AK LEGISLATURE SPECIAL COMMITTEE FILES SCOMM 150 3247

121

SCOMM

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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
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Members:

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Capitol Room 420
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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

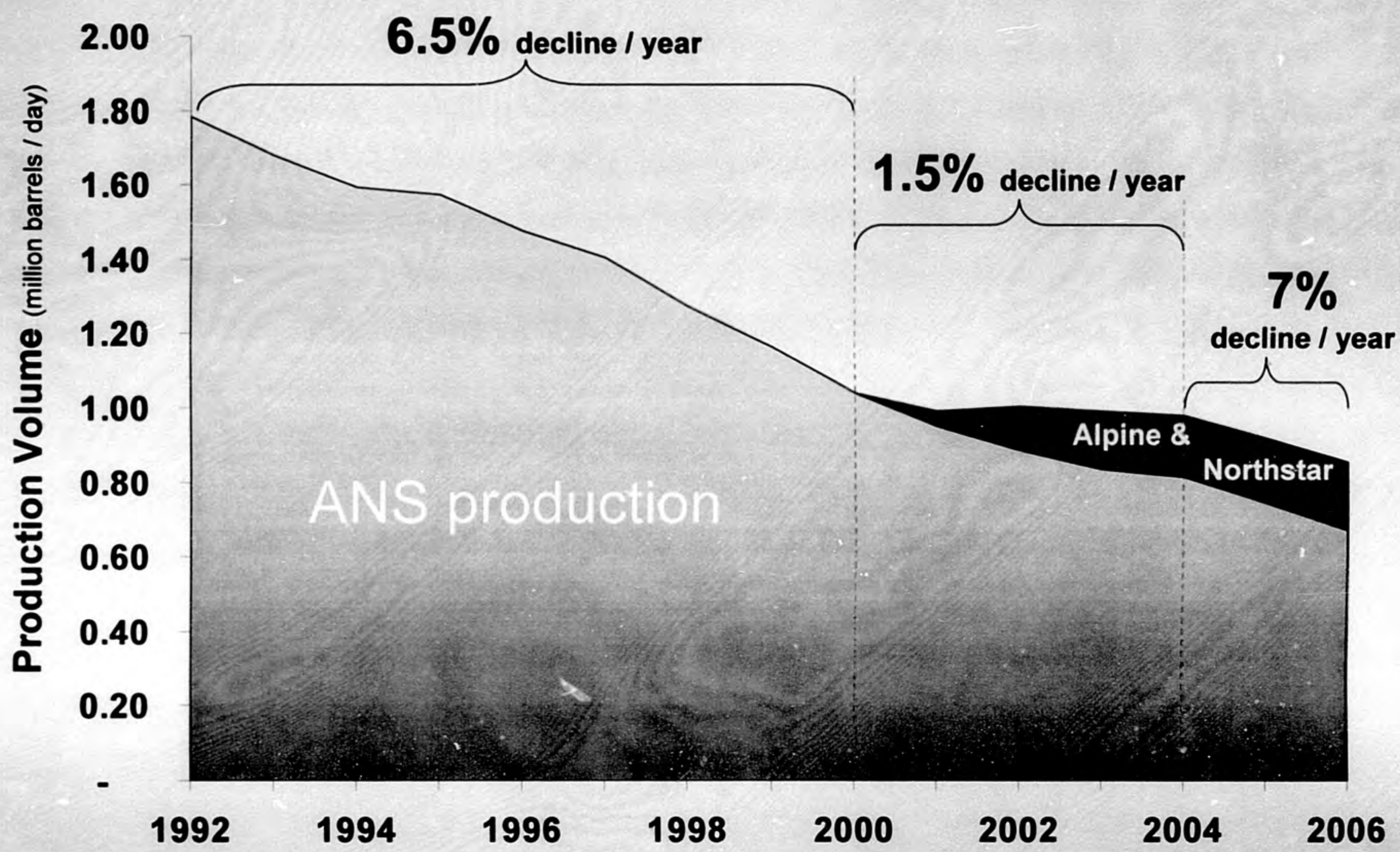
ConocoPhillips Alaska, Inc.
Darren Jones, Vice President, Commercial Assets

1/31/07 2:08 PM

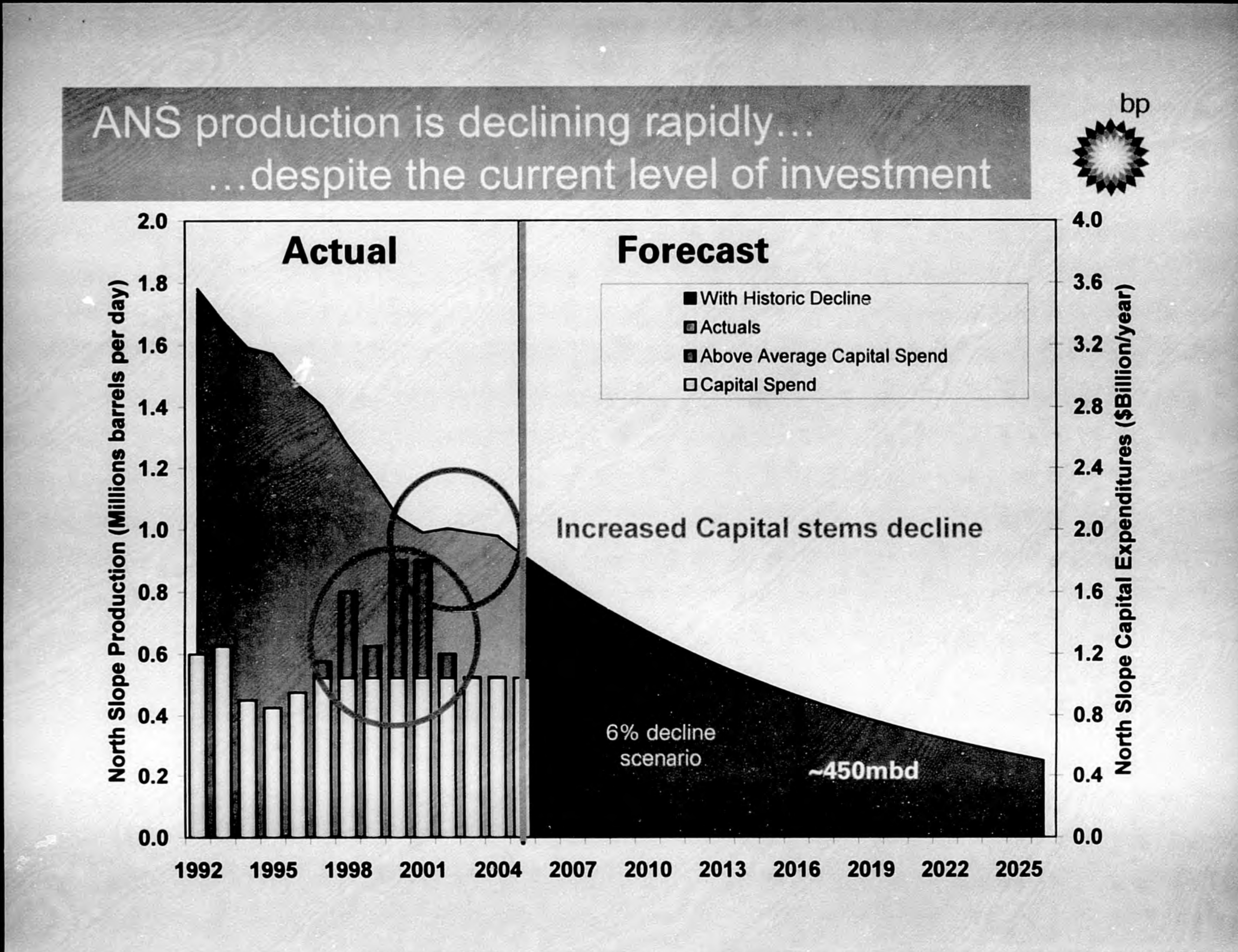
BP Presentation to the House Ways & Means Committee

Juneau
31st January 2007

North Slope Production Decline

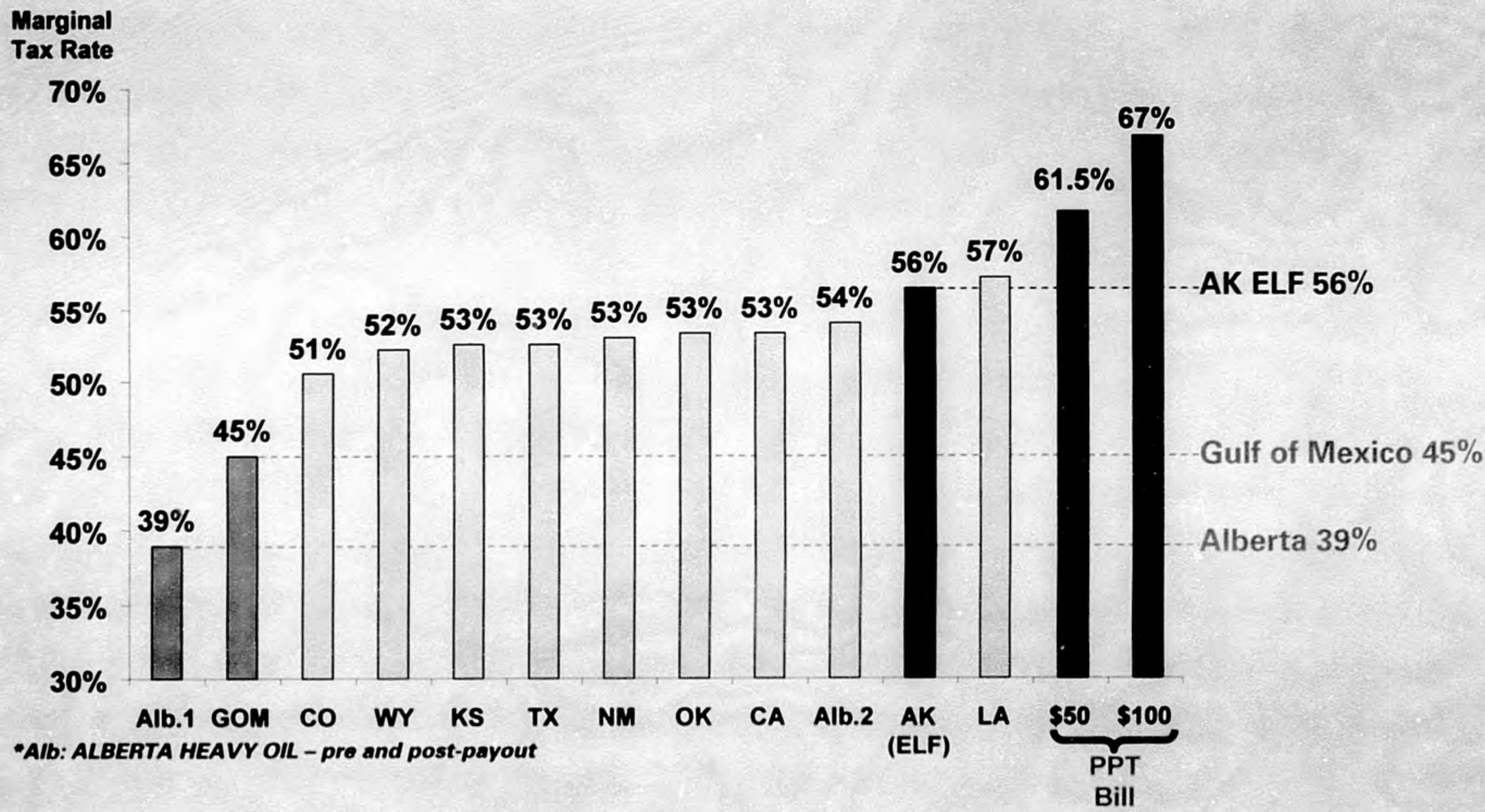


Source: Alaska Department of Revenue



ANS production is declining rapidly…
…despite the current level of investment
bp
Actual
Forecast
With Historic Decline
Actuals
Above Average Capital Spend
Capital Spend
Increased Capital stems decline
6% decline scenario
~450mbd
North Slope Production (Millions barrels per day)
North Slope Capital Expenditures ($Billion/year)
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
4.0
3.6
3.2
2.8
2.4
2.0
1.6
1.2
0.8
0.4
0.0
1992
1995
1998
2001
2004
2007
2010
2013
2016
2019
2022
2025

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



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

BP data

Petroleum Production Tax

bp

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

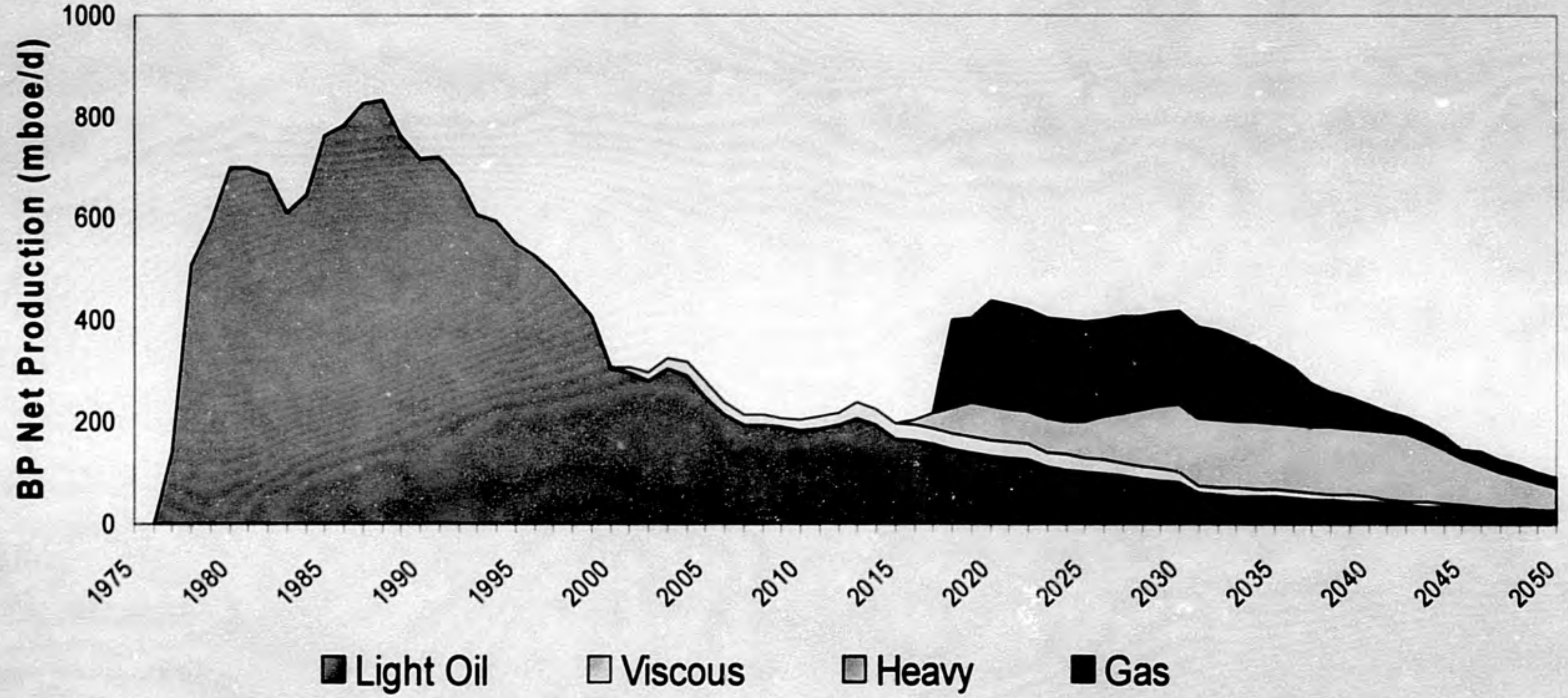
  A net tax is appropriate because it taxes the reality of the business. Net taxes work all over the world.

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)

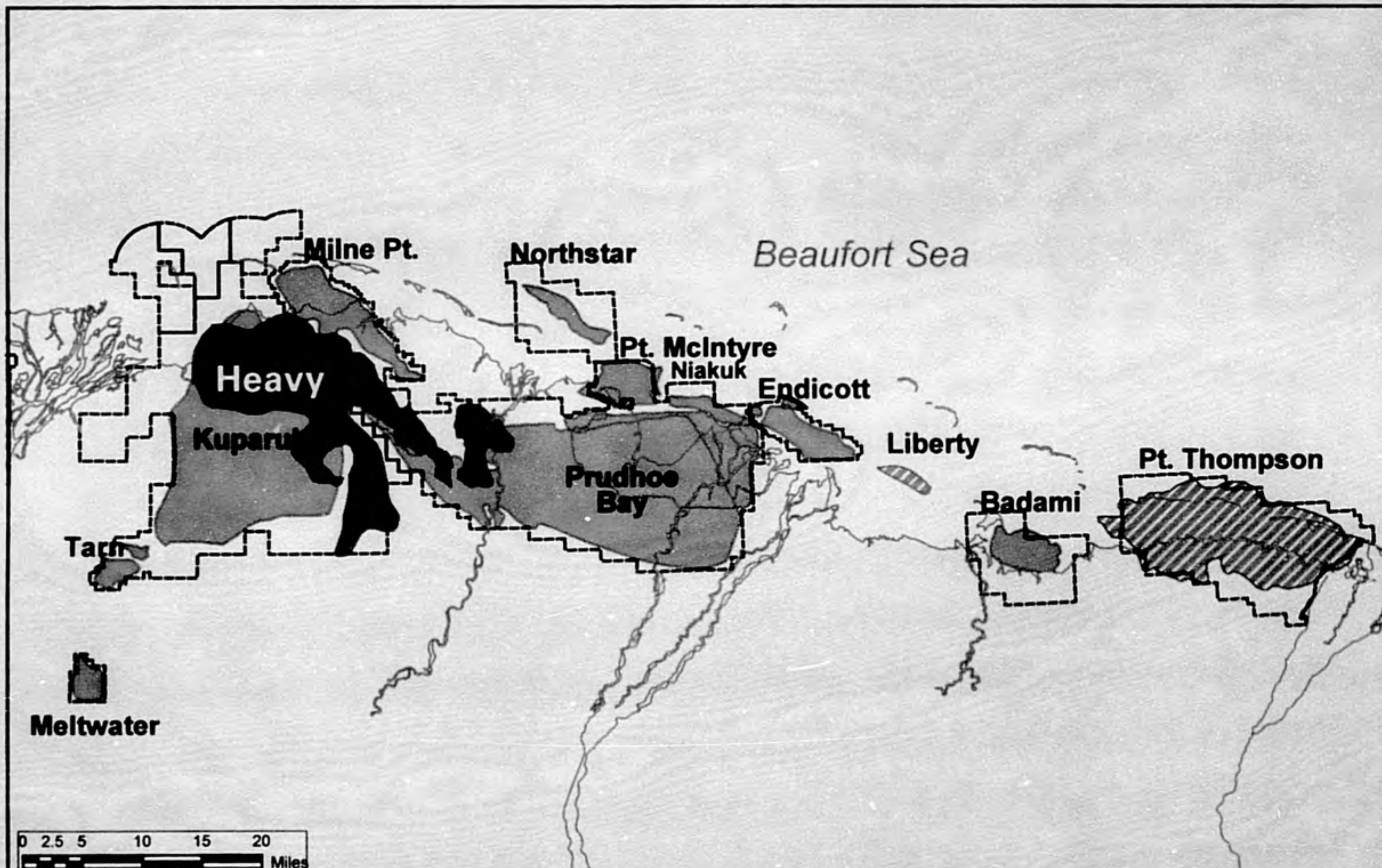
BP Alaska – Building for the future



Strategy

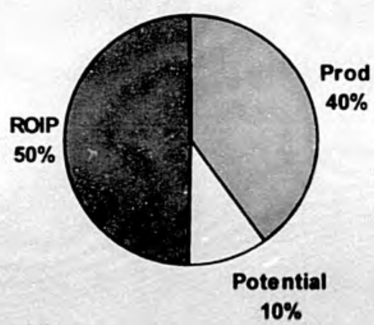
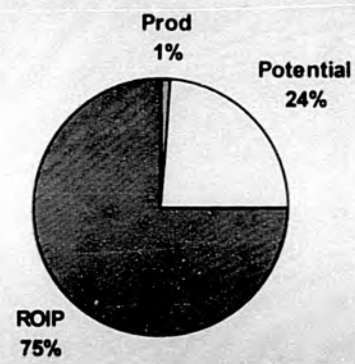
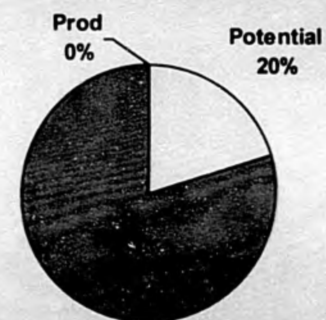
- FOCUS on the known Resource Base
  - Manage decline for Light Oil
  - Unlock Heavy Oil
- ACCELERATE RENEWAL of facilities, infrastructure and people
- BRIDGE to Gas

Known Opportunities on North Slope



Status of Known Alaska Oil

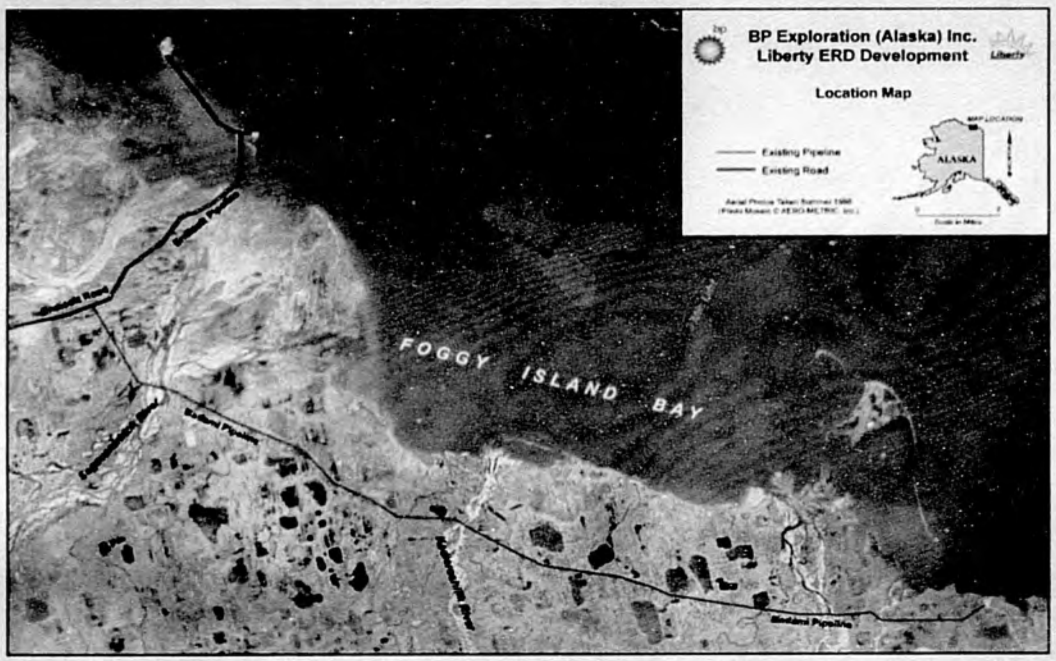
bp

	Light Oil	Heavy Oil (Collectively) Viscous Oil (Schrader & West Sak)	Heavy Oil (Collectively) 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			

Proposed Liberty Development

bp

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

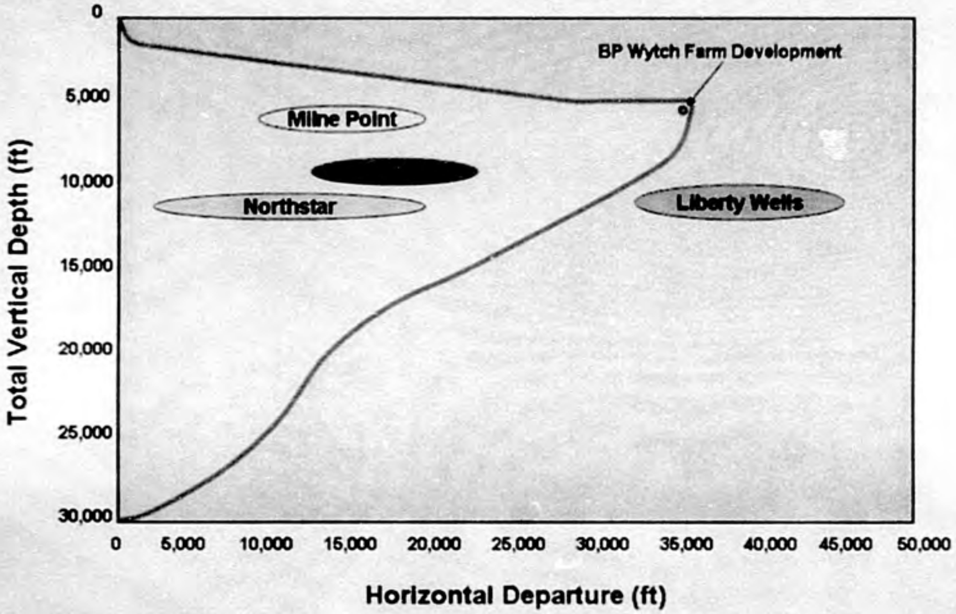
Liberty Timeline

2006	2007	2008-2010	2011
Concept Engineering	Final Engineering Permit Approval	Construct Rig & Facilities, Start of Drilling	1st Production

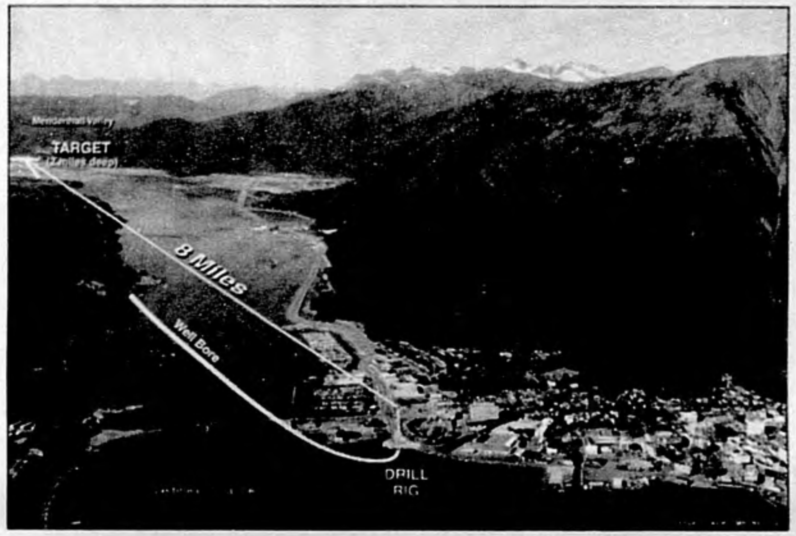
Liberty would have the longest wells ever drilled

bp

Industry Drilling Envelope



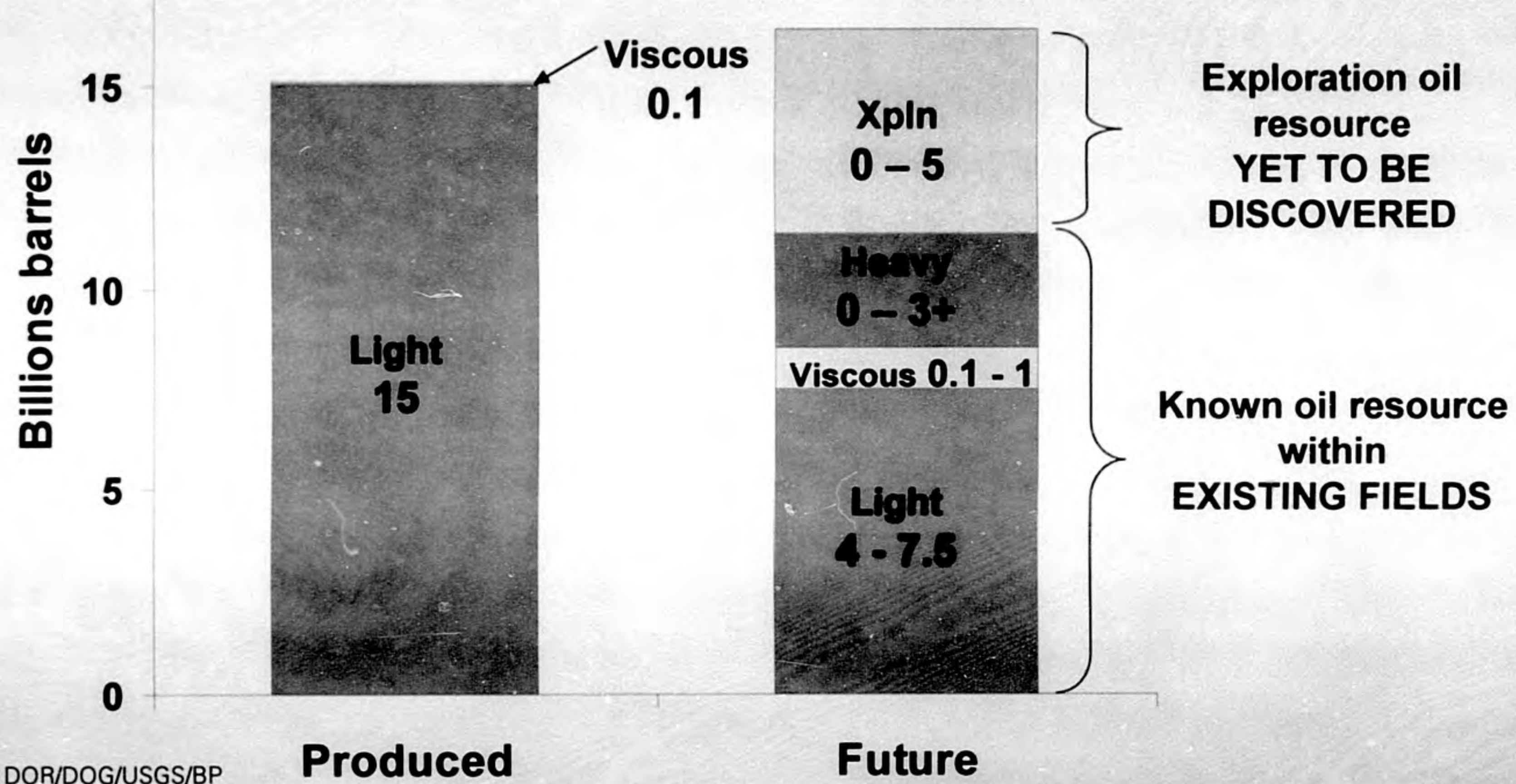
Juneau



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



Source: DOR/DOG/USGS/BP

Key Messages

bp

- 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.

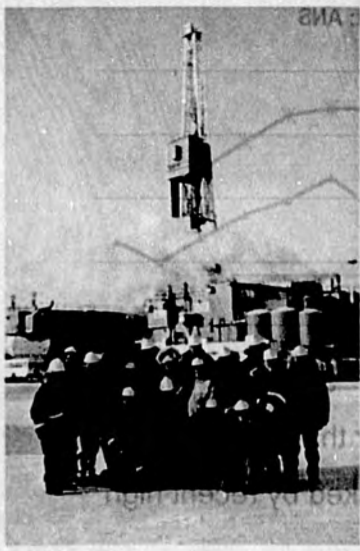
ConocoPhillips

Testimony to AK House W&M Committee

Darren Jones
VP, Commercial Assets
ConocoPhillips Alaska, Inc

Company Description

ConocoPhillips



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

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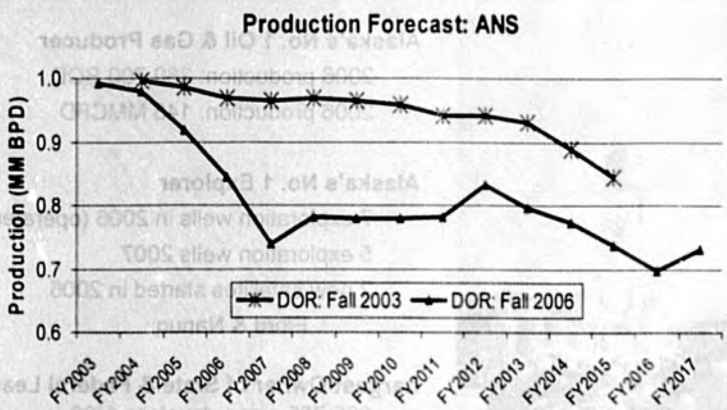


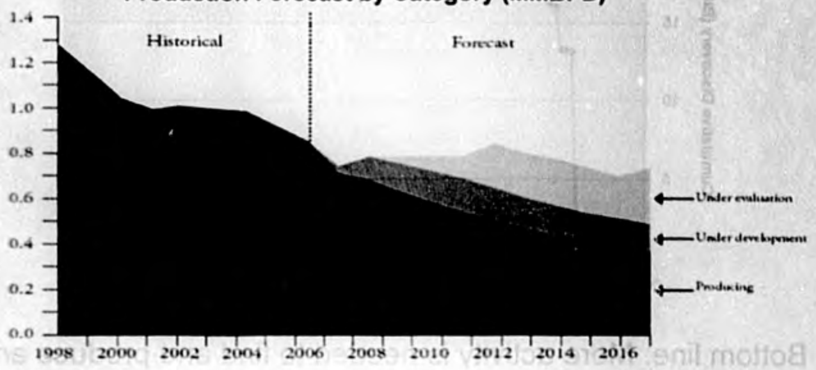
- NS production is declining faster than DOR forecast
- Production volume shortfall masked by recent high oil prices

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

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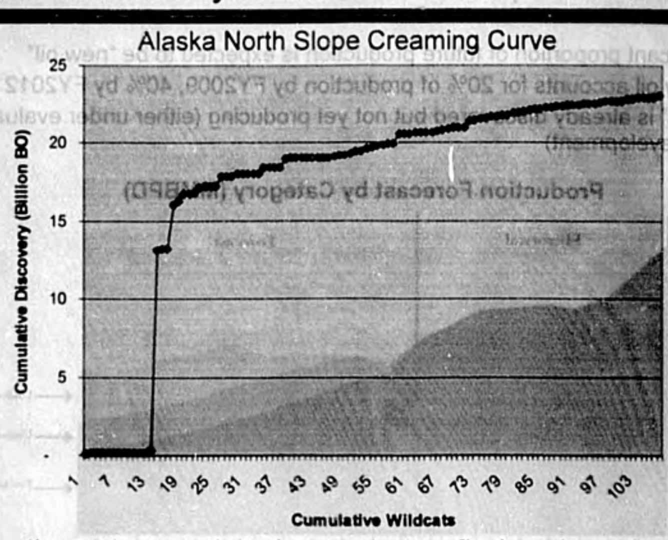

Bottom line: More activity is needed to find and produce an equivalent barrel

Heavy Oil Costs More, Needs Investment

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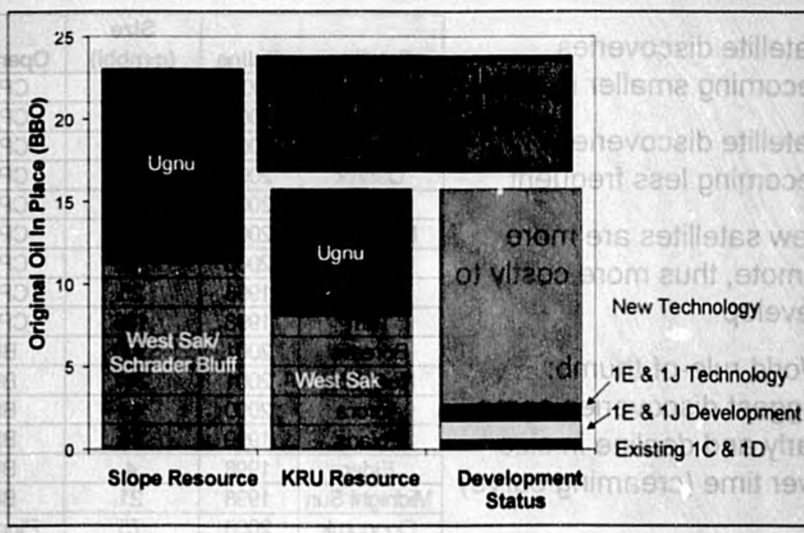


Competition for Key Inputs

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.

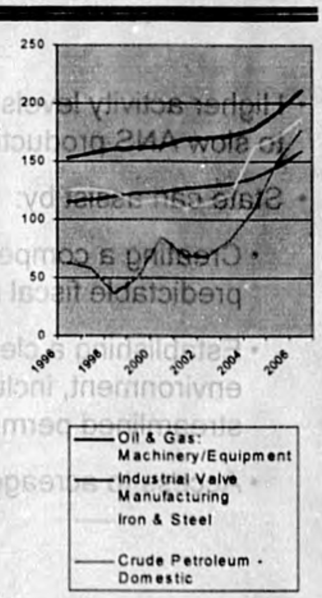
- Wood Mackenzie, July 2006

- 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

Graph courtesy of ADN 1/30/07

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150:3

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AGENDA

February 5, 2007
3:30 – 5:00 pm

Where did the fiscal gap go? Part III
Office of Management and Budget: Expense Projection

Presenters:

John Boucher, Senior Policy Analyst
Office of Management and Budget

Melanie Millhorn, Deputy Commissioner
Department of Administration

Janet Clarke, Assistant Commissioner
Department of Health & Social Services

Jill Lewis, Medicaid Budget Unit
Department of Health & Social Services

Office of Management and Budget

Presentation to Ways and Means Committee

February 5, 2007

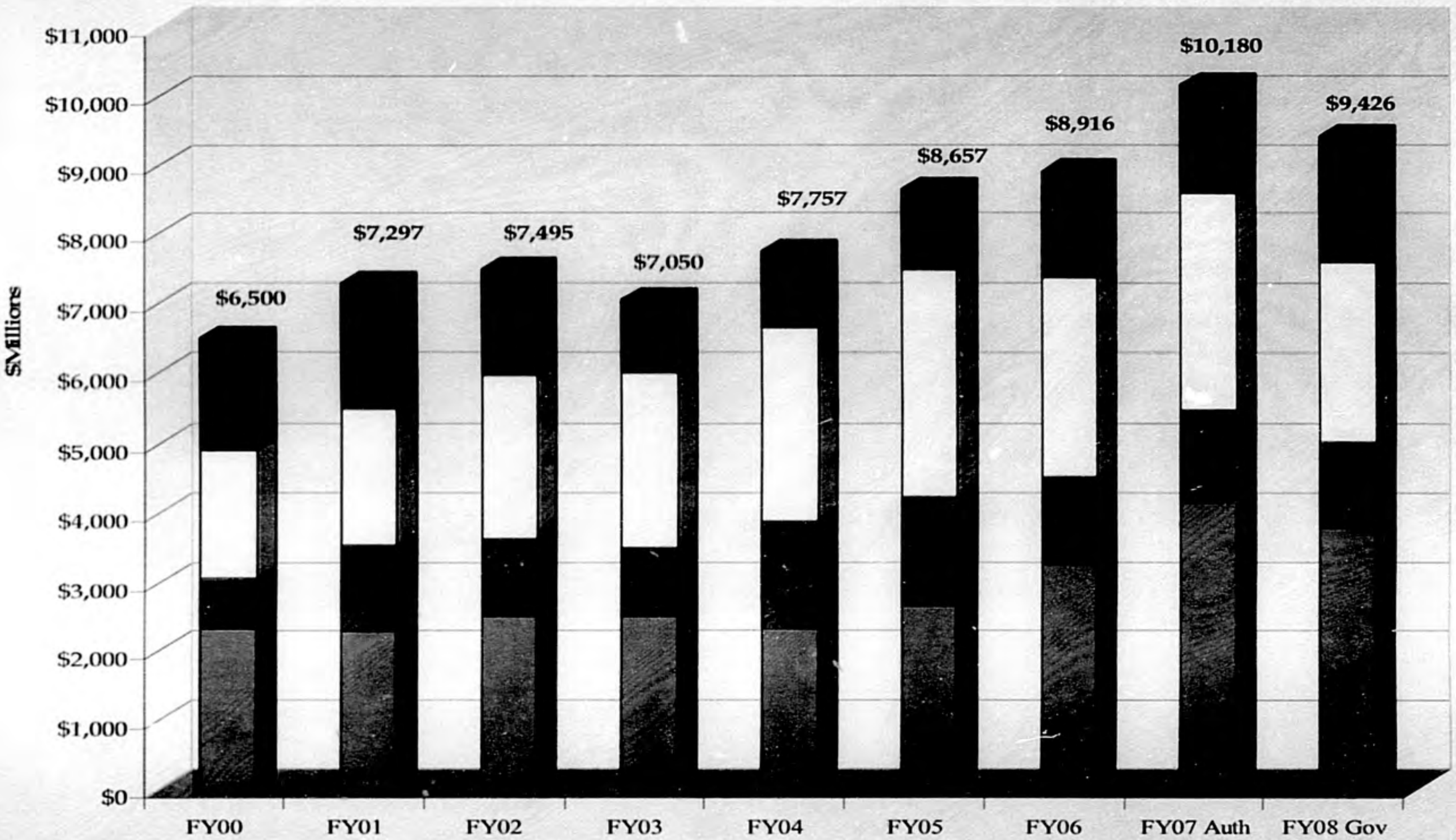
Where Did The Fiscal Gap Go?

Agenda

- Macro Budget Overview
  - Appropriations by Revenue Source
  - Defining the "Gap"
- Appropriations versus Revenue
  - History
  - 2 Spending Scenarios
- 2 Spending Drivers
  - PERS/TRS
  - Medicaid

Total Appropriations by Revenue Source

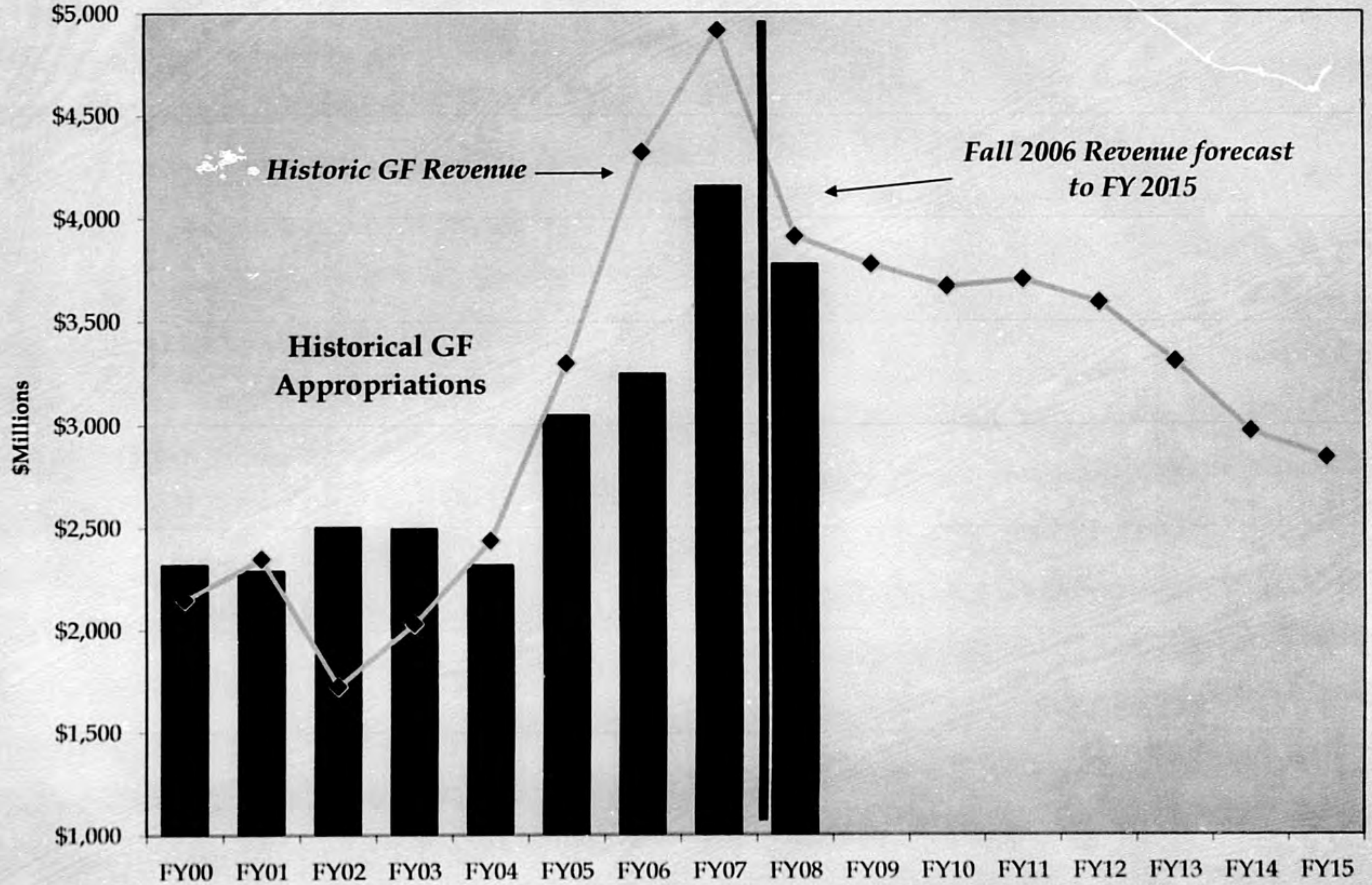
FY 2000 – FY 2008 Governor's Proposed



Sources: Legislative Finance Budget History File and OMB Fiscal Summaries.
*Permanent Fund (PF) includes appropriations for dividends and inflation proofing.

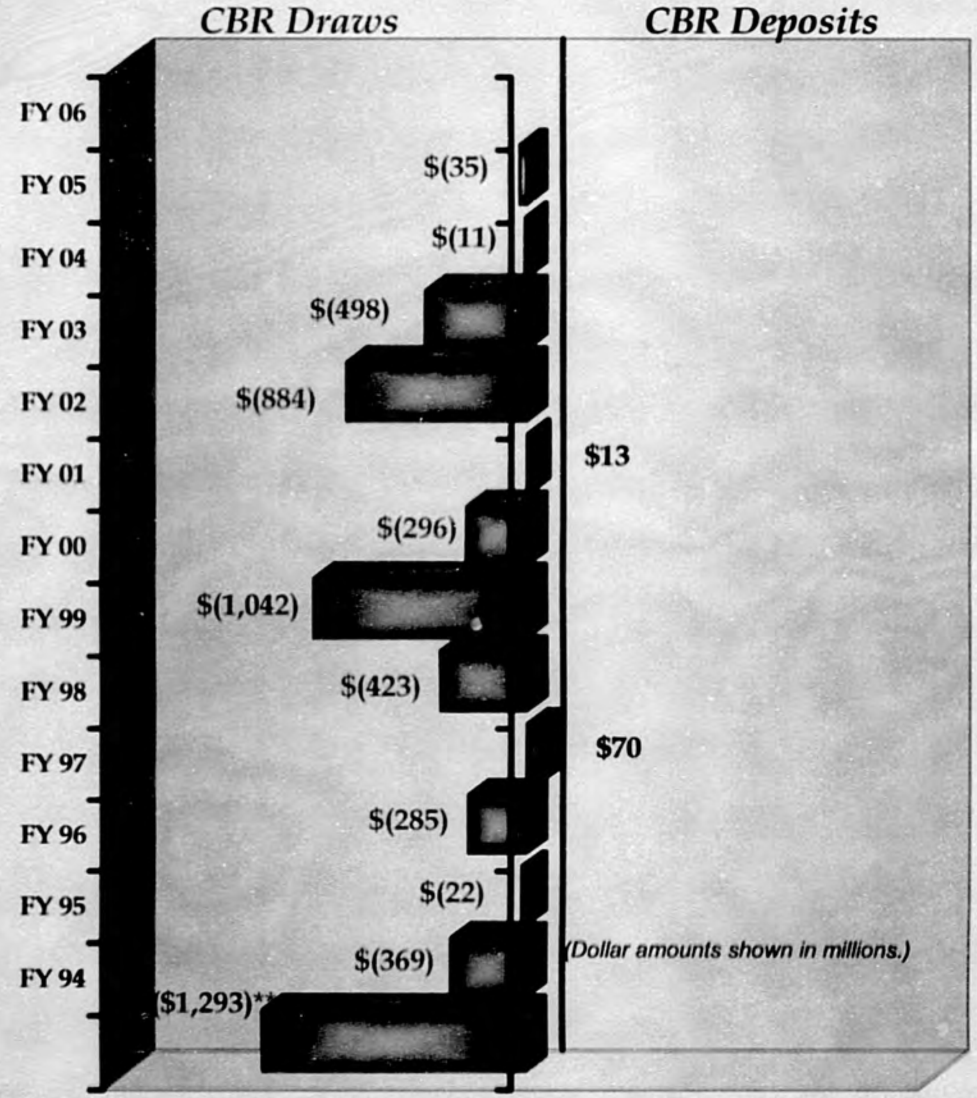
General Fund Revenue versus Appropriations

FY2000 – FY2008 Governor's Proposed



Source: Office of Management and Budget and Alaska Department of Revenue Fall 2006 Revenue Sources Book.

CBR Draws Total $5.2 Billion



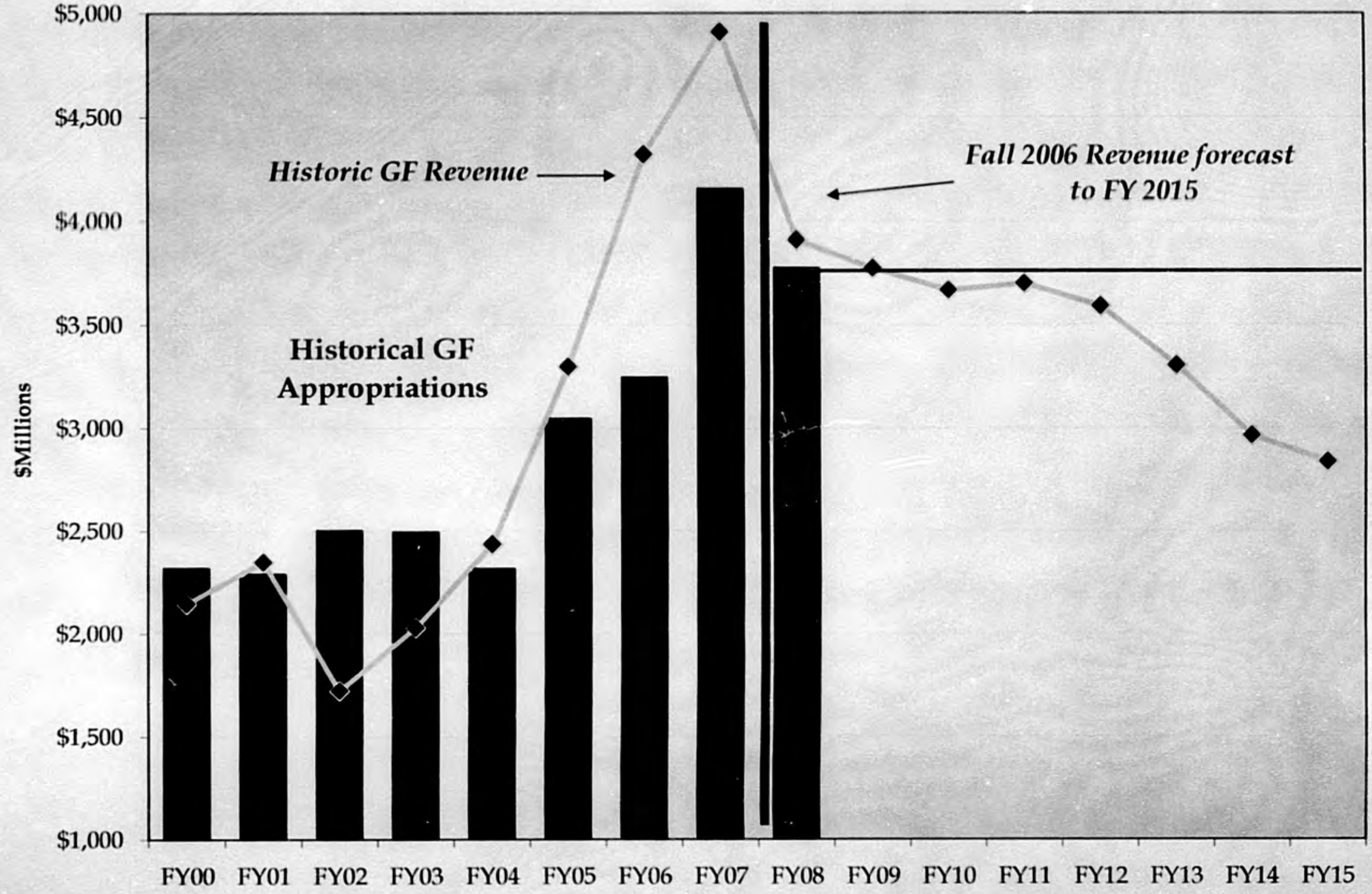
*Non-deficit borrowing includes Court ordered reconstitution of the CBR, Y2K expenditures, Mental Health Trust settlement and PCE endowment.

Total appropriations from the CBRF are $5,162 million

Source: Office of Management and Budget

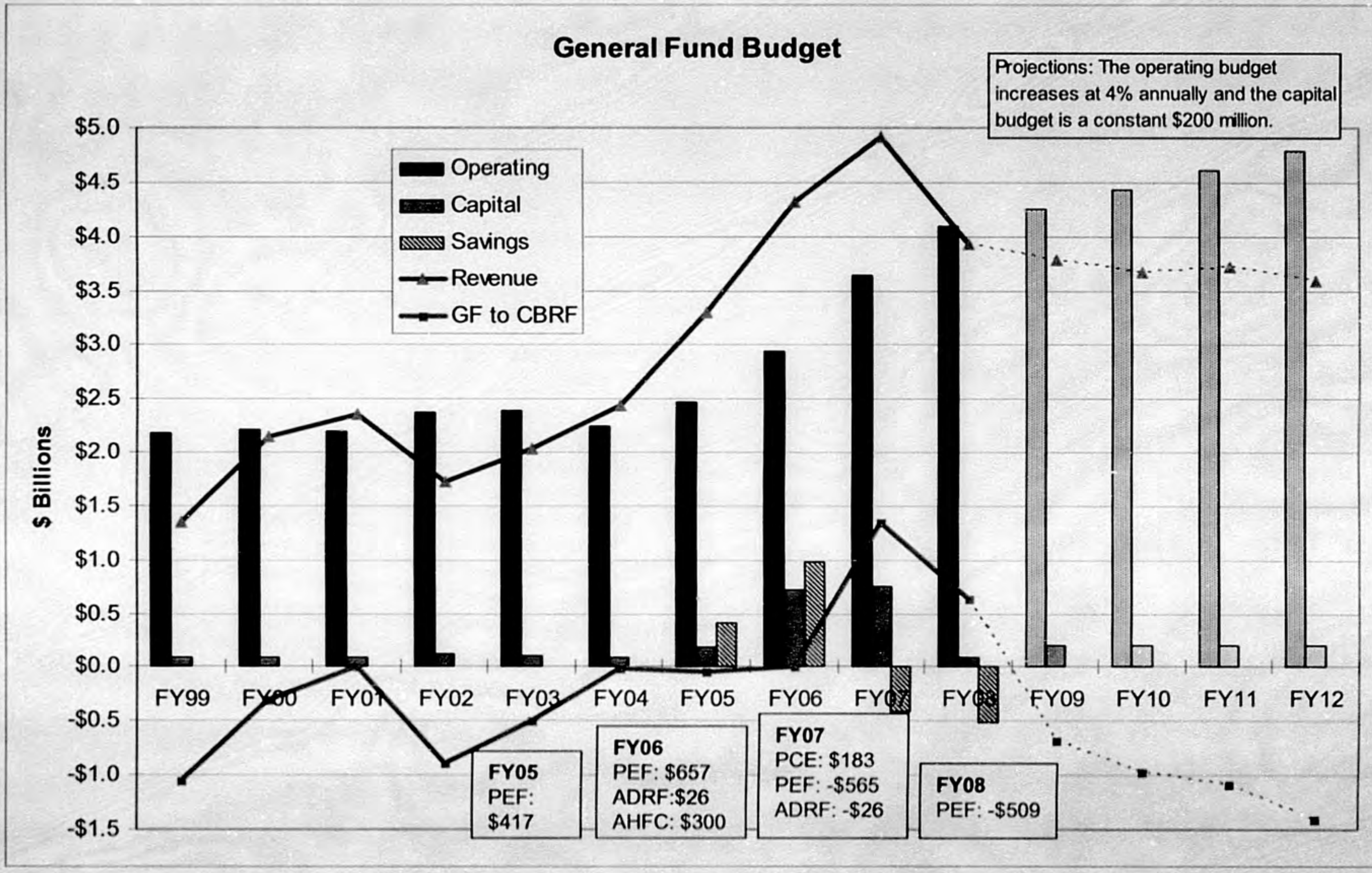
General Fund Revenue versus Appropriations

FY2000 – FY2008 Governor's Proposed



Office of Management and Budget

Source: Office of Management and Budget and Alaska Department of Revenue Fall 2006 Revenue Sources Book.



Office of Management and Budget

Source: Legislative Finance Division

Constitutional Budget Reserve Runout Matrix

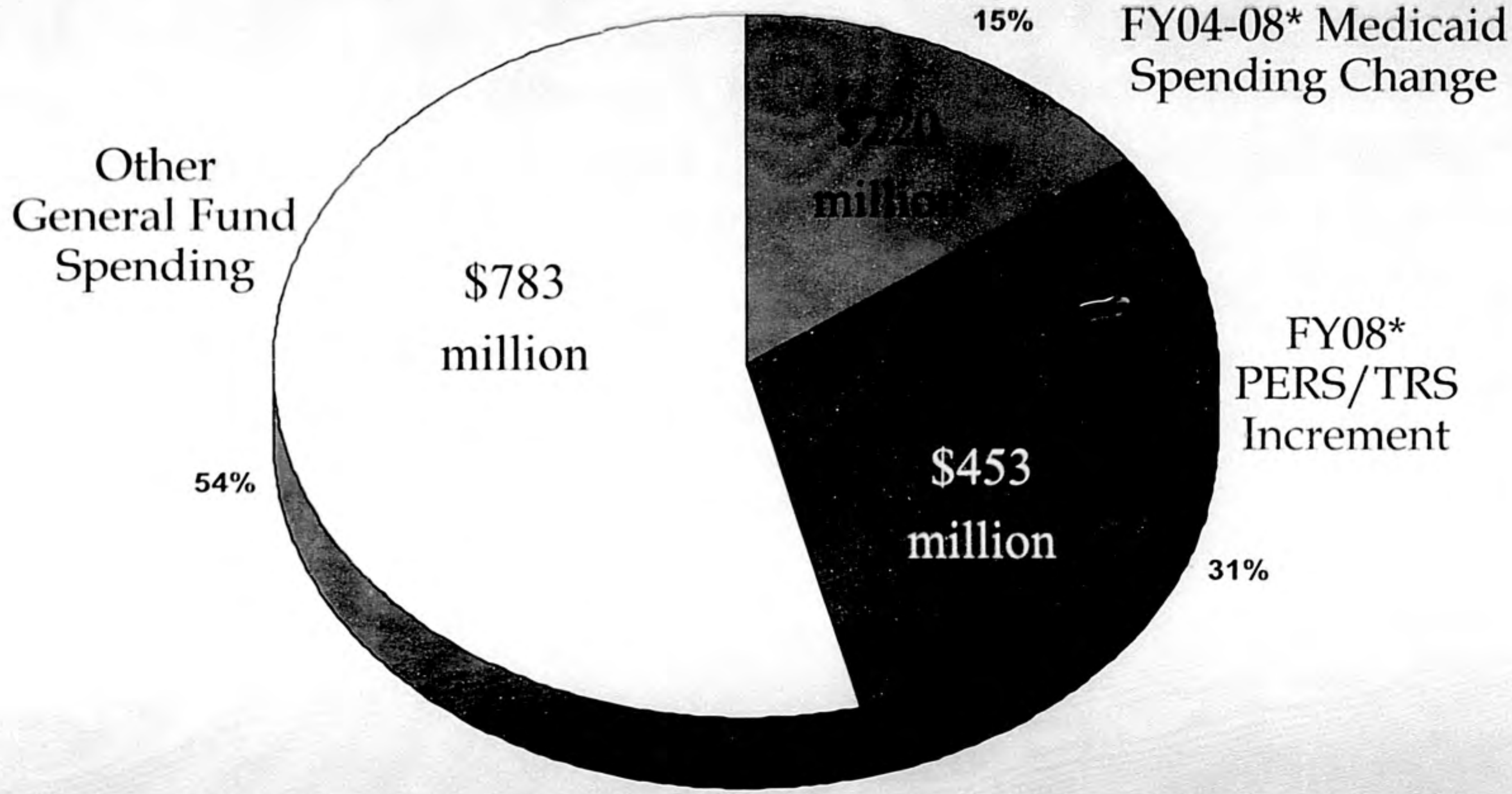
Fall 2006 Revenue Sources Book

(Page 18)

Annual State Budget After FY 07 ($ billion)	Fall 2006 Oil Price Forecast(2)	Fiscal Model of Oil Revenue & CBRF Performance at Selected Prices ($/barrel) (3) $25	$35	$45	$55	$65
2.3	Dec 2020	Aug 2015	Dec 2020	Dec 2020	Dec 2020	Dec 2020
2.7	Dec 2020	Mar 2012	Dec 2020	Dec 2020	Dec 2020	Dec 2020
3.0	Dec 2020	Jan 2011	May 2017	Dec 2020	Dec 2020	Dec 2020
3.3	Dec 2020	May 2010	Nov 2013	Dec 2020	Dec 2020	Dec 2020
3.7	Dec 2020	Oct 2009	Jul 2011	Apr 2019	Dec 2020	Dec 2020
4.0	Feb 2017	Jun 2009	Aug 2010	Mar 2015	Dec 2020	Dec 2020
4.3	Sep 2014	Mar 2009	Feb 2010	Sep 2012	Dec 2020	Dec 2020
4.6	Jan 2013	Dec 2008	Sep 2009	Apr 2011	Dec 2017	Dec 2020

The PERS/TRS/Medicaid challenges

Percent of overall GF change from FY04 to FY08*

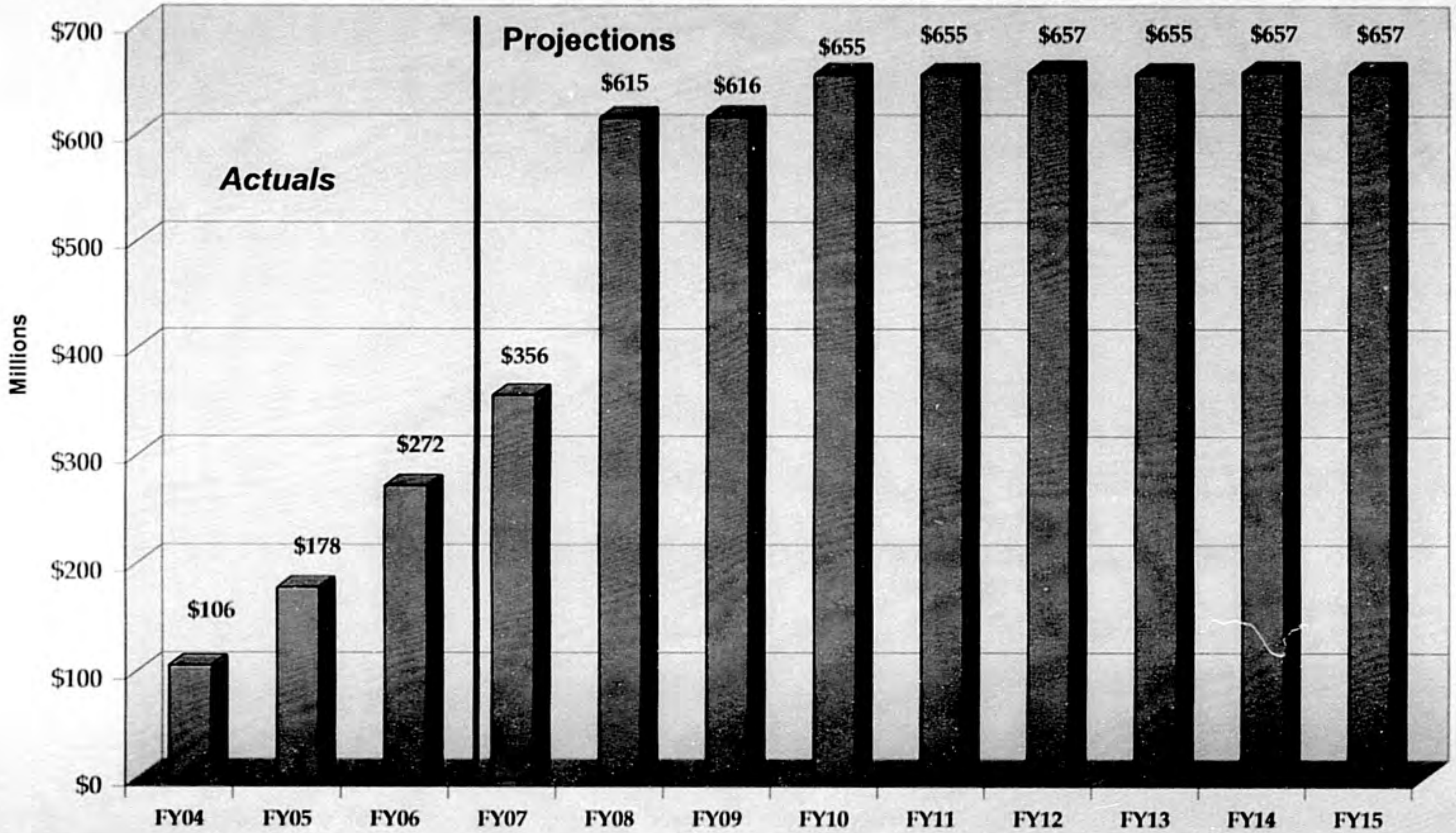


Total GF increase FY04-FY08*: $1,456 million

* FY08 is Governor's proposed

PERS Projected Contribution Amounts to FY15

Actuarial Projections-Projections at Calculated Rate
Based on DB Only Payroll After July 1, 2006

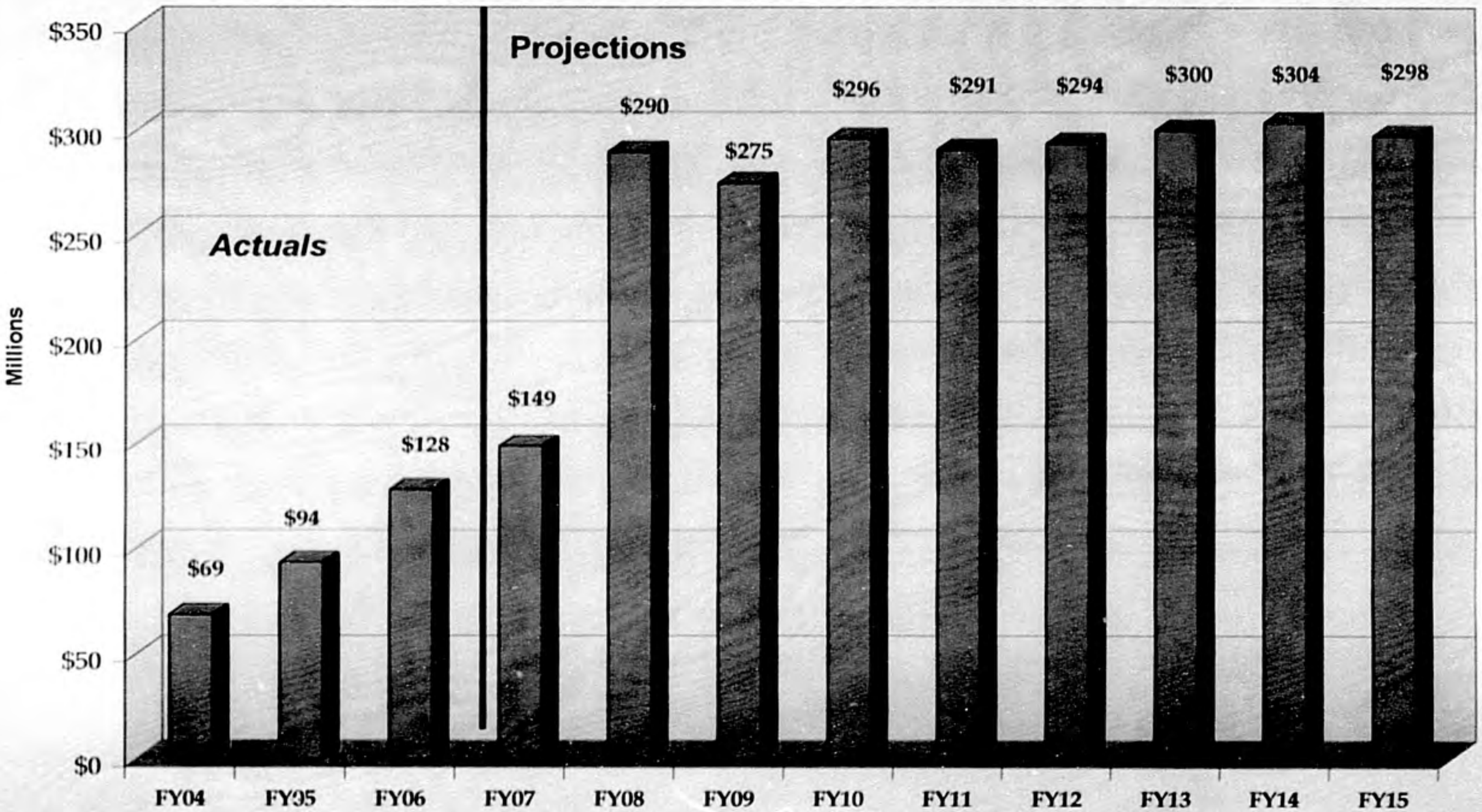


Data, Assumptions, Methods and Plan Provisions.
Assumes contribution will be on DB payroll only.
No payroll growth is used for FY08 rates and later.
No new members after July 1, 2006.
All other data, assumptions, methods and plan provisions are the same as those described in the June 30, 2005 valuation reports.

Source: Buck Consultants

TRS Projected Contribution Amounts to FY15

Actuarial Projections-Projections at Calculated Rate
Based on DB Only Payroll After July 1, 2006



Source: Buck Consultants

Data, Assumptions, Methods and Plan Provisions.

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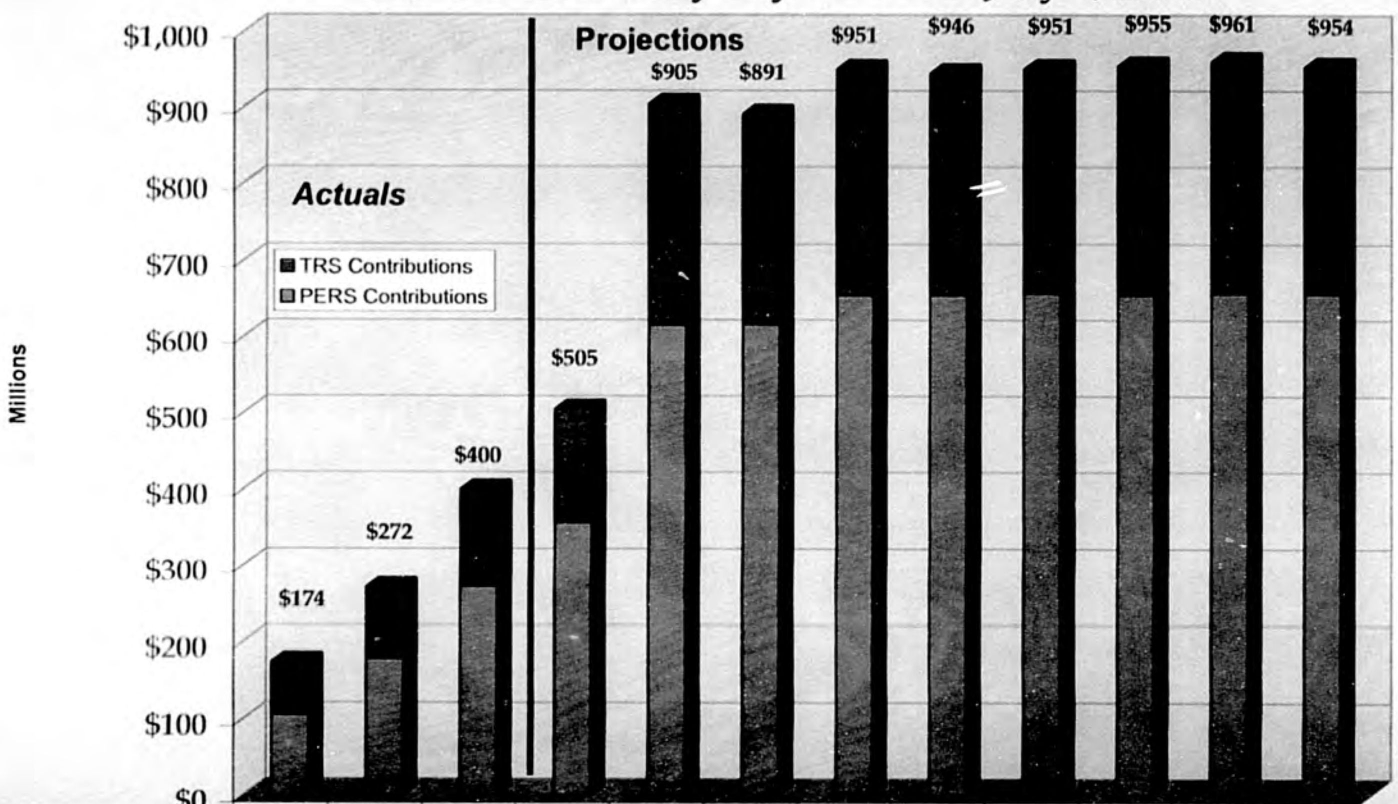
PERS/TRS Projected Contribution Amounts to FY15

Actuarial Projections-Projections at Calculated Rate
Based on DB Only Payroll After July 1, 2006



	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
TRS Contributions	$69	$94	$128	$149	$290	$275	$296	$291	$294	$300	$304	$298
PERS Contributions	$106	$178	$272	$356	$615	$616	$655	$655	$657	$655	$657	$657

Source: Buck Consultants

Data, Assumptions, Methods and Plan Provisions.

Assumes contribution will be on DB payroll only.

No payroll growth is used for FY08 rates and later.

No new members after July 1, 2006.

All other data, assumptions, methods and plan provisions are the same as those described in the June 30, 2005 valuation reports.

DEPARTMENT OF HEALTH AND SOCIAL SERVICES

PRESENTION TO THE

HOUSE WAYS AND MEANS COMMITTEE

February 5, 2007

Preliminary Update to

Long Term Forecast

of

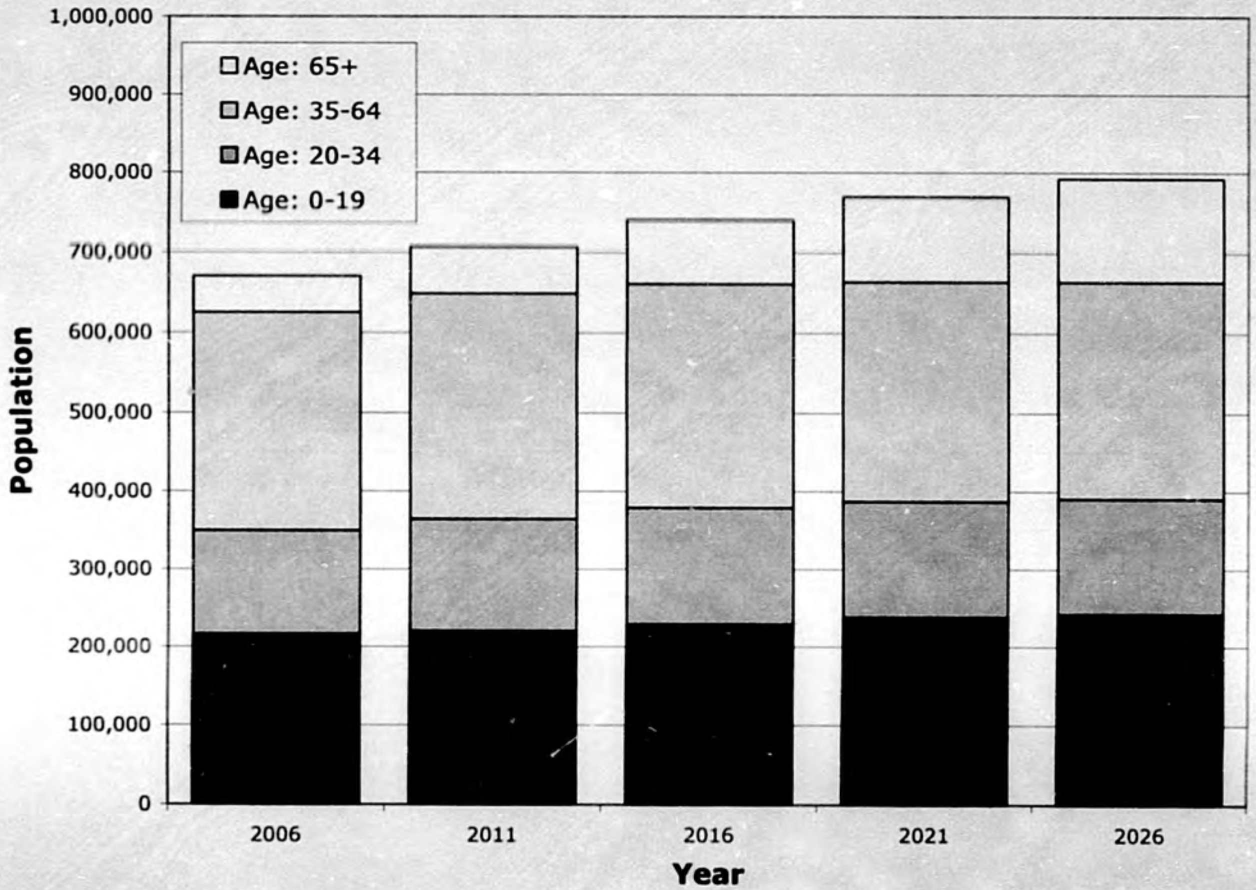
Medicaid Enrollment and Spending in Alaska: 2005-2025

Alaska Population

- Currently, Medicaid is foremost a children-driven program; however, with the expected aging of the population over the next 20 years, the focus of the state's Medicaid program will undergo a shift to concentrate primarily on serving the needs of seniors.

Alaska Population

Alaska's population growth will be driven by the elderly



Total Spending

- Overall Medicaid spending will increase at an average annual rate of 7.9% between 2006 and 2026.

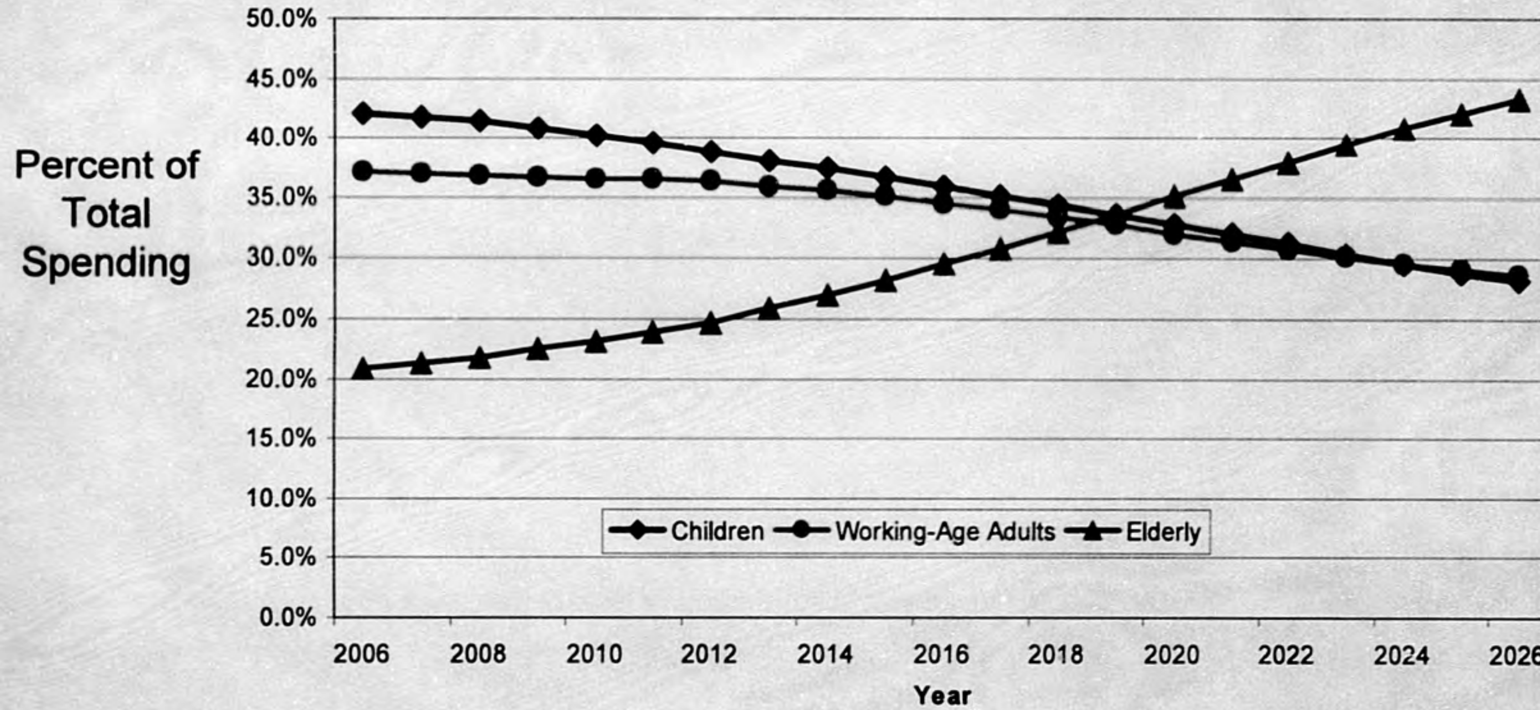
- Without accounting for inflation, total spending will equal **$4.86 billion in 2026**, a dramatic difference compared to $1.01 billion of spending in 2006.

Total Spending

- Driving this increase is the aging of Alaska's population.
- Spending on the elderly will make up 43.2% of total spending in 2026.
- This is in stark comparison to 2006, when spending was projected to comprise 20.8%, less than half the percentage devoted to children.

Total Spending

Spending on the Elderly will Surpass Spending on Working-Age Adults and Children by 2019

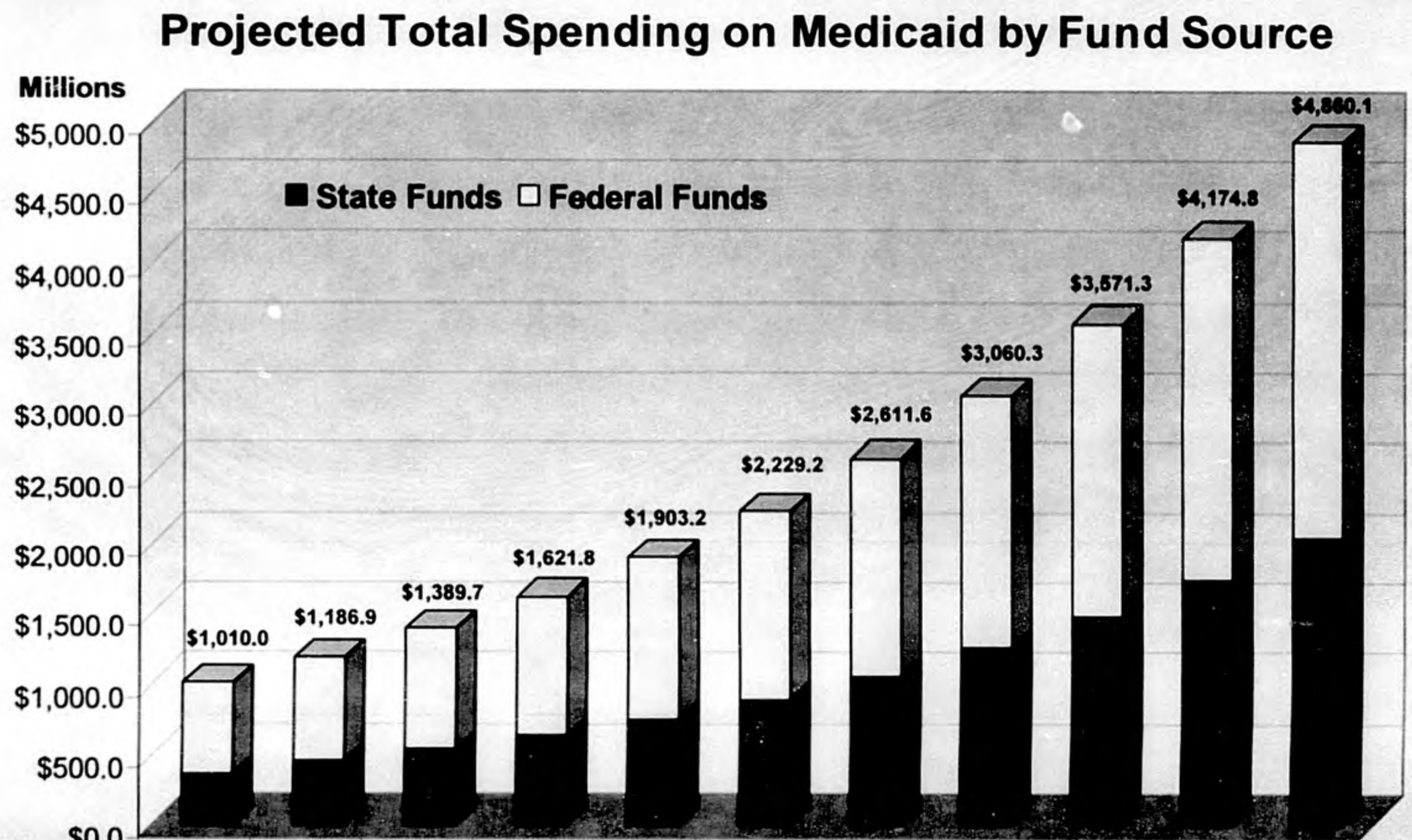


State Funds Spending

- State spending will increase at an average annual rate of 8.6%, rising from $363.1 million in 2006 to **$2.05 billion in 2026**.

- State spending per Medicaid enrollee will also soar, growing from $3,435 per enrollee in 2006 to $15,161 per enrollee in 2026.

State Funds Spending



	2006	2008	2010	2012	2014	2016	2018	2020	2022	2024	2026
□ Federal Funds	$646.9	$732.9	$852.3	$987.8	$1,150.4	$1,337.2	$1,554.6	$1,807.8	$2,094.8	$2,431.8	$2,813.4
■ State Funds	$363.1	$454.0	$537.4	$634.0	$752.8	$892.0	$1,057.0	$1,252.5	$1,476.5	$1,743.0	$2,046.7

Comparing 2025 to 2026 Forecast

- As expected, there was little overall change between the 2005-2025 and 2006-2026 Medicaid forecasts.
- Overall, the 2025 enrollment estimate for the 2006-2026 forecast is 1.7% lower than the original prediction in the 2005-2025 forecast. It is now projected that 129,160 Alaskans will be enrolled in 2025.
- Total spending in 2025 is anticipated to be 3.7% less in the 2006-2026 forecast as compared to the 2005-2025 forecast. Although spending is now $171.8 million less than what had been estimated in the last forecast, close to $4.50 billion will be spent on Medicaid in 2025.
- Overall state spending in 2025 is expected to be 8.8% lower than was predicted in the 2005-2025 forecast. State spending, per the 2006-2026 forecast, will be $1.89 billion, compared to the $2.07 billion previously expected.

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465-6587 direct
465-4979 fax

AGENDA

February 7, 2007
3:30 – 5:00 pm

Where did the fiscal gap go? Part IV
Office of Management and Budget: "Where does the money come from next?"

Presenters:

John Boucher, Senior Policy Analyst
Office of Management and Budget

Office of Management and Budget

Presentation to Ways and Means Committee

February 7, 2007

Where Did The Fiscal Gap Go?

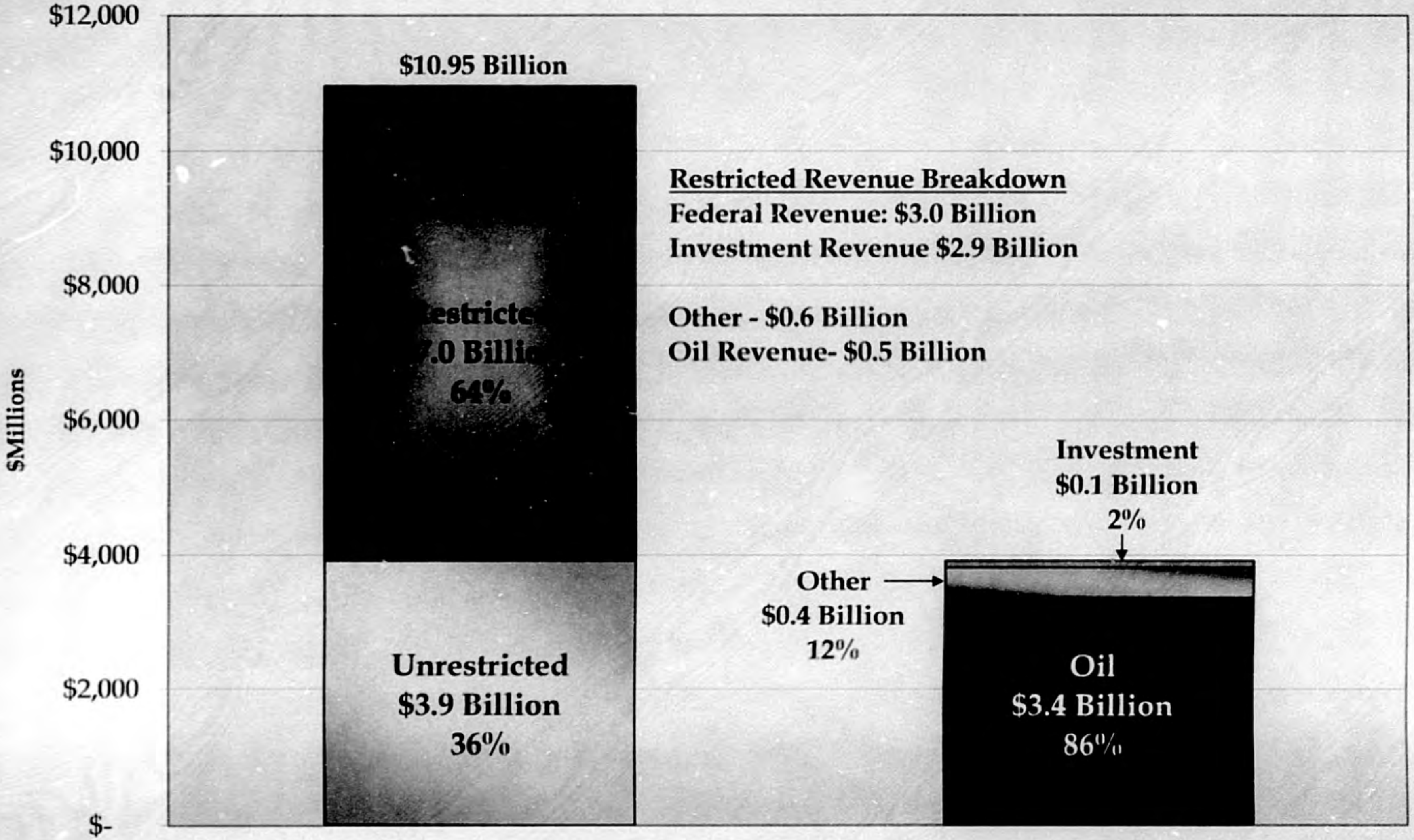
The Sequel

Agenda

- Macro Revenue Overview
  - Sources of Revenue in FY 08
  - Building Blocks of the Revenue Forecast
  - Getting from Here to the Gas Pipeline

FY08 Revenue by Source and Category

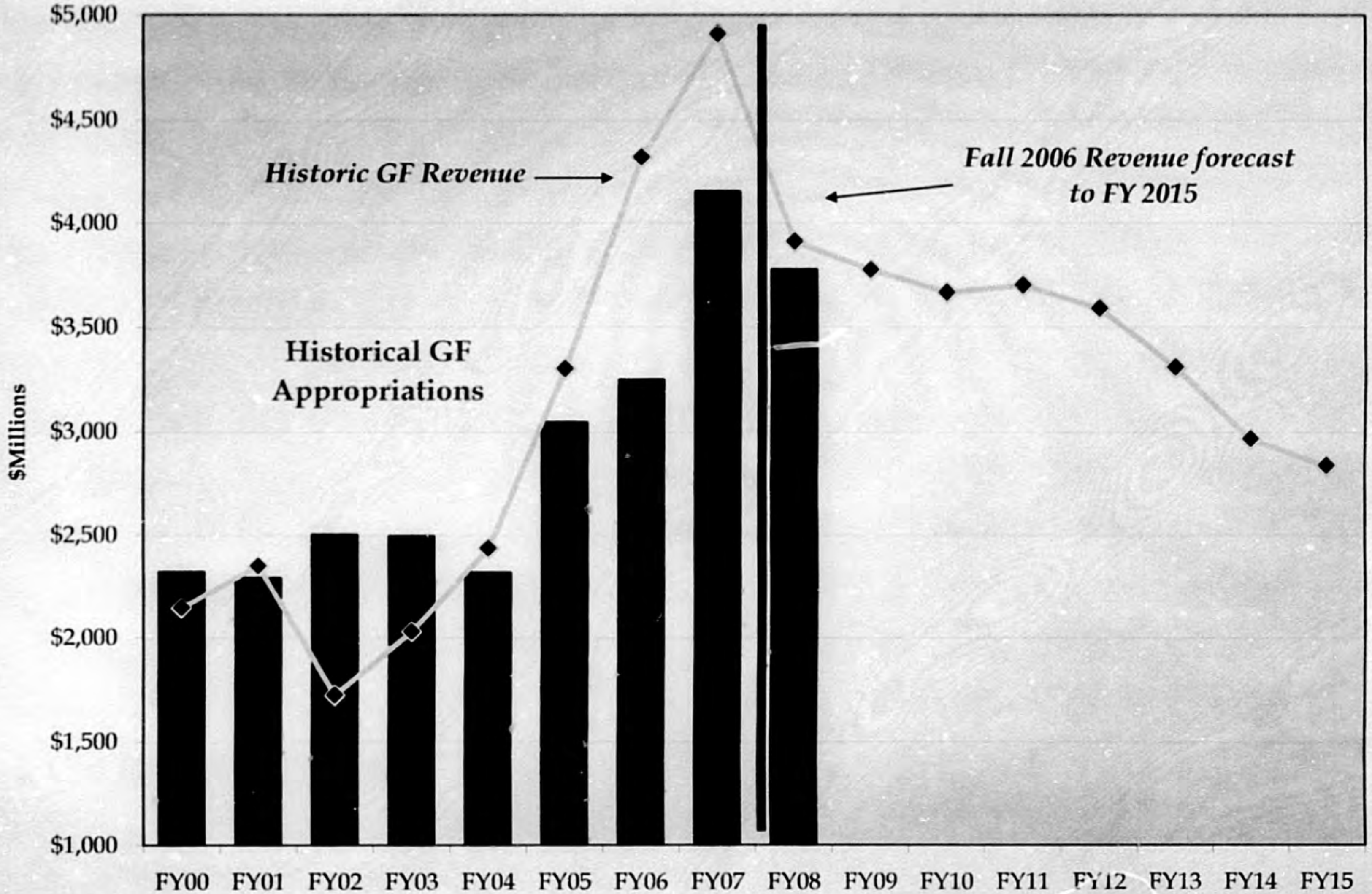
Restricted and Unrestricted with breakdown by category



Source: Alaska Department of Revenue Fall 2006 Revenue Sources Book.

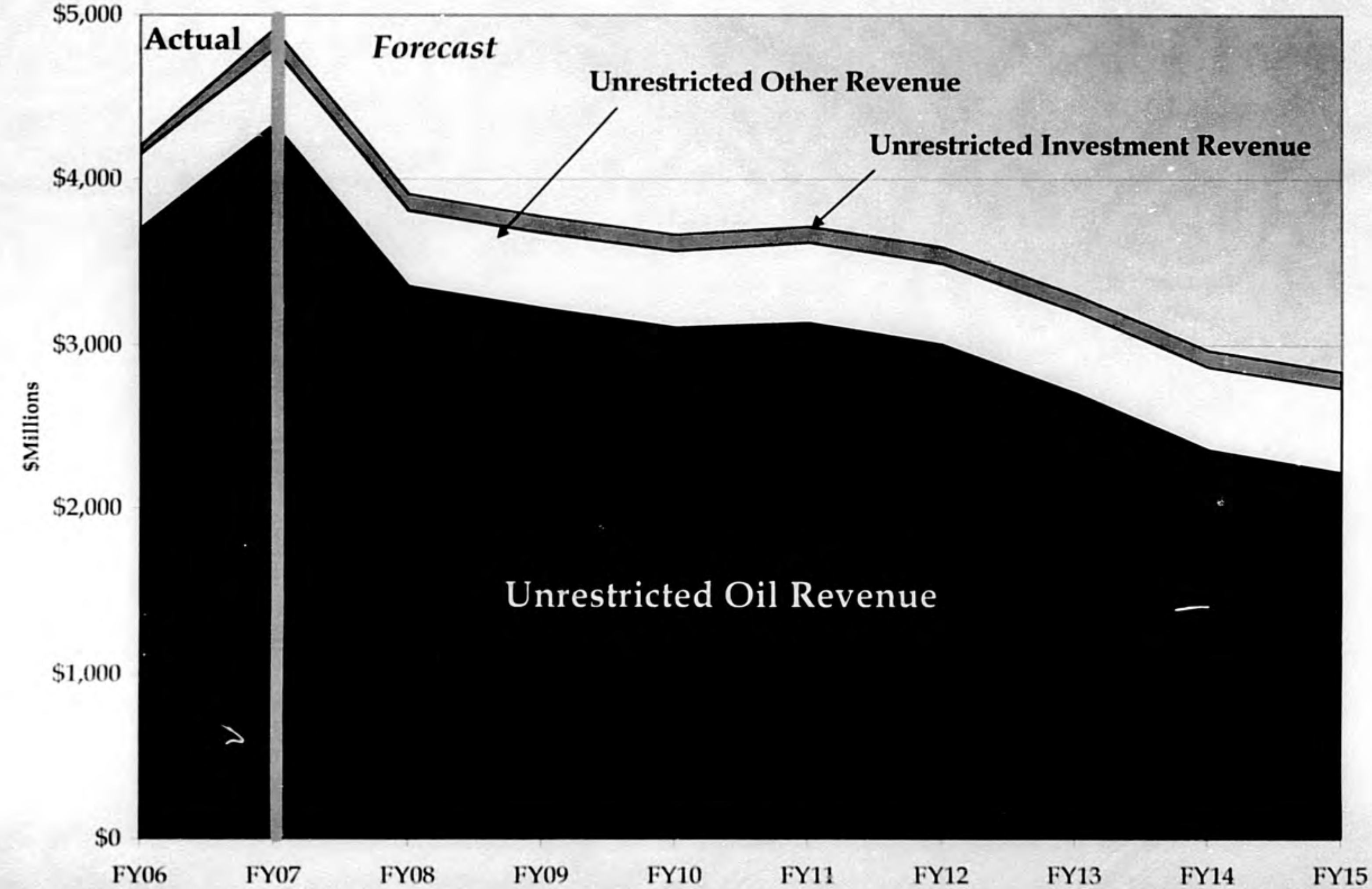
General Fund Revenue versus Appropriations

FY2000 – FY2008 Governor's Proposed



Building Blocks of Revenue to FY15

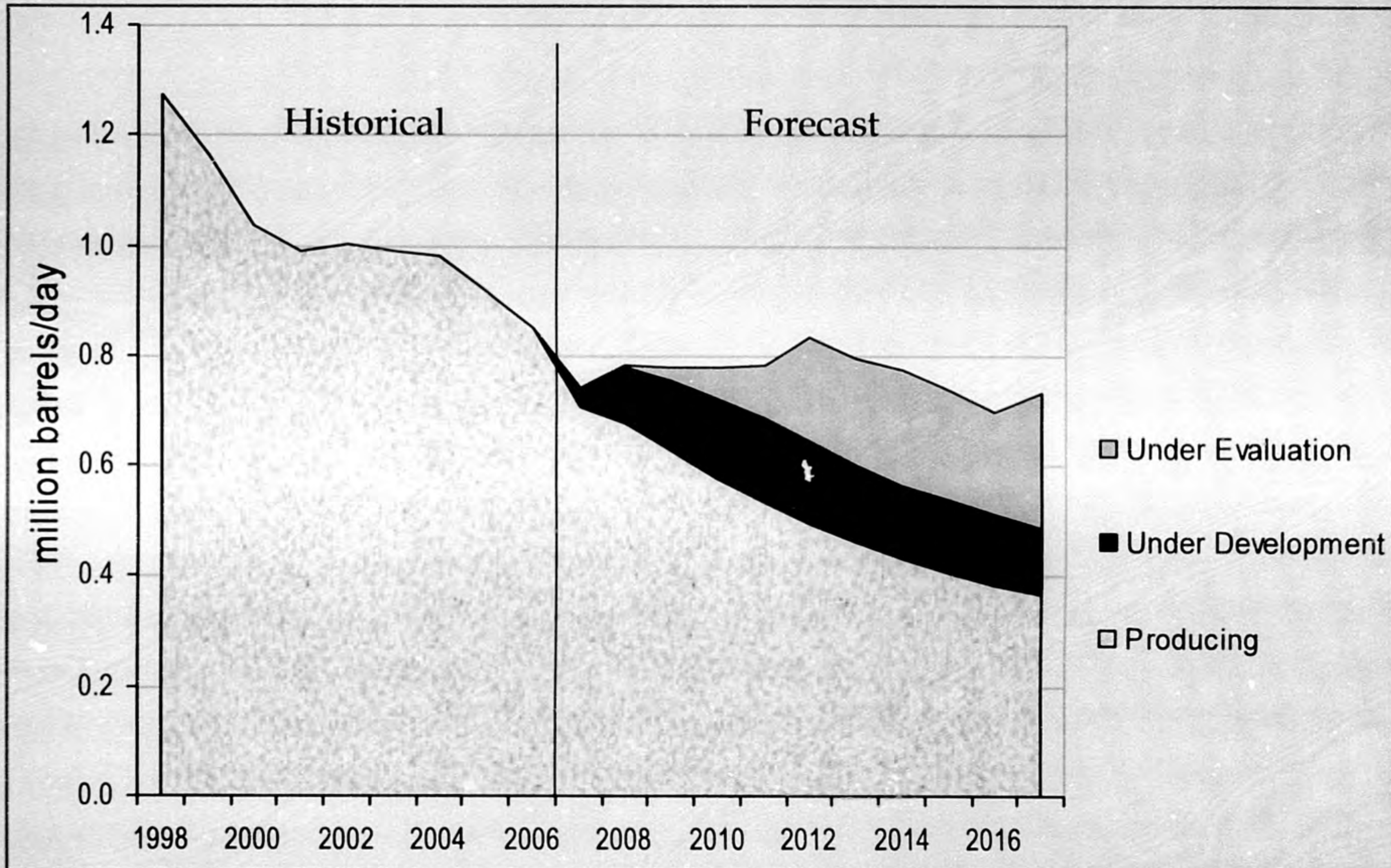
Unrestricted General Fund Revenue by Category



Source: Alaska Department of Revenue, Revenue Sources Book Fall 2006

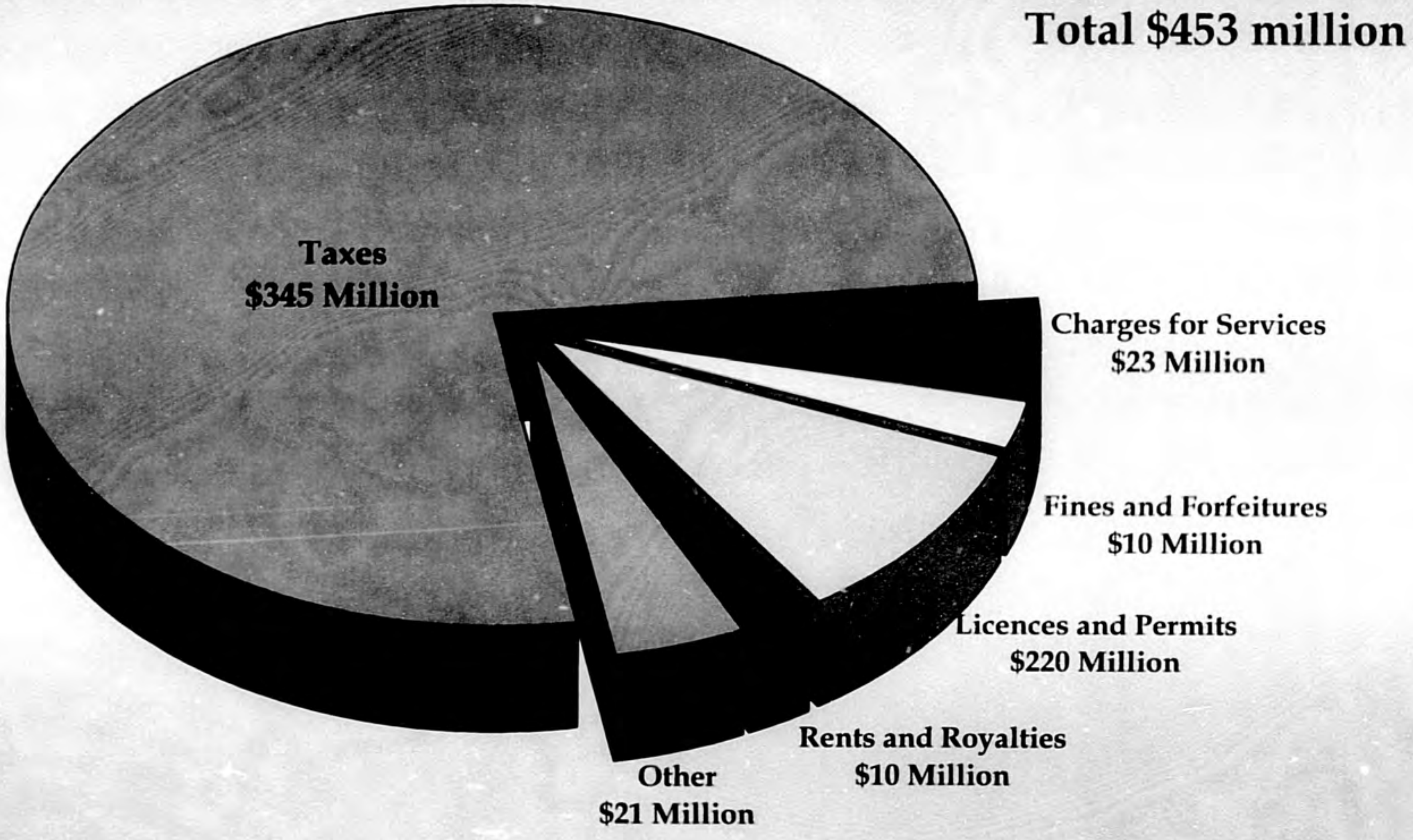
ANS Production Forecast by Category to FY17

Fall 2006 Revenue Forecast



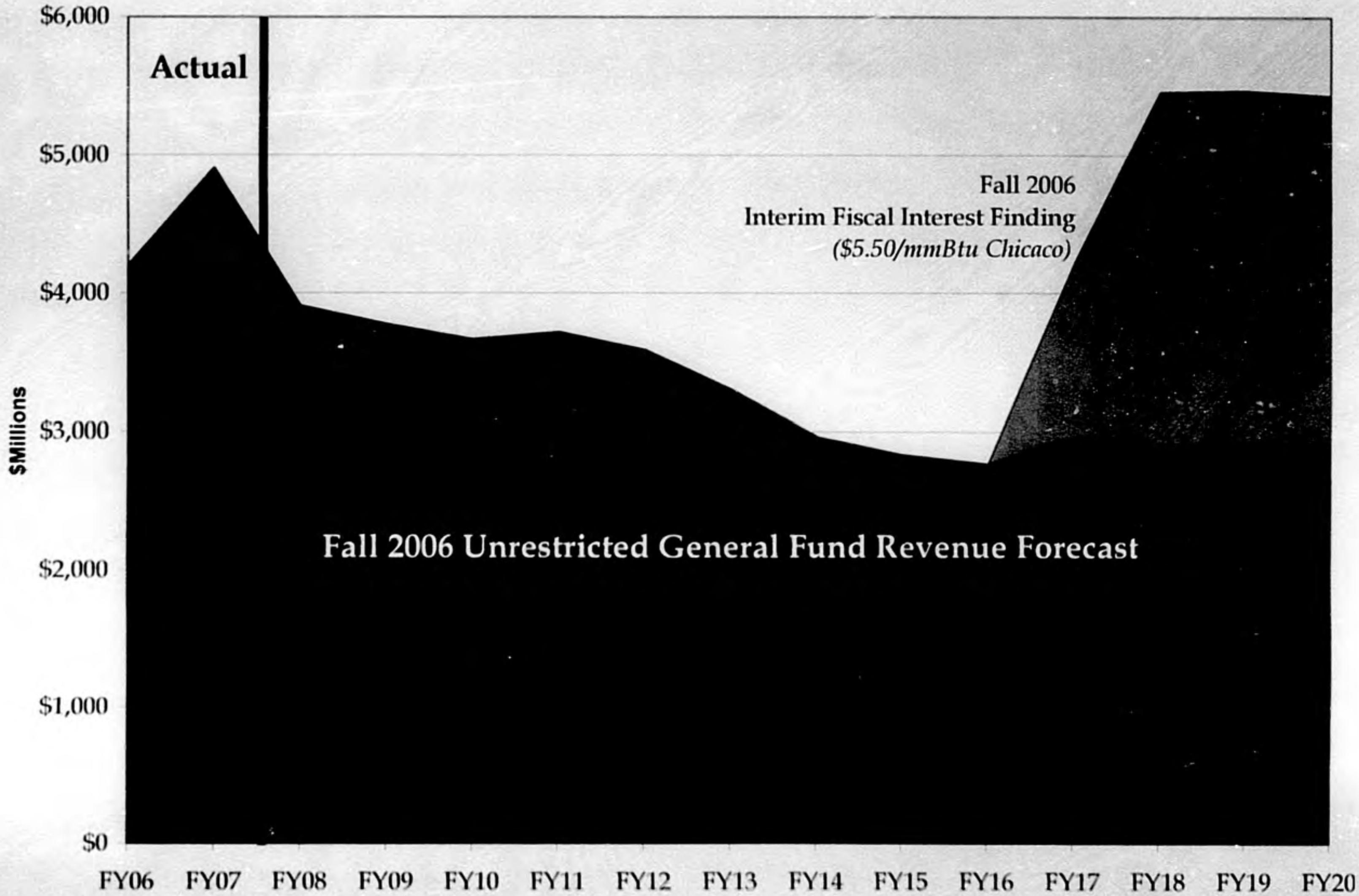
Components of "Other" Revenue FY08

"Other" General Fund Unrestricted Revenue



Source: Alaska Department of Revenue, Revenue Sources Book Fall 2006

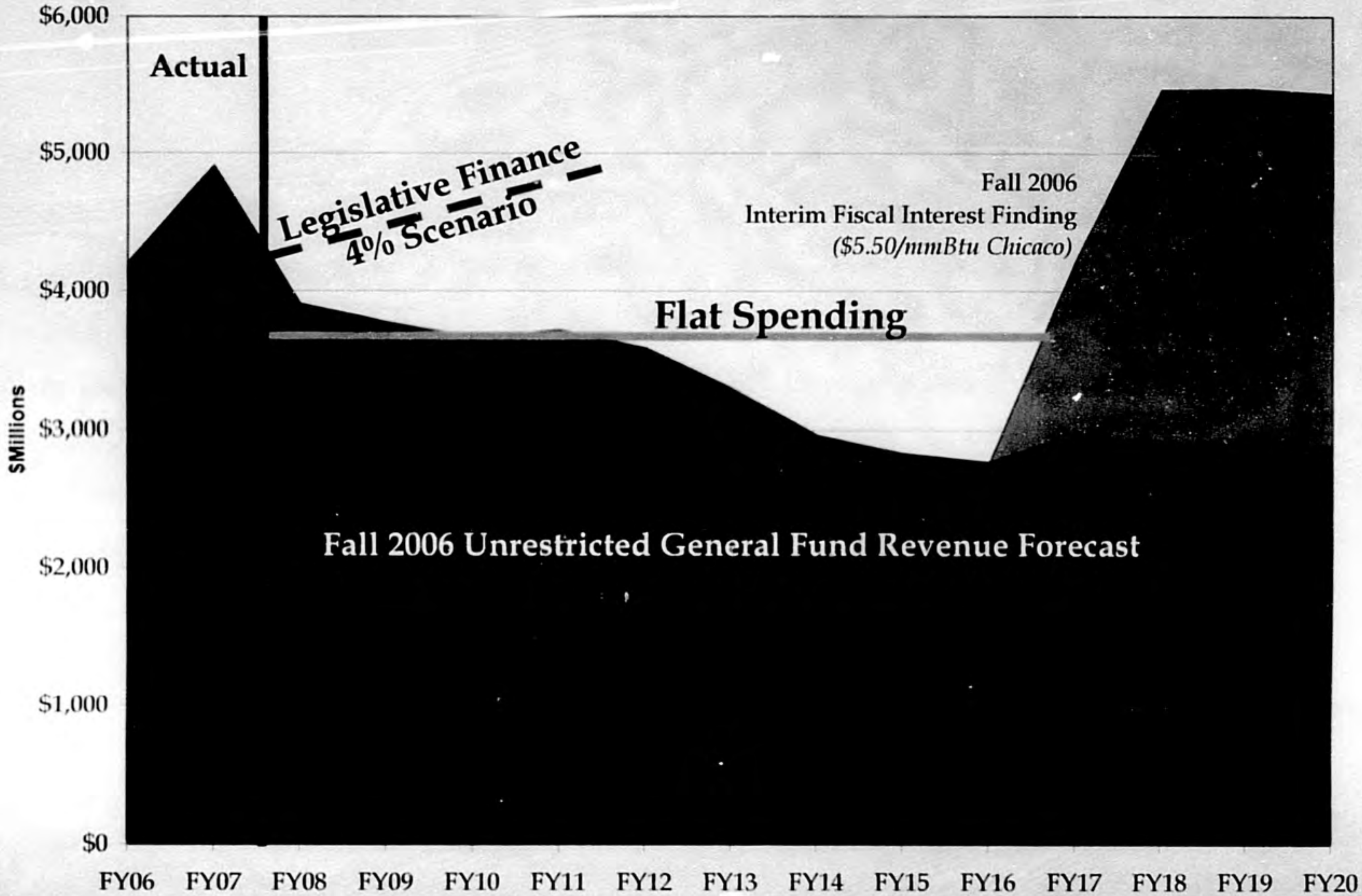
The Revenue "Gully" Between Today and a Gasline



Source: Alaska Department of Revenue, Revenue Sources Book Fall 2006

Two Spending Scenarios

With Assumed Gas Revenue



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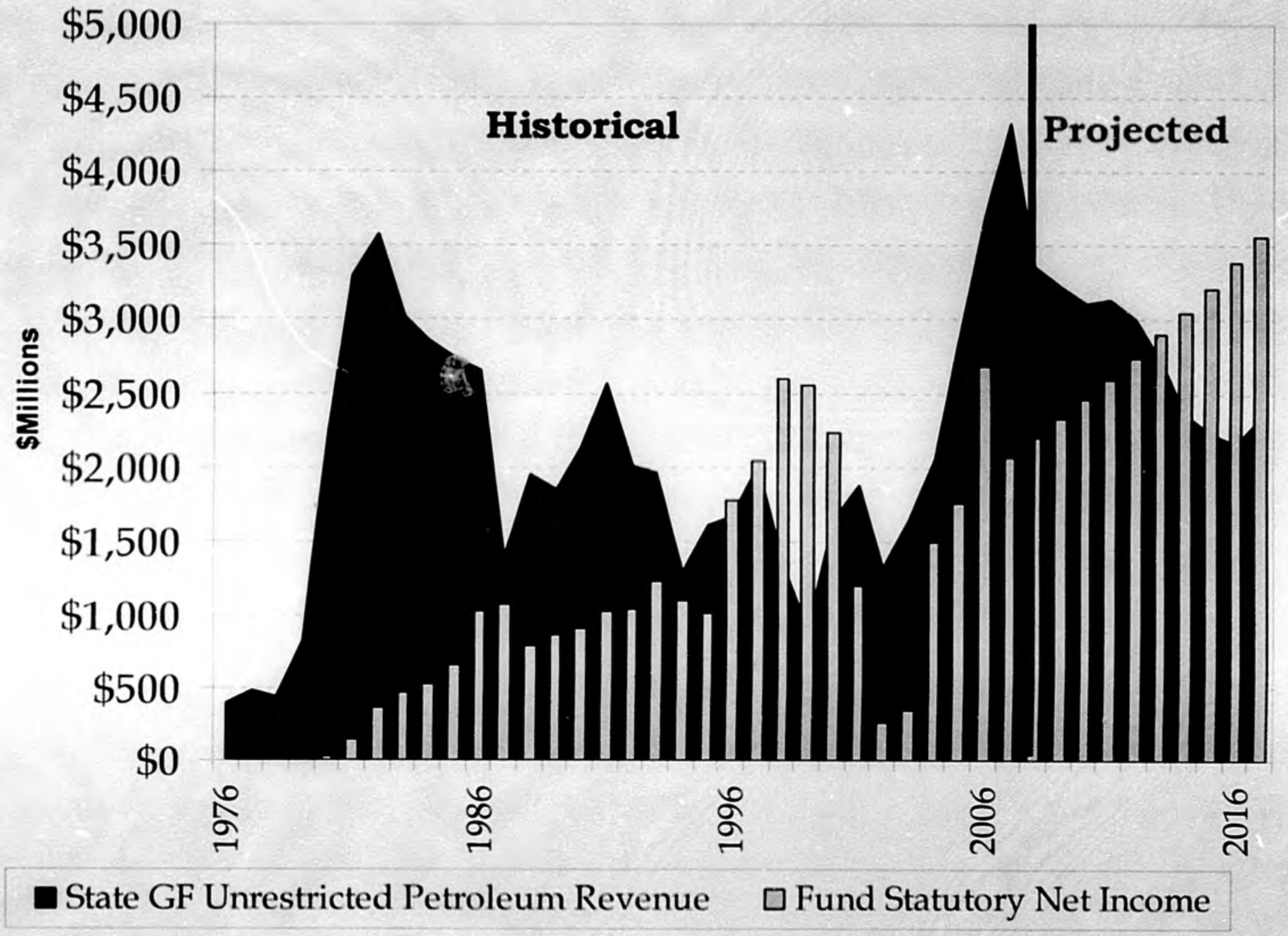
Source: Alaska Department of Revenue, Revenue Sources Book Fall 2006

Permanent Fund Statutory Net Income versus General Fund Petroleum Revenue 1976-2017



Source: Office of Management and Budget