



THE NORWAY REPORT:

- **Why we went**
- **Who went**
- **What we learned**

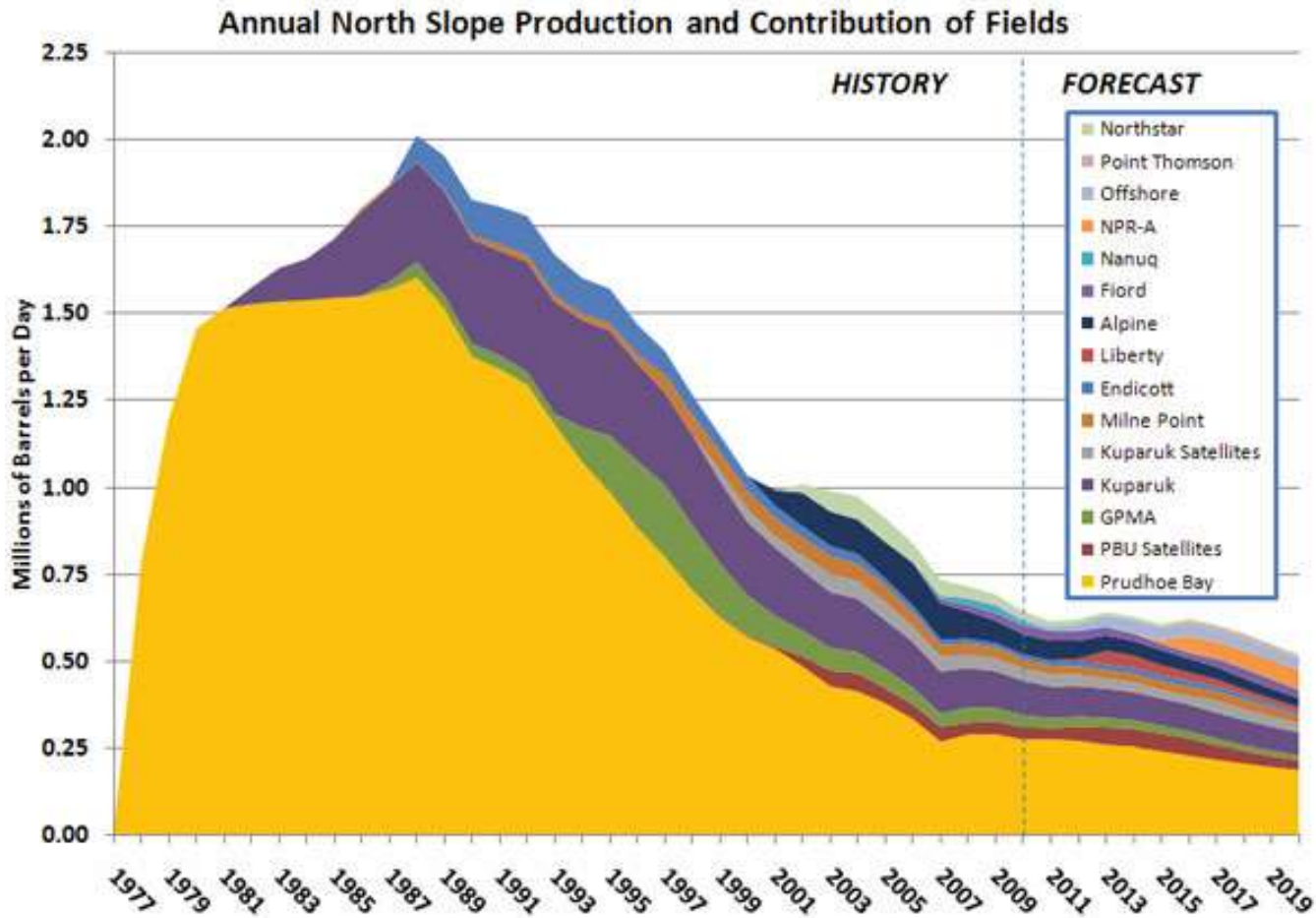
NORWAY

with Alaskan cities at corresponding latitudes



Why We Went:

Alaska's Economic Future is Uncertain



Why We Went:

Focus upon Energy Development as Economic Drivers of a Successful Economy and Society:

- Oil and Gas Development for Export
- Internal Consumption of Renewable Energy

Who Went:

45 Alaskans:

- 12 Legislators (Republicans and Democrats)
- Oil and Gas Industry Representatives
- Renewable Energy Practitioners and Advocates
- Local Government Reps: N. Slope to S.E. AK
- Economic Development Interests/Investors
- One Fed

What We Learned

- Norwegians are not worried about their economic future
- Norway is in control of its oil and gas development to a greater degree than Alaska:
 - Through its tract licensing system and co-investment, Norway's and the private petroleum sector's financial interests are aligned
 - Norway owns much of its pipeline system
- Norwegian society is cooperative

Norway Today

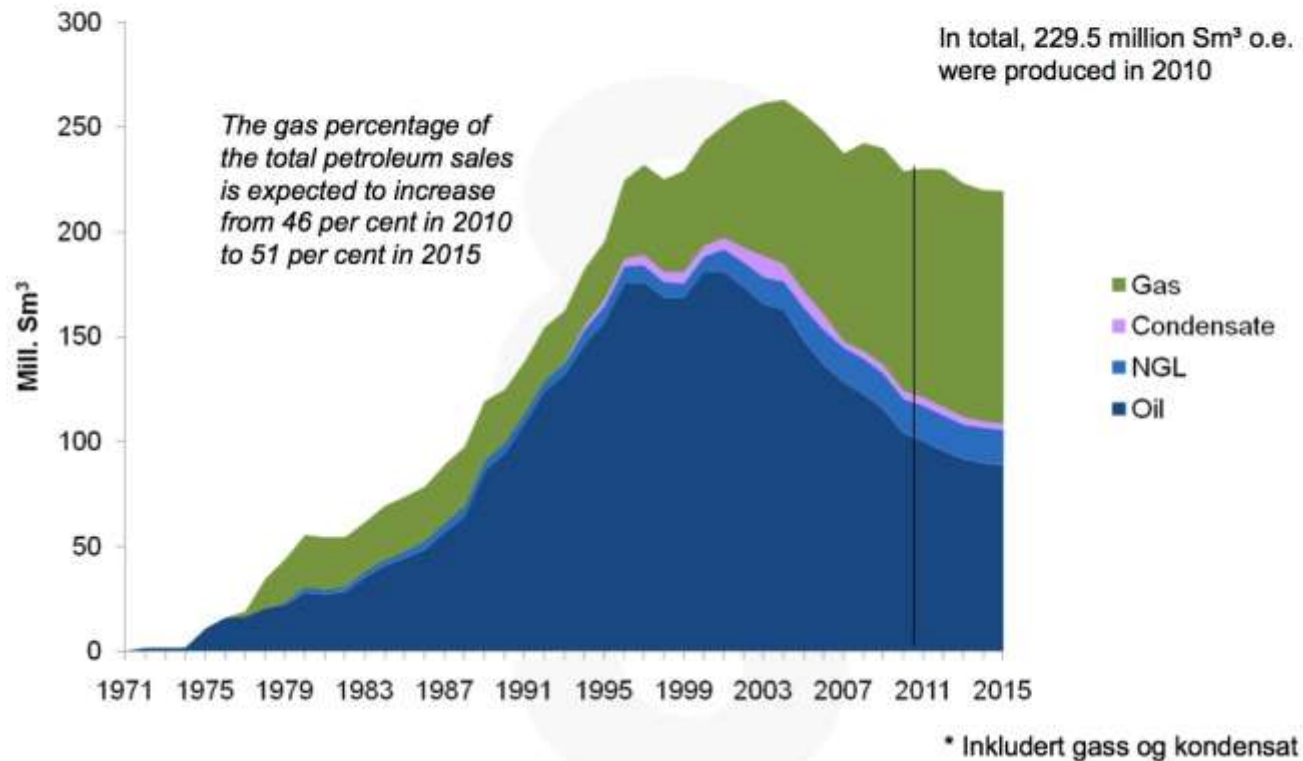


Norway Statistics (2010):

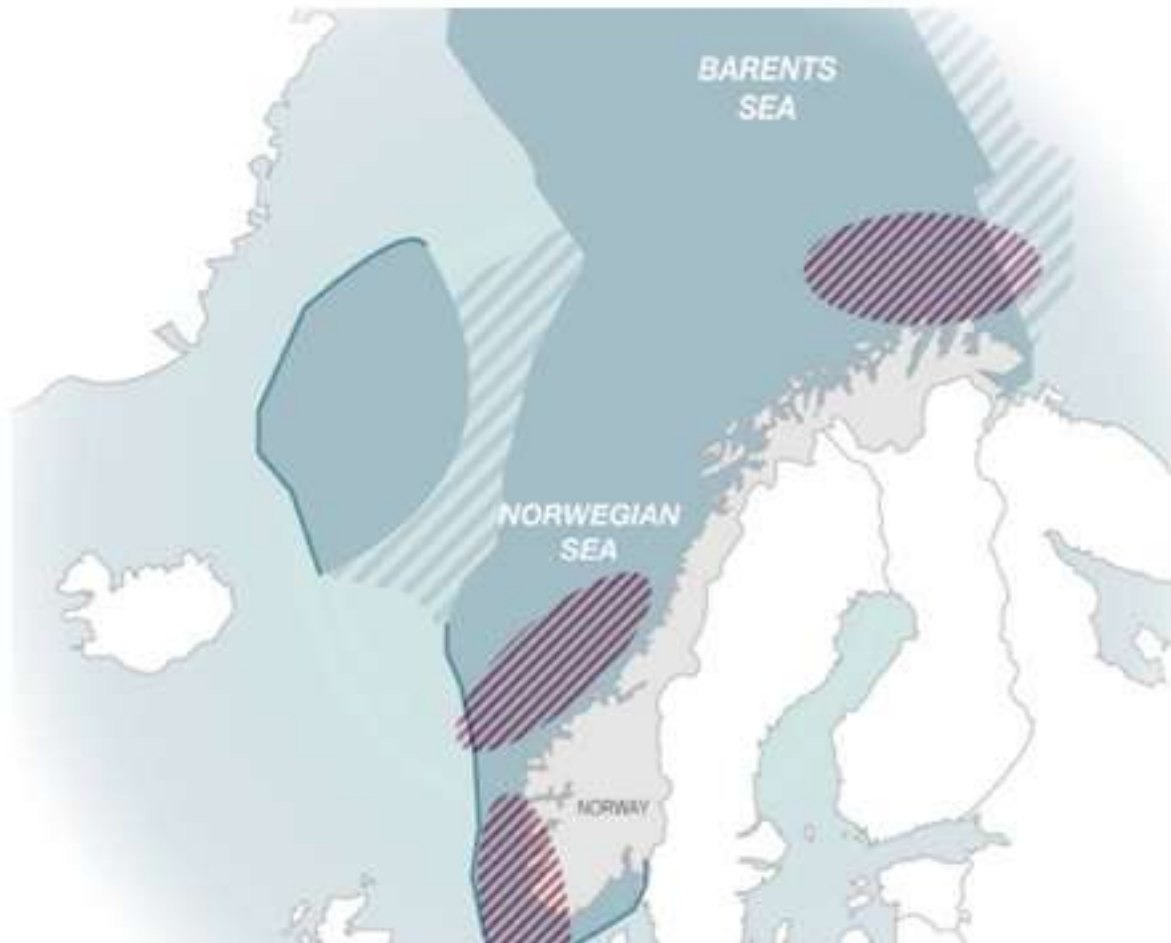
- Population: 4,888,000 (7x that of Alaska)
- Income Per Capita: \$88,400 (vs. \$43,209 AK)
- Income: GDP/PPP: \$59,100 (vs. \$47,700 U.S.)
- % of Government annual expenditure paid by oil and gas revenues: 26% (vs. 80-90% AK)

Norway's Oil and Gas Production: Going Strong

Petroleum production



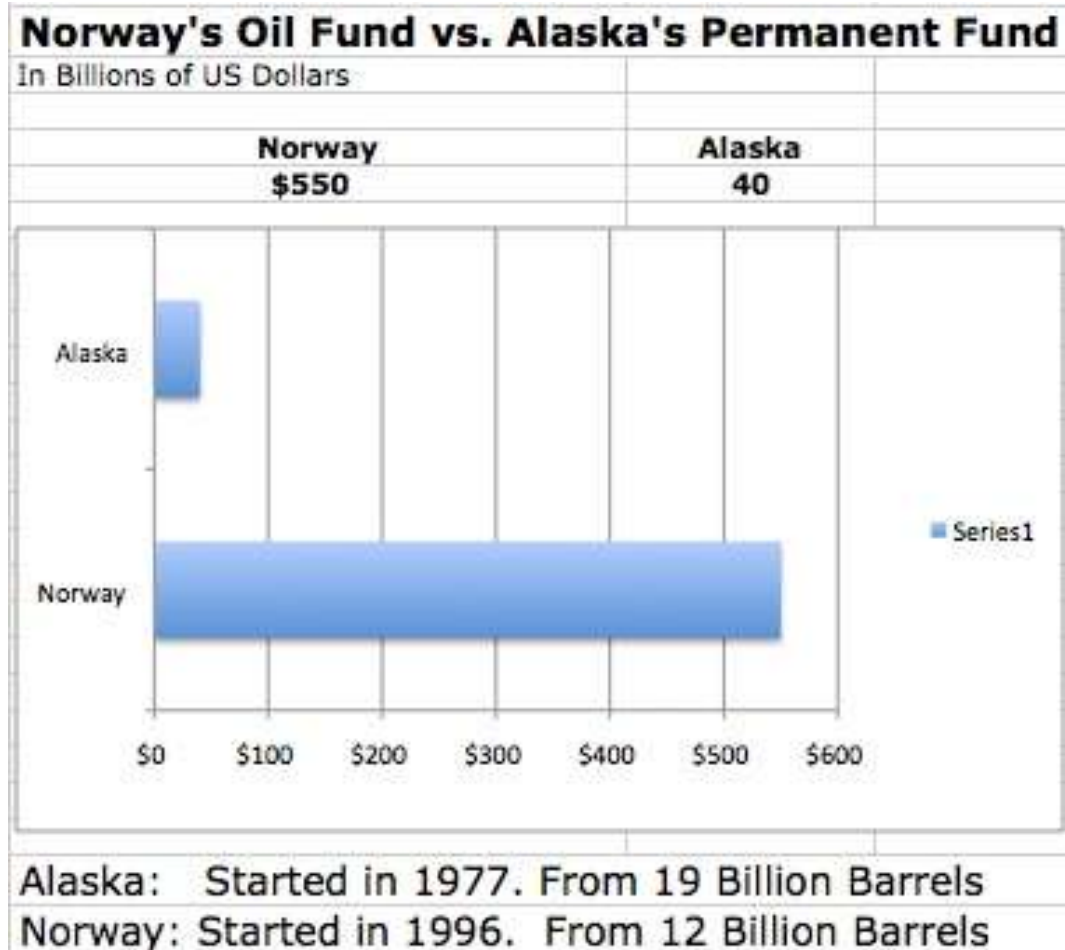
Norway's Continental Shelf



What We Learned:

- Norway is converting its non-renewable resources into a perpetual endowment for future generations.
- They are doing so at an incredible rate.
- Fiscal planning in Norway has a multi-generational horizon.

What We Learned:



What We Learned:

- Norway, once known as a socialist nation, has discovered capitalism – with a vengeance.

What We Learned:

- The #1 investor in Norway's oil and gas development is.....**NORWAY.**
- Via SDFI: State's Direct Financial Investment

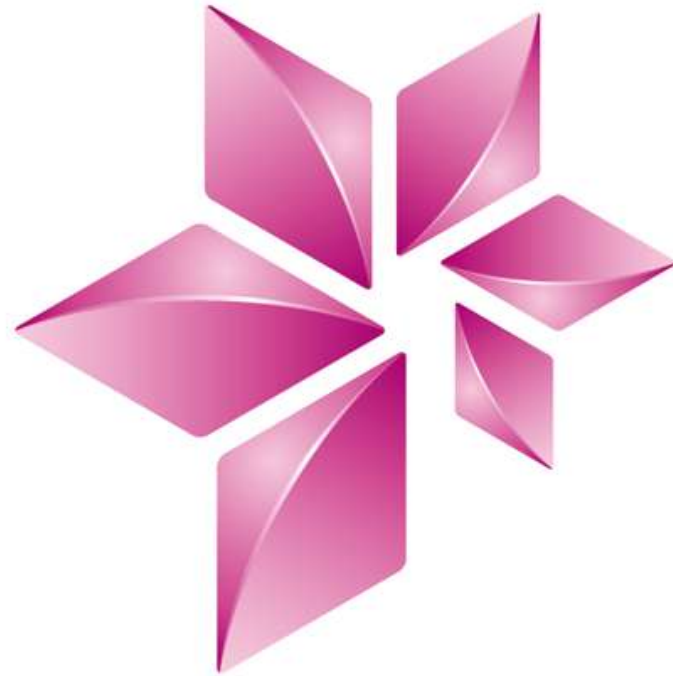
What is SDFI?

- State invests and participates directly (the same as a producer) in the development of the resource
 - Percentage set upfront on a field by field basis
 - State pays its proportionate share of the exploration and development costs, receives a proportionate share of the production
- State substitutes
 - Definitive work and investment commitments, for upfront lease bonus
 - State participation in development decisions and access to information, for passive royalty role
- Effect
 - State becomes an active participant rather than a passive, back seat driver
 - Producer investment decisions are no longer distorted by “dead” capital; all investment produces returns

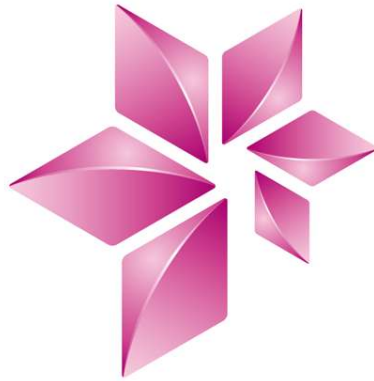
What We Learned:

- Norway has developed a huge local oil and gas industry.

How they did it:



Statoil



Statoil

- Started by the Norwegian government to learn the oil business and bring jobs to Norwegians, STATOIL is now a publicly traded private oil and gas giant. Norway earns dividends of \$3,000,000,000 per year from its ownership of 68% of STATOIL's shares.

What We Learned:

- STATOIL is now operating in 34 countries
- North American Headquarters in Houston
- With 140 Norwegian oil and gas support companies
- Norway's #2 export: Oil and gas support and expertise

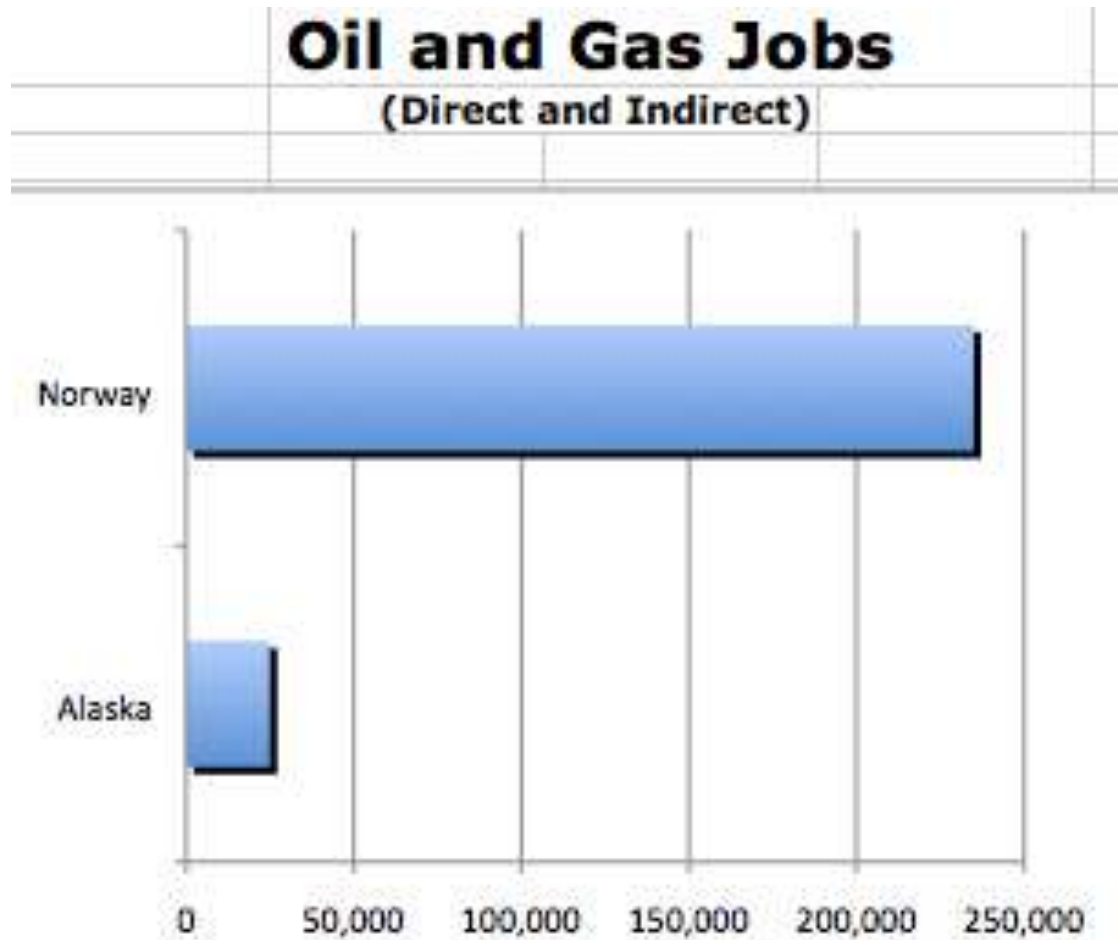
What We Learned:

- STATOIL is now in Alaska:
- 16 of its own leases in the Chukchi
- More leases shared with ConocoPhillips
- Offices in Anchorage
- Norway's government will likely receive more \$ from production in the OCS off Alaska than the State of Alaska will.

What We Learned:

- **Norway has more jobs in the oil and gas sector than Alaska.**

What We Learned:



What We Learned:

Norway successfully attracts private investment to develop its oil and gas resources.

60+ Oil and Gas Companies Investing in Norway



What Private Companies Like about the Norwegian Model:

- **Reduced Risk** (Seismic provided by Norway)
- **Reduced Up-Front Costs** (no bids)
- **Shared Risk/Co-investment** (SDFI-Petoro)
- **Alignment** between Norway and industry
- **Predictability:** Tax Stability
- **Predictability:** Clearly Articulated Safety and Environmental Rules and Sanctions

Predictable, Appropriate Sanctions

Sanctions

The use of sanctions must reflect the nature of the violation

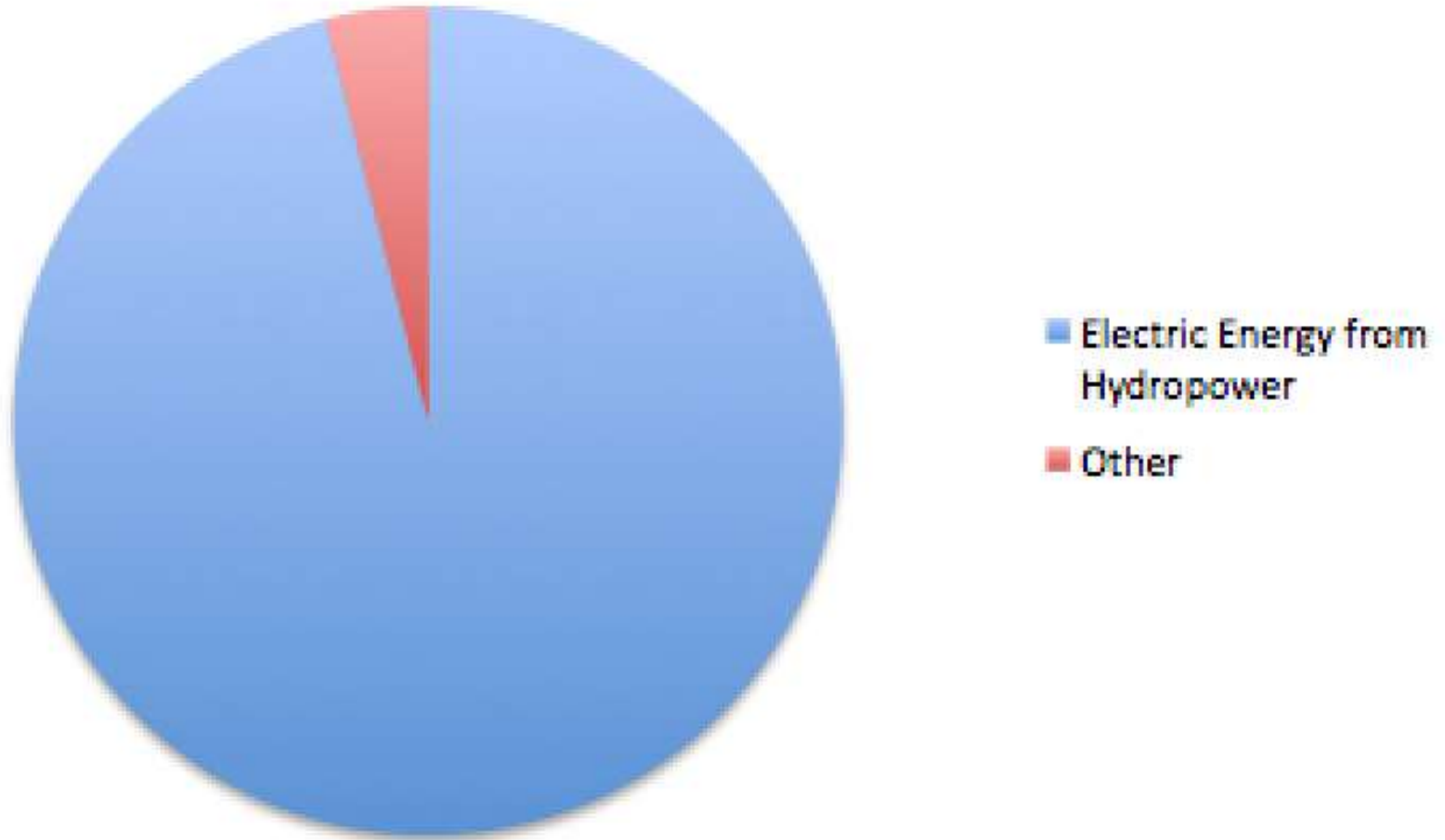


Renewable Energy Leader



Statkraft

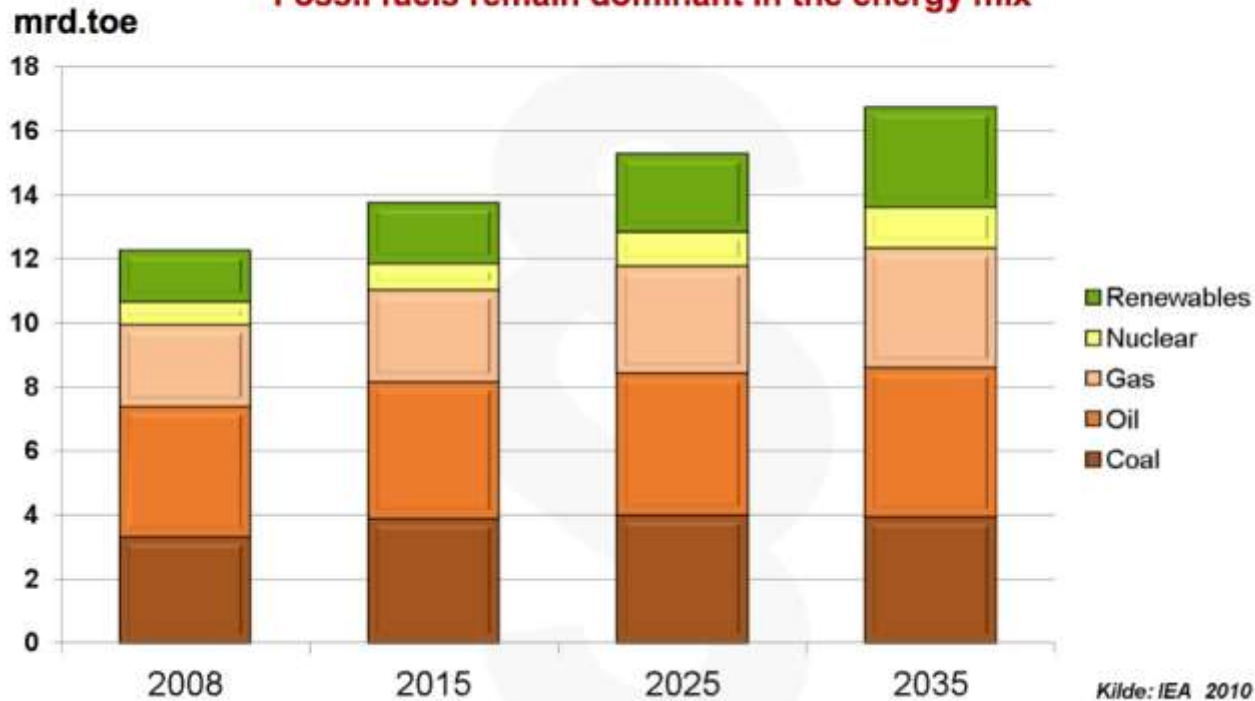
Internal Energy Consumption: Hydroelectric is King



Norway's Global Energy Outlook

The Global need for Energy continues to rise

Fossil fuels remain dominant in the energy mix



Most significant lesson learned

- Alignment of interests between the State and producers resulting from SDFI (State Direct Financial Interest) creates significant benefits
 - As an investor, State gains an understanding of investment dynamics
 - As an investor, State has full access to data and better understands field dynamics and development
 - As an investor, State participates directly and has the ability to help drive development decisions
 - Increases State understanding, reduces State suspicion
- Norway once used bonus and royalty system, but transitioned away from it because they concluded it impaired investment decisions

Implementing SDFI in Alaska

- Can be added as an option in new leases
- But, that does not reach “low hanging fruit”
 - Best option in the near term for offsetting production declines/increasing production is by developing viscous, heavy and economically challenged horizons in existing fields
 - Significant resource, no significant permitting requirements, existing infrastructure, known resource
- Challenge is to make SDFI available as an option to help immediately
- Important part of Norwegian model: create a professional, non-politicized corporation (similar to Permanent Fund Board) to administer state’s interest

Alaska's Way Forward

- Create a mechanism for converting to SDFI under existing leases (upon mutual agreement)
 - Focus on new areas: previously undeveloped or underdeveloped horizons (heavy, viscous and economically challenged)
 - Provide option for converting to SDFI for development of those areas
- Key provisions
 - State exchanges royalty for specified ownership percentage, fixes fiscal terms, becomes a participating owner
 - Parties (including State) agree to a specified work commitment for the agreed areas
- Create a professional, non-politicized corporation (similar to Permanent Fund Board) to administer state's interest

Stay Tuned: More to Come.....

Further Research and Analysis:

- Other States and Countries
- Other aspects of Norway:
 - Education/Work Force Development
 - Healthcare
 - Infrastructure

THANK YOU!



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