

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2269 SCOMM 93: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 1993

SCOMM 93: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 1993

MEMBERS:

REPRESENTATIVE JOE GREEN, CHAIR
REPRESENTATIVE PETE KOTT
REPRESENTATIVE HARLEY OLBERG
REPRESENTATIVE GARY DAVIS
REPRESENTATIVE JERRY SANDERS
REPRESENTATIVE JOE SUTTON
REPRESENTATIVE JERRY MACKIE

Established by HR 4, 1993.

Contents: 21 files. 30 cassette also available of hearings held
1/26/93 - 11/4/94.

LIST OF FILES (PAGE 1) MICROFICHE #

1. BRIEFING ON "PERCEPTIONS OF ALASKA: ALASKA
OIL & GAS MARKET RESEARCH REPORT" BY
GAFFNEY CLINE - 1/4/94
2. BRIEFING ON SUPERIOR COURT'S STAY OF LEASE
SALE 78
3. OVERVIEW BRIEFING OF THE JOINT PIPELINE
OFFICE
4. OVERVIEW BY THE DEPARTMENT OF LAW
5. PRESENTATION BY JULIAN DARLEY,
BRITISH PETROLEUM
6. HB 99
7. HB 197
8. HB 199
9. HB 200
10. HB 276
11. HB 297
12. HB 384
13. HB 401
14. HB 426

SCOMM 93: HOUSE SPECIAL COMMITTEE ON OIL & GAS, 1993

LIST OF FILES (PAGE 2)

MICROFICHE #

15. HB 474

16. HCR 12

17. HCR 19

18. HJR 35

19. SB 151

20. SB 322

21. SJR 13

SCOMM

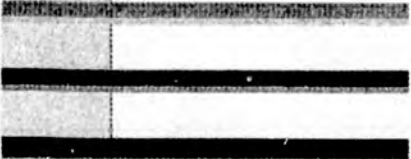
93:1

Perceptions of Alaska

Alaska Oil and Gas Market Research Project



Gaffney, Cline & Associates



The Agenda

- **About GCA**
- **Scope of Work**
- **The Global Scene**
- **Perceptions of Alaska**
- **Conclusions**
- **Recommendations**

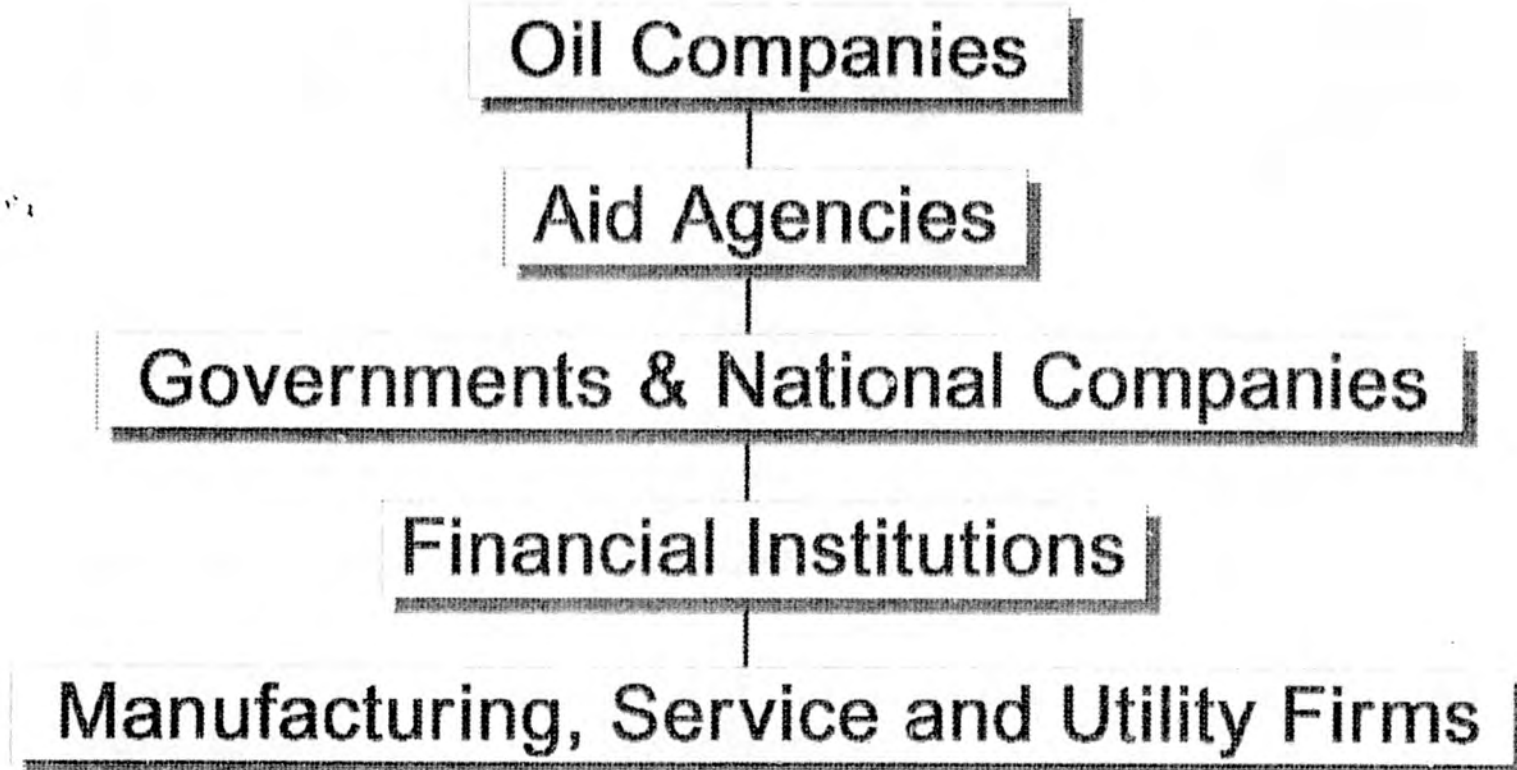
Gaffney, Cline & Associates

Gaffney, Cline & Associates



***Technical and management services to the oil industry
worldwide since 1962***

Who does GCA work for ?



Gaffney, Cline & Associates

How is GCA staffed ?

Reservoir Engineers

Drilling Engineers
Petrophysicists
Geophysicists
Geologists

Production Engineers
Facilities Engineers
Process Engineers
Crude/Products Traders

Mathematicians

Economists

Lawyers

Bankers

Upstream

Downstream

Gaffney, Cline & Associates

Where is GCA ?



Gaffney, Cline & Associates

NOC and Government Clientele

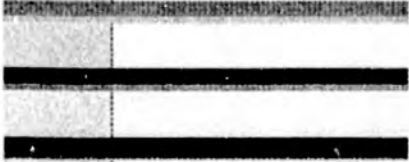


Gaffney, Cline & Associates

Current Projects

- Australia
- Bolivia
- China
- Ireland
- Netherlands
- Malaysia (>1)
- Indonesia(>1)
- Peru
- Turkmenistan
- UK (>1)
- USA (>1)
- Argentina (>1)
- Angola
- Ecuador
- Venezuela (>1)
- Russia
- Ukraine
- Slovenia
- Norway (>1)
- Italy

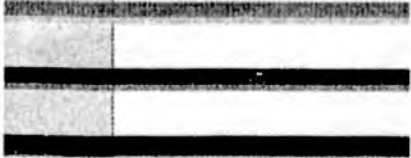
Gaffney, Cline & Associates



The GCA Perspective

- ▶ **Multi-discipline**
- ▶ **Trans-national**
- ▶ **Buyer-Seller**
- ▶ **Host-Guest**

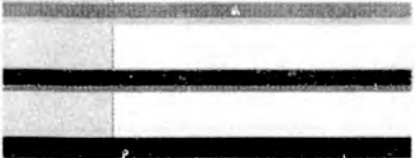
Gaffney, Cline & Associates



Scope of Work

- ▶ General industry conditions
- ▶ Comparison of Alaska with competing areas in respect of oil and gas investment attractiveness
- ▶ Strengths and Weaknesses
- ▶ Potential competitive strategies

Gaffney, Cline & Associates



Summary



- ▶ World is Changing
- ▶ Alaska increasingly less Competitive
 - High Cost
 - Tough Terms
 - Difficult
- ▶ Progress has been made
- ▶ Much still to do
- ▶ Now is the time to do it

OIL - A SUNSET INDUSTRY * ?

Mature Product Business Behavior

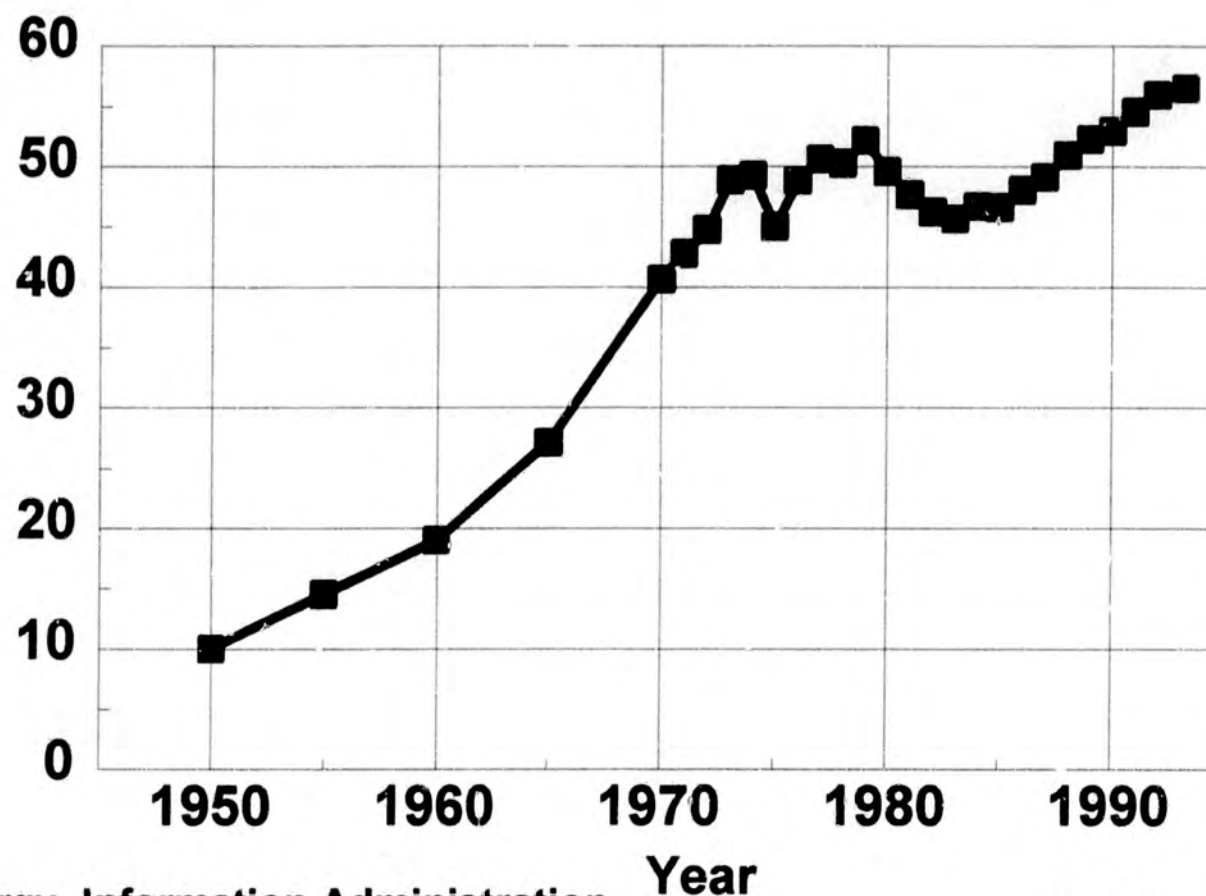
- **Cut costs**
 - **Outsourcing**
 - **Aggressive inventory management**
 - **Aggressive receivable management**
 - **Shrink product lines to core (niche)**
 - **Short-term results oriented**
- 

Gaffney, Cline & Associates

WORLD OIL DEMAND

Without Centrally Planned Economies

MMBOPD

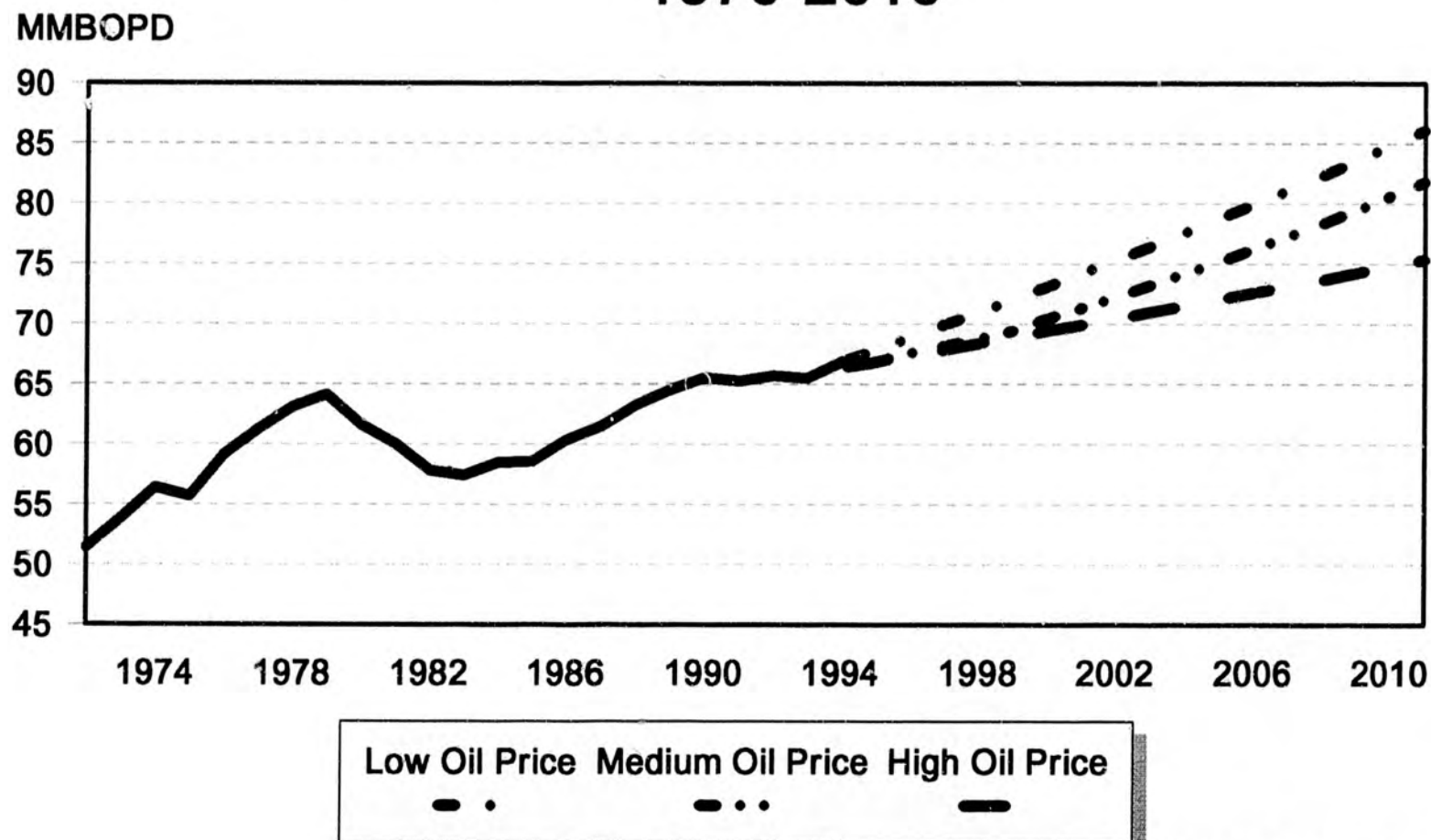


Source: Energy Information Administration

Gaffney, Cline & Associates

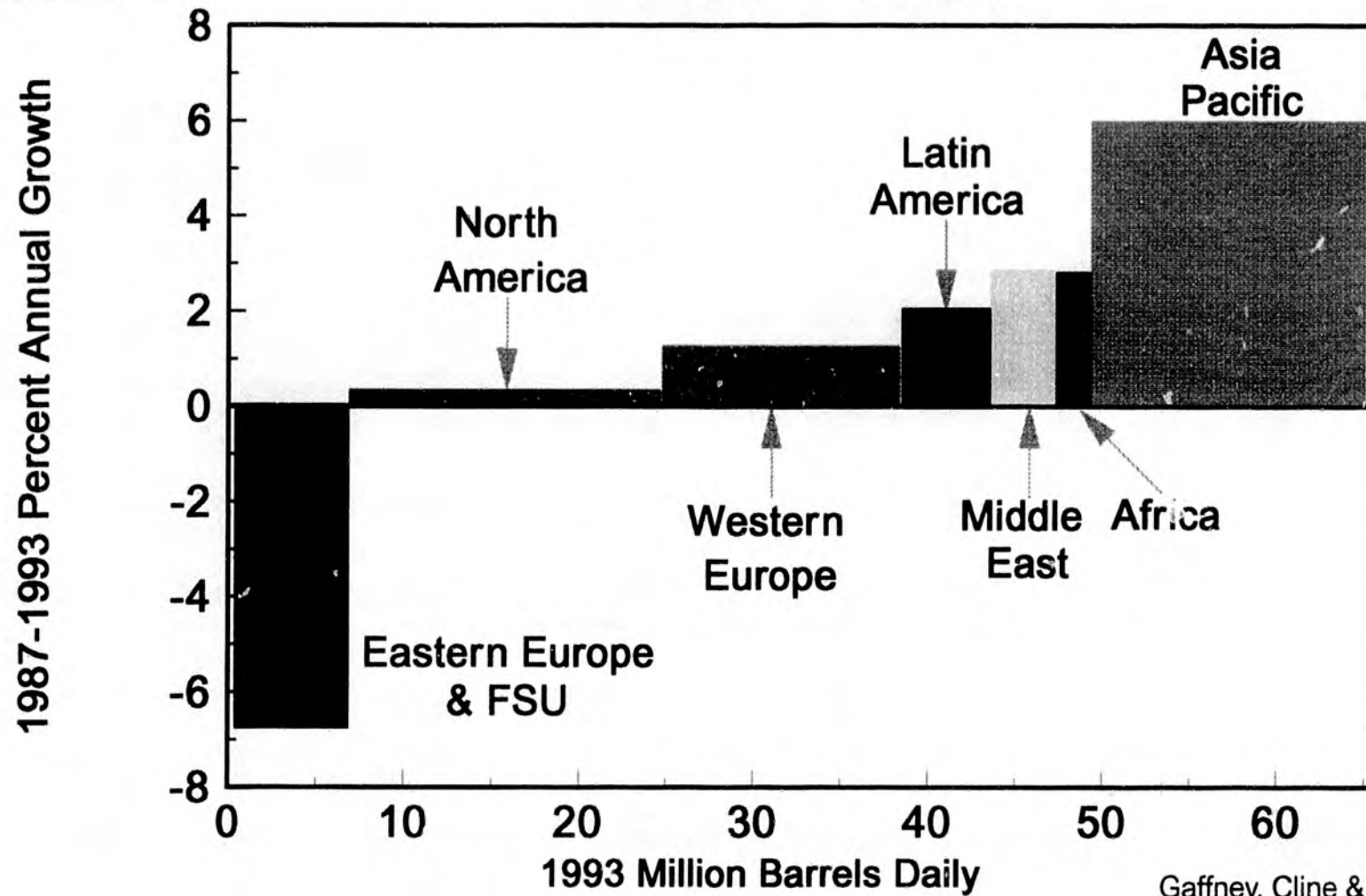
HISTORICAL/PROJECTED WORLD OIL DEMAND

1970-2010



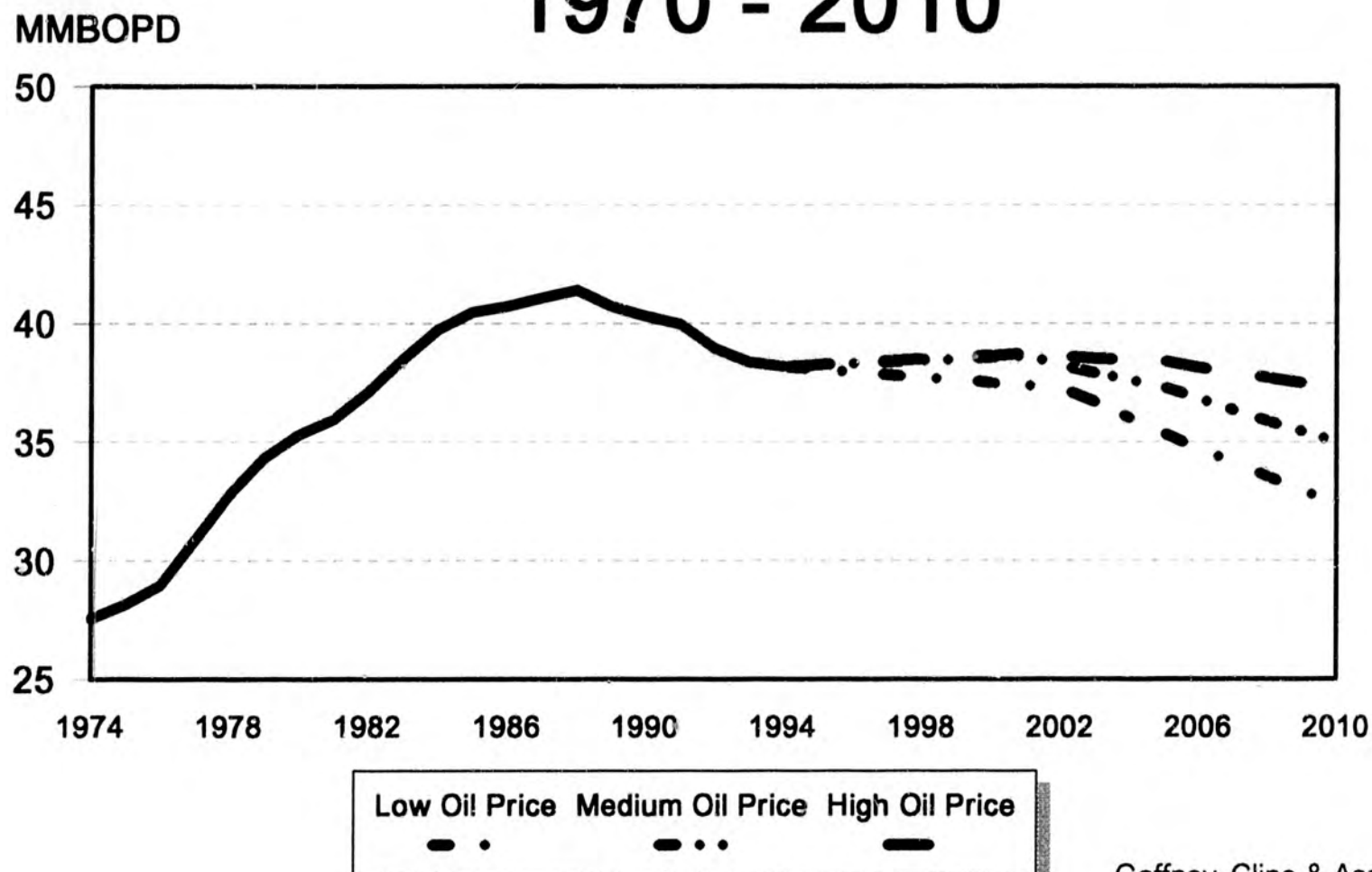
Gaffney, Cline & Associates

World Oil Demand Annual Growth 1987 - 1993



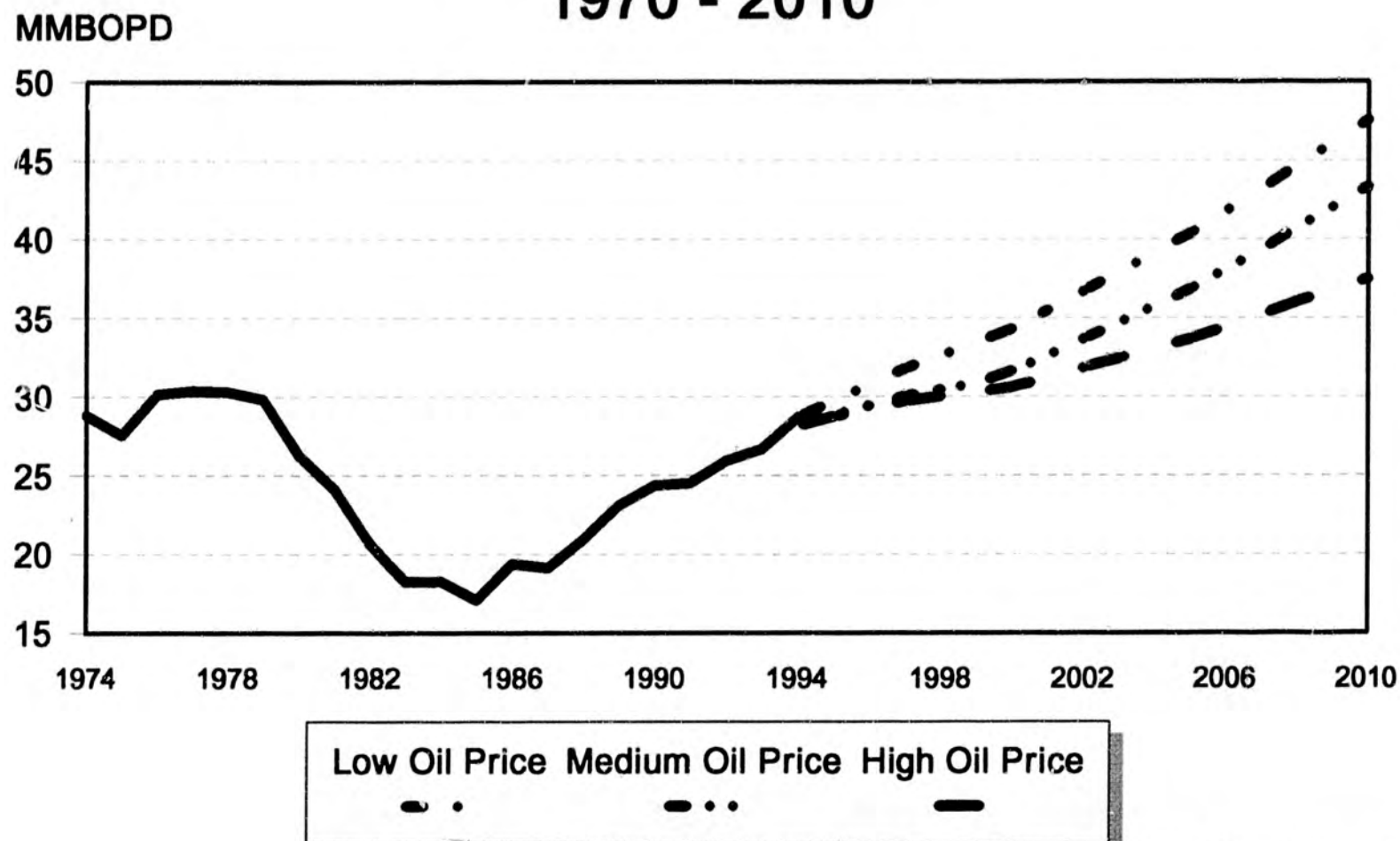
Gaffney, Cline & Associates

HISTORICAL/PROJECTED NON-OPEC OIL SUPPLY 1970 - 2010



Gaffney, Cline & Associates

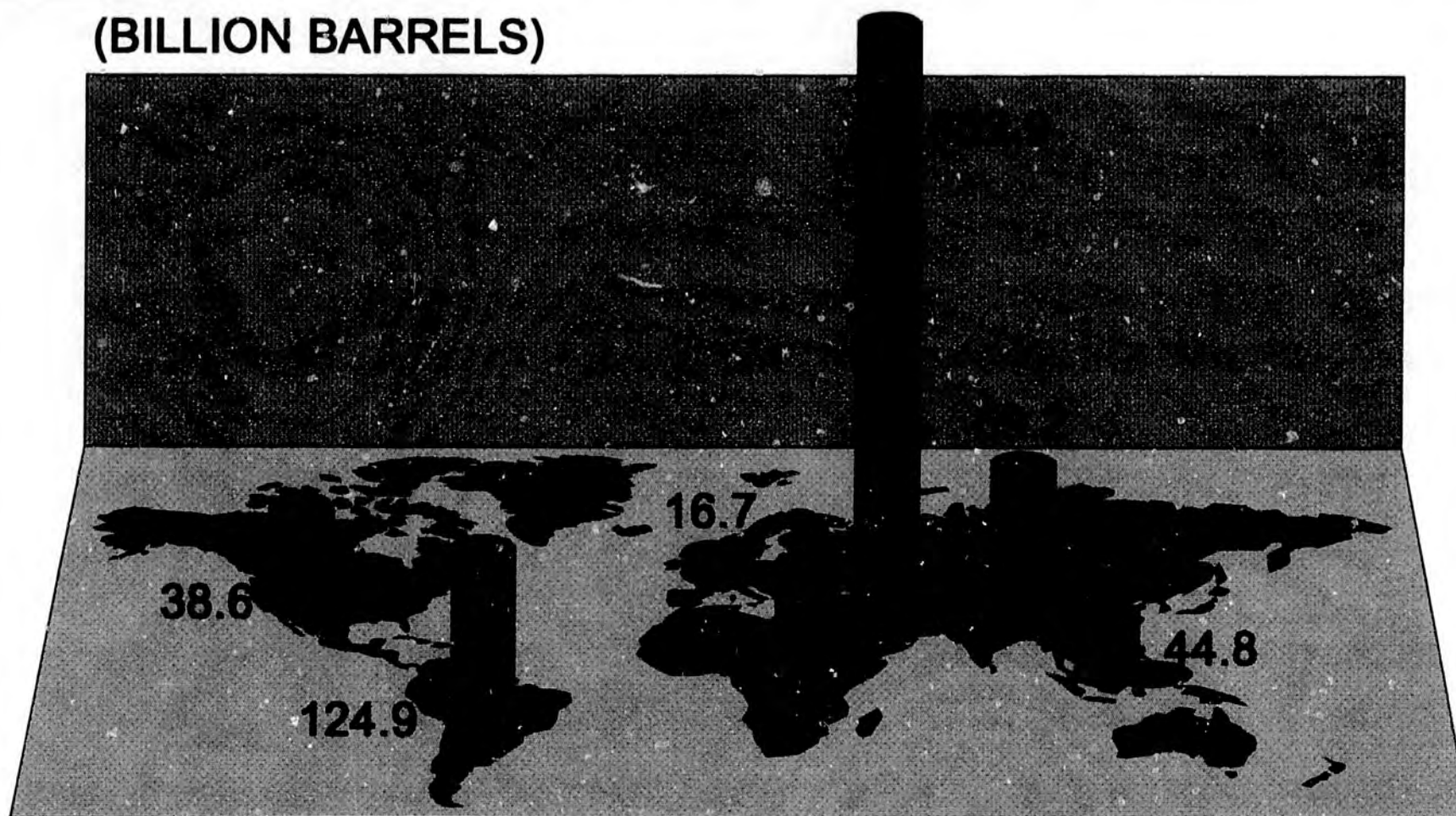
HISTORICAL/PROJECTED OPEC OIL SUPPLY 1970 - 2010



Gaffney, Cline & Associates

PROVED RESERVES AT END 1993

(BILLION BARRELS)



Gaffney, Cline & Associates

**The Oil Price
is Going
to \$25/BBL**

***What do I do
'til it gets there***



Gaffney, Cline & Associates

1994

- **OPEC's leverage increases**
- **No corporate mega-transactions yet but...**
- **Industry structure looks ripe for early-80's round of M&A**
- **New Plays in the GOM Subsalt, West of Shetlands, and Timor Gap**
- **North American gas industry remains robust**

Gaffney, Cline & Associates



he Integrated

- **Recession**
- **Refining/Environmental costs in USA**
- **How to play Russia and the CIS**
- **Cutting costs (and staff)**

Gaffney, Cline & Associates



he Independents

- **Sticking to the Knitting**
- **Better US gas prices**
- **Stay at home or go abroad, where ?**

Gaffney, Cline & Associates



he NOC's and Ministries

- **Competing with the FSU**
- **Selling the new policies at home**
- **Re-focusing on gas**
- **The next road-show in Houston**

Gaffney, Cline & Associates

TODAY'S WORLD



- Flat oil price perception
- Short-medium term oversupply
- Increasing dependence on Gulf production
- Russia / FSU impact
- Potential for price fly-up from
 - Demise of the House of Saud
 - The rise of mad Vlad
 - Dominant supplier(s) acting that way
- But when ??? !!! ...

Gaffney, Cline & Associates

THE WORLD SCENE



- Flat Oil Prices
- Better US Gas Prices
- Perceptions of over supply
- The Move to onshore

'Cause that's where prospects are ?

'Cause it might be cheaper ?

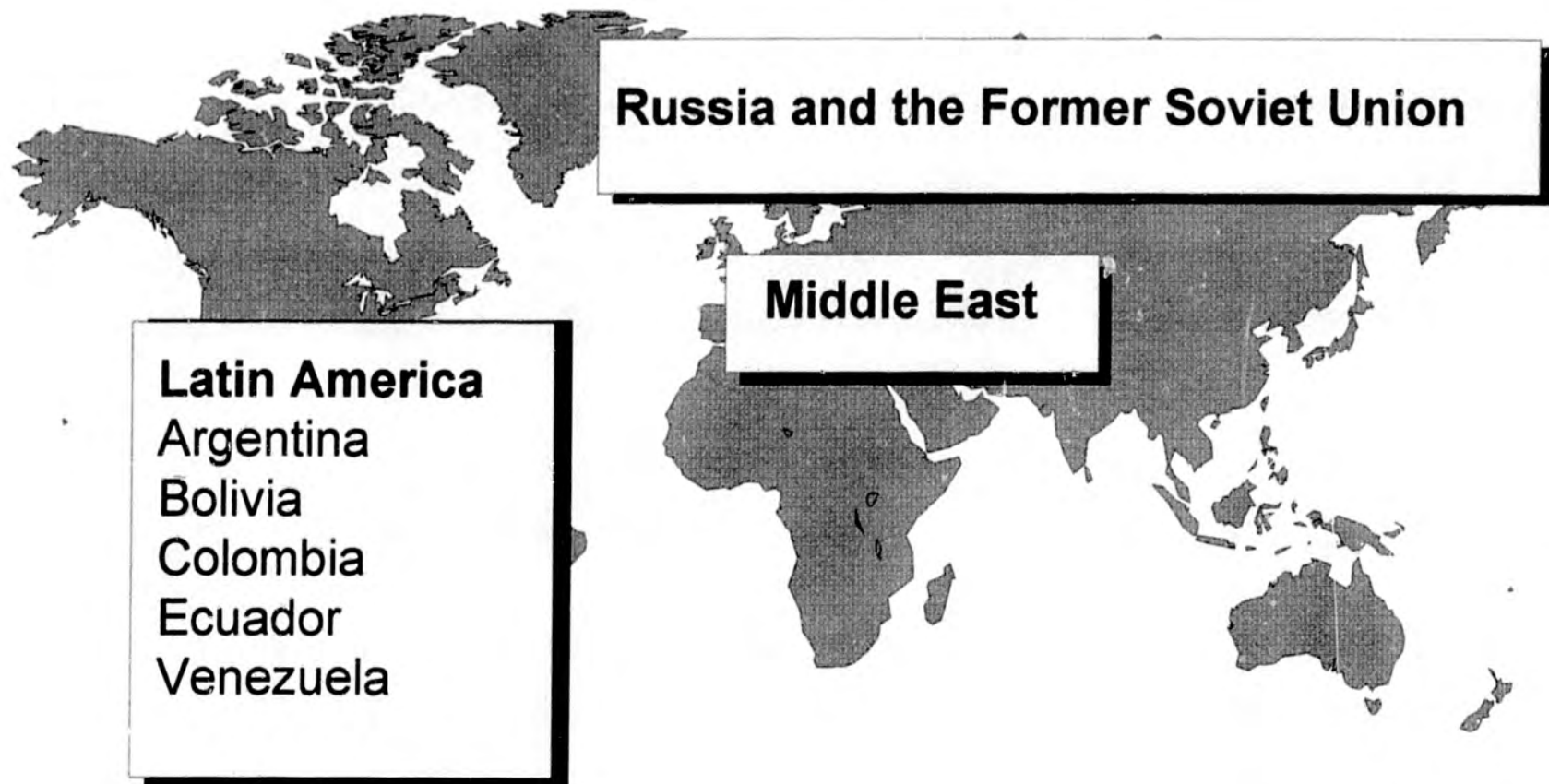
'Cause that's where the 'Buzz' is.

- The switch to gas

Gaffney, Cline & Associates

THE DRIFT TO ONSHORE

The Key Locations



Gaffney, Cline & Associates

The 1980's World



□ Accessible
■ Inaccessible

Gaffney, Cline & Associates

The 1990's World

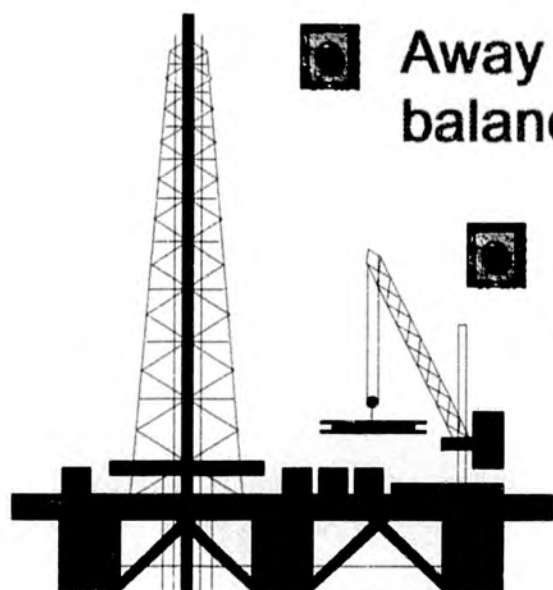


□ Accessible
■ Inaccessible

Gaffney, Cline & Associates

DRILLING TRENDS

- Towards onshore
- Towards majority of (near) horizontal producers



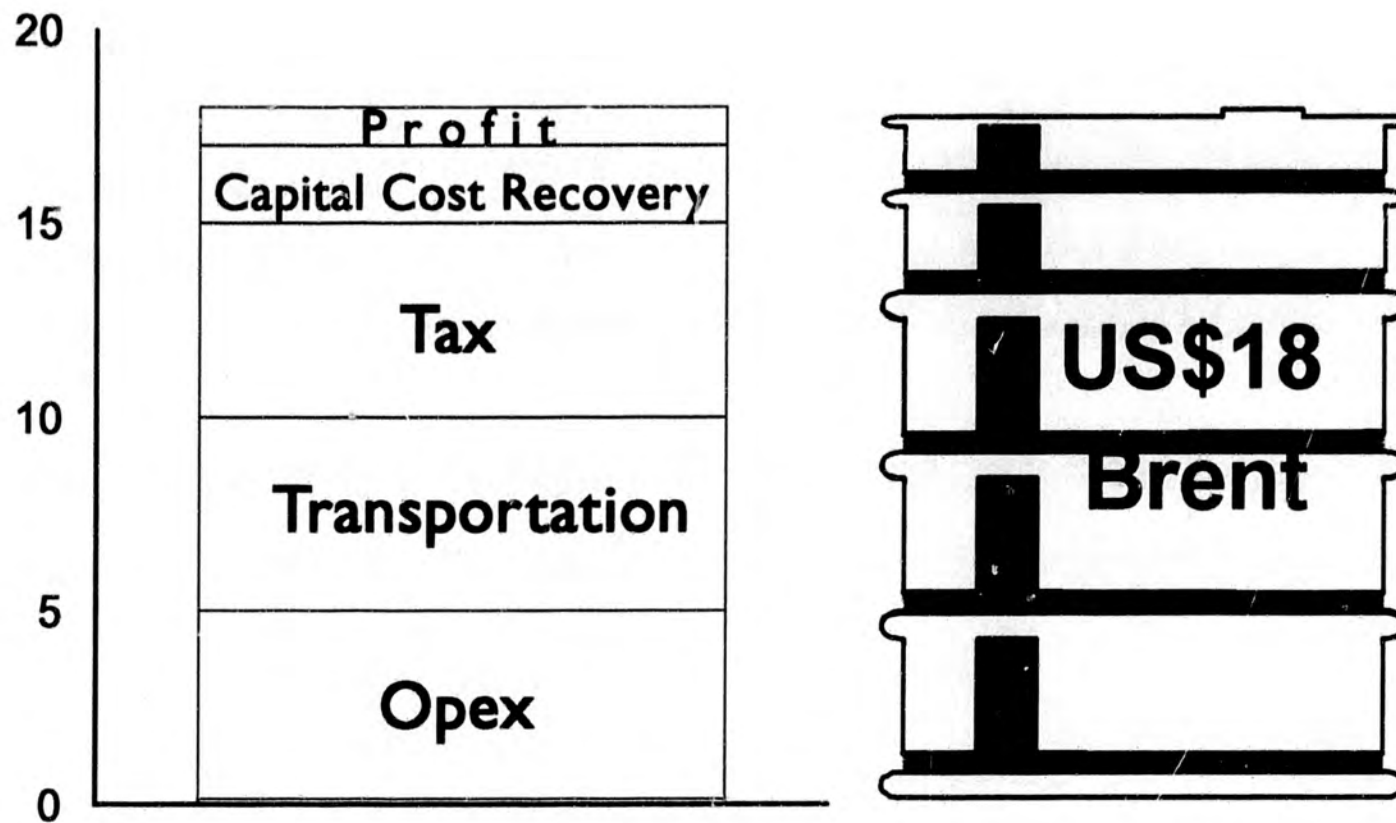
- Away from the Arctic International/US balance

- Away from uneconomic wells in FSU/Europe/China

- More infill drilling

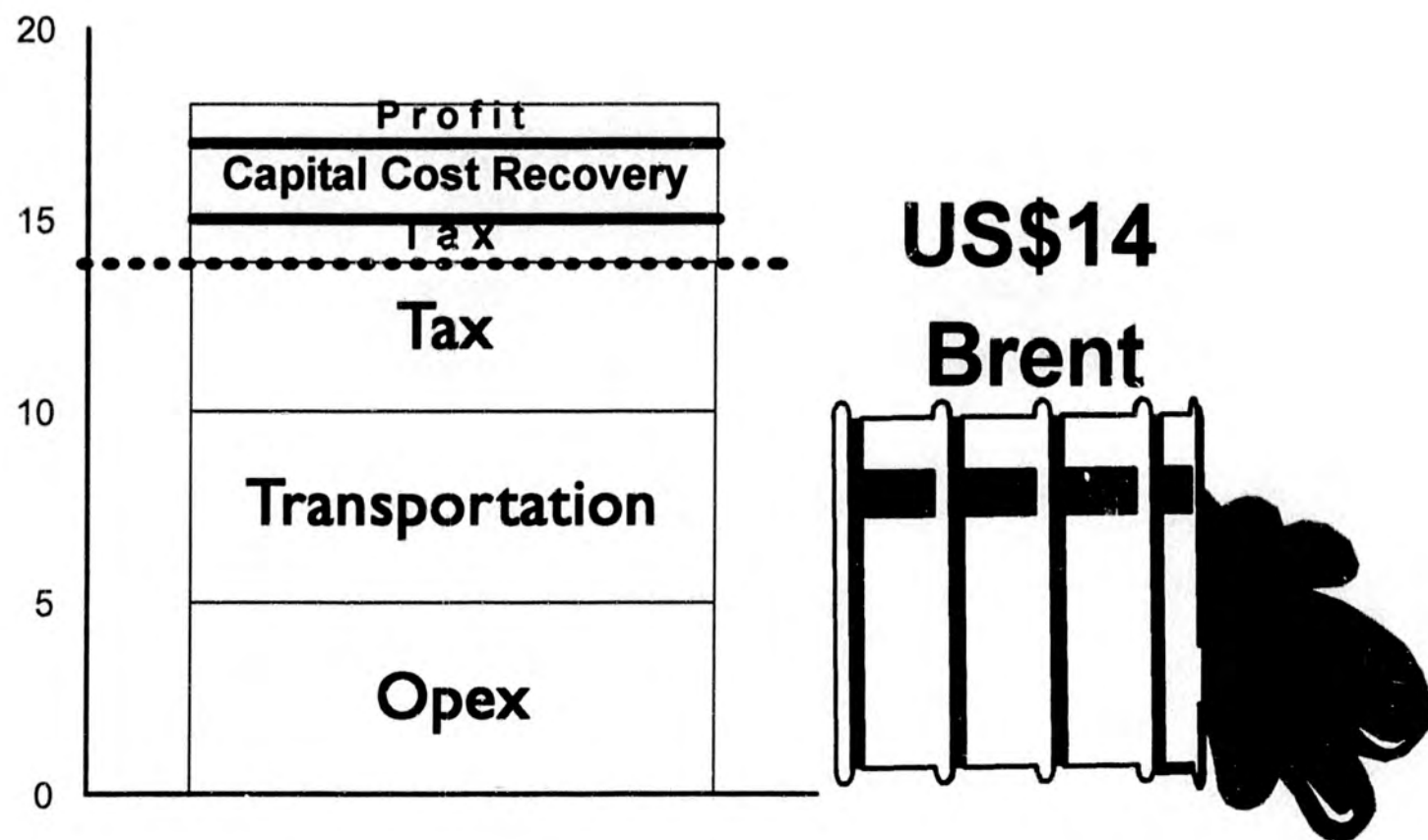
Gaffney, Cline & Associates

CASH ON THE BARREL



Gaffney, Cline & Associates

CASH ON THE BARREL



Gaffney, Cline & Associates

The Arrival of Natural Gas

- As a good and growing business**
- As environmentally attractive**
- As a viable fuel substitute but...**
 - Competes with Coal and heavy end of barrel**
 - Large increments of investment**
 - Long lead-times**
 - Often multi-national**

Gaffney, Cline & Associates

STRATEGIC IMPLICATIONS - I

- Pressure on high cost or low value production**
 - EOR**
 - Heavy, sour oil**
 - High operating cost production**
 - High transportation cost production**
 - High state take production**
- Pressure/incentive for E&P capital to fund OPEC**
- Fiscal terms will loosen (where they can)**

Gaffney, Cline & Associates

STRATEGIC IMPLICATIONS - II

- Incremental, cash-flowing developments**
- Frontier of exploration gets closer**
- Insulation from oil prices**
 - Gas**
 - Transportation**
 - Fee-based compensation**
- Shift from reserves replacement to cash flow focus**

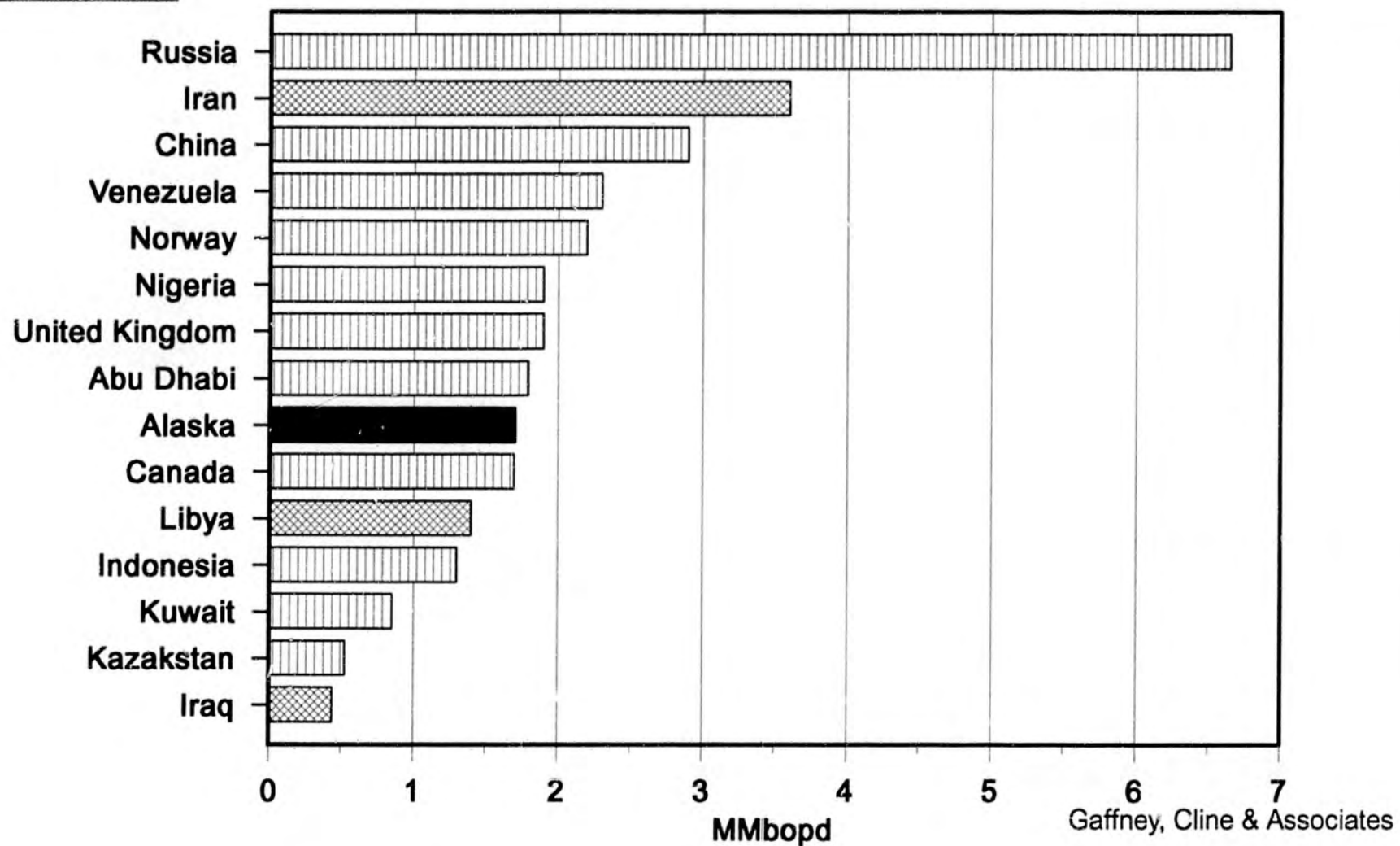
Gaffney, Cline & Associates

The Competition

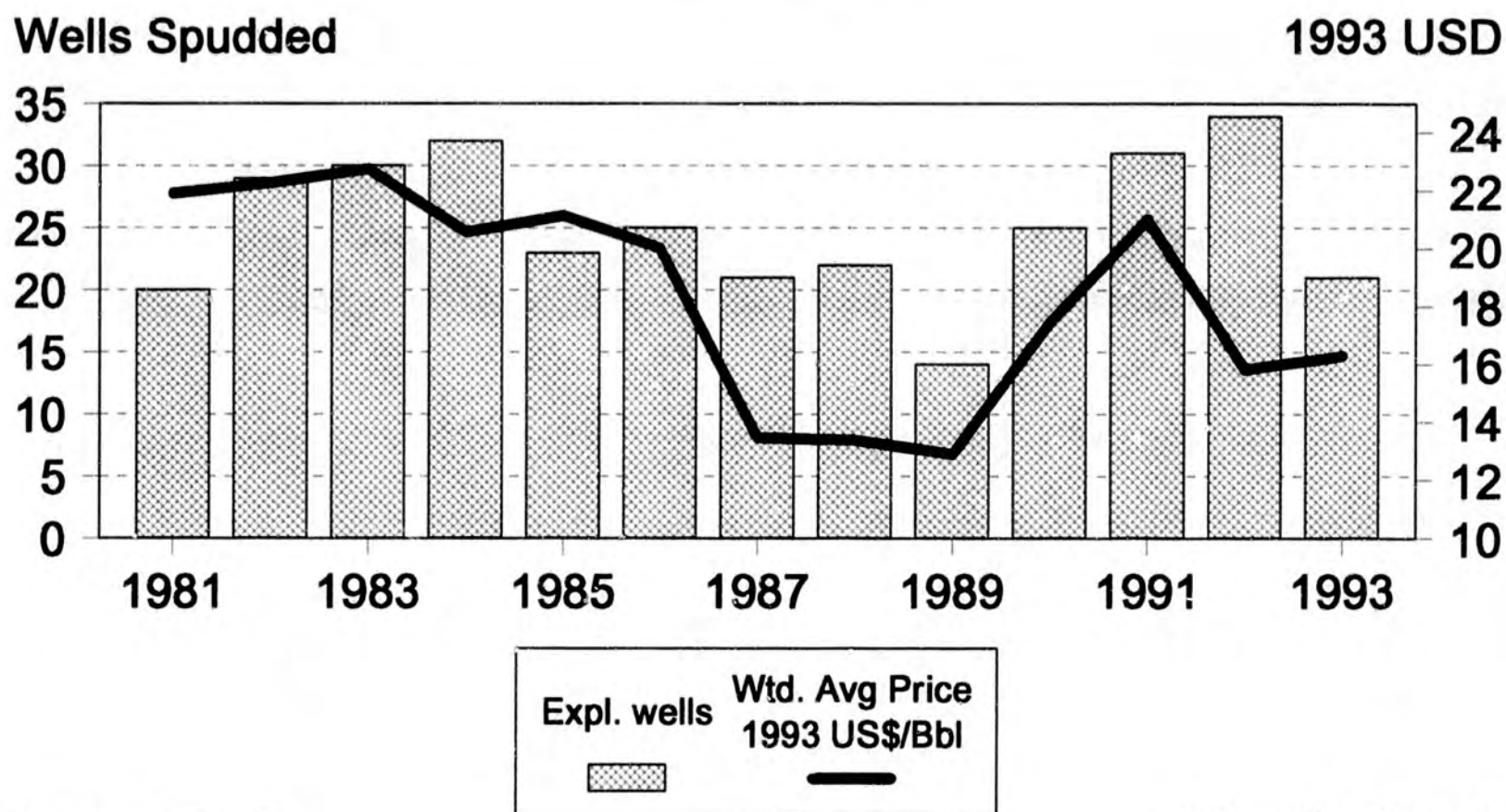
- ▶ Primarily production level based criteria
- ▶ Wide range of opportunity and risk
- ▶ Highlights competitive (dis)advantages
 - Fiscal terms
 - Risk
 - Reward
- ▶ But Smaller oil areas also competitive...
 - Argentina
 - Colombia
 - Malaysia
 - Yemen

Gaffney, Cline & Associates

Current Average Daily Production



Norway Exploration Drilling Activity & Weighted Average Crude Oil Price (1993 USD)



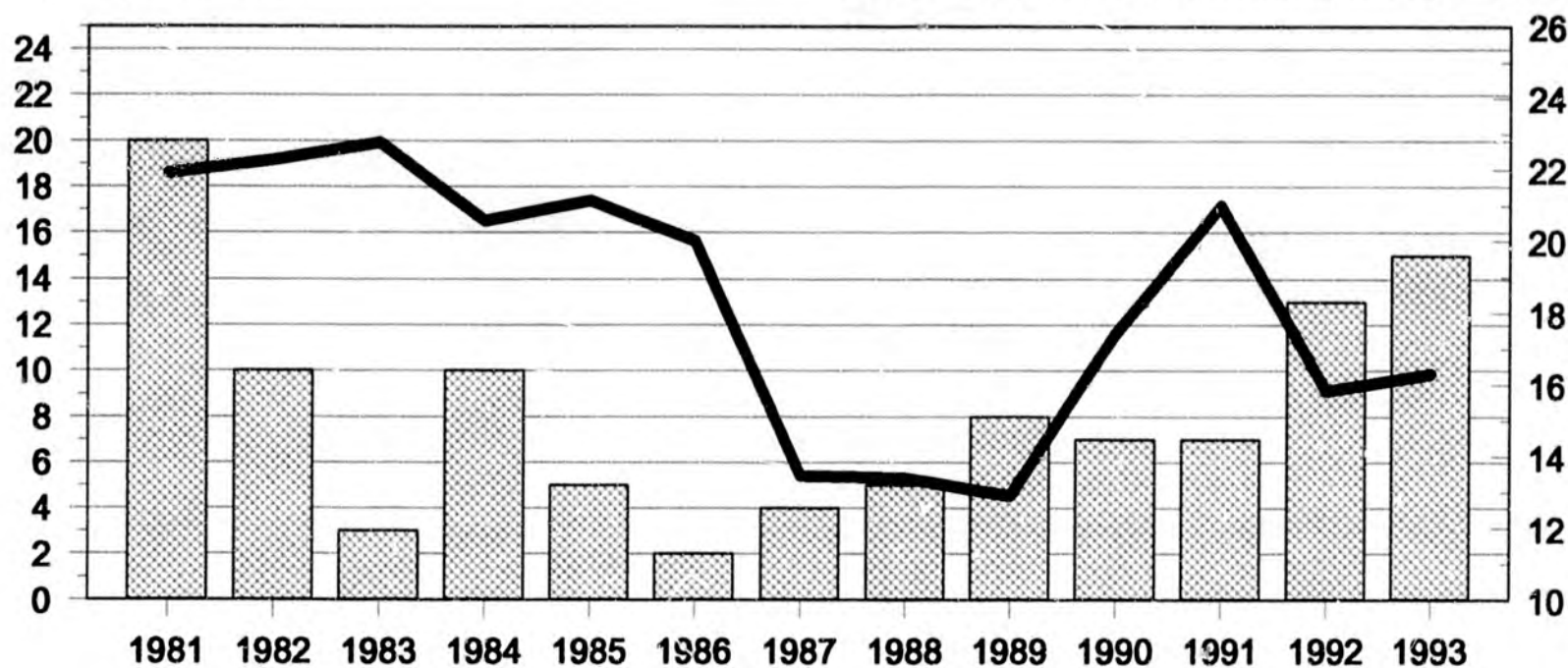
Sources : DOE/BP/RPI

Gaffney, Cline & Associates

Alaska E and A Drilling & Weighted Average Crude Oil Price (1993 USD)

No. Wells Drilled

1993 US Adjusted Crude Oil Price, US\$ / Barrel

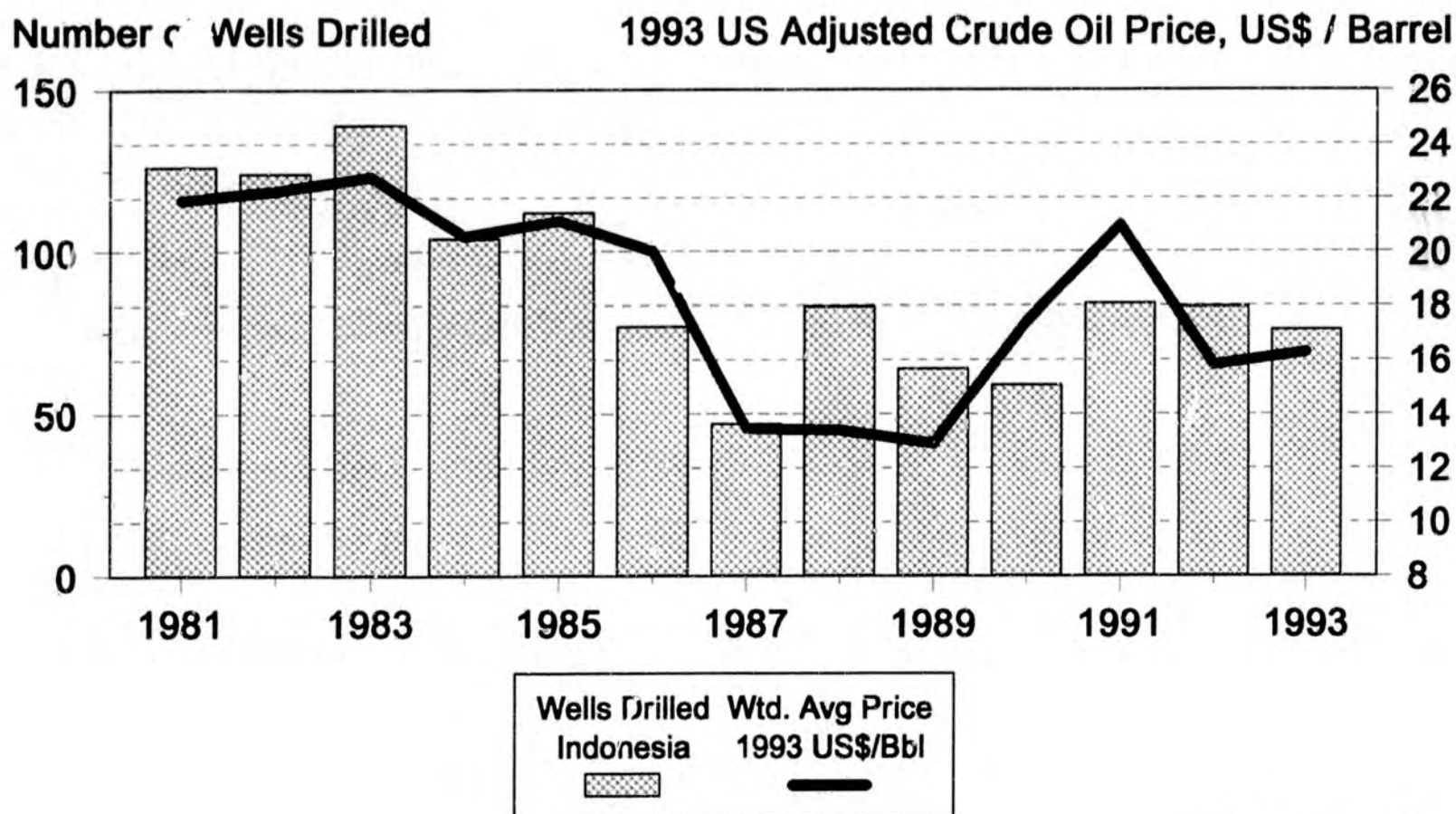


Wells EA Wtd. Avg Price
Alaska 1993 US\$/Bbl



Gaffney, Cline & Associates

Indonesia Exploration Drilling & Weighted Average Crude Oil Price (1993 USD)



Gaffney, Cline & Associates