

Alaska Oil and Gas Activities

William Van Dyke,
Acting Director
Division of Oil and Gas

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Alaska Department of
**Natural
Resources**

<http://www.dog.dnr.state.ak.us/oil/>

Director's Introduction



The State Revenue Pie

Petroleum Revenue Sources, (FY 2005)

Total Royalties, Bonuses, Rents & Settlements:

\$1,905.4 Million

General Fund Royalties, Bonuses & Rents:¹

\$1,419.6 Million

Royalties to Permanent Fund & School Fund:¹

\$485.8 Million

Taxes:

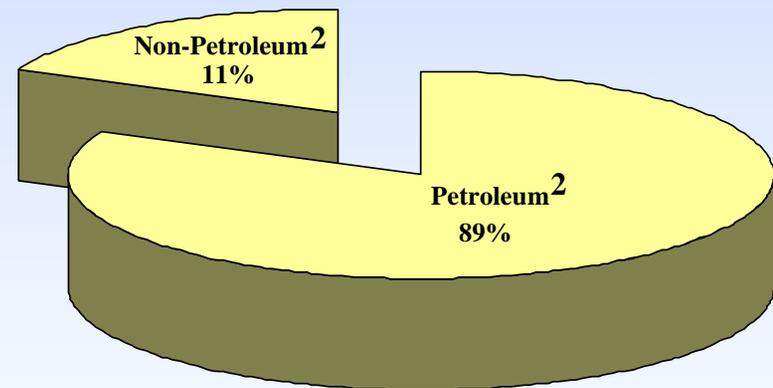
\$1,429.7 Million²

(Oil & Gas Property Tax + Income Tax + Severance Tax)

¹ Includes Federally shared rentals + royalties

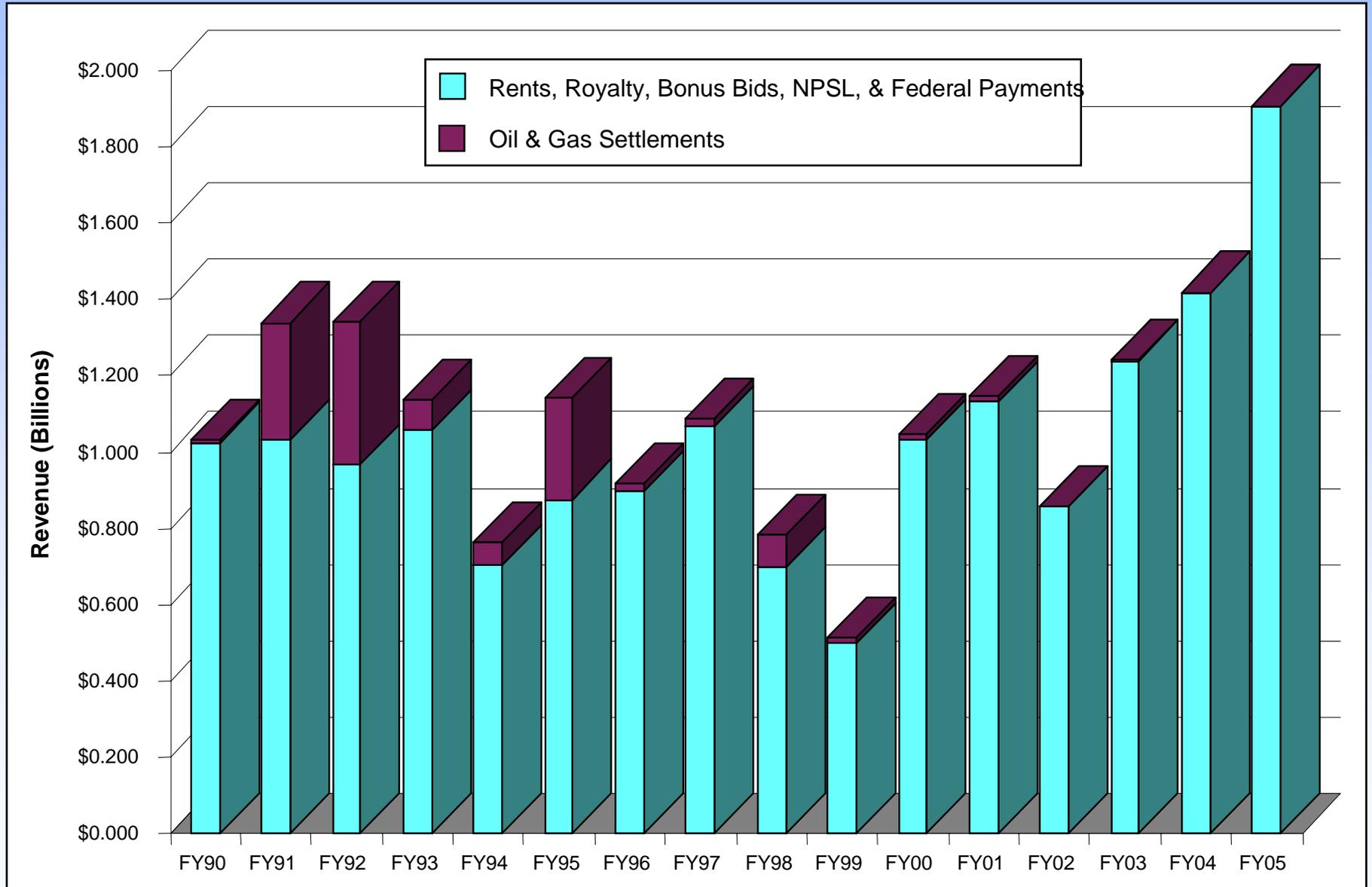
² Source: DOR Preliminary Fall 2005 Revenue Sources Book

FY 2005 Unrestricted Revenue

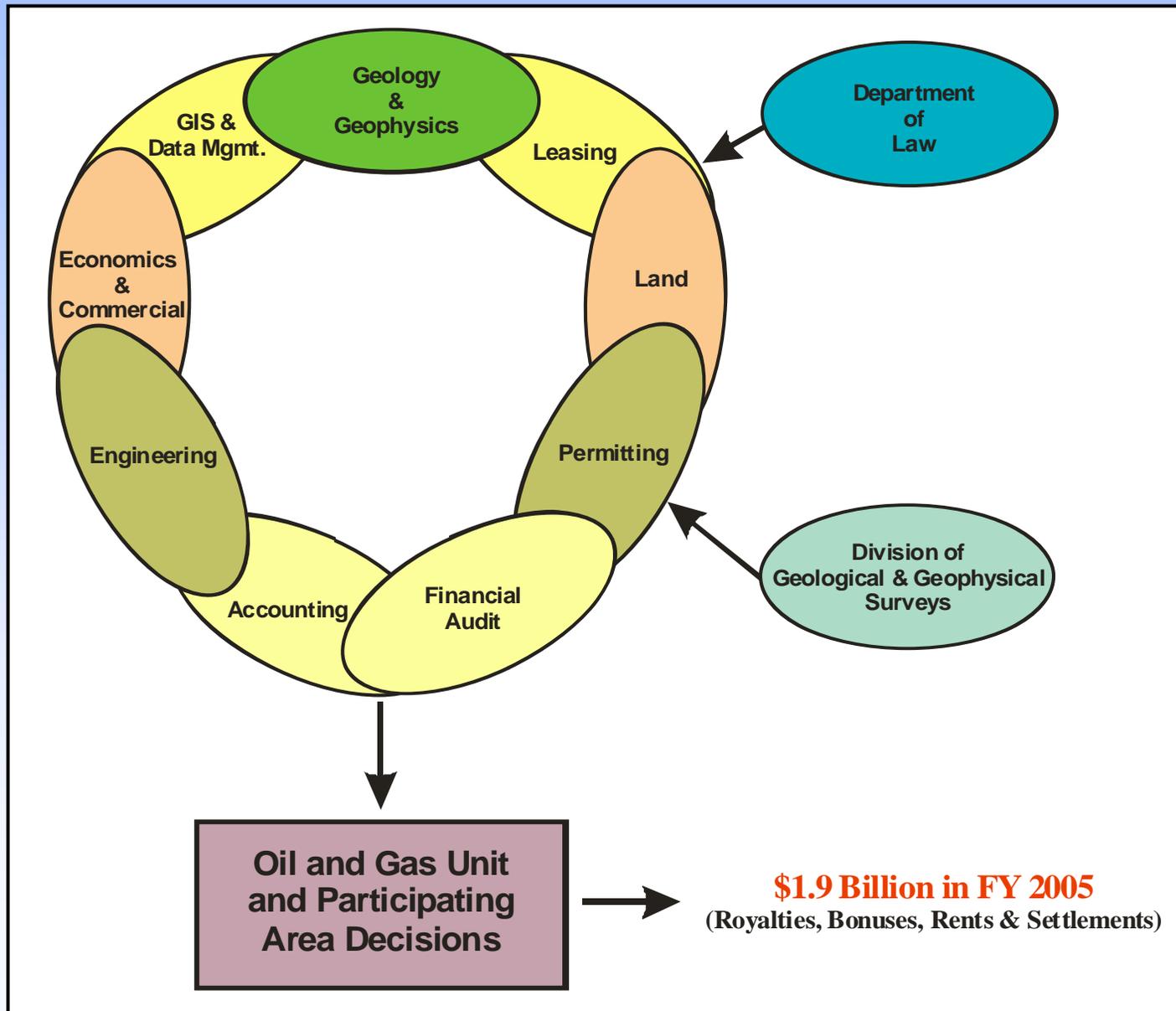


Fiscal Year Oil and Gas Revenue from State Lands

Fiscal Years 1990 through 2005



Division of Oil & Gas Organization Links Affect the Bottom Line and the Calendar



Division of Oil and Gas

Continuing Projects

December, 2005

- **Conduct 5 Lease Sales per year**
 - Exploration licensing
 - Royalty accounting
 - Production accounting
 - Data management and GIS systems
 - Royalty-in-kind sales
 - Royalty reduction requests
- **Viscous oil and other issues related to marginal field development**
 - Audits and royalty/Net Profit Share settlements
 - Royalty reopeners
 - Resource evaluation for new units, new and revised participating areas, lease sale areas, and new lease sale areas
 - Satellite field development-facility sharing arrangements
 - Lease administration-assignments, title and rental
 - New units and unit administration
- **Cook Inlet gas—storage, incentives, royalty terms**
 - Pipeline tariffs including TAPS
 - Permitting for exploration and development activities
 - Inspections of oil and gas activities on state lands
 - Public information to parties interested in Alaska
- **Promoting Alaskan oil and gas opportunities**
 - Assist new entrants in start up activities
 - Collaboration with DGGs--Gas hydrate research, oil and gas field work
- **ANS Gasline**
 - In-state gas proposals relating to the ANS gasline
 - Cook Inlet jack up rig cost sharing
- **Cook Inlet DR&R-platforms and pipelines**
 - TAPS quality bank methodology
 - Review technical data submittals and obtain data as required by Revenue's PTC Exploration Incentive Credit programs
 - Staff and technical support of DGGs energy program (field work, analytical effort, publication support)
- **Facilitating reasonable access to existing infrastructure for explorers**
 - Coordinating and collaborating with federal oil and gas managers such as BLM and MMS
 - Working with local governments on permitting and zoning concerns
 - Evaluating the prospects for geothermal energy production
 - Crafting new 10-year best interest findings for our lease sales – beginning in 2007
 - Administrative and IT support
- **Recruiting and training**

DO&G Project Workload and Staffing

- Start Up funding approved in late FY 05 continuing through end of FY 06.
- Staff hired and incorporated into Division's project structure.
- Request that continuation funding be included in Division's budget for FY 07.
- Increment/Conversion request approved by Governor.

Division Highlights

- Royalty Accounting staff collected approximately \$2.1 billion in revenue in CY 2005
 - \$1.1 billion in royalty-in-value
 - \$997 million from royalty-in-kind sales
 - \$23 million in state's share of federal rents and royalties
- Leasing/Permitting staff currently administer more than 1,200 leases covering 4.1 million acres generating over \$6 million in rental income annually and 3 exploration licenses covering 1.3 million acres.
- Audit staff completed 13 state and federal audits during the past 18 months resulting in the collection of \$6.1 million in additional revenue, have 10 audits under way, and 13 audits yet to be scheduled.
- Commercial staff recently completed the first half of a Royalty Settlement Agreement reopener with ExxonMobil which could result in up to \$26 million in retroactive revenue adjustments to the state, with the second half of the reopener currently under way.
- Unit staff currently manage 42 units with 64 active participating areas, with 5 new units recently approved.

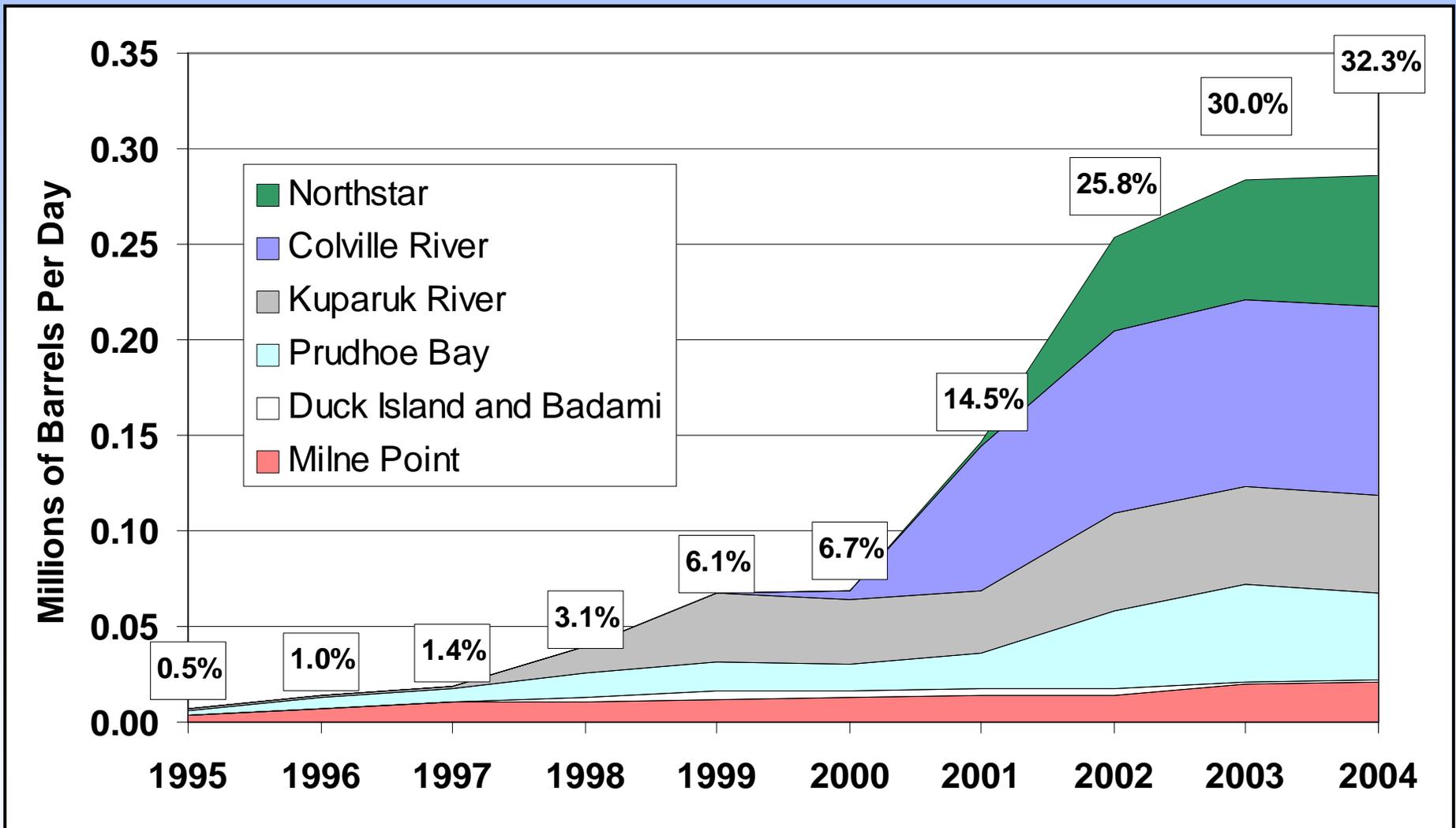
Division Highlights

- Leasing/Permitting staff process over one thousand assignments of interests in oil and gas leases annually.
- Royalty Accounting staff processed nearly 6,000 production reports and reconciled more than 20,000 royalty transactions in CY 2005.
- Leasing/Permitting staff conduct 5 areawide lease sales annually, with the last 5 sales resulting in \$18 million in bonus bids received and completed the first Alaska Peninsula competitive oil and gas lease sale in October, 2005.
- Resource Evaluation staff completed geologic & geophysical evaluation of state oil and gas acreage in support of one new areawide lease sale, two new exploration licenses, and dozens of unit and lease actions.
- Unit, Commercial and Resource Evaluation staff recently completed the economic and geologic evaluation of a royalty modification for the Oooguruk Unit covering an oil accumulation that has lain dormant for about 20 years and successfully negotiated royalty terms acceptable to the applicant and state which should result in the accumulation being brought into production. A second royalty modification request is pending.
- Division staff recently completed the negotiation and issuance of the first gas storage lease on state land. A second gas storage lease application is pending.

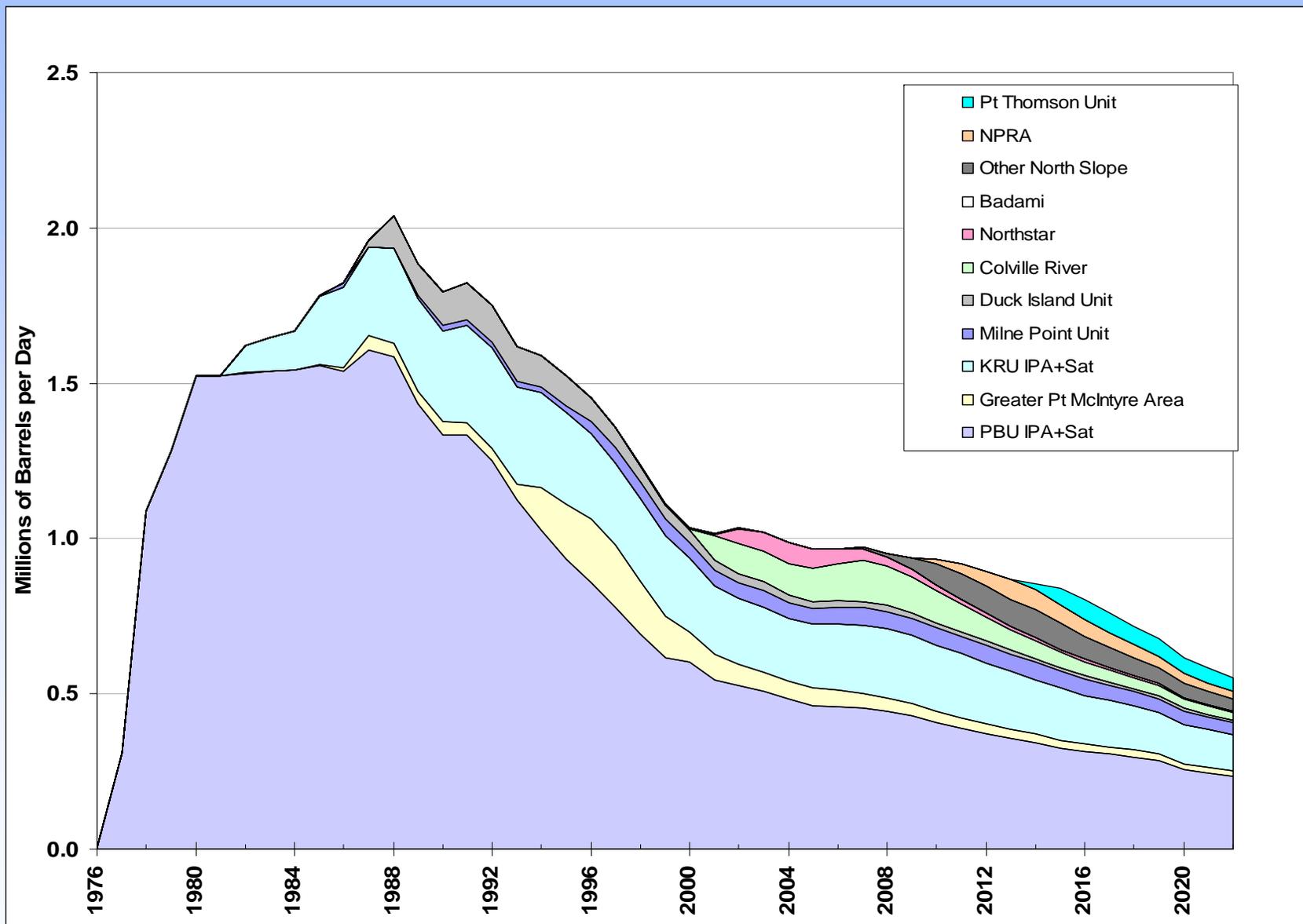
Royalty Settlement Reopener

- The ExxonMobil RSA reopener is in its second “phase.”
 - The first phase resolved a dispute between the State and ExxonMobil over the royalty calculation of Destination Value for ANS oil.
 - The State won a unanimous decision from the arbitration panel and ExxonMobil will add \$21.7 million in royalty for 2001- 2004. The difference between the State’s and ExxonMobil’s competing proposals was \$4.3 million.
 - The second phase is a dispute over the amount deducted for Marine Transportation Costs.
 - If the State wins the second phase ExxonMobil will deduct \$8.0 million for the period 2001- 2004. In dispute is a difference of \$4.2 million.
 - There are also royalty revenues from RIK oil sale at stake.
- The State may also face a new RSA reopener during FY 07 if ConocoPhillips or the State triggers the “Limited Reopener” provision in the settlement.

Incremental North Slope Oil Production since 1995 by Unit



Historic and Projected Oil Production 1976-2022



Oil and Gas Incentives

Royalty Reduction:

- AS 38.05.180(j) Royalty Reduction: Applies to leases on state land. Reduction can be as low as 5 percent royalty for new production or as low as 3 percent for producing or shut in.
- Reduction in royalties to as low as 5 percent for oil produced from certain Cook Inlet platforms should production fall below certain levels (AS 38.05.180(f)(6)). This was an effort to extend the life on Cook Inlet platforms by making it more economic to remain in operation.

Exploration Incentive Credits:

- Exploration Incentive Credit under AS 38.05.180(i). Allows up to 50 percent of drilling costs on Conventional Leases; up to 50 percent of seismic costs on unleased state land.
- Exploration Incentive Credit under AS 41.09.010. Allows up to 50 percent of drilling and seismic costs on unleased and licensed lands; up to 25 percent on federal and private lands.

Discovery Royalty:

- AS 38.05.180(f)(4) Cook Inlet Sedimentary Basin. Five percent royalty for ten years.
- AS 38.05.180(f)(5) Applies to the following Cook Inlet fields: Falls Creek, Nicolai Creek, Starichkof, North Fork, Redoubt Shoals, & West Forelands. Five percent royalty on first 25 MM bbls for 10 years or five percent royalty on first 35 BCF for 10 years.

Oil and Gas Incentives

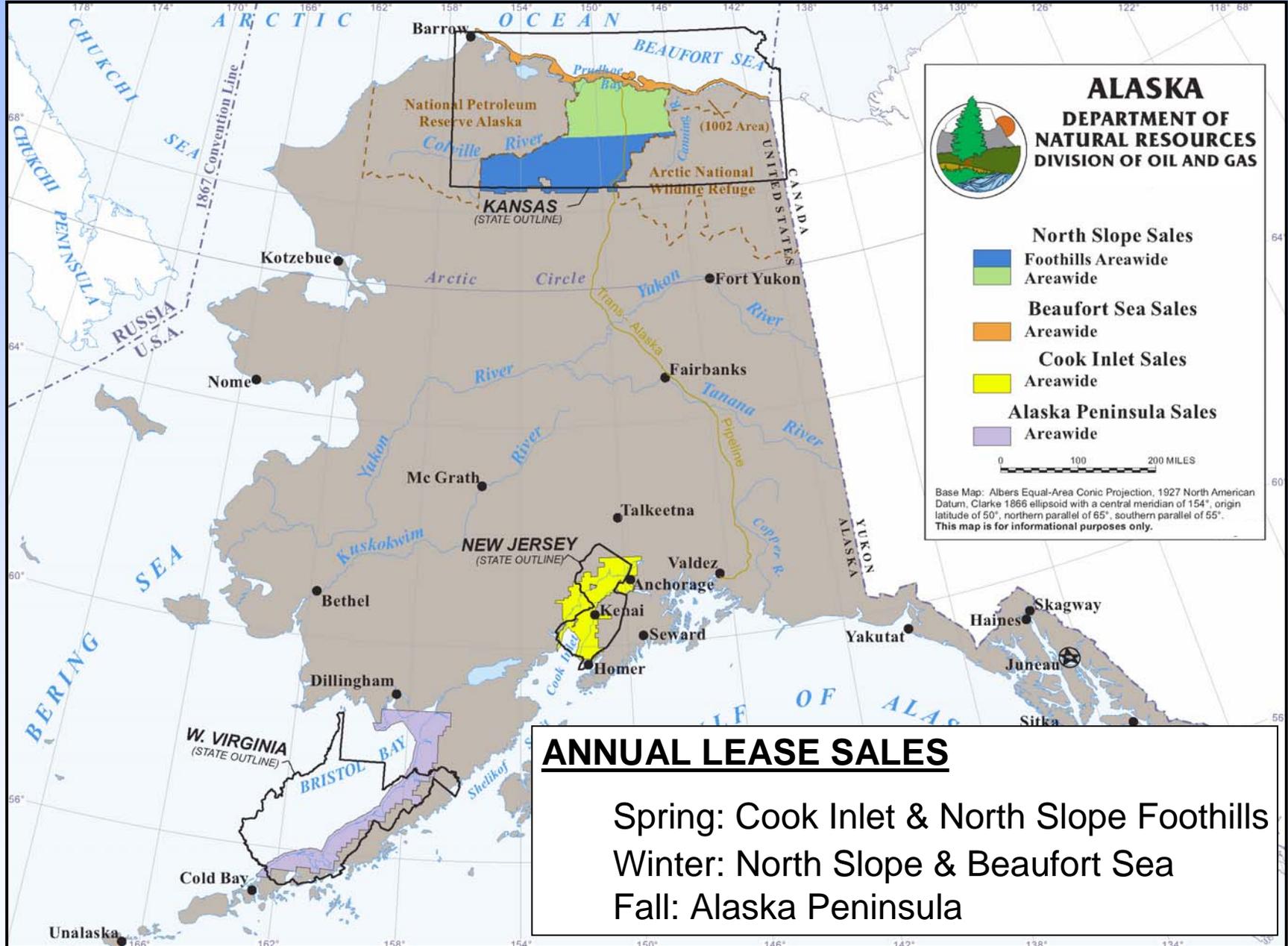
Tax Incentives:

- Exploration Tax Credits to encourage exploration in frontier areas (AS 43.55.025).
 - Covers as much as 40 percent of the drilling costs of exploration wells and 40 percent of seismic costs.
 - The sunset on this incentive was recently extended until 2010 for certain areas.
- AS 43.20.043: Available for all leased and unleased state, federal, and private lands south of 68th Degree latitude. Ten percent of capital investment and ten percent of the annual cost incurred by the taxpayer for qualified services in the state during each tax year for which a credit is allowable for a qualified capital investment.

State of Alaska Areawide Oil & Gas Lease Sales

- Annual lease sales
 - May: Cook Inlet & North Slope Foothills
 - October: North Slope & Beaufort Sea
(2005 sales delayed to 1st Quarter 2006)
 - October: Alaska Peninsula
- Lease Sizes: up to 5,760 acres
- Maximum non-unitized State acreage under lease
 - Offshore – 500,000 acres
 - Onshore – 750,000 acres
- Term of lease: 5 to 10 years
- Annual rentals: \$1/acre initially, increasing annually by 50¢/acre to maximum of \$3/acre in 5th year.

Alaska Oil and Gas Leasing Program



ANNUAL LEASE SALES

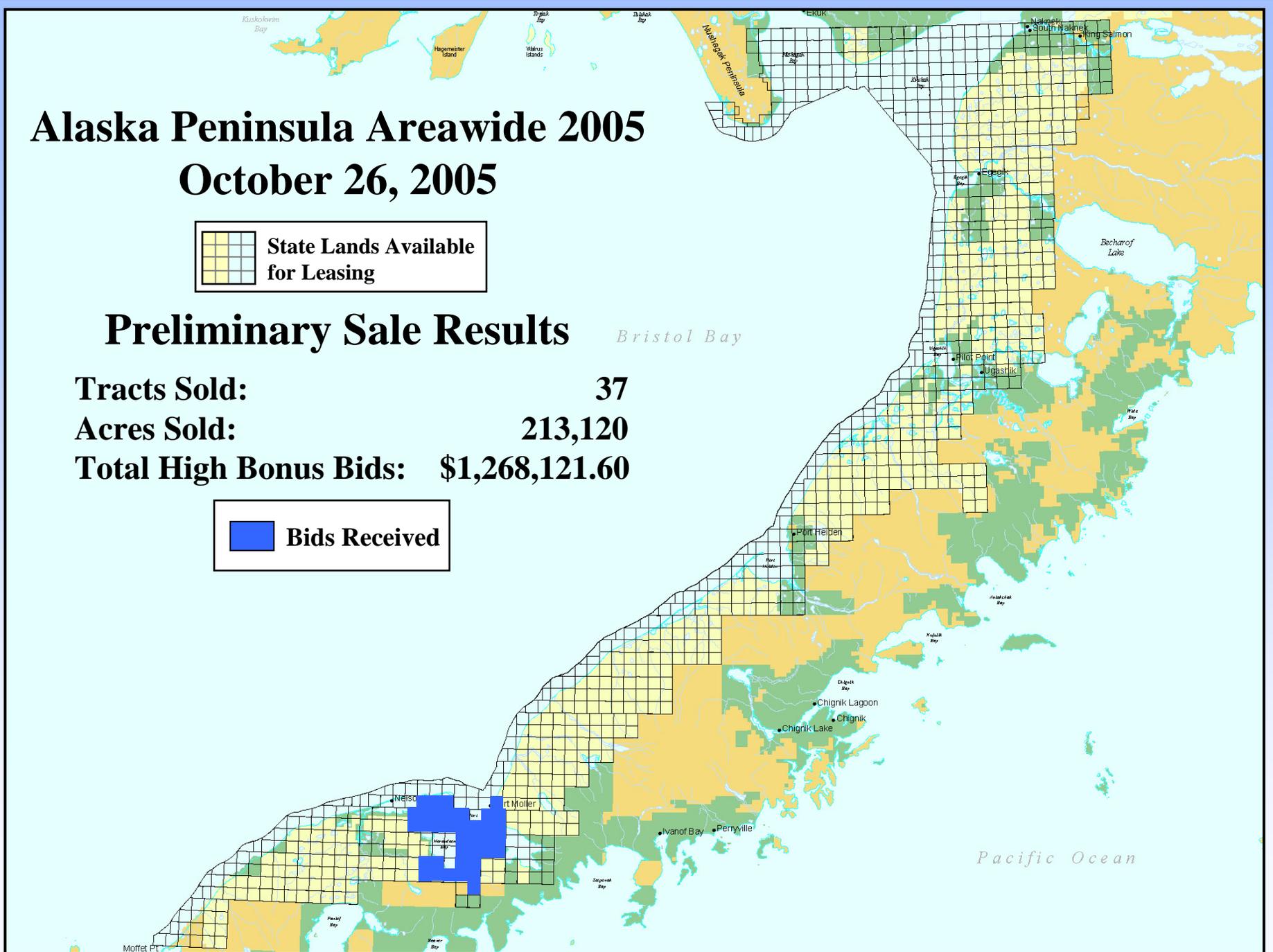
Spring: Cook Inlet & North Slope Foothills
 Winter: North Slope & Beaufort Sea
 Fall: Alaska Peninsula

Alaska Peninsula Areawide 2005 October 26, 2005



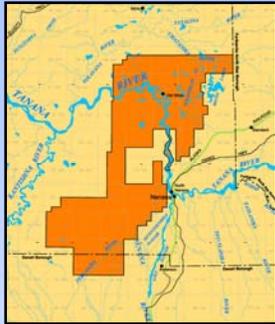
Preliminary Sale Results

Tracts Sold: 37
Acres Sold: 213,120
Total High Bonus Bids: \$1,268,121.60



Exploration Licensing Program

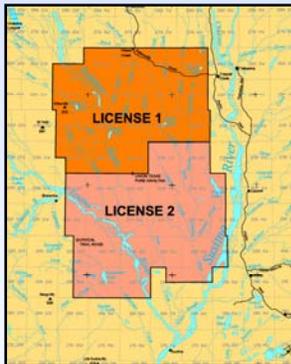
Issued Licenses



Nenana

Nenana Basin

Licensee: Andex Resources
Size: 483,175 Acres



Susitna

Susitna Basin License 1

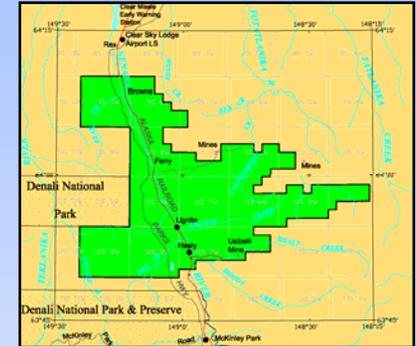
Licensee - Forest Oil Corp.
386,207 Acres

Susitna Basin License 2

Licensee - Forest Oil Corp.
471,474 Acres

- Proposals accepted during month of April
- Exclusive right to explore for oil and/or gas
- Work commitment, expressed in \$\$
- No rental fees during term of license
- One-time \$1/acre licensing fee
- Right to convert to oil & gas leases (Exercised in Copper River License Area)

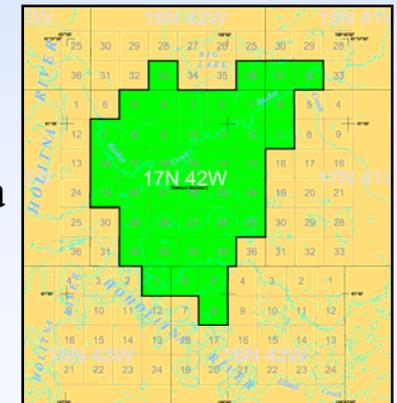
Proposed Licenses



Healy

Healy Basin

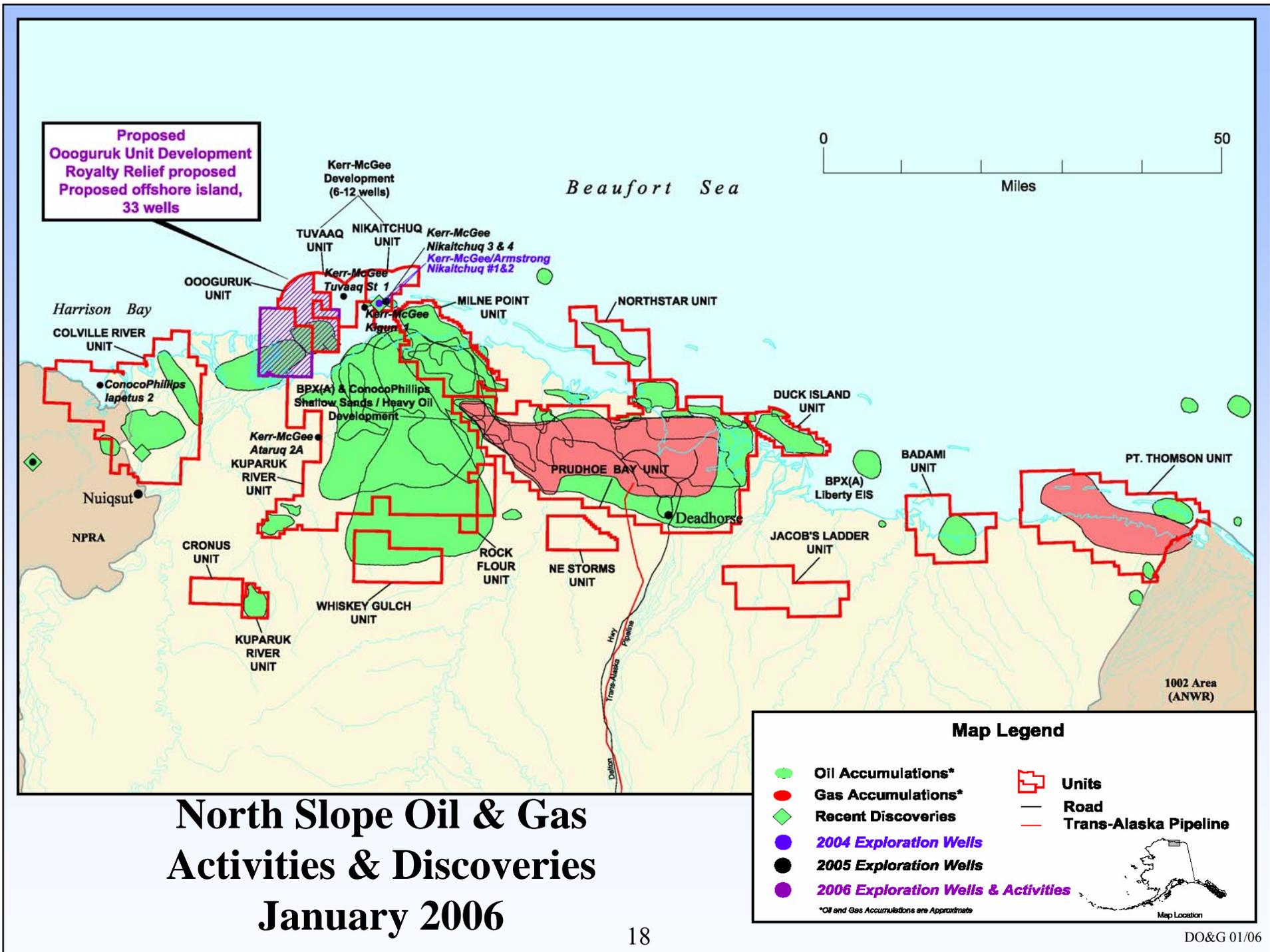
Licensee: Usibelli Coal Mine
Size: 209,000 Acres



Holitna

Holitna Basin

Licensee: Holitna Energy
Size: 26,000 Acres



North Slope Development Activities

2004 - 2005

Northern Alaska

Project Name	Status	Expected Start-Up Date	Estimated Reserves or Expected Production
Milne Point Unit - Sag River PA	Sag River formed - 12 wells planned (2 per year)	2006	Not disclosed
Prudhoe Bay Oil and Gas Rim	In 2004 completed facility upgrades and approximately 26-35 rotary drilling penetrations and 28-35 coiled tubing penetrations.	Producing	Forecast for Ivishak producing area in 2005 is approx. 400,000 BOPD including downtime and NGLs
PBU Borealis	Ongoing infill development drilling in expanded PA	Producing	20,200 BOPD current field rate, 35,000 BOPD planned long-term
KRU West Sak	I Pad Development Sanctioned	2006-2007	Not disclosed
Shallow Sands/ Heavy Oil (West Sak/Schrader Bluff)	Continuing drilling and development At PBU/MPU/KRU	Producing	1.0 - 1.5BBO recoverable, 43,000 BOPD Current Rate 140 MBOPD by 2010 (est)
CRU Satellite Development; CD3 - Fiord & CD4 - Nanuq. Add 2 Satellite Drillsites for Fiord pool & Nanuq pool	Gravel pads in-place; Development drilling started 4th Qtr 2005 & expected to continue through Spring 2008	CD3 - Fiord: August 2006 CD4 - Nanuq: November 2006	CD3 - Fiord: 20,000 - 24,000 BOPD at peak production CD4 - Nanuq: 10,000 - 13,000 BOPD at peak production
CRU ACX-1 & ACX-II: Various Facility Expansion Projects: Additions and upgrades to Oil & Gas Processing Capacity, Produced Water System & Handling, Seawater Injection System	Completed July 2005	---	30,000 - 35,000 BOPD increment
CRU ACX-III: Add equipment to optimize Alpine & Alpine Satellites enhanced oil recovery projects, & add reserves by recovering & selling heavier condensate components from produced gas stream	Project underway	Mid - 2006	4,000 BOPD incremental
Nikaitchuq Development	Multiple discoveries, evaluating development scenarios & royalty relief	2008	Not disclosed
Point Thomson	Development Plan part of SGDA negotiations	??	75,000 bbls. condensate/day
Liberty Development (OCS)	EIS for onshore extended reach drilling under way	??	120MMBO recoverable (est)
Oooguruk Development	Multiple discoveries, evaluating development scenarios and royalty relief granted	2007	15,000 - 20,000 BOPD
Cronus Unit	1 exploration well planned for 2006	2007	Not disclosed

Cook Inlet Oil & Gas Activities & Discoveries December 2005

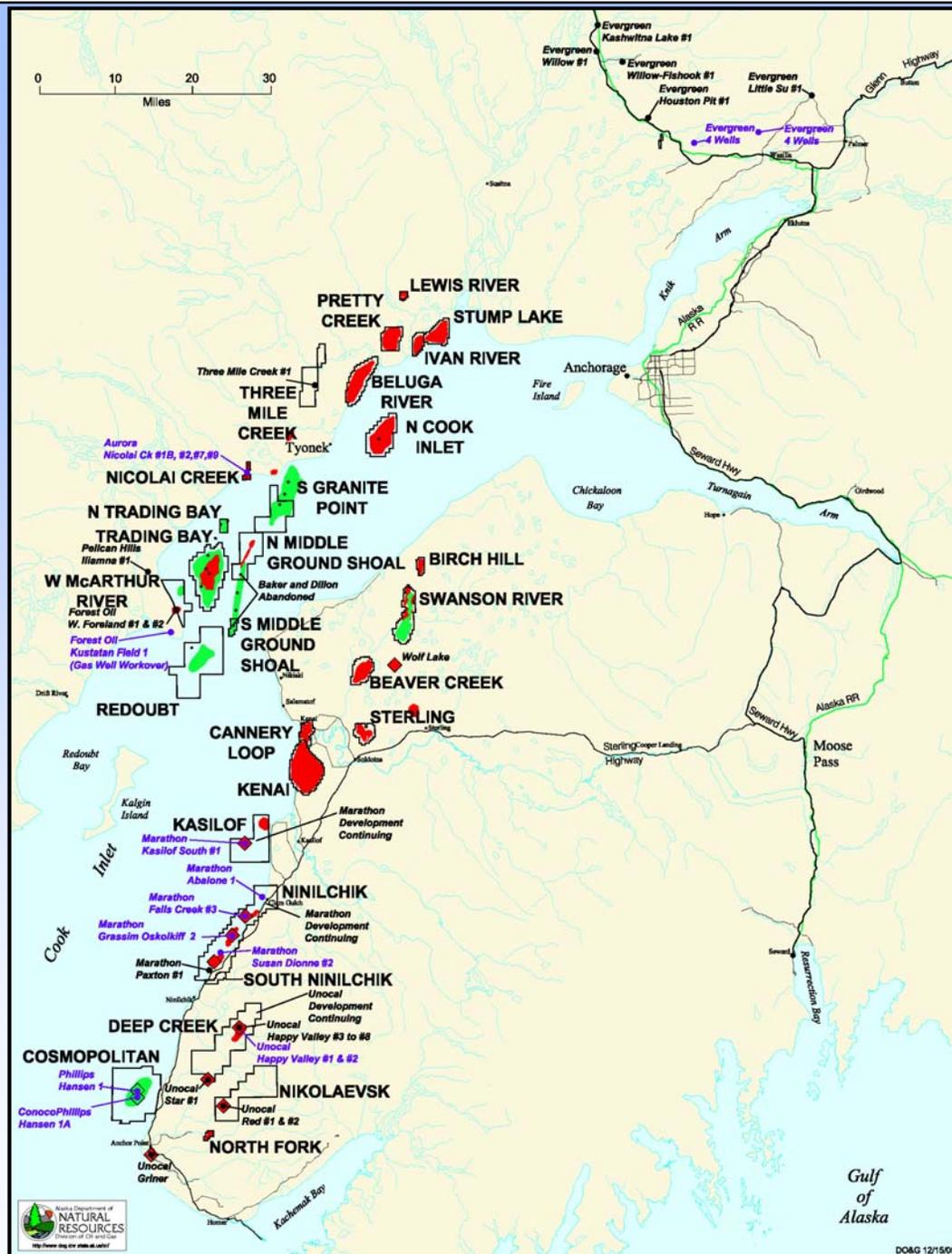
Map Legend

-  Units
-  Oil Accumulations*
-  Gas Accumulations*
-  Recent Oil Discoveries
-  Recent Gas Discoveries
-  2004 Active and Proposed Exploration Wells
-  2003 Exploration Wells
-  Platforms
-  Road
-  Alaska Railroad



Map Location

*Oil and Gas Accumulations are Approximate



Exploration Wells Drilled FY05 to 12/1/05

NORTH ALASKA (9):

TUVAQA #1	KERR-MCGEE	STATE LAND
KIGUN #1	KERR-MCGEE	STATE LAND
NIKAITCHUQ #3	KERR-MCGEE	STATE LAND
NIKAITCHUQ #4	KERR-MCGEE	STATE LAND
ATARUQ #2	KERR-MCGEE	STATE LAND
ATARUQ #2A	KERR-MCGEE	STATE LAND
IAPETUS #2	CONOCO PHILLIPS	STATE LAND
KOKODA #1	CONOCO PHILLIPS	NPR-A
KOKODA #5	CONOCO PHILLIPS	NPR-A

COOK INLET BASIN (11):

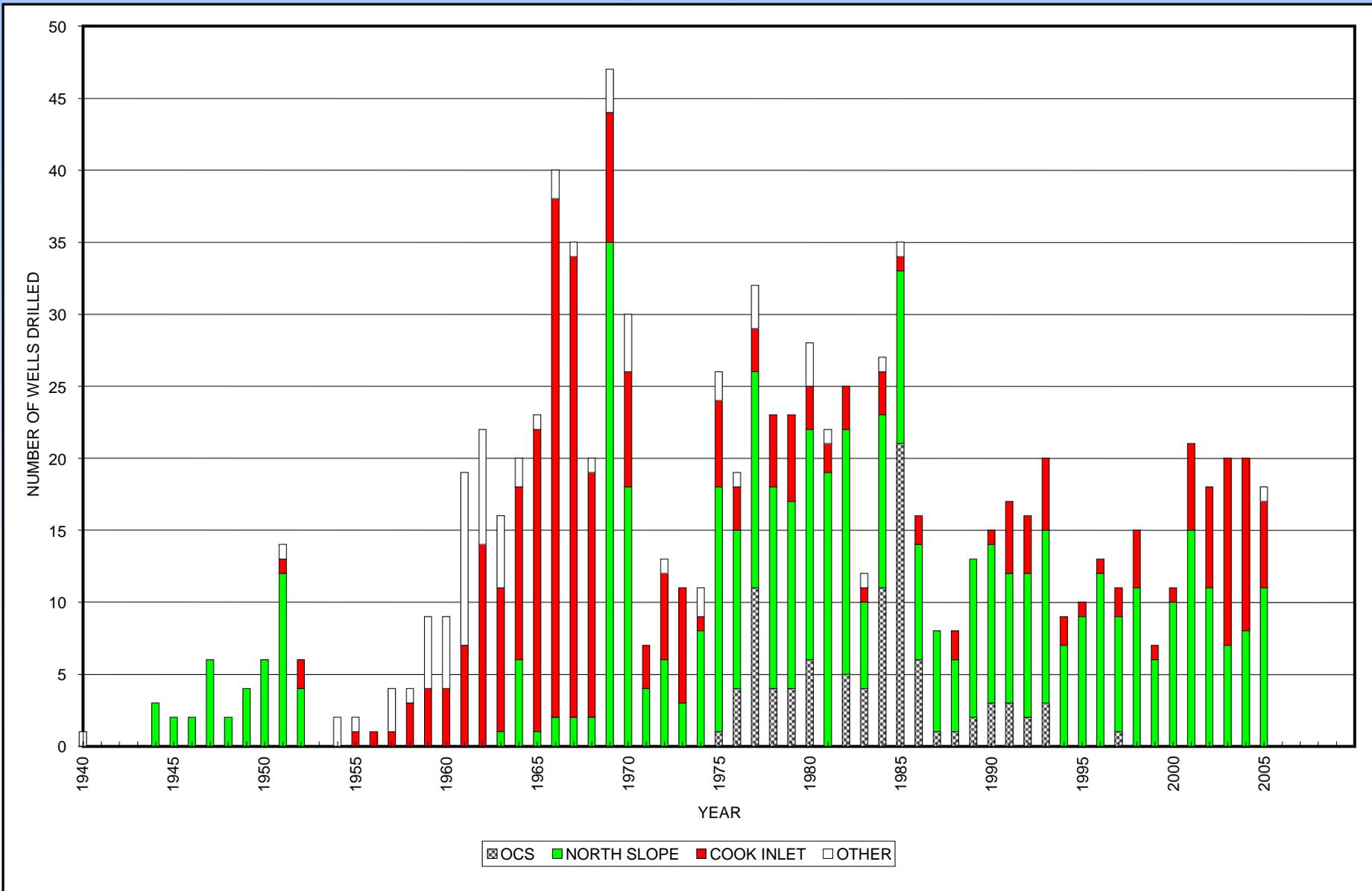
KOLOA #2	AURORA GAS LLC	CIRI
LONG LAKE #1	AURORA GAS LLC	MHT
THREE MILE CK. UNIT #1	AURORA GAS LLC	STATE
MOQUAWKIE #3	AURORA GAS LLC	CIRI
LONE CREEK #3	AURORA GAS LLC	CIRI
ASPEN #1	AURORA GAS LLC	CIRI
RED #1	UNOCAL	STATE
RED #2	UNOCAL	STATE
STAR #1	UNOCAL	STATE
NORTH BELUGA #1	PELICAN HILLS	STATE
ILIAMNA #1	PELICAN HILLS	STATE

COPPER RIVER BASIN (1):

AHTNA #1-19	RUTTER-WILLBANKS	AHTNA
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Alaska Exploration Well Data

Grouped by Area

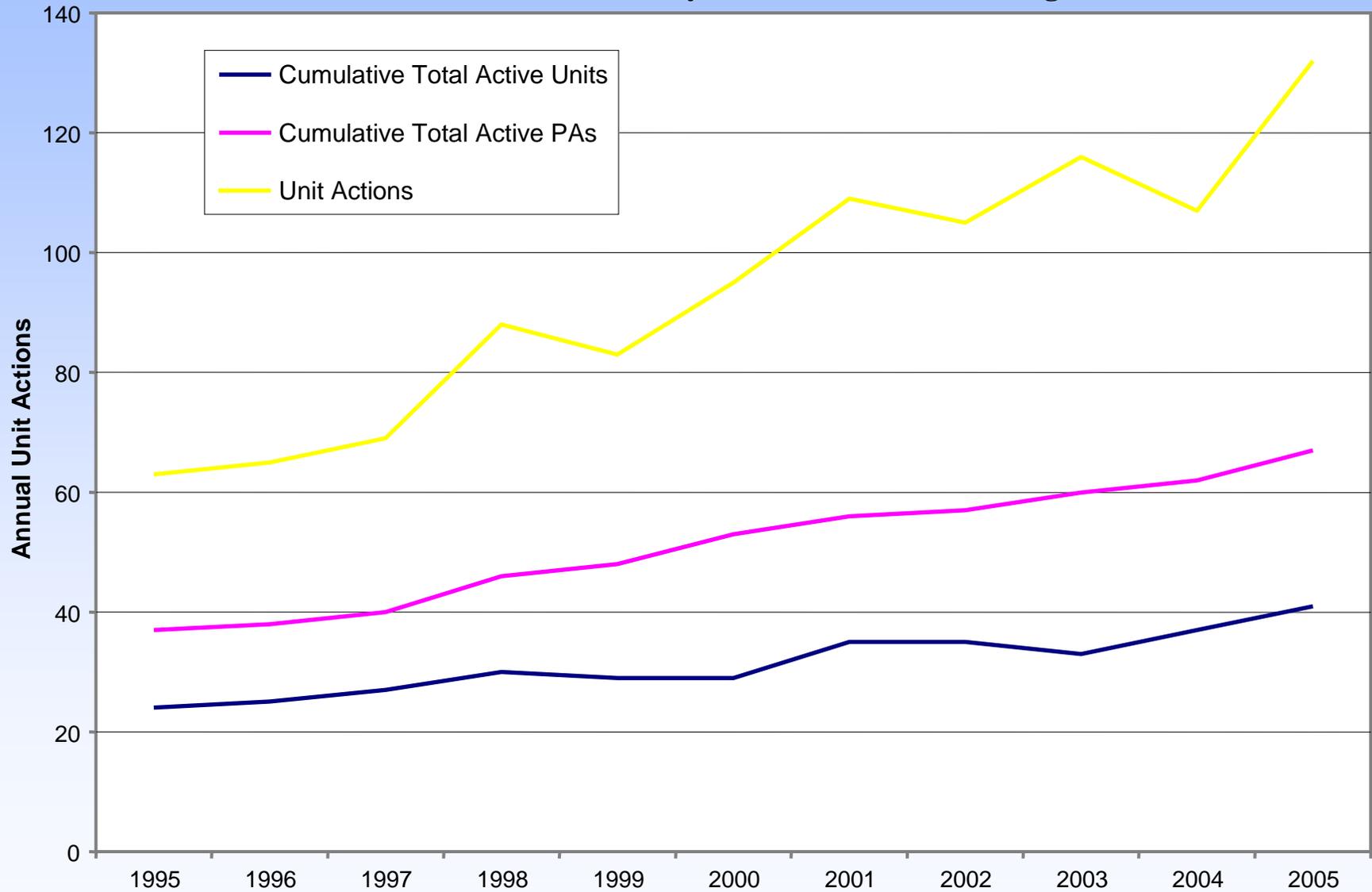


Recent New Units

- Whiskey Gulch (Brooks Range)
- Rock Flour (ENI)
- Jacob's Ladder (Anadarko)
- Cronus (ConocoPhillips)
- NE Storms (Pioneer)

Units, Participating Areas, and Unit Actions per Year

As oil and gas development expands in Alaska, the demand for timely unit decisions and evaluations by the division continues to grow.



Contribution to Department's Mission

The Division of Oil and Gas manages oil and gas lands in a manner that assures both responsible oil and gas exploration and development and maximum revenues to the state.

Core Services

A. Encourage Exploration and Development:

- Make prospective lands available for oil and gas exploration, development, and production on a predictable basis.
- Provide publicly available existing and new oil and gas related information to technical users, the general public, and the press through technical publications, informational pamphlets, the website, or personal contact.
- Provide technical and policy support for the Alaska Congressional Delegation, the Governor's office, the Legislature, and the Commissioner of DNR.
- Adjudicate exploration permits effectively and maintain a proactive inspection program.

B. Maximize Benefits of Development and Production to the State:

- Administer conventional oil and gas leases and exploration licenses, as well as exploration incentive programs.
- Maximize the economic and physical recovery of hydrocarbon resources through unitized or cooperative operations.
- Ensure that exploration, leasehold, and unit-related operations are conducted in a timely and environmentally sound manner.
- Advocate responsible oil and gas development throughout the State.
- Analyze and negotiate royalty reduction requests.

C. Maximize Non-tax Revenue from State Oil and Gas Production:

- Ensure that full value is received from the extraction and sale of State oil and gas resources.
- Develop marketing strategies and negotiate agreements for the sale of royalty oil and gas to provide in-State benefits and revenue enhancements.
- Ensure that bonus, rental, license fees, net profit, and royalty payments are correct, allocated to the proper revenue fund and received when due.
- Ensure that shared federal bonus, rent, and royalty are properly received and allocated to the proper revenue fund.
- Conduct North Slope gas pipeline and gas treatment plant contract, LLC and project scope analysis and negotiations.

Feedback/Questions



Oil & Gas Permitting

William Van Dyke,
Acting Director
Division of Oil and Gas

January 17, 2006



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<http://www.dog.dnr.state.ak.us/oil/>

Oil and Gas Permitting

- If oil or gas activities are on state leases or will access state resources, then an authorization from the Division of Oil and Gas is required.
- In addition, oil and gas activities will require a number of permits from federal, state, and local agencies.

Oil and Gas Permitting

Division of Oil & Gas Permits

- Geophysical Exploration Permits
- Project Plan of Operation Approvals
 - Describes all related project facilities and activities
 - Demonstrates compliance with Lease Mitigation Measures
 - Identifies Lease Area Surface Owners
 - Broad Public Notice
 - 30- or 50- Day Review Schedule
 - 17- or 30-Day Comment Period
 - Division review addresses new issues, mitigation and bonding requirements

Oil and Gas Permitting

Automation of DO&G Permits

- DOGMA (Div. of Oil & Gas Management Applications) in progress
 - Beta-Testing of On-Line Permit Application planned for February-March 2006
 - Full On-Line Permit Application Launch planned for April-May 2006
 - Full automation includes adjudication processes, record-keeping and reporting

Oil and Gas Permitting

Non-DO&G Permits That May Be Required

- **Federal Permits**

- Federal Land Owner (BLM, MMS)
- Corps of Engineers – Wetlands or Discharge into “Waters of the U.S.”
- EPA – NPDES (If there is a significant discharge)
- Any of these may trigger the need for an EIS or and EA

- **Other State Permits**

- AOGCC – Permit to Drill any oil or gas well
- ACMP Consistency Determination (DNR-OPMP)
- Water Use Permit or Material Sales (DNR-DMLW)
- Habitat Permit (DNR-OHMP)
- Spill Response Contingency Plan/Air Quality/Wastewater/Solid Waste Disposal (DEC)

- **Local Permits - Borough Zoning**