

Alaska's Department of Natural Resources: Staying the Course

Presented to

RESOURCE DEVELOPMENT COUNCIL

26th Annual Conference

Alaska Resources 2006: Right Place. Right Time.

November 16, 2005

Kenneth Griffin

Acting Deputy Commissioner

State of Alaska

Department of Natural Resources



Alaska Department of
**Natural
Resources**

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

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

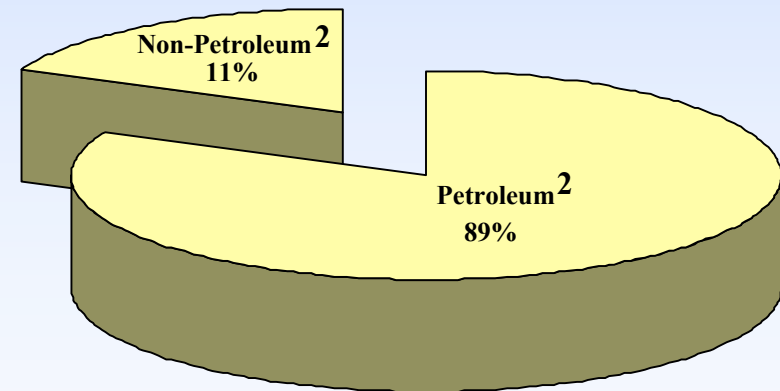
\$485.8 Million

Taxes:

\$1,429.7 Million²

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

FY 2005 Unrestricted Revenue

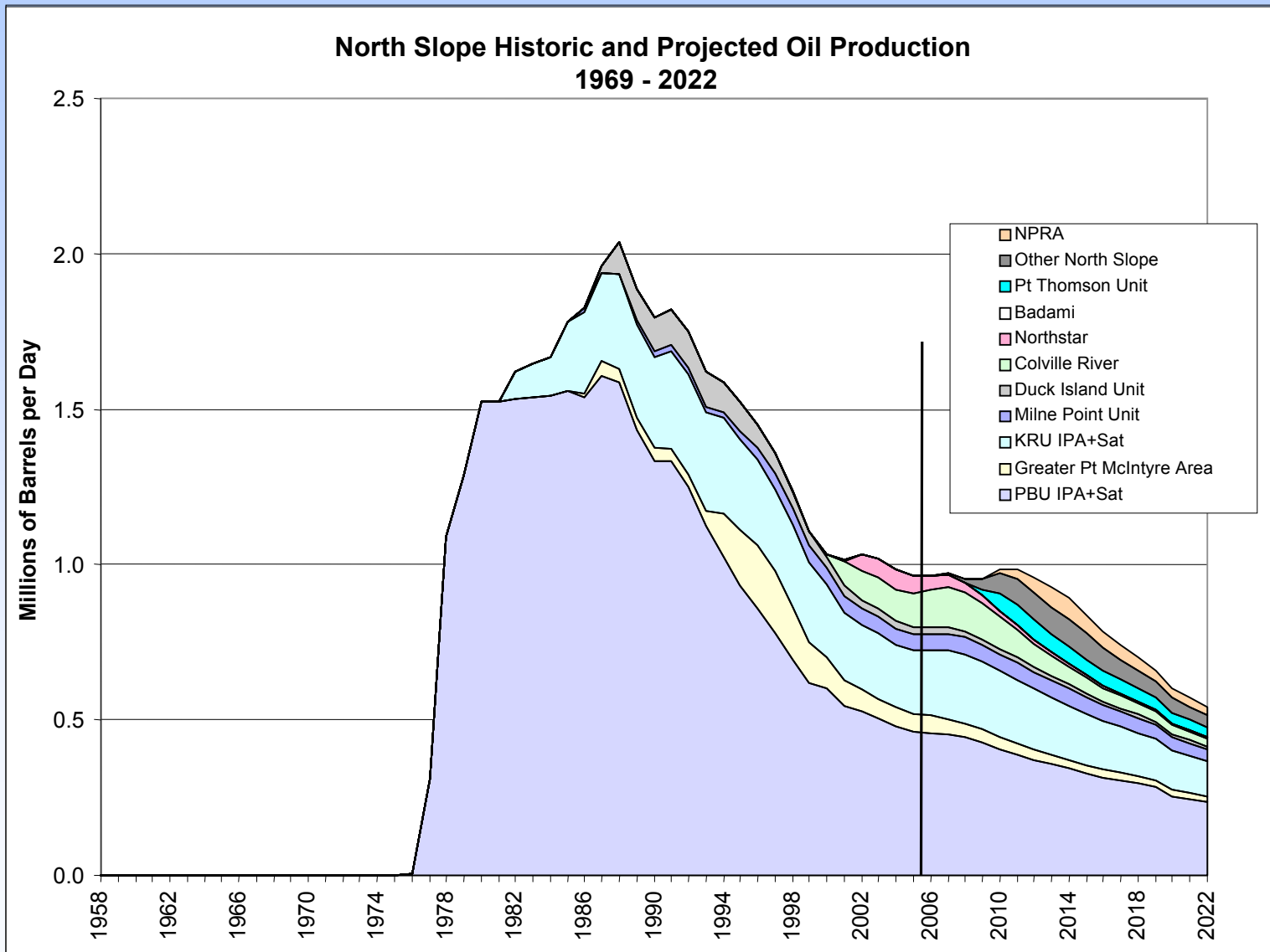


¹ Includes Federally shared rentals + royalties

² Source: DOR Preliminary Fall 2005 Revenue Sources Book

Historic and Projected Oil Production

1969-2022



Promoting New Investments

- Tax Credits
- Streamlined Permitting
- Annual Areawide Leasing Programs
- Leasing / Licensing New Areas
- Maximizing the Use of Existing Facilities
- Development of New Infrastructure
- Data Integration / DOE Grant
- Governor's meetings with Independents

Exploration Tax Credits

- Production tax credit
- Transferable
- Applies to exploration well, seismic & geophysical costs for activities conducted July 2003 through June 2007
- Oil and gas exploration
- Applicable throughout the state
 - On leased and unleased lands
 - On State, federal and private land.
- Application required within six months of completion

Gas Exploration and Development Tax Credit

- Income tax credit
- Gas exploration and development south of 68th parallel
“south of the Brooks Range”
- Intended to stimulate development to meet growing state market demands and dwindling local reserves
- May not be combined with other credits or modifications
- 10% tax credit on qualified capital investments thru 2012
- Capped at 50% of taxpayer’s total tax liability
 - Prior to application of other allowable income tax credits
- May be carried forward up to 5 years

Permit Streamlining

- Significant revisions to the Alaska Coastal Management Program Legislation and Regulations
- Re-organized permitting agencies and consolidated responsibilities within the Department of Natural Resources (DNR)
- Created large project permit office within DNR – Office of Project Management and Permitting
- Clarified rules and procedures for Oil Spill Contingency Planning. Multi-year permits.
- Created Permit-by-Rule Air Quality Permitting

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

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: Seven to 10 years
- Annual rentals: \$1/acre initially, increasing annually by 50¢/acre to maximum of \$3/acre in 5th year.

Comparison with ANWR

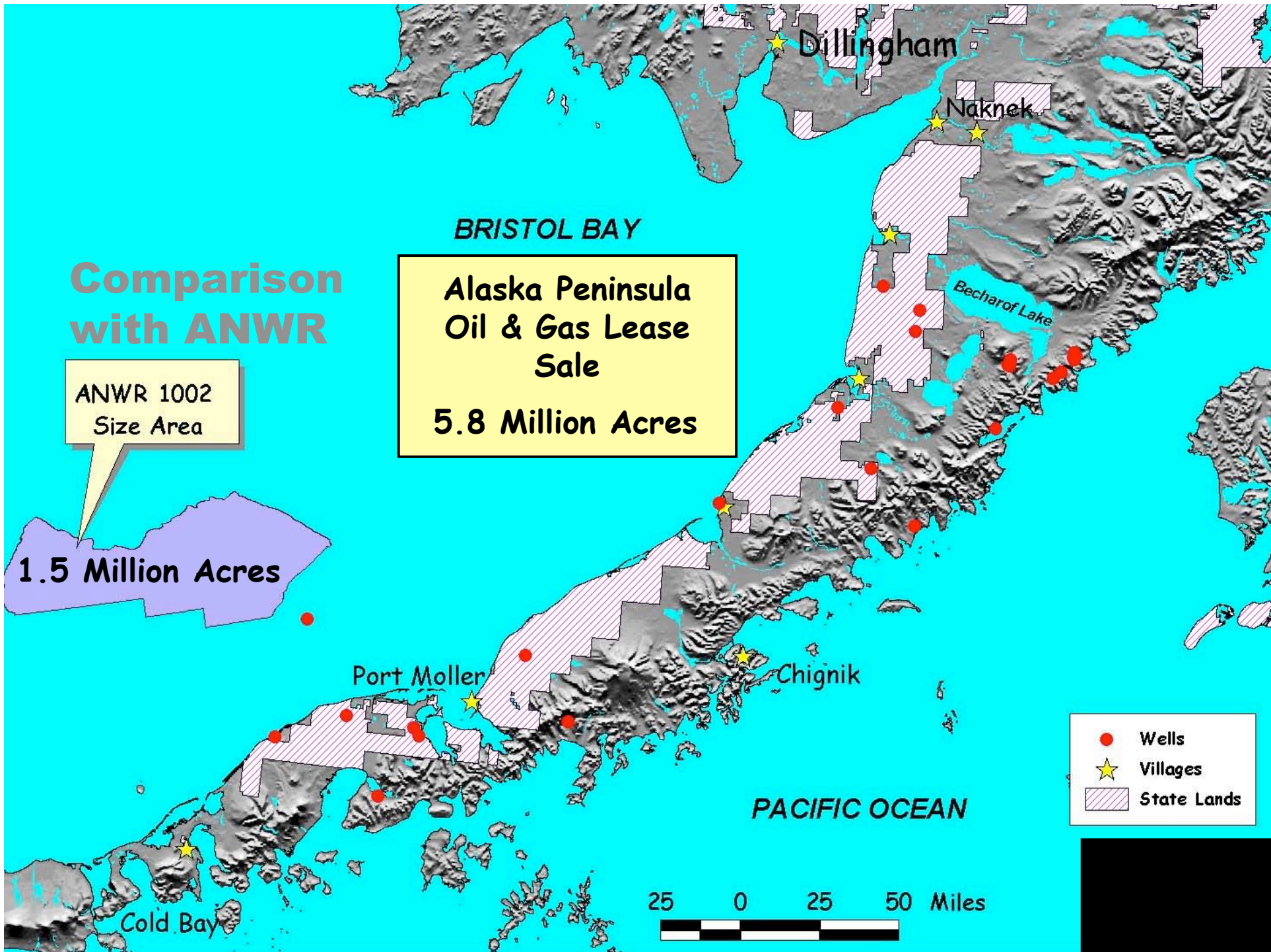
ANWR 1002
Size Area

1.5 Million Acres

BRISTOL BAY

Alaska Peninsula
Oil & Gas Lease
Sale

5.8 Million Acres



- Wells
- ★ Villages
- ▨ State Lands

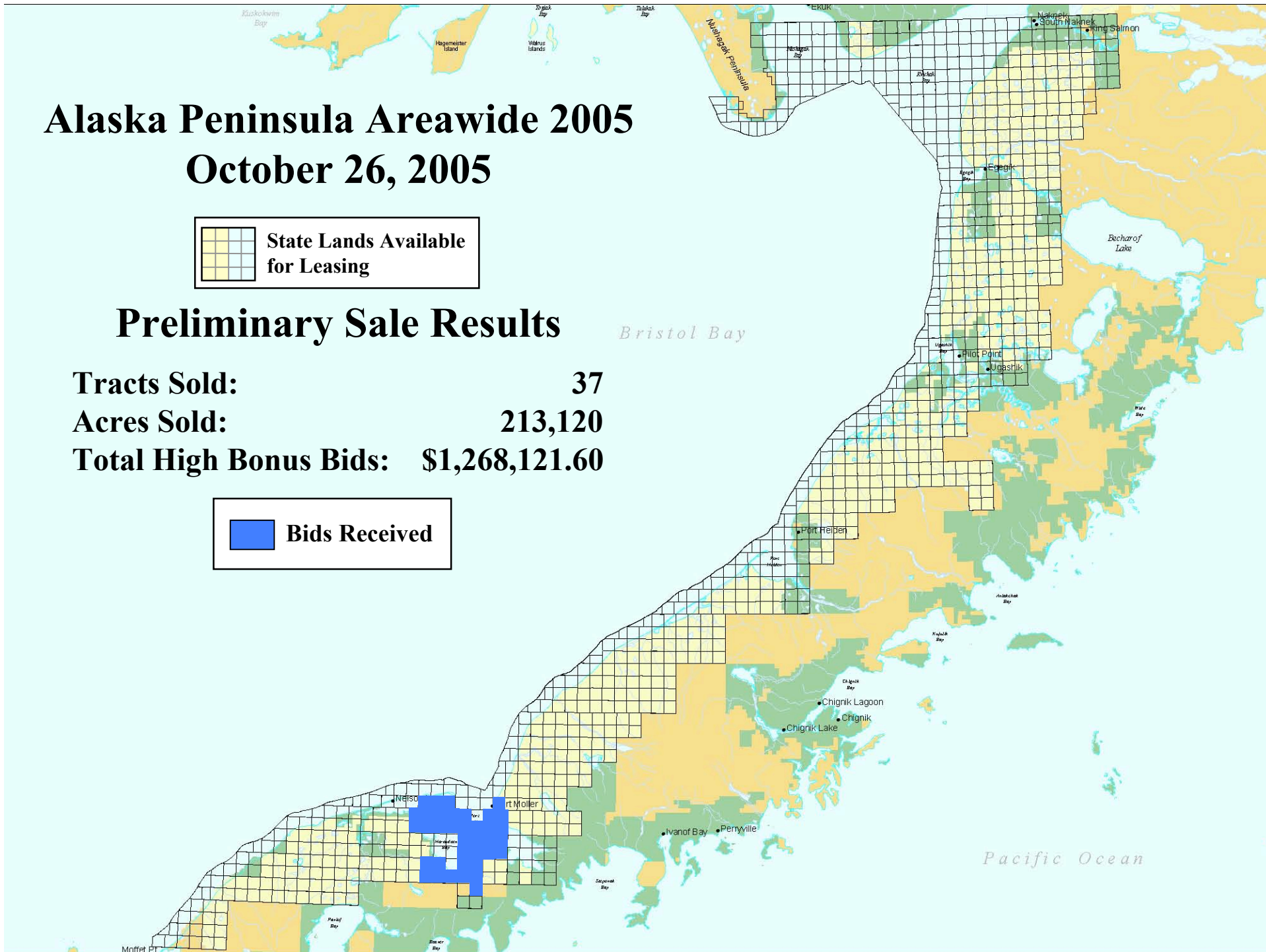
25 0 25 50 Miles

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



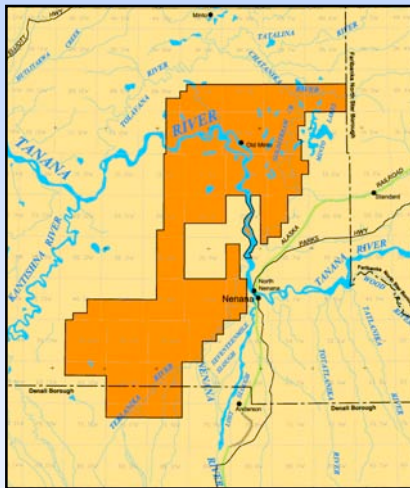
Exploration Licensing

- Proposals accepted during month of April
- 10,000 to 500,000 acres
- Maximum acreage under license: 2,000,000 acres
- Term of license: Up to 10 years
- Work commitment, expressed in \$\$
- No rental fees during term of license
- One-time \$1/acre licensing fee
- Right to convert to oil & gas leases

Exploration Licensing Program

Issued Licenses

Nenana Basin



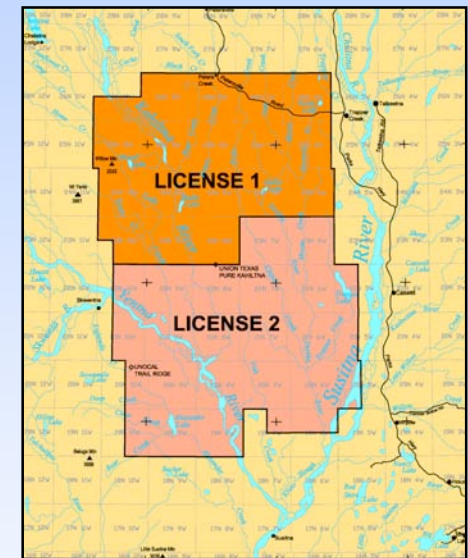
Nenana Basin: Issued
Licensee: Andex Resources
Size: 483,175 Acres

Copper River Basin



Copper River License: Issued
Licensee: Forest Oil Corporation
Size: 318,756.35 Acres

Susitna Basin

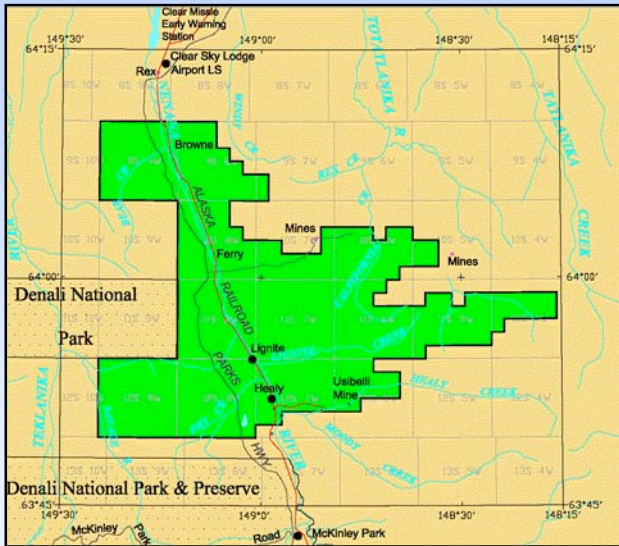


Susitna Basin License 1: Issued
Licensee - Forest Oil Corp.
386,207 Acres
Susitna Basin License 2: Issued
Licensee - Forest Oil Corp.
471,474 Acres

Exploration Licensing Program

Proposed Licenses

Proposed Healy Basin Exploration License Area



Usibelli Coal Mine Inc. proposed a work commitment of \$500,000 with a 10 year term.

Solicitation of Competing Proposals ended Dec. 9 (none received).

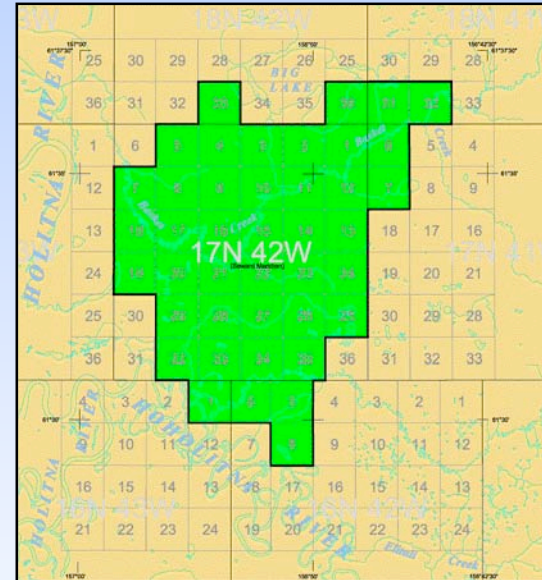
Solicitation of Public Comments (Deadline March 11).

Public Meeting in Healy (Jan. 19).

Preliminary Best Interest Finding (August 2005).

Final Best Interest Finding (Scheduled for December 2005).

Proposed Holitna Basin Exploration License Area



Holitna Energy Co. converted from Shallow Natural Gas applications (Under HB 531).

Solicitation of Public Comments (Ended Dec. 21).

Preliminary Best Interest Finding (August 2005).

Final Best Interest Finding (Scheduled for November 2005).

Assessing Alaska's Gas Resource

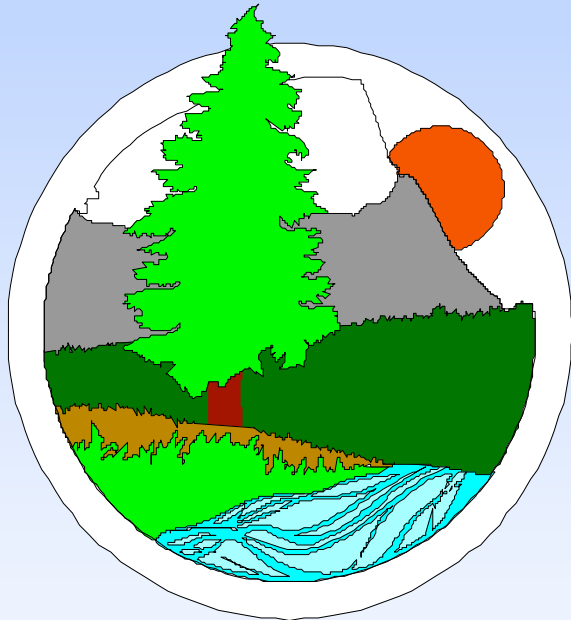
- Alaska's gas should be a major contributor to North American gas markets.
- 35 TCF of gas from Prudhoe Bay and Pt. Thomson is just the tip of the iceberg.
- North Slope and offshore undiscovered technically recoverable conventional gas resource potential exceeds 236 TCF (mean estimate).
- Gas hydrates were first confirmed, by drilling, coring and testing, in the northwest corner of the Prudhoe Bay field 1972.
- North Slope and offshore gas hydrate resource potential is estimated to exceed 32,000 TCF. Of that, 529 TCF is estimated to be onshore.
- The in-place gas hydrate resource in the Prudhoe/Kuparuk Milne Pt. field area alone is 100 TCF.

Wood Mackenzie: Alaska Good for Explorers

The state ranks among . . .

- The top 25% of oil regions worldwide in average oil discovery size. (99 Mboe/discovery)
- The top half in commercial success rate (18%)
- The top half in reserves discovered during the period, 1994-2003. (918 Mboe)
- The top quartile in post-take full cycle net present value per boe.
- The top third in absolute full cycle value created.

Wood Mackenzie, 2004. Published in Petroleum News, February 20, 2005
See also, Alaska Journal of Commerce, web posting February 20, 2005



Alaska Department of
**Natural
Resources**