

Alaska's Oil & Gas Future – New Frontiers, Expanding Opportunities

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PAC COM Expo and Conference 2004

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Department of Natural Resources
Division of Oil and Gas



Alaska Department of
**Natural
Resources**

The State Revenue Pie

Petroleum Revenue Sources, (FY 2003 Preliminary)

Total Royalties, Bonuses, Rents & Settlements:

\$1,296.0 Million

General Fund Royalties, Bonuses & Rents:^{1,2}
\$839.1 Million

Royalties to Permanent Fund & School Fund:⁴
\$400.0 Million

Royalty Settlements to CBRF:⁴
\$22.3 Million

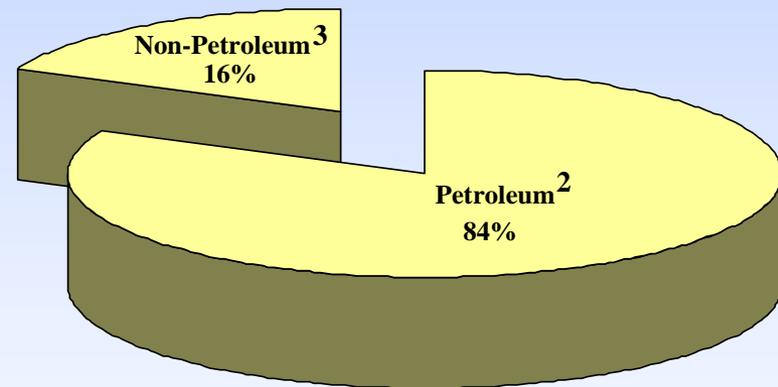
NPRA:⁴
\$34.6 Million
(Bonuses & Rents)

Taxes:

\$799.9 Million²

(Oil & Gas Property Tax + Income Tax + Severance Tax + Tax Settlements to CBRF)

FY 2003 Unrestricted Revenue (Preliminary)



1 Includes Federally shared rentals

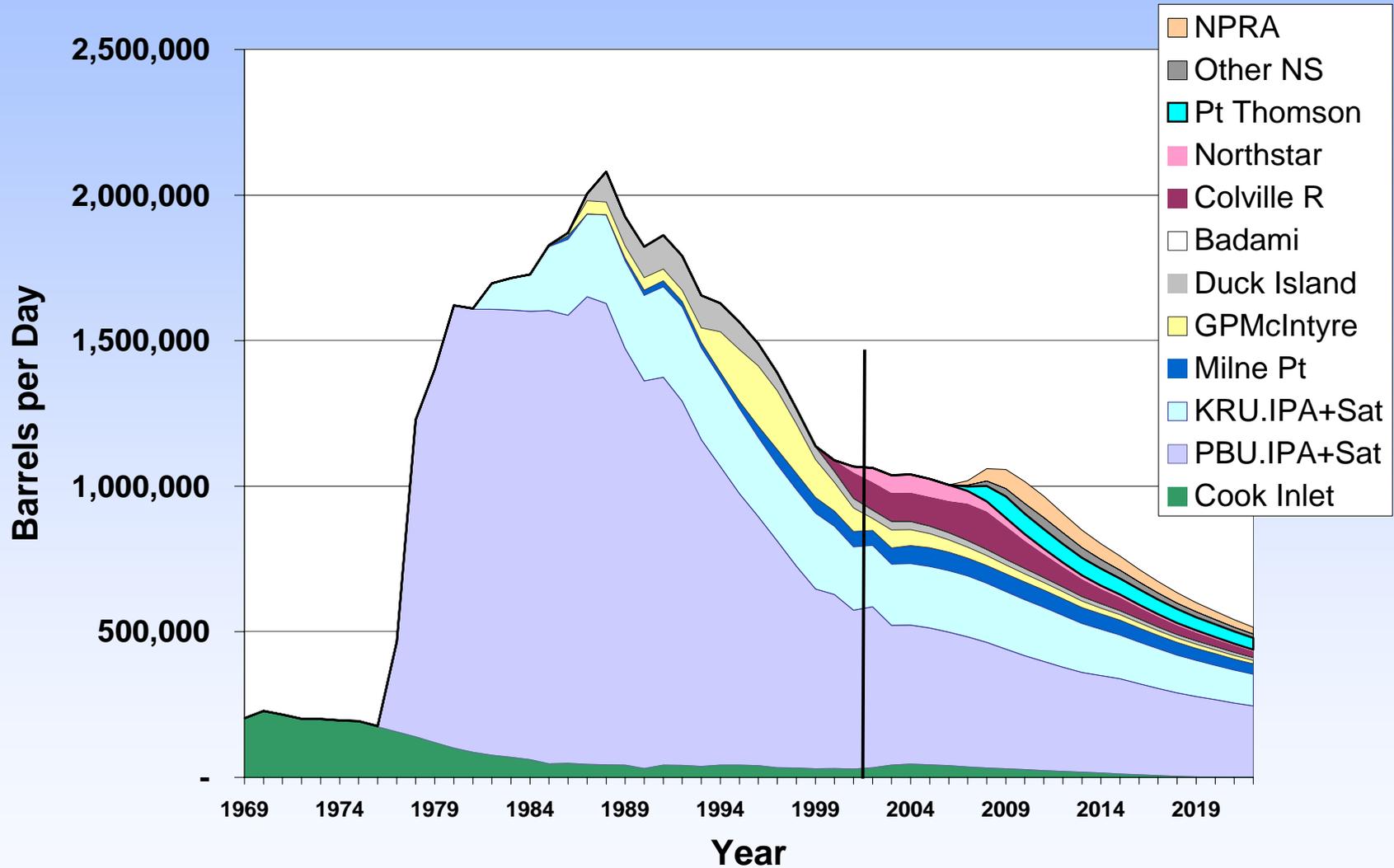
2 Source: DOR Fall 2003 Revenue Sources Book - Preliminary

3 Source: DOR Fall 2003 Revenue Sources Book - Preliminary

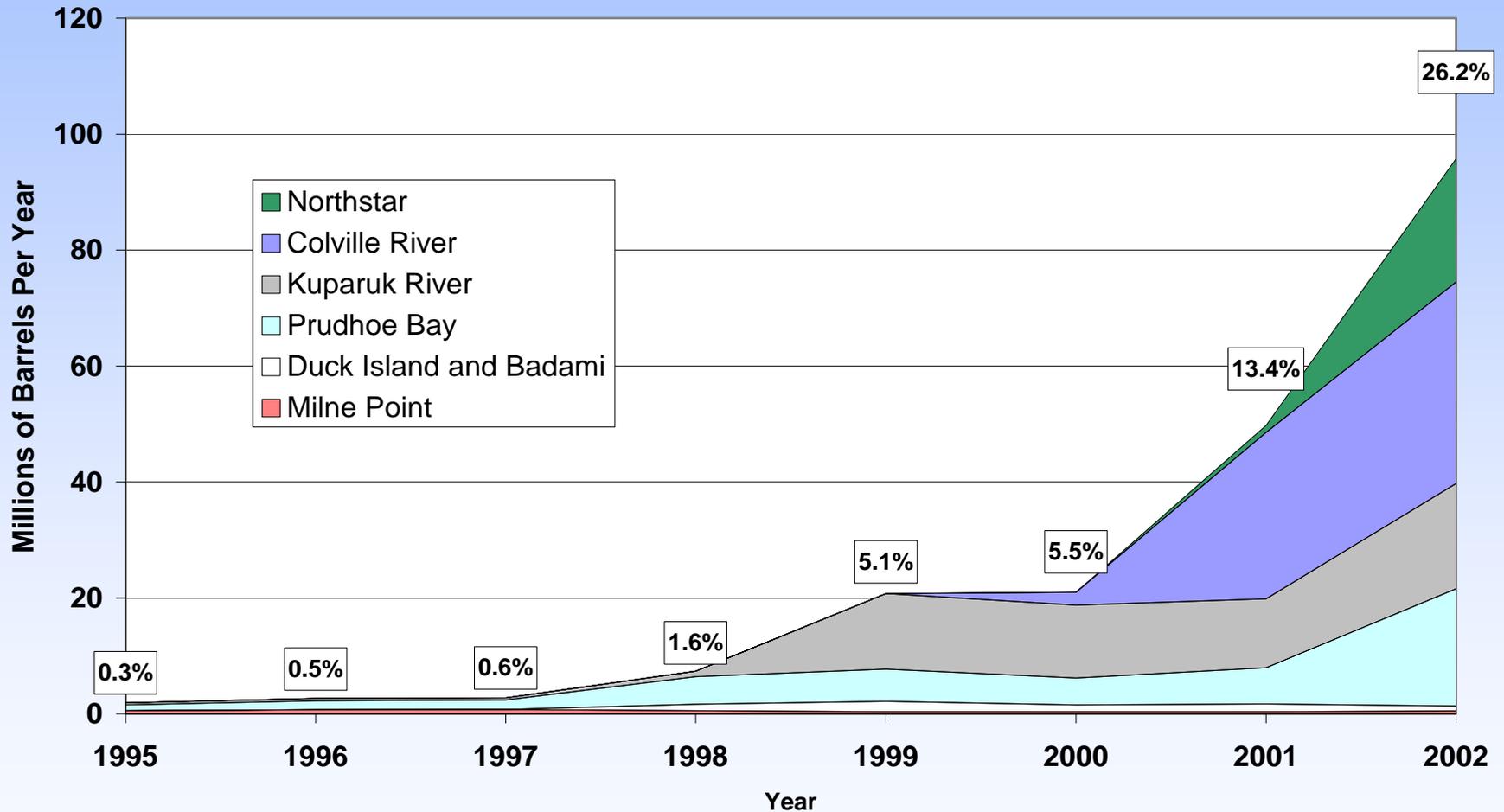
4 Source: DOR Fall 2003 Revenue Sources Book - Preliminary

Historic and Projected Oil Production

1969 - 2022



Incremental North Slope Oil Production since 1995 by Unit



Note: Percentage figures show fraction of incremental oil since 1995, as a proportion of total North Slope production by year.
Sources: AOGCC and ADNR.

Projects Under Development

Northern Alaska (October 2003)

Project Name	Status	Expected Start-Up	Estimated Reserves or Expected Production
PBU Borealis	Development continuing	2002	35,000 BOPD
KRU Palm (DS-3S)	Development underway	2002 (Nov.)	35 MMBO 16,000 bbls. oil/day
MPU Schrader Expansion (S Pad)	Drilling & test production underway	Late 2002	17-20,000 BOPD
PBU Gas Cap Water Injection	Drilling underway	2003	Risked est. reserves ~200 MMBO
PBU Orion	Preliminary development underway/PA application submitted Oct. 2003	2003	270-450MMBO 30M-50M BOPD at peak prod.
PBU Pt.McIntyre PM2 to GC1 Project	Development underway	Late 2003 or Early 2004	~5,500 BOPD
CRU Alpine PA Increased Water	Planning	Late 2004	5,000 BOPD
PBU Pt.McIntyre Supplemental M/I	Project Underway	Mid-2003	~1,000 BOPD
CRU Fiord	Technical studies, permitting, EIS or EA	2006	10,000-20,000 BOPD
CRU Nanuq	Technical studies, permitting, EIS or EA	2006	10,000-20,000 BOPD
KRU Exp. Area 1, 2 & 3 (west and south)	4 wells proposed by 2004, areas must be in KRU or contracted out by 2005.	2006	?
KRU Exp. Area 4 & 5 (southeast)	3 wells proposed by 2004, areas must be in KRU or contracted out by 2007.	2008	?
Point Thomson	Start drilling in 2004, major facilities mobilization in 2006	2007	75,000 bbls. condensate/day

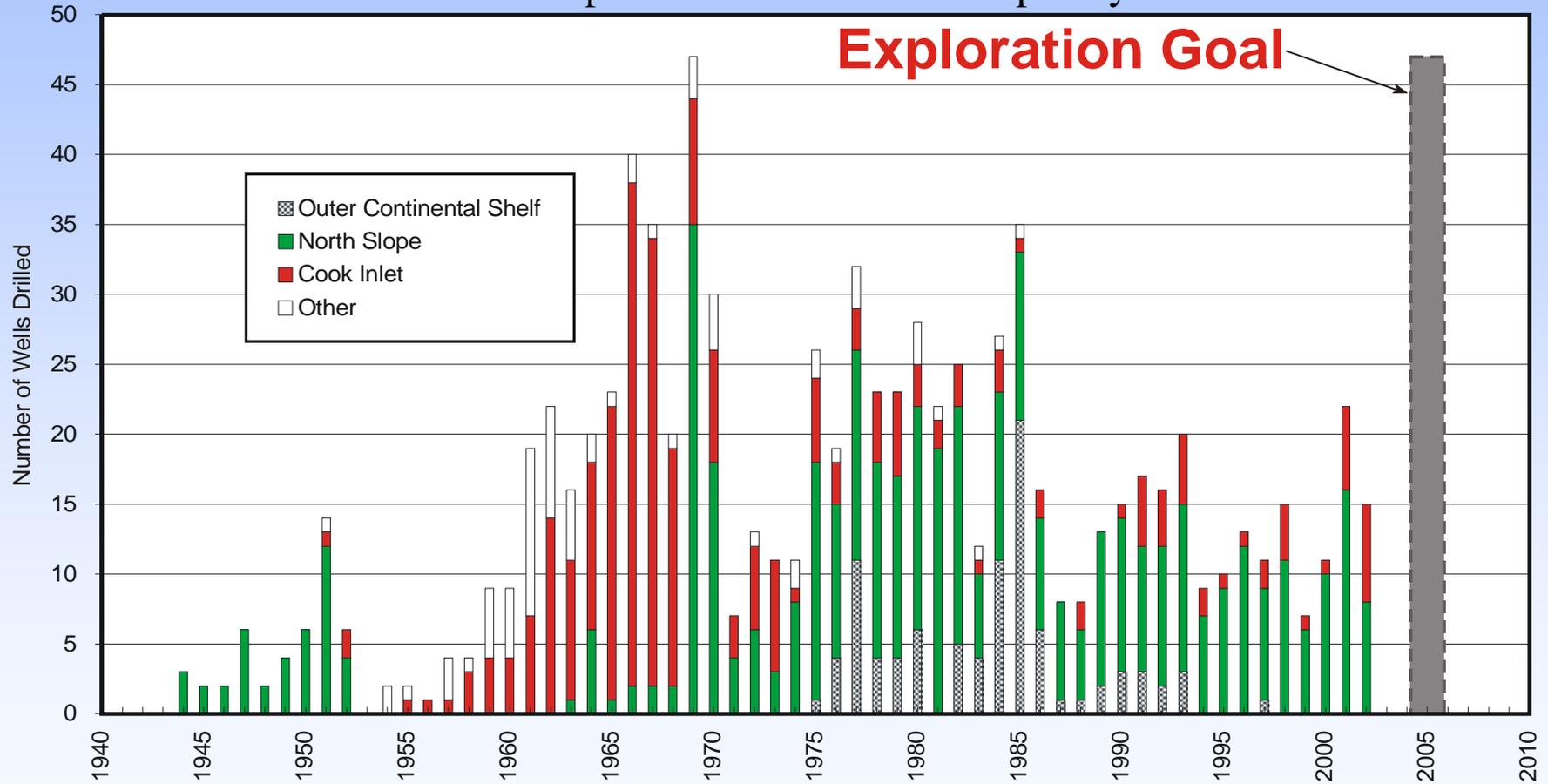
Alaska Reserves and Production

- **22% of total U.S. oil reserves.**
- 7.1 billion barrels of oil
- **19% of total U.S. gas reserves**
- 36.2 trillion cubic feet of gas
- **19% of total U.S. oil production**
- 0.993 million barrels of oil per day
- **Total Alaska Production to date**
- 15.3 billion barrels of oil
- 7.0 trillion cubic feet of gas (net production)

Sources: Alaska data are from Department of Natural Resources, Division of Oil and Gas, 2002 Annual Report
U.S. data are from U.S. Crude Oil, Natural Gas, and NGL Reserves, 2001 Annual Report, U.S.D.O.E.-E.I.A.

In Order to Increase Alaskan Oil Production the Number of Exploration Wells Drilled per Year Must Dramatically Increase.

Alaska Exploration Well Data Grouped by Area



Number of Alaskan Exploration Wells Drilled per Year

Exploration Incentive Credit (EIC) Programs

Program III - AS 43.55.025 Exploration Tax Credits

- **Result of SB 185.**
- **Implemented as 15 AAC 55.220.**
- **Effective for exploration well and seismic and geophysical exploration activities conducted July 1, 2003, through June 30, 2007, except those included in a unit plan of development or plan of exploration on May 13, 2003.**
- **Applicable only to production occurring on or after July 1, 2004.**
- **Applicable to all unleased and leased state, federal and private land within the state.**
- **Applicable to production taxes only.**
- **Application must be made within six months following completion of exploration activity.**
- **Production tax credit is transferable.**
- **Exploration well tax credits:**
 - **20% if the bottom hole location is 3 or more miles from the bottom hole location of a preexisting completed, suspended or plugged and abandoned oil or gas well that was spud more than 150 days, but less than 35 years, prior to spud date of the eligible exploration well.**
 - **40% if the bottom hole location is 25 or more miles from the boundary as of July 1, 2003, of any unit under a plan of development.**
- **Seismic exploration tax credits:**
 - **40% of eligible costs for those portions of activities outside of units under plan of development or plan of exploration.**
 - **Seismic data submitted to state will be held confidential for 10 years and 30 days following activity completion date.**

Exploration Incentive Credit (EIC) Programs

Program IV - AS 43.20.043 Gas Exploration and Development Tax Credit

- **Result of HB 61.**
- **Effective December 31, 2002.**
- **Applicable only to operators and working interest owners engaged in exploration for and development of gas resources and reserves south of 68 degrees North latitude.**
- **May not be used in conjunction with a tax credit or royalty modification provided under any other title.**
- **Allows 10% tax credit equivalent of qualified capital investments made after June 30, 2003, and of annual cost of activity in the state during each tax year.**
- **Total allowable yearly tax credit may not exceed 50% of the taxpayer's total tax liability and shall be determined before application of any other credits allowable under AS 43.20.**
- **Expires January 1, 2013.**
- **Unused tax credit may be carried forward into five or less of the following tax years.**
- **Credit is transferable only as part of a conveyance, assignment, or transfer of the taxpayers business.**
- **By November 30, 2008, the Department of Revenue shall publish a report evaluating the effect of this legislation and shall distribute the report to the legislature.**



Estimates of Technically Recoverable Oil Federal Lands - Alaska North Slope



NPRA

Oil Volumes (BBO)

F95 Mean F05

6.7 10.6 15

ANWR

Oil Volumes (BBO)

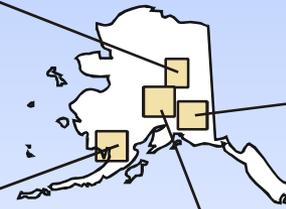
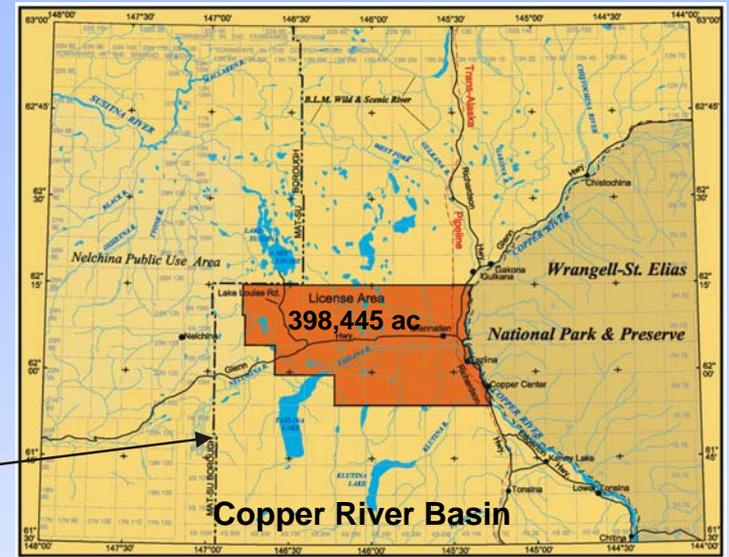
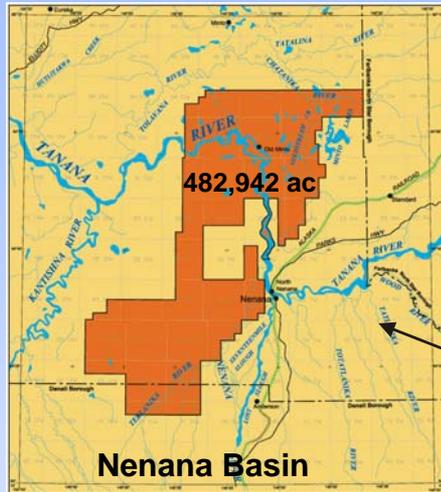
F95 Mean F05

1002 Area (Federal Part) 4.2 7.7 11.8

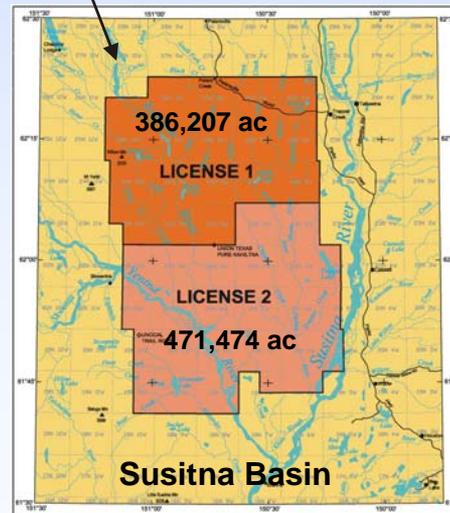
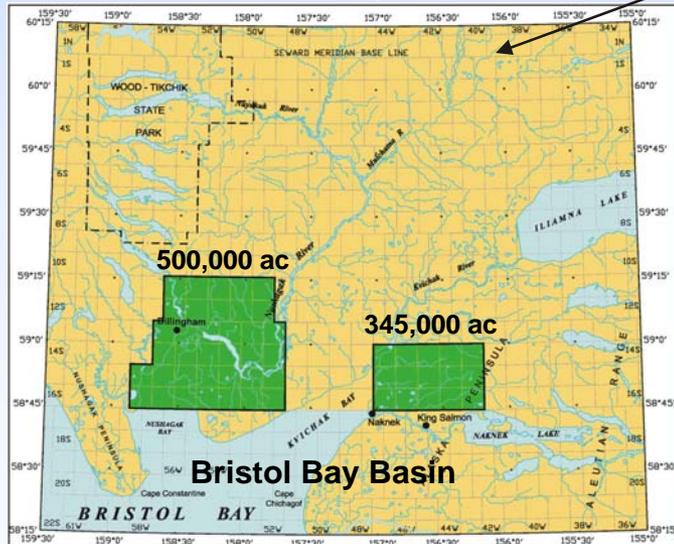
Entire Assessment Area* 5.7 10.4 16.0

*(includes Native Lands & State Waters)

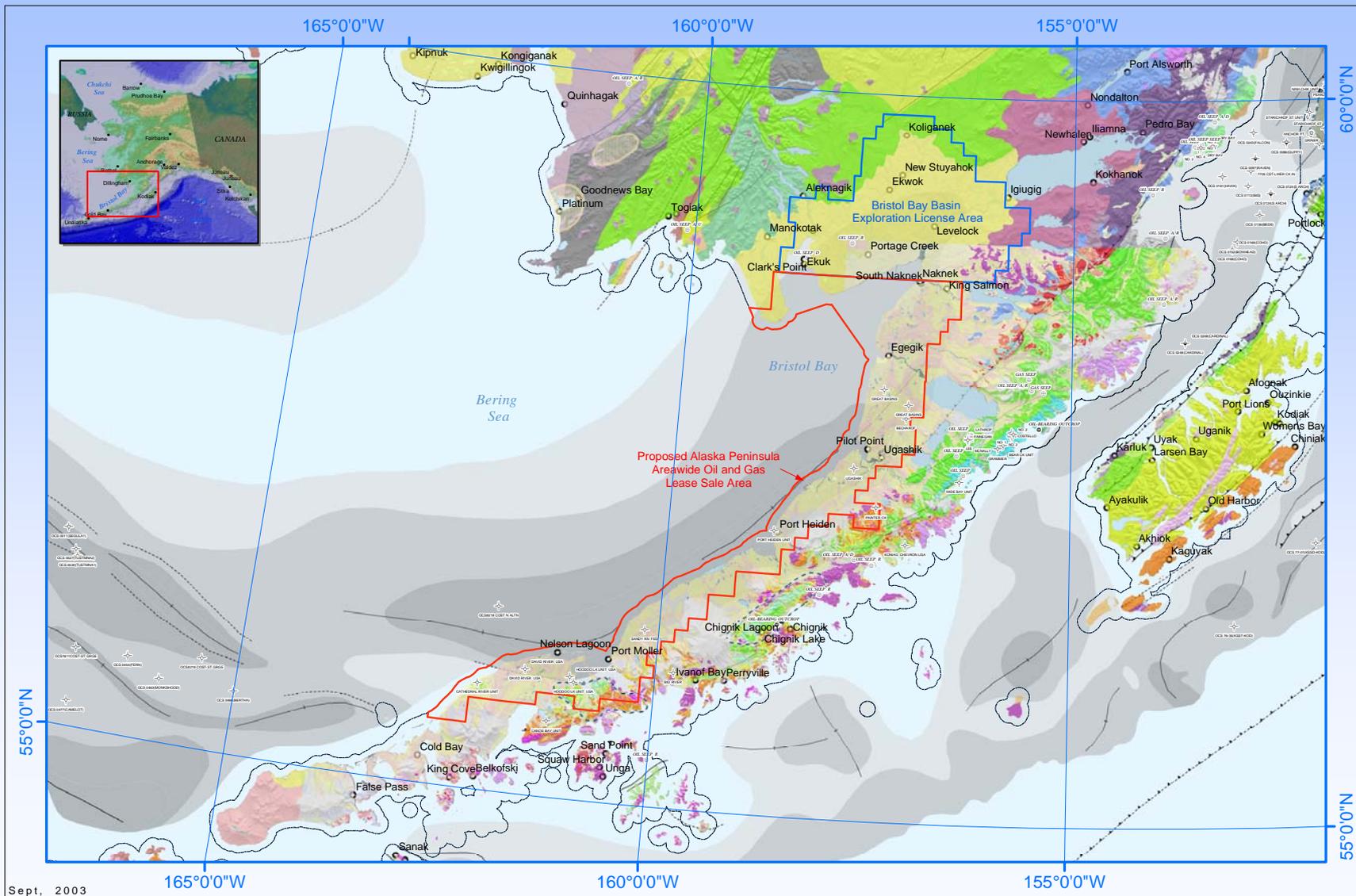
Exploration Licensing Program



License Proposals



Alaska Peninsula Geologic Map



Sept, 2003

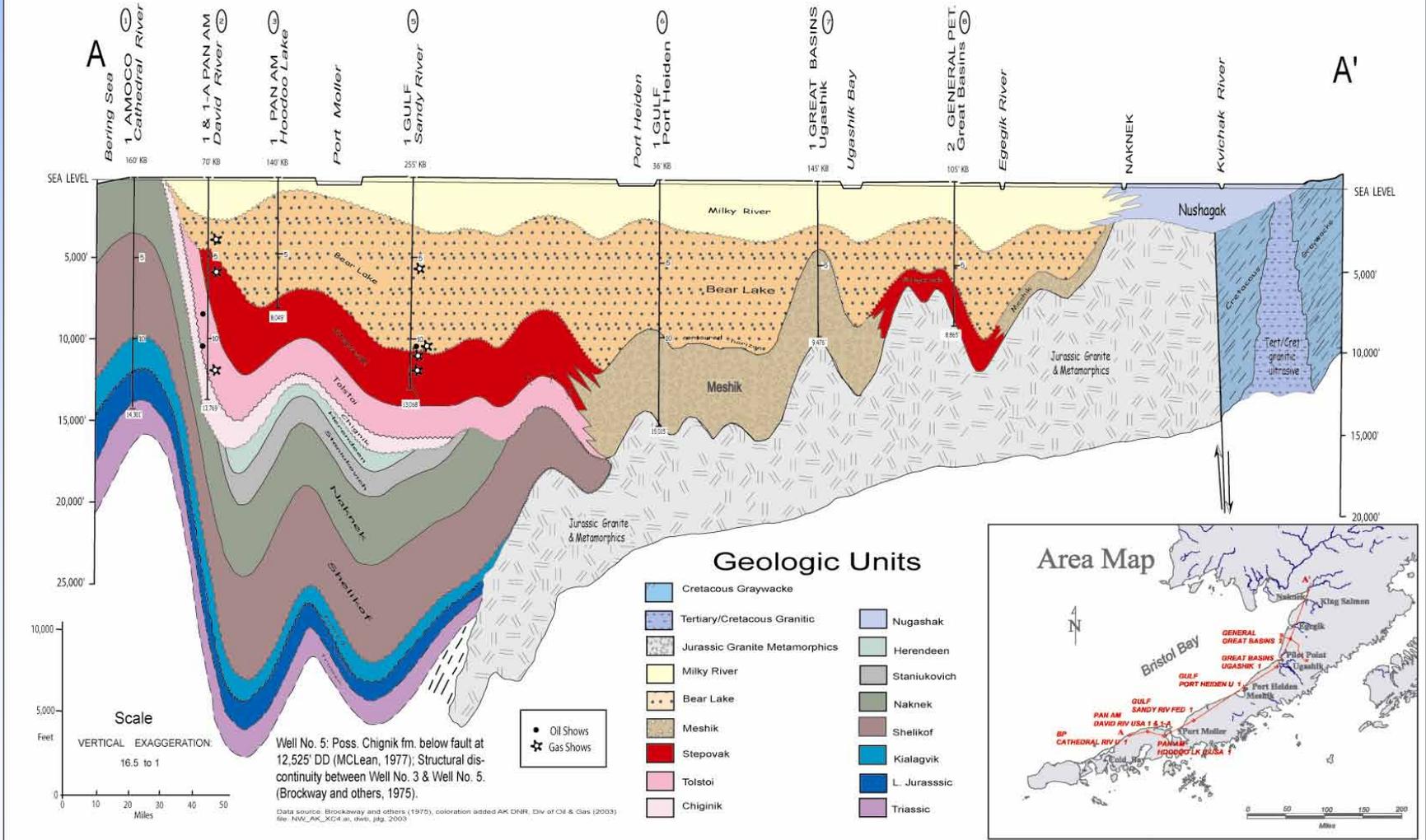
Active Oil and Gas Seep



Brown oil and natural gas (fizzy bubbles) comes out of this hole in the ground continuously. There are several oil creeks in Alaska - not a very original name. This particular oil creek feeds into Puale Bay on the western side of the Alaska Peninsula. There is continuous seepage of oil into the creek throughout its upper part. The lower part of the creek is a salmon spawning area where salmon runs are counted by the State of Alaska.

Alaska Peninsula Geologic Cross Section

Northwestern Side of Alaska Peninsula - Schematic Structure Sections



Alaska Peninsula Areawide Lease Sale Timeline

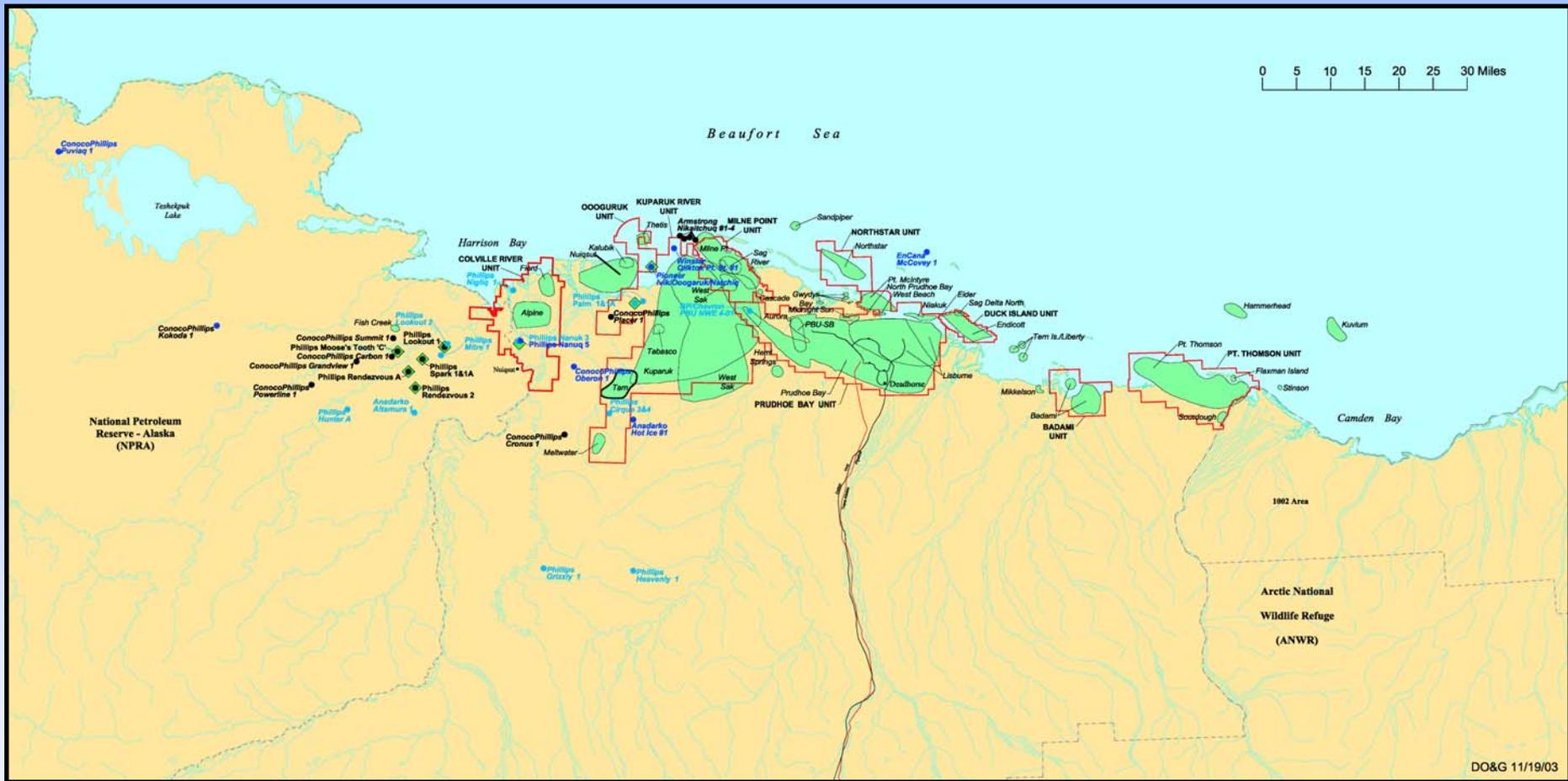
AK Peninsula Areawide Leasing	2003						2004						2005						2006				
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
Request for Agency Information	█																						
Request for Public Comment		█	█	█					█						█								
DO&G Conducts public informational meetings			█						█						█								
Draft Prelim. Finding & ACMP Consistency Analysis			█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█					
Issue Prelim. Finding and Consistency Analysis																█							
Public comment period																	█	█	█	█	█	█	█
DO&G Interprets geological and geophysical data				█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
DO&G and DGGs geologic field parties											█	█	█	█	█								
Draft proposed ACMP Consistency Determination																				█	█	█	█
Consistency Determination elevation period																							
Draft Final Best Interest Finding (BIF)																							
Issue BIF & CD; Announce Sale																							
Reconsideration (30-day)/Court Appeal (30-day)																							
LEASE SALE																							
Title review																							
Leases awarded																							
Effective date of leases - April 1																							

Bristol Bay Exploration License Timeline

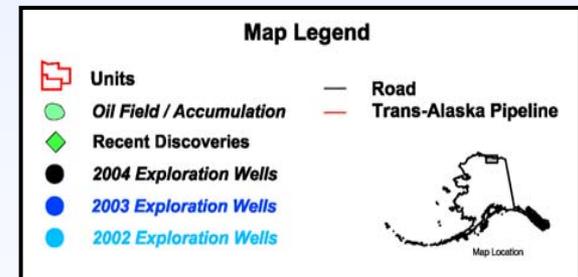
Exploration License	2003						2004											
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
DO&G issues solicitation for license proposals	█																	
Request for Agency Information	█	█	█	█														
Prospective licensee informs of intent to submit		█																
Prospective licensee submits proposal			█															
DO&G requests public comment on area				█														
DO&G solicits competing proposals				█	█													
DO&G conducts public informational meetings				█						█								
DO&G interprets geological and geophysical data					█	█	█	█	█	█								
Draft Prelim. Finding & ACMP Consistency Analysis				█	█	█	█	█	█	█								
Issue Prelim. Finding and Consistency Analysis								█										
Public comment period									█	█	█							
Draft proposed ACMP Consistency Determination											█							
Consistency Determination elevation period												█						
Draft Final Finding											█	█	█					
Issue Final Finding and Consistency Determination													█					
Reconsideration (30-day)/Court Appeal (30-day)														█	█			
AWARD LICENSES															█			
Effective date of licenses - Oct. 1																█		

Permit Streamlining Accomplishments

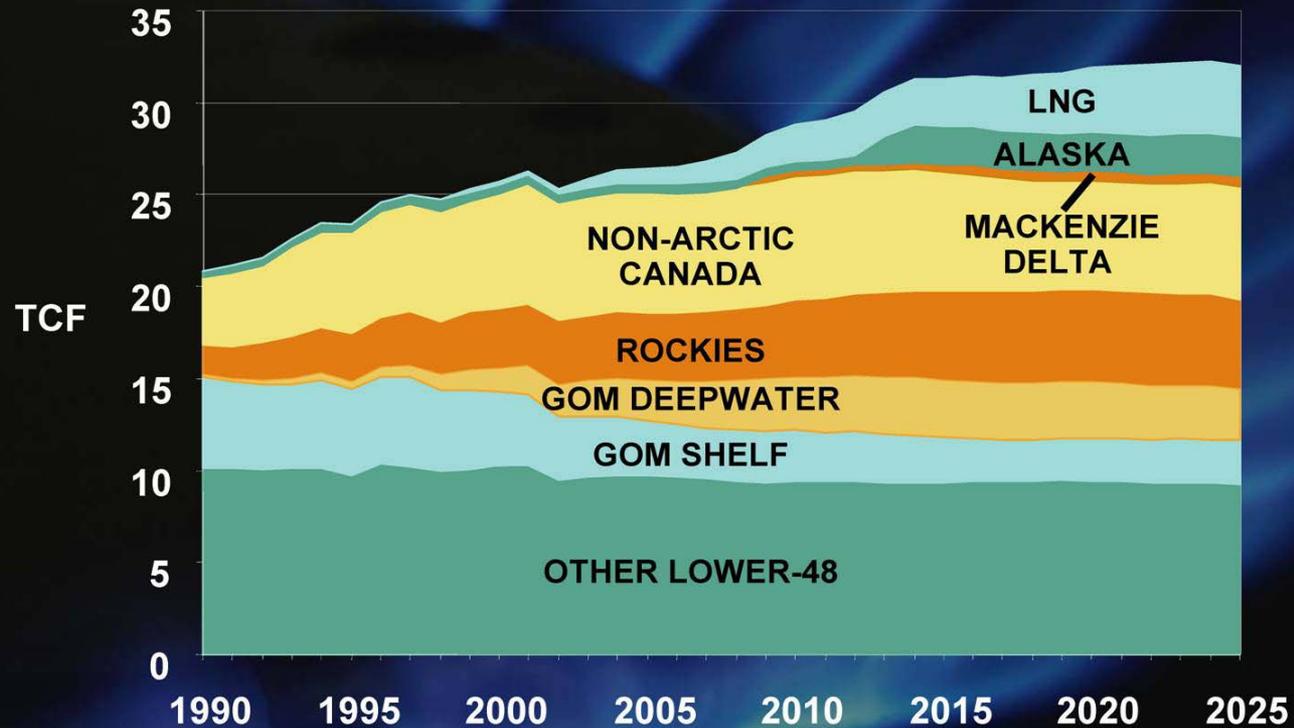
- Significantly revised the Alaska Coastal Management Program
- Re-organized permitting agencies and consolidated responsibilities within the Department of Natural Resources (DNR)
- Created large project permit office in the DNR
- Clarified rules and procedures for Oil Spill Contingency Planning
- Created Permit-by-Rule Air Quality Permitting



North Slope Oil & Gas Activities & Discoveries November 2003

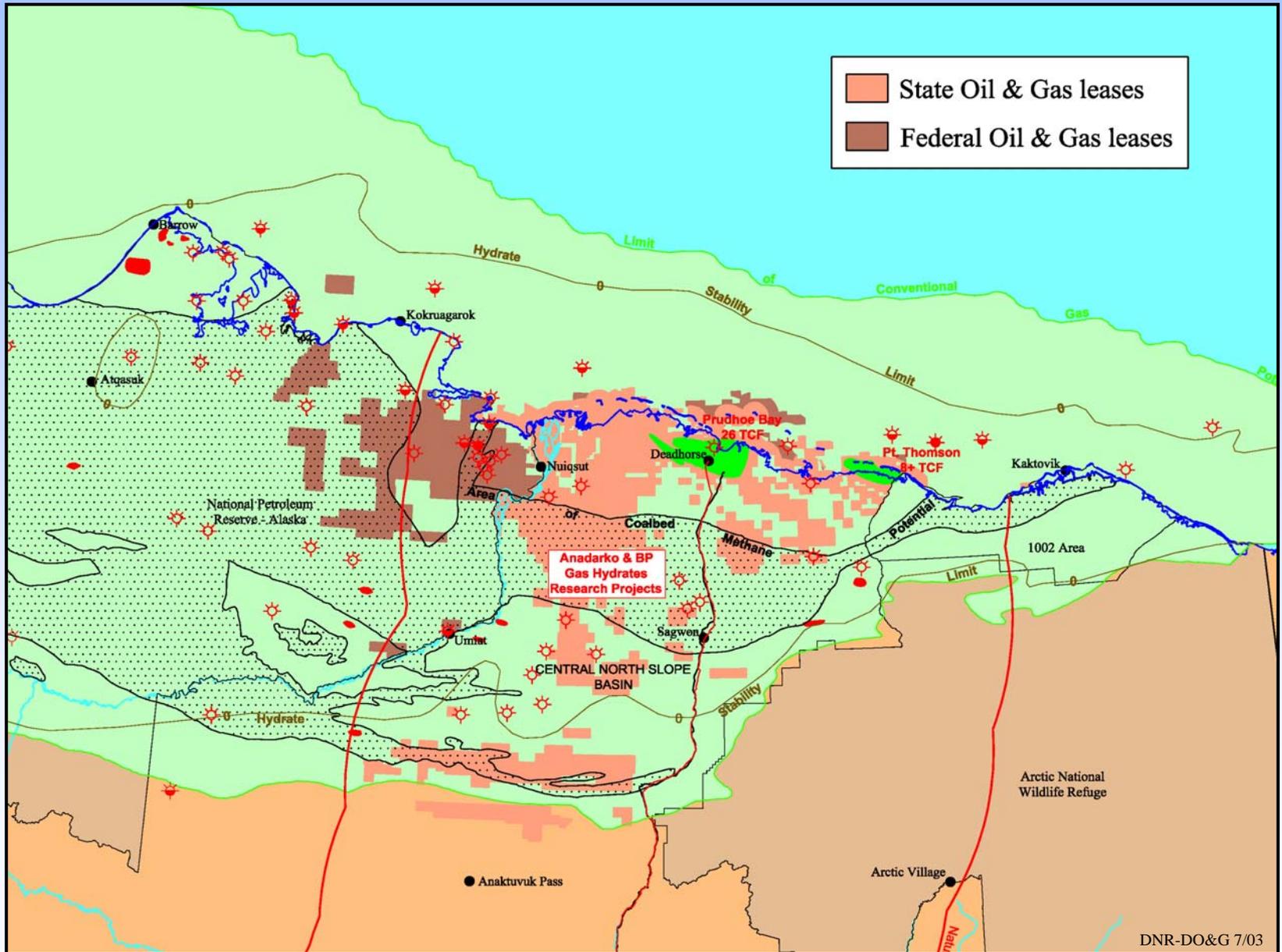


Demand is Met from Diverse Sources of Supply



NPC

Gas Potential - North Slope with Oil & Gas Leasing Activity



Mean Value, Total Natural Gas Reserve and Resource Base for Gas Pipeline Supply Report

All Values Trillions of Cubic Feet (TCF)

Alaska Division of Oil and Gas (4/15/03)

BASIN	KNOWN RESERVES	UNDISCOVERED TECHNICALLY RECOVERABLE CONVENTIONAL RESOURCE	UNDISCOVERED TECHNICALLY RECOVERABLE DEEP CONVENTIONAL RESOURCE ²	GAS HYDRATES IN PLACE RESOURCE ⁶	COALBED METHANE IN PLACE RESOURCE	BASIN TOTAL
NORTH ALASKA (onshore)	35.000 ¹	63.500	17.700 ²	519.000	800.000 ⁷	1,417.500
NORTH ALASKA (Beaufort shelf)	0.000	32.070	N/A	32,325.000 ³	N/A	32,357.070
NORTH ALASKA (Chukchi shelf)	0.000	60.110	N/A	50.000 ³	N/A	110.110
CENTRAL ALASKA ⁴	0.000	2.760	N/A	N/A	N/A	2.760
YUKON FLATS	0.000	N/A	N/A	N/A	N/A	N/A
KANDIK ⁵	0.000	0.116	N/A	N/A	N/A	0.116
NENANA/TANANA	0.000	N/A	N/A	N/A	N/A	N/A
COPPER RIVER	0.000	N/A	N/A	N/A	N/A	N/A
TOTAL BY GAS TYPE	35.000¹	158.556	17.700²	32,894.000	800.000⁷	33,887.556

After Craig, J., and Sherwood, K., Prospects for development of Alaska natural gas: a review as of January 2001, Minerals Management Service, Alaska Region. tbl. 9, p. 76.

Modified to include only North and Central Alaska basins and updated to include new information as footnoted.

N/A = Not Assessed

¹ Current estimate of known "stranded" recoverable North Slope conventional gas reserves in Prudhoe Bay, Point Thomson and smaller fields.

² Subcategory of and included in "Undiscovered Technically Recoverable Conventional Reserves". Represents Basin Deep or Basin Centered component > 15,000' depth.

³ Craig and Sherwood arbitrarily split offshore hydrate resource estimates between Beaufort and Chukchi Sea shelves. Total North Alaska offshore gas hydrate potential remains 32,375 tcf.

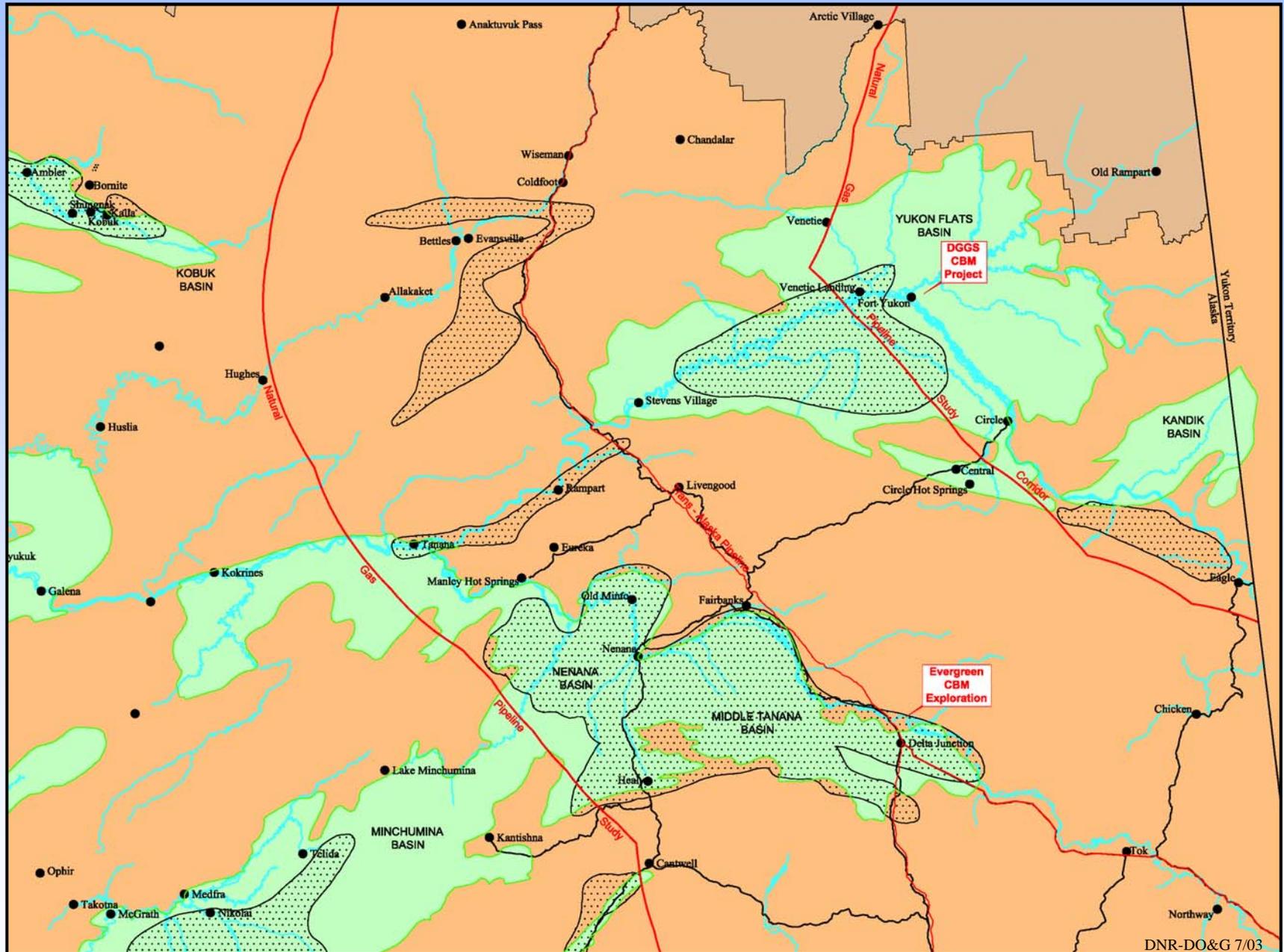
⁴ 1995 National Assessment of United States Oil and Gas Resources, U.S. Geological Survey, Open File Report, Digital Data Series-30, pub. 1995. For all central Alaska basins except the Kandik Basin. Other basins not evaluated individually.

^{4,5} Geological Survey of Canada estimated mean undiscovered gas in place ~ 0.489 - 0.800 TCF.

⁶ Collett and Kuuskraa, 1998, tbl. 1; USGS, 1995.

⁷ Barker, C.E., Clough, J.G., Roberts, S.B., and Fisk, R., Coalbed methane in Northern Alaska: potential resources for rural use and added supply for the proposed trans-Alaska gas pipeline; AAPG-SPEM Joint Technical Conference, Anchorage, AK, May 2002.

Gas Potential – Interior Area

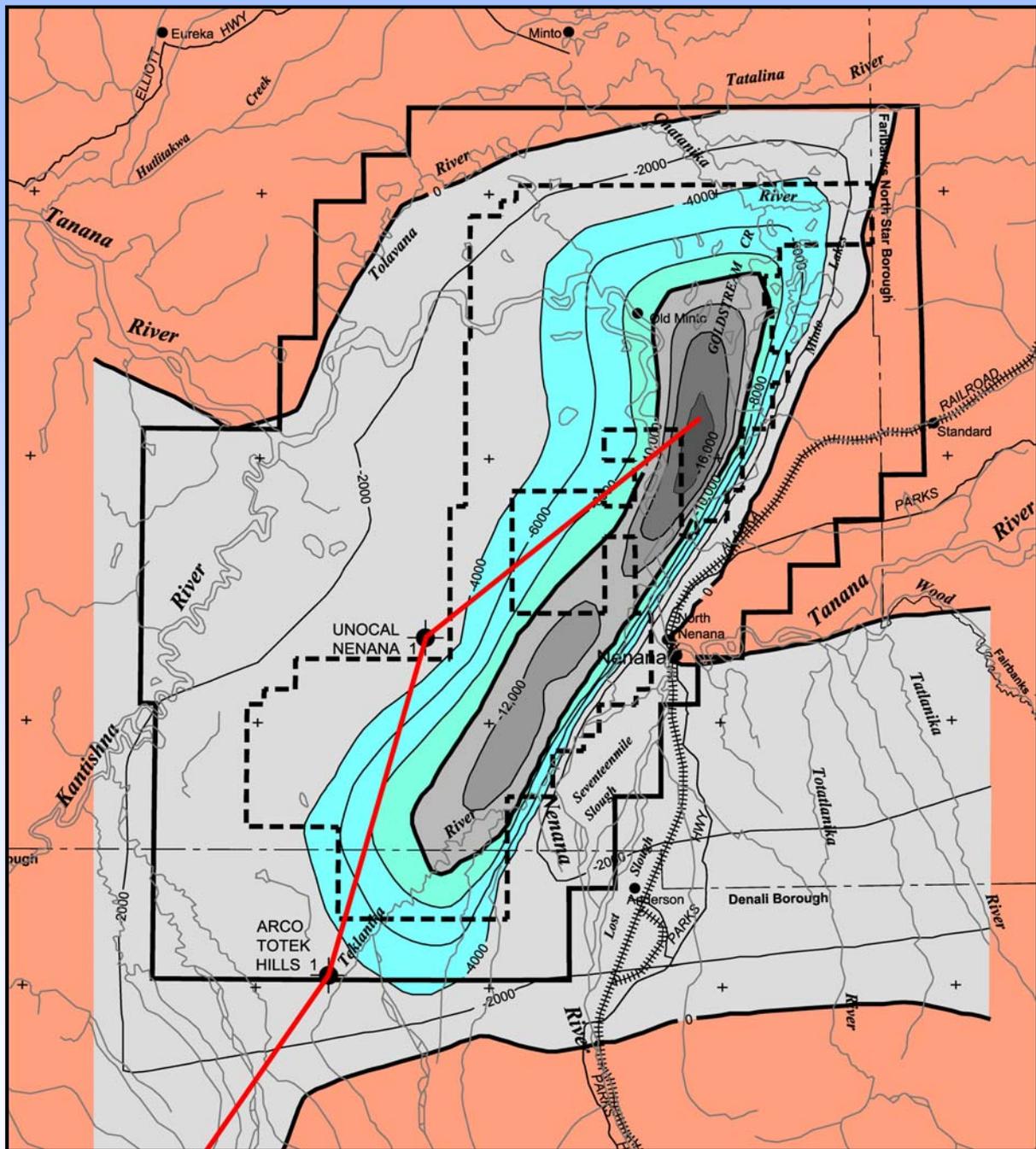


Nenana Basin

Oil & Gas Potential

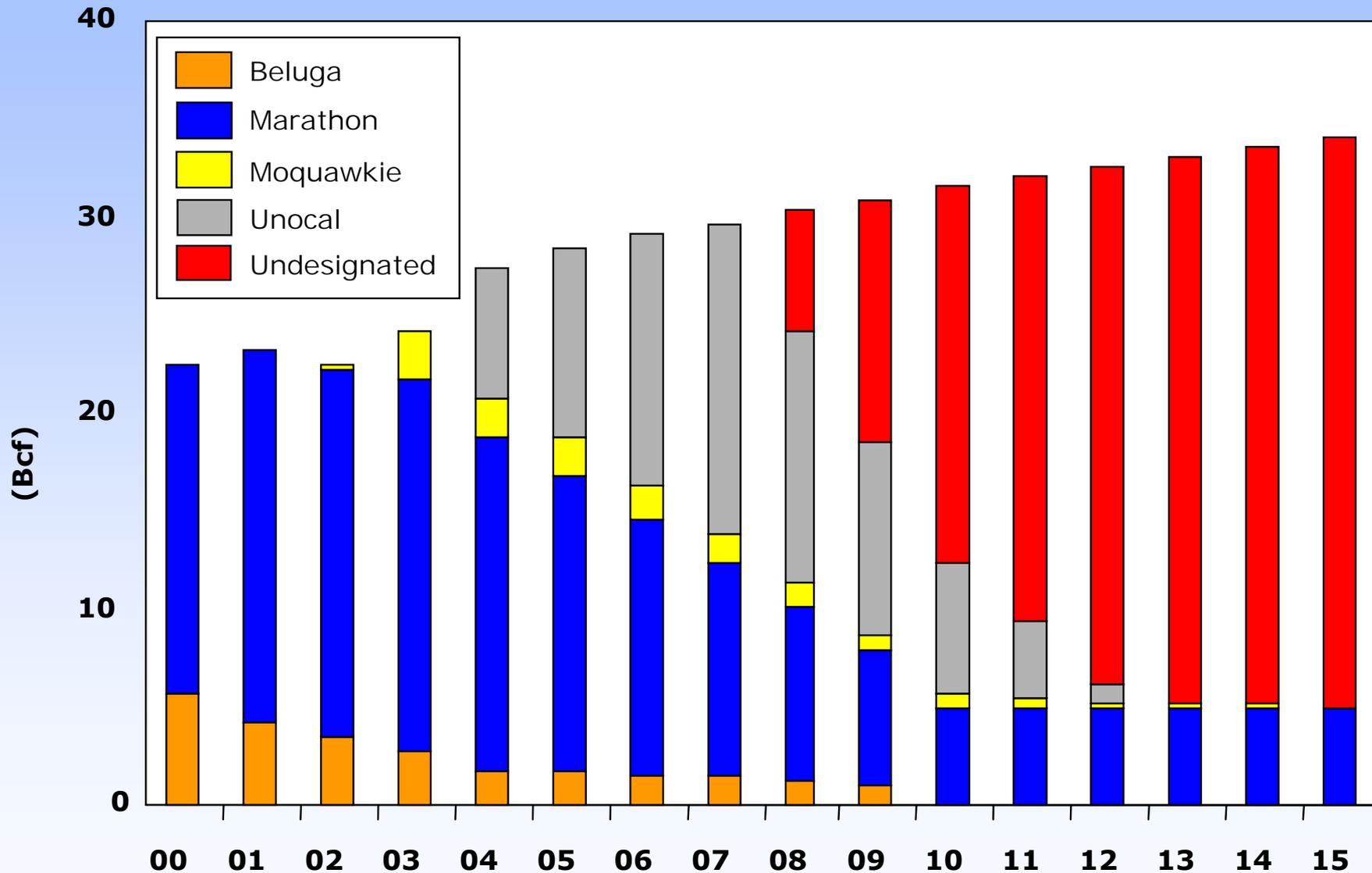
- Andex Resources, LLC, holds a 7-year Exploration License for 482,942 acres with a \$2.5MM work commitment. License expires September 2009.
- Tertiary-age alluvial basin covering 8,500 square miles and up to > 18,000 feet deep in its northern area.
- Potential for coal bed methane and conventional thermogenic natural gas is good.
 - Good reservoir rocks are associated with thick coal seams.
 - Deep source and reservoir rocks and geothermal history are conducive for formation and entrapment of conventional natural gas.
 - Tertiary sedimentary section is time-equivalent to Cook Inlet's productive Kenai Group.
- Potential for oil is low due to thin low-organic source rocks.
- With only limited G&G data the basin is “under-explored”:
 - Unocal Nenana #1 (1962) – 3,062' deep, coal seam gas shows.
 - ARCO Totek Hills #1 (1984) – 3,590' deep, coal seam gas shows.
 - 350 miles 2-D seismic data in southern and central basin areas (1981-82).
 - Gravity coverage across entire basin..

Thickness of Sedimentary Basin (Tertiary)

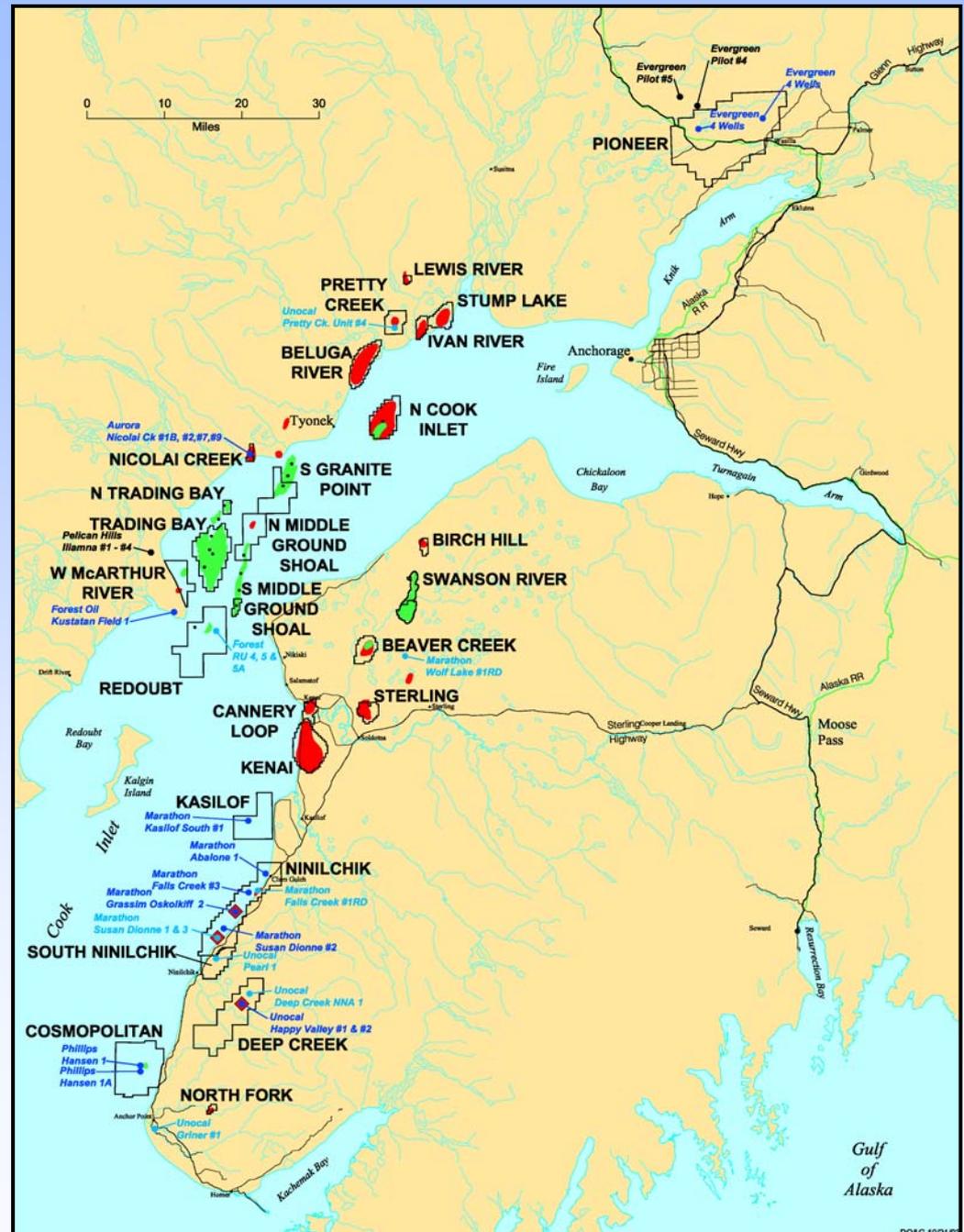
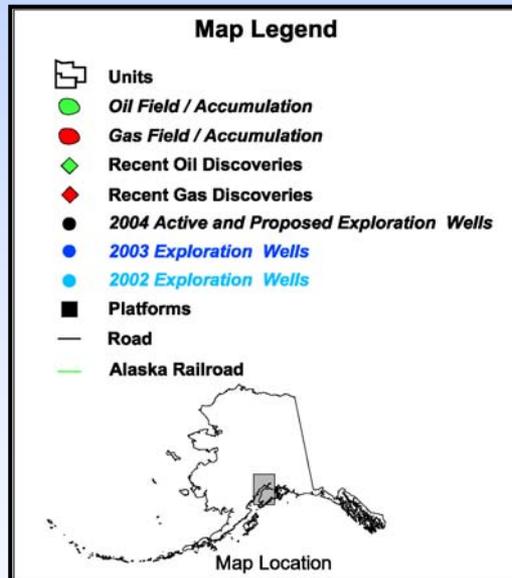


Gas Supply

October 2003



Cook Inlet Oil & Gas Activities & Discoveries October 2003



Cook Inlet Exploration Summary – 2003 (1)

- **Anchor Point (Griner #1) – Unocal (Gas)**
 - Griner #1 well completed as gas producer, Unocal reported disappointing results, no other details available
- **Cosmopolitan Unit – Conoco Phillips (Oil discovered in 1967 by Penzoil)**
 - Hansen #1 well P&Aed, Forest reported successful results, no word from ConocoPhillips yet
 - Hansen #1A well completed as oil producer, test production is being trucked to Nikiski refinery
- **North Fork Unit – GasPro/NorthStar/Alliance (Gas)**
 - Unit getting renewed interest from small investor group
 - Non-binding pipeline contract with ENSTAR signed in September 2003
 - Adjacent exploration unit may be created in the near future
- **South Ninilchik Unit and Deep Creek Unit – Unocal (Gas)**
 - Pearl #1 and Deep Creek NNA #1 wells completed as gas producers in 2002, Unocal reported disappointing results, no other details available
 - Happy Valley #1 and #2 are drilled, Unocal permitting gas pipeline, so wells are *apparently* succesful
- **Ninilchik Unit – Marathon (Gas)**
 - G.O. #1 well completed as gas well, tested at 11.2 MMCF/D from one zone
 - G.O. #2 well completed as gas well, tested at 11.9 MMCF/D from three zones between 8,048 and 9,440 ft.(MD)
 - Falls Creek #1RD completed as gas well, tested at 6.8 MMCF/D from a depth of 8,714 ft.(MD)
 - Susan Dionne #3 (SDPA) completed as gas well; Falls Creek #3 (FCPA) active, no details available
 - Abalone #1 well drilled in 2003 at north end of unit, not completed, currently shut down, no other details available
 - Plans to drill Susan Dionne #2 (SDPA), Ninilchik State #1 (GOPA)
 - Production started at GOPA in September 2003, currently about 15 MMCF/D rate

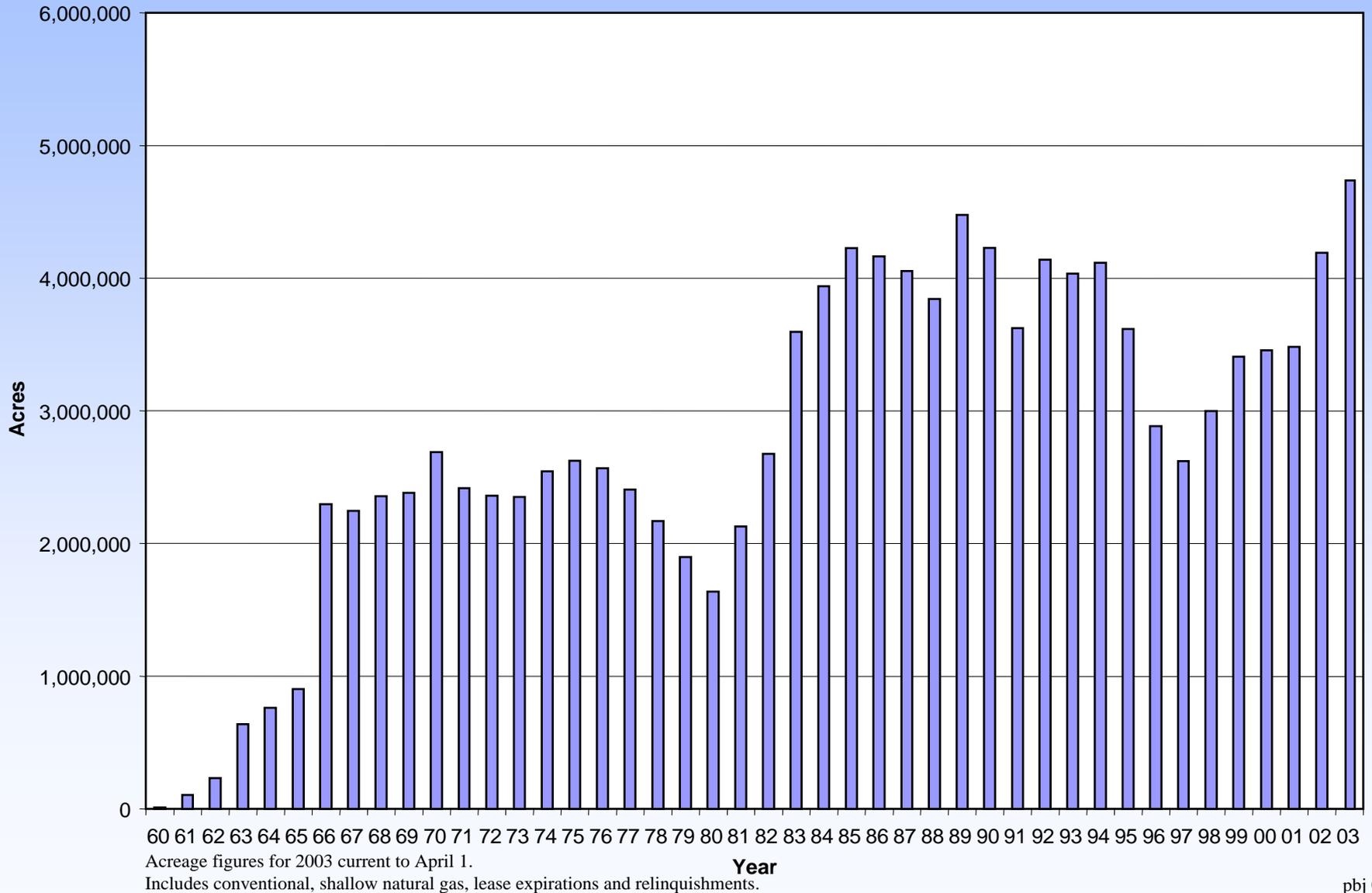
Cook Inlet Exploration Summary – 2003 (2)

- **Kasilof Unit – Marathon (Gas)**
 - Unit approved in October 2002
 - Well or seismic survey required in 2003, if no well drilled in 2003 it must be drilled in 2004
 - Kasilof South #1 and #1L1 permitted, drilling will begin soon.
- **Redoubt Unit – Forest Oil (Oil discovered in 1968 by Pan Am)**
 - Production began Dec. 9, 2002
 - Recent drilling results indicate field is more complicated than previously thought; reserves may be reduced
 - Forest has other prospects at Sabre, Corsair, and Valkyrie
- **Middle Ground Shoals Field – Unocal & XTO (Oil & Gas)**
 - Unocal plans to cease operations at this field and shut down two platforms
 - Decision on "decommissioning" platforms still to come
- **Trading Bay Unit/McArthur River Field – Unocal (Oil)**
 - T.B.U. #K-13 came on production at 7,100 BOPD, highest rate of any well in Cook Inlet
 - Unit and PA expansions approved to bring boundaries into agreement with producing areas
- **Nicolai Ck. Unit – Aurora Gas (Gas)**
 - Production started in Oct., NCU #3 well produces at rate of 2 MMCF/day
 - Up to 4 additional wells planned for 2003
- **Iliamna Prospect – Pelican Hill**
 - Permitting still underway
 - Up to four wells may get permitted

Acreage under Oil & Gas Lease

1960 – 2003

(Does not include acreage under Exploration License)



Independents in Alaska

Alaska Venture Capital Group, LLC

Alliance Energy, LLC

Anadarko Petroleum Corporation

Andex Resources, LLC

Armstrong Alaska, Inc

Aurora Gas, LLC

BBI, Inc.

Burlington Resources Alaska, Inc.

Cassandra Energy Corporation

Devon Energy Production Company

EnCana Oil and Gas (USA), Inc.

Evergreen Resources Alaska, Inc.

Forest Oil Corporation

Gas-Pro Alaska, LLC

Kerr-McGee

Lapp Resources, Inc.

Murphy Exploration (Alaska), Inc

Northstar Energy Group, Inc.

Pelican Hill Oil and Gas, Inc.

PetroCanada

Pioneer Natural Resources Alaska, Inc.

Prodigy Alaska, LLC

Trading Bay Oil and Gas, LLC

Ultrastar Exploration, LLC

Union Oil Company of California

Winstar Petroleum, LLC

XTO Energy, Inc.

Measure of Progress

- One Independent went from lease issuance to permits in hand for a North Slope off-shore well in 3 months.
 - Lease issued: August 12, 2002
 - Permits Obtained: August 20, 2002 – November 15, 2002
 - Ice Road Started: January 14, 2003
 - First Well Spud: February 25, 2003

End