

Briefing Note: One Million Barrels a Day within 10 Years

I. SETTING AMBITIOUS GOALS

An important part of public policy leadership is setting ambitious, compelling visions and goals that citizens and policy makers of the state can unite behind and support. In the realm of social policy, Governor Parnell has done this with the “Choose Respect” campaign and its goal to eradicate Alaska’s epidemic levels of sexual abuse and domestic violence.

In the realm of economic policy, the TAPS throughput decline is the most urgent and critical issue facing our state. The Governor is addressing this issue by laying out the vision and goal of increasing TAPS throughput to one million barrels per day within 10 years. The “Secure Alaska’s Future–Oil” strategy was designed to support this goal.

II. THRESHOLD ISSUE

The threshold issue for policy makers is whether Alaska has a hydrocarbon basin large enough to meet the one-million-barrels–a-day goal. We believe we do. By any measure, the North Slope of Alaska remains a world-class energy basin, estimated by federal agencies to hold about 40 billion barrels of oil and 236 trillion cubic feet of natural gas. In addition, the North Slope has tens of billions of barrels of unconventional resources such as heavy, viscous, and shale oil. Despite its vast potential, the North Slope is still relatively underexplored, with approximately 500 exploration wells drilled. In Wyoming, for example, comparable in size to the North Slope, more than 19,000 exploration wells have been drilled.

Continued oil production decline need not be the fate of our great state. Throughput declines can be reversed. There are examples of other major hydrocarbon basins, such as the North Sea and areas of Texas and North Dakota, where production declines have been reversed as a result of a combination of changes in government policy, increased investment, sustained high oil prices, enhanced recovery methods, and technological innovation.

III. SECURE ALASKA’S FUTURE—FIVE-PART STRATEGY

The Governor’s goal of increasing TAPS throughput to one million barrels per day within 10 years is strongly supported by the Administration’s five-part strategy to arrest the decline—“Secure Alaska’s Future–Oil.” This strategy consists of the following main components.

1. Enhance Alaska’s global competitiveness and investment climate (the cornerstone being meaningful tax reform)
2. Ensure the permitting process is structured and efficient
3. Facilitate and incentivize the next phases of North Slope resource development
4. Unlock Alaska’s full resource development potential through partnerships with key stakeholders
5. Promote Alaska’s resources and positive investment climate to world markets

Over the past year, we have been relentlessly implementing all aspects of this plan. We need the support of and action from the Legislature to fulfill all elements of this important strategy.

IV. POSSIBLE ROADMAP TO ONE MILLION BARRELS

The Governor's goal of one million barrels will require tens of billions of dollars of additional private sector capital investment in Alaska. Improved cooperation between industry, state and federal policy makers is also necessary. We believe there is a general sequencing of development opportunities on the North Slope that can get us to one million barrels within a decade. There are many scenarios, but one example would be the following, where each preceding development builds upon earlier developments:

In 2-5 years:

- Increased infield production from legacy fields
- Development of smaller pools of conventional oil (Oooguruk, Nikaitchuq, and others); the North Slope is estimated to have "dozens" of such untapped fields ranging from 25 million to 350 million barrels
- Production from the eastern North Slope, including Point Thomson, which will create economies of scale to explore and develop the eastern North Slope

In 4-7 years:

- Production from shale, viscous and heavy oil plays coming online in substantial quantities (Alaska is endowed with billions of barrels of unconventional resources)
- Development of northeast NPR-A (CD-5 and other satellite fields)
- Umiat area exploration, development, and production
- Development of near offshore (Liberty, etc.)

In 7-10 years:

- Exploration and production from ANWR and other eastern North Slope state and federal lands

In 10 years and beyond:

- Development of OCS (Chukchi and Beaufort)
- Commercialization of North Slope gas, which will lead to additional oil discoveries

V. MANY VARIABLES AFFECTING SUCCESS

Getting to one million barrels of oil per day within a decade is an ambitious goal. It will not be easy. Nevertheless, it is a goal that has garnered broad-based public support and is worth striving for. Whether or not the state can achieve this goal will depend on several factors, some of which we as a state have more control over than others.

We will need significant increases in the level of sustained private sector capital investment. Reforming our tax system is critical in this regard as is a continued high price range for oil. Ideally,

this investment will come from all types of companies – legacy producers and other super-majors, as well as medium and small companies. Similarly, increased and new production will likely need to come from a variety of resource development plays on the North Slope – legacy fields, smaller pools of conventional oil, unconventional oil plays, and federal on-shore and offshore lands.

It will also be critical for the federal government to fully support Alaska's one-million-barrels-per-day goal and encourage development and access to federal lands, such as NPR-A, the OCS, and ANWR. Federal policies that continue to prohibit or cause unreasonable delays in exploration and development will significantly undermine this state goal. Indeed, without the federal government as full partners in development and increased access to federal lands, meeting the one million barrels-per-day goal will be very difficult. And lastly, we will need a timely, certain, and predictable permitting process with regard to both state and federal land.