

Oil and Natural Gas Outlook: Implications for Alaska

The Alliance – Meet Alaska

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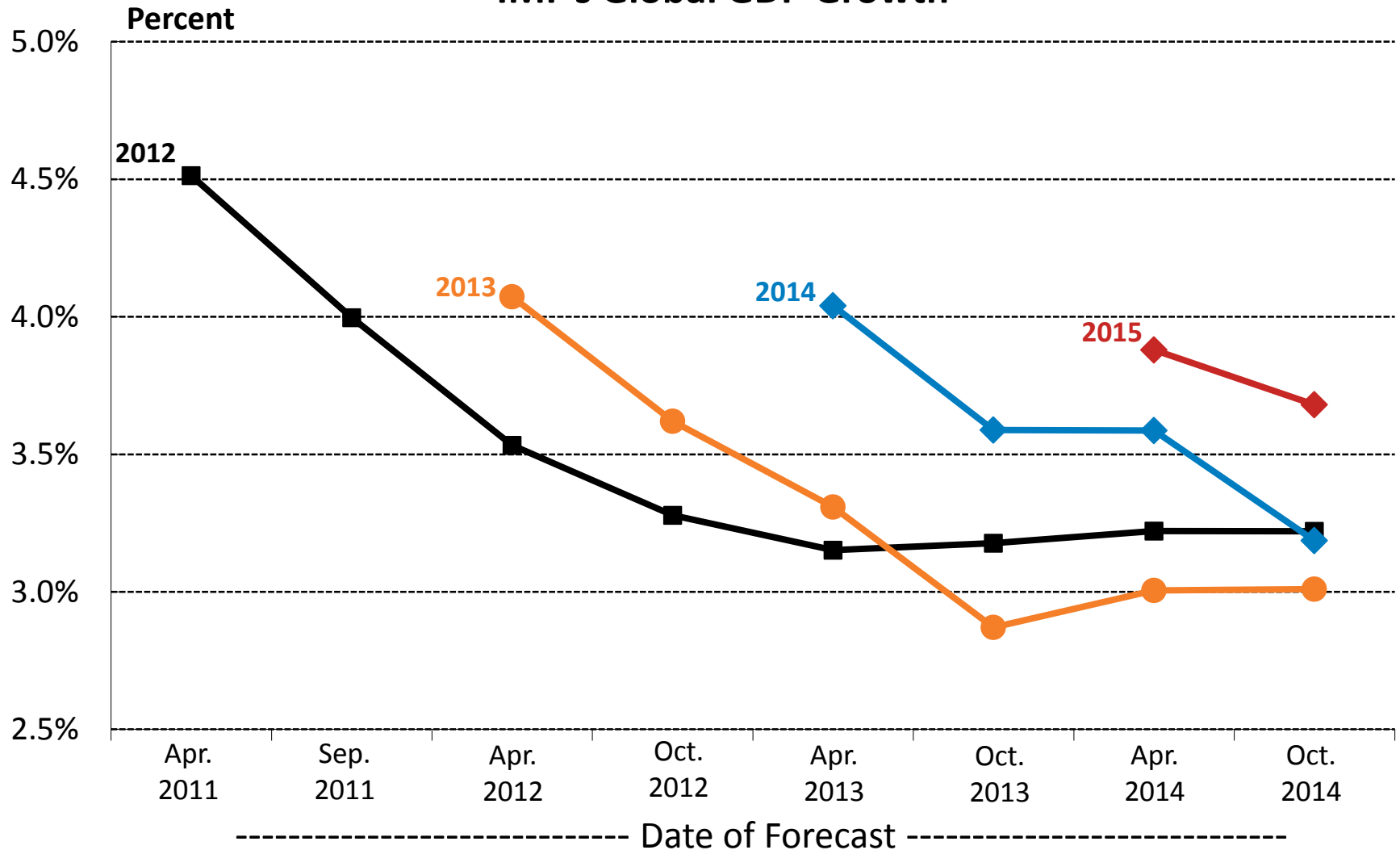
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Challenging Oil and Natural Gas Outlook

- Weak global economic and energy demand growth
- Global oil supply growth outpacing demand, causing present oil price weakness
- Need for U.S. crude exports
- Weak N.A. natural gas market
 - Sufficient supplies available below \$5/MMBtu prices
- Loosening international natural gas market
 - Pipeline and LNG supply competition
 - Lower economic and gas demand growth
 - Lower oil prices reducing LNG contract prices
- Environmental, cost and tax pressures

Downward Revisions to Global Economic Growth Forecasts

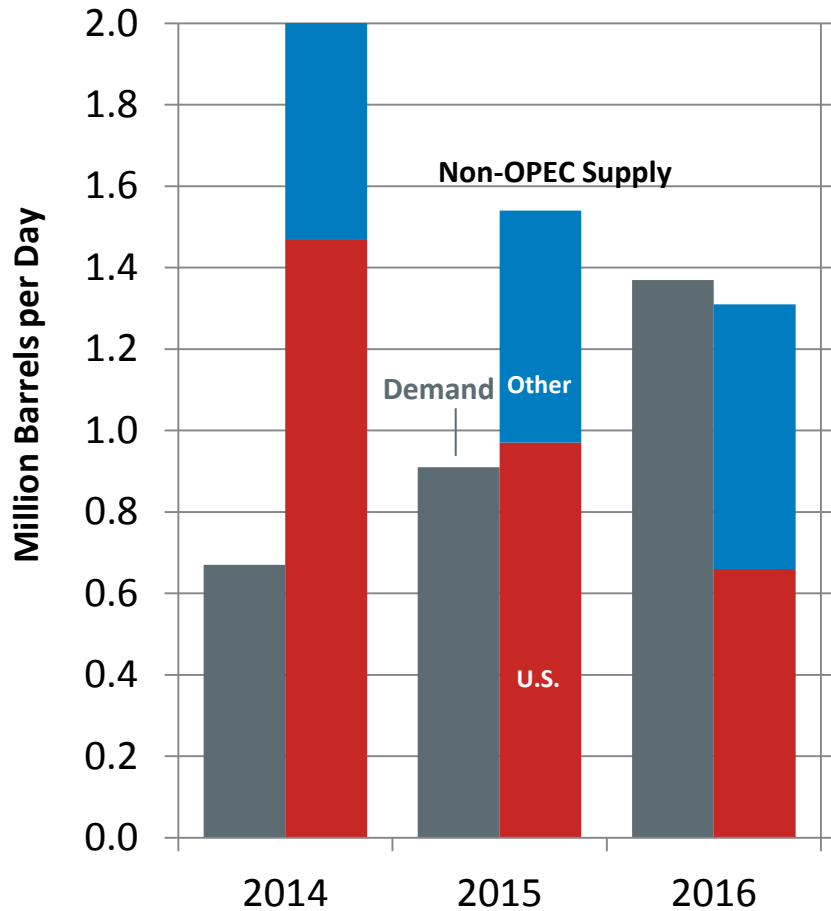
IMF's Global GDP Growth



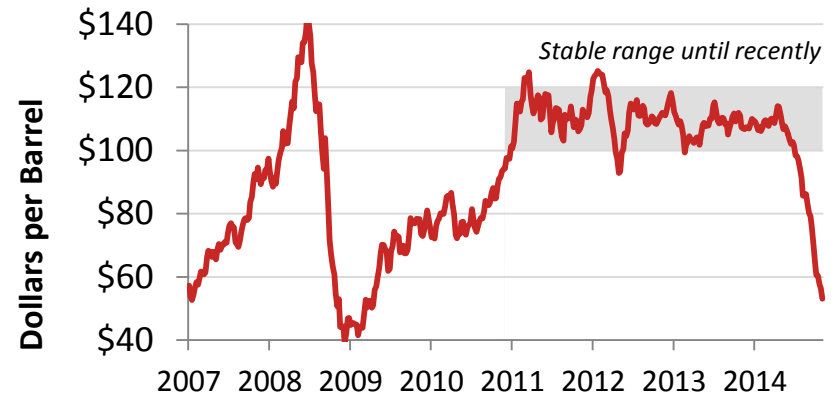
Downward revision has been a constant theme

Brent Crude Market Outlook

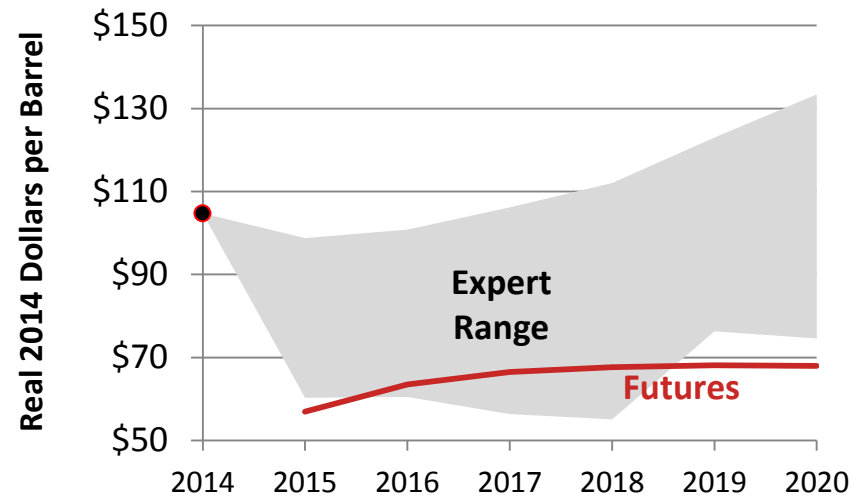
Global Oil Demand vs. Non-OPEC Supply Growth



Historical Brent Crude Price



Market Brent Price Outlook

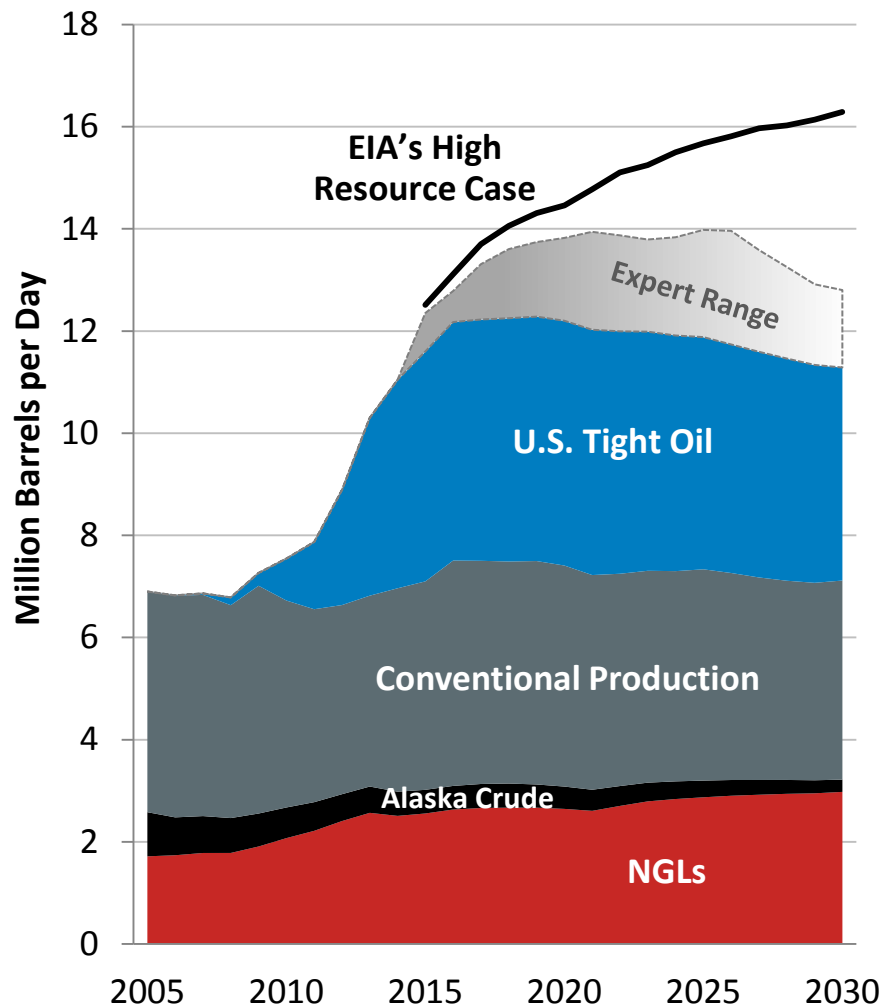


Recent weakness in economic and oil demand growth lowered prices

Source: IEA 12/14 Monthly & Medium Term, U.S. includes NGLs Notes: 2014 Brent price is annual average; Futures from 1/5/2015

U.S. Oil Production is Set to Expand

U.S. Crude, Condensate, Natural Gas Liquids Forecast



Liquids production has returned to levels not seen since 1972

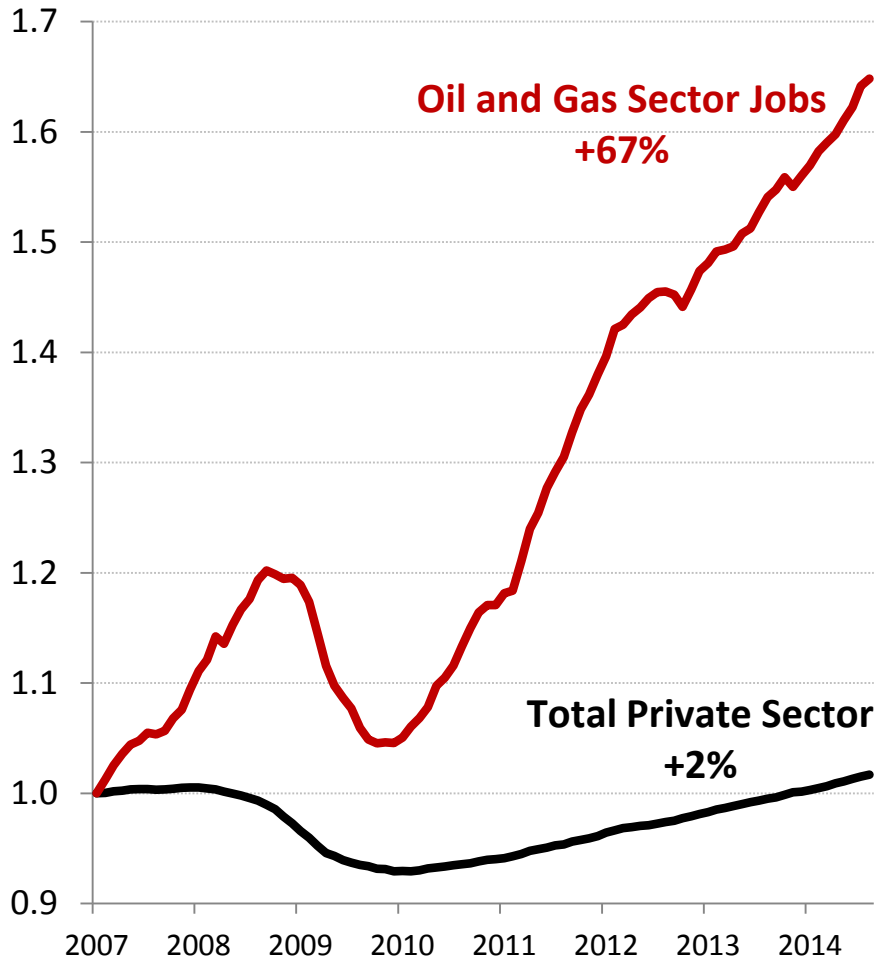
Source: U.S. Department of Energy, EIA Annual Energy Outlook 2014, various forecasts

Source: Rystad Energy Upstream Database

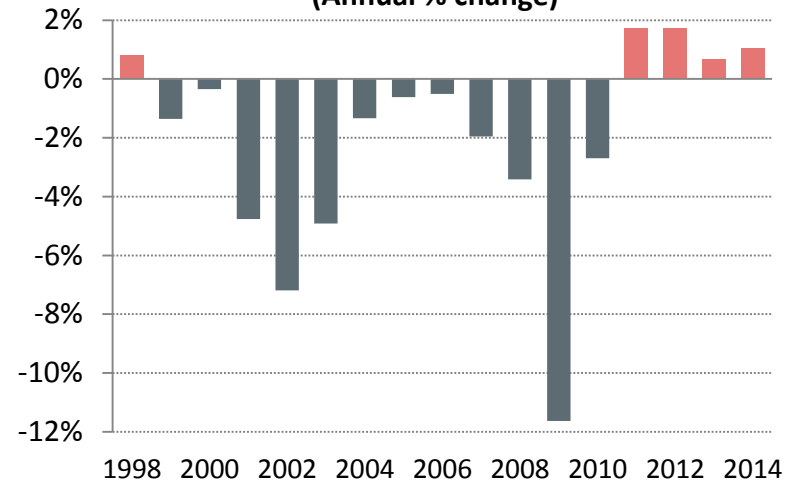
Oil & Gas Has Spurred Growth in the Broader U.S. Economy

Oil and Gas Sector Expanded While Other Sectors Lagged

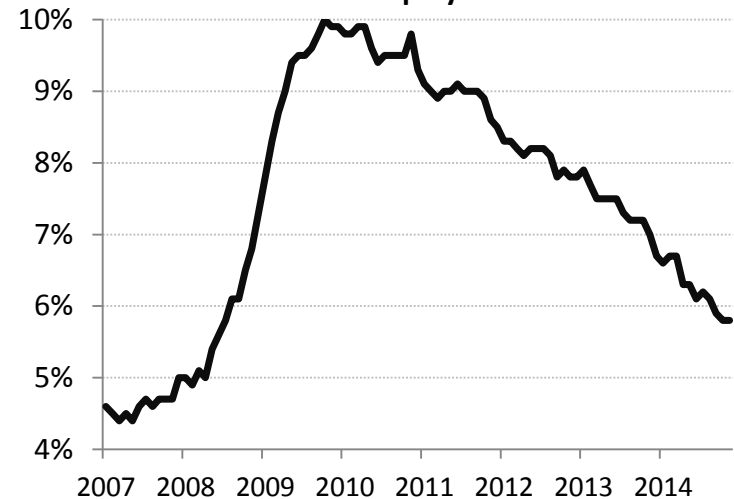
Index of Job Growth: Jan. 2007 = 1.0



Manufacturing Employment Reversed a 12-year Decline (Annual % change)



U.S. Unemployment Rate



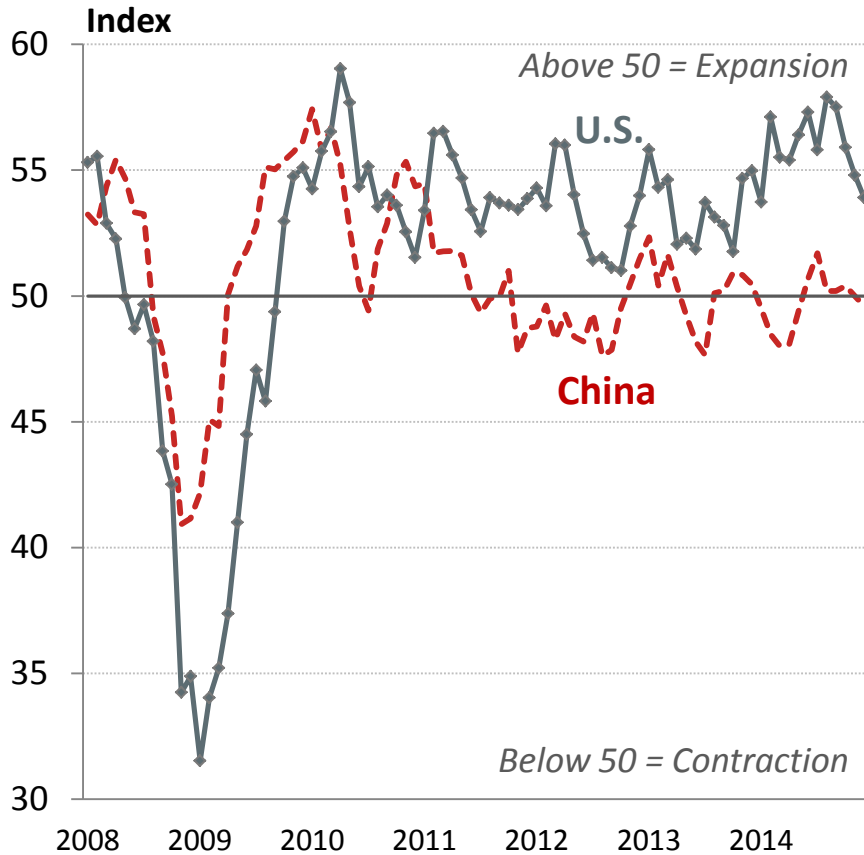
Energy production prevented U.S. downturn from being worse, and spurred recovery

Source: U.S. Bureau of Labor Statistics (Total Private Sector Jobs, NAICS 211000 and 213112).

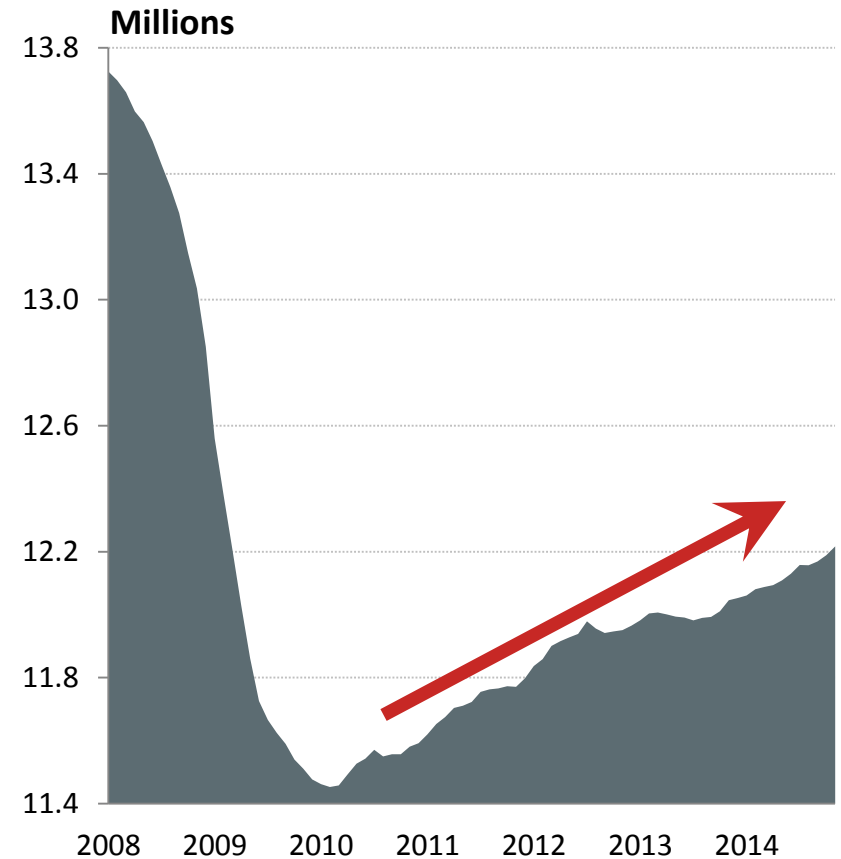
Source: U.S. Bureau of Labor Statistics.

In-Migration of Manufacturing: U.S. Industrial “Re-shoring”

U.S. Manufacturing PMI Consistently Ahead vs. China Since Early 2011



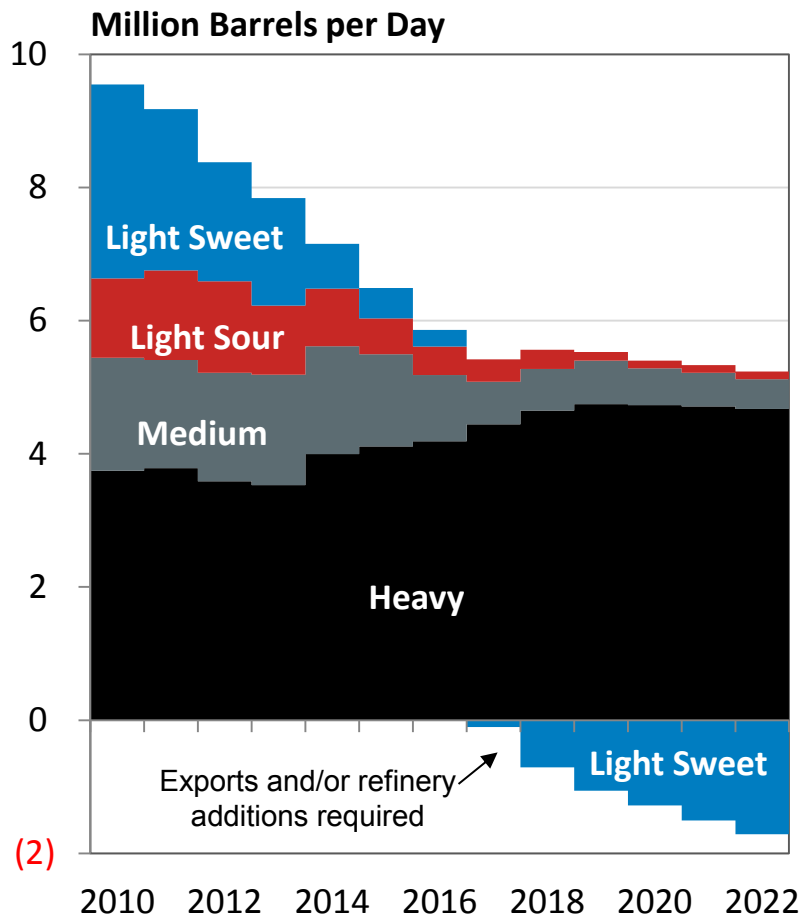
U.S. Manufacturing Employment: Gained about 750,000 Jobs Since 2010



Affordable energy has given U.S. industry a competitive advantage

Changing Pattern of U.S. Crude Imports

U.S. Crude Imports/(Exports)

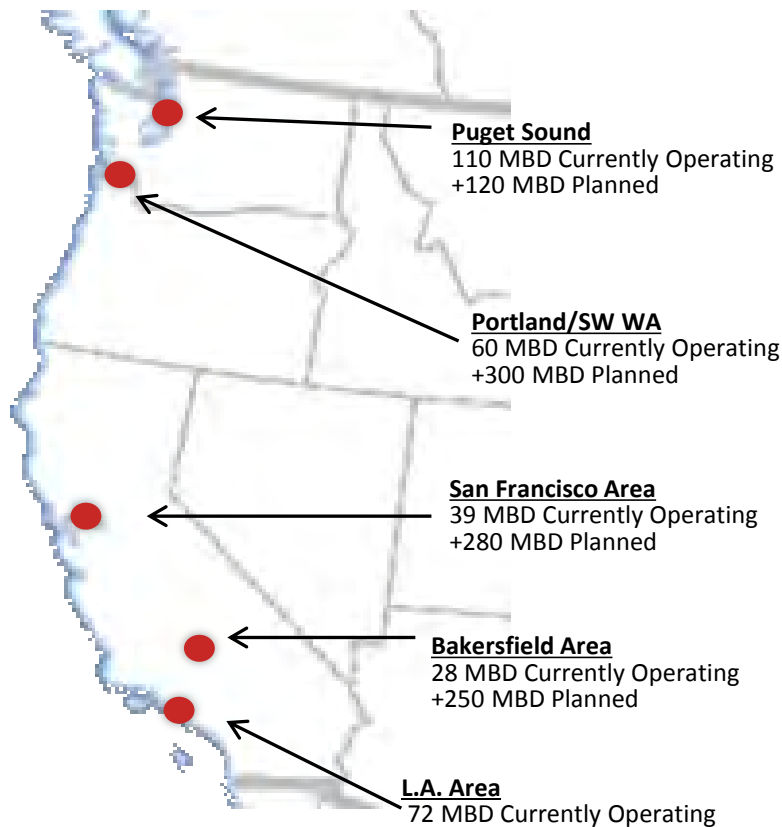


- Declining light, sweet crude imports, with year round exports needed by 2017
 - Condensates and super light crudes are already in surplus
 - Seasonal exports needed before then during U.S. refinery turnarounds / outages
- Eventual reductions in light, sour and medium crude imports
- U.S. likely to maintain heavy crude imports that better matches domestic refinery configuration

Need for exports of surplus light, sweet crudes

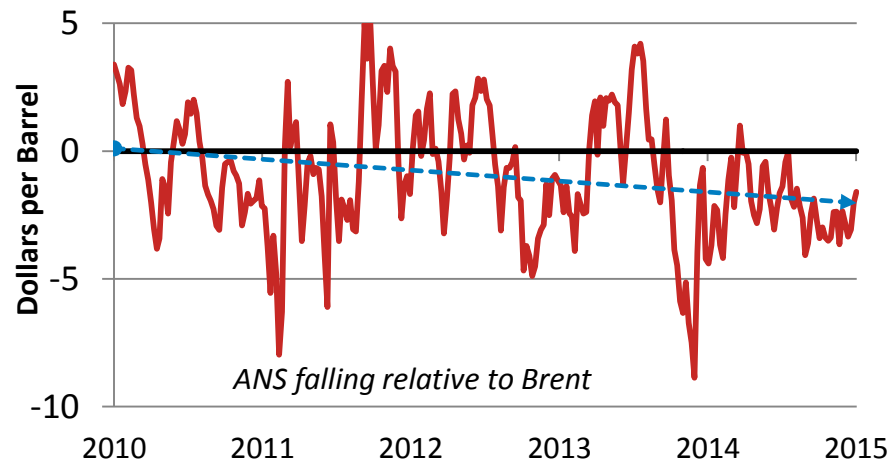
Case for ANS Crude Exports

Rail Unloading Capacity on West Coast

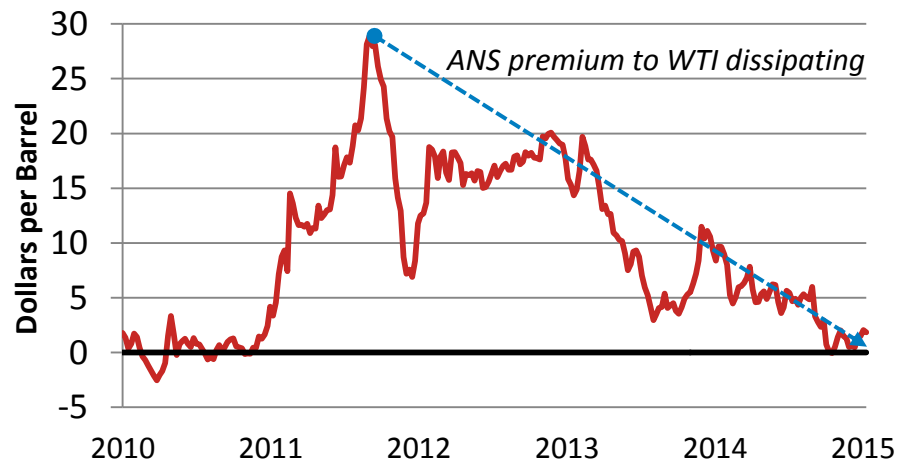


Current West Coast rail unloading capacity ~300 MBD
 Could reach 1250 MBD capacity by end-2016

ANS (Long Beach) - Brent Price Differential



ANS (Long Beach) - WTI Price Differential



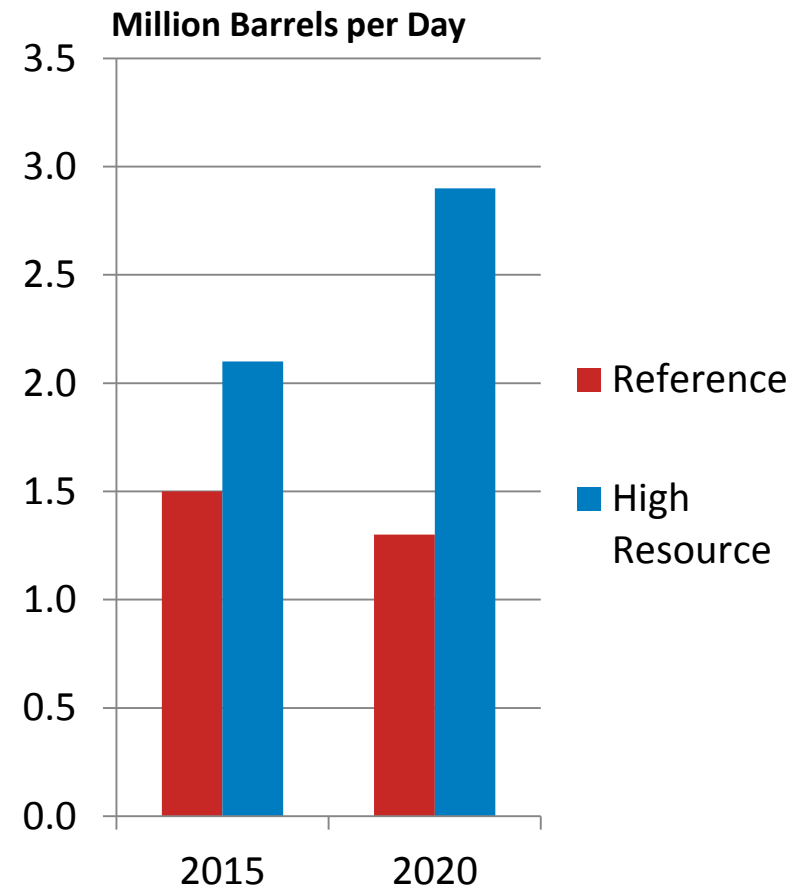
West Coast imports of ANS face stiffer competition from Lower-48, Canada & South America

Source: ConocoPhillips, Various; Platts for prices

Ability to Export L48 Crude Would Increase U.S. Oil Production

- Lifting the ban on U.S. Lower 48 crude exports would increase production by 1.5 to 3.0 MMBD by 2020
 - 10-20% increase
- Removing domestic crude price discounts caused by the ban would increase investment in new production
 - More wells and plays would become economic
 - Increased cash flow to invest

Incremental U.S. Crude Production from Lifting Export Ban in 2015



Increased production comes with significant economic benefits to the U.S.

Benefits of U.S. Crude Oil Exports

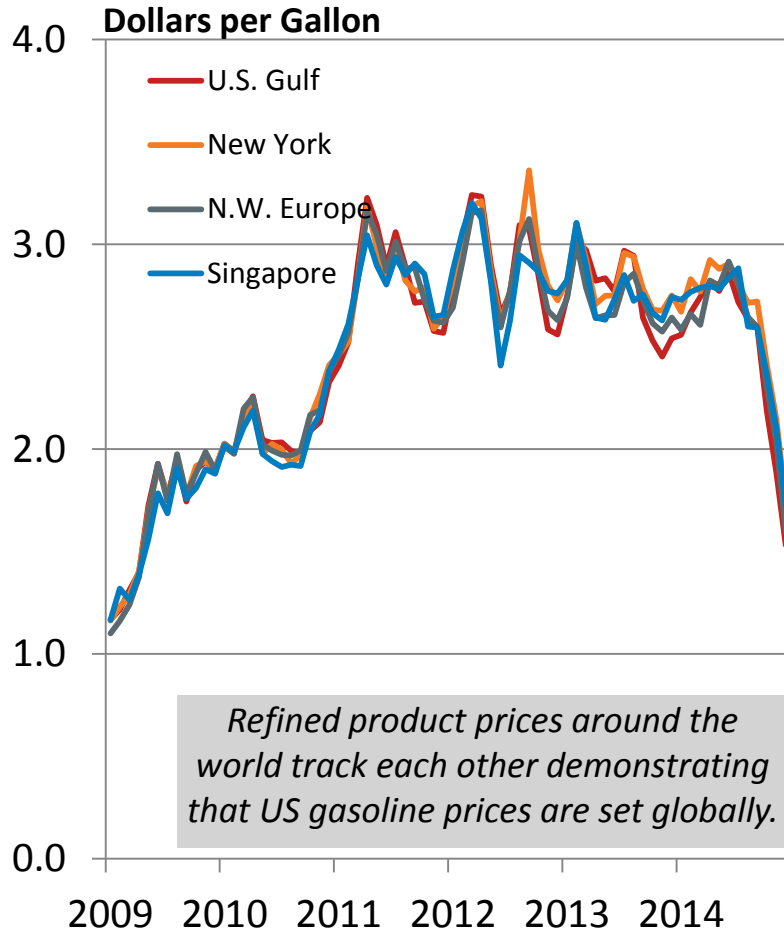
- Would lower consumer fuel costs at the pump by \$18 billion annually
- U.S. economy could gain \$135 billion and about one million jobs at its peak
- Reduce nation's oil import bill by \$67 billion annually
- Increase government revenues by \$1.3 trillion between 2016-2030
- Strengthen U.S. geopolitical position



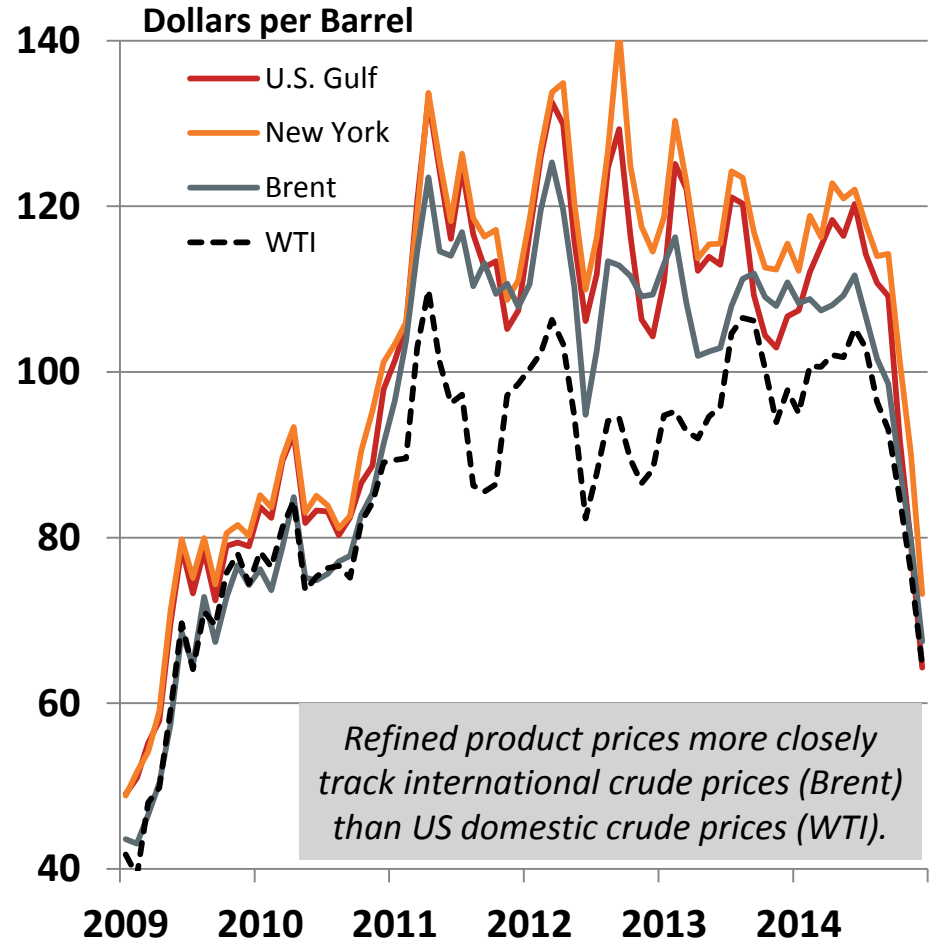
**More jobs & economic development would result
from continued growth in U.S. oil production**

Gasoline Prices Are Set Globally by International Crude Prices

Spot Gasoline Prices



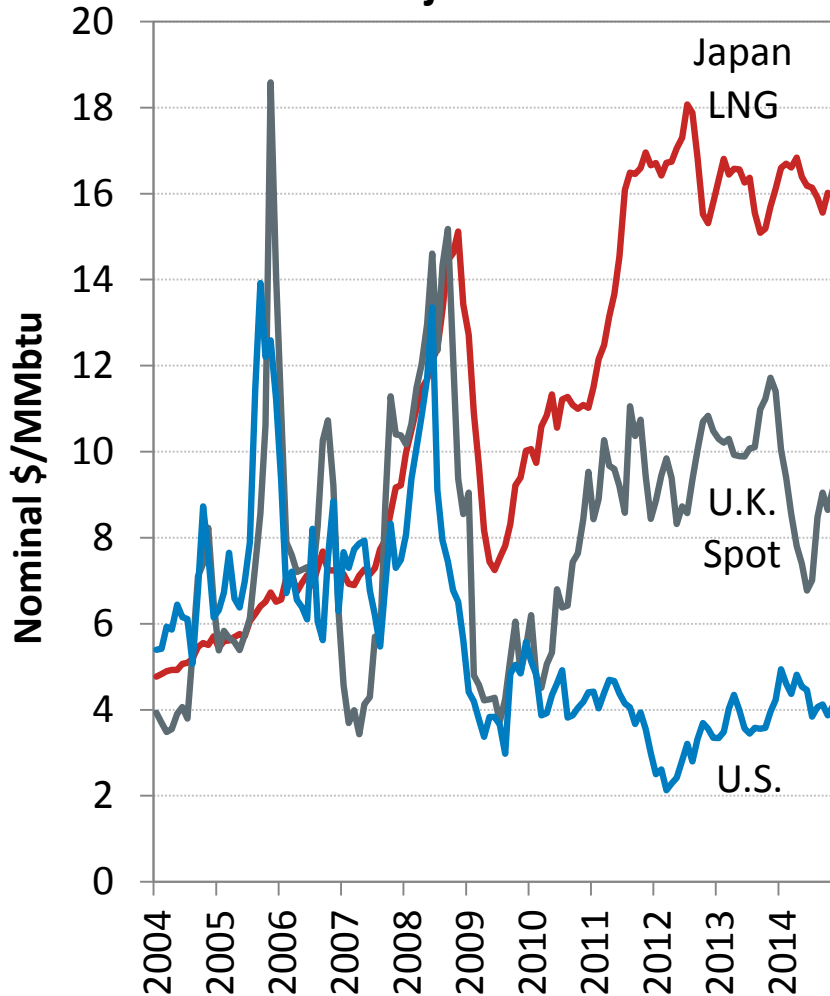
U.S. Gasoline Prices vs. International & Domestic Crude Prices



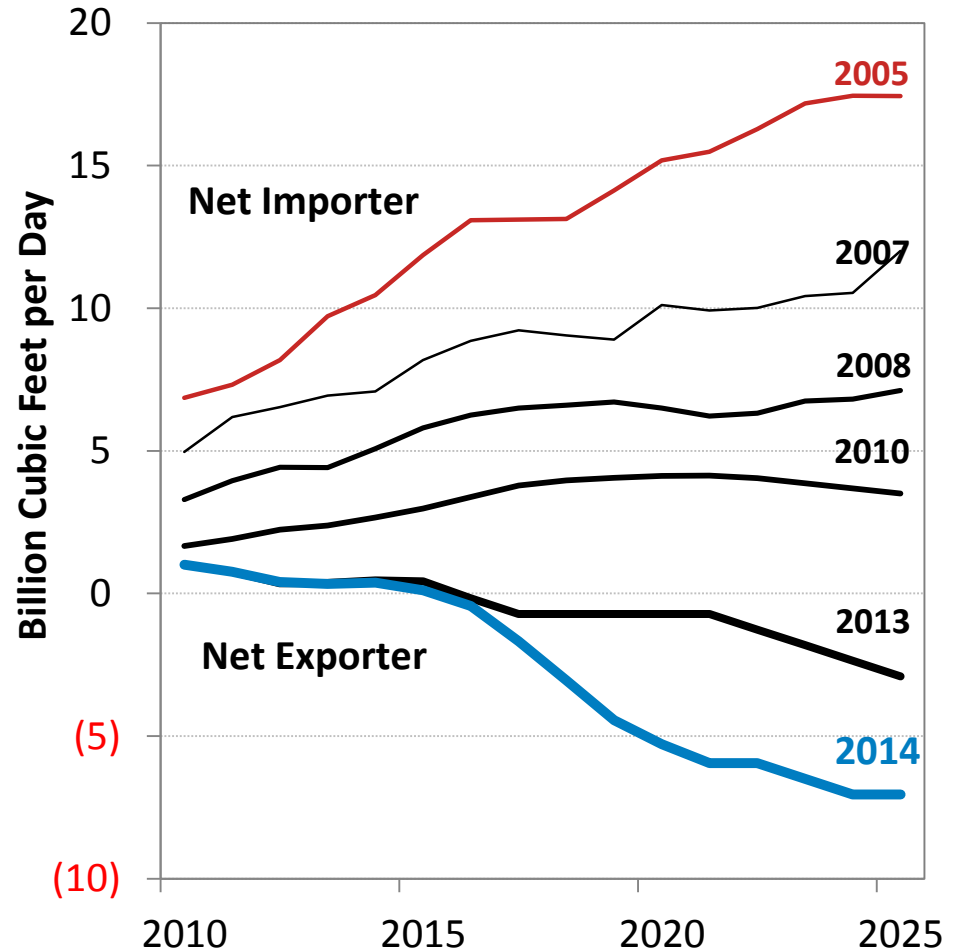
U.S. crude exports should lower U.S. gasoline prices

U.S. LNG Exports

Wide Divergence Between Pricing in Major Markets



Historical U.S. Department of Energy Projections

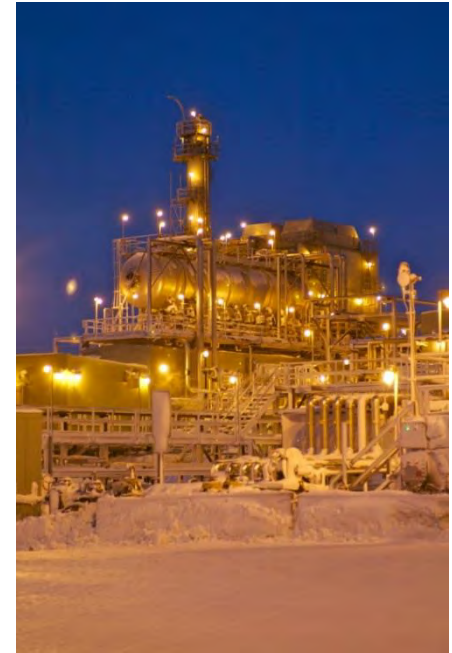


U.S. is poised to become an LNG exporter

Source: Bloomberg; U.S. Department of Energy, EIA, AEO 2005-2014

Alaska Activities Announced Since Tax reform (SB21) Passed

- **Added two rigs to the Kuparuk rig fleet**
 - *Investment has decreased Kuparuk Unit field decline from 7% to 1%*
- **Two new-build rigs are on order – deliver 2016**
 - Rotary rig Doyon 142
 - Coil tubing drill rig Nabors CDR-3
- **New Drill site at Kuparuk (DS-2S) – Approved October 2014**
- **Evaluating plans for additional development in NPRA (GMT-1)**
 - In dialogue with Federal Government for acceptable terms
- **Pre-engineering for viscous oil expansion in Kuparuk (1H NEWS)**



*Gross dollars

Implications for Alaska

- Alaska North Slope oil needs to be cost competitive, especially in today's low oil price environment
- ANS crude export option driven by increased flows of competing crude oils to the U.S. West Coast
- Relatively low natural gas prices in Lower 48 makes those LNG projects competitive and they are helping set global LNG prices
- With stiff competition, Alaska LNG needs to be competitive with regard to cost and fiscal terms