

Attachment 1

Professional Services Contract between

Legislative Budget & Audit Committee

and

PFC Energy, LLC

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LEGISLATIVE AUDIT

PFC Energy Proposal

PFC Energy

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Alaska Fiscal Analysis and Policy Reform

**Proposal for Alaska Legislative Budget & Audit
Committee on Behalf of Alaskan State Legislature**

PFC Energy

9 December 2011

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Strategic Context

The Alaska State Legislature is scheduled to discuss, debate, and agree on an alternative to the current ACES (Alaska's Clear and Equitable Share) fiscal system over the course of the Legislative session scheduled to commence January 17, 2012. The Legislative Budget & Audit (LB&A) Committee, through Chairman Rep. Mike Hawker, is requesting from PFC Energy a work program and deliverables in support of this process, focusing on fiscal analysis and policy advisory.

Scope of Work

Task 1: Alaska Fiscal Model

The core analytical component of the work program is the development, vetting, and ultimate transfer of a model for the Alaska fiscal system, as requested by and under the guidance of the Chairman of the LB&A Committee. The framework will be sufficiently robust to accommodate assessment of a variety of tax/royalty proposals and options; sufficiently transparent to allow both users and third parties to assess the mechanics of the model; and transferable to the Alaska Legislature upon completion of the Project work program, as determined by Chairman Hawker.

To ensure that the fiscal model is structured in a manner of most value to the Alaska State Legislature, it is anticipated that one or more representatives from Alaska would spend some time in the Washington office of PFC Energy to work with our staff on design and desired output from the model. This would be timed for early January if possible. At the end of the project, PFC Energy will hand over the Excel based model to the Legislature, as directed by the LB&A Committee Chair.

Task 2: Selective Comparative Analysis

A central issue in the dialogue with industry over current and future capital reinvestment in Alaska is the degree of progressivity and the structure of the progressive tax in the ACES framework relative to other, similar jurisdictions worldwide. In particular, the producing companies are making the argument that the progressivity within the ACES framework and the resulting high marginal tax rates make it difficult for Alaska to attract capital from their internal budgeting processes.

This work program will involve comparison of the ACES system with HB 110, the original PPT as enacted in 2006 and a limited number of other comparable fiscal systems and jurisdictions worldwide, to test the relative competitiveness of the system and to identify alternative structures and models that appear to be successful in attracting development capital to similarly mature basin areas. Our analysis will focus on identifying incentives and disincentives in each fiscal system with respect to investment intentions and actual investment.

A second core issue in the dialogue with industry over current and future capital reinvestment in Alaska is the perceived high average and marginal government share of "profit oil" under the ACES framework relative to other, similar jurisdictions worldwide. Here, the producing companies are pointing to the high marginal government take at very high oil prices, and questioning the appropriate sharing of risk and reward within the ACES framework.

This work program will involve analysis of the ACES system under a range of oil prices, assessing the

change in contractor/client share of net revenue and the average and marginal effective tax rates. This second part of the Task 2 work program will examine the relative competitiveness of the ACES framework and identify alternative structures and models that appear to be successful in attracting development capital to similarly mature basin areas. Analysis will include the credits component of ACES.

These Tasks are intended to be educational, as well as analytical. Therefore, the deliverable from this work program is proposed to be one or a series of Legislative workshop sessions as may be structured with the LB&A Chairman. Timing for these workshops is suggested for February, in order to take place earlier in the Legislature session.

Task 3: Assessment of Corporate Response

Perhaps the greatest uncertainty facing the Alaska State Legislature and the greatest challenge in securing agreement on a revised fiscal framework for Alaska, is the projected response of the core producing companies—BP, ConocoPhillips, and ExxonMobil being foremost—to changes in the tax/royalty and fiscal structure. An important attribute that PFC Energy brings to this overall work program is its long history of research, analysis, interaction, and independent assessment of the strategies, planning, operations, and challenges faced by all of the significant E&P companies currently positioned in the Alaska energy sector.

This task involves senior PFC Energy personnel undertaking a series of structured discussions with selected E&P companies (including other companies with current Alaska production such as Eni and Pioneer), to elicit their concerns regarding the ACES framework, their expectations regarding revisions to the fiscal framework, and their likely response in terms of activity levels, investment levels, and specific development project undertakings. The content and coverage of these discussions will be agreed beforehand with LB&A Chairman Rep. Hawker, and a compilation of the responses delivered and discussed.

Should the LB&A Chairman so request, the project schedule can include a follow up dialogue between PFC Energy and selected companies, based upon what emerges as the final, or near-final, revised fiscal framework to be tabled for debate. Ideally, the proponents of the restructured framework will be looking for support and commitment from the E&P companies in terms of response to the proposed framework or, at a minimum, will want to be well prepared for any backlash or criticism emanating from the E&P community.

Task 4: Assessment of Competing Investment Choices and Overall Implications for Fiscal Terms

An important component of this work programming is the transfer of knowledge and understanding regarding the strategies, positioning, growth prospects, and challenges being faced by the key Upstream companies positioned in Alaska. This would include the producing companies referenced above, together with those positioned for future exploration and development activity. It is anticipated that PFC Energy would work with the LB&A Chairman to determine the desired structure, coverage, and content of this work program, and the list of companies to be covered.

A critical component of Task 4 (and indeed of the entire engagement) is the provision of guidance on incentives and disincentives for the specific investment responses that the State of Alaska seeks to elicit from E&P companies investing in State lands. The advisory is focused on production tax reform in the short term, but also includes a dimension for the longer term, repositioning for the next 'phase' of North

Slope development, including other potential investors or groups of investors.

This Task is intended to be educational, as well as analytical. Therefore, the deliverable from this work program is proposed to be one or a series of Legislative workshop sessions as may be structured with the LB&A Chairman. Timing for these workshops is suggested for February, in order to take place earlier in the Legislature session.

Task 5: Formal Presentations

It is anticipated that one or more formal presentations to the Legislature will be requested over the course of this work program. This (these) session(s) will be delivered by the Partner and Head of Upstream & Gas, Jerry Kepes. PFC Energy's Chairman, Robin West would be available for a key session with the Legislature, should the LB&A Chairman so request.

Task 6: Retainer in Support of Changes to the Oil Fiscal Terms, Inputs to Gas Fiscal Terms Policy and Other Requests

In addition to the identified tasks discussed above, the LB&A Chairman anticipates a certain amount of ongoing advice, assistance, education, and counseling over the course of the Legislature assembly. This may include specific analysis on a policy level (or model level) for natural gas fiscal terms. PFC Energy proposes to provide such assistance on a call out rate basis, in response to requests from the LB&A Chairman. PFC Energy will propose a concise scope of work and fee and proceed with this additional work when and if the LB&A Chairman authorizes same (see details below). It is understood that this work will be conducted under the same commercial terms until the earlier of (i) the exhaustion of the budget amount appropriated for this overall work program, or (ii) January 31, 2013.

PFC Energy Team

PFC Energy proposes a delivery team comprised of senior personnel from our Upstream & Gas Practice well versed in the depth and breadth of issues, analytical tools, strategies, and challenges being covered in this proposed work program. A number of PFC Energy analysts will be directly involved in the development and/or refreshing of the materials to be delivered through the duration of the proposed work program. PFC Energy's Chairman will be available for involvement in the formal presentations to the Alaskan State Legislature when the Spring 2012 legislative period nears its end, at the request of the LB&A Chairman.

- Robin West, Chairman and CEO of PFC Energy
- Jerry Kepes, Partner and Head of Upstream and Gas Practice
- Mike Rodgers, Partner, Head of PFC Energy Asia, a leader in PFC's Upstream & Gas Practice
- Tony Reinsch, Senior Director, Upstream and Gas Practice
- Rebecca Fitz, Senior Manager, Upstream & Gas Practice
- Janak Mayer, Manager, Upstream & Gas Practice

Approximately six (6) other PFC Energy staff would be involved in the project.

Project Schedule

# Task	12/5	12/12	12/19	12/26	1/2	1/9	1/16	1/23	1/30	2/6	2/13	2/20	2/27	3/5	3/12	3/19	3/26	4/2	4/9	4/16	4/23	4/30	
Alaska fiscal model																							
1.1 Build initial model																							
1.2 Interaction with Alaskan Legislative Staff																							
1.3 Finalize model (agreed)																							
1.4 Transfer of Model to State Legislature (LB&A)																							
Selective Comparative Analysis																							
2.1 Average vs Marginal Take Comparative Analysis																							
2.2 Assess Progressivity																							
2.3 Presenting and Workshops																							
Assess likely corporate response																							
3.1 Formal/informal briefings w Operators																							
3.2 Brief Legislature and Incorporate or not																							
4 Assessment of Competing Investment Choices																							
4.1 Portfolio analysis of Alaskan Operators																							
4.2 Presenting and Workshops																							
5 Formal Presentations																							
5.1 Formal Presentations to Government																							
6 Retainer																							
6.1 Ongoing advisory, assistance, evaluation, as may be requested by the LB&A Committee Chairman																							

Assuming project authorization on or around December 9, 2011, the work program would be initiated immediately in PFC Energy's Washington, DC offices.

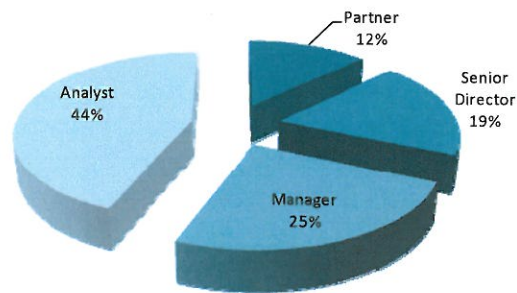
The total project period is greater than 12 months. We propose a number of meetings over the course of the project, with the first proposed for 11-12 January, 2012 in our Washington, DC offices. The other sessions are briefing and presentations sessions presumably in Alaska with attendance of relevant PFC Energy experts and consultants. In addition, we suggest weekly progress meetings between the designated Project managers from LB&A and PFC Energy, respectively, during the course of the project.

Fees

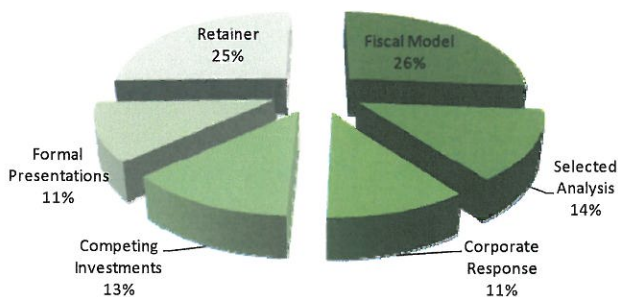
The professional fee for Tasks 1 through 5, excluding travel expenses, would be \$395,350. Estimated travel and related expenses are \$40,500 (this includes 10 person trips from Washington DC to Alaska during the course of the project). Accordingly the total proposed cost for Tasks 1 -5 is \$435,850.

Task 6 is proposed as a retainer/call out rate fee structure focusing on work program requests specified by, and at the discretion and authorization of the Chair of the LB&A Committee. The time period for Task 6 would be from 17 January, 2012 to the end of the contract period. The proposed call out rate fee structure is described below.

Estimated Breakdown of Time Effort by Title



Estimated Breakdown Of Project Value



PFC Energy's proposal for this project is effective until 1 January 2012. Should the client elect to contract for the project after that date, PFC Energy will be happy to provide a revised fee proposal.

For Task 6, as requested and authorized by the Chair of the LB&A Committee, PFC Energy will be pleased to address questions and requests for analysis on the basis of the call out rate structure below. Should additional travel be required for the retainer (over and beyond the estimated travel and related

expenses for Tasks 1 – 5 above), reasonable and customary travel and related costs will be invoiced with receipts. There is no uplift on travel and related costs and expenses. For the purposes of the retainer, travel days will be invoiced at ½ days per travel day.

Position	Day rate (US\$)
Partner	5,200
Senior Director	4,000
Senior Manager	3,000
Manager	2,400
Analyst	1,500

Acceptance and Contact Information

Thank you for the opportunity to continue to work with your team. If you have any questions regarding this proposal as you evaluate it please do not hesitate to call me.

**Agreed to on behalf of Alaska Legislative
Budget & Audit Committee**

By: Rep. Mike Hawker

Title: Chairman, LB&A Committee


Signature: *See attached
Professional Services
Contract*

Date:

Agreed to on behalf of PFC Energy:

By: J. Robinson West

Title: Chairman & CEO

Signature: 

Date: 9 December, 2011

For further discussion or questions please contact:

Name Tony Reinsch

Title Senior Director

Telephone: 1.604.565.1905

E-Mail: treinsch@pfcenergy.com

Appendix

About PFC Energy

PFC Energy is a global expertise consulting firm specializing in the oil and gas industry. Our clients are oil and gas operators, national oil companies, service companies, investors, governments and other stakeholders.

What makes PFC Energy different?

- **Energy specialists:** We have focused exclusively on the energy sector for 27 years. Our professionals have first-hand experience in the sector.
- **Proprietary knowledge base:** We maintain a large base of models, databases and other analytical material that covers all phases of the value chain and the assets and activities of all the key countries and companies.
- **Independent, objective and transparent:** We tell you what we think and explain why.

PFC Energy provides insightful analysis and business solutions built on robust data and experience. We help our clients make superior decisions in a complex and uncertain world.

We deliver our services through three channels:

- Consulting engagements tailored to specific client questions
- Annual subscription services that provide analysis, models and data via a secure web site
- Retainer arrangements that combine regular information briefings with frequent access to our experts

PFC Energy is an independent partnership with over 130 professional staff working from offices in Washington, Houston, Kuala Lumpur, Paris, Beijing, and Singapore.

PFC Energy Qualifications For This Project

PFC Energy is a recognized leader for political, economic and sectoral (including fiscal systems) analysis of the major markets and hydrocarbon-producing countries. We have an established global consulting practice, which is supported by a series of multi-client services covering the entire value chain. These services are utilized by the major international and regional oil companies, national oil companies and regulatory agencies. We maintain a global presence with offices in Europe, the US and Asia-Pacific and a comprehensive network of local consultants. Citations for a selection of relevant consulting projects are provided below.

We frequently share our expertise with governments and government owned entities seeking to optimize their contracts and negotiations with the exploration and production industry. Among recent clients and projects in this sphere are:

- PFC Energy recently concluded a three (3) year engagement for a Middle East Government as Commercial Advisor for the invitation, short-listing, negotiations and then final commercial agreement for a foreign investor (International Oil Company) to assume operatorship of a multi-barrel equivalent oil and gas field. The extensive advisory included (but was not limited to) the following critical elements:
 - Design of fiscal terms for oil and gas field development within existing petroleum legislation and contractor return requirements;
 - Analysis and assessment of company bids and recommendation of a short list;
 - Analysis and assessment of final bids from shortlisted companies and recommendation of a preferred bidder;
 - Negotiation of a final Operating Agreement with the preferred bidder. The new investment program is entering its 2nd year of activity.
- On behalf of the Government of the US State of Alaska, PFC Energy performed a comprehensive benchmarking study comparing "government take" and investor profitability for E&P investment for the State of Alaska against a number of fiscal regimes globally, under different price and cost scenarios. The body of work included a case study of Netherlands and Australia fiscal regimes. The results were presented to the Department of Natural Resources and the Alaskan Legislature and is part of the public record. PFC Energy has conducted a number of studies for the State of Alaska over the last 10 years beyond the project mentioned herein, including natural gas and gas pipeline economics and evaluations, North Slope pipeline profitability assessments, and tax royalty gas project metrics.
- PFC Energy conducted an in-depth analysis of the relative attractiveness of a large production opportunity for a Middle East Government (different than that referenced above) and the likely investment interest from the three competing consortia. The work involved multiple price assumptions, investment risks, variations in cost and fiscal terms, in addition to assessment of the portfolios of the companies under consideration. The deliverables included a high probability assessment of how the investors would value the project on offer.
- For each of the New Exploration Licensing Policy (NELP) Bid Rounds held in India over the last three years, PFC Energy has acted as commercial advisor for the Directorate General of Hydrocarbons (or DGH, the upstream regulatory agency in India), providing independent analysis

and perspectives regarding how India's upstream sector compares on the basis of materiality, risk and returns with a large set of other countries in terms of E&P fiscal terms. More specifically, PFC Energy benchmarked India's deepwater risk and returns profile to worldwide deepwater basins, provided an independent risk rating of India's "hydrocarbon sector" risk profile compared to other investment destinations, reviewed key global and India specific trends which impact investments in Indian E&P, and benchmarked India's gas pricing regime to select consuming countries. The results from PFC Energy's work was utilized by the DGH in their promotional material for the NELP roadshows in Mumbai, Houston, Perth, London, Moscow, Singapore, and Dubai in each of the 3 years.

- For another Middle East Government, PFC Energy acted as commercial advisor for the Ministry of Oil and Gas in its due diligence and negotiations for a new 40 year agreement with the National Oil Company (which included a minority shareholding by International Oil Companies). PFC Energy provided expert analysis and advice in the following aspects of the ongoing negotiations:
 - Relevant commercial aspects of the relationship between the Ministry and the private sector shareholders of the NOC;
 - Key strategic aspects of the relationship between Government and those shareholders; and
 - Tthe Government's own strategic interests in signing a 40-year agreement; and the fiscal terms and various incentive structures involved in the context of their responsiveness to the country's long-term interests. The 40 year agreement was renewed with important changes in investment commitments.
- PFC Energy is presently engaged as co-author in an oil and gas fiscal systems world rating study which will be the most comprehensive and in-depth study available on the relative favorability of oil and gas fiscal terms. The study will include all important oil and gas producing countries, as well as prospective countries with petroleum potential or where initial petroleum exploration is taking place; over 600 fiscal systems will be analyzed and rated in more than 125 countries. All relevant payments to government such as bonuses, rentals, royalties, corporate income tax, production sharing, state participation, applicable resource taxes, profit shares, property taxes, certain VAT payments, carbon taxes, etc. will be reviewed. Service fees determined in service contracts will be also analyzed. For each of the fiscal systems, the study will provide a comprehensive description of their fiscal terms in a format that will make the various systems easily comparable. The study covers five fiscal systems categories and is being published in six reports including North America onshore wells and Shale plays, Worldwide Deepwater, Worldwide Shallow Water, International onshore, Arctic onshore and offshore, and an Executive Summary.

Key Personnel Details

J. Robinson (Robin) West

Chairman & CEO

Robin West started PFC Energy in 1984 and is the Chairman and CEO. Robin served in the Reagan Administration as Assistant Secretary of the Interior for Policy, Budget and Administration (1981-83), with responsibility for U.S. offshore oil policy. In that role, he conceived of and implemented the massive five-year O.C.S. Leasing plan in the U.S. Gulf of Mexico.

Between 1977 and 1980, Robin was a first vice president of Blyth, Eastman, Dillon & Co., Inc., an investment-banking firm, and was a member of the firm's operating committee. Prior to that, he served in the Ford Administration as the Deputy Assistant Secretary of Defense for International Economic Affairs (1976-77) and on the White House Staff (1974-76). In 1976, he received the Secretary of Defense Medal for Outstanding Civilian Service.

Robin received a J.D. from Temple University and a B.A. degree with advanced standing from the University of North Carolina at Chapel Hill.

Gerald Kepes

Partner, and Head of Upstream & Gas Practice

PFC Energy's upstream & gas consulting practice and expertise, focuses on regional and global gas and E&P strategies, international oil & gas companies, national oil companies, the oil field and drilling services sector, and competition and performance therein. A particular focus is fiscal systems analysis which is the nexus of geologic potential, perceptions of attractiveness, and the competitive market with its consequent impact on investment, and also the interplay of gas and politics with its consequent impact on gas developments both domestic and export-oriented.

Jerry is a leader in PFC Energy's strategy consulting practice and has been personally involved with strategy engagements with governments and NOCs in Latin America, Europe, North Africa, the Middle East, Russia and Asia. The level of experience with IOCs is equally extensive with client engagements across North America, Europe, Russia and Australasia.

Prior to assuming management of the firm's Upstream practice in 1996, Jerry was a senior economist and industry analyst within the Markets & Country Strategies Group. With another PFC Energy colleague, he pioneered the analysis which combined governments' needs and wants with E&P sectoral issues, thus generating opportunities for clients. In addition, he co-led a task force which created PFC Energy's global oil supply and demand forecasts using regions defined by tanking patterns, commercial, play types and political considerations.

Jerry has been with PFC Energy since 1991, living and working in Washington, D.C., Kuala Lumpur, Paris and Bahrain, in addition to spending considerable time in Latin America.

Prior to joining PFC Energy, Jerry was an exploration geologist for Marathon Oil Company. His primary role involved basin evaluation, prospect generation and reserves estimation, and the preparation of exploration strategies and work programs for concession appraisal. His primary geographic focus while at Marathon was North Africa and the Middle East.

Jerry holds an M.A. in International Relations from the School of Advanced International Studies, The Johns Hopkins University, a M.S. in Geology from the University of New Mexico and a B.S. Cum Laude in Geology from the University of Dayton, Ohio.

Mike Rodgers

Partner, and Head of PFC Energy Asia

Michael Rodgers is a PFC Energy Partner based in Asia (Beijing and Kuala Lumpur) directing PFC Energy's integrated practice in the region. During his 30-year career as a Petroleum Geologist and Petroleum Economist, Mike developed expertise in geotechnical and economic risk assessment in numerous basins of South America, Africa, the Middle East, the Indian sub-Continent, and Southeast Asia. At PFC Energy his focus is commercial risk assessment, project economics, portfolio analysis, and global oil and gas supply.

Prior to joining PFC in 1999, Mike was Senior Vice President of International Business Development with Ocean Energy and Vice President of Business Development at United Meridian Corporation. From 1981-1994 Mike held several technical and managerial positions at Marathon's research center, corporate headquarters, and in North Africa. His positions with Marathon included Area Manager, Chief Geologist, and Exploration Manager. He started his career at Gulf Oil Research and Development Company in 1978.

Mike has a B.S. and an M.S. in Geology from the University of Pittsburgh and completed additional studies in Geology at Princeton University and in Business at the University of Indiana.

Tony Reinsch

Senior Director, Upstream & Gas Practice

Tony Reinsch, Senior Director, Upstream & Gas Group advises global energy companies on Upstream Strategy, Planning, Business Development and Competitor Analysis. Tony has broad experience in the energy arena, both domestic and international. Tony has held senior executive positions with international oil and gas companies in the areas of strategy, planning, budgeting, and corporate management.

He has spent over 20 years engaged in consulting and research in the global crude oil, natural gas and power sectors, and has held senior economist positions with financial, government, and utility institutions. Tony is an accomplished writer and highly regarded speaker.

In addition to his time at PFC Energy, Tony was Executive Vice President with an Independent developing assets in East Africa; Senior Advisor with EnCana/AEC International; and Senior VP of International Research at Canadian Energy Research Institute.

Tony completed his Doctoral studies in Economics (sans dissertation) at the University of Western Ontario, and holds a M.Sc. in Transportation Economics from the London School of Economics and Political Science, and M.A. and B.A.(Hons) degrees in Economics from the University of Calgary.

Rebecca Fitz

Senior Manager, Upstream & Gas Practice

Rebecca Fitz is a Senior Manager, Strategy & Competition, in PFC Energy's Upstream & Gas Group. Rebecca is Manager of PFC Energy's Upstream Competition Service (UCS), which analyzes IOC upstream strategies, company portfolios, and global exploration and development activities. In addition, Rebecca is engaged in Upstream consulting, focusing on competitive strategy analysis of IOCs and NOCs. This includes regional E&P entry and growth strategies, as well as upstream competition and performance analysis.

Rebecca has developed particular expertise in Latin America E&P, and has also been involved in a number of consulting engagements covering Middle East, North Sea, and Asia-Pacific entry and upstream competition analysis.

Prior to joining PFC Energy, Rebecca previously worked at the Energy Group (affiliated with the IIE) and the Economist Intelligence Unit (Latin American Division). She holds an MSc. in Economic Development from the London School of Economics and a B.A. in Political Science from the University of Colorado. Rebecca is based in PFC Energy's Washington, D.C office.

Janak Mayer

Manager, Upstream & Gas Practice

Janak Mayer has been with PFC Energy since 2008. An economist by training, Janak combines a strong quantitative modeling skill-set with a broad background in the extractive industries. At PFC, Janak's major focus has been fiscal terms and economic modeling, in addition to contributions to the Gas Competition Service (GCS) and the Global LNG Service (GLNG). He has created a wide-range of interactive data analysis tools, to enable clients to quickly understand and compare the fiscal arrangements across governments, operating performance of major global upstream companies, or to examine the details of all existing and proposed LNG projects and competitors across the LNG value chain.

Before joining PFC Energy, Janak advised major minerals industry clients on a range of controversial environmental and social risk issues, from lead emissions and uranium mining through to human rights and climate change, eventually working in Citigroup's corporate and investment bank, advising bankers on the management and mitigation of environmental and social risk in major projects around the world.

Janak holds an MA in International Relations (International Finance & South Asia Studies) from School of Advanced International Studies at Johns Hopkins University, and a BA from the University of Adelaide, Australia.