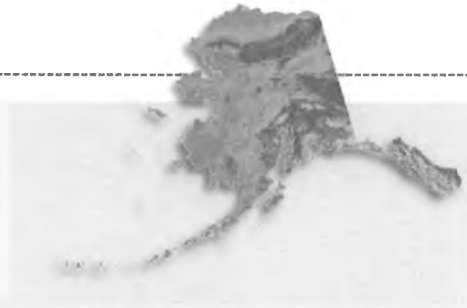


- *We must continue to encourage resource development while safeguarding the environment*
 - The State of Alaska has an exceptional record of responsibly developing our resources while protecting the environment
 - Oil and gas development in Alaska is conducted in a safe and responsible manner with some of the most stringent standards in the world

Striking the balance is not always easy, but the state has a proven record of doing it well



In Conclusion



- 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

Thank you