

SCOMM

150:2



25th Alaska State Legislature

House Special Committee on Ways & Means

Chair:

Rep. Mike Hawker
Capitol Room 502
465-4949

Vice-Chair:

Rep. Anna Fairclough
Capitol Room 411
465-3777

Members:

Rep. Bob Roses
Capitol Room 416
465-4939

Rep. Paul Seaton
Capitol Room 102
465-2689

Rep. Peggy Wilson
Capitol Room 403
465-3824

Rep. Sharon Cissna
Capitol Room 420
465-3875

Rep. Max Gruenberg
Capitol Room 110
465-4940

Committee Aide:

Juli Lucky
465-6587 direct
465-4979 fax

AGENDA

January 31, 2007
3:30 – 5:00 pm

Where did the fiscal gap go? Part II Production Decline Reality Check

Industry Presenters:

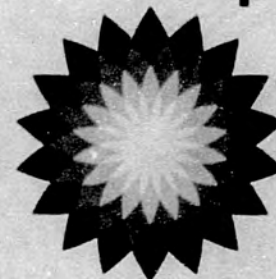
BP Exploration (Alaska) Inc.

Angus Walker, BP Exploration (Alaska) Commercial Director
Carl Lundgren Jr., Liberty Subsurface Manager
Scott Digert, P.E., Resource Manager, Milne Point

ConocoPhillips Alaska, Inc.

Darren Jones, Vice President, Commercial Assets

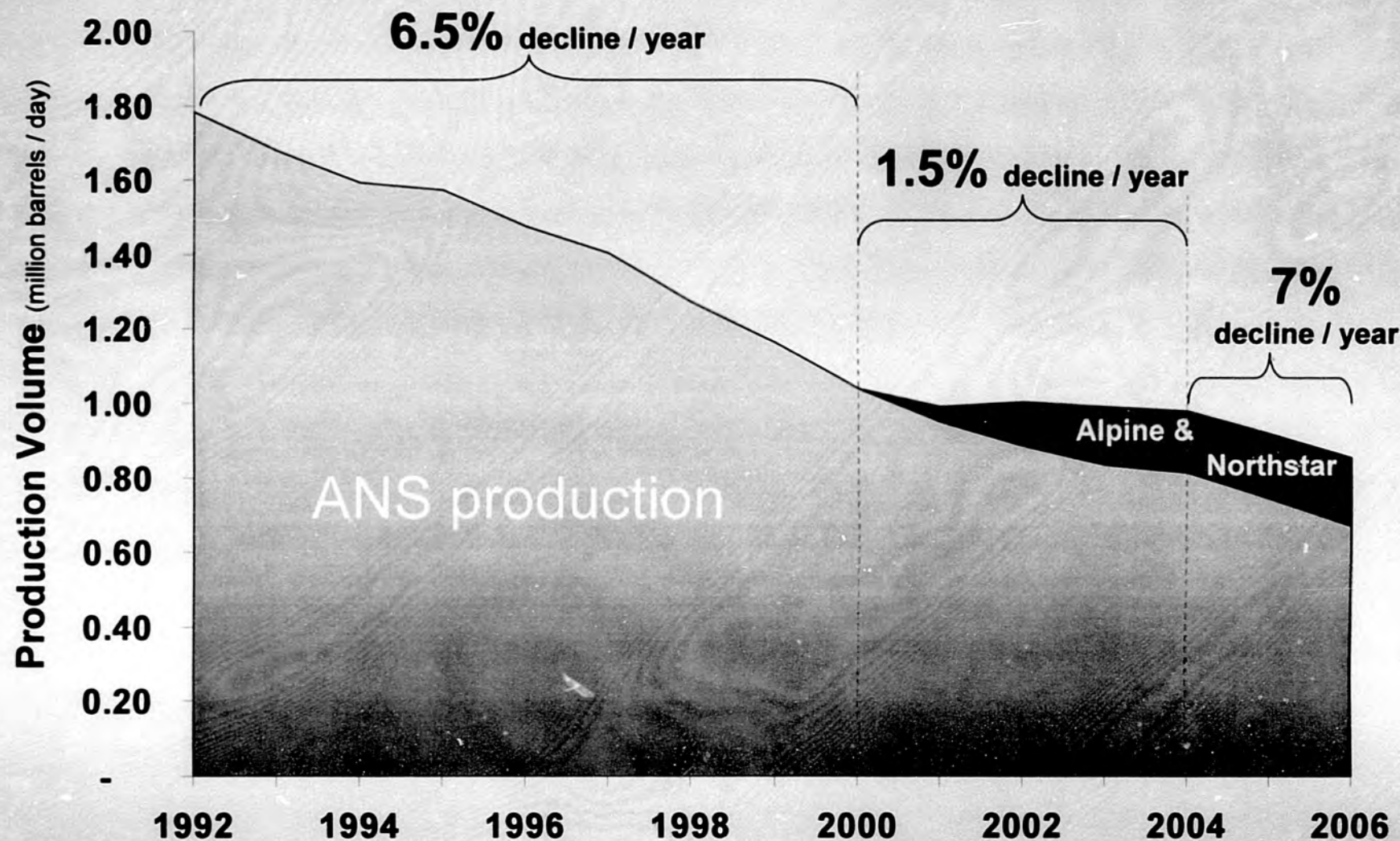
bp



BP Presentation to the House Ways & Means Committee

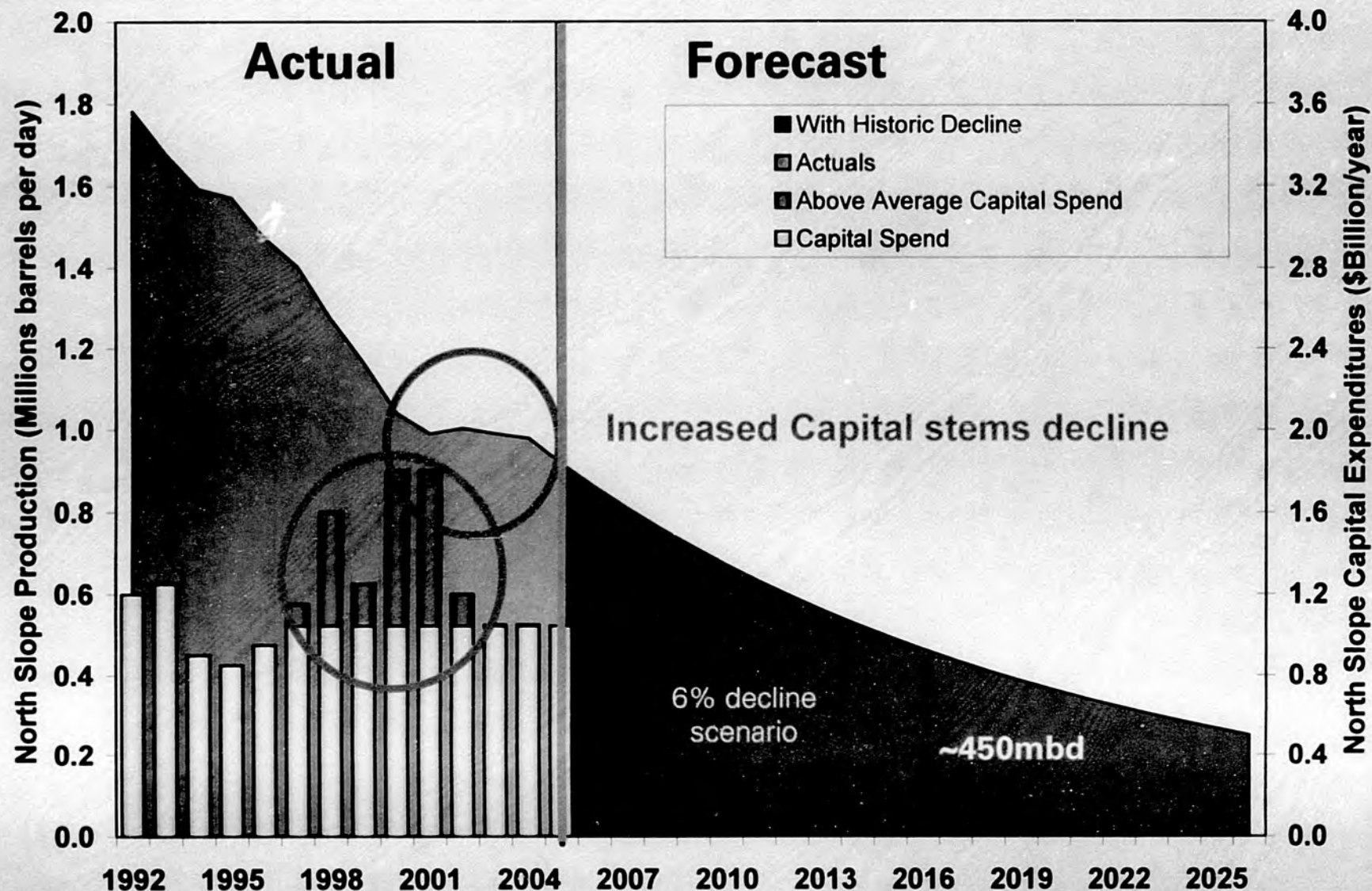
Juneau
31st January 2007

North Slope Production Decline



Source: Alaska Department of Revenue

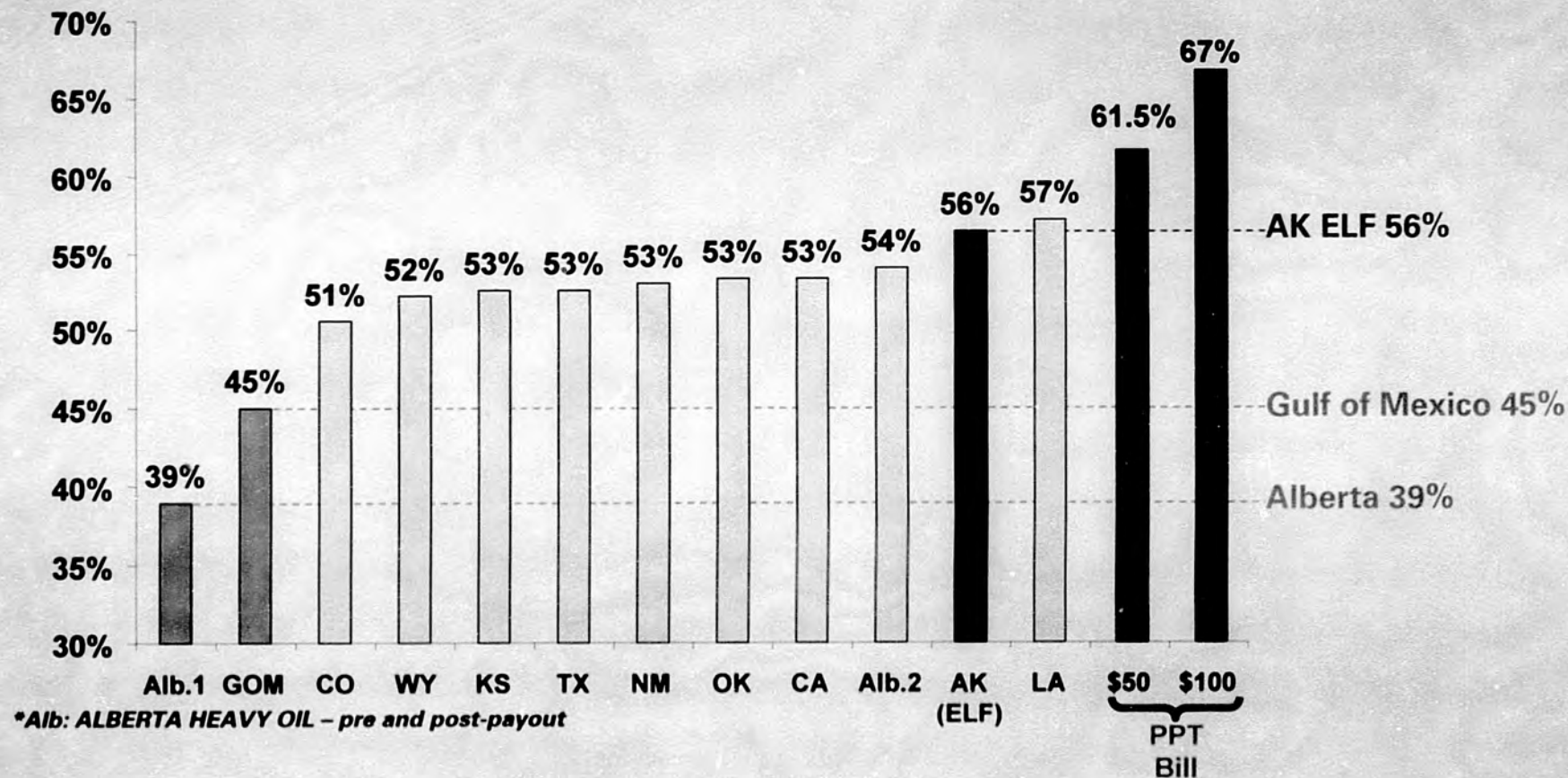
ANS production is declining rapidly...
...despite the current level of investment



Alaska has adopted the highest marginal tax rate in the North America



Marginal
Tax Rate



Alberta & Gulf of Mexico are booming while Alaska production is declining

BP data

Petroleum Production Tax



- **The structure of PPT has merit:**

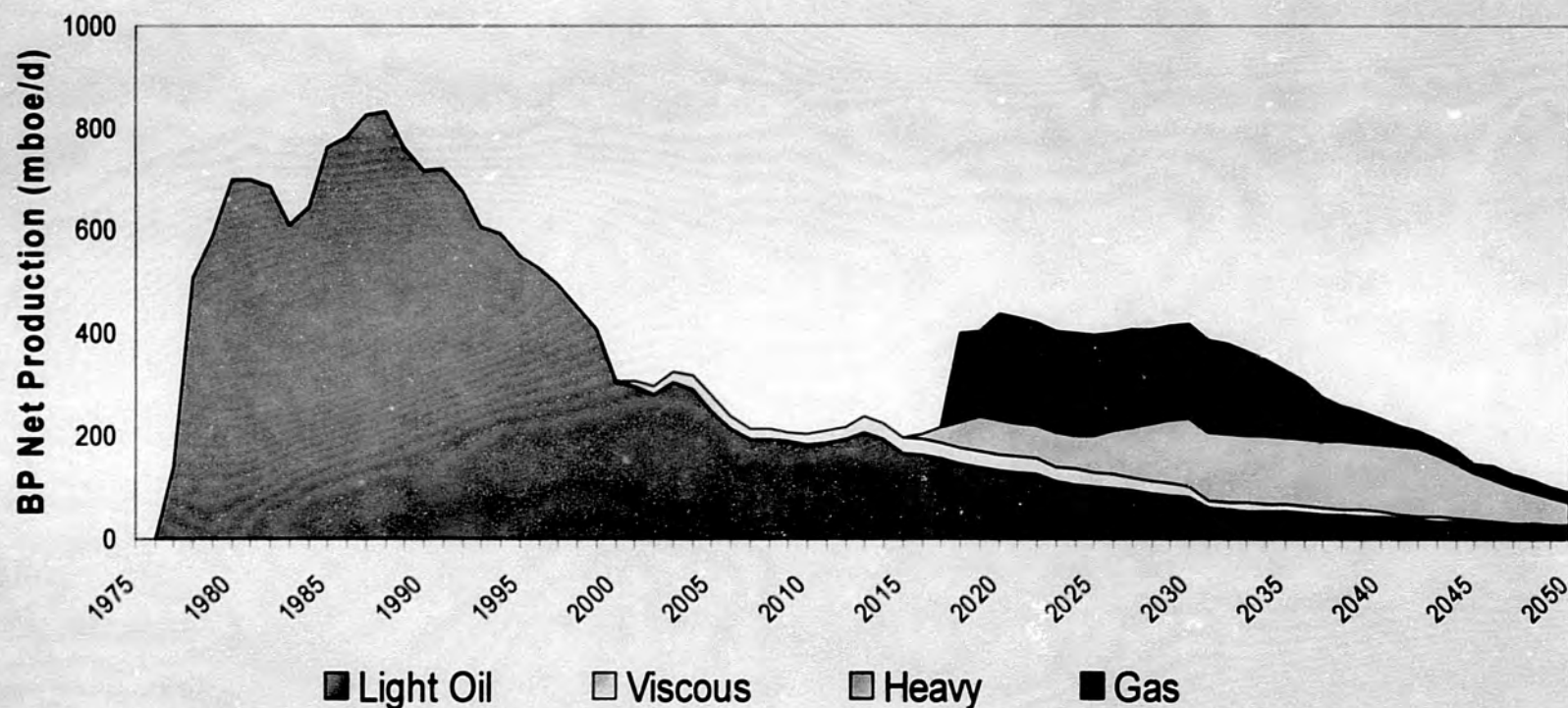
A net tax is appropriate because it taxes the reality of the business. Net taxes work all over the world.

But:

- **The level of taxation is too high and is not in the best interest of Alaska :**

A significantly lower level of taxation would maximize benefits for Alaskans (investment, production, jobs, state revenue, etc)

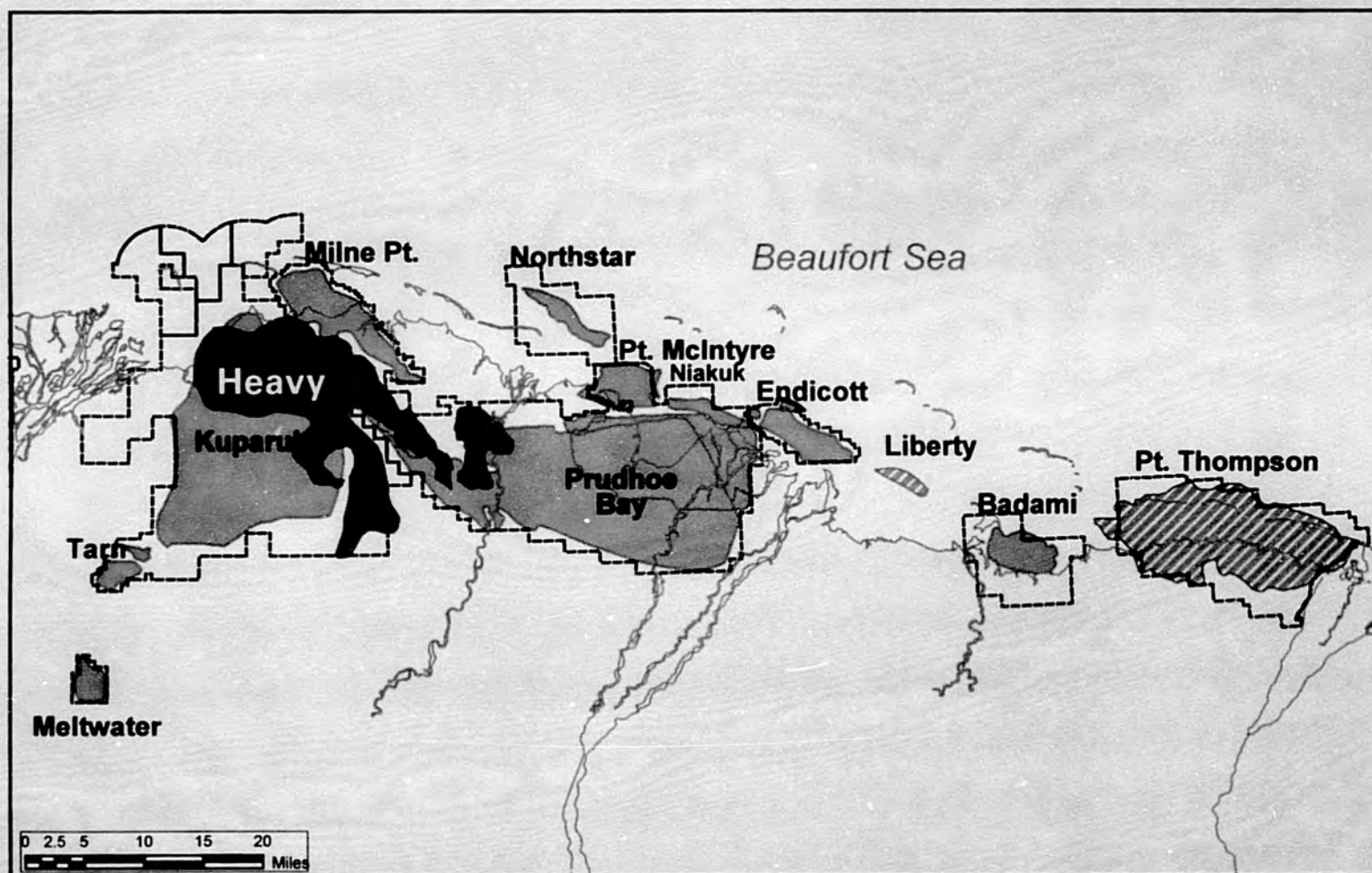
BP Alaska – Building for the future



Strategy

- FOCUS on the known Resource Base
 - Manage decline for Light Oil
 - Unlock Heavy Oil
- ACCELERATE RENEWAL of facilities, infrastructure and people
- BRIDGE to Gas

Known Opportunities on North Slope



Status of Known Alaska Oil



	Light Oil	Heavy Oil (Collectively)	
		Viscous Oil (Schrader & West Sak)	Heavy Oil (Ugnu & West Sak)
Viscosity Continuum (cp)	<1 (water)	5 – 300 (maple syrup)	300 – 50,000 (molasses)
OOIP (Billions of barrels)	35	6.5	20
Potential Recovery Current View (%)	~ 50%	~ 10 - 25%	0 - 20%
Oil-in-Place Status • Prod: Cumulative to YE 05 • Potential: remaining potential recovery • ROIP: remaining oil-in-place at end of field life	ROIP 50% Prod 40% Potential 10%	Prod 1% Potential 24% ROIP 75%	Prod 0% Potential 20%

Proposed Liberty Development



Ultra-Extended Reach Drilling (uERD) Technology



- 100 million barrels recoverable
- uERD wells drilled from existing Endicott satellite drilling island
- 40,000 barrels/day peak production rate processed at Endicott
- Capital investment over \$1 billion

Liberty Timeline

2006
Concept
Engineering

2007
Final Engineering
Permit Approval

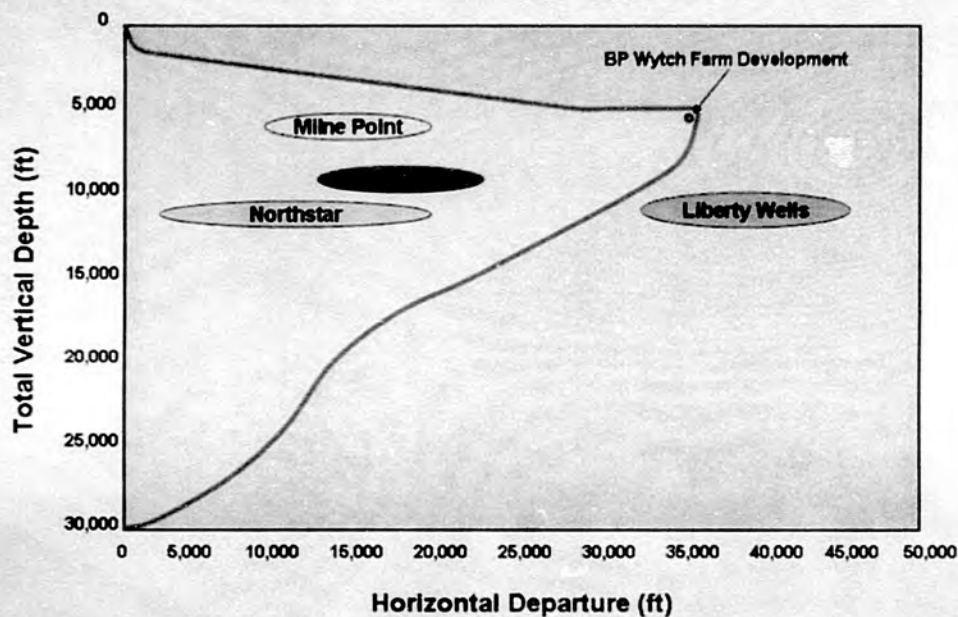
2008-2010
Construct Rig & Facilities,
Start of Drilling

2011
1st Production

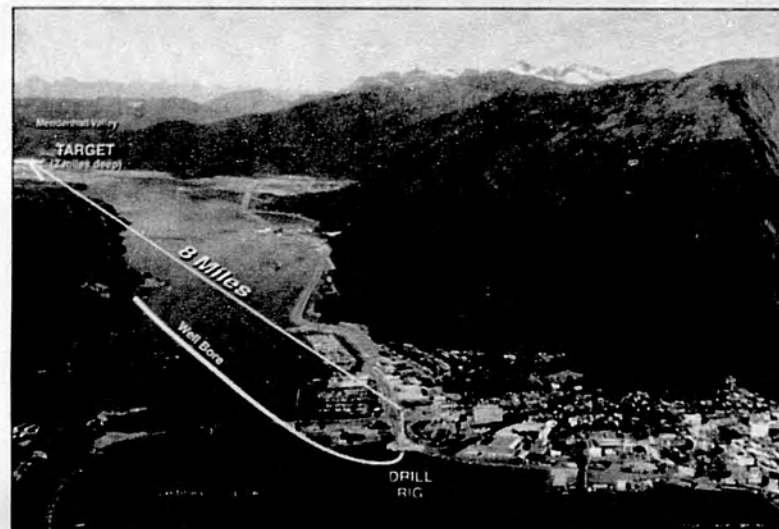
Liberty would have the longest wells ever drilled



Industry Drilling Envelope



Juneau

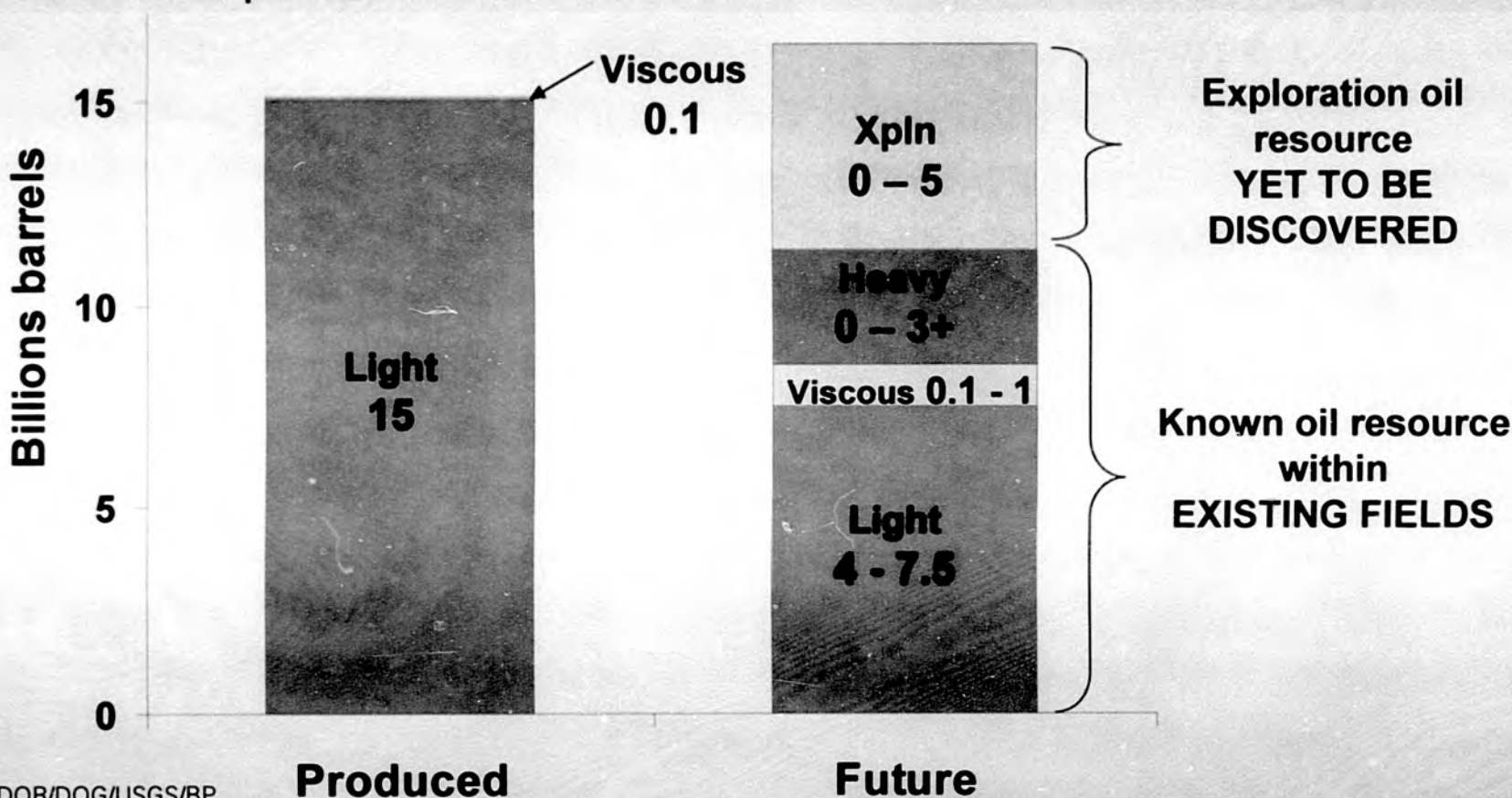


Wells with horizontal departures of 6 to 8 miles would reach from the Douglas Bridge to the Juneau airport.

The future North Slope will be different to the past



- Future production will become more and more challenging as light oil targets become smaller and less economic and the proportion of viscous oil increases
- Future production from known resources in existing fields will greatly exceed that from exploration



Key Messages

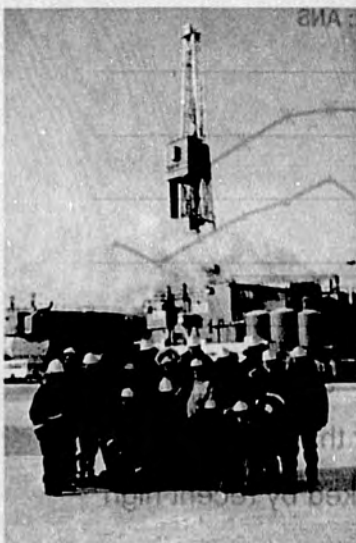


- North Slope Production will continue to decline until there is a step change in investment.
- The structure of PPT has merit but the level of taxation is too high and is not in the best interest of Alaska.
- Alaska is blessed with vast oil and gas resources, but they are expensive to produce.
- BP is focused on 'exploring for the known', using new technology to bring Alaska's vast known resources to market.
- Gas is vital to Alaska's future.

Industry and Government must work closely together if we are to make the possible happen, stem North Slope decline, and deliver the 50 year future.

Testimony to AK House W&M Committee

Darren Jones
VP, Commercial Assets
ConocoPhillips Alaska, Inc

Company Description**Alaska's No. 1 Oil & Gas Producer**

2006 production: 280,700 BOD

2006 production: 145 MMCFD

Alaska's No. 1 Explorer

7 exploration wells in 2006 (operated 5)

5 exploration wells 2007

2 new satellites started in 2006

Fiord & Nanuq

Largest Owner of State & Federal Leases

605,755 acres developed '06

2.9 million acres undeveloped '06

Community Supporter

2006: \$11.7 Million Contributions

Overview

ConocoPhillips

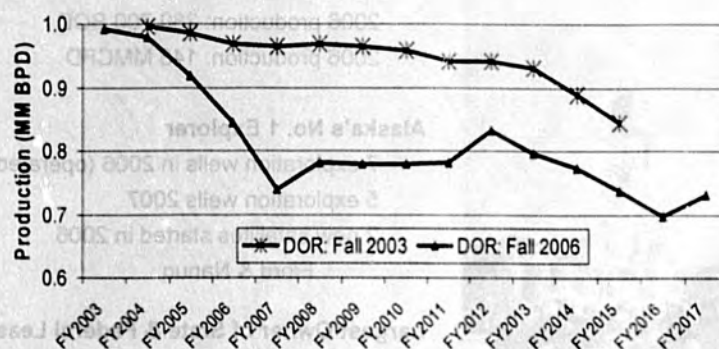
- CPAI's view of North Slope oil production
- Several factors affecting production decline
- Minimization of oil decline requires a favorable fiscal and regulatory environment



NS Production Decline

ConocoPhillips

Production Forecast: ANS

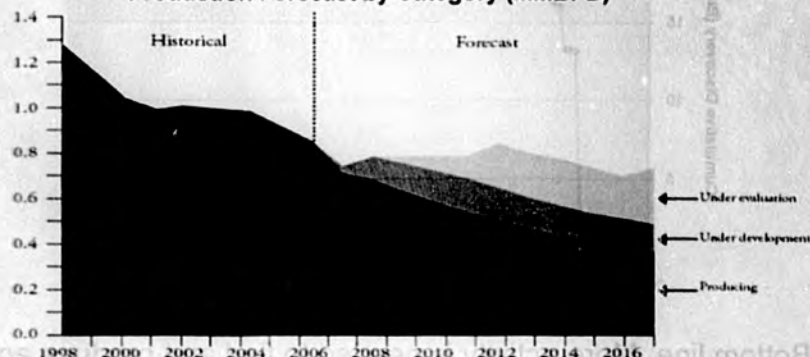


- NS production is declining faster than DOR forecast
- Production volume shortfall masked by recent high oil prices

DOR Forecast Depends on New Oil ConocoPhillips

- A significant proportion of future production is expected to be "new oil"
 - New oil accounts for 20% of production by FY2009, 40% by FY2012
- "New oil" is already discovered but not yet producing (either under evaluation or under development)

Production Forecast by Category (MMBPD)



(1) Some of the oil forecasted in the Under Development and Under Evaluation categories are from new projects in fields currently producing.

Satellite Discoveries Down ConocoPhillips

- Satellite discoveries becoming smaller in size
- Satellite discoveries becoming less frequent
- New satellites are more remote, thus more costly to develop
- World rule-of-thumb: Biggest discoveries come early and decline in size over time (creaming curve)

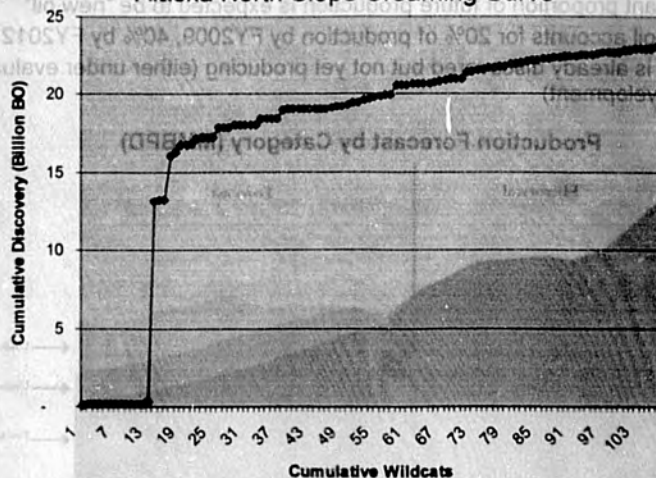
Satellite	Online	Size (mmbbl)	Operator
Alpine West	2008*	n/a	CPAI
Fiord	2006	50	CPAI
Nanuq	2006	40	CPAI
Qannik	2006	n/a	CPAI
Palm	2002	30	CPAI
Meltwater	2001	26	CPAI
Alpine	2000	700	CPAI
Tabasco	1998	25	CPAI
Tarn	1998	136	CPAI
Borealis	2001	100	BP
NorthStar	2001	247	BP
Aurora	2000	44	BP
Polaris	1999	40	BP
Eider	1998	4	BP
Midnight Sun	1998	21	BP
Oooguruk	2008	75	Pioneer

Source: AOGCC Pool Statistics, et al.

Satellite Discovery Sizes Down

ConocoPhillips

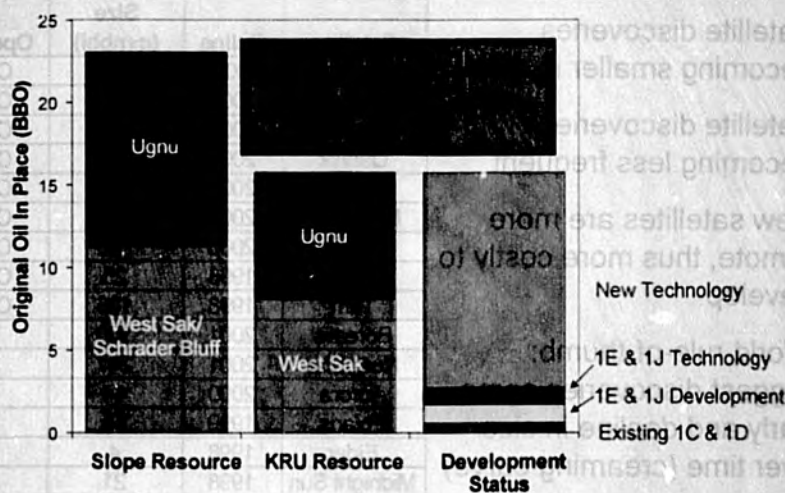
Alaska North Slope Creaming Curve



Bottom line: More activity is needed to find and produce an equivalent barrel

Heavy Oil Costs More, Needs Investment

ConocoPhillips



Competition for Key Inputs

ConocoPhillips

Over the past few years, hyperinflation in the oil and gas industry has resulted in billions of dollars of cost overruns in the development of new oil & gas fields. Moreover, there is currently very little spare capacity in the markets for rigs, steel, labour and other essential materials and therefore the inflation rate shows no signs of decreasing in the near term.

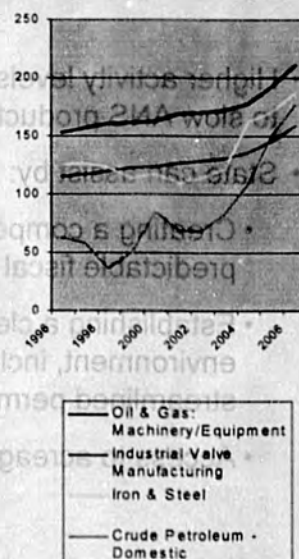
- Wood Mackenzie, July 2006

- Crude oil price increases have led to tight supply market and increased costs for material, services and labor
- Project schedules also negatively impacted by availability of key resources
- Higher supply costs have a negative impact on project economics

Producers Price Index - Hyperinflation

ConocoPhillips

- The **Producer Price Index (PPI)** program measures the average change over time in the selling prices received by domestic producers for their output
- Recent years have seen hyperinflation in services, supplies and equipment needed to maintain and expand North Slope operations
- Operating costs do not decrease with a decrease in crude oil price



Source: US Department of Labor

Facility Age Impacts

ConocoPhillips



- Benefit of longer ANS field life is more production volume
- Challenge is that facilities & wells were not designed for 70-80 years of life
- Older facilities have higher downtime; less annual production
- Life cycle replacements will take money and resources away from adding new production volumes

Offsetting Production Decline

ConocoPhillips

- Higher activity levels are needed to slow ANS production decline
- State can assist by:
 - Creating a competitive and predictable fiscal regime
 - Establishing a clear regulatory environment, including a streamlined permitting process
 - Access to acreage



Conclusion

ConocoPhillips

- Alaska North Slope crude is declining, a challenge given the dependence of State government funding on this revenue source
- State can assist by providing an attractive investment environment
- State should consider plans to bridge potential State revenue gap until ANS Gas industry is started

Alaska oil

Monday's closing price per barrel on West Coast open markets.



Graph courtesy of ADN 1/30/07