

**HB 247**  
**INDUSTRY**  
**PRESENTA-**  
**TIONS,**  
**FEBRUARY-**  
**MARCH 2016**  
**(FILE 4)**

<TARGET><BILL>HB 247</BILL><SUBJECT>HB 247 INDUSTRY  
PRESENTATIONS, FEBRUARY-MARCH 2016 (FILE  
4)</SUBJECT><COMM>HRES29</COMM></TARGET>



# House Resources Committee

◦ Kara Moriarty –President/CEO

February 29, 2016

OIL & GAS:  
FUELING  
ALASKA'S  
ECONOMY

**AOGA**  
Alaska Oil and Gas Association

# AOGA Member Companies



# Oil & Gas Fuels Alaska's Economy

**51,000**

**Private Sector Jobs**

**60,000**

**Public Sector Jobs**

**\$ 2.345 Billion**

**Total State Revenue**

**\$ 447 Million**

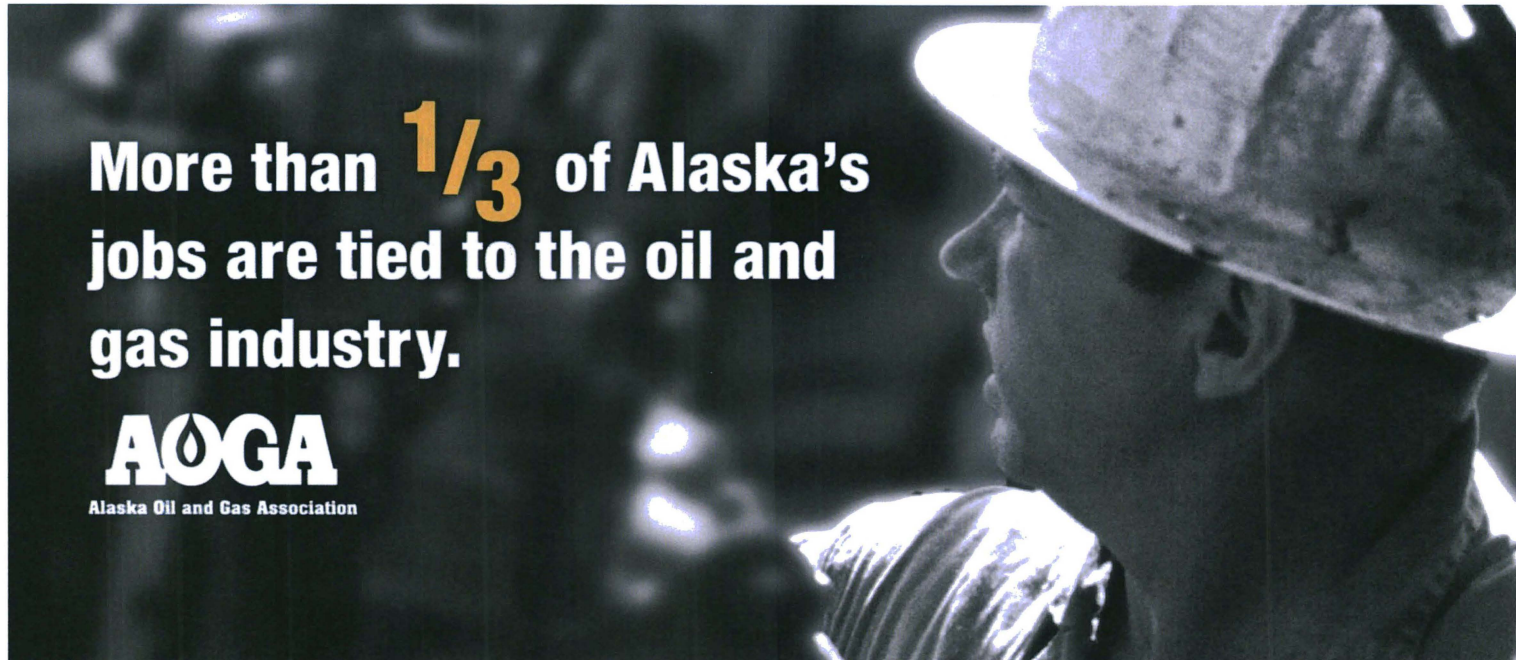
**Local Property Tax**

**\$ 6.450 Billion**

**Total Wages**

Source: DOR Fall 2015 Revenue Source Book (RSB) & McDowell Group

# Oil & Gas Fuels Alaska's Economy



**Every Direct Job = 20 Jobs**

**Each dollar earned by direct employee =  
\$8 additional wages**

Source: McDowell Group

# Resident Hire

- **Caelus Energy more than 85% Alaska hire**
- **Of the 94% Alaska resident employees of Alyeska Pipeline Service Company; 20% are Alaska Native**
- **100% Alaskans in BlueCrest operations staff**
- **BP has 79% Alaska hire**
- **89% of Hilcorp's workforce are Alaskans**
- **More than 100 Alaska companies have been involved in Pt. Thomson; 80% Alaskans**

**Industry supports scholarships and training programs to increase the resident hire rate.**



# **Oil & Gas Revenue Primary Contributor to State Government**

**Petroleum Revenue has constituted ~85% of the state's unrestricted revenue since statehood**

**TOTAL: \$141 Billion**

**Royalties: \$51 billion (36%)**

**Production Tax: \$56 billion (40%)**

**Other: \$34 billion (24%)**

Source: DOR Fall 2015 RSB

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# Alaska Oil and Gas Tax Policy Changed 5 times in a decade

- **February 2005 – March 31, 2006: Aggregated ELF – Decision that altered gross production tax**
- **April 1, 2006 – July 2007: Petroleum Production Tax (PPT)**
- **July 2007 – 2013: Alaska’s Clear and Equitable Share (ACES) \***
- **2010: Cook Inlet Recovery Act**
- **2014 – present: SB 21 & SB 138**
- **2016: HB 247/SB 130 – Governor Walker’s Proposal**

\* Some provisions of ACES made retroactive to enactment of PPT, others to 1/1/2007

# Current Fiscal Policy is Competitive

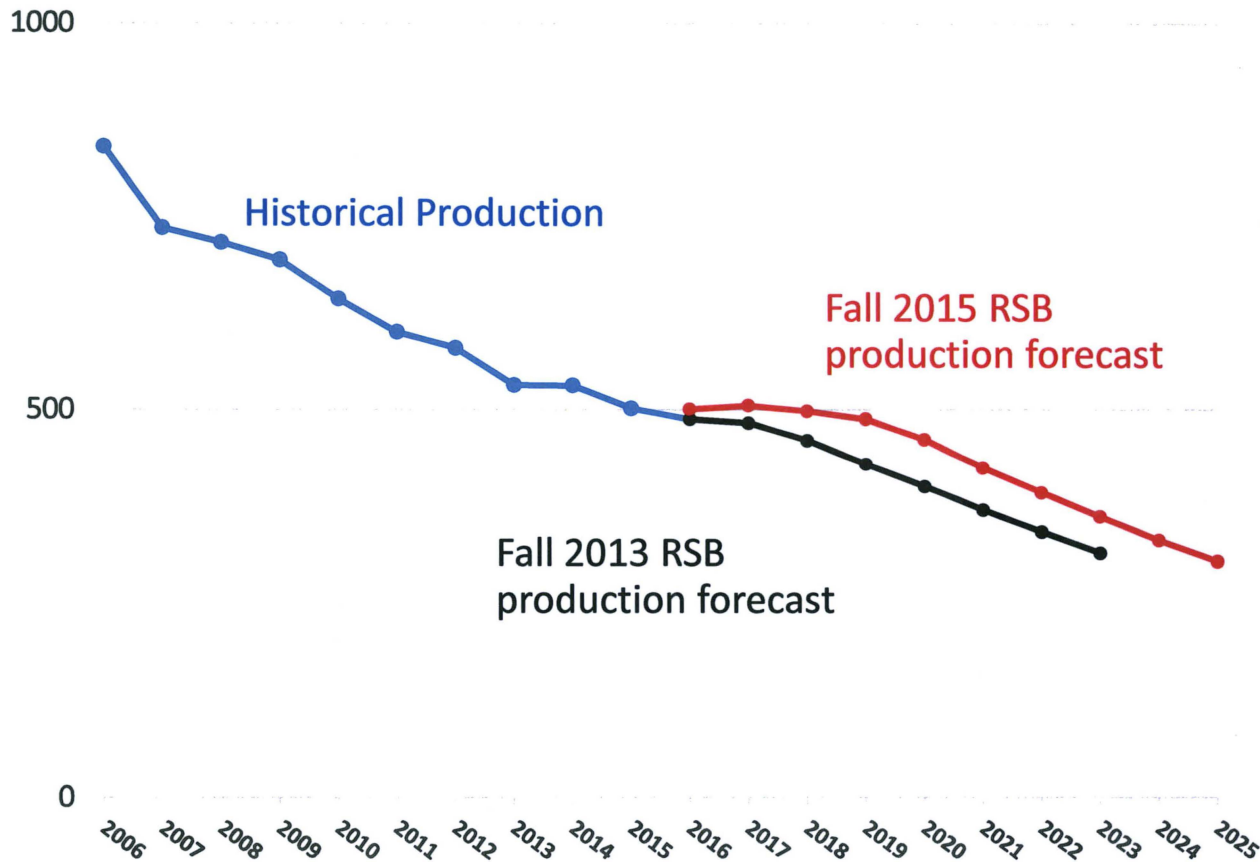


OIL & GAS:  
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# North Slope Production is Stable

TAPS Throughput  
Historical & Forecasted

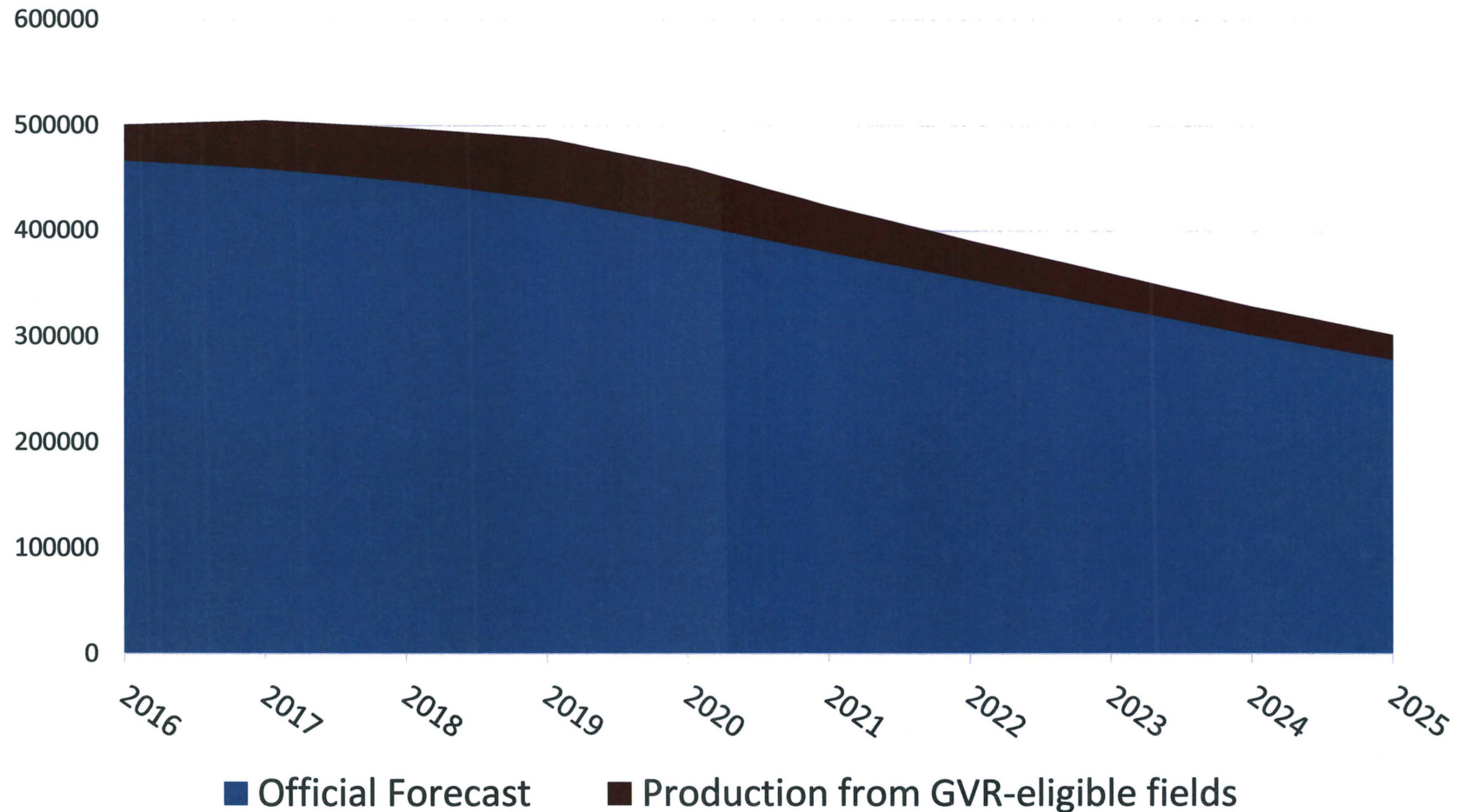


Year	Fall 2013 Forecast	Fall 2015 Forecast
2016	487.6	500.2
2017	482.7	504.9
2018	459.5	497.7
2019	429.1	487.6
2020	399.6	460.5
2021	368.8	423.9
2022	340.1	391.1
2023	312.9	359.8
2024		329.2
2025		302.1

Source: DOR Fall 2015 RSB

# GVR= Average 8% of future oil production

## North Slope Oil Production Forecast

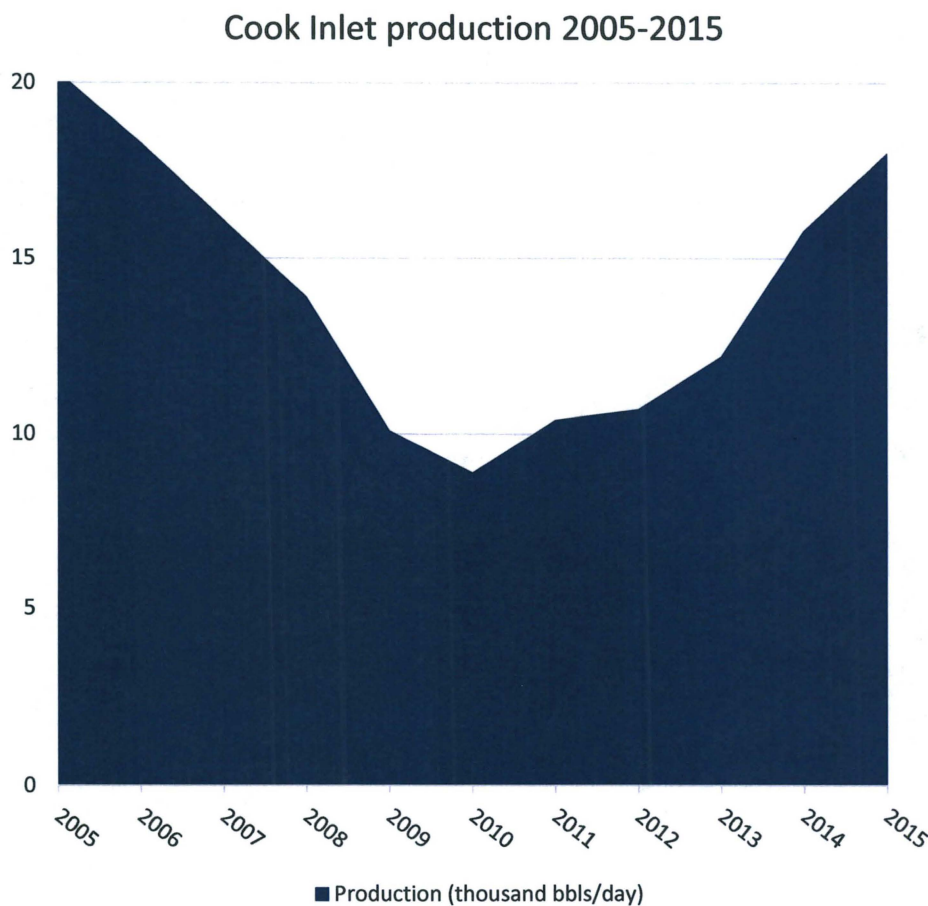


Source: DOR RSB Fall 2015

OIL & GAS:  
FUELING  
ALASKA'S  
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# Cook Inlet Oil Production Up 102%

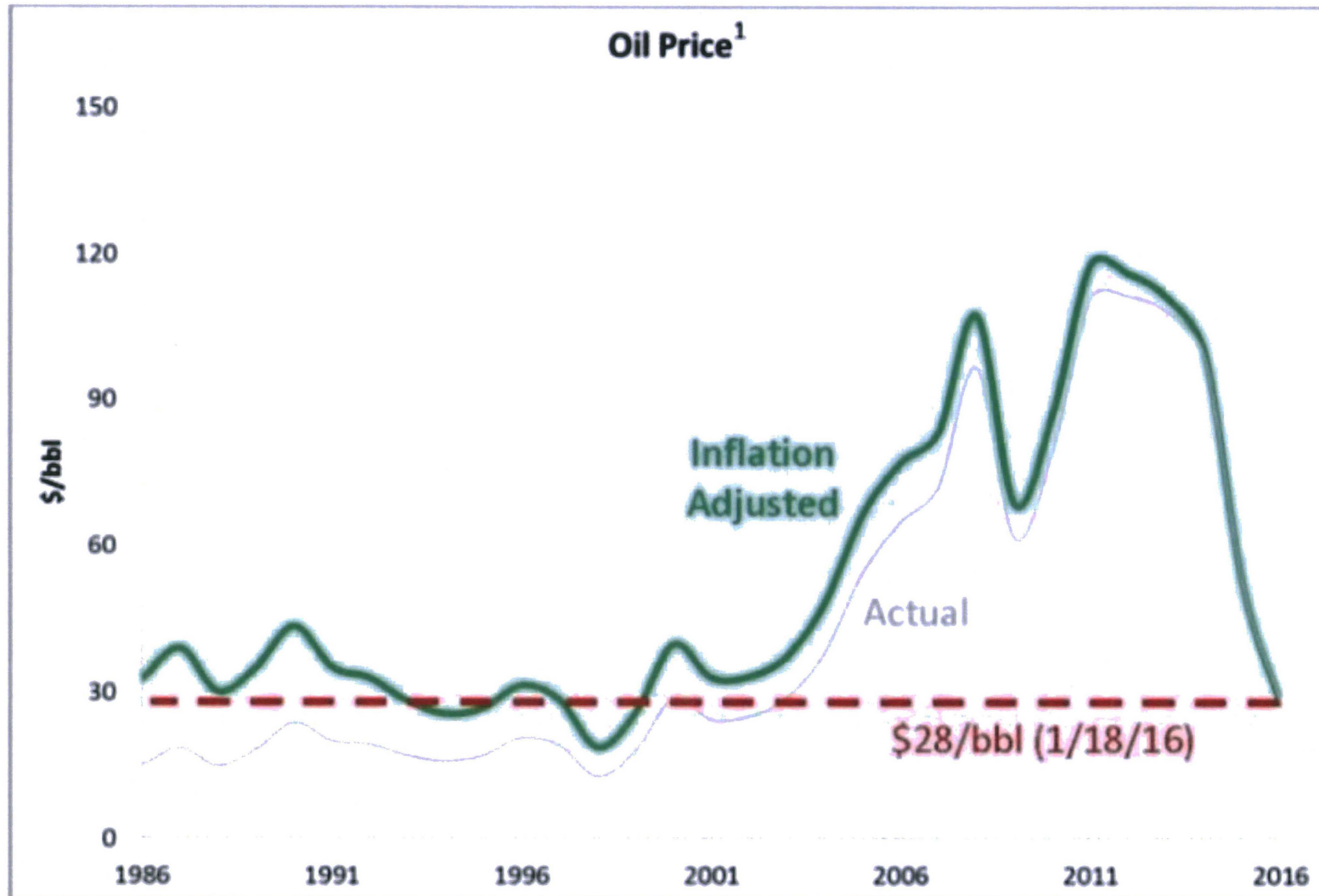


Source: DOR Fall 2015

#AOGA2015

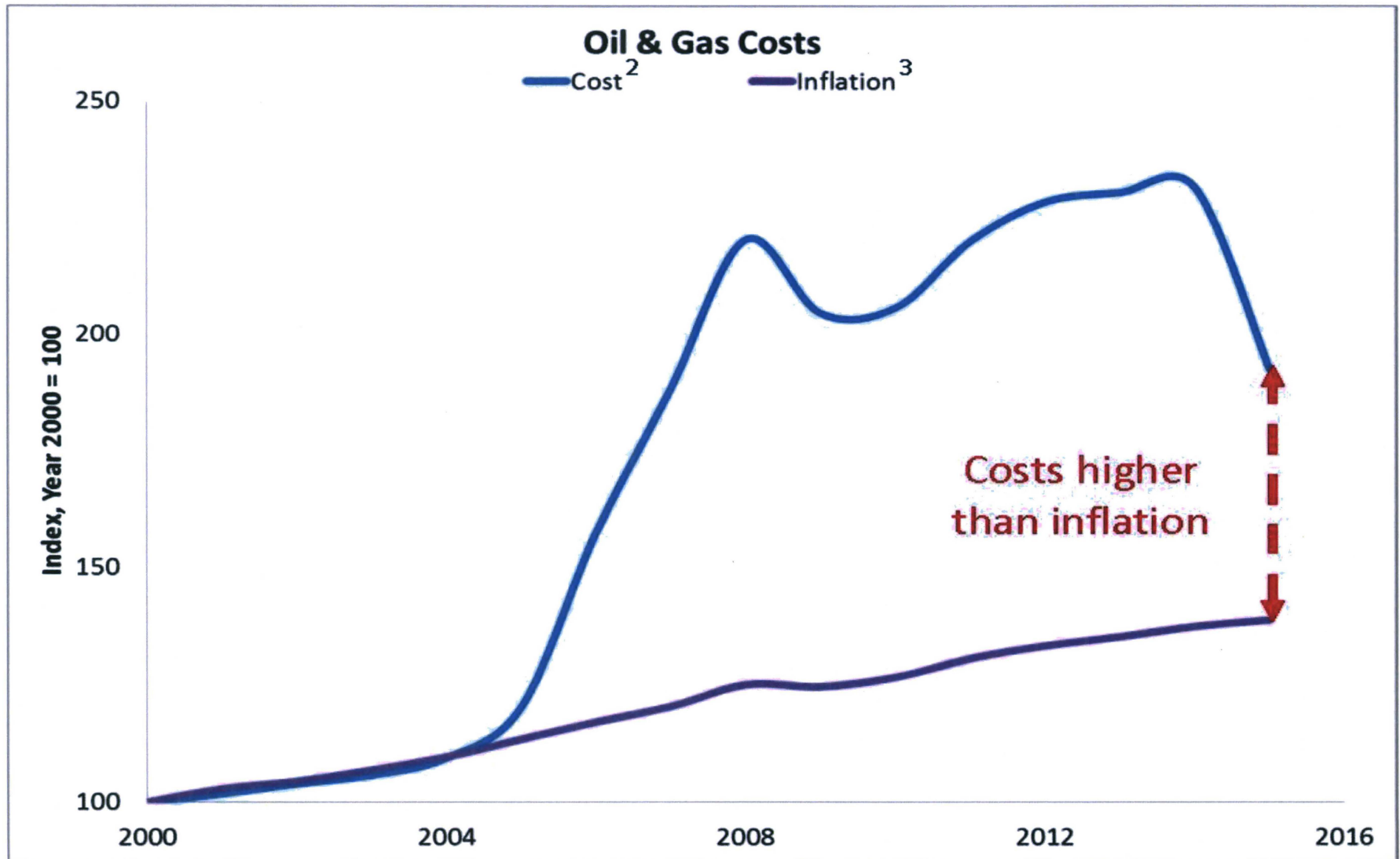


# Unprecedented Low Oil Price



Source: Cost: Upstream Capital Cost Index (IHS/CERA)

# Costs Are 2X Higher than Inflation

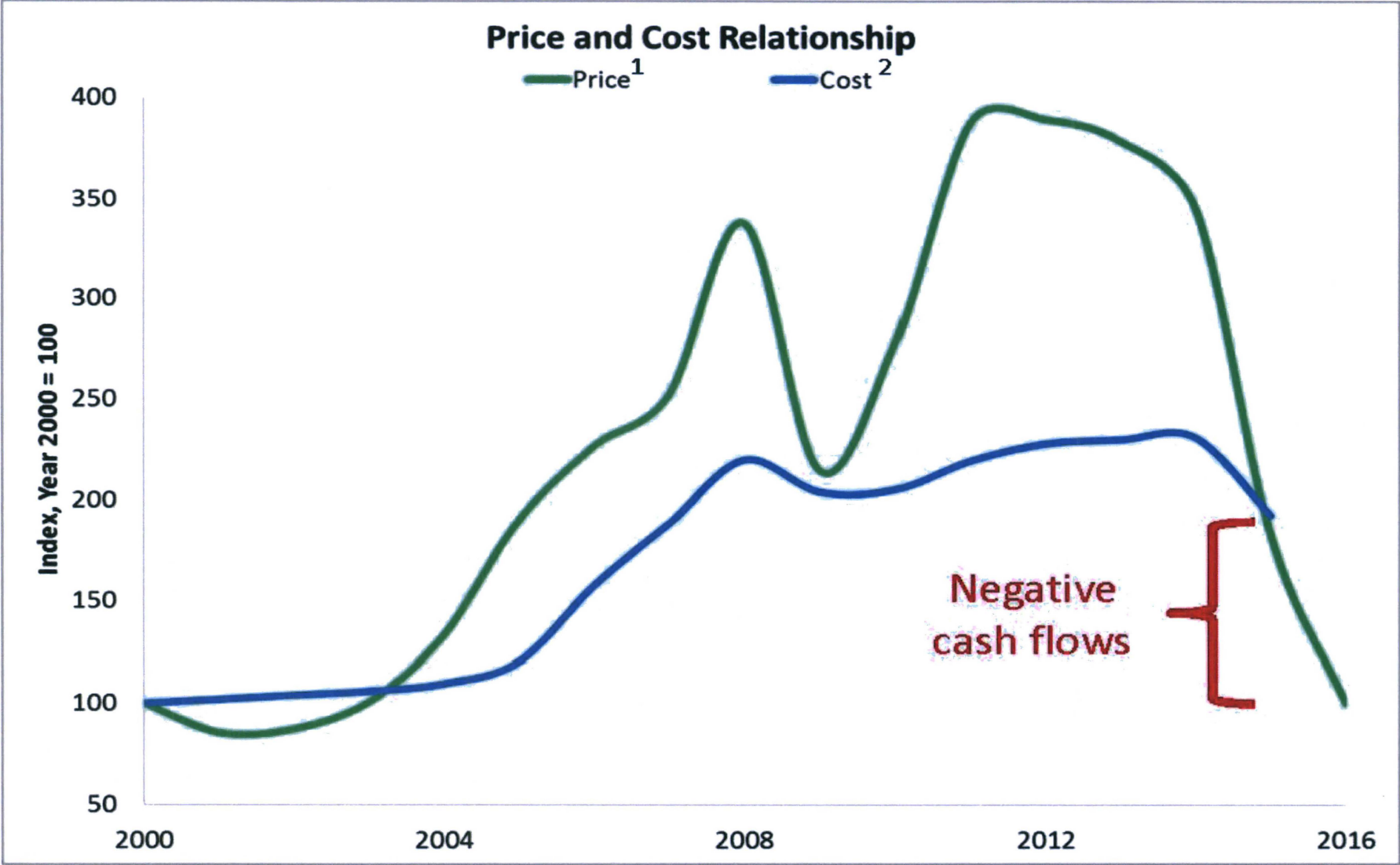


Source: Price: Brent Crude (EIA)

OIL & GAS:  
FUELING  
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# Companies Have Negative Cash Flow



# At current prices, industry has *negative cash flow* of ~\$20/barrel before tax

<b>Avg. Jan. 2016 ANS Price</b>		<b>\$30.28</b>
Downstream Costs		
ANS Marine Transportation	(\$3.28)	
TAPS Tariff	(\$6.41)	
Other	(\$0.87)	
<b>Total Transportation Costs</b>		<b>(\$10.56)</b>
Royalty		(\$5.63)
Lease Expenditures		
Operating Expenditures	(\$18.48)	
Capital Expenditures	(\$17.68)	
<b>Total Lease Expenditures</b>		<b>(\$36.14)</b>
<b>ESTIMATED FY16 COSTS OF PRODUCTION BEFORE TAXES</b>		<b>(\$52.33)</b>

Source: DOR, Fall 2015 RSB

# Policy Questions posed regarding Governor Walker's Proposal - HB 247

- *What effect will the policy have on overall oil and gas production in the state?*
- *Will the policy make Alaska more or less competitive on a global scale?*
- *Will the policy provide stability to the industry and the State of Alaska?*
- *Will the policy provide predictability to companies looking to make huge investment decisions?*

# Administration Goal is to Raise Money

*“The motivation to go down this path to look at credits was the budget. The motivation was not to go in and redefine oil and gas taxes in the State of Alaska.”*

DOR Commissioner Hoffbeck – 2/10/16

*“It is a tax increase. I don’t think we are attempting to disguise that.”*

Tax Director Alper – 2/12/16

# HB 247 will Increase Taxes on Cash-Negative Industry

When asked: *“So you intend to increase taxes on companies already losing money in the state of Alaska?”*

Tax Director Alper Response: *“Through the chair, yes.”*

2/10/16

*“We are very much in a low swing right now, so a small increase to the minimum tax would increase their down at this moment in the cycle. That could be said without hesitation.”*

Tax Director Alper – 2/10/16

# HB 247 Increases Government Take

*“There’s not a lot of government take in this bill.”*

Tax Director Alper - 2/10/16

*“Cumulative impact of proposed changes would be to shift up government take in lower oil prices. In times of high investment /low prices (as is 2016), **effective government take exceeds 100%.**”*

analytica Presentation – 2/25/16

*“...Industry suffering so much – we (the state) are getting all the money (at low prices) .. Vis-à-vis we (state) are the rich ones.”*

Rep. Andy Josephson – 2/25/16

# Specific Concerns with HB 247

- *Increases minimum tax by at least 25%*
- *Net Operating Loss tax credits lose value*
- *Set limits on credits- discouraging investments by smaller company*
- *Cook Inlet credits eliminated*
- *Interest rates increase significantly*
- *Confidentiality provisions waived*
- *Disguised tax increase through the change of the application of Gross Value at the Point of Production*

# HB 247 Does Not Provide Stability

*“...Not optimal policy”*

*“Investor would look at this approach as ‘quite scary’”*

*“... Salami tactics – slice by slice by slice..”*

*“...this (HB 247) creates ‘oh dear’, when environment is tough, folks will come back year after year to get another slice.”*

analytica – 2/15/16


# HB 247 Negatively Impacts Every AOGA Member Company

***“OIL PATCH GOING THROUGH ‘PURE HELL’, BUT DOESN’T  
LOOK TO D.C. FOR SALVATION.” – Politico, 2/26/16***

"Look at the number of layoffs we've had in this industry. If that had happened in Detroit, think of the hue and cry in Washington,"  
American Petroleum Institute CEO Jack Gerard

**AOGA is not asking for assistance from the state of Alaska in this down turn, but do ask for careful consideration of any policy changes.**

## Do No Harm



# House Resource Committee Presentation

David W. Elder (CFO)  
Bruce D. Webb (SVP Alaska)  
March 1, 2016



**FURIE**  
Operating Alaska LLC

# Overview: Tax Credits = Jobs



- Tax credits support investment in the State
- Investments create jobs and bring revenue to the State and local governments
- Furie has invested over \$700 million in Alaska (drilled 5 wells, installed platform, subsea pipeline, and onshore facility)
- During 2015, we employed over 300 people in the State
- New gas supply supports local economic activity and reduces cost of energy
- Furie has reinvested all tax credits to fund exploration and development
- Without continued tax credits, we will have to significantly reduce future investment which will result in job losses

# Video of Construction Project



# Tax Credits Help Alaskans by Supporting Development

*Alaskans have benefitted directly and indirectly from Furie's investments, which would not have been economical without the presence of all the Cook Inlet tax credits.*



## Tax credits benefit Alaskans

- Lower energy prices from increased competition and additional supply of natural gas
- Increased State revenues from royalties, leases, taxes
- New jobs (direct and indirect) and influx of income to local businesses
- Lowers risk of future shortfalls in natural gas supply



## Tax credits enable development

- KLU development economics relied upon all Cook Inlet tax credits for positive returns, including:
  - 20% QCE under AS 43.55.023(a)
  - 25% loss credit under AS 43.55.023(b)
  - 40% WLE under AS 43.55.023(l)
  - Future investments may cease without them
- Financing of tax credits provides liquidity required to support capital intensive projects, certainty in go-forward structure and funding is needed

# Benefits for Alaska

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***Tax credits are an investment that will provide a return to the State and its citizens for many years to come.***

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- Over 300 jobs at peak of development
  
- Property taxes paid to the state and various cities and boroughs:
  - 2012-2015: \$2.9 million total
  - 2016 (estimated): \$4.8 million
  
- Lease rentals paid to the State since 2011: \$1.6 million
  
- Estimated royalties of up to \$300 million over the life of the reserves
  
- Royalties, lease rentals and property taxes support local communities and create jobs

# Alaska Partners Supporting Exploration and Development

## *Investment in exploration and development creates jobs and supports local businesses and industry*

### Sample of 100 Alaska businesses that support exploration and development in the Kitchen Lights Unit:

Airport Equipment Rentals  
Alaska Crane Consultants  
Alaska Industrial Hardware  
Alaska Marine Surveyors Inc  
Alaska Maritime Agencies  
Alaska Rubber and Supply  
Alaska Safety Inc  
Alaska Satellite Internet  
Alaska Serigraphics  
Alaska Sewer & Drain  
Alaska Steel Company  
Alaska Tent & Tarp  
Alaska West Express, Inc.  
Amak Towing Co., Inc.  
Anchorage Sand and Gravel Co.  
Arctic Office Product  
ARCTOS, LLC  
ASRC Energy Services  
Atigun, Inc.  
Beacon Heath and Safety Services  
Cameron Surface Systems  
Carey Homes, Inc.  
Carlisle Transportation Systems, Inc.  
Cash Welding and Fabrication  
Certified Inspection Services, Inc.

Clippership Motorhome Rentals, Inc.  
CONAM Construction Company  
Control Concepts & Technology  
Cook Inlet Marine LLC  
Cook Inlet Spill Prevention & Response  
Cook Inlet Tug & Barge, Inc.  
CPD Alaska LLC  
Crowley Logistics  
Crowley Marine Services, Inc.  
Crowley Solutions, Inc.  
Cruz Construction, Inc.  
Davis Block & Concrete  
Deepwater Corrosion Services  
Denali Crane Inspection LLC  
Dril-Quip  
Dukowitz Machine, Inc.  
Eagle Enterprise  
Eagle Safety Solutions  
Emerald Alaska  
ENSTAR Natural Gas Company  
Expro Americas  
Fire Control Systems, Inc.  
First American Title Ins. Co.  
First National Bank Alaska  
Fisheries Supply Inc.

Five Star Oilfield Services  
Five Star Realty  
Foss Maritime Company  
Fugro Chance, Inc  
GCI  
Global Diving and Salvage Inc  
GRU Engineers, Inc  
Guess & Rudd LLP  
Harbor Consulting Engineers, Inc  
Harvest Alaska, LLC  
Home Depot  
Homer Electric Association, Inc.  
Homer Septic Services  
Hotel Captain Cook  
Industrial Instrument Services, Inc.  
Intertek Technical Services  
J.W. Williams, Inc.  
Jacobs Engineering Group, Inc  
Jensen Maritime Consultants  
Kenai Catering  
Kenai Peninsula Borough  
MagTec Alaska, LLC  
Marine Survey Services  
Maritime Helicopters Inc.  
Maritimewx

McJunkin Red Man Corporation  
McLane Consulting, Inc.  
Michael L. Foster & Associates, Inc.  
Mobile Concrete and Grout of Alaska  
Nikiski Fuel, Inc  
North Air, Inc.  
North Star Terminal  
Northwest Crane Service, LLC  
NRC Alaska, LLC  
Ocean Marine Services, Inc.  
Offshore Systems-Kenai  
Peninsula Pumping, Inc.  
Petro Star, Inc.  
Petro 49  
Petrotechnical Resources Alaska LLC  
Port Graham Corporation  
Procomm Alaska  
Professional Adjusters of Alaska  
RAVN Alaska  
Schlumberger Technology Corp  
Stoel Rives LLP  
Terrasond  
Watson Company, Inc.  
Weaver Brothers, Inc  
Westpac Logistics, LLC

# Tax Credits Helped Furie Bring Cheaper Gas to Southcentral Alaska



## HEA secures lower price on gas deal with Furie

Elwood Brehmer, September 20, 2015

*“The price of Cook Inlet natural gas continues to trend downward...”*

Base Load Prices	<u>2016</u>	<u>2017</u>	<u>2018</u>
Hilcorp Consent Decree	7.42	7.72	8.03
Furie Homer GSA <sup>1</sup>	6.50	6.75	7.00
Reduction %	<b>-12%</b>	<b>-13%</b>	<b>-16%</b>

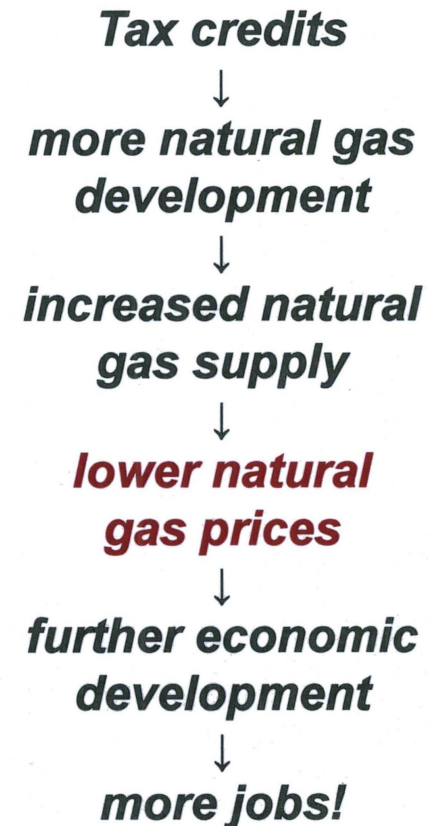
## ALASKA Journal of Commerce

## Chugach, Hilcorp agree on gas supply contract

Elwood Brehmer, August 12, 2015

*“...prospect of more competitive prices from other producers...”*

Base Load Prices	<u>2016</u>	<u>2017</u>	<u>2018</u>
Hilcorp Consent Decree	7.42	7.72	8.03
Hilcorp Chugach 3rd Amendment to GSA	7.42	7.72	7.35
Reduction %	-	-	<b>-8%</b>



**Tax credits can extend the downward pricing trend and prevent future supply shortages**

<sup>1</sup>Price increases occur in the following year's April

## General Comments about HB 247

- Repeal of credits under AS 43.55.023(a) (QCE) and (l) (WLE) will stifle or stop investments
- 25% loss credit under AS 43.55.023(b) -- which HB 247 leaves in place -- is helpful, but not adequate if QCE and WLE are repealed given:
  - high costs of oil and gas exploration and development in Alaska's Cook Inlet
  - tax rate on oil will be 35% after 2021
- \$25 million annual limitation on purchases of certificates is unreasonable and represents a virtual repeal of the program -- credits must be monetized timely to be useful for companies during capital intensive exploration and early development
- Transferable credits can be assigned and are vital for financing, which has provided needed liquidity -- repeal of credits and additional limitations on purchase of credits will dramatically impact financing and investment
- Any changes to tax credits in 2016 is unreasonable and hits Cook Inlet in the middle of the offshore drilling season (perhaps even in the middle of the drilling of a well):
  - budgets have been approved in light of current law
  - contracts are already in place
  - Furie is bringing another jack-up rig to Cook Inlet for additional exploration and development drilling this summer, and all credits are essential
  - impacts on financing arrangements

## Tax Credits Enable Development Companies to Access Low Cost Capital

- Tax credits have provided Furie with access to economical sources of funding
  - Cost of funding declined from around 20% APR to 8% range
  - Low rates offered by lenders due to Alaska's historical support of oil & gas industry and tax credit program (low perceived "political risk")
  
- Lower cost of capital helps fund existing and future development of State resources
  
- Lenders require certainty and have stopped lending
  - Veto of 2015 appropriations almost crippled Furie's ability to access funding
  - Lenders now question if 2015 tax credits will be paid in 2016
  - Proposed legislation with limits on cash repurchase and mid-year effective dates have shut down lending
  - We need and ask for certainty to avoid curtailing capital investments planned for 2016 and beyond

## Summary – Without Certainty Furie Will Have to Curtail Investments



**Had HB 247 been passed prior to 2015, Furie would not have pursued exploration and development of the KLU. Should HB 247 pass in 2016, investments will drop dramatically.**

**Credits under AS 43.55.023 and funding for cash purchases of certificates are crucial for liquidity and economical financing**

**Financing and loan guarantee program through AIDEA is welcome, but not a reasonable alternative to the tax credit program**

**Repeal in July 2016 will catch Cook Inlet in the middle of a drilling season**

**Tax credits have led to increased:  
gas supplies for local users, jobs, economic activity, and revenues to the State**

1. Strong Investment Value of Tax Credits
2. Overview of Cosmopolitan Unit
3. Specific Impact of HB 247 on BlueCrest

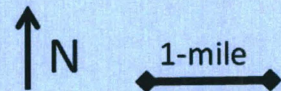



J. Benjamin Johnson  
House Resources Committee Testimony  
March 1, 2016


# Cosmopolitan Project Area

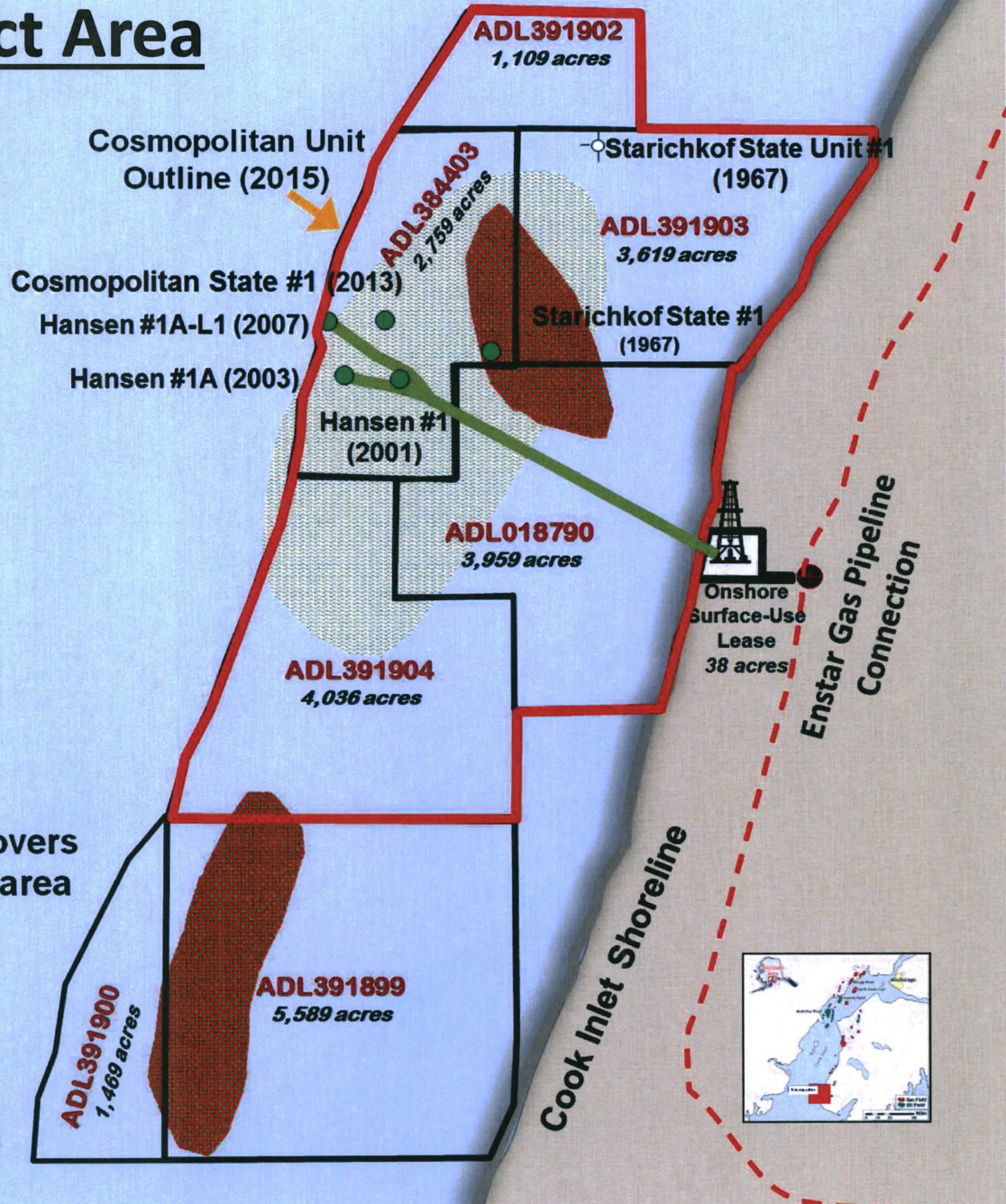
- 100% owned and operated by BlueCrest
- 7 State leases
- 22,540 acres offshore
- 38-acre onshore surface lease
- 6 wells drilled to date
- 6 known oil zones
- 6+ known gas zones
- 2 identified exploratory prospects

3-D Seismic covers entire Project area (2005)



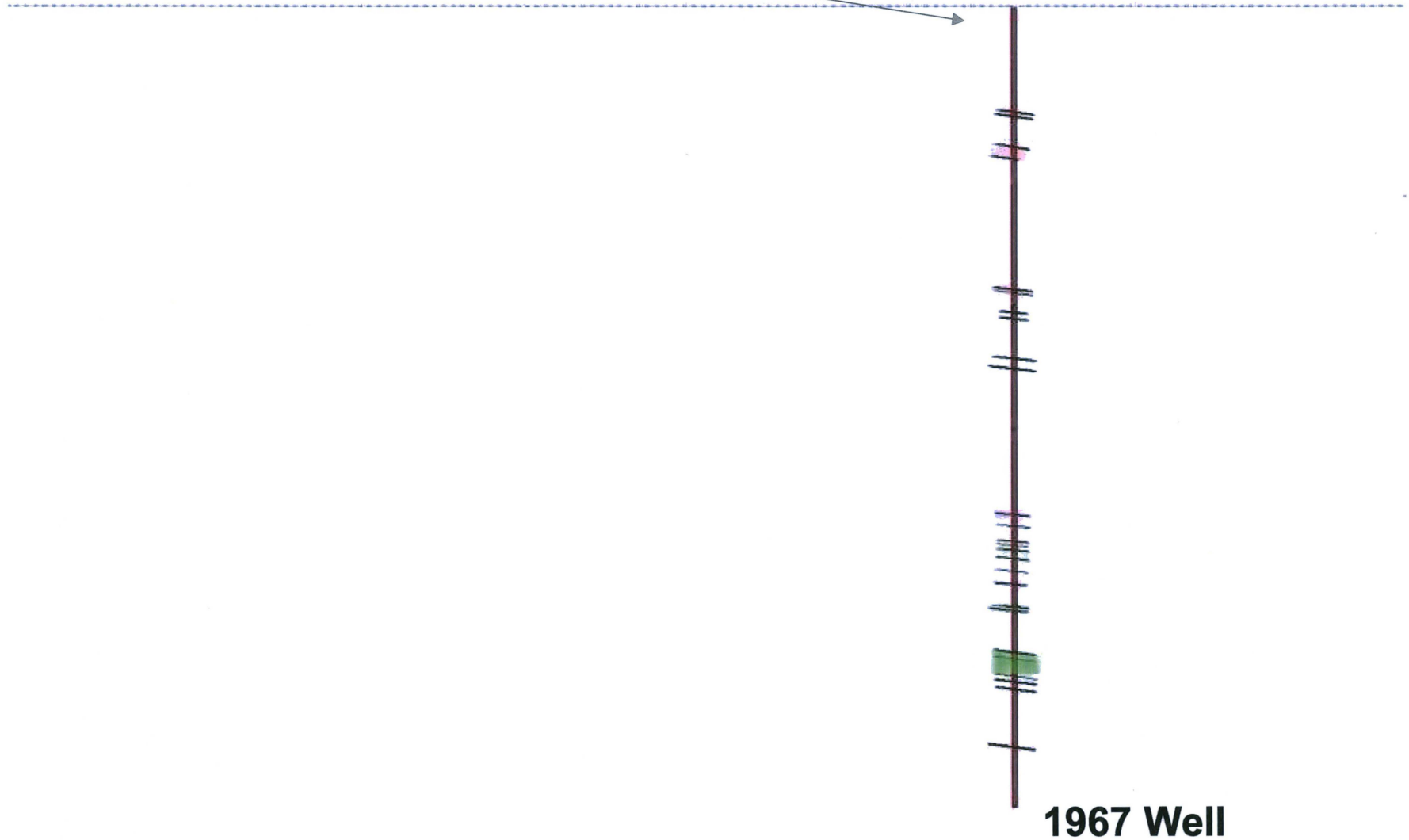
 Approximate areal extent of known productive reservoirs

 Approximate areal extent of identified exploratory prospects

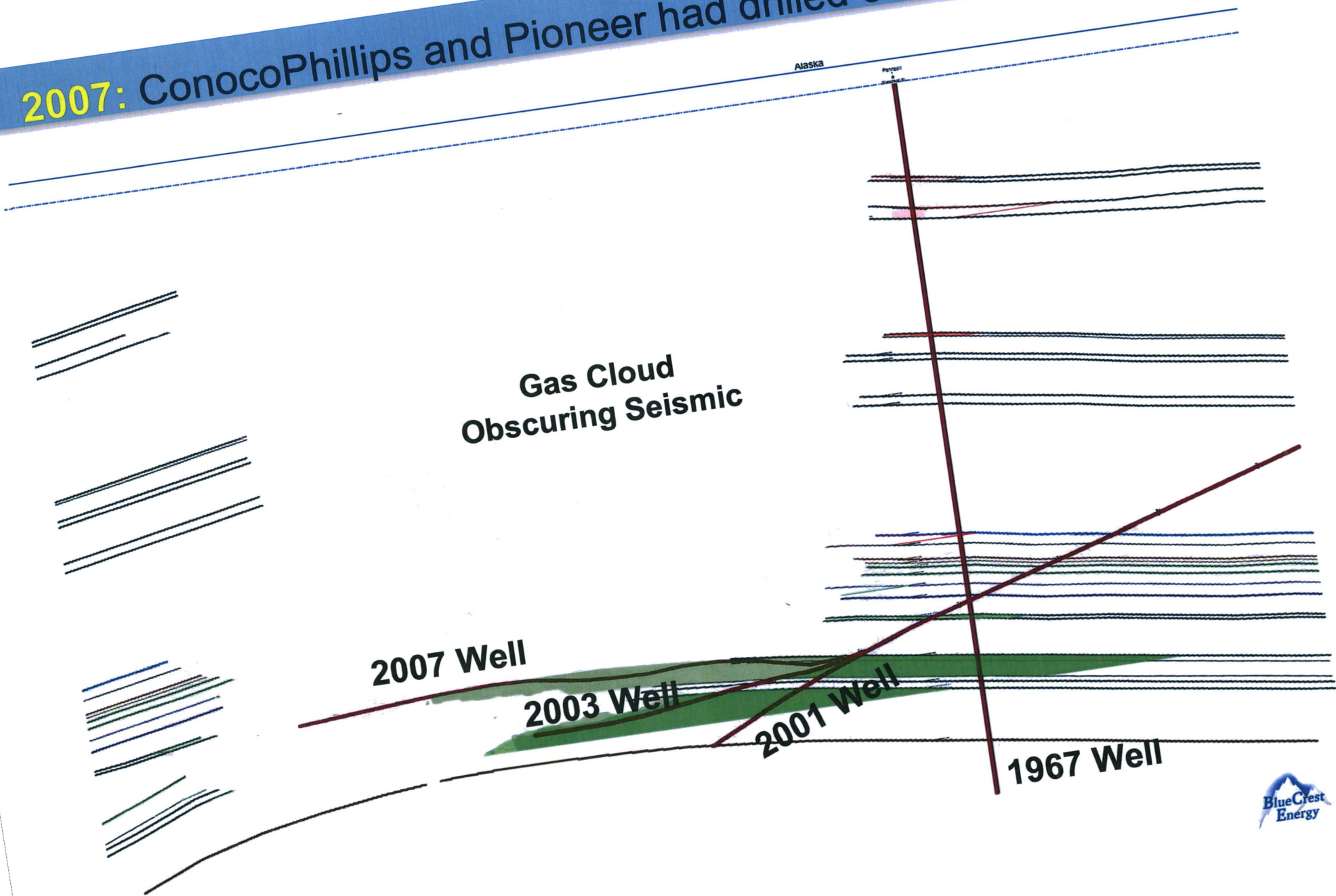


# 1967: Pennzoil Found the First Oil - Drilled from Offshore

## The Starichkof State No. 1



**2007: ConocoPhillips and Pioneer had drilled 3 wells and 3D**



**Gas Cloud  
Obscuring Seismic**

**2007 Well**

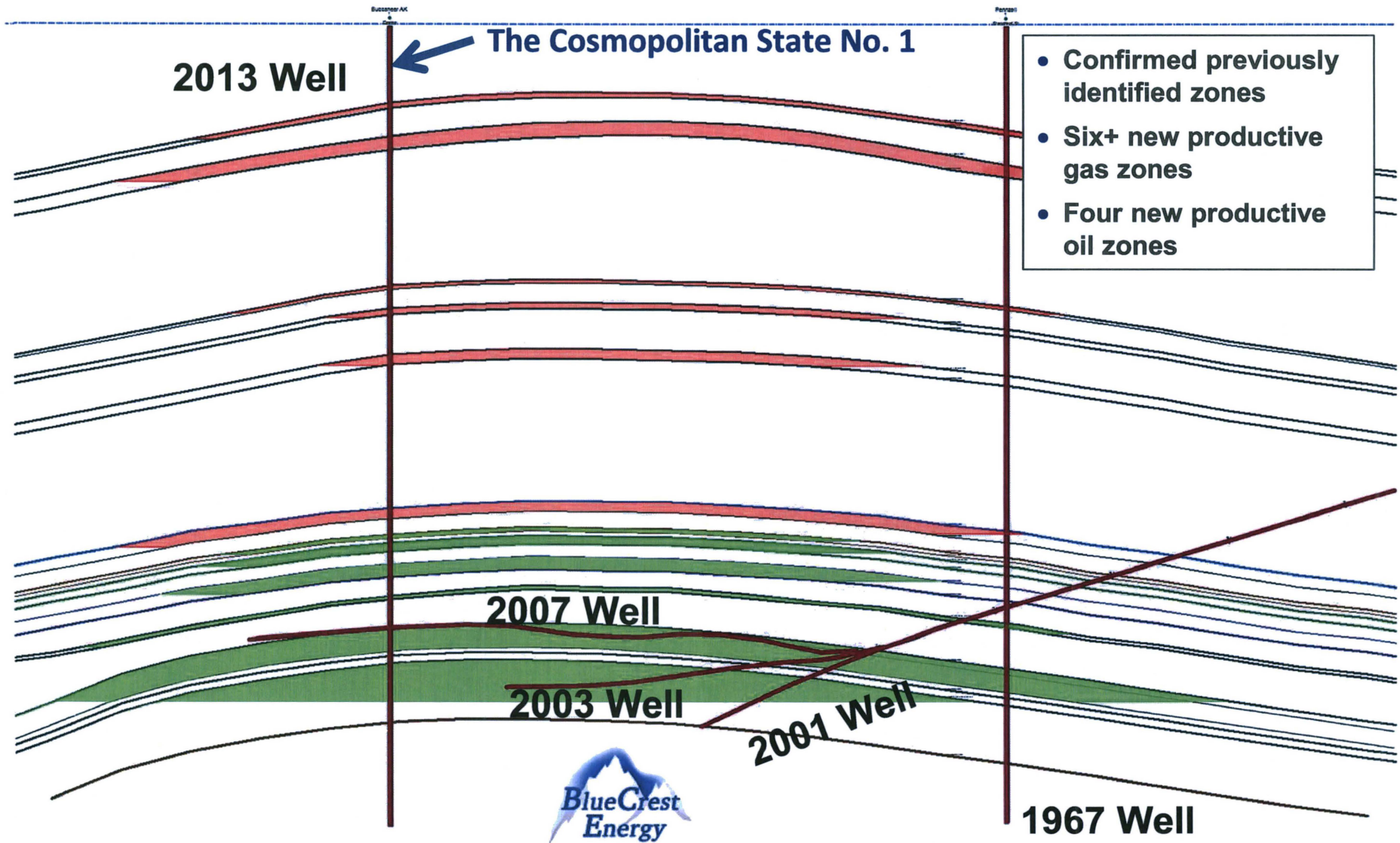
**2003 Well**

**2001 Well**

**1967 Well**



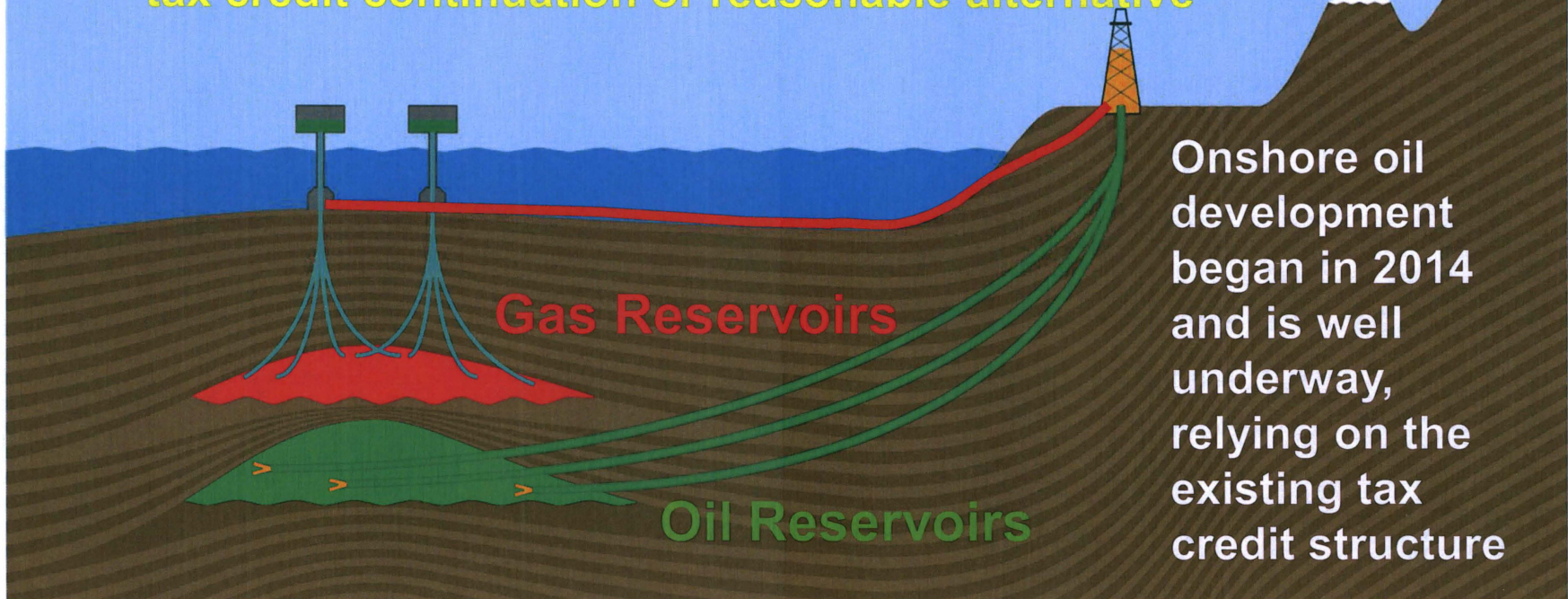
## 2013: BlueCrest Drilled a Vertical Well from Offshore



- Confirmed previously identified zones
- Six+ new productive gas zones
- Four new productive oil zones

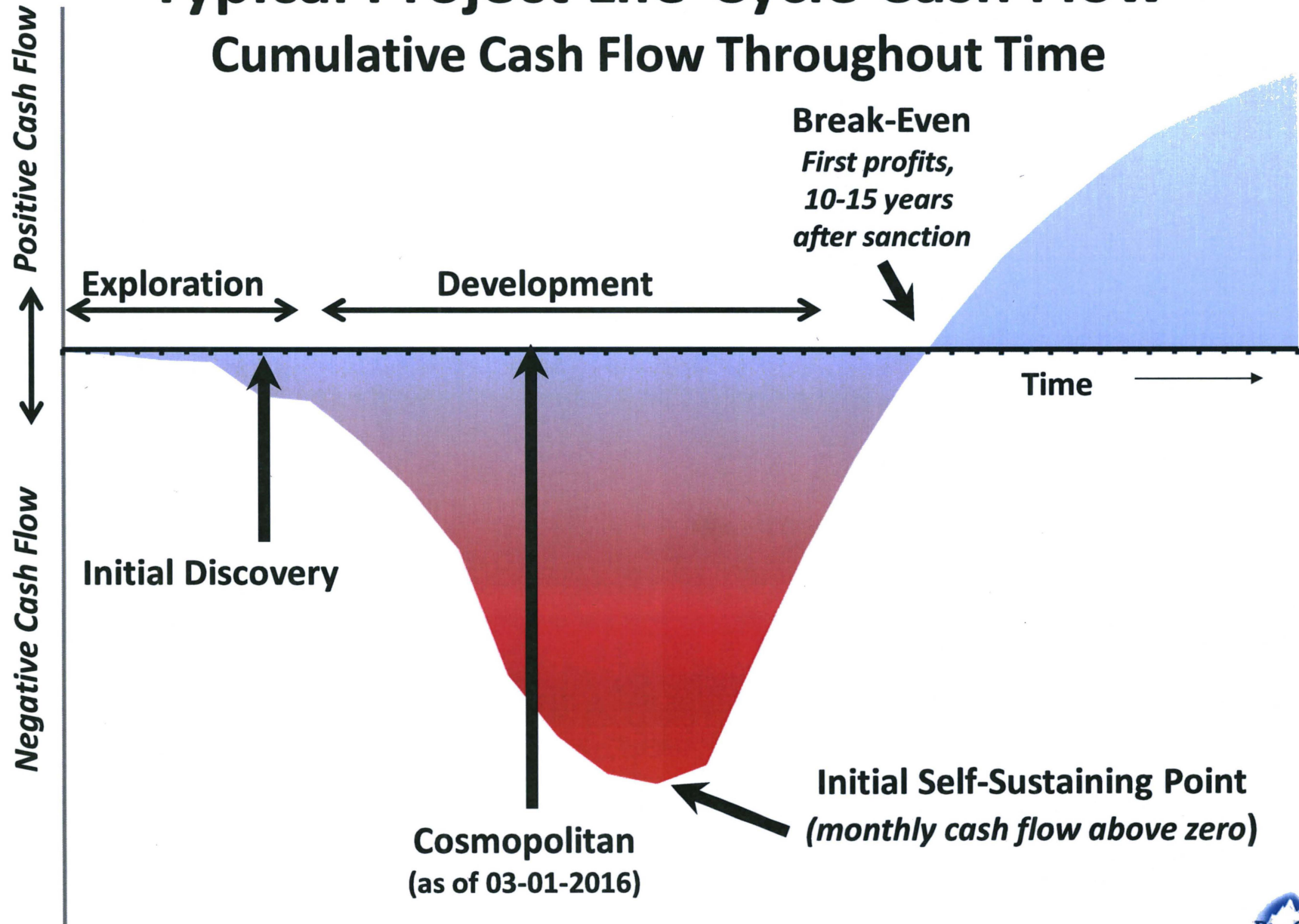
## Cosmopolitan Unit Development Concept

- Separate oil and gas reservoirs are located approximately three miles offshore in the Cook Inlet
- The oil reservoirs can be reached by drilling wells from onshore
- The gas reservoirs are not as deep and can only be reached with offshore wells and platforms
  - Gas development is now on hold, pending confidence of tax credit continuation or reasonable alternative

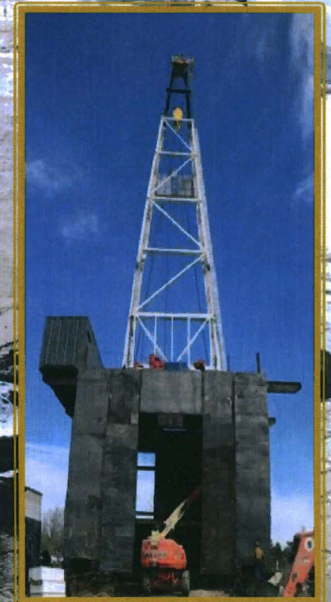
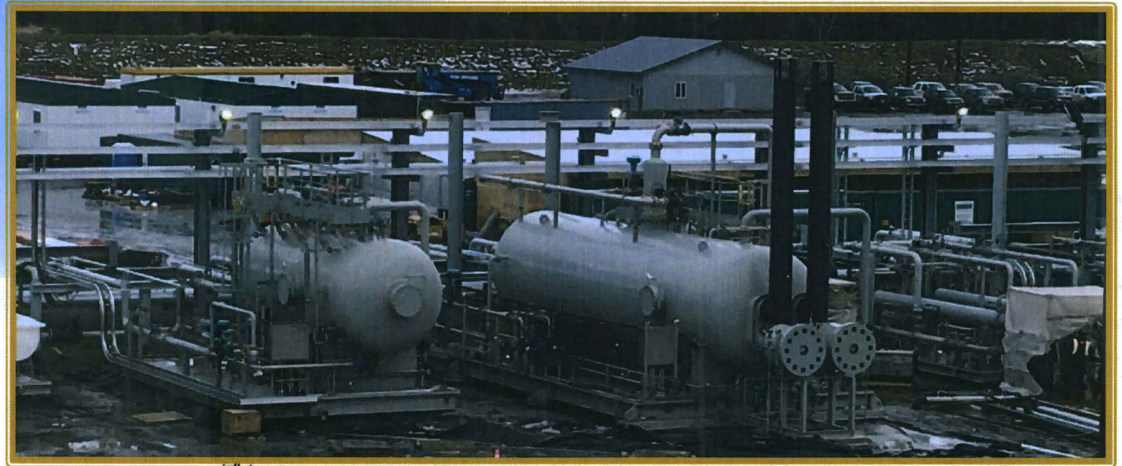



# Typical Project Life-Cycle Cash Flow

## Cumulative Cash Flow Throughout Time



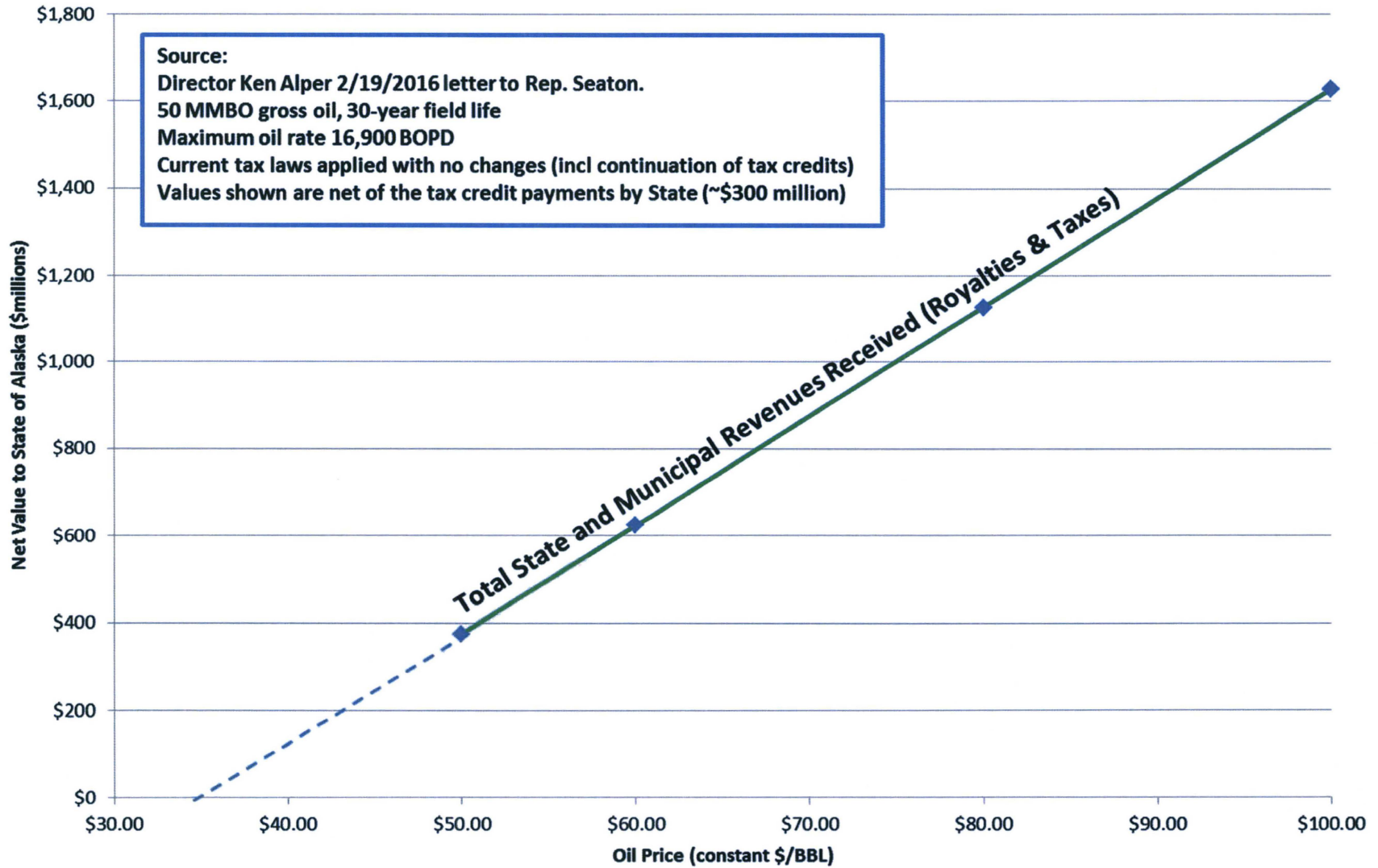
# Cosmopolitan Progress as of 03/01/2016



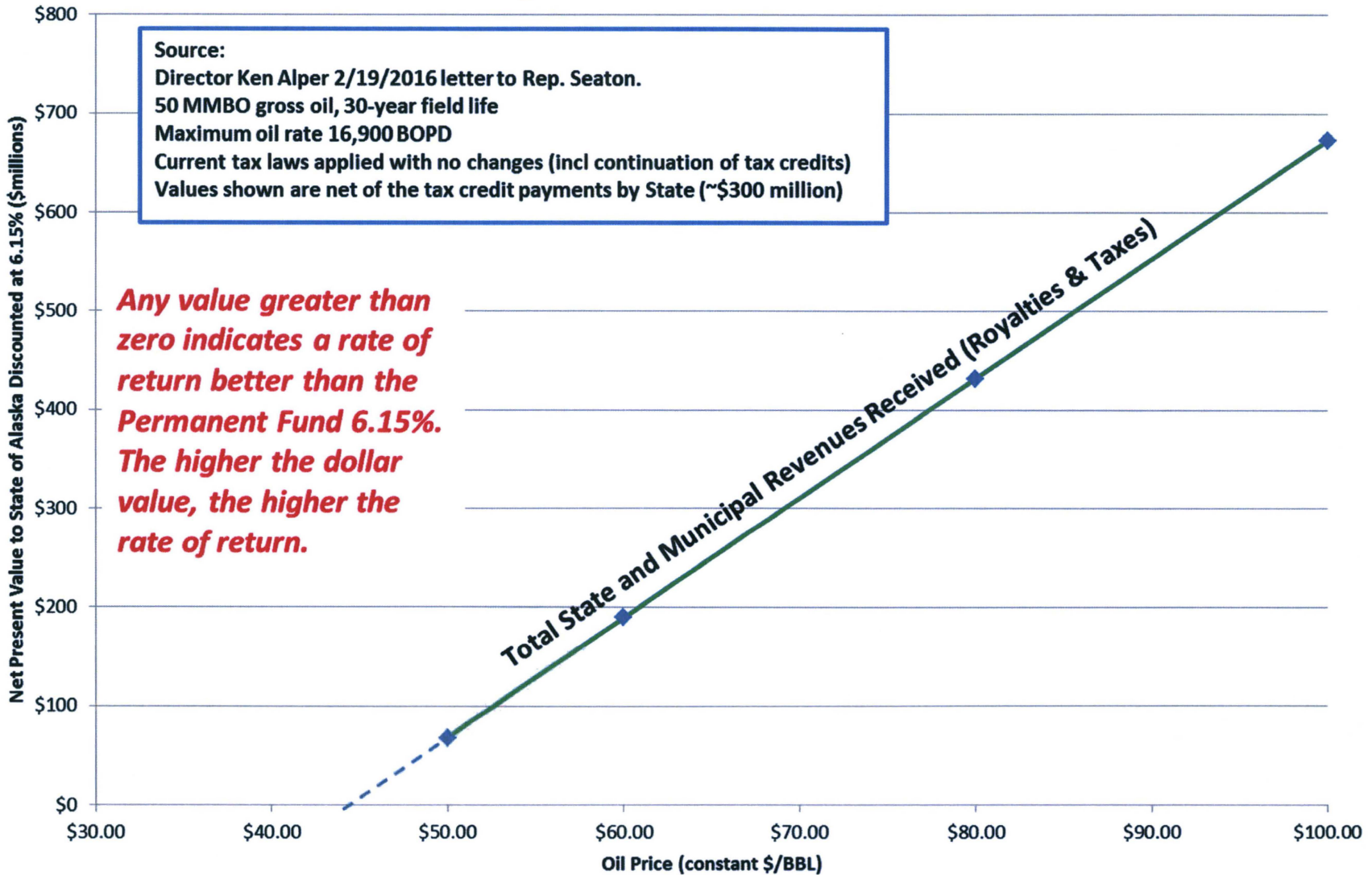


**Tax credits for development of previously discovered proven reserves are a solid, low-risk investment for Alaska.**

## Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016 Net Cash Benefit to State With Continued Tax Credits at Various Oil Prices



**Summary of DOR Analysis Cook Inlet Oil Development 2/19/2016  
Comparison to Permanent Fund NPV Return (6.15%) to State at Various Oil Prices  
Assuming All Tax Credits are Continued In Full**



## Specific Comments on HB 247 – Section 21

**Continuation of the 023(a) and 023(l) credits is a good investment for the state.**

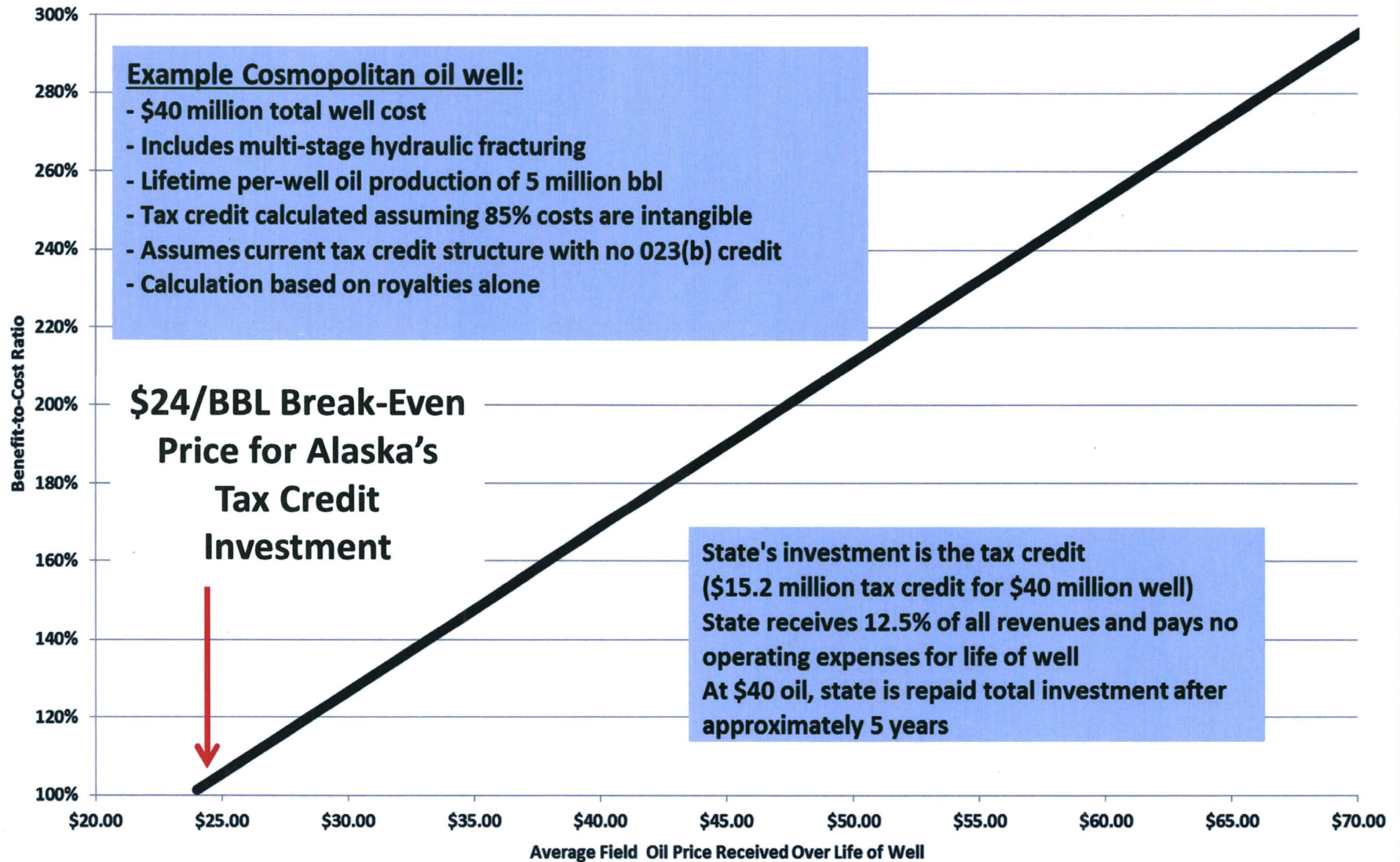
**Termination of the 023(a) and 023(l) credits will result in a significant reduction of BlueCrest's ability to continue drilling at Cosmopolitan.**

**Continuation of the credits facilitates Cosmopolitan continued drilling at ~\$10/BBL lower oil prices.**

**In the event that the NOL is the only remaining credit, it should match the 35% received by North Slope parties.**

# State's Investment Return From Individual New Cosmopolitan Well Royalties

State's Benefit-to-Cost Ratio versus Average Lease Oil Price  
Assumes 023(a) and 023(l) Tax Credit Paid (total 38% of Well Cost)



### Limits of \$25 million per company for cash payments:

- **Arbitrary**
- **Particularly disadvantages small companies like BlueCrest who have invested but do not yet have production**
- **BlueCrest has invested in good faith, based on the tax policy in existence when the investments were committed**
- **BlueCrest has financed the Cosmopolitan development assuming the credits would be paid on time**
- **The state is backing out on its prior commitment**
- **A strong disincentive for future investments**

**The reduction of the credit payment amount by the percentage of non-Alaskan workers in the previous year is impractical.**

**Investments have already been made and contracts entered into based on the current tax laws.**

**BlueCrest has hired 100% Alaskans for its permanent operations workforce and has encouraged contractors to hire as many Alaskans as practical for short-term construction jobs.**



100% Alaska hire for long-term field operations employees.

**An effective date of July 1, 2016 is too soon for implementation of substantial reductions in tax credits for ongoing work that has already been contracted for and now underway.**

**BlueCrest's funding plan for initial Cosmopolitan oil development**

**Total cost: \$525 million**

**Funding sources**

<b>Cash investment by shareholders:</b>	<b>\$200 million</b>
<b>AIDEA loan on drilling rig:</b>	<b>\$30 million</b>
<b>Development loan:</b>	<b>\$150 million</b>
<b>Tax credits received to date:</b>	<b>\$24 million</b>
<b>Tax credits for 2015-2016 spending under current law:</b>	<b>\$121 million</b>



**When we are driving on  
slippery icy roads, the most  
dangerous thing we can do is  
suddenly slam on the brakes!**

# Alaska Support Industry Alliance



...linking Alaska's resources to Alaska's people...

BRYAN CLEMENZ, DOUG SMITH, TOM WALSH

HOUSE RESOURCES COMMITTEE – WEDNESDAY, MARCH 2, 2016



## Today's key messages

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- We are Alaskans – Alaskan companies and Alaskan workers – we are not the producing and exploring companies
- Alaska is still an oil & gas economy
- Increased production is the best answer to the State's fiscal dilemma which requires a stable fiscal climate for investment
- What is the State's policy to increase production?

# Thoughts on previous testimony

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- Compromise
- “Everyone has to give”

# North Slope

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- Policy
  - ACES
  - SB 21
- Potential
- Personal Experience



# Middle Earth

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- Policy
  - SB 21
- Activity due to SB 21
- Potential
- Ongoing projects with huge potential benefits to Alaska
- Personal Experience



# Cook Inlet

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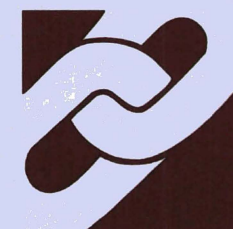
- Policy
  - Cook Inlet Recovery Act
- Potential
- Personal Experience
  - Work type
  - Jobs

# A bit more about jobs

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- West Virginia has the right idea.
- Jobs are our future



# Rig Personnel

Company Rep	2 per rig	\$2000/pos	\$120,000.00/month
Tool Pusher	2 per rig	\$2000/pos	\$120,000.00/month
Rig Site Geo	2 per rig	\$2000/pos	\$120,000.00/month
Driller	2 per rig	\$2000/pos	\$120,000.00/month
Medic/Security	2 per rig	\$2000/pos	\$120,000.00/month
Directional Driller	2 per rig	\$2000/pos	\$120,000.00/month
MWD LWD	2 per rig	\$2000/pos	\$120,000.00/month
Mud Hand	2 per rig	\$2000/pos	\$120,000.00/month
Camp Support	6 per rig	\$1200/pos	\$216,000.00/month
Rig Support	6 per rig	\$1200/pos	\$216,000.00/month
Floor Hands	8 per rig	\$1400/pos	\$336,000.00/month
Other Rig Hands	8 per rig	\$1400/pos	\$336,000.00/month

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44 positions

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\$2,064,000.00/month

# Conclusions

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- Can HB 247 impact an LNG project?
- Slow progress? Or no progress?

Thank you.

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- Questions?

The Alaska Support Industry Alliance  
...linking Alaska's resources to Alaska's people...



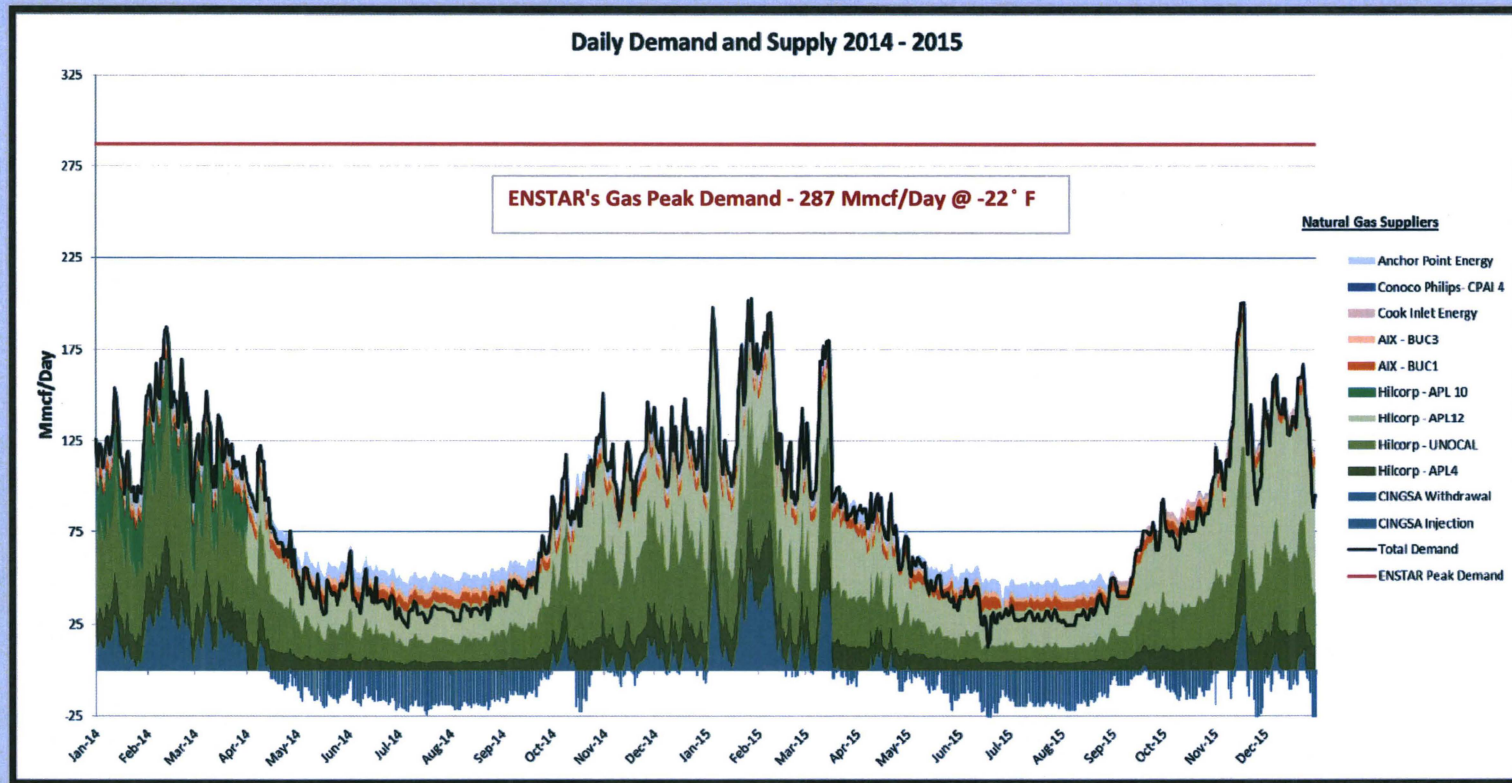
Presentation to the  
House Resources Committee  
March 2, 2016

## Natural Gas Supply Needs

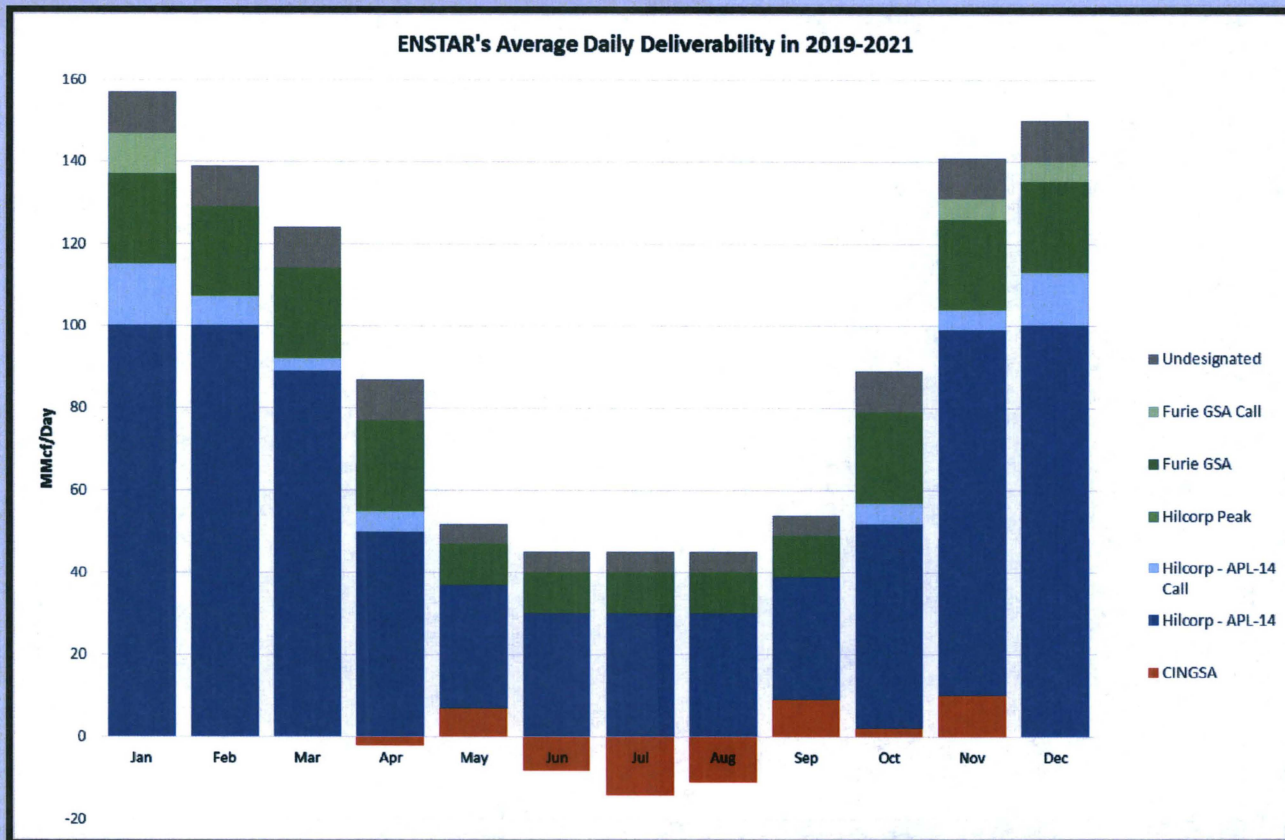
- 140,935 Customers
- Anchorage, Anchor Point, Big Lake, Girdwood, Homer, Houston, Kenai, Palmer, Soldotna, Wasilla, and Whittier
- 33 Bcf/year
- Peak deliverability 287 MMcf/day



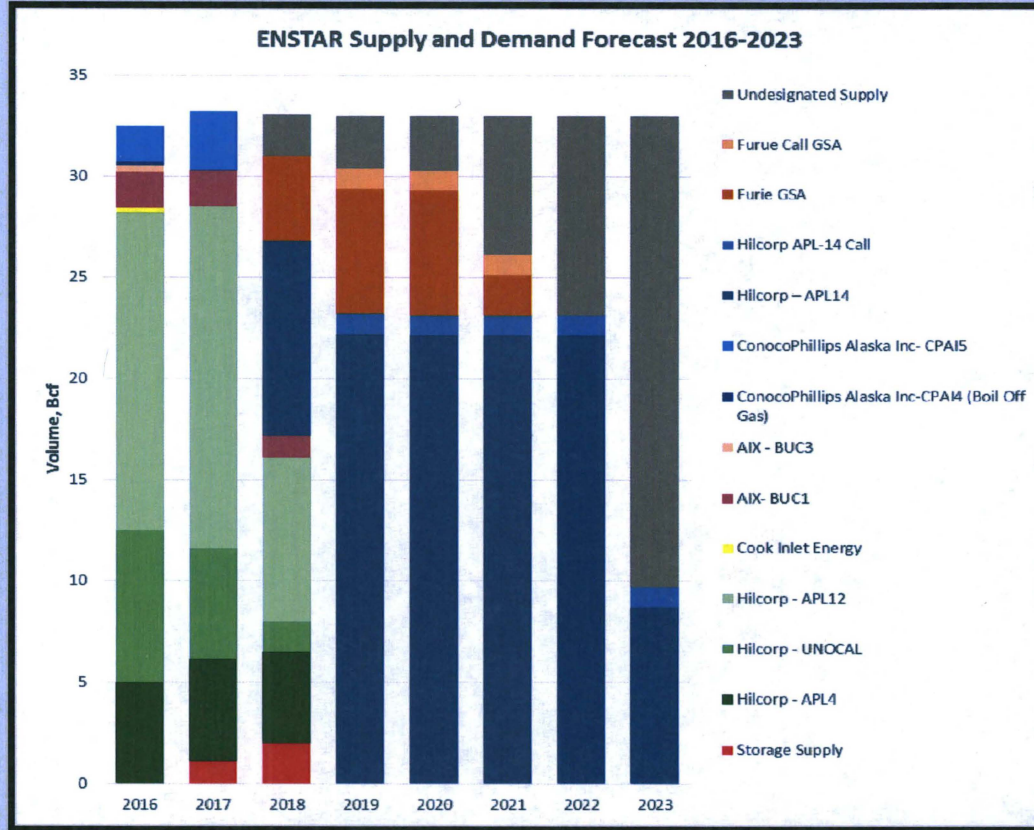
# Supply and Demand



# Seasonal Average Deliverability



# Supply Contracts 2016-23



03/02/2016

House Resources Committee

## (TA 280-4) APL-14 GSA

- APL-14 is a new agreement with Hilcorp signed on December 23 and filed February 29 with the RCA.
- Represents approximately 70% (110 Bcf) of ENSTAR's gas supply starting on April 1st 2018 - 2023.
- Approximately 22 Bcf/year.

**GAS SALE AND PURCHASE AGREEMENT**

**BETWEEN**

**HILCORP ALASKA, LLC**

**AND**

**ALASKA PIPELINE COMPANY**

**APL-14**

**Effective Date: December 23, 2015**

**Delivery Commencement Date: April 1, 2018**

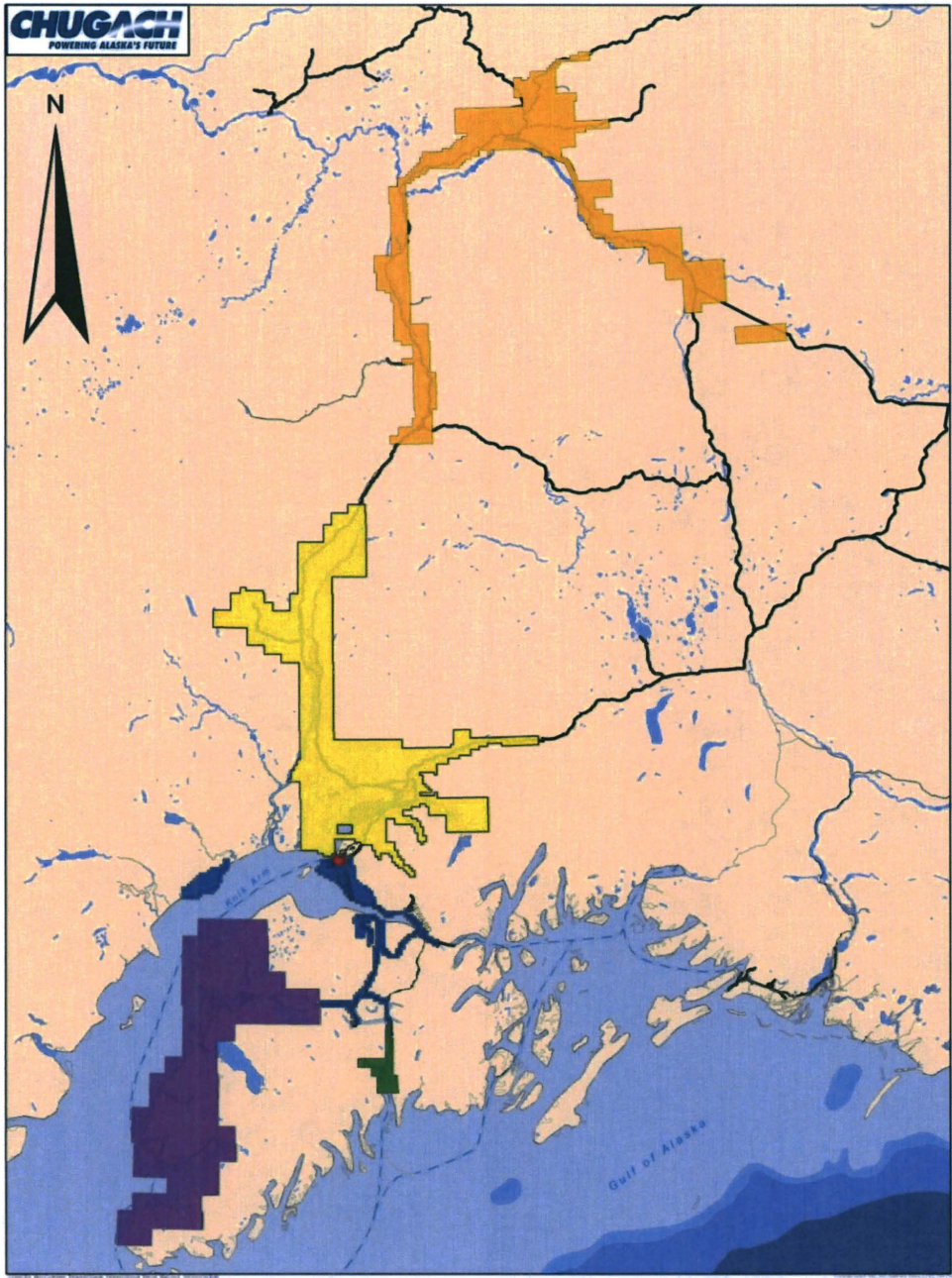
**Termination Date: March 31, 2023**

**Chugach Electric  
Association's use of  
natural gas for electric  
generation**

House  
Resources  
Committee  
March 2, 2016

# The Railbelt, electrically

- 6 electric utilities
- Each owns generation
- Natural gas is the primary generation fuel for 5 utilities, and partially for the 6<sup>th</sup>
- 100% of the gas comes from the Cook Inlet basin



# Chugach's changing gas situation

## ■ 1960s – 1980s

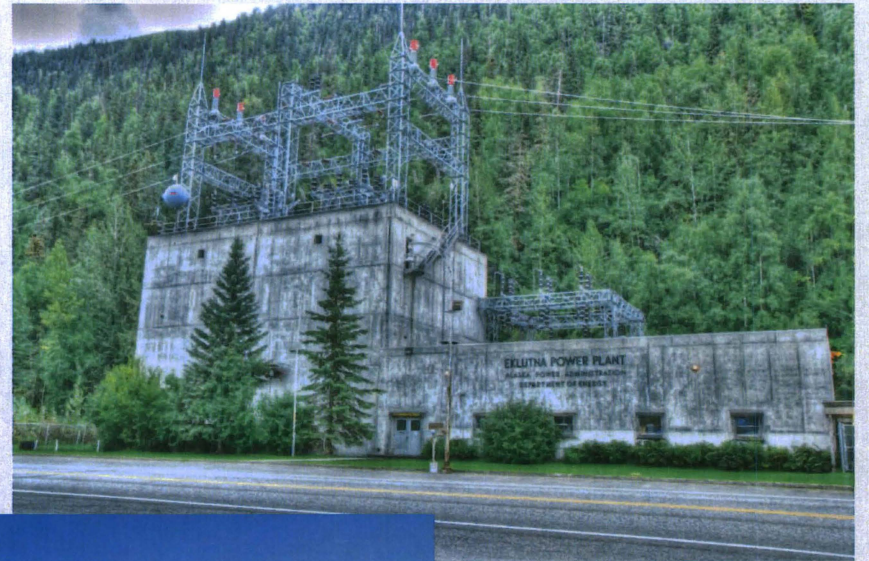
- Chugach contracts: large volumes, long-term, inexpensive gas, 3 producers, full service, met the needs of multiple utilities

## ■ 1980s – 2010s

- Chugach contracts: large volumes, long-term contracts, reasonable prices, 4 producers, full service, met the needs of multiple utilities

## ■ 2010s – 2020s

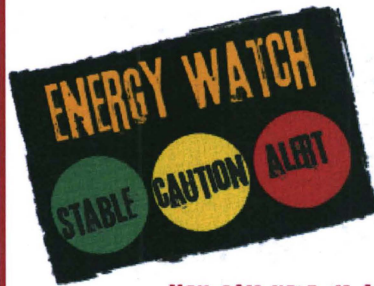
- Chugach contracts: smaller volumes, shorter duration, limited service, tight scheduling requirements, multiple producers, meet the needs of Chugach retail members & the Seward Electric System



# Natural gas as a generation fuel

- **~85% of Southcentral generation is dependent upon natural gas**
- **Uncertainty about supply or deliverability creates concern**

# What does uncertainly look like?



Organizations throughout the Railbelt are making plans to deal with a potential natural gas shortfall this winter. While it's not considered likely, all agree that it is important to be prepared. Nobody wants to be caught unprepared on a cold, dark winter evening. That's why the electric utilities in the Railbelt, ENSTAR, the Municipality of Anchorage, and the Kenai Peninsula and Mat-Su boroughs have been working together on a collective approach to the situation.

## YOU CAN HELP IN A NATURAL GAS EMERGENCY. HERE'S HOW.

If a gas delivery problem develops, emergency managers might issue an alert using this Energy Watch chart.

Energy Disruption Customer Action Plan		
CONDITION	MEANING	CUSTOMER ACTION
Green	Stable	Use energy wisely; be conservation minded Your utilities can provide tips on saving energy
Yellow	Caution	Set thermostat to 65 degrees in living areas, and 40 in the garage Lower water heater setting to "warm" or "vacation" Minimize usage of natural gas range Postpone doing laundry and dishes Turn off unnecessary lights and electronics
Red	Alert	Set thermostat at 60 degrees in living areas (55 if away) Turn water heater gas valve to "pilot" Do not use natural gas fireplaces, decorative heaters or gas grills Consolidate household activities into as few rooms as possible

**EVERY LITTLE BIT COUNTS.  
TOGETHER WE CAN MAKE A DIFFERENCE.**

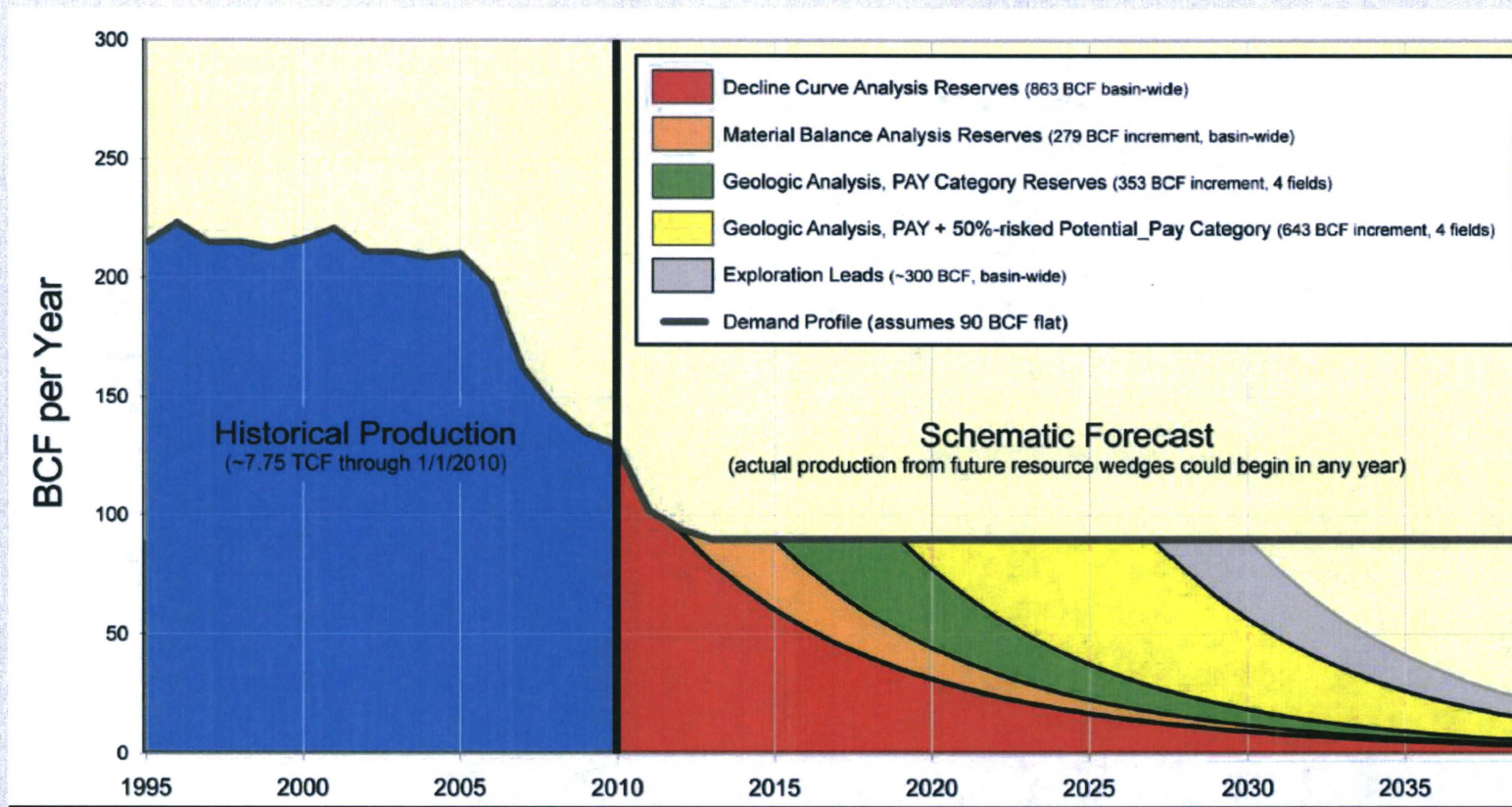


positiveENERGY

## 2 key terms

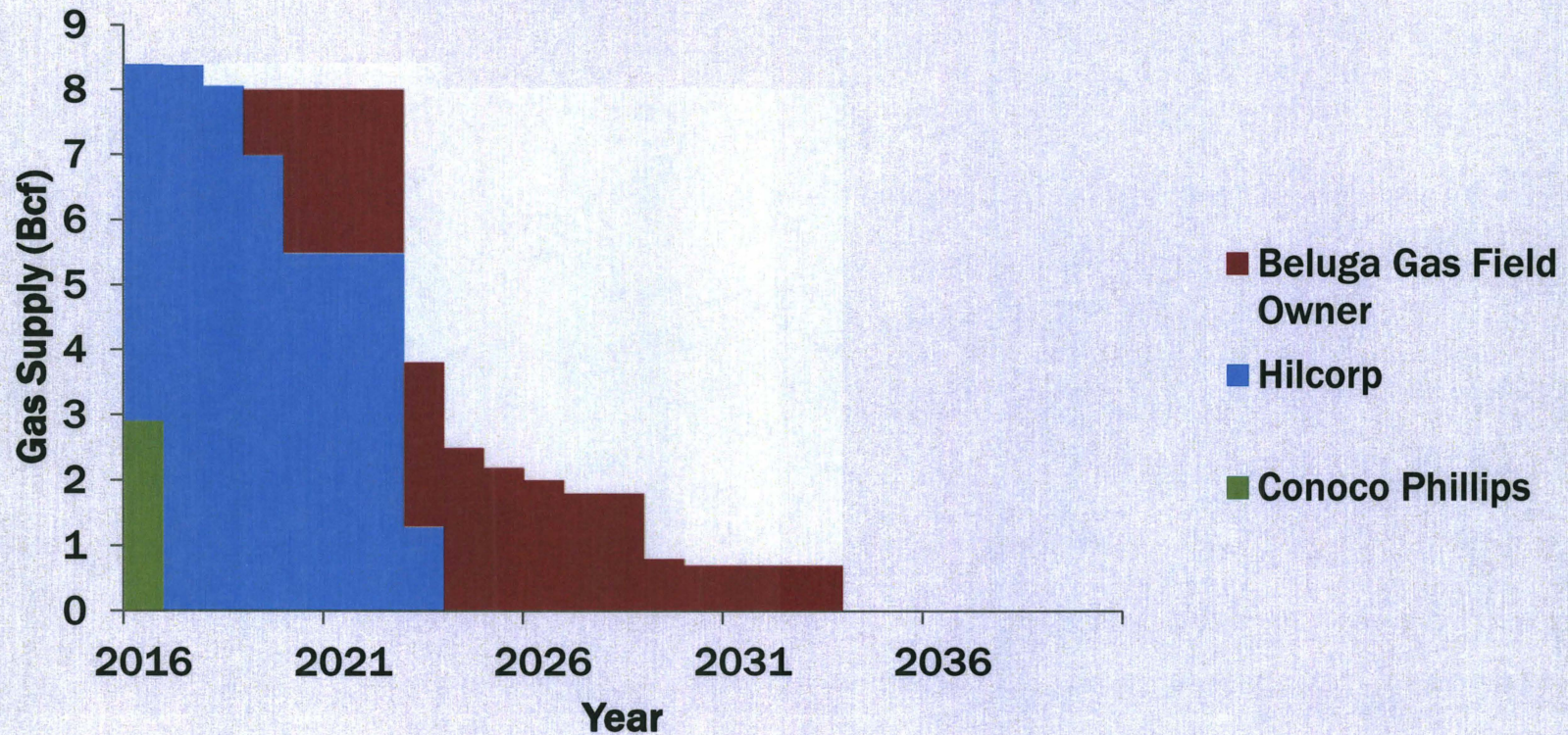
- **Volume**
- **Deliverability**

# Cook Inlet Gas Supply

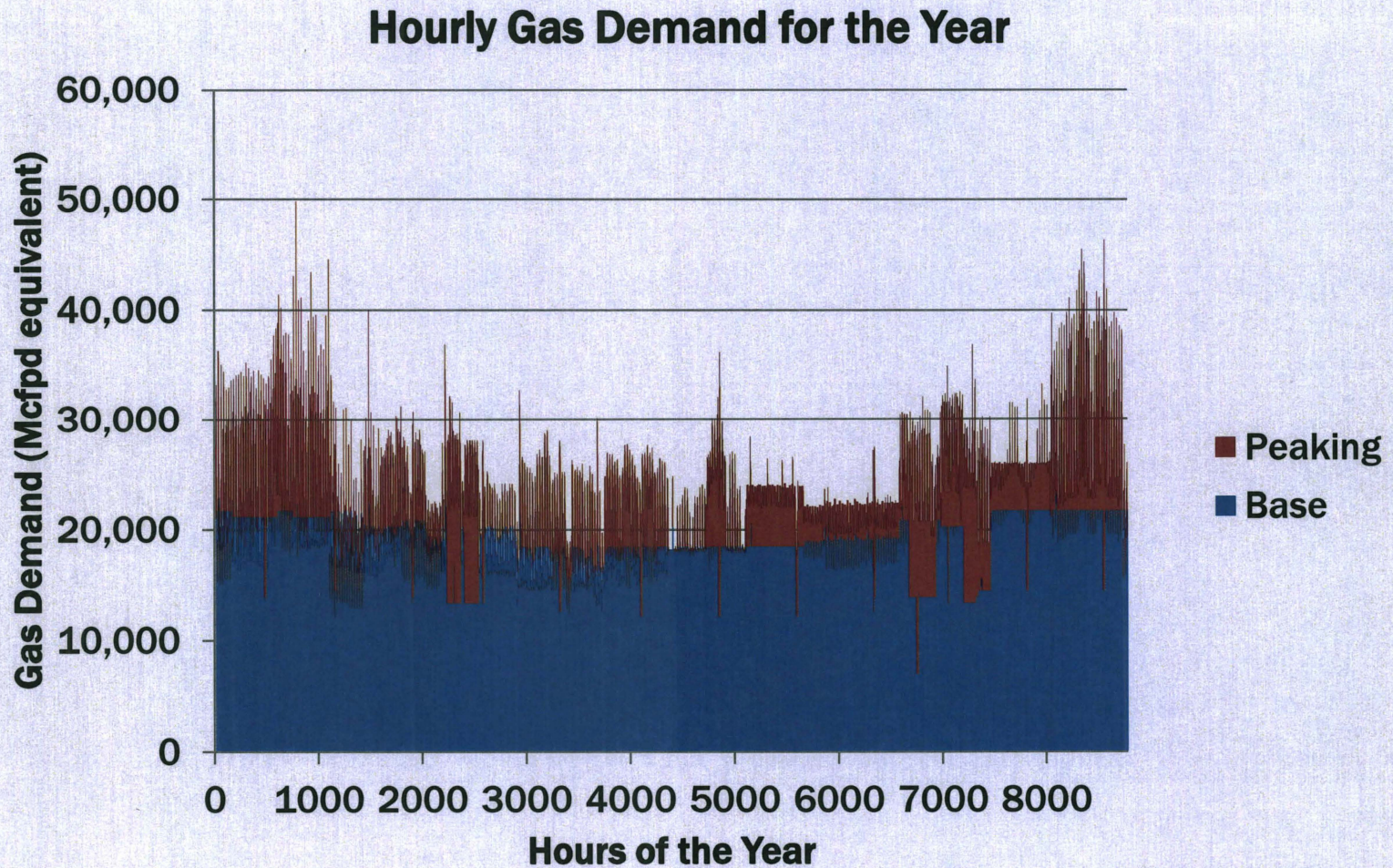


# Chugach Electric's Gas Supply

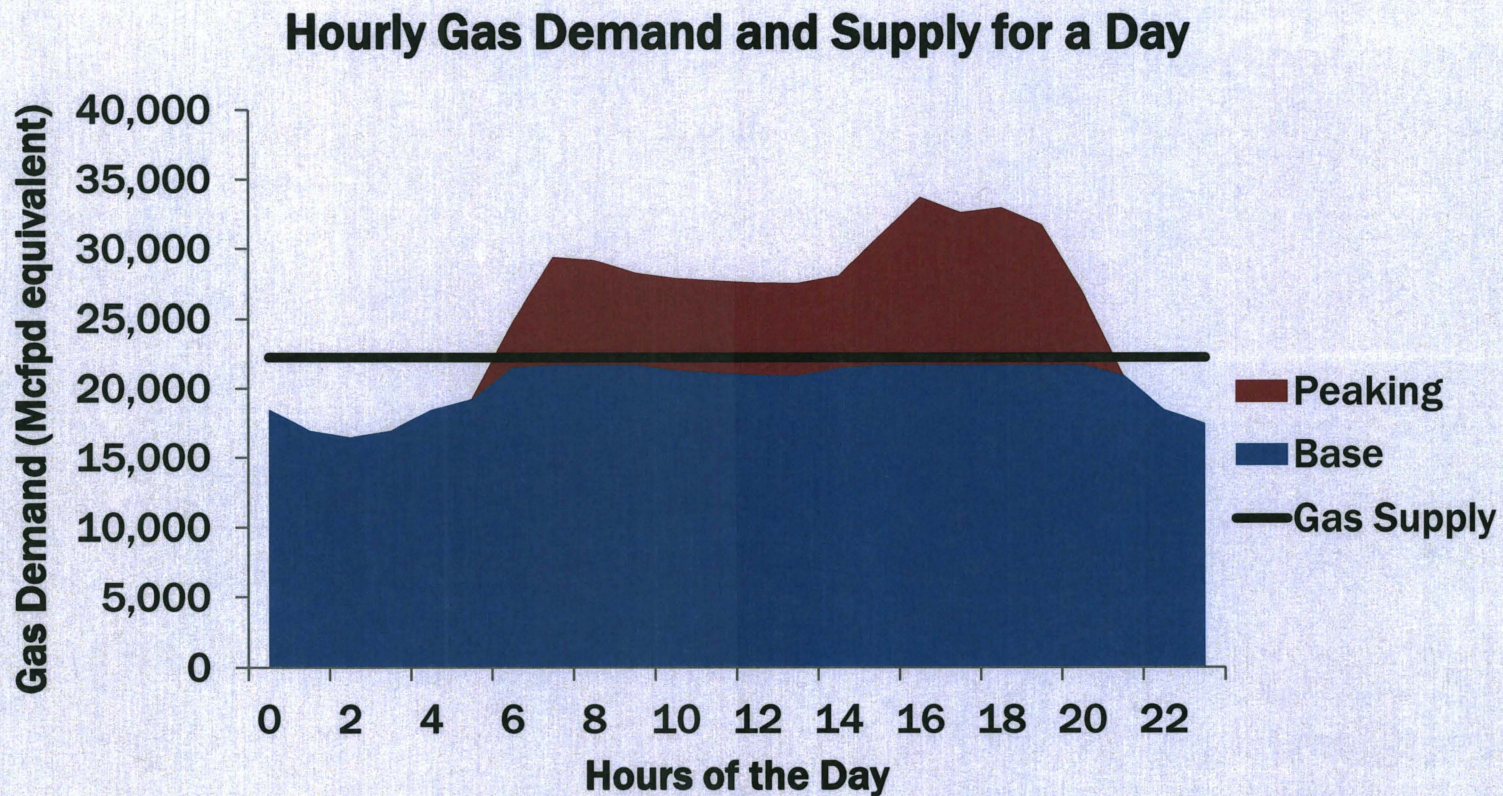
## Gas Supply by Contract and Ownership



# Chugach Electric's Gas Supply



# Gas Storage Meets Peak Gas Demand



# Conclusion

- Chugach's gas needs are fully met for the next 7 years.
- Lead time to develop the gas supply and deliverability is 5 to 8 years.
- DNR September 2015 report indicated Cook Inlet gas reserves are:
  - 700 Bcf proven (10 years)
  - 500 Bcf probable (5 years)
- Need to drill for this gas.



# FRONTIER BASINS TAX CREDITS

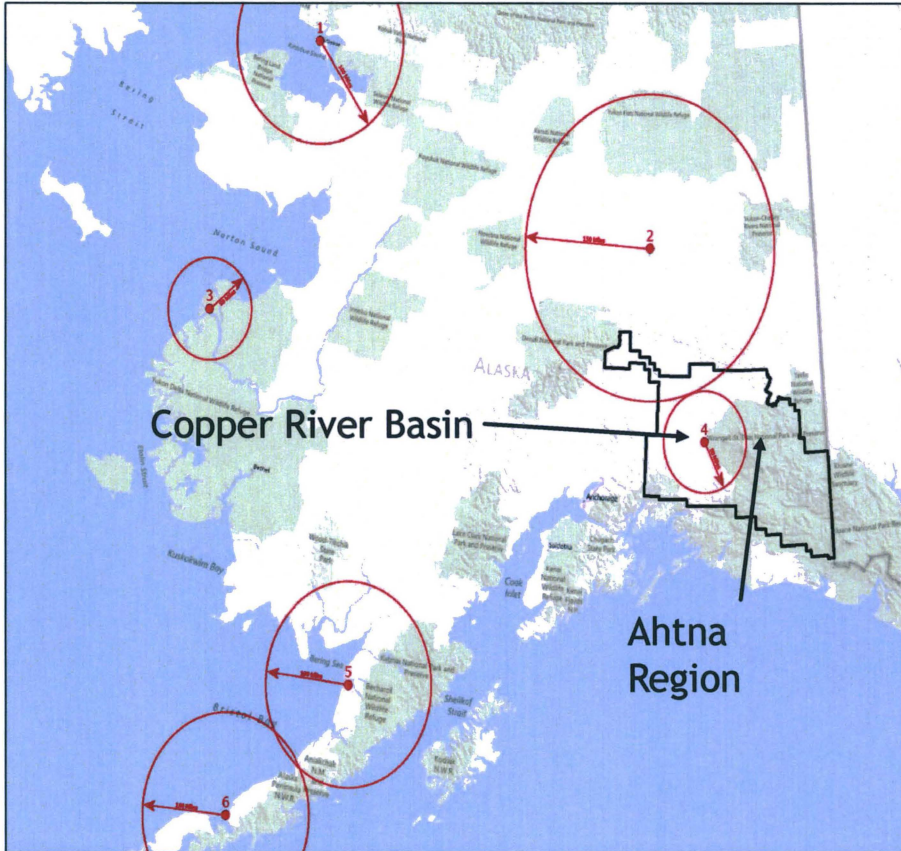
Presented to the Alaska House of Representatives  
Resource Committee

March 2, 2016

1

*Ahtna*

# FRONTIER BASINS EXPERIENCE



AS.43.55.025(a)(6) & (7) originally created in 2012 under HB 276 and merged with SB23

Intent of Legislature - incentivize oil and gas exploration in under explored Basins

Reduce the risk of development of local rural energy to Alaskans

Create local energy source for rural residents

Reduce or eliminate the Power Cost Equalization (PCE) subsidies

## FRONTIER BASIN TAX CREDITS

- ▶ **AS 43.55.025(a)(6)** – The first two exploration wells drilled inside each of the six Frontier Basins receives 80% credit or up to \$25M of qualified expenditures
- ▶ **AS 43.55.025(a)(7)** – The first seismic project performed inside each of the six Frontier Basins receives 75% credit up to \$7.5M of qualified expenditures
- ▶ **Ahtna would not consider any exploration activities without tax credits**

The Ahtna logo is located in the bottom right corner of the slide. It features the word "Ahtna" in a white, cursive script font, set against a dark blue background that is part of a larger abstract geometric design consisting of overlapping triangles and lines.

# SPECIFIC FRONTIER BASIN REGULATIONS

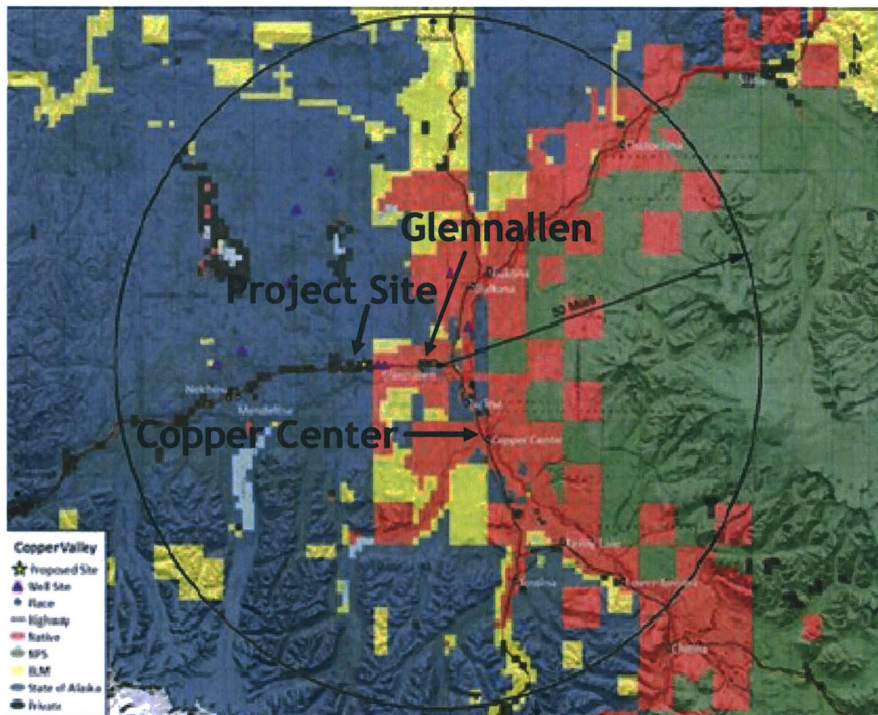
- ▶ **ADNR-DOG pre-qualification approval for seismic and well**
- ▶ **Various well depth and set back from previous wells**
- ▶ **Submission of all data to ADNR prior to credit award**
- ▶ **Public data disclosure of all data after 2 years**
- ▶ **Must provide energy source for rural energy needs!**
- ▶ **The AS.43.55.025(a)(6) & (7) tax credits are not eligible for stacking**

*Ahtna*

# EXPLORATION PROGRAM HISTORY

- ▶ **April 2012** Ahtna applies for SOA Exploration License
- ▶ **May 2012** Legislature approves SB 23
- ▶ **December 2013** Ahtna receives Tolsona Exploration License
- ▶ **June 2014** receive ADNR Commissioner pre-qualification approval for seismic
- ▶ **December 2014** completes 40-miles of 2D seismic over exploration area
- ▶ **April 2015** completed reprocessing of seismic data identifying 12-sq. mile potential oil and gas trap
- ▶ **May 2015** submit seismic data to ADNR-DOG
- ▶ **September 2015** receive ADNR Commissioner pre-qualification approval of new well
- ▶ **February 2016** – majority of permits approved
- ▶ **March 2016** final stages of new well engineering and design

# COPPER RIVER BASIN



- ✘ Proposed Tolsona well depth of 4,500' Vertical hole.
- ✘ Targeted structure is the Nelchina sandstone.
- ✘ 11 wells drilled in the basin since 1960's.
- ✘ Most recent well - drilled by Rutter in 2005-2008.
- ✘ Natural gas shows (approximately 94% methane).
- ✘ Tolsona #1 potential for a great local fuel source.

# PURPOSE AND NEED FOR GAS IN COPPER RIVER BASIN

...To conduct exploration within the license area on a single natural gas well, Tolsona #1, with the potential to develop natural gas production for distribution to local residents and electric utilities...

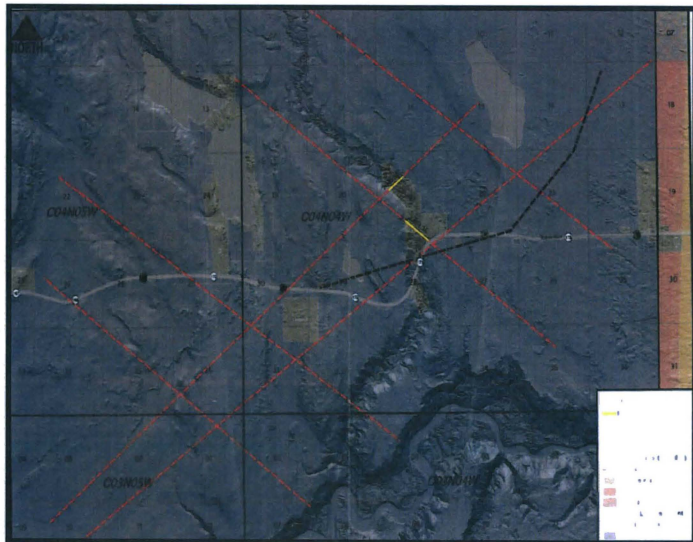
## Community and Economic Development Benefits:

- ▶ Potential Opportunities for Local Employment
- ▶ Economical Benefits, Expanding Local Business
- ▶ Lowering High Energy Cost for Our Rural Economy
- ▶ Reducing Out-migration
- ▶ Building Infrastructure in the Region

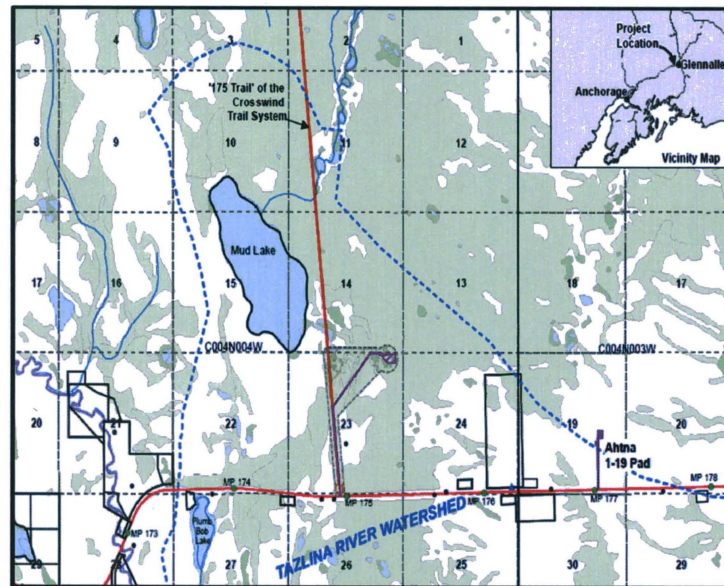
# Project Overview

## ► Seismic

- Winter 2014/15
- 40 miles of new seismic
- Majority on State Land



## ► Current Location



- Exploration site on State land.
- Royalties/production tax to the State if successful.
- Improvement to public access & recreational area.

# PROJECT TEAM

## Ahtna, Inc. (DBA Tolsona Exploration Oil and Gas, LLC)

Ahtna Construction

HXR Drilling Services

Restoration Science & Engineering

Multiple Alaskan Companies

### State, Local, Federal Agencies

ADNR            ADFG

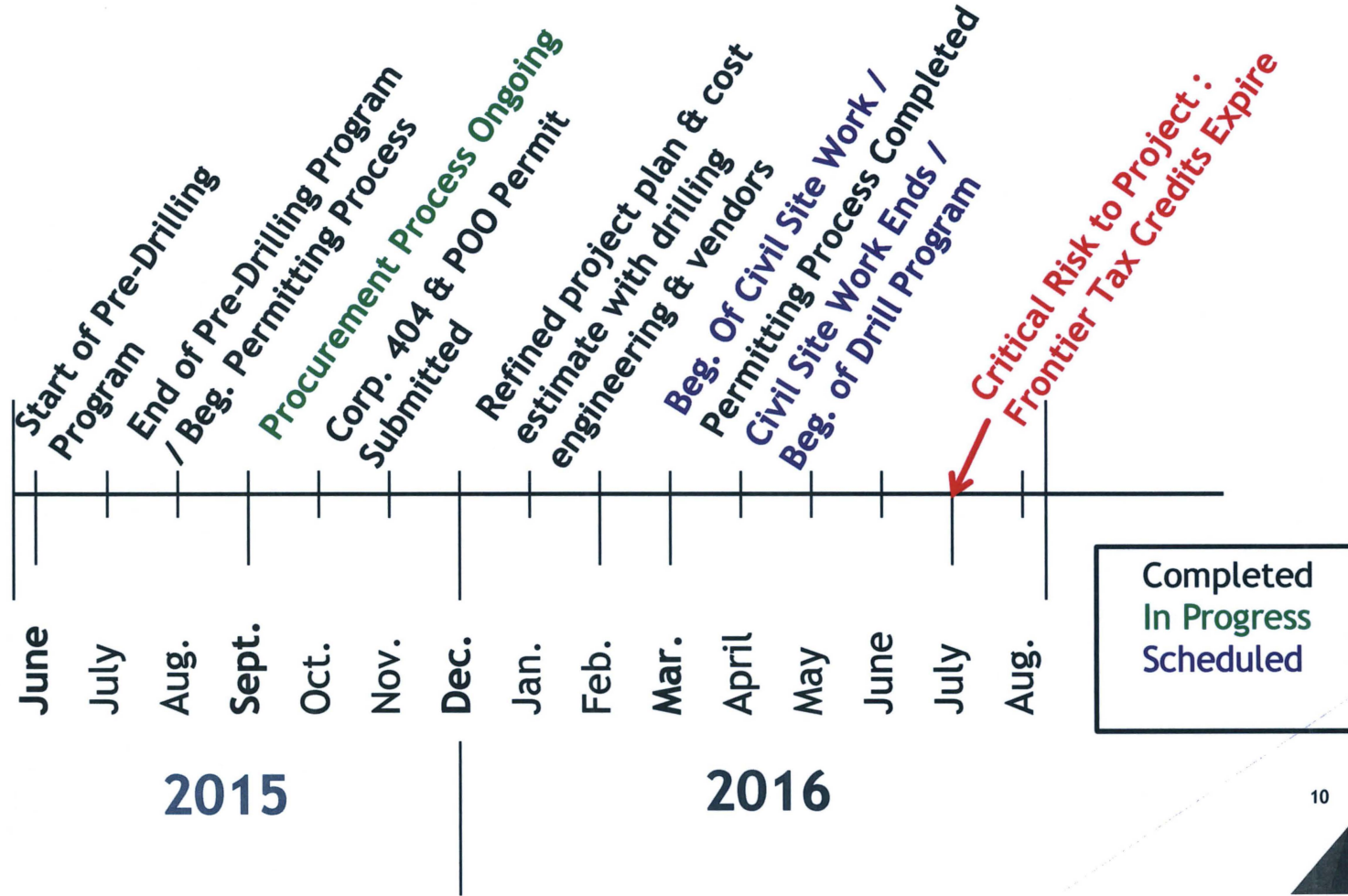
USACE          ADOT

ADEC            AOGCC

USFWS          USEPA

Tremendous agency support, as an example, DNR Division of Oil and Gas Director has visited the region and project site.

# PROJECT SCHEDULE (Very tight)!



## CONCLUSION

- ▶ **Our Request:** It is critical to our project that the Frontier Basin AS 43.55.025(a)(6) & (7) credits are extended from June 30<sup>th</sup> 2016 to a future date, we recommend 2022 to coincide with other credit expiration dates.
  - ▶ This will greatly help the Tolsona Project that is under way with a committed investment and a very tight schedule.
- ▶ Ahtna also supports the AS 43.55.023 and 025(a)(1-4) Middle Earth tax credits to be kept in place, as an incentive to the Frontier Basin exploration and development efforts by explorers who have taken the risk and committed investment based on these incentives.

## THANK YOU TO OUR GOOD PARTNERS

- ▶ We would like to thank the members of this committee for the opportunity to share our experience. We would also like to thank the Alaska Legislature, Governor, Staff and the citizens of the State of Alaska for your support for developing an affordable energy source in our region.



## Contact Information

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# Questions?