

Report to the Alaska Legislature on Production Cost Increases

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Summary of Costs

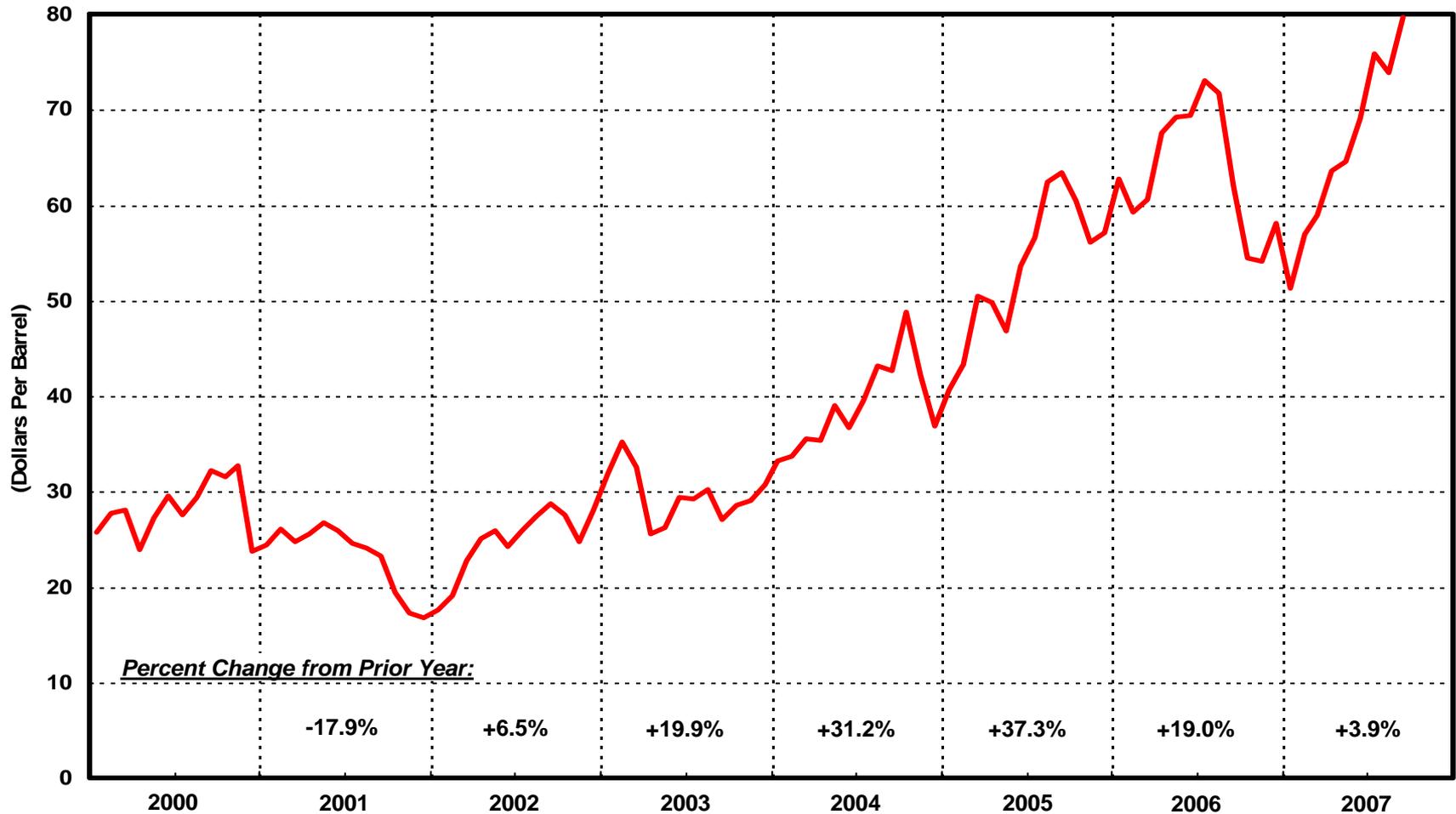
Fiscal Note HB 3001:

	FY 2008		
	<u>Capex</u>	<u>Opex</u>	<u>Total</u>
Total (\$M)	\$1,052	\$1,076	\$2,128
Per Taxable Barrel (\$/Bbl.)	\$4.58	\$4.68	\$9.26

Fiscal Note HB 2001 (Current):

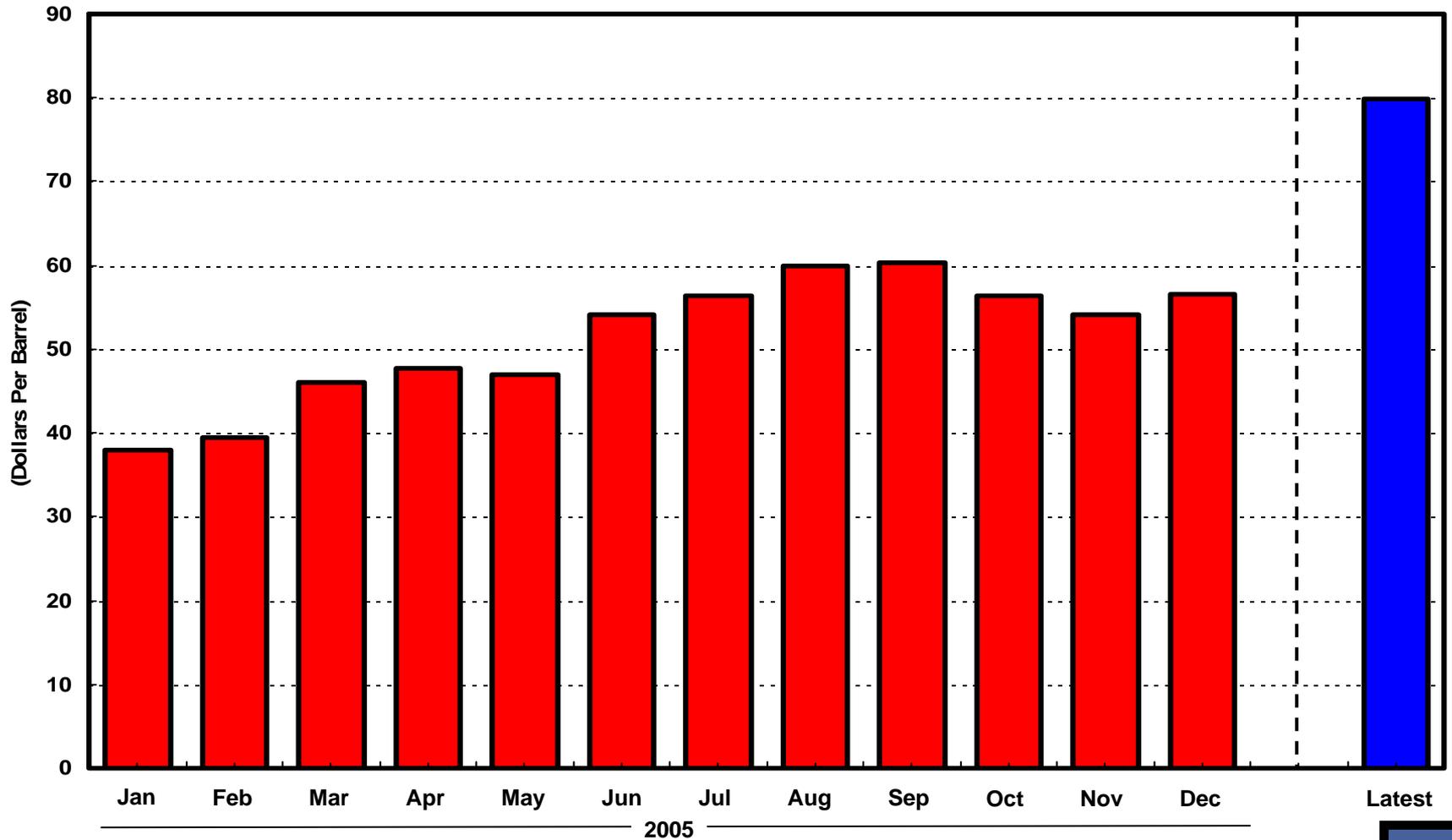
	FY 2008		
	<u>Capex</u>	<u>Opex</u>	<u>Total</u>
Total (\$M)	\$2,146	\$2,187	\$4,333
Per Taxable Barrel (\$/Bbl.)	\$9.33	\$9.51	\$18.85

Platt's ANS Crude Oil Price January 2000 - September 2007



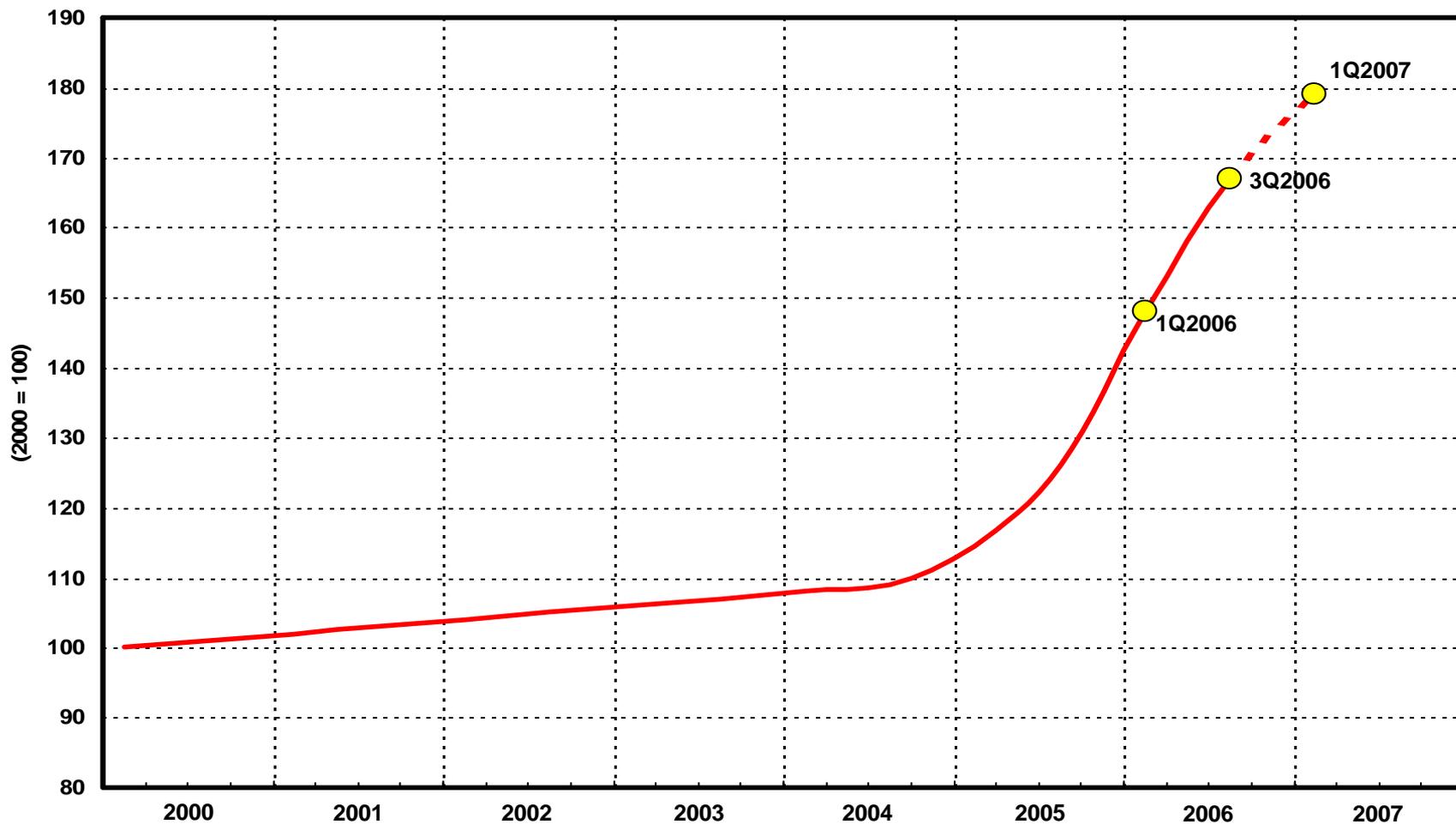
Source: Platt's.

NYMEX Futures Price for December 2011 Delivery January - December 2005, Latest Quotes



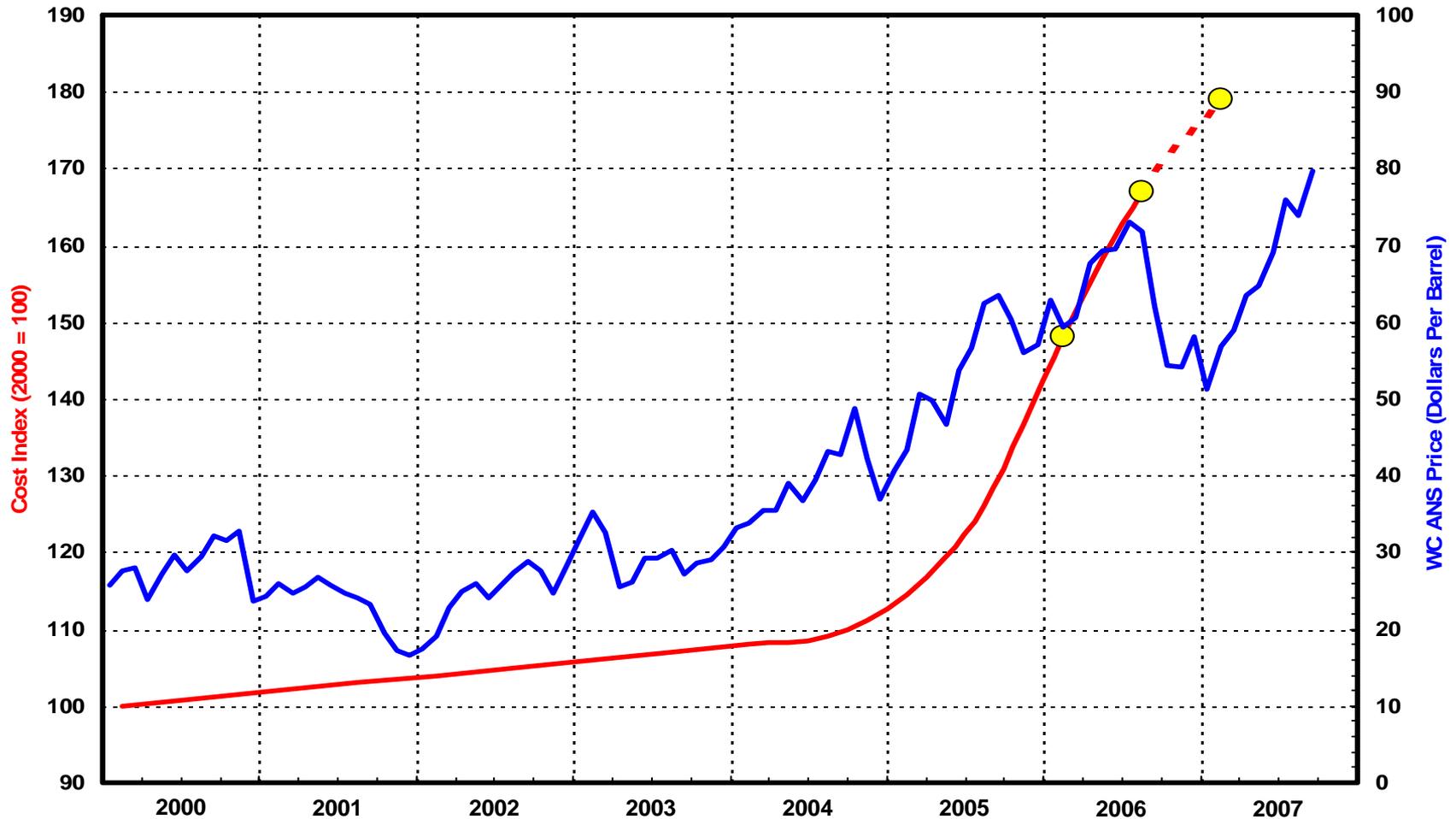
Source: NYMEX.

IHS/CERA Upstream Capital Cost Index 1Q2000 - 1Q2007



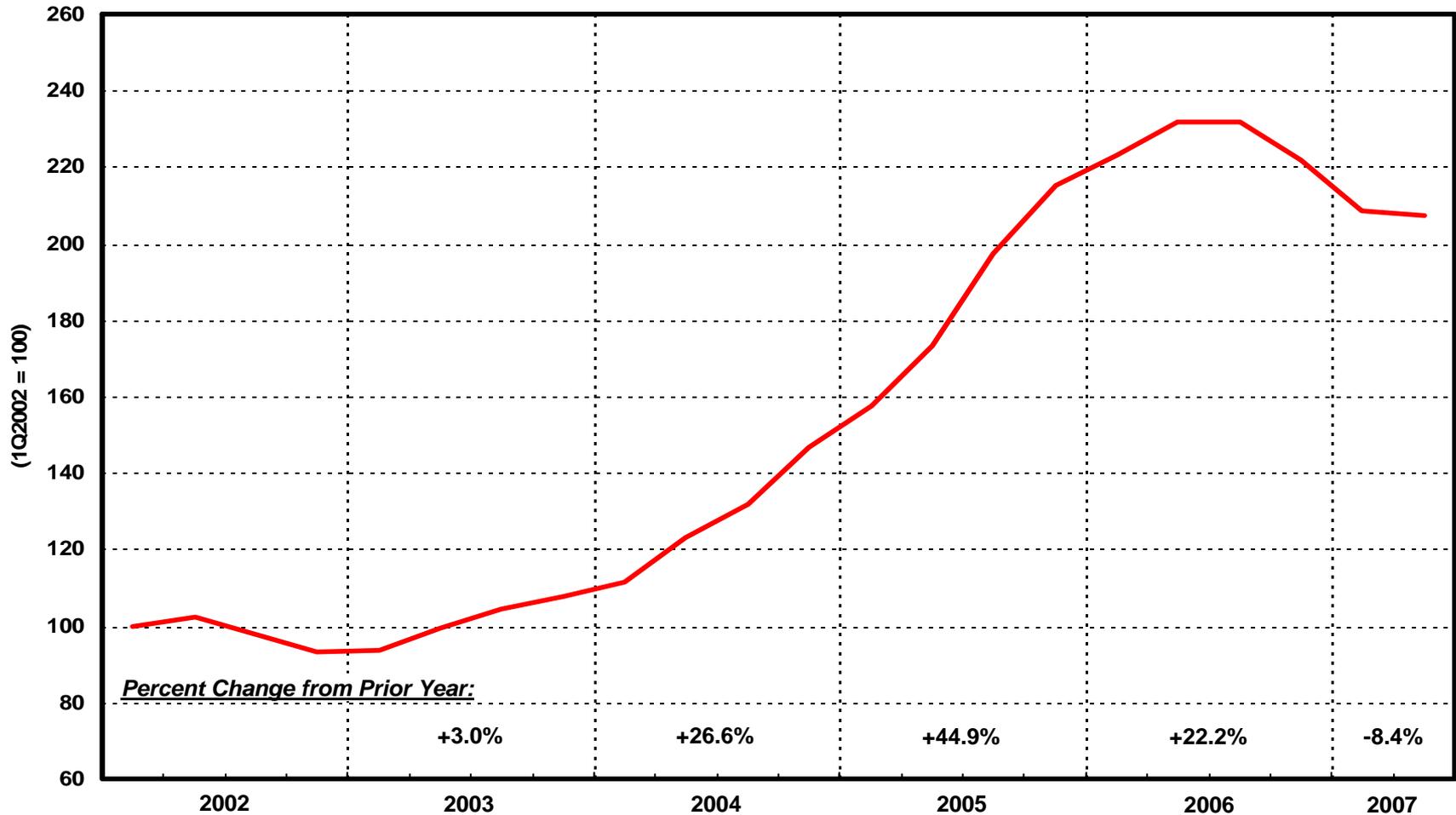
Source: Based on Cambridge Energy Research Associates May 8, 2007 Press Release.

IHS/CERA Upstream Capital Cost Index vs. West Coast ANS Price 2000 - 2007



Source: Index Based on Cambridge Energy Research Associates May 8, 2007 Press Release; Prices from Platt's.

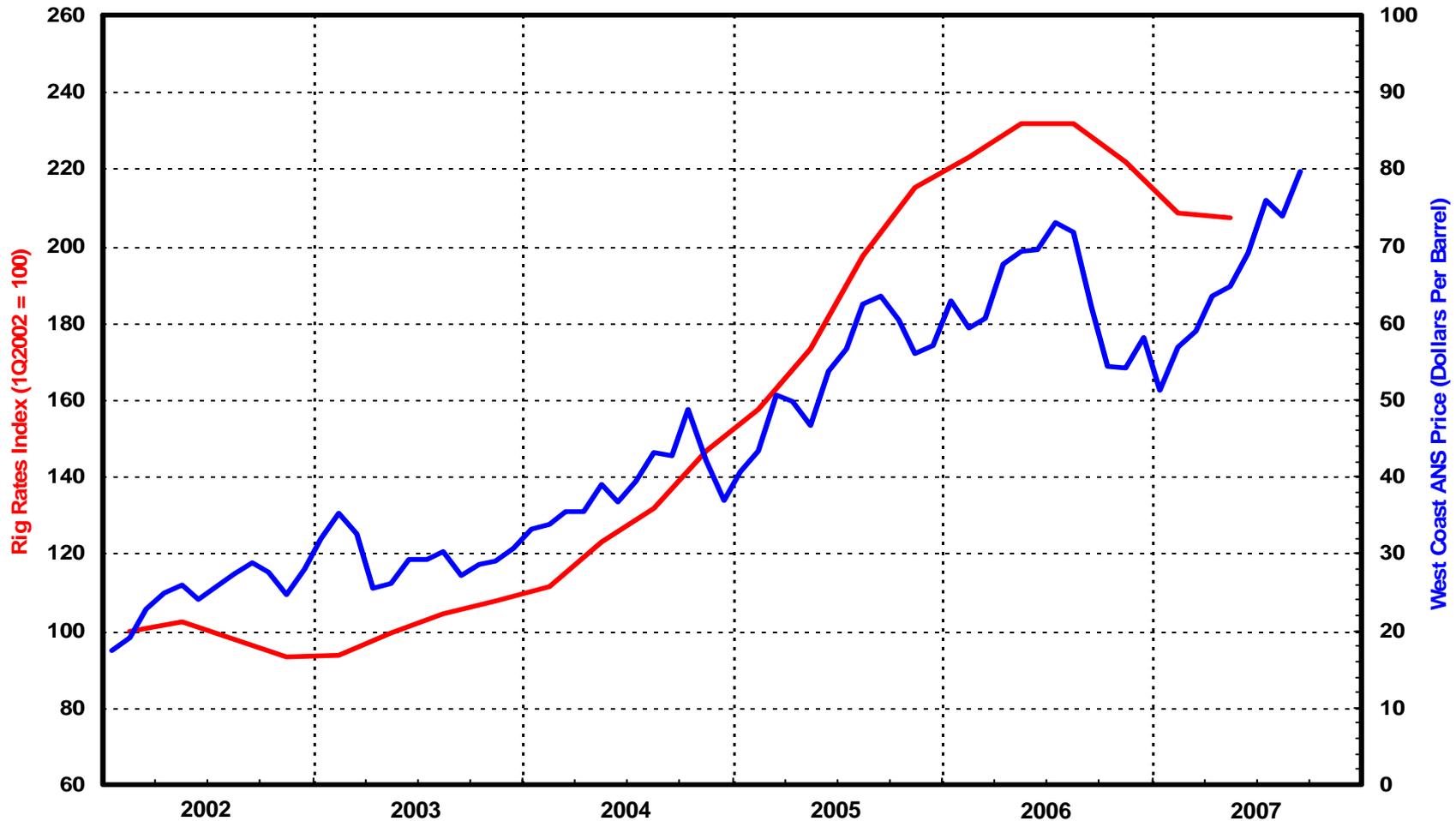
Average* Oil Drilling Rig Daily Rates Index 1Q2002 - 2Q2007



* Average of Mid-Continent, ArkLaTex, Gulf Coast, Permian Basin, Rocky Mountains, and South Texas.

Source: Land Rig Newsletter.

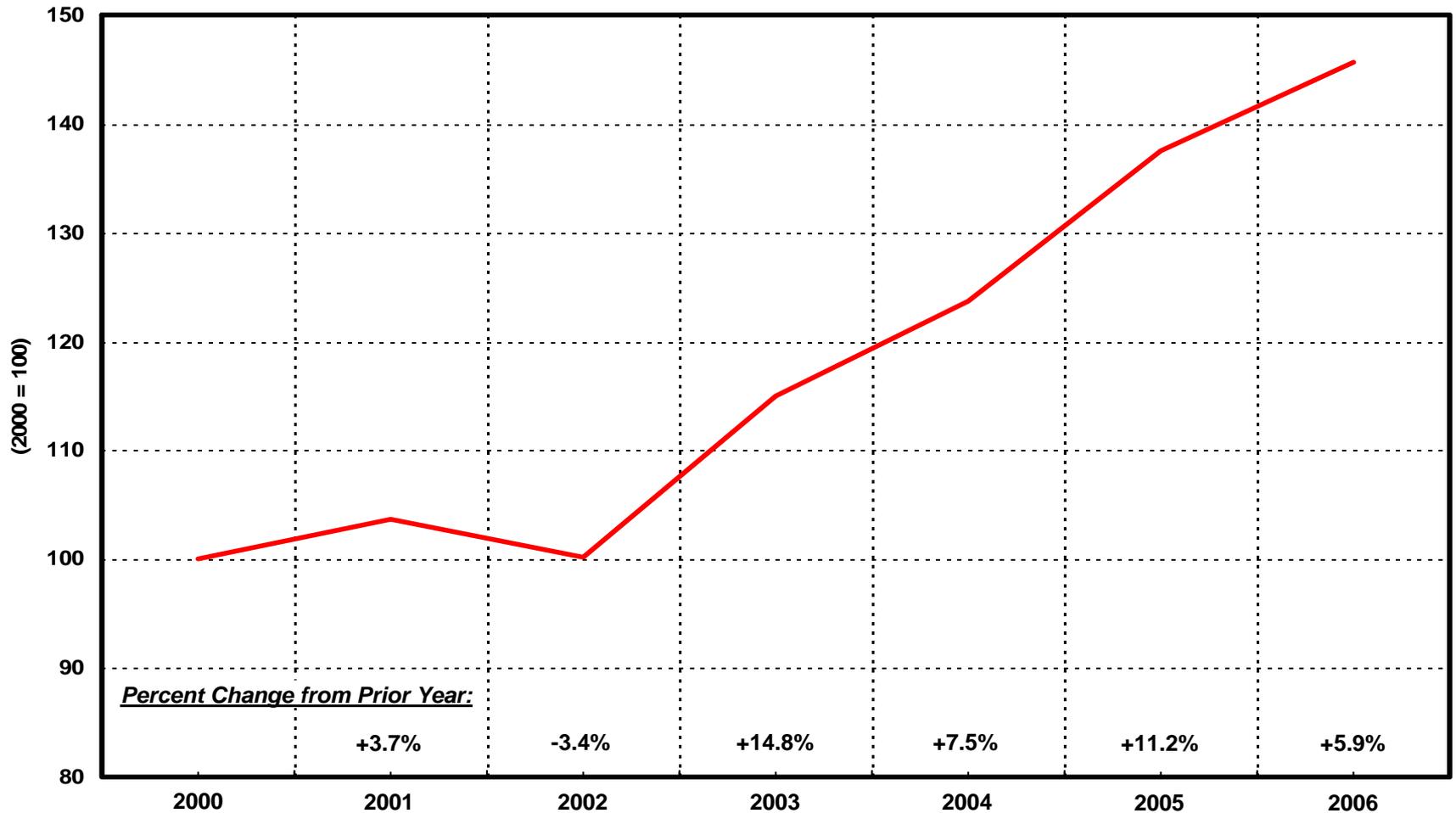
Average* Oil Drilling Rig Daily Rates Index vs. West Coast ANS Price 2002 - 2007



* Average of Mid-Continent, ArkLaTex, Gulf Coast, Permian Basin, Rocky Mountains, and South Texas.

Source: Rig Rate from Land Rig Newsletter; Prices from Platt's.

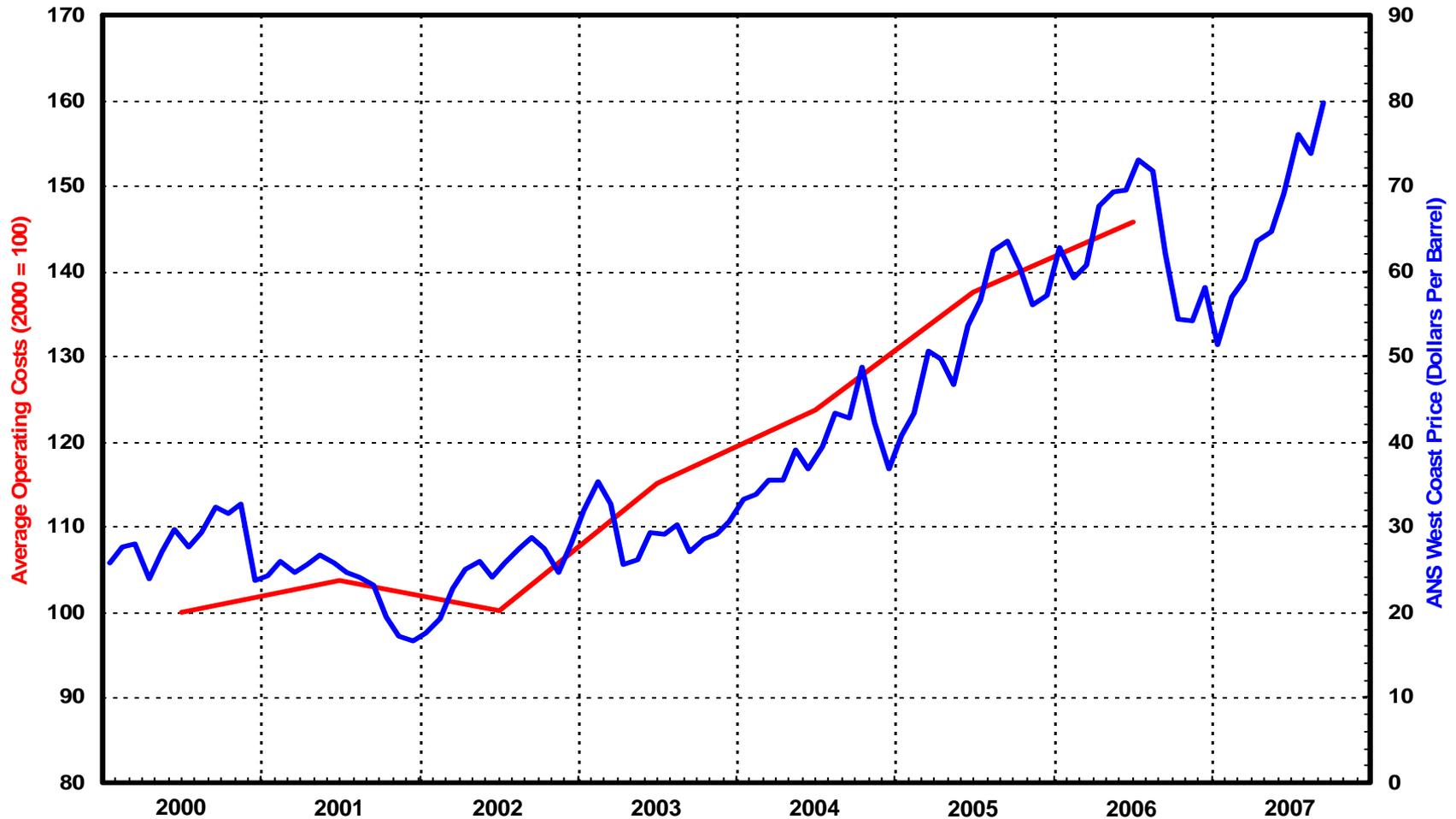
Average* Operating Costs for 10-Well Oil Lease Index 2000 - 2006



* Average of California, Oklahoma, South Louisiana, South Texas, West Texas, and Rocky Mountains.

Source: EIA.

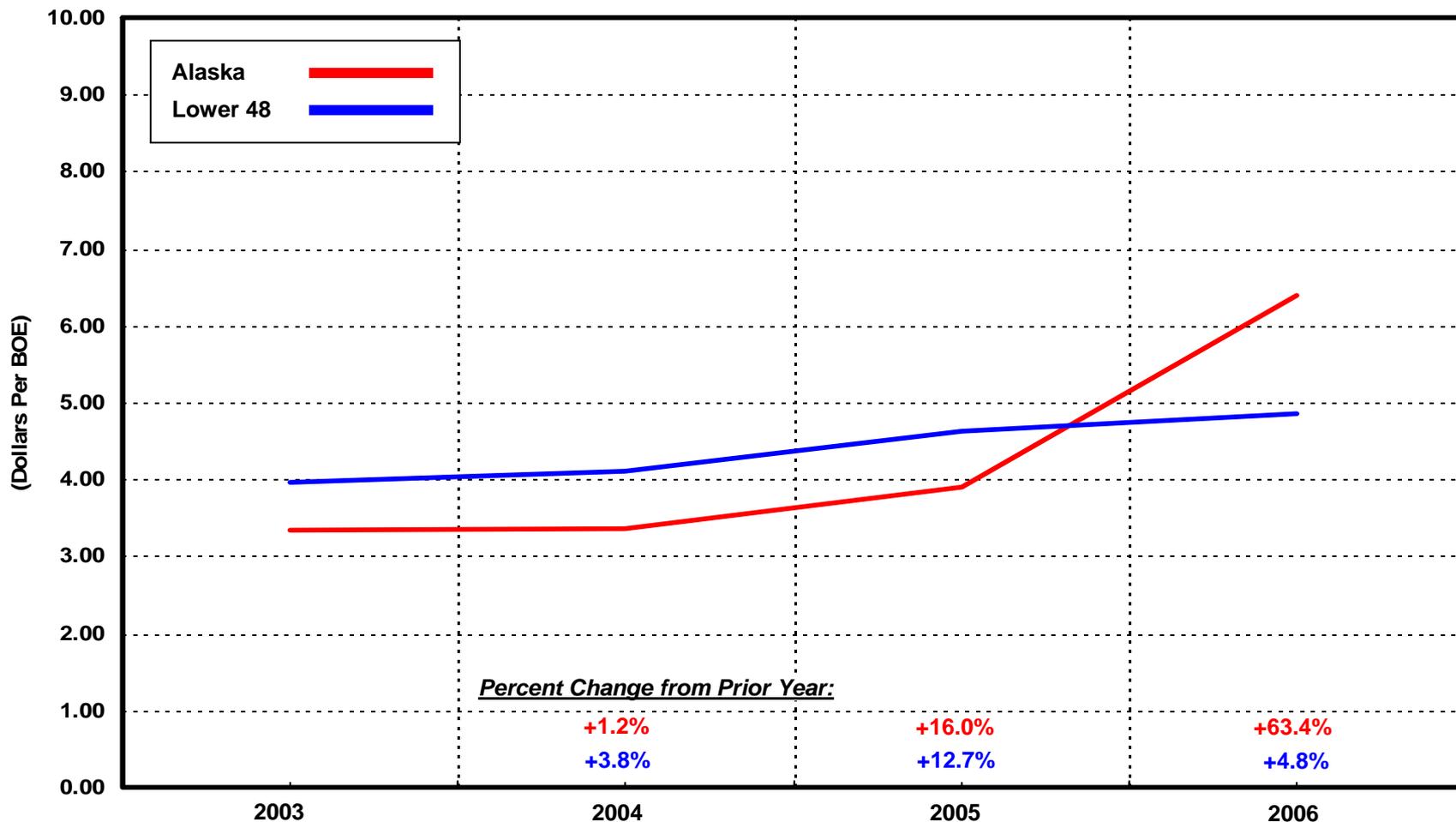
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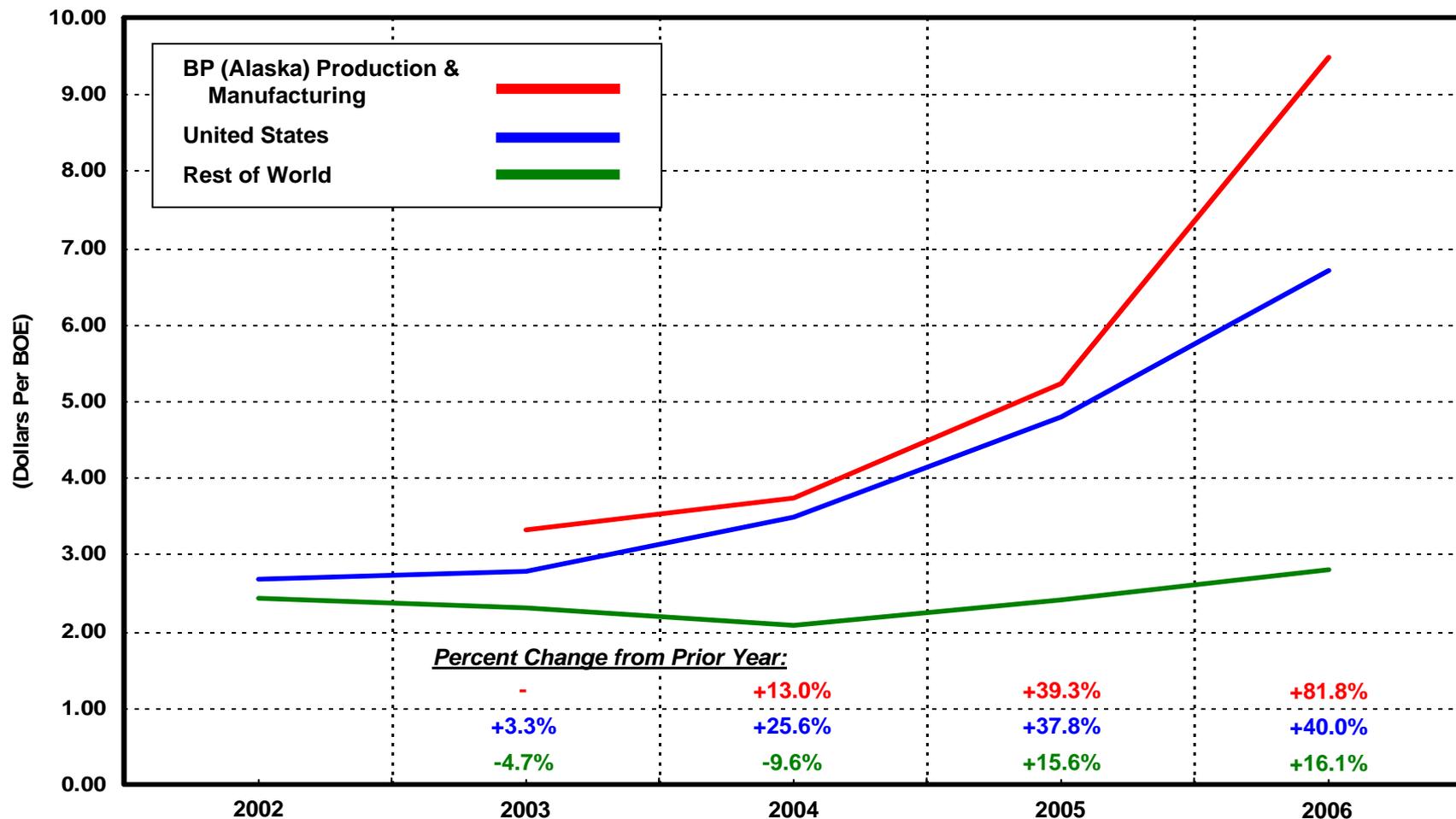
Source: Costs from EIA; Prices from Platt's.

ConocoPhillips Reported Production Costs Per BOE 2003 - 2006



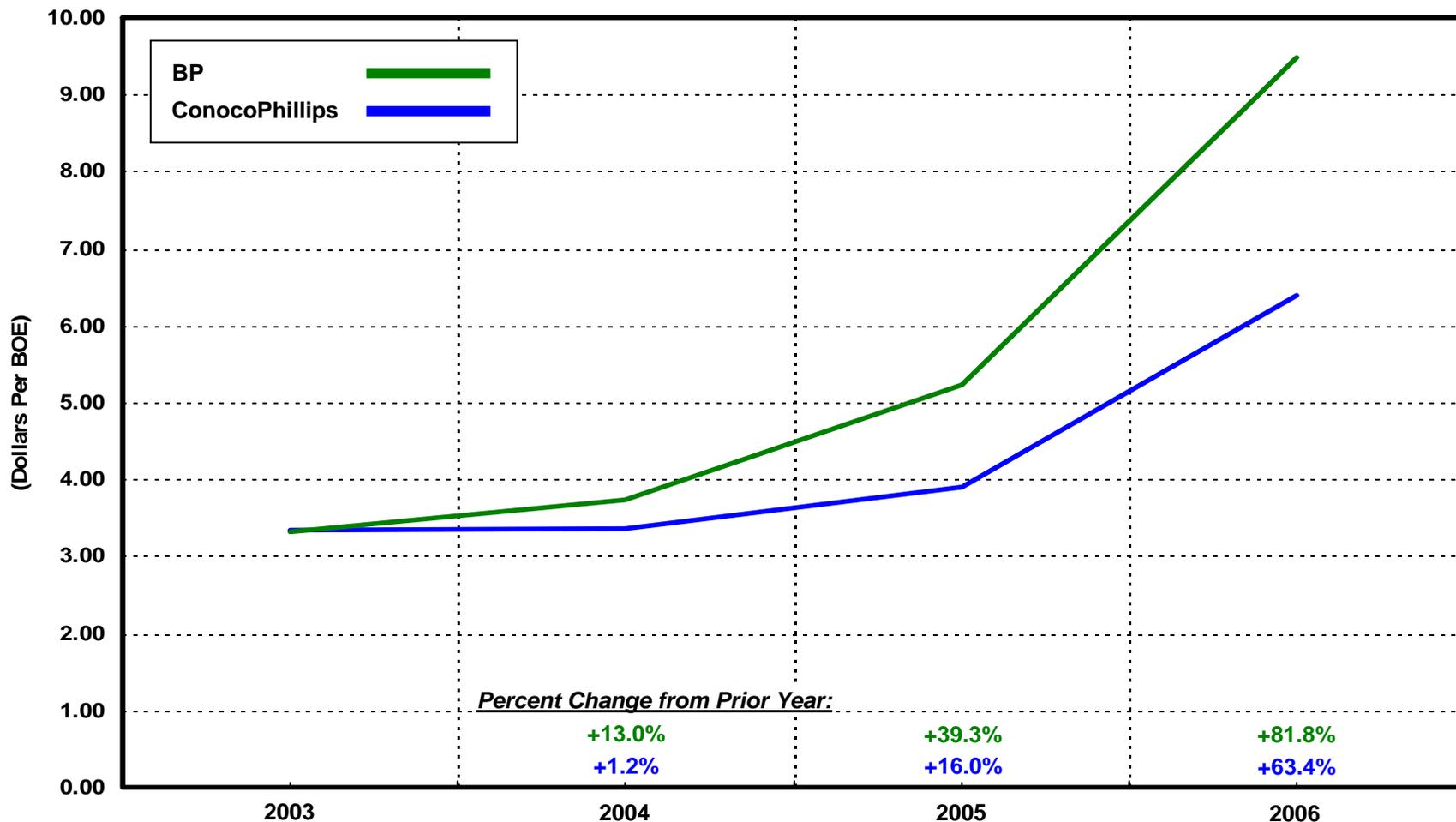
Source: ConocoPhillips 10-K filings.

BP Reported Production Costs Per BOE 2002 - 2006



Source: BP Financial and Operating Information, 2002-2006.

BP and ConocoPhillips Reported Alaska Production Costs Per BOE 2003 - 2006



Source: ConocoPhillips 10-K filings, BP Financial and Operating Information, 2002-2006.

Corrosion / Integrity Management Costs

- **\$260M for OTL Replacement**
- **\$550M Net for Integrity Management 2007-2008**
(BP Form 20-F, pg. 18)
- **Likely Increase in Costs for Other Production-Related Activities**
- **Probably Reflected in DOR Cost Forecasts**

Conclusions

- **DOR Current Forecasts are Based on Unaudited Taxpayer Returns Under the PPT. These Costs May be Reduced After Review and Audit.**
- **Forecast Costs Used in DOR's Fiscal Note to HB 3001 are in Line with Publicly Reported Information Specific to Alaska During the 2002-2005 Period.**
- **Costs Have Increased in Recent Years with Increases in Expectations of Future Crude Oil Prices. The Level of Increase is Likely to be Mitigated Over the Long Run.**
- **The Increases in Costs Filed with the SEC for Alaska Relative to the Lower 48 and Elsewhere Reflect in Part, Expenses Associated with Corrosion Repair and "Integrity Management" Efforts in Alaska.**

Conclusions

- **Corrosion Repair and “Integrity Management” Efforts Likely to Increase Costs Reported for Alaska, Even for Non-Corrosion Repair Services.**
- **SEC Filings Suggest that Corrosion Repair and “Integrity Management” Costs are Likely Included in Alaska Figures.**
- **DOR Forecasts Likely Include Costs Related to These Efforts.**
- **DOR Cost Estimates Now Include Cost / Price Sensitivity. This is Appropriate.**
- **A Proper Determination of the Actual Costs will Require Examination of Supporting Materials. Examination Should Include a Review of Unit-by-Unit Information Both During the PPT Period and Several Years Prior to the Implementation of PPT.**