SCOMM

128:2

PHILLIPS Alaska, Inc.
A Subsidiary of PHILLIPS PETROLEUM COMPANY

SEVEN SNAPSHOTS OF OIL AND GAS IN ALASKA

presented to the

House Special Committee on Oil and Gas

by the

Alaska Oil & Gas Association

Snapshot #5

Permitting Requirements: Agency and Public Oversight

Randal G. Buckendorf

Counsel, Phillips Alaska, Inc.

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BASIC STRUCTURE

- Complex system of interconnected jurisdiction
  - Federal
  - State
  - Local
- Overlapping requirements between agencies
- Multiple agencies for each substantive permit
- Complicated procedural requirements
  - NEPA
  - CZMA

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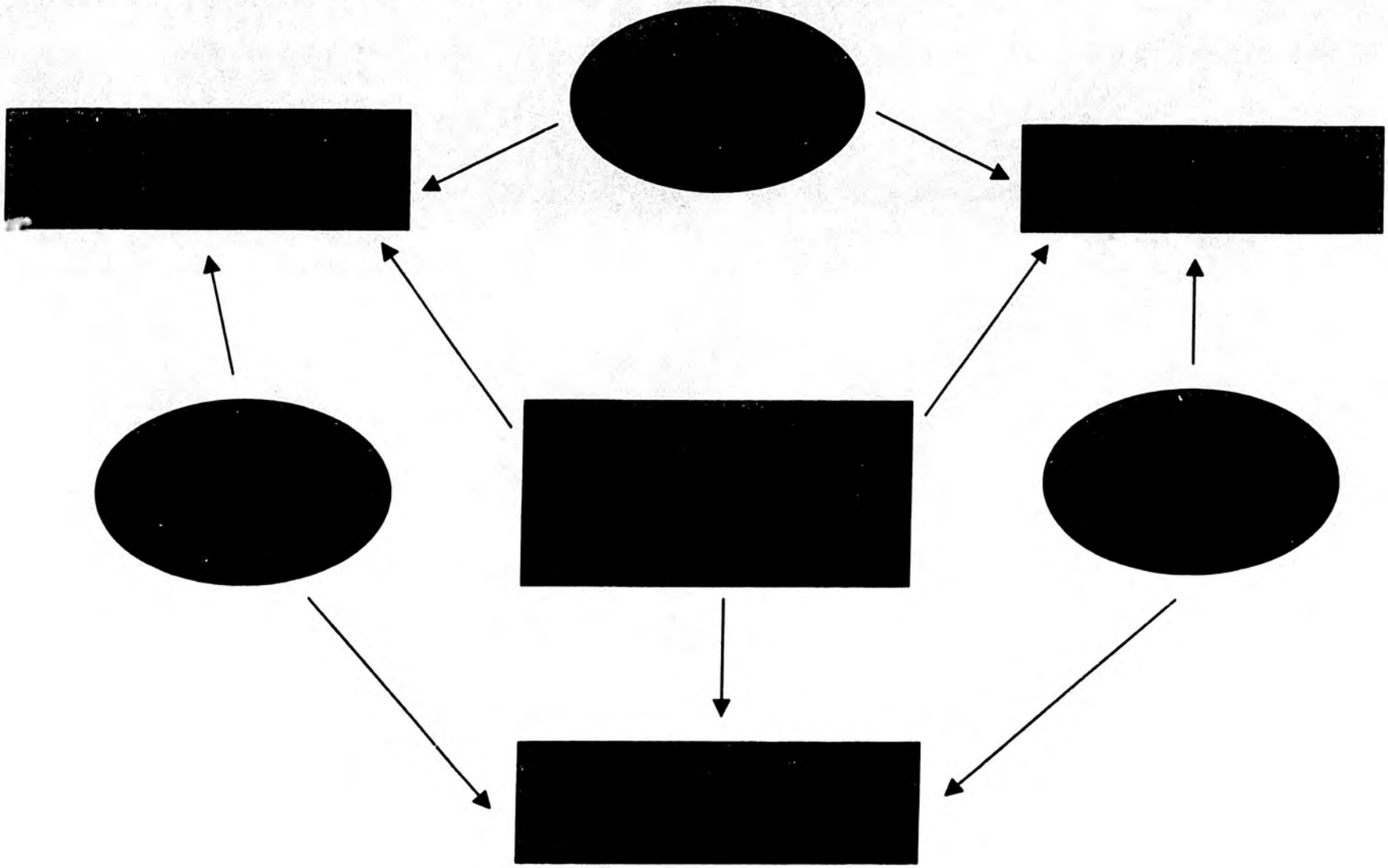

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SUBSTANTIVE PERMITS

AIR → EPA and ADEC

WATER → EPA, COE, ADEC, DNR, ADF&G, and AOGCC

- Surface discharge
- Underground discharge
- Use
- Placement of gravel

WASTE → EPA, ADEC, and AOGCC

- Site cleanup
- Underground discharge
- Spill reporting
- Hazardous wastes

WILDLIFE → COE, USFW, ADF&G, and NMFS

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PROCEDURAL

FEDERAL → NEPA

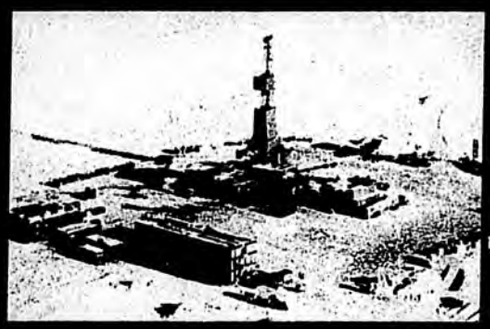
- Environmental Assessment
- Environmental Impact Statement

STATE/FEDERAL → CZMA

- ADGC

Minimal Impact Development

NORTH SLOPE DRILLING & CONSTRUCTION ACTIVITY



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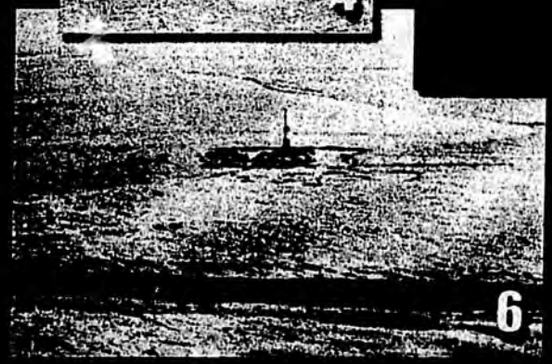
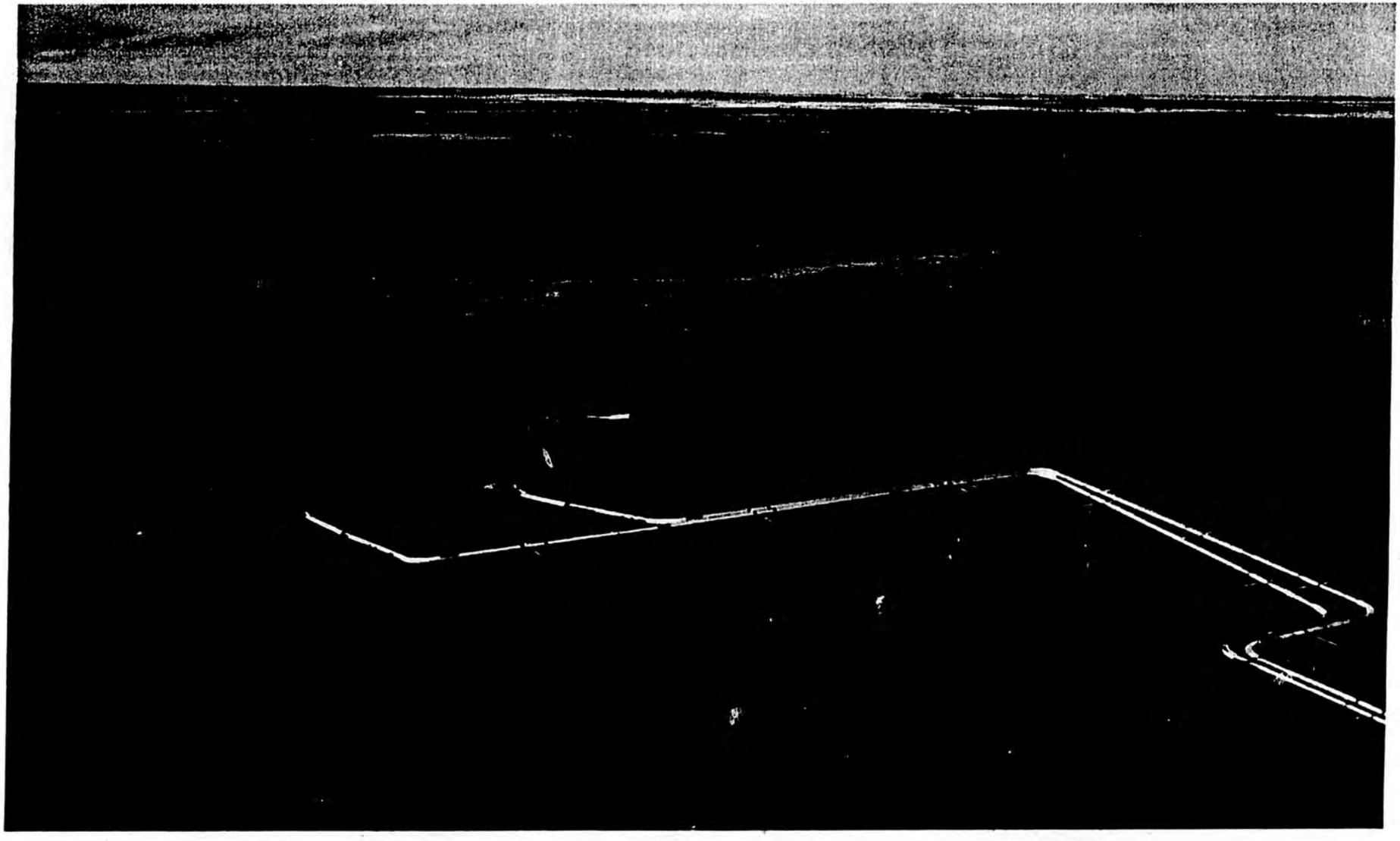
5



PHILLIPS 66

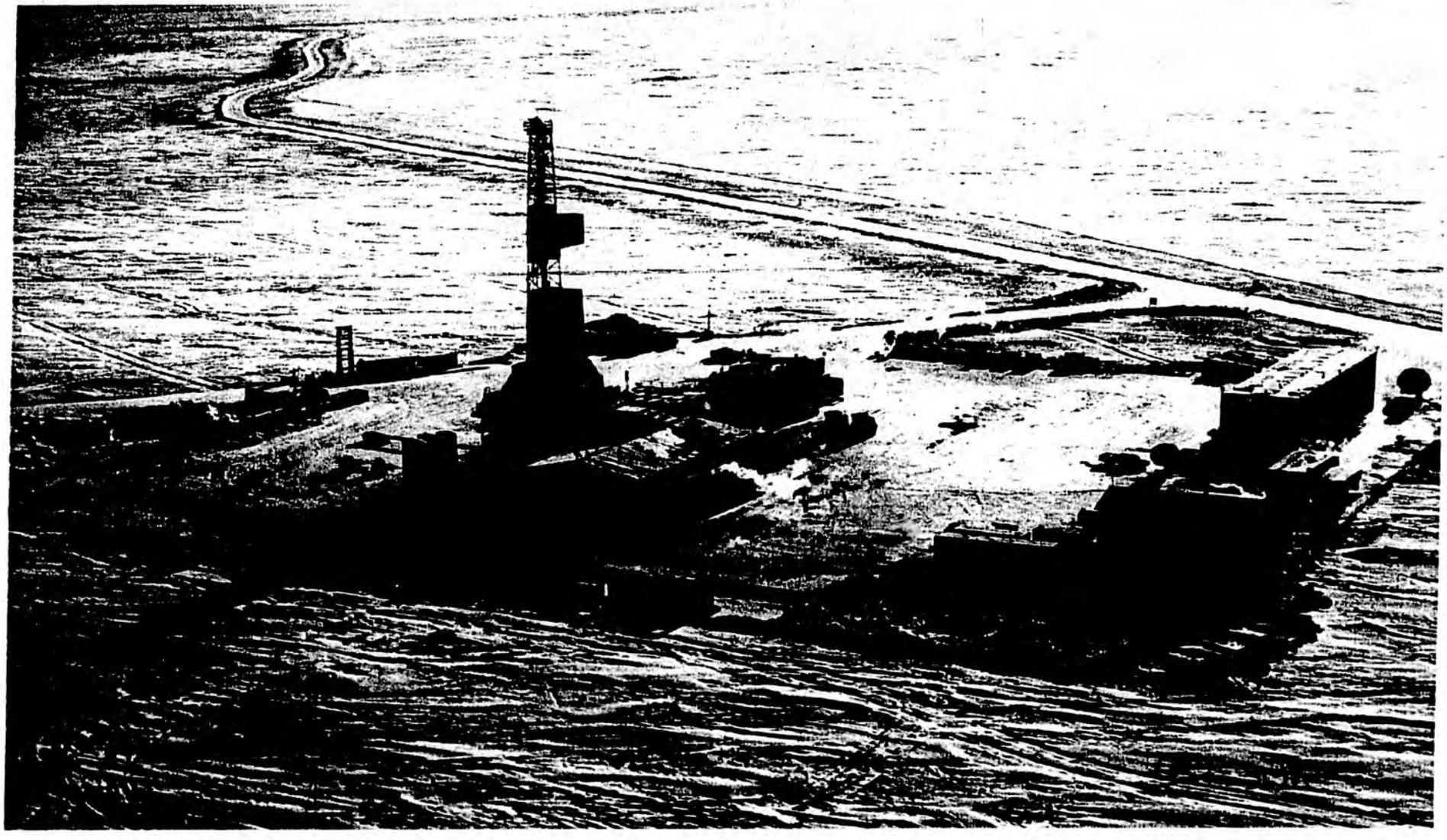
Colville River Crossing

ALPINE



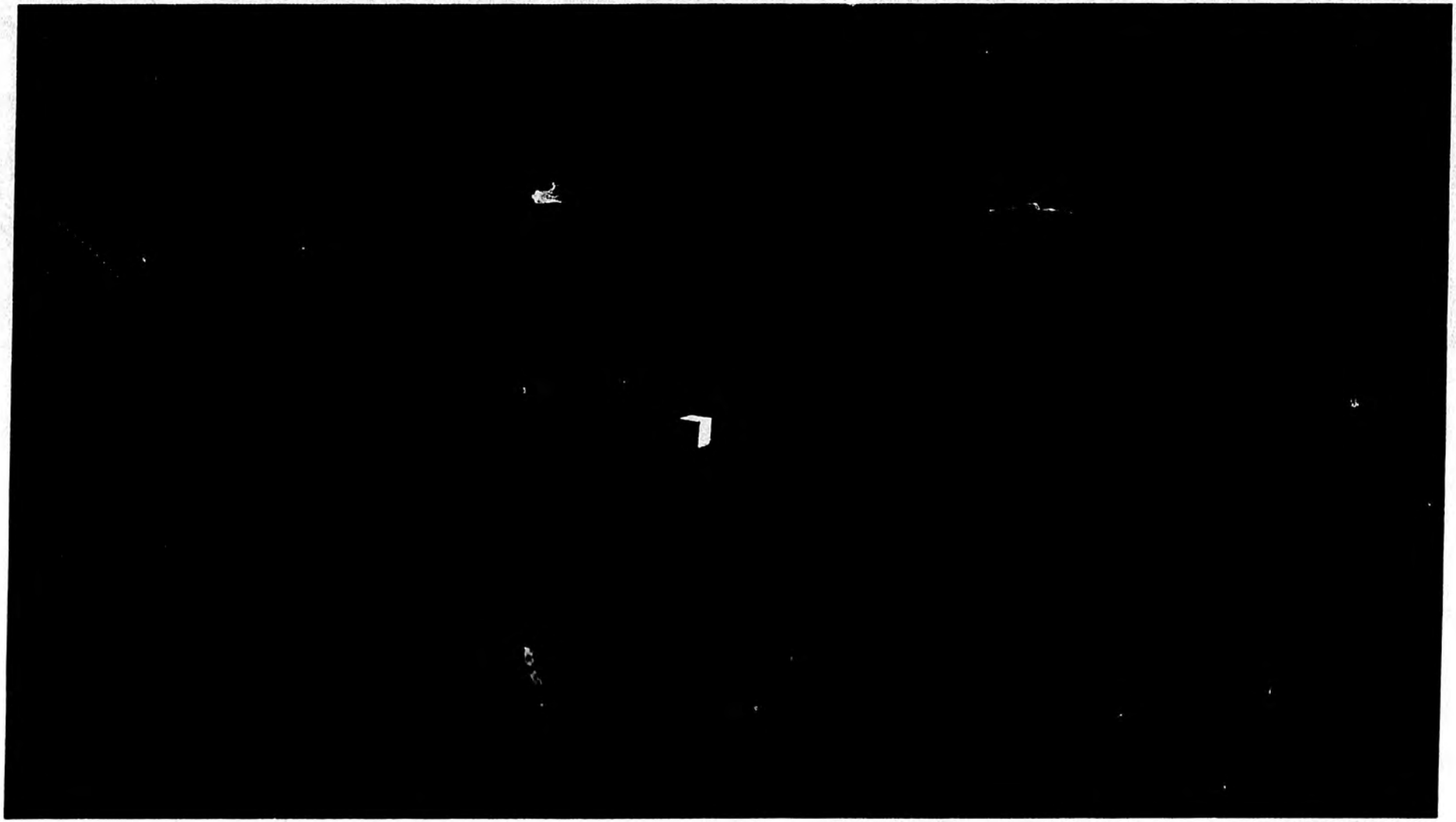
Winter Exploration

ALPINE



Well Location - Summer

ALPINE



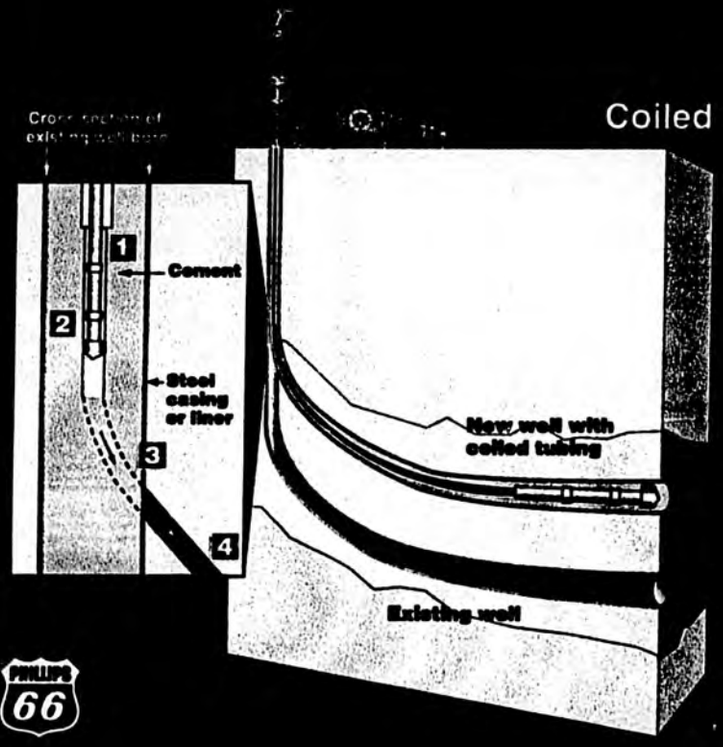
Technology

- Coiled Tubing Drilling
- Directional Drilling
- Colville River Bored Crossing

Directional Drilling

River Crossing

Coiled Tubing Drilling



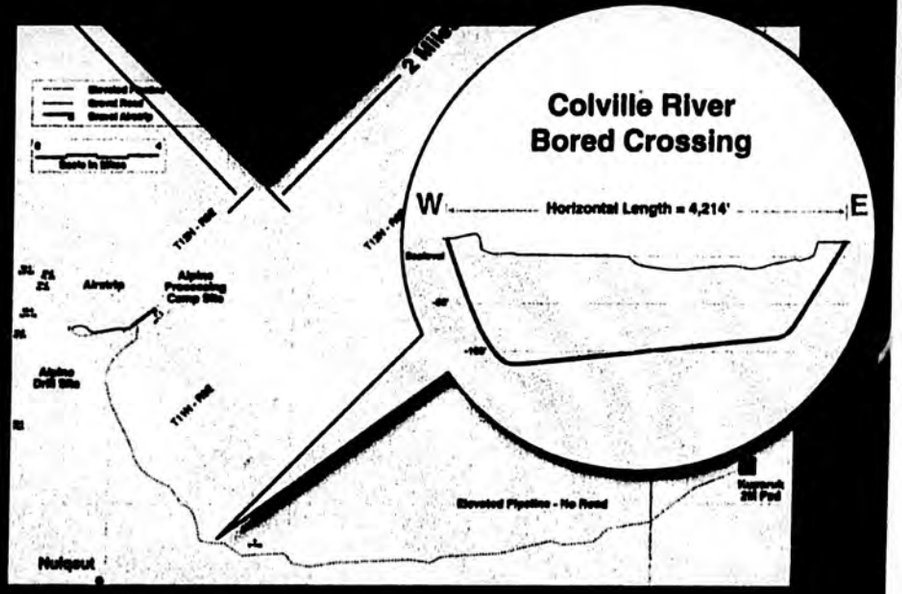
What happens downhole

1

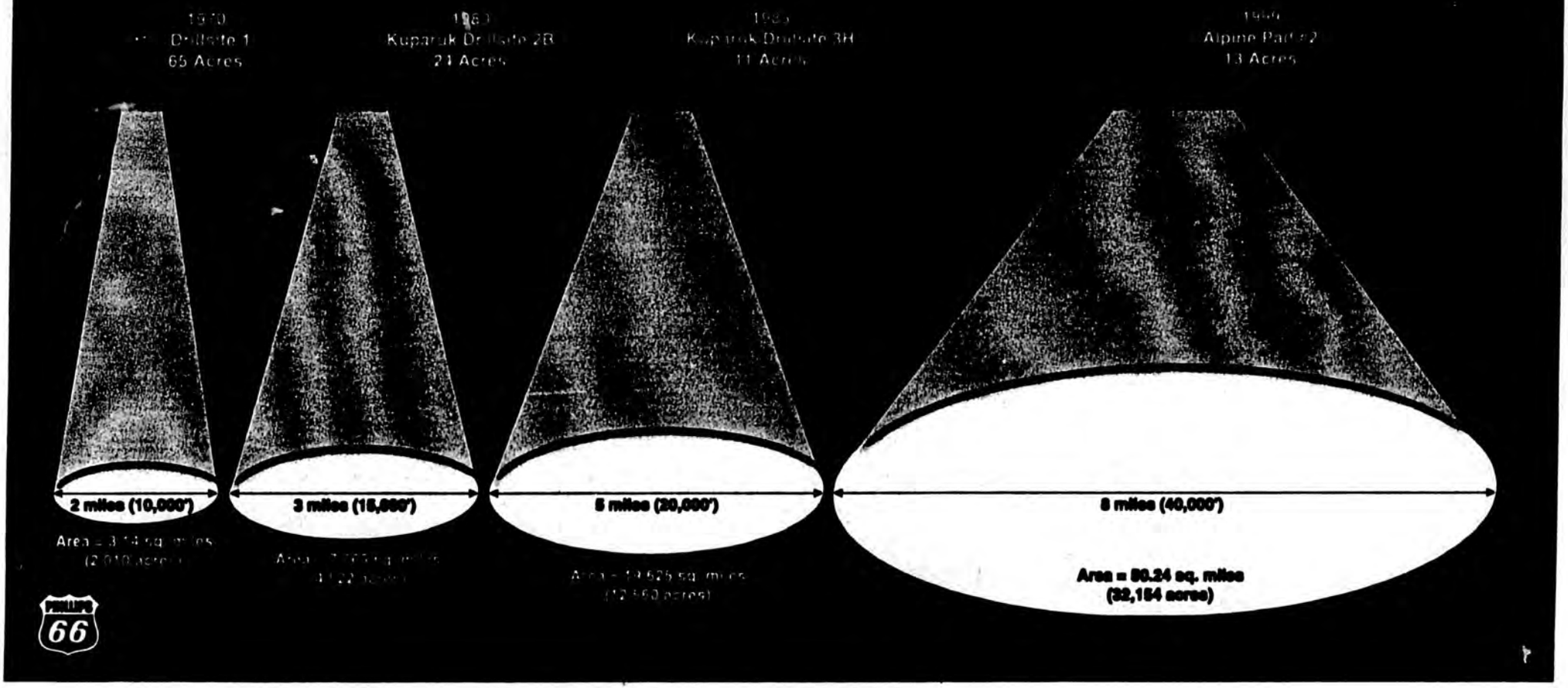
2

3

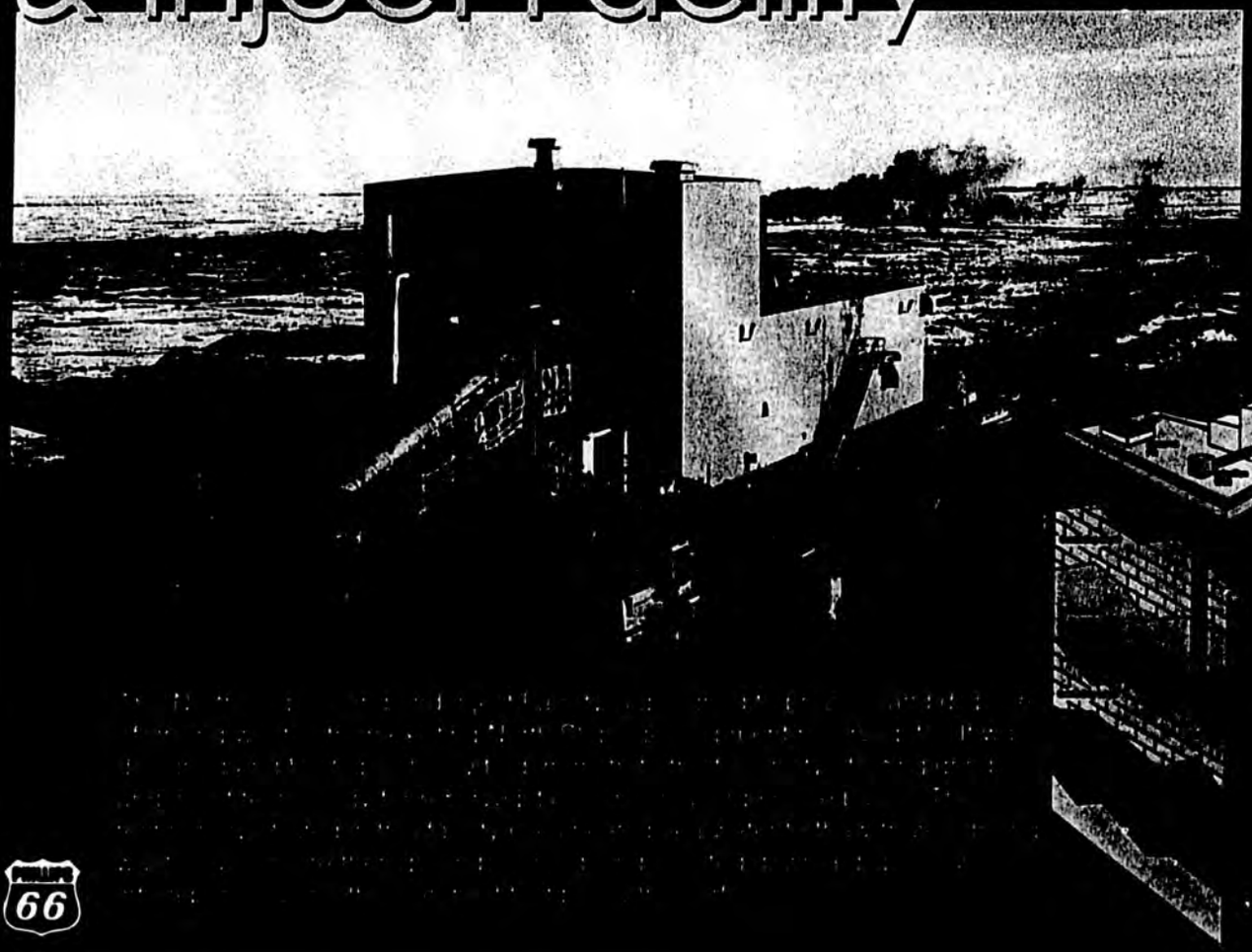
4

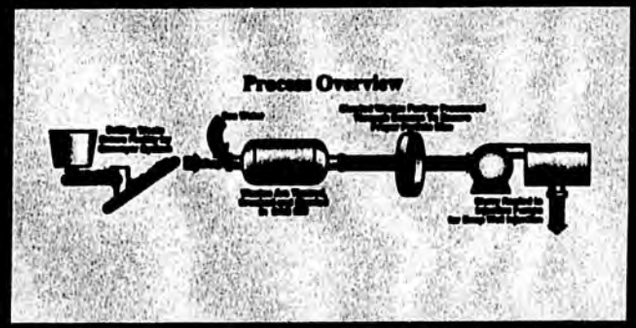


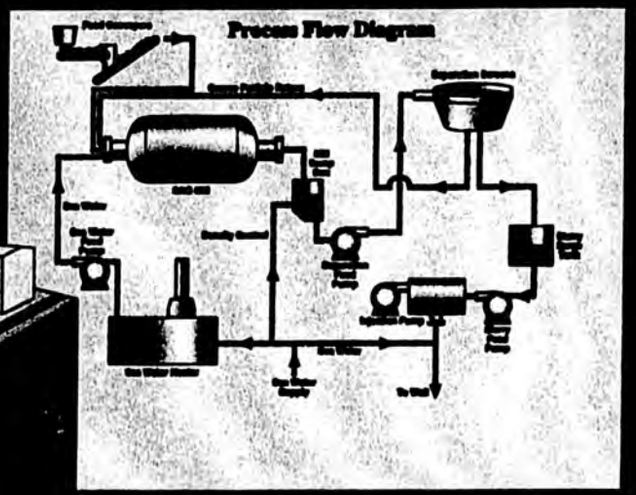
Pad Size and Corresponding Subsurface Drillable Acres



North Slope Grind & Inject Facility

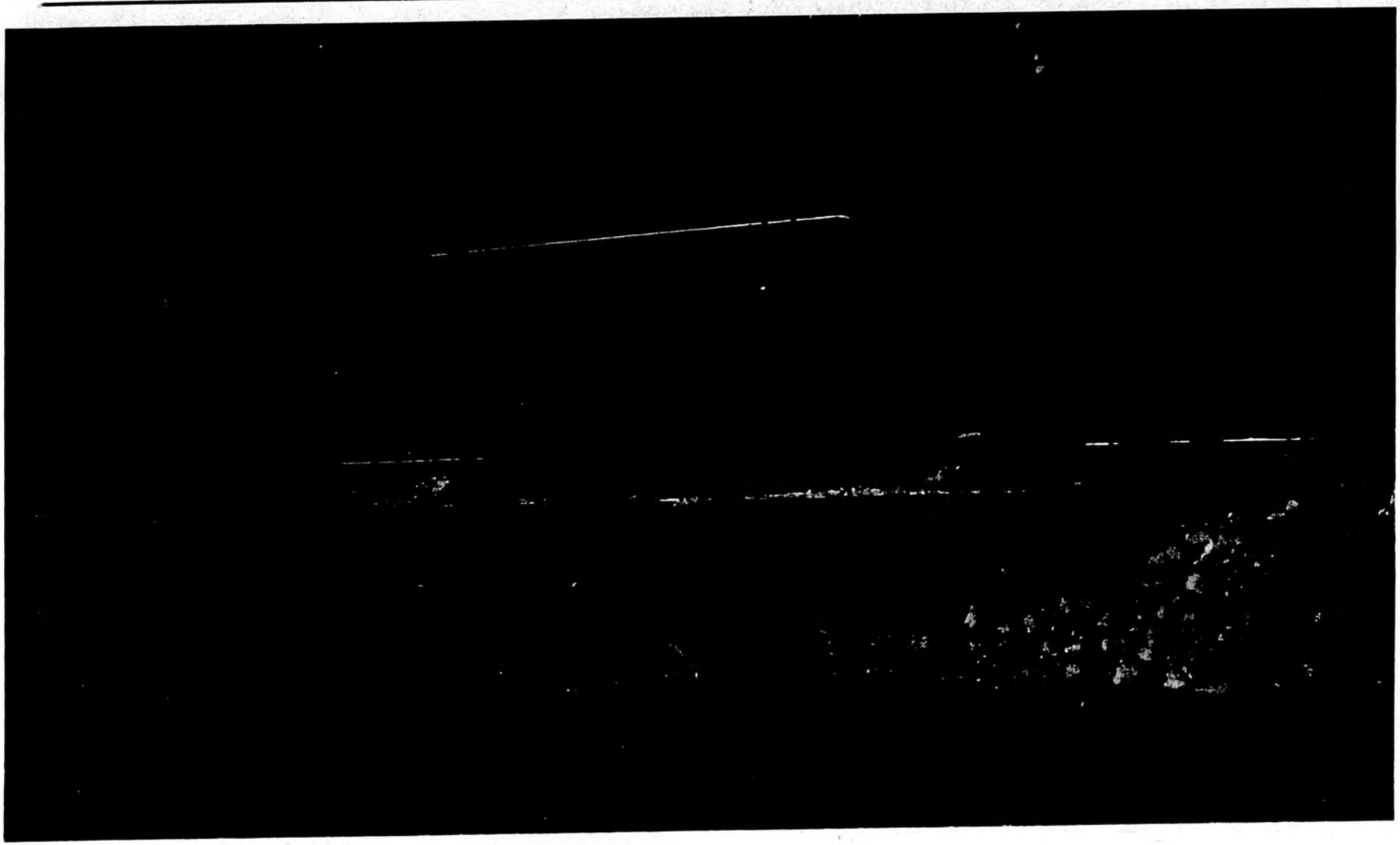




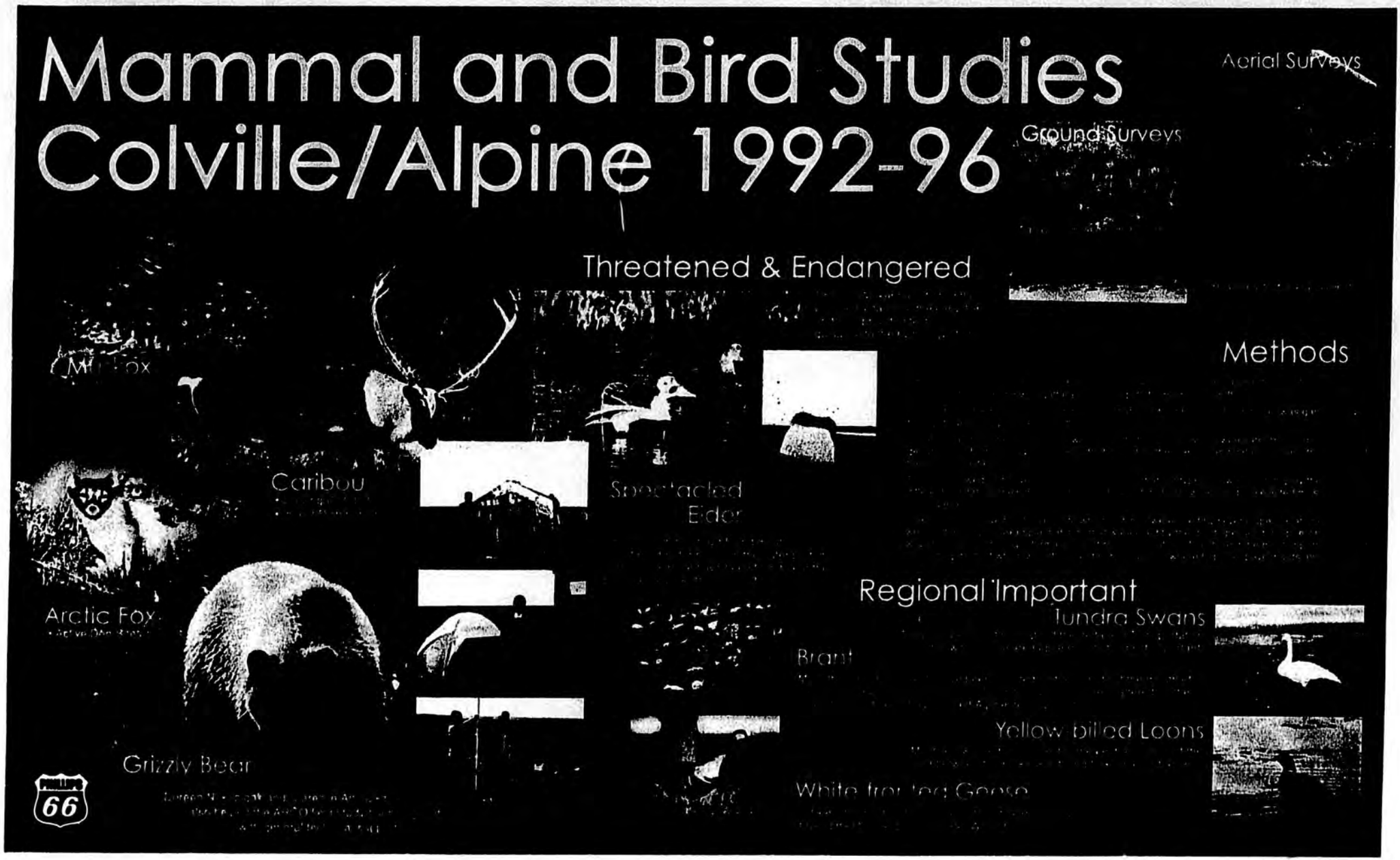


Pipeline Vertical Loop

ALPINE



Mammal and Bird Studies Colville/Alpine 1992-96



Satellite Habitat Mapping

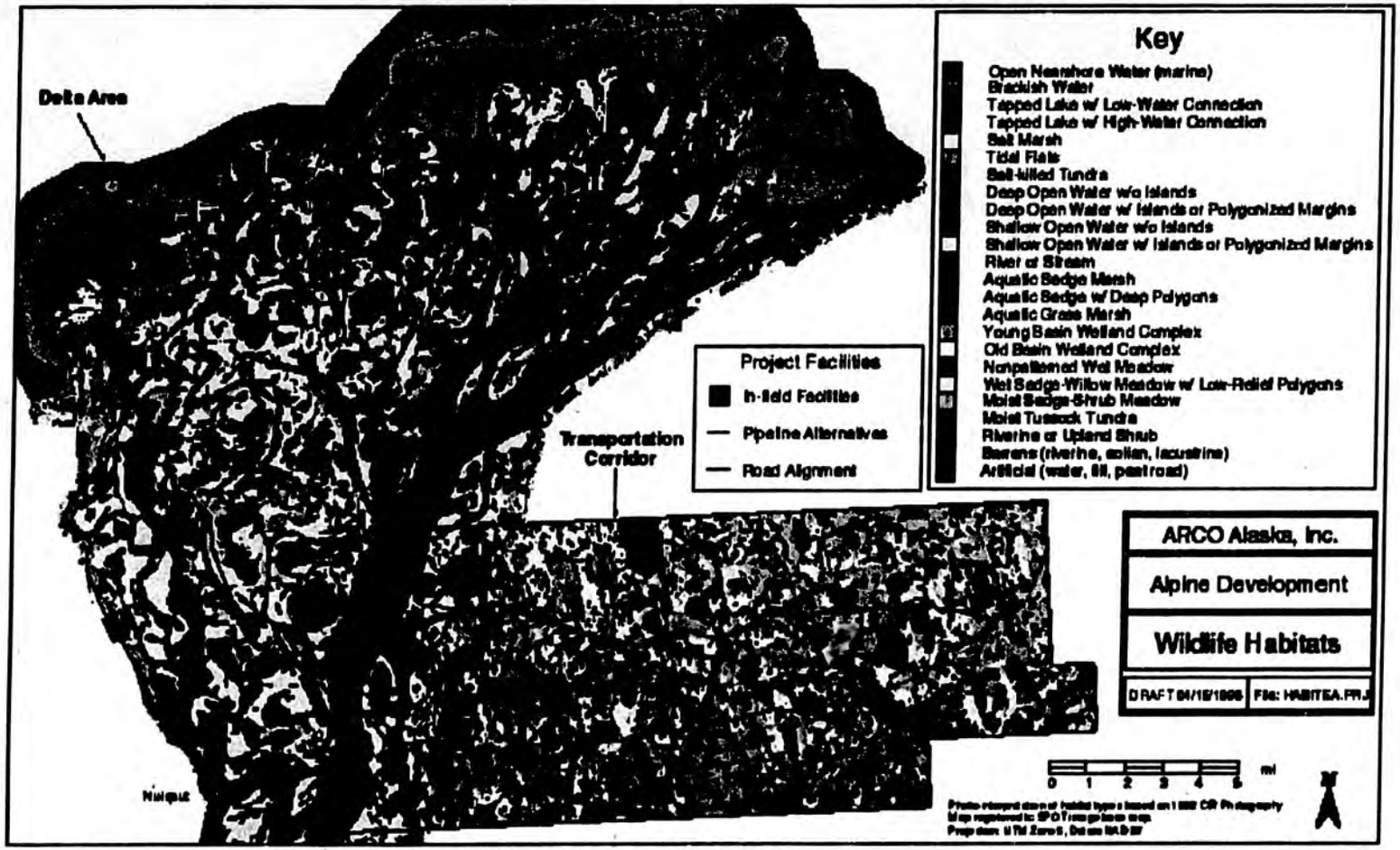


Figure 4.4.1-1. Wildlife habitat map of the Colville River Delta and transportation corridor for the proposed Alpine Development.

FLIR

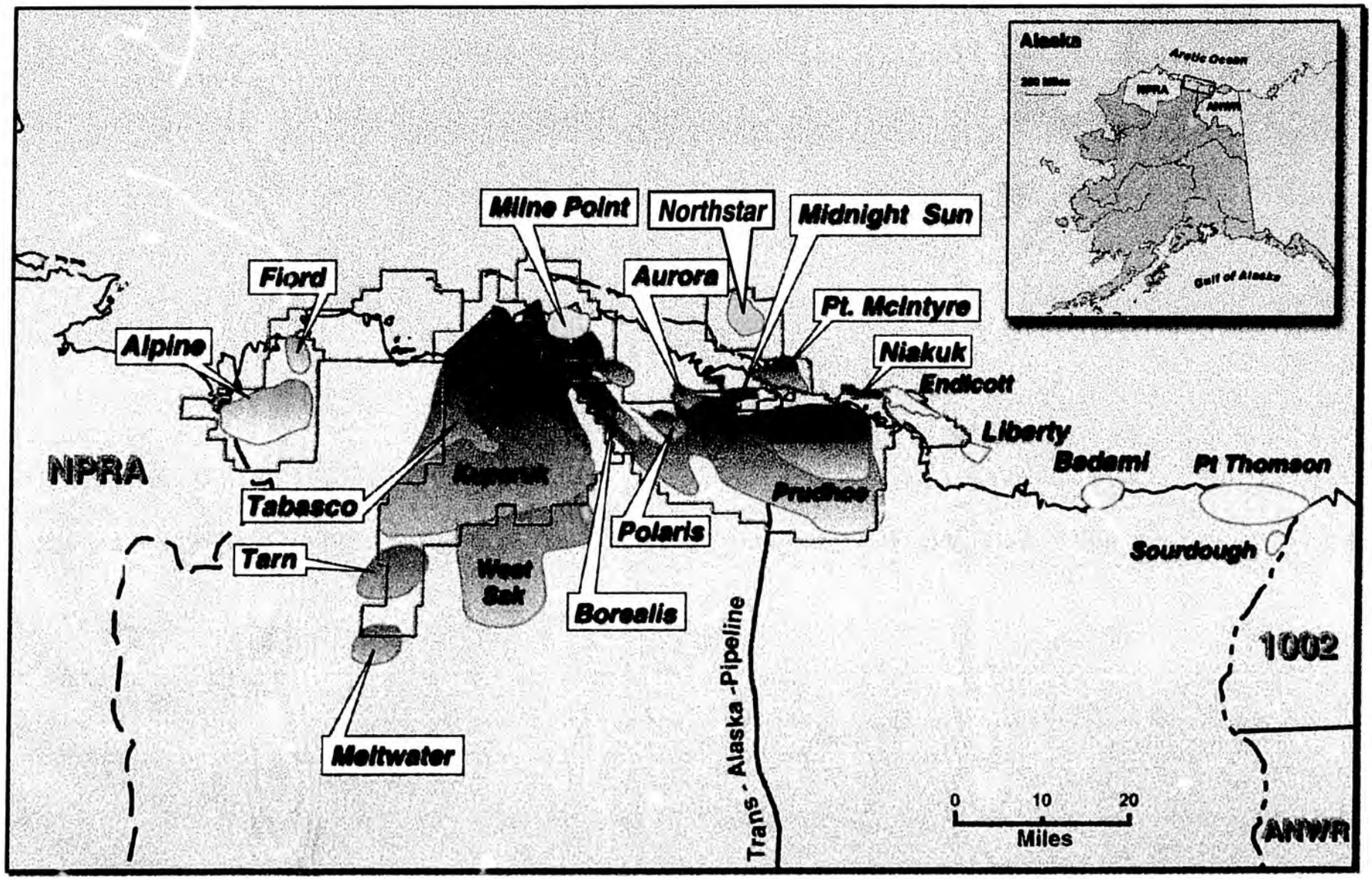
Forward Looking InfraRed Sensor System

The airborne FLIR unit is an effective tool in surveying pipelines for potential corrosion and detecting leaks. FLIR is also a powerful spill response tool for tracking spill movement under ice and snow. FLIR can image a spill site and return pertinent information to Incident Command as video footage or as a video frame registered map.

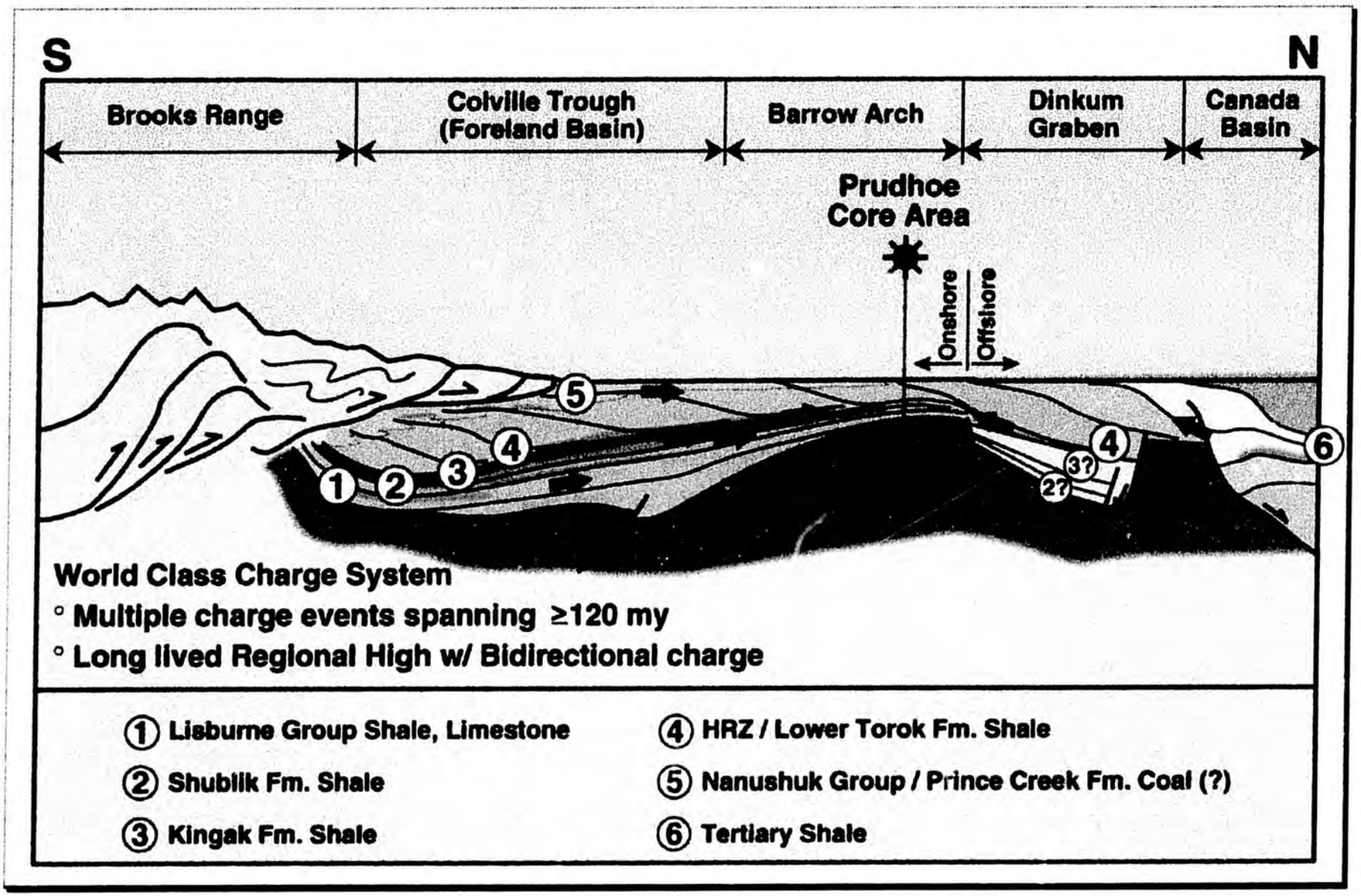
Recently, Kuparuk applied FLIR technology to assist the U.S. Fish & Wildlife Service by verifying the locations of polar bear dens. Pregnant polar bears den on the sea ice and onshore along coastal and flooplain bluffs. The U.S. Fish & Wildlife Service places satellite collars on female bears to monitor denning activity throughout the Beaufort Sea region.

Expanded tests of other FLIR applications for locating polar bears and other large mammals and birds in the Arctic coastal plain are planned.

North Slope Fields



North Slope Hydrocarbon System

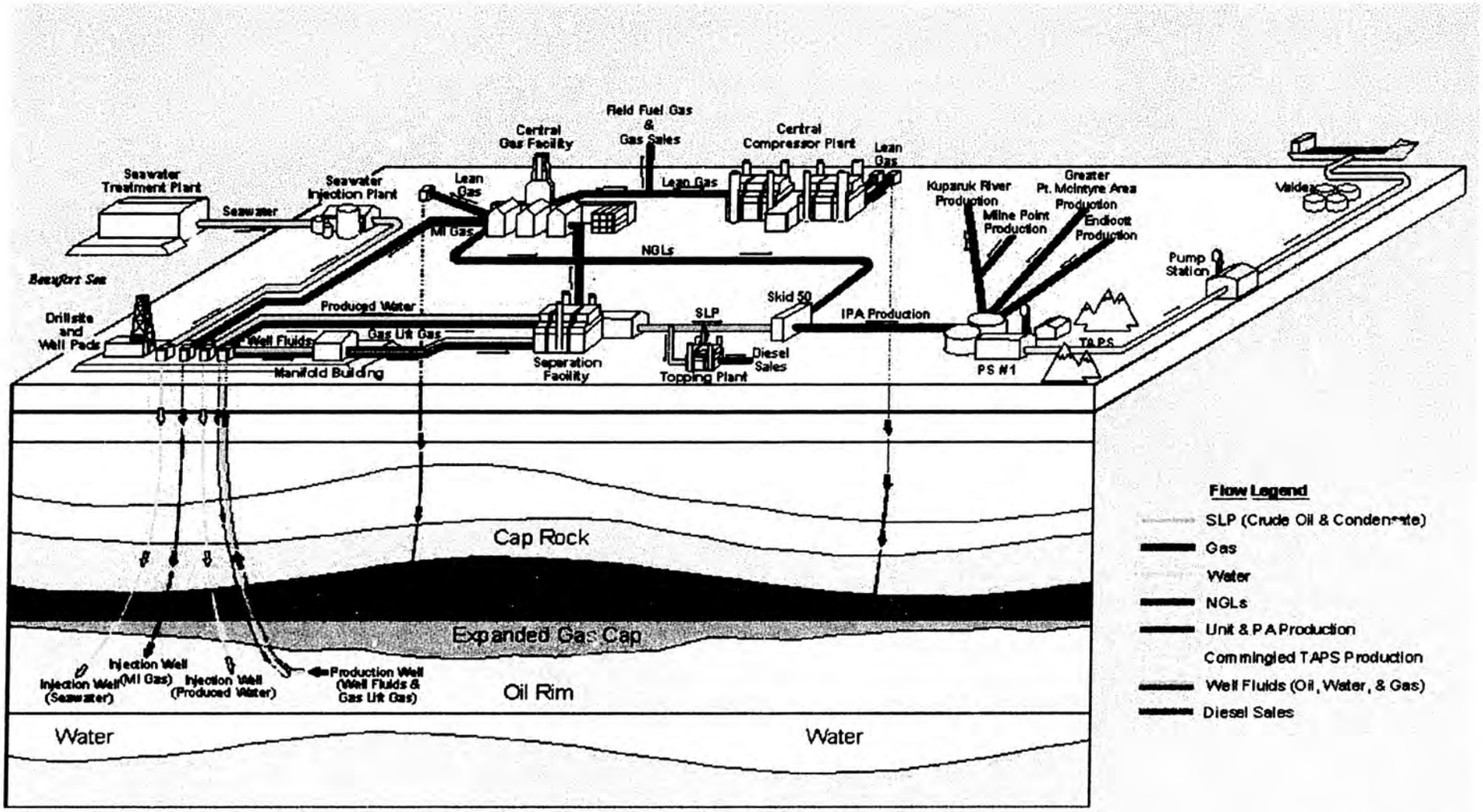


World Class Charge System

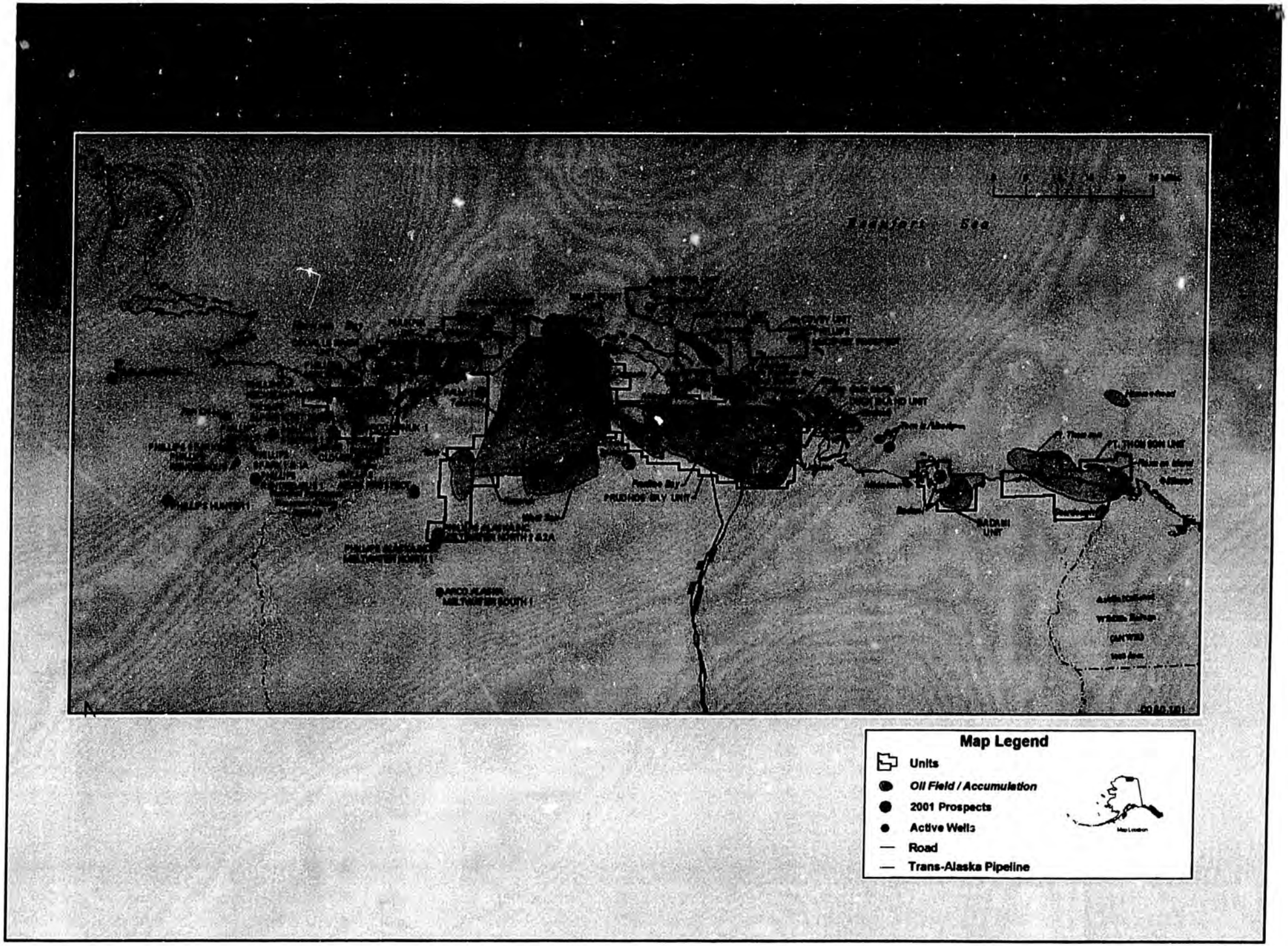
- Multiple charge events spanning ≥120 my
- Long lived Regional High w/ Bidirectional charge

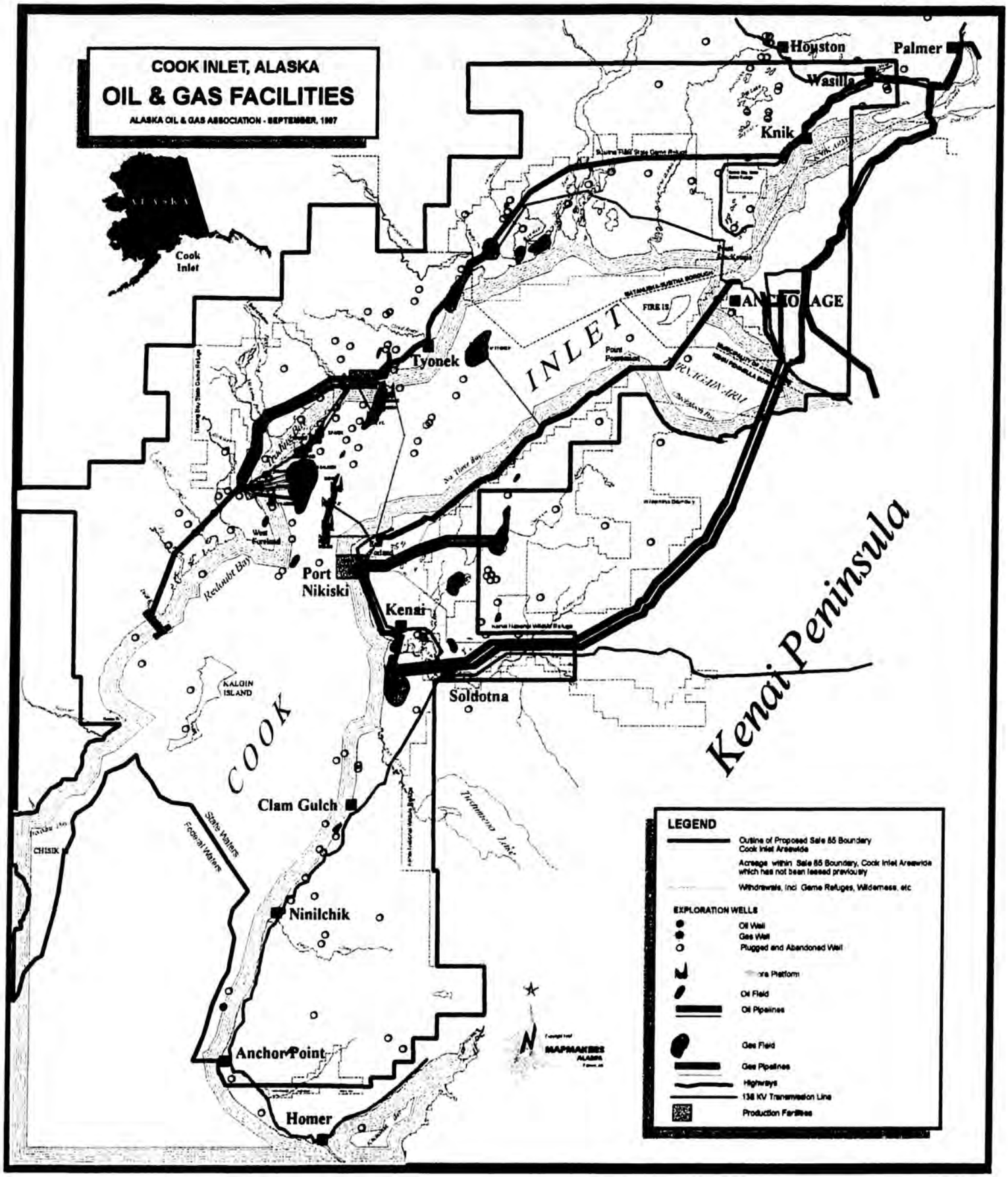
1. Lisburne Group Shale, Limestone
2. Shublik Fm. Shale
3. Kingak Fm. Shale
4. HRZ / Lower Torok Fm. Shale
5. Nanushuk Group / Prince Creek Fm. Coal (?)
6. Tertiary Shale

North Slope Field Development



Courtesy AKDOG


Beaufort Sea
Map Location
Map Legend
Units
Oil Field / Accumulation
2001 Prospects
Active Wells
Road
Trans-Alaska Pipeline


COOK INLET, ALASKA
OIL & GAS FACILITIES
ALASKA OIL & GAS ASSOCIATION - SEPTEMBER, 1997
Houston
Palmer
Wasilla
Knik
Cook Inlet
ANCHORAGE
INLET
Tyonek
Port Nikiski
Kenai
Soldotna
Kenai Peninsula
COOK
KALGIN ISLAND
Clam Gulch
CHISIK
Ninilchik
Anchor Point
Homer
MAPMAKERS ALASKA
LEGEND
Outline of Proposed Sale 85 Boundary Cook Inlet Areawide
Acreage within Sale 85 Boundary, Cook Inlet Areawide which has not been leased previously
Withdrawals, Incl. Game Refuges, Wilderness, etc
EXPLORATION WELLS
Oil Well
Gas Well
Plugged and Abandoned Well
Platform
Oil Field
Oil Pipelines
Gas Field
Gas Pipelines
Highways
138 KV Transmission Line
Production Facilities

Seven Snapshots
of
OIL & GAS in ALASKA
Presented to the
House Special Committee on Oil & Gas
by the
Alaska Oil & Gas Association

The Alaska Oil and Gas Association (AOGA) is pleased to present "Seven Snapshots of Oil and Gas in Alaska" as a basic introduction for policy makers whose expertise is in areas other than in oil and gas. AOGA is a private non-profit trade association. Its members companies represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

Panel I January 25 2001

Moderator: Marilyn Crockett, Assistant Executive Director, Alaska Oil & Gas Association

- Snapshot #1 - **Oil and Gas in Cook Inlet: Why It Is; Where It Is, Who Produces It?**
  Gary Carlson, Senior Vice-President, Forest Oil Corporation
- Snapshot #2 - **Oil and Gas on the North Slope: Why It Is; Where It Is, Who Produces?**
  Dan Kruse, Development Manager for the Greater Kuparuk Area, Phillips Alaska, Inc.
- Snapshot #3 - **Taxes & Royalties: How Much and To Whom? The State, Local and Federal Share**
  Tom Williams, Alaska Tax Counsel, BP Exploration (AK) Inc.

Panel II January 25 2001

Moderator: Judy Brady, Executive Director, Alaska Oil & Gas Association

- Snapshot #4 - **Environmental Practices: Doing It Right**
  Joe Hegna, Director of Regulatory Affairs, Phillips Alaska, Inc.
- Snapshot #5 - **Permitting Requirements: Agency and Public Oversight**
  Randal Buckendorf, Environmental Counsel, Phillips Alaska, Inc.
- Snapshot #6 - **Betting on Technology; Advances in Exploration/Production Technology**
  Mark Stanley, Coil-Tubing-Drilling Superintendent, BP Exploration (AK) Inc.
- Snapshot #7 - **Refining in Alaska: Adding Value**
  Gene Burden, Senior Vice-President-Government Relations, Tesoro Alaska Company

Alaska's Oil & Gas Industry

Fact Sheets

Prepared by:

Alaska Oil & Gas Association

AOGA

Fact Sheet: Oil in Alaska

Oil production from Alaska accounts for nearly 20 percent of all oil produced in the United States. Production currently averages more than a million barrels of oil per day.

♦ *HISTORY OF OIL*

Alaska's modern oil industry was born in 1957 when a large oil field was discovered at Swanson River in the Kenai Moose Range (now the Kenai National Wildlife Refuge). The discovery established Alaska's long-term potential as a resource producer and laid the economic foundation for statehood, which Congress granted in 1959.

During the late 1950's and early 1960's geologic surveys were conducted on Alaska's North Slope. In 1968, after nearly a dozen "dry holes", Prudhoe Bay, the largest field in North America, was finally discovered. Since Prudhoe Bay production began in 1977, nearly 10 billion barrels of oil have been produced. It is expected that more than 13 billion barrels will be recovered. The field also contains 26 trillion cubic feet of recoverable natural gas.

Prudhoe Bay development led to discovery and development of other North Slope oil fields. To the west of Prudhoe Bay is the Kuparuk field which was discovered in 1969 and began production in 1981. The Kuparuk field is North America's second largest producing field. Today, four of the United States' 10 largest producing oil fields – Prudhoe Bay, Kuparuk, Point McIntyre and Endicott – are on Alaska's North Slope.

The discovery of Prudhoe Bay and Kuparuk led to the building of one of the largest construction projects ever undertaken by private industry – the 800-mile trans-Alaska pipeline system (TAPS). Pipeline construction began in 1974 and in 1977, only three years later, TAPS began carrying oil from the North Slope to the ice-free port of Valdez. In 1988, throughput peaked at more than two million barrels per day. Production has declined by nearly 50 percent since then.

♦ *PRODUCTION & TRANSPORTATION*

Alaska ranks second in daily production behind Texas. Alaska has produced nearly 14 billion barrels of oil and 44 trillion cubic feet of natural gas. Most of the gas has been re-injected to maintain reservoir pressure and increase oil production, however, Cook Inlet gas fields supply natural gas for Southcentral Alaska.

There are more than a dozen producing fields on Alaska's North Slope including Prudhoe Bay, Kuparuk, Endicott, Lisburne, Milne Point, Niakuk and Point McIntyre. In 1999, North Slope fields produced 372 million barrels of oil and 32 million barrels of natural gas liquids.

Cumulative oil production from North Slope fields is 12.6 billion barrels of oil, 37 trillion cubic feet of natural gas and 345 million barrels of natural gas liquids.

Oil from the North Slope travels 800 miles from Prudhoe Bay to Valdez via the trans-Alaska pipeline system. From Valdez, the oil is transported by tanker to Cherry Point, Wash; San Francisco and the Los Angeles Basin in Calif; Hawaii and at times some oil is transported to Asian markets.

North Slope oil supplies about five percent of the oil *used* in the U.S. and is a major source of feedstock for domestically-produced gasoline, jet fuels and petrochemicals for the Western United States.

Seven producing oil fields on the Kenai Peninsula produced nearly 11 million barrels of oil in 1999. Last year, the 17 gas fields in the Cook Inlet region produced 177 billion cubic feet of natural gas. Offshore fields in Cook Inlet are tapped by 15 production platforms. Operations at three of the platforms have been temporarily suspended due to market conditions and low production volumes. The Kenai Peninsula and offshore fields in Cook Inlet have produced a cumulative total of 1.2 billion barrels of crude oil and 5.6 trillion cubic feet of natural gas.

♦ ECONOMIC BENEFIT

Oil revenues are a significant source of income to the state. Historically, petroleum revenue has provided more than 70 percent of the state's General Fund unrestricted revenue since FY 1978, Prudhoe Bay's first full year of production. In FY 1999, the state received nearly a billion dollars in unrestricted General Fund revenue from oil and gas production, representing about 70 percent of the state's total unrestricted revenue. In addition, the state receives millions of dollars in royalty revenues each year which are deposited into the Permanent Fund. The Permanent Fund was established as a state savings account for a portion of its petroleum income.

The oil and gas industry employs about 8,000 Alaskans and, although the oil and gas industry is not labor intensive, University of Alaska economists have determined that oil revenue contributes substantially to all Alaskans' personal income.

Since oil production began on Alaska's North Slope in 1977, the state has received more than $46 billion in taxes and royalties. The state currently receives more revenue from oil operations every three days than the $7.2 million the United States paid Russia to purchase Alaska in 1867.

♦ PROCESSING

One of Alaska's few "value-added" industries is the in-state processing of its oil and gas resources. Alaska has four refineries which produce gasoline, diesel and jet fuel for Alaska markets. Two refineries are located in Fairbanks and refineries also are located at Nikiski and Valdez.

A chemicals plant in Nikiski uses natural gas from Cook Inlet as a feedstock to manufacture more than 5,000 tons of fertilizer per day. The plant, which is the largest fertilizer complex on the West Coast, is a major supplier to the agriculture industry in the Western United States.

♦ EXPORTS

Cook Inlet natural gas is processed for export to Japan at a gas liquefaction plant at Nikiski, the only one of its type in North America. The plant supplies 1.3 million barrels of liquefied natural gas to Japan each month.

With the lifting of the 32-year federal ban on exporting North Slope crude oil, at times some of Alaska's North Slope production is exported to Asian markets.

♦ RESERVES

Alaska oil reserves total 6.5 billion barrels of oil which accounts for 30 percent of total U.S. oil reserves. Alaska's gas reserves total more than 34 trillion cubic feet of gas, accounting for 21 percent of total U.S. gas reserves.

Fact Sheet: Cook Inlet Oil & Gas Production

♦ ALASKA COOK INLET PRODUCING FIELDS & PRODUCTION

Seven producing oil fields on the Kenai Peninsula produce 30,000 barrels of oil per day. There are 17 gas fields which currently produce more than 485 million cubic feet of gas per day. In 1999, nearly 11 million barrels of oil and 177 billion cubic feet of natural gas were produced from Cook Inlet gas fields.

Offshore fields in Cook Inlet are tapped by 15 production platforms. Operations at three of the platforms have been temporarily suspended due to market conditions and low production volumes.

Fields on the Kenai Peninsula and offshore in the Cook Inlet have produced a cumulative total of 1.2 billion barrels of crude oil and 5.6 trillion cubic feet of natural gas.

♦ OIL & GAS PROCESSING

All oil from Cook Inlet is refined at a Nikiski refinery producing gasoline, propane, butane, jet fuel, heating fuel and asphalt for Alaska markets.

A chemical plant in Nikiski uses Cook Inlet natural gas as a feedstock to manufacture more than 5,000 tons of fertilizer per day. The plant is the largest fertilizer complex on the West Coast and is a major supplier to the agriculture industry in the Western United States.

A gas liquefaction plant at Nikiski, the only one of its type in North America, supplies 1.3 million barrels of liquefied natural gas to Japan each month.

♦ NEW PROJECTS, PLAYERS & ACTIVITY

Independents are new "players" which have recently entered Alaska's oil and gas scene in the Cook Inlet. Companies like Anadarko Petroleum, Forcenergy, Frontier Petroleum Corp. and Cross Timbers Oil Company are bringing a renewed vitality and new concepts to revitalize this very mature province.

New developments in Cook Inlet include: drilling at the Tom Cat "wild cat prospect" by Forcenergy; drilling of the Lone Creek #2 and #3 by Anadarko Petroleum; continued drilling at Cannery Loop by Marathon Oil Company; and development of the Redoubt Shoal reservoir by Forcenergy.

♦ RESERVES & PRODUCTION FORECAST

Ninety percent of the region's recoverable oil reserves have been produced.

Remaining oil reserves are estimated at about 76 million barrels. Natural gas reserves exceed more than 3 trillion cubic feet.

Cook Inlet oil production, which peaked at 230 thousand barrels per day in 1970, declined to 30 thousand barrels per day by 1999. Cook Inlet fields probably will continue to produce well into the next century, however, production is estimated to decline to seven thousand barrels per day by 2003. Cumulative production between 1999 and 2003 will be an estimated 50.8 million barrels. *(Source: Historical and Projected Oil and Gas Consumption, May, 1999 by Alaska Department of Natural Resources)*

♦ BENEFITS OF COOK INLET OIL & GAS DEVELOPMENT

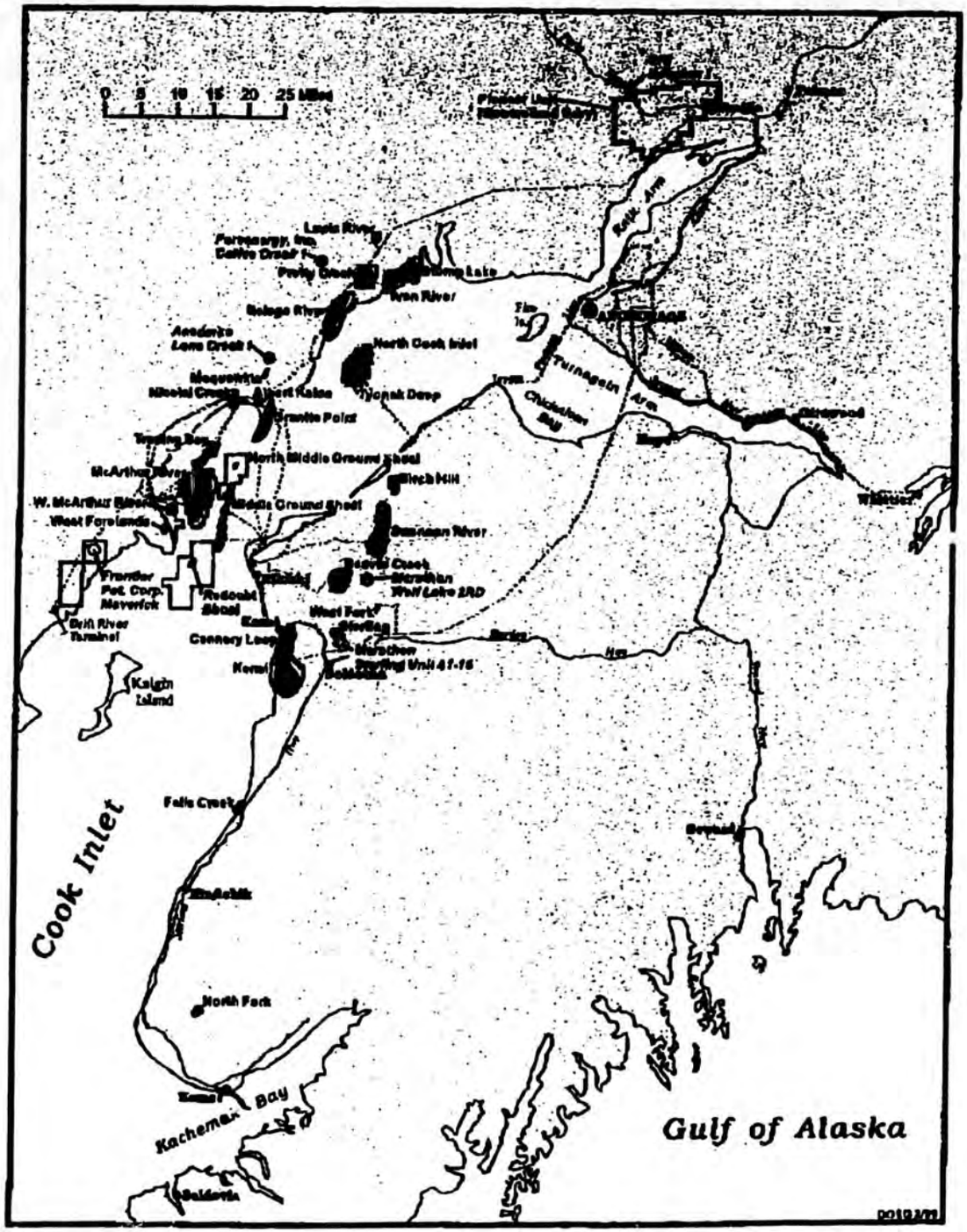
Southcentral Alaskans have benefited from oil and gas development in the Cook Inlet area for more than 40 years.

The oil and gas industry in Cook Inlet employs more than 1,500 workers and hundreds more on contract. It contributes hundreds of millions of dollars annually to the economy of Southcentral Alaska, through salaries, taxes, royalties and investments. Cook Inlet oil, all of which is refined at Tesoro's Nikiski refinery, produces gasoline, propane, diesel, jet fuel and heating fuel for Alaska markets and promotes continuation of one of Alaska's few value-added industries.

Oil and gas property accounts for a substantial segment of the tax base within the Kenai Peninsula Borough and local communities. In Nikiski, the oil industry pays about 70 percent of the area's property taxes. Kenai area residents have counted on this tax base, from oil and gas production property, to pay for essential local services, including police protection, firefighters, schools and for recreational programs and facilities.

Cook Inlet natural gas provides heat to Kenai, Anchorage and Mat-Su area homes and businesses at a cost 40 percent less than the national average. More than 80 percent of the electricity for communities from Homer to Talkeetna is generated from Cook Inlet natural gas.

Cook Inlet Activity



Fact Sheet: North Slope Oil & Gas Production

♦ ALASKA NORTH SLOPE PRODUCING FIELDS & PRODUCTION

There are more than a dozen producing fields on Alaska's North Slope including Prudhoe Bay, Kuparuk, Endicott, Milne Point, Niakuk and Point McIntyre.

Prudhoe Bay, discovered in 1968, is the largest field ever discovered in North America. Total recovery from Prudhoe Bay is expected to exceed 13 billion barrels. To date, more than 10 billion barrels of oil have been produced.

The Kuparuk field, located west of Prudhoe Bay, is the second largest field in North America. Production from the Kuparuk field has totaled approximately 1.6 billion barrels with an expected total recovery of nearly 3 billion barrels.

In 1999, North Slope fields produced 372 million barrels of oil and 32 million barrels of natural gas liquids. Cumulative oil production from the North Slope is 12.6 billion barrels of oil, 37 billion cubic feet (bcf) of natural gas and 345 million barrels of natural gas liquids. Most of the gas has been re-injected to maintain reservoir pressure and increase oil production.

♦ NEW FIELDS & PROJECTS UNDER DEVELOPMENT

Badami – Located 35 miles east of Prudhoe Bay, Badami began production in August, 1998. Badami is the first extension of pipeline infrastructure east of the Prudhoe Bay area.

Northstar – Construction on the production island began in January, 2000 and production is expected in 2001. Peak production is expected to be 60 thousand barrels per day with recoverable reserves estimated at 145 million barrels.

Alpine – Field construction work is underway with start-up of production expected in 2000. Enhanced recovery methods used from start-up are estimated to increase recoverable reserves to 45 percent of the original oil in place, boosting recoverable reserves to 429 million barrels of oil.

West Sak/Schrader Bluff – Heavy oil production was halted in late 1998. Development of these heavy oil accumulations requires new technology and substantial cost breakthroughs. Economically recoverable reserve estimates for "core areas" are 279 million barrels in West Sak and 281 million barrels in Schrader Bluff.

Prudhoe Bay/Kuparuk Satellites – Delineation and development of satellite fields continues. Production from these satellite fields is expected to contribute 65 thousand barrels per day at peak production.

♦ NORTH SLOPE PRODUCTION FORECAST

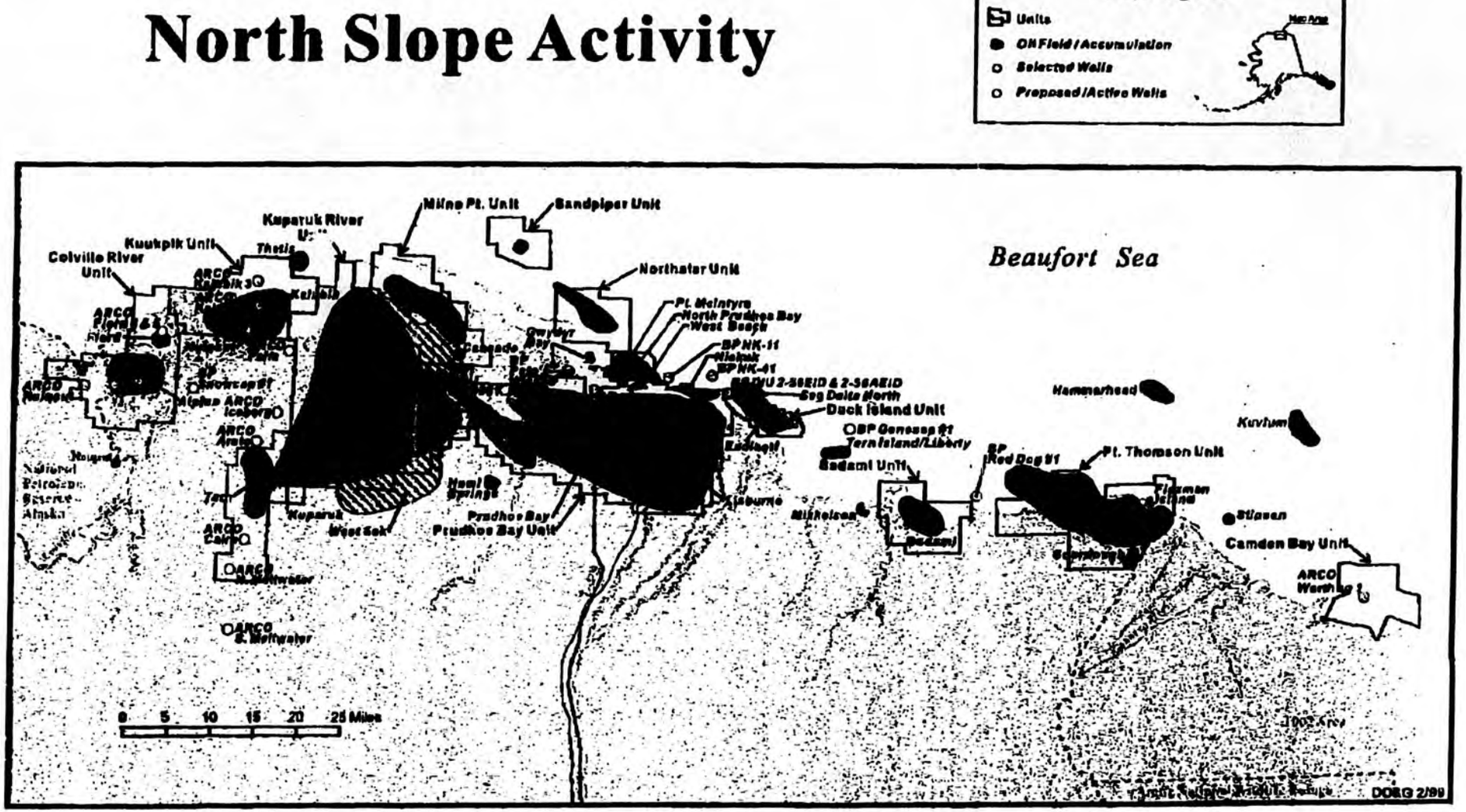
North Slope production of oil, condensate and natural gas liquids, which peaked at 2 million barrels per day in 1988, declined to 1 million barrels per day in 1999 and is currently running at about a million barrels per day. Cumulative production between 1999 and 2020 is estimated to be 5.9 billion barrels. This estimate is a projection of production histories of existing fields and the expected production from fields under development. It also includes a few planned and probable field developments.

Natural gas reserves on the North Slope total more than 30 trillion cubic feet. North Slope fields are so isolated that the only current economic use for their gas is to fuel the region's oil field equipment and operations and for enhanced oil recovery efforts. Since production began, a large amount of dissolved and free gas has been produced with the oil, separated and re-injected back into the reservoir. Efforts are under way to find ways to commercialize Alaska North Slope gas reserves.

♦ NORTH SLOPE OUTLOOK

State areawide lease sales, which make all unleased lands available for leasing on an annual basis, will encourage continued exploration and development on Alaska's North Slope. Efforts will continue to find and develop satellite fields close to existing infrastructure. Development of the Alpine field and renewed leasing in the Northeast portion of the National Petroleum Reserve will continue to spur westward expansion of oil and gas exploration and production activities. More oil will be discovered on Alaska's North Slope. However, overall North Slope production is expected to continue to decline with the decline of its largest field, Prudhoe Bay. According to the Alaska Division of Oil & Gas, North Slope production is expected to fall below 1 million barrels per day by 2004 and will fall to 316 thousand barrels per day by 2020.

North Slope Activity



JAN.18.2001 3:14PM ALASKA OIL & GAS NO.287 P.8/14

Fact Sheet: Economic Benefits of Oil & Gas Development

♦ OIL & GAS REVENUES: A MAJOR SOURCE OF ALASKA INCOME

Oil revenues are a significant source of income to the State of Alaska. Last year, the state received more than $1.1 billion dollars in total petroleum revenues and nearly a billion dollars in unrestricted revenues, representing 70 percent of the state's total unrestricted income. The Alaska Department of Revenue projects that petroleum revenues will exceed $1.5 billion in FY 2000.

The state receives millions of dollars in royalty revenues each year which are deposited directly into the Permanent Fund. The Permanent Fund was established in 1976 as the state's savings account for a portion of its petroleum income. The Fund currently totals more than $27 billion. Permanent Fund earnings are used to inflation-proof the Fund and are paid to Alaska residents in the form of dividends. Last year, each Alaskan received a dividend of $1,769.84.

Petroleum revenue has provided more than 70 percent of the state's general fund unrestricted revenue since FY 1978, Prudhoe Bay's first full year of production. The Alaska Department of Revenue projects that petroleum revenue will continue to comprise the majority of Alaska's general fund unrestricted revenue through FY 2000 - 78 percent in FY 2000 and nearly 79 percent in FY 2001.

Since oil development began on Alaska's North Slope, the state has received more than $46 billion in taxes and royalties. The state currently receives more revenue from oil operations every three days than the $7.2 million the United States paid Russia to purchase Alaska in 1867.

♦ LOCAL GOVERNMENTS BENEFIT FROM OIL & GAS DEVELOPMENT

Oil and gas revenues paid to the state also benefit municipalities and boroughs. General fund revenues are allocated to municipalities and boroughs through municipal assistance, revenue sharing, community development grants, special operating grants, capital project funding and education funding.

State general funds pay for a portion of public services and capital projects, such as medical clinics, community centers, recreation complexes, habitat enhancements, parks and recreation, public waste disposal sites and public sewer and water systems.

Local communities also receive petroleum property revenues. In FY 1999, local communities received $222.3 million in petroleum property taxes: North Slope Borough, $212 million; Valdez, $13.3 million; Kenai $8.5 million; Fairbanks $6.1 million; Anchorage $2.4 million; Mat-Su Borough $500,000 and unorganized areas received $28.1 million.

♦ INSTATE OIL & GAS PROCESSING ADDS VALUE TO ALASKA'S RESOURCES

One of Alaska's few "value-added" industries is the in-state processing of its oil and gas resources -- at two refineries located in North Pole near Fairbanks and at refineries in Nikiski and Valdez. Cook Inlet natural gas is processed at a liquefied natural gas plant in Kenai for export to Japan. Natural gas also is used as feedstock for a chemicals plant in Kenai which manufactures 5,000 tons of fertilizer per day. Natural gas from Cook Inlet heats homes and businesses in Southcentral Alaska at a cost of 40 percent less than the national average.

♦ ALASKA'S OIL & GAS -- GENERATING INCOME & EMPLOYING ALASKANS

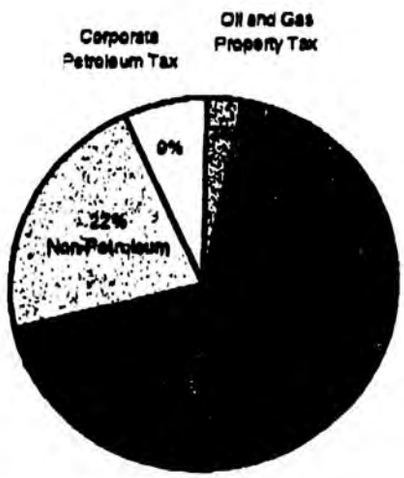
In addition to direct revenues, Alaska's oil and gas industry provides employment and indirect income to Alaskans. Nearly 8,000 Alaskans are currently employed in oil and gas production and service and supply sectors. According to University of Alaska economists, oil revenue contributes substantially to Alaskans' personal income.

♦ *PETROLEUM REVENUE OVERVIEW*

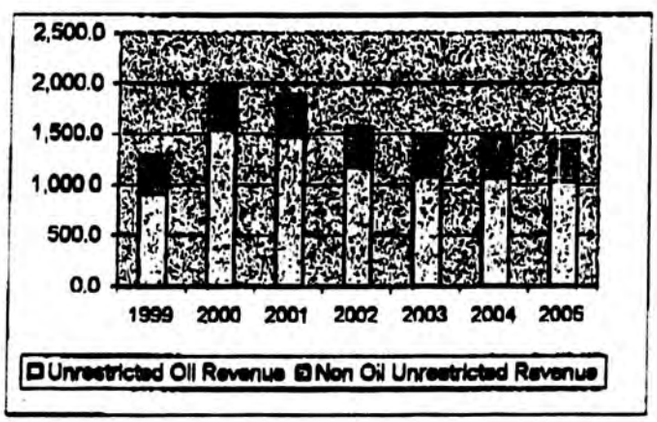
Petroleum revenue comes in the form of: (1) severance (or production) taxes; (2) oil and gas royalties on state and federal land; (3) petroleum corporation income tax; (4) petroleum property tax; and (5) petroleum rents and lease bonuses. The majority of the state's unrestricted revenue comes from the oil and gas revenues which are expected to account for 78 percent of the state's unrestricted revenues in FY 2000. The illustration below shows the break-out of FY 2000 projected petroleum and non-petroleum General Fund unrestricted revenue.

Petroleum revenue has provided more than 70 percent of the state's general fund unrestricted revenue since FY 1978, Prudhoe Bay's first full year of production. In FY 1999, petroleum revenue made up about 70 percent of the total general fund unrestricted revenue. It is anticipated that petroleum revenue will continue to comprise the majority of Alaska's general fund unrestricted revenue: 78 percent in FY 2000; 79 percent in FY 2001, 75 percent in FY 2002; 73 percent in FY 2003; 73 percent in FY 2004; and 72 percent in FY 2005. *Source: Alaska Department of Revenue, Spring 2000 Revenue Sources Book.*

FY 2000 FUNDS
UNRESTRICTED REVENUE
Petroleum and Non-Petroleum Revenue



UNRESTRICTED
GENERAL PURPOSE REVENUE
Projected FY 2000-2005



Fact Sheet: Alaska Oil & Gas Taxes & Royalties

♦ OIL AND GAS TAXES

The oil and gas industry is the state's top taxpayer. Oil and gas taxes and royalties make up the state's largest source of unrestricted revenue. Last year, the state received nearly a billion dollars in taxes and royalties from oil and gas production accounting for about 70 percent of all unrestricted revenues received by the state.

In FY 1999, the state received about $323 million in royalties, $565 million in taxes and $25 million in bonuses and rents from the oil and gas industry - totaling about $913 million. State unrestricted revenue from all other sources totaled only $439 million. Oil and gas revenues in FY 1999 were down considerably due to a sustained period of record-setting low oil prices. In FY 1998, the state received $1.3 billion in petroleum taxes and royalties.

♦ PROPERTY TAX

The oil and gas industry is the only entity in Alaska subject to a statewide property tax. Oil and gas property tax is levied at 20 mills on the value of oil and gas production and transportation property. In FY 1999, the oil and gas industry paid $271 million in property taxes – $48.5 million went to the state and $222 million was paid directly to local communities – North Slope Borough – $212.3 million; Valdez – $13.3 million; Kenai – $8.5 million; Fairbanks – $6.1 million; Anchorage – $2.4 million; Mat-Su – $500,000; and unorganized areas received $28.1 million.

♦ CORPORATE INCOME TAX

Alaska's oil and gas income tax is derived from a corporation's worldwide net income apportioned to Alaska under a three factor formula - the percentage of corporate sales and tariffs from Alaska operations; the percentage of production from Alaska; and the percentage of property represented by Alaska holdings. The maximum marginal rate is 9.4 percent.

Income taxes on Alaska's oil and gas industry account for more than 70 percent of all corporate industry taxes received by the state. In FY 1999, the state received $199 million in corporate income taxes - - $145 million from the oil and gas industry and $54 million from all other businesses.

♦ SEVERANCE TAX

Severance tax is levied on all oil and gas produced except for state royalty production. The rate varies depending on the vintage of the field and is subject to the economic limit factor (ELF). The ELF varies depending on field size and well productivity.

The severance tax rate on oil is 12.25 percent of production value for the first 5 years of production and 15 percent thereafter for fields coming into production after June, 1981, and 15 percent for fields in production prior to June, 1981. (There is a minimum tax of $0.80/bbl.) The severance tax rate on gas is 10 percent. (There is a minimum tax of $.064/mcf.) Both the percent of value and the cents per barrel tax rates are subject to the ELF.

The ELF was originally designed in 1977 to differentiate the tax rate on the supergiant Prudhoe Bay field and the older declining fields in Cook Inlet. Subsequent changes in 1981 and 1989 focused on keeping taxes higher on Prudhoe Bay while lowering taxes on new and smaller fields on the North Slope. If a field produces 300 barrels of oil per day per well or less, the ELF is zero and no severance taxes are assessed.

In the last 15 years, the state has received more than $13 billion in oil and gas severance taxes. In FY 1998, the state received $578 million, down from $922 million the year before. In FY 1999, oil and gas severance taxes totaled more than $371 million.

♦ PRODUCTION TAX SURCHARGE

The state levies a 5 cents per barrel surcharge on each barrel of oil to fund the Oil and Hazardous Substance Prevention and Response Fund. The 5 cents per barrel is charged until a $50 million cap is reached. When the $50 million cap is reached, the surcharge drops to 3 cents per barrel.

♦ ROYALTIES

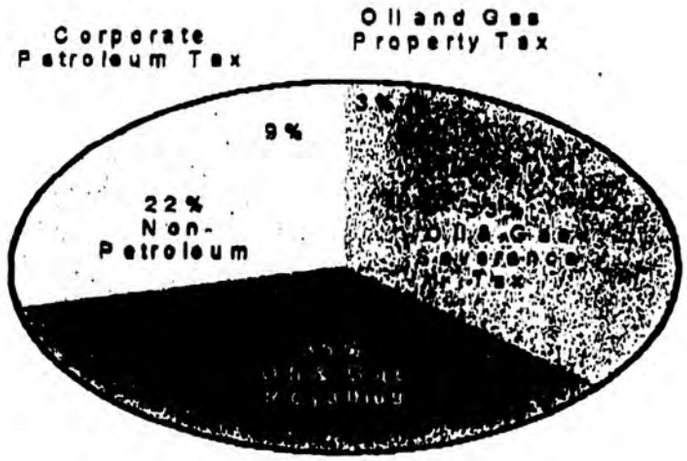
The State of Alaska receives royalties from the production of oil and gas on state owned lands. Most currently producing leases pay a fixed royalty rate of 12.5 percent. However, some production is subject to a net profit share in addition to a fixed royalty and some royalty rates are as high as 20 percent.

In FY 1999, the state received approximately $323 million in oil and gas royalty revenue. Royalty revenues were down significantly from FY 1998, when the state received $480 million in unrestricted revenues from royalties on oil and gas production. In addition, in 1998 the state received more than $156 million in petroleum royalty revenues which were deposited directly into the Permanent Fund.

♦ *PROJECTED FY 2000 PETROLEUM TAXES & ROYALTIES*

The Alaska Department of Revenue projects higher revenues for FY 2000 than it received in 1999. State revenues are expected to total $1.4 billion in taxes and royalties from oil and gas production - $46 million in property taxes, $175 million in income taxes, $577 million in severance taxes and nearly $584 million in oil and gas royalties.

FY 2000 FUNDS
UNRESTRICTED REVENUE
Petroleum and Non-Petroleum Revenue



The figure above shows the break-out of FY 2000 petroleum and non-petroleum General Fund unrestricted revenue: severance tax, 33% percent; oil & gas royalties, 35% percent; non-petroleum tax, 22% percent, corporate petroleum tax, 9 percent; oil & gas property tax, 3 percent.

Fact Sheet: Alaska-America's Largest Land Reserve

ALASKA NOT ONLY IS AMERICA'S LARGEST STATE, ENCOMPASSING 365 MILLION ACRES, IT ALSO IS AMERICA'S FEDERAL LAND RESERVE

More than 65 percent of Alaska lands are federally-owned and more than 30 percent of all federal lands in the United States are located within Alaska.

Federal lands in Alaska total nearly 240 million acres, more than any other state in the nation.

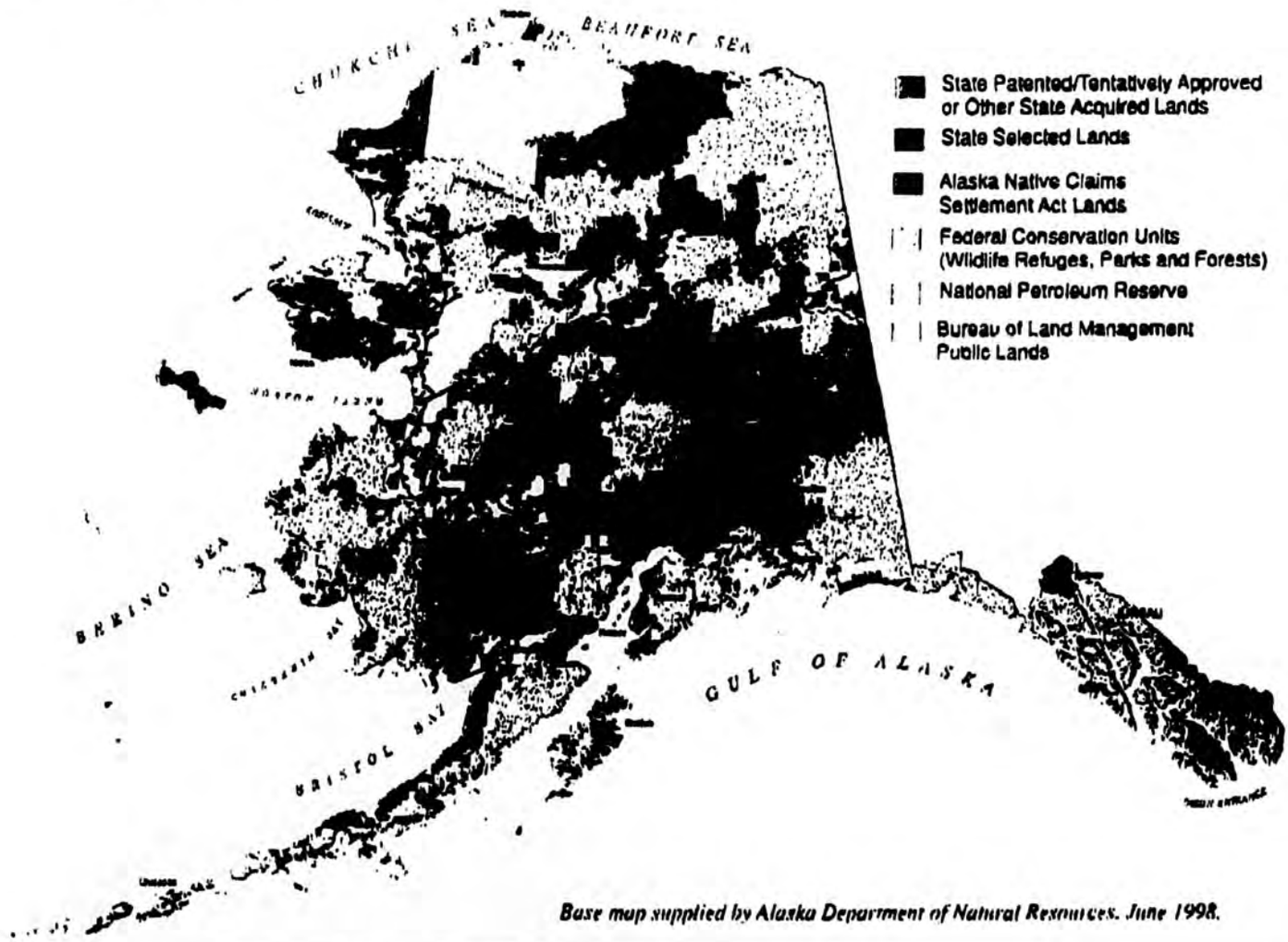
National wildlife refuges, parks and forest lands in Alaska alone total nearly 150 million acres, comprising 40 percent of Alaska lands.

Alaska contains 85 percent of America's wildlife refuges and 68 percent of all national park lands.

THERE IS MORE DESIGNATED WILDERNESS IN ALASKA THAN IN ANY OTHER STATE IN THE NATION

Alaska has 57 million acres of designated wilderness — lands that have been put off-limits to resource development.

Nearly 19 percent of the land in Alaska has been designated as or is recommended for wilderness. In contrast, less than four percent of federal land outside of Alaska has been designated as wilderness or is recommended for wilderness designation.



Base map supplied by Alaska Department of Natural Resources, June 1998.

STATE OF ALASKA AND NATIVE CORPORATIONS RANK SECOND AND THIRD IN LAND OWNERSHIP

The State of Alaska owns 90 million acres or approximately 25 percent of the state. Under the Alaska Native Claims Settlement Act (ANCSA) native corporations have been given title to about 36 million acres. Less than one percent is in private ownership.

The State of Alaska's park system of 3.5 million acres constitutes the largest park system in the United States.

ALASKA HAS THE LOWEST POPULATION DENSITY IN THE NATION AND IS THE THIRD LEAST POPULOUS STATE

There is approximately one person per square mile in Alaska versus more than 71 people per square mile for the entire U.S.

Alaska has a total population of 606,000 which makes it the third least populous state in the country.

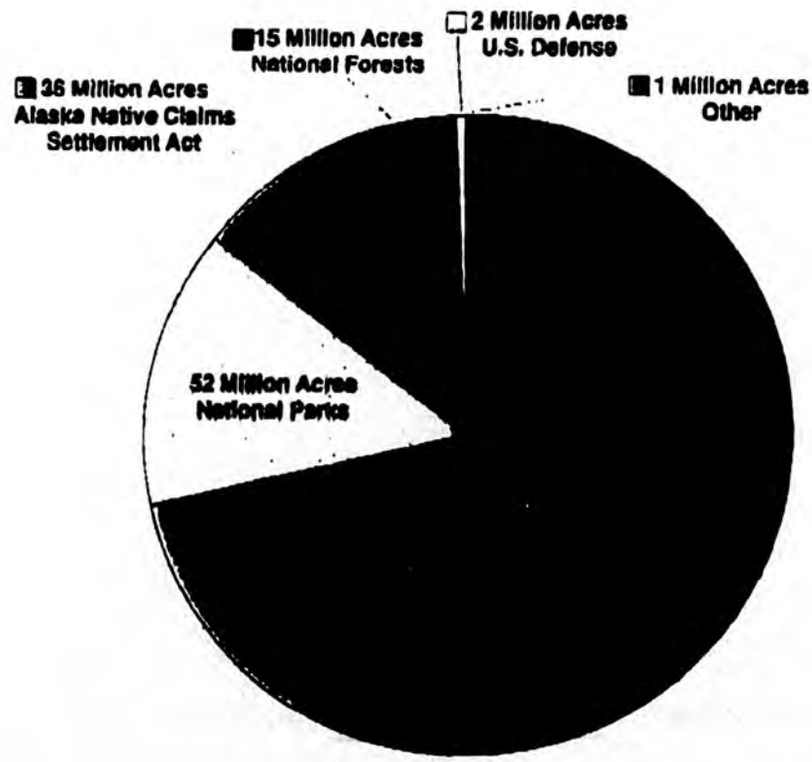
ALASKA LANDS, FEDERAL AND STATE, CONTAIN SUBSTANTIAL RESOURCE POTENTIAL

Prudhoe Bay, located on state lands on Alaska's North Slope, along with other North Slope oil fields currently produce 20 percent of all oil produced in the United States today.

Alaska lands contain 31 percent of current U.S. proved crude oil reserves and 18 percent of all U.S. gas reserves.

Federal lands in Alaska, including those in the National Petroleum Reserve-Alaska and the Arctic National Wildlife Refuge, are considered to contain some of the nation's best prospects for substantial new oil and gas reserves.

Because the majority of Alaska land is owned by either the federal or state governments, public policy decisions affecting land management are critical to Alaska's economic future.



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House Special Committee on Oil & Gas

MEMORANDUM

DATE: **January 22, 2001**

TO: **All Members of Oil & Gas Committee**

FROM: **Representative Scott Ogan**
Chairman, Oil & Gas Committee

RE: **Meeting Agenda**

Enclosed you will find information as provided by the Alaska Oil & Gas Association in conjunction with the committee presentation on January 23rd and January 25th. Please retain this information for both meetings.

I anticipate that there will be additional handouts once they arrive in Juneau. Copies will be available to you prior to the beginning of the meeting.

We will be adjourning Tuesday's meeting at 11:30 a.m. in consideration of the AOGA Luncheon at the Baranof that begins at 11:45 a.m. I encourage all committee members to attend this function.

Representative Scott Ogan