

straight talk



Alaska Oil and Gas Association

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A Pipeline in Decline

Alaskans celebrated the 32nd birthday of the Trans-Alaska Pipeline System (TAPS) this summer. Over the last three decades, Alyeska Pipeline Service Company has safely transported almost 16 billion barrels of oil from the North Slope to Valdez producing, on average, more than 83 percent of the state’s unrestricted general fund revenues.

That’s the good news. The bad news is the pipeline is now two-thirds empty. It is only at 35 percent of its maximum capacity, but the reality is there are no major refueling options in sight. In fact, the state Department of Revenue (DOR) is forecasting a serious and continual production decline for the foreseeable future.

Production during fiscal year 2008 was 717,000 barrels per day (bpd). The DOR is forecasting production of just 575,000 bpd by fiscal year 2018, down from its peak of 2.1 million bpd and only one-fourth of TAPS capacity. The DOR’s forecast for FY 2018 includes 35 percent new oil which is currently under development or evaluation, meaning more than one-third of total production will come from fields that are not currently producing.

What if that new oil doesn’t come online as quickly as forecasted or the projects under development and evaluation do not come to fruition? Production from currently producing fields is forecasted to be a mere 372,000 bpd in FY 2018, meaning the pipeline would be operating at 20 percent capacity, or over 80 percent empty, a precariously low level.

Why should Alaskans care? According to a recent study by the Institute for Social and Economic Research (ISER) at the University of Alaska Anchorage, one-third of Alaska’s economy is tied to petroleum, which generates over 110,000 jobs per year (see p. 4).

Since the passage of Alaska’s Clear and Equitable Share (the production tax system known as “ACES”), the number of wells drilled in Alaska has, like production, declined. According to the Alaska Oil and Gas Conservation

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XTO oil rig in Cook Inlet. (Photo courtesy of XTO Energy)

On the Job

Jennifer Henderson, Environmental Specialist, Chevron

Her name is Jennifer Henderson, and she's been a faithful steward of the environment since she was a teenager. Born and raised in Anchorage, Jennifer started volunteering for the state Division of Forestry and U.S. Forest Service when she was still in high school. She went on to earn a degree in natural resources management from the University of Alaska Fairbanks and worked for the USDA Forest Service – Alaska Region and the state Department of Environmental Conservation before joining Chevron as an Environmental Specialist a year and a half ago.



Above: Jennifer Henderson, Environmental Specialist with Chevron, with her two border collies.

Jennifer's decision to leave her job with the state after seven years was not an easy one, but she was eager to broaden her horizons. "Chevron is a good, strong company with a great reputation, and I knew they had the kind of opportunities I was looking for," she said.

Jennifer just finished up the two-year-long White Hills exploration project on the North Slope, an experience

she describes as "very challenging, very rewarding, and I got to work with a fantastic team." Her day-to-day responsibilities varied, but included making sure the project upheld company best practices as Chevron complied with federal and state environmental regulations and the state's contingency plan.

Currently, Jennifer is in the process of transitioning over to the company's Cook Inlet assets. She said Chevron is committed to protecting people and the environment and places a high priority on the health and safety of its workforce, its assets and the environment.

In March, Jennifer will travel to Kuwait as part of Chevron's corporate response team. The purpose of the five-day drill is to train team members to respond to potential company emergencies. She is one of few Alaskans selected to be part of the team.

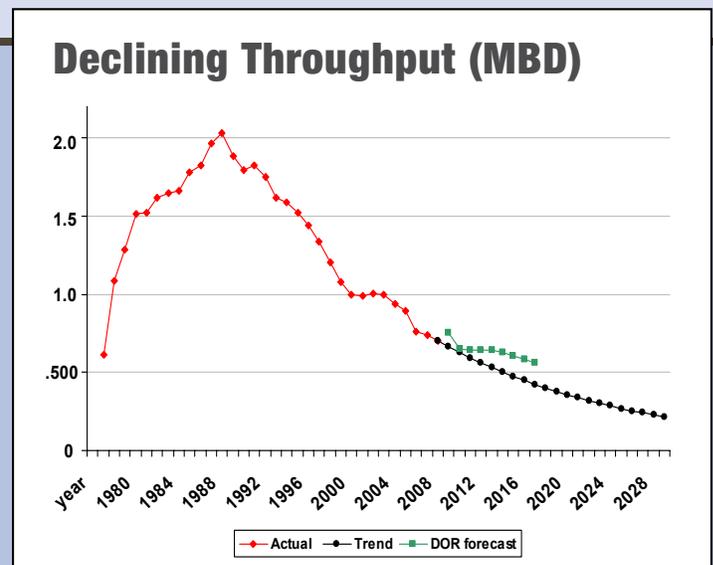
In her spare time Jennifer enjoys spending time with her two border collies, gardening and "doing anything that gets me outdoors." She has traveled all over Alaska and counts Homer among her favorite destinations. 💧

(A Pipeline in Decline continued from page 1)

Commission, since 2007 there has been an 18 percent reduction in total wells drilled in the state. Exploration wells alone have declined by almost 58 percent in two years.

All Alaskans – policymakers, members of industry and everyday citizens – should be trying to answer the question: How can we put more oil into the pipeline to stem the decline? 💧

Right: This graph illustrates the decline of oil flowing through the Trans-Alaska Pipeline System.



Source: DOR/Alyeska

Member Spotlight

XTO Energy

What year did XTO arrive in Alaska?

In 1998, XTO purchased two platforms from Shell E&P.

Where does XTO operate in Alaska?

The Cook Inlet, Middle Ground Shoal Field and an onshore production facility located in the East Forelands (Nikiski, Alaska).

Where else does XTO do business?

XTO is the largest producer of natural gas in the domestic U.S., producing natural gas and oil in 18 states.

How many employees does XTO have in Alaska?

Forty-three company and full-time contract employees.

What is XTO's production in Alaska?

XTO produces 2,787 barrels of oil per day.

What type of exploration/new development plans does XTO have for Alaska?

XTO has been a steady driller in the Cook Inlet for the past 10 years, and intends to drill a well in 2010 and another in 2011. The company also plans to install new power generation equipment on both XTO platforms during the next two years. ♦



Above: Kevin Christianson, XTO Energy Inc. production operator at the Lact Meter building, O/S Facility. Right: XTO Energy ground facilities. (Photos courtesy of XTO Energy)



AOGA in the Community

'Happy' at the Alaska State Fair



Matt Mower and Paul Quesnel, BP Alaska.

In celebration of the 2009 Alaska State Fair (this year's theme: "Get Up & Get Happy"), AOGA was pleased to sponsor a booth for the entire 12-day event. AOGA's participation gave industry representatives the opportunity to share information about the state's largest private industry with thousands of Alaskans. ♦

Quesnel talks with fairgoers about the benefits of the oil and gas industry to the state. (Photos courtesy of BP/Brian Adams)





Heard on the Street

Alaska's Economy = Three-Legged Stool

Petroleum + Federal Government + Other Resources = Alaska's Economy.

In an effort to provide more information about Alaska's economy to the residents of this state, First National Bank Alaska (FNBA) stepped up to the plate by providing the support for an educational campaign that was kicked off earlier this year and will continue throughout 2010.

***"Now, it's not a pricing issue
but a production issue."***

— Betsy Lawer, FNBA Vice Chair and COO

"I'm old enough—a lot of us are—to remember the '80s downturn due to pricing issues. A lot of good businesses and folks were taken down during that time. It didn't have to happen. And there's a whole new generation of Alaskans who did NOT experience that downturn, and now take Alaska's economic

health for granted," Betsy Lawer, FNBA's Vice Chair and COO, explained.

The educational campaign's Web site, www.AlaskasEconomy.org, provides Alaskans with more information about the components that generate jobs in Alaska, an explanation of how one-third of all Alaskan jobs are directly tied to petroleum, research papers from the Institute of Social and Economic Research (ISER) and updates on Alaska's economy from Scott Goldsmith of ISER.

As Lawer explains, "Now, it's not a pricing issue but a production issue. Take a look at the graph (see page 2) and you can see we're heading for a similar downturn. We need to educate folks about what drives the Alaska economy and perhaps we have a chance to do something to change the future."

Alaska's Economy. Understand it. Support it. Grow it. ♠

Graphic courtesy of FNBA/AlaskasEconomy.org



AOGA Executive Director Message

Lawmakers Experience Slope Firsthand



By Marilyn Crockett, Executive Director

On Sept. 11 AOGA sponsored an educational tour of Oooguruk, the first independently operated oil field on the North Slope.

Oooguruk is operated by Pioneer Natural Resources-Alaska. The company owns a 70 percent working interest in the field and Eni owns the remaining 30 percent. Oooguruk began production in June 2008 and currently produces about 10,000 barrels per day.

Ten state lawmakers experienced the daily challenges of operating on Alaska’s remote northern coastline, including two short flight delays due to inclement weather conditions the morning of the tour. After arriving by air, the group took a bus to the Oliktok Construction Camp (OCC), the base camp of Eni’s Nikaitchuq oil field development project. Legislators learned more about Eni’s plan to develop Nikaitchuq as a standalone project with its own processing facilities. It is scheduled for production in 2010.

Following a safety briefing at OCC, the group donned the required protective safety gear and boarded a crew boat to Oooguruk’s offshore drill site (ODS). The site itself is a man-made six-acre gravel island located in the shallow waters of the Beaufort Sea. Due to the compact nature of ODS, the group split into small groups to see the Nabors 19AC drill rig in action, as well as other facilities and support complexes.



House Energy Co-Chair Rep. Charisse Millett listens intently to Bonnie Smith, Pioneer’s HSE manager.

Photo top left: One of the small groups touring ODS: Tamara Sheffield (AOGA), Sen. Gene Therriault, Eric West (BP), Sen. Bill Wielechowski and Bonnie Smith (Pioneer). **Photo top right:** Pioneer Natural Resources Alaska President Ken Sheffield walks Senate President Gary Stevens and House Speaker Mike Chenault around the six-acre island.

“We are excited to offer educational opportunities to legislators so they can see firsthand how the industry operates in Alaska,” AOGA Executive Director Marilyn Crockett said. ♦

Did You Know?



Alaska's oil and gas industry: paying dividends for Alaskans

A portion of oil revenues was set aside in 1976 for future generations. The Alaska Permanent Fund, now worth approximately \$32 billion, distributes an annual dividend. Since the dividend started in 1980, a family of four has received \$123,640. This includes the recent dividend of \$1,305 for every Alaskan.



Visit www.aoga.org for more facts about Alaska's oil & gas industry.

Alaska Oil and Gas Association Member Companies

- | | |
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| Anadarko Petroleum Corporation | Petro-Canada (Alaska) Inc. |
| BP Exploration (Alaska) Inc. | Petro Star Inc. |
| Chevron | Pioneer Natural Resources Alaska, Inc. |
| Eni Petroleum | Shell Exploration & Production Company |
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| Flint Hills Resources, Alaska | Tesoro Alaska Company |
| | XTO Energy, Inc. |

AOGA's members are companies that represent the majority of oil and gas exploration, production, refining, transportation and marketing activities in Alaska. Our members are:



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121 W. Fireweed Lane, Suite 207, Anchorage, AK 99503-2035
ph. 907.272.1481

AOGA Staff

Marilyn Crockett,
Executive Director

Kara Moriarty,
Deputy Director

Tamara Sheffield,
Support Services

PRSRT STD
U.S. Postage
PAID
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ANCHORAGE, AK