RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

BREAKFAST MEETING

Thursday, January 19, 2012

1. Call to order –Tom Maloney, President
2. Self Introductions
3. Headtable Introductions
4. Staff Report – Rick Rogers, Executive Director
5. Program and Keynote Speaker:

Understanding The Oil Tax Issue/Distractions

General Mark Hamilton
Make Alaska Competitive Coalition

Next Meetings:
Thursday, February 2: Michael Foster, Chairman, Knik Arm Bridge and Toll Authority

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Gov. Sean Parnell

My Priorities:

Alaskan's Opportunity Through Tax Reform, Increased Production

If we want to stem a 7 percent annual oil production decline – a drop that could be worse in coming years – it means changing our tax structure.

But we don't want to just end a decline. We want to reverse the annual trend and increase to 1 million barrels of oil a day flowing through the Trans Alaska Pipeline System (TAPS).

Growing production investment will be my administration's priority during the upcoming legislative session.

Creating opportunity for Alaskans through more oil production requires game-changing tax reform. Not small tweaks. It means the right change. Not a token effort.

This requires taking an honest look at how Alaska taxes our oil, and asking the tough questions. While high prices may be adding surpluses to our state coffers, they mask Alaska oil production's retreat. One burning question: If our current system – known as ACES – is working so well, why are other regions enjoying production increases, but not us?

Texas, a state that has been producing oil for 80 years longer than us, had followed virtually the same decline curve as Alaska for close to two decades through the '80s and '90s. However, there was an obvious change in business practices when oil prices skyrocketed: Companies invested more there, and Texas reversed its production decline while Alaska production continues to plummet.

In North Dakota, leaders have long known about the prospects in the Bakken region, but they needed the right combination of technology and high prices. And they got it. Oil companies can now reach sections of shale formations at greater distances and know they won't face a punitive tax as market prices climb.

Alaska and Alberta simultaneously considered government-take changes in the mid-2000s. In raising royalty rates, Alberta didn't heed the industry's warning about taking its business elsewhere. However that's exactly what occurred, and eventually, Alberta's leaders made administrative rate changes. Alberta charted a new course, and they are now enjoying a boom similar to Texas and North Dakota.

Industry knows it loses in Alaska when oil prices spike, with a steep progressive surcharge. It's about competitiveness, and it's clear that at these oil prices, companies can do better elsewhere.

Now we need a balanced approach for the North Slope – a change that fixes a system that is currently off-kilter.

We will work with lawmakers to craft a change that first stems a production decline, then begins driving up the TAPS volume.

We all want the same thing – more production that increases opportunities Alaskans deserve. We have to work together to create an environment that brings more production investment to stimulate that activity.

We've shown what can happen when lawmakers work together to produce a meaningful change.

A recently passed law, crafted by Rep. Mike Hawker and House Speaker Mike Chenault, provides a 10-year waiver from state land fees to owners of new gas storage facilities.

This quickly produced a joint venture between Semco Energy and MidAmerican to form Cook Inlet Natural Gas Storage Alaska, a venture that has since grown.

It's a small example, but a prudent one.

Now is the time to tackle tax reform on the North Slope.

The North Slope not only requires the exploration investment that has been pouring in, but it also needs production investment to increase pipeline throughput.

We cannot expect to get there just from new investment. We need tax changes to bring about re-investment, which gets us new production. Without it, all we have is further decline.

Producers aligned, but not with Alaska

BP's Minge tells 'Meet Alaska' state makes money when companies invest; current tax policy puts state in going-out-of-business mode

Petroleum News
Kristen Nelson
January 15, 2012

Alaska's major North Slope producers are aligned, BP Exploration (Alaska) President John Minge told the Alaska Support Industry Alliance "Meet Alaska" conference in Anchorage Jan. 6.

BP, ConocoPhillips and ExxonMobil do compete globally, he said, "but we primarily compete for access, for where you're going to play and strategically."

But in Alaska, once the companies have leases and commercial agreements, "we're partners. And we work together."

He objected to characterizations that "there's no love lost between these companies."

"This is actually not true," Minge said.

The companies have to be aligned going forward to develop the state's resources.

And he said that in the three years he's been in Alaska, he's seen those "relationships get better and better every year."

He said he wanted to commit, on BP's behalf, "that we're going to continue to work with our partners in a very constructive way to monetize resources in Alaska."

That alignment and relationships are essential "because that's what fuels investment." He said where the companies "have misalignments, we sit down and tackle them. ... and that's actually what we've been doing around gas."

Where there is misalignment, he said, is with the state.

Investment crucial

Minge said the state makes money when the companies invest.

"We manage risk; we make big investments in projects. And we make our returns over many, many years.

"The investments do not happen if the producers are not on the same page in terms of how to progress a resource."

He said the producers are on the same page, but "we're not aligned with the state as a whole as a result of the ACES tax policy."

The producers are on the same page because they all see the resource prize — light oil, viscous oil, heavy oil and gas.

It will take billions of dollars of investment, Minge said, and the companies will reap their returns over many years.

But the producers aren't aligned with the state, "because the state really has a policy that's very short term: It's really about how much money can you rip out of the industry today and it's not really encouraging ... investment for the future."

Minge said the state's policy "has put Alaska really in a going-out-of-business mode. It's saying the end is near, so we need to take as much cash out now while we can. We'll worry about the future later."

Governor's goal

Minge said BP welcomes Gov. Sean Parnell's challenge to increase throughput in the trans-Alaska oil pipeline to 1 million barrels a day in 10 years.

"We believe the goal is achievable — even if it's not achievable by 2012. We just don't know," Minge said.

With the current high price of oil, "We should be booming in Alaska," he said.

Just how high is the price of oil? BP's chief economist told Minge recently that, adjusting for inflation, the last time prices were this high, Abraham Lincoln was president. It was 1864.

So why is capital investment in Alaska declining? "It does not make sense," Minge said.

In fact, in the summer of 2007, prior to the passage of the current production tax, Alaska's Clear and Equitable Share or ACES, BP had planned a capital budget for Alaska of $1.2 billion for this year; the actual budget is about $650 million. And the current investment rate "will guarantee a 6 to 8 percent decline" per year in production.

To offset that decline, "we need billions more coming in."

Only 35 percent of BP's capital budget in Alaska is aimed at sustaining light oil production, Minge said. Forty percent is going into infrastructure maintenance and renewal and 25 percent into technologies for heavy and viscous oil and gas.

Operating up, production down

In 2006, BP's operating costs in Alaska were $1.2 billion and the company produced 82 million barrels of oil, Minge said. In 2011, the company spent $1.6 billion on operating costs and produced only 56 million barrels of oil, BP's net share.

"BP is actually spending a third more money to produce a third less barrels," he said.

The record high oil prices and the boom induced by those prices have driven up the costs of goods and services.

"We not only have to compete for a finite amount of investment capital, but also for a finite market for contractors, vendors and oilfield support," he said.

And while there are many people working on the North Slope, the jobs they are doing aren't geared toward putting new oil into the pipeline: Only one out of six of BP's North Slope employees is working at jobs involved in finding more oil and in projects that sustain the business. The rest are "focused on operating, maintaining and repairing the facilities that are already there. And it would obviously be better and different under a better tax regime."

Projects

Minge said BP has projects that would be viable under a different fiscal structure.

The company's heavy oil pilot at Milne Point was shut down after a single well produced oil for 117 days, reaching 650 barrels per day of Ugnu formation production at the end.

Minge said that's three times the average heavy oil production in Canada, but the well cost 10 times more than they do in Canada.

"And that's the challenge we face: Can we actually design a way to economically produce heavy oil on a commercial scale."

If economic techniques were developed, that would open up production from the estimated 22 billion barrels of heavy oil in the Ugnu formation, and those techniques could also be used for viscous oil in the West Sak and Schrader Bluff reservoirs, another 11 billion barrels of oil.

But even if the technology issues were solved, Minge said, "we're absolutely going to need improved fiscal terms and improved fiscal terms beyond what was proposed in House Bill 110" for heavy oil production.

Another source of more oil is the Sag River reservoir which overlies the main Prudhoe Bay reservoir. It's only about 20 feet thick and it's a tight reservoir, much less permeable than Prudhoe.

Minge said he's approved a five-well program for this year on the periphery of the Sag formation for some technology testing, but "large-scale Sag River production cannot compete for investment capital today."

Those, he said, are part of the $5 billion in investment opportunities that BP sees, but only with real tax reform.

He said BP stands behind those new projects if there is tax reform and said the company is doing preliminary work so that “when the investment climate improves and our projects are commercially viable, we’ll be able to move.”

Minge said again that the state is in the oil business — it makes money when industry invests and gets its returns as royalties, taxes, jobs and positive economic impacts.

“Under the current tax structure, the state is actually squeezing the life out of the industry by making investments in new oil unattractive; by taking its returns now, rather than over many years; by removing revenues at a rate which simply is not sustainable for our long-term future.”

Anchorage Daily Planet

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Tuesday January 17, 2012

Style Sports About

Alaska needs lower taxes more than the producers do

By TOM BRENNAN

Alaska needs reduced oil taxes even more than industry does.

The problem is that, without tax relief, North Slope production will continue its nosedive and tax revenues will sooner or later be too low to cover the state's outsize spending habits.

That would require Alaska's political leaders to choose between slashing the state budget to something affordable with drastically lower revenues and cracking the state's piggy banks.

So far the state has been spared the embarrassment of deficit spending and raiding savings accounts, largely by rising oil prices. Recently North Slope crude has been in the $110 to $115 per barrel range, but its more normal price (if there is such a thing) is something like $70.

Alaska's bacon has been saved many times in the past by economic developments over which it has no control. That has been largely a matter of luck but any gambler will tell you that winning streaks never last forever.

How low the trans-Alaska pipeline can go before it must be shut down or undergo major modifications is debatable, though Judge Sharon Gleason says BP records indicate it could run more or less efficiently at throughput of 70,000 to 100,000 barrels per day. (Gleason was then a State Superior Court jurist but has since been elevated to the federal bench.)

How much can be run through the pipeline is a small consideration next to how much revenue the oil can actually generate for the state, however much is shipped. Right now the state budget is about $10 billion and we have something like $50 billion stashed away in various accounts (about $40 million in the Permanent Fund). And pipeline throughput is about 600,000 and falling at 6 to 7 percent per year.

Even if oil revenues somehow dried up (unlikely) the state could maintain its current spending level for five years or so. But the more likely problem is that North Slope production would decline below the point where it covers the state's spending habits and Alaska would be facing years of painful and debilitating decisions.

There is a way to put off the problem for a generation or so — and by then hopefully another unexpected economic development would save Alaska's bacon for the real long term. (Alternatively, the state's future could be solved by good government decisions. Don't laugh; it could happen).

Obviously I'm talking about changing the oil production tax (ACES) to create investment incentives for the companies holding leases on the North Slope legacy fields. Those fields contain something more than 4 billion barrels of producible oil and are the state's best hope for turning around the pipeline throughput decline rate.

We've been talking about this for a long time, as has everybody else with an interest in Alaska's future. But there is an increasing chance that the Legislature will straighten out the ACES law.

The result may or may not be passage of Gov. Sean Parnell's HB 110. That would be the ideal way to fix ACES, at least in terms of giving the producers the greatest incentive to invest in increasing production from the legacy fields.

But consultant Pedro Van Meurs offered to tell legislators how to create such incentives via a less expensive route than the one proposed by the governor. No sure word on what he was talking about but the speculation is that Van Meurs feels the state's progressivity rate in the ACES system needs to be changed, among other things.

As presently structured, there is little upside potential for producers investing in new production. The return to them is about the same at low oil prices as it is at high prices, an unattractive way for an oil company to spend its money. That's why Alaska is losing the competition for industry investment in new production and North Slope oil output is sinking rapidly.

But if the state builds in enough restraint to the progressivity rate, both state and industry would do well when the price of oil is high. (The short version of progressivity is the rate at which the state tax rises as oil prices climb.) Fixing progressivity should drive some new investment — the producers have already committed to new projects if that happens — and put Alaska back in the game.

Other changes are being contemplated by various legislators — and naturally the liberals don't want to let industry keep any more of its money than it does now — but the likelihood of improvement in the ACES tax is looking pretty good for the moment.

* * *

The Republican presidential candidates who were calling Mitt Romney a vulture capitalist had a near-instant change of tune last week when The Wall Street Journal ran a piece about Romney's company, Bain Capital.

Turns out that Bain is a successful venture capital company that has created many thousands of jobs and backed entrepreneurs like Tom Stemberg, a cash-short businessman who wanted to open specialty stores for businesses. Today Stemberg's company is known as Staples, which employs 90,000 people and has stores all over the country.

The Journal complained that Romney's critics sounded like Michael Moore, the whiny liberal move-maker.

After the article came out, Newt Gingrich and Rick Santorum, both of whom were playing the bash-Bain card, started back-pedaling like young kids on cheap bikes.

Rick Perry wasn't fazed and kept up the vulture imagery, even using it in advertising, but the Texas governor has been behind the curve throughout the campaign so that's not surprising.

Mitt Romney stepped in something when he said he liked being able to fire people. Presumably that was a mistake caused by fatigue after weeks of back-to-back debates.

Bain Capital's specialty is buying companies that have unrealized potential and helping them achieve the success that has been eluding them. Sometimes that means changing out the leadership that is causing the problem — and sometimes the project fails — either of which puts people out of work.

But Bain has been successful far more than its choices have failed. It is a pretty good example of the way the free enterprise system is supposed to work.

Tom Brennan is author of "The Snowflake Rebellion," a novel about Alaska seceding from the union, as well as two true-crime collections, "Murder at 40 Below" and "Cold Crime," and the Alaska humor book "Moose Dropping & Other Crimes Against Nature."

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Senator Linda Menard

Press Release

For Immediate Release: January 6th, 2012

Senator Menard Introduces Bill to Create Susitna State Forest

Forest would provide opportunities for recreation and economic development

WASILLA-Senator Linda Menard, R-Wasilla, is introducing a bill for the upcoming Session that would create the Susitna State Forest. The forest would include approximately 763,200 acres located on state land west of the Parks Highway.

"Creating the Susitna State Forest meets many important needs," said Senator Menard. "It sets aside a large swath of public land that will continue to benefit Alaskans for decades to come, both economically and recreationally."

Establishing the Susitna State Forest would help the Alaska Division of Forestry manage a long-term supply of timber to local processors while keeping the land in state ownership for multiple uses. Under Alaska law, the primary purpose of a state forest is to provide for the sustainable production and utilization of timber resources, while allowing other beneficial uses such as creating fish and wildlife habitat, maintaining a clean water supply, providing opportunities for recreation and tourism, and the development of minerals.

"This bill not only creates and sustains much needed jobs in one of Alaska's critical industries, it also benefits all Alaskans," said Senator Menard. "Whether you hunt, fish, hike, or partake in other outdoor recreational activities, this will provide a dedicated place for Alaskans to enjoy."

The creation of the forest would also allow the Division of Forestry to improve roads and other infrastructure in the area.

If established, the Susitna State Forest would be the fourth state forest in Alaska.

For more information, please contact Michael Rovito in Senator Menard's office at (907) 376-3370.

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RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

January 9, 2011

Mr. Russell Kirkham, Coal Regulatory Program Manager
State of Alaska Department of Natural Resources, Division of Mining, Land & Water
550 W 7th Ave Suite 920
Anchorage, AK 99501-3577

Dear Mr. Kirkham:

The Resource Development Council for Alaska, Inc. (RDC) writes to express its support for application number S-0606 submitted by Usibelli Coal Mine, Inc., to conduct surface coal mining activity at the Jumbo Dome Mine.

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

Located in the Healy Coal field, the proposed Jumbo Dome Mine sits on State land approximately nine miles north of two of Usibelli's existing mines, Two Bull Ridge and Poker Flats. Since 1974, numerous exploration programs have been conducted at Jumbo Dome, and resulting information has concluded 83 million tons of proven and probable reserves.

Usibelli Coal Mine's existing operations are located within eight miles of the Denali National Park boundary. The Park, preserved since 1917, and the mines have co-existed for over 70 years. The Park and mines are a perfect example of how two very differently operating entities can be successful with balanced, effective oversight.

As you are aware, the State of Alaska Department of Natural Resources (DNR) enforces stringent regulations overseeing mining activities statewide that effectively protect the environment, wildlife, and human health. The Jumbo Dome application closely follows these regulations. Usibelli holds an outstanding record for operating mines in Alaska, and began instituting reclamation efforts before it was required by law to do so.

The Jumbo Dome Mine will sustain Usibelli's current workforce of 130 year-round employees. The six Interior coal customers supplied by Usibelli include the University of Alaska, Golden Valley Electric, Aurora Energy, and the Ft. Wainwright, Eielson, and Clear military installations. Current coal reserves do not meet the needs of these customers; therefore, Jumbo Dome must be permitted as soon as practicable.

Thank you for the opportunity to comment on this important issue.

Sincerely,

Deantha Crockett
Projects Coordinator

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NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
UNITED STATES DEPARTMENT OF COMMERCE

NATIONAL MARINE FISHERIES SERVICE, ALASKA REGION

Contact: Julie Speegle
907-586-7032 w.
907-321-7032 c.

NEWS RELEASE:
January 9, 2012

NOAA's annual survey of Cook Inlet belugas finds population at second-lowest level

Scientists from NOAA's Alaska Fisheries Science Center today announced the 2011 abundance estimate for the endangered Cook Inlet beluga whale population is 284 animals, almost 20 percent lower than last year's estimate of 340. This year's estimate is the second-lowest since NOAA's surveys began in 1993; the lowest was in 2005, when the estimate was 278.

Estimates can vary from year to year based on more than simply the beluga population itself. Different sighting or survey conditions, weather, or changes in beluga behavior or distribution from year to year can affect the survey results.

"The real value of this survey is the long-term nature, which helps to determine trends that are valuable for monitoring this population," added survey lead scientist Rod Hobbs. "Year-to-year changes in the population estimates are less important than this long-term trend."

This year's estimate stays within the range of the ten-year population trend for Cook Inlet belugas, which shows an average annual decline of the population of 1.1 percent. Scientists know that beluga populations are not capable of increasing more than 20 percent in a year, and believe an actual decline of 20 percent in a year would likely be reflected in a large number of reported mortalities, which NOAA has not seen.

"Only three dead belugas were reported this year, which indicates that large numbers of mortalities did not occur in 2011," said Alaska Fisheries Science Center Director Doug DeMaster. "While NOAA remains concerned that this population is not showing signs of recovery, at this time we do not believe this estimate represents a marked decrease in the population."

The average number of reported Cook Inlet beluga whale mortalities over the past ten years is 9.8 per year. Five were reported in 2010; four in 2009; 12 in 2008.

Every June, scientists with NOAA's Alaska Fisheries Science Center conduct aerial surveys of Cook Inlet in June. From a small plane with bubble windows, scientists look for and record the belugas they see, and record video of the whale groups in the inlet. The video recordings and observer counts are analyzed to produce an annual estimate of Cook Inlet beluga whales.

The Cook Inlet beluga whale, one of five beluga stocks recognized within U.S. waters, was listed as endangered under the Endangered Species Act in 2008. NOAA designated critical habitat for the species in April 2011, enabling consultations to reduce negative impacts federal or federally-funded projects could have on the species' recovery. NOAA is currently developing a recovery plan for the species and continues to fund research on the species.

Reports on the survey and the analysis are available publicly. Population estimates for the last ten years are:

2001: 386
2002: 313
2003: 357
2004: 366
2005: 278
2006: 302
2007: 375
2008: 375
2009: 321
2010: 340
2011: 284

For more information, contact Rod Hobbs at 206-526-6278.

NOAA's mission is to understand and predict changes in the Earth's environment, from the depths of the ocean to the surface of the sun, and to conserve and manage our coastal and marine resources. Join us on Facebook , Twitter and our other social media channels. To learn more about NOAA Fisheries in Alaska, visit alaskafisheries.noaa.gov or www.afsc.noaa.gov.

RESOURCE DEVELOPMENT COUNCIL

Growing Alaska Through Responsible Resource Development

Membership Form

RDC is a statewide business association comprised of individuals and companies from Alaska's oil and gas, mining, forest products, tourism and fisheries industries. RDC's membership includes Alaska Native Corporations, local communities, organized labor, and industry support firms. RDC's purpose is to encourage a strong, diversified private sector in Alaska and expand the state's economic base through the responsible development of our natural resources.

To view a list of current members, please visit http://www.akrdc.org/links/

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Gold	$1500	$300
Silver	$750	$150
Basic	$500	$75

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Oil & Gas Forestry Fisheries Mining Tourism

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