



Arctic Inupiat Offshore

**Comments Prepared for Rex Allen Rock, Sr., President
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Arctic Inupiat Offshore, LLC - Getting a Seat at the Table**

Good morning, thank you INTSOK for the invitation to speak and to share with you information about a unique Alaskan partnership. I have never spoken after a King; – it is an honor. I am humbled by your Majesty. Thank you, King Harald, for traveling all the way from Norway to address Alaska. I hope that you have time to enjoy our beautiful state.

I should add – I can't remember the weather being so nice here in Alaska in the month of May. Even back home in Point Hope – the temperatures are close to 50 degrees. You should come here more often!

Paġlagivsi - Welcome to the Conference.

It's timely to discuss Arctic Offshore Operations. We are on the brink of exciting times in the Arctic, and I am looking forward to the challenges it brings.

I am Rex Allen Rock, Sr, President of Arctic Inupiat Offshore LLC – which I will refer to today as A-I-O. I am also President and CEO of Arctic Slope Regional Corporation or A-S-R-C, one of the founding members of AIO. ASRC is the largest locally-owned company in Alaska, with annual revenues exceeding \$2.6bn. Both ASRC and AIO represent the Inupiat of Arctic Alaska.

Who are we?

As an Inupiat I have a story to tell – a story that goes back for thousands of years, it's a long story of our heritage, stewardship and the long relationship we have with the land and waters; it is also a story of leadership. As Inupiaq we are progressive and very adaptable, we have had to adapt to one of the harshest climates on the planet. Our culture is strong and vibrant allowing us to adjust to the changing world very quickly. As the original stewards of the land and ocean, our cultural and spiritual identity is tied to our subsistence lifestyle.

Inupiat are very familiar with onshore oil and gas production from the giant Prudhoe Bay, Kuparuk River and Alpine fields on the North Slope. In fact, a lot of our businesses add value to this industry. We are involved in all aspects of oil development from exploratory evaluation through refining and transportation. Simply put, **we understand the oil business.**

However, we are also a whaling culture. I am a whaling captain first. Initially, as a whaling captain, the progression from onshore oil exploration and production to offshore oil was something that concerned me and other captains. We deliberated long and hard about what stance we should take regarding offshore. We understood we had to find a way to align offshore exploration and development with the sustainability of our communities, while protecting our subsistence practices, culture and rights. We had intense debate amongst the leadership of the Arctic Slope region. Finally, we concluded the only way to protect **OUR** subsistence, environment, communities and local economies was to partner with the O-C-S operators.

Why Shell?

Why Shell? Why not Statoil or ConocoPhillips? We initially chose Shell to because of their lease position in both of our oceans – the Beaufort (BOE-FURT) Sea to the north and the Chukchi Sea to the west. Their presence could potentially have the biggest impact to our region and our communities. However, we Iñupiaq, like the State, have a longer history with Shell; we knew them from their late-1980's program in the Chukchi and Beaufort Seas. They already had drilling experience at the same prospect locations that they were planning to drill in 2012. It was due to our experience and the information gained from their earlier program that we knew they were a company that understood what it meant to drill in the Arctic – not just any Arctic but **OUR** Arctic. They understood the hazards of our oceans, the fickle weather of our region, and the geology and subsurface conditions of their prospects. They had a multi-well program in the late 1980's that was accomplished without incident. In fact, based on the current regulatory and environmental oversight that industry is faced with today it appears that there is some short-term memory loss amongst some Alaskans. **BUT we have not** forgotten. In fact, the early leadership of ASRC reminded my current team of that history and drilling program.

They were no stranger to the Arctic nor were they a stranger to its people. ASRC actually had a partnership with Shell in the 1980's that provided us similar benefits of our new arrangement under AIO. The main differences between the 1980's and today is the cost of doing business in the Arctic is considerably higher today due to increased scrutiny of industry from the regulatory agencies and environmentalists. All of this is additive and caused us to take a measured approach with Shell in our negotiations.

Our Approach

The ocean is our garden; it's where we derive most of our sustenance. We recognized that our North Slope communities bore all the risk from potential offshore development without receiving any tangible, long term benefits. With that in mind, in 2009 we decided to approach Shell to request the opportunity to *invest* - let me emphasize the word **INVEST** - in the Arctic OCS in order to find alignment with Shell. We felt the only way that a company like Shell would take us seriously was for us to 'have skin in the game' through an equity ownership.

As you can imagine this wasn't an endeavor that could be taken lightly – just knowing how much was spent on bonus bids in the leases sales caused us to take pause. When we evaluated the risk of our participation, we placed some of the highest risk on our credibility. Could we credibly present this to our board of directors, to our shareholders and to our communities at the same time the Macondo blowout was happening? The answer after careful due diligence was, “YES, yes we could.”

I am here today as a partner with Shell because we have 'skin in the game' through our INVESTMENT. Understanding the long-term nature of the investment was easy for ASRC through our heritage as Iñupiaq because we have lived in the Arctic for over ten thousand years and we continue to do so. We have considerable knowledge about what does and doesn't work. We determined that finding alignment with Shell would allow us to impact their program using our **TRADITIONAL KNOWLEDGE**. PLUS, we have over 40 years of experience in the oil and gas business.



It was through this beginning that ASRC was able to negotiate the agreement that we have today. We have eight village corporations in our region, and six decided to join with ASRC and form **A-I-O**. AIO is a privately held corporation established to promote sustainable economic development within the Arctic Slope region. Members of AIO include ASRC, and our village corporations - Ukpeaġvik Iñupiat Corporation, Tikigaq Corporation, Olgoonik Corporation, Atqasuk Corporation, Kaktovik Iñupiat Corporation, and Nunamiut Corporation. North Slope communities represented by these corporations include Barrow, Point Hope, Wainwright, Atqasuk, Kaktovik and Anaktuvuk Pass.

This mutual partnership between ASRC and the village Alaska Native corporations, has never been done before; this is a historic milestone for the North Slope and Alaska. Our values teach us that we achieve success by putting the needs of our community at the center of all that we do. It is important that our collective community has this 'seat at the table' to represent the subsistence and economic needs of our people. Through AIO we will have meaningful input into this process while providing benefits back to our shareholders.

AIO and Shell entered into an agreement in 2014 that provides AIO an option to acquire interest in Shell's Chukchi Sea leases. In addition, AIO has the 'right' to participate in project decisions through quarterly proactive management meetings with Shell.

What Are We Doing Now?

Our member companies are learning everything they can about the OCS, about its environment and about current technologies. For some of our members this is like drinking from the ‘proverbial firehose’ – but we have a high level of enthusiasm in the learning process. We have reviewed, toured, visited and questioned every aspect of Shell’s program and have found it to be robust. There will always be a fear in our region of an oil spill – so we need to be educated and prepared. I can say that AIO has reviewed OSR plans and participated in oil spill response training exercises, many of these activities are being conducted by our own companies which means ‘WE ARE BECOMING THE EXPERTS’. We decided early in our partnership that AIO has to become the authority on OCS for our region and communities. The more we learn the more credibly we can speak to our own communities. Based on what we have learned and seen to date, we feel that Shell has the appropriate safeguards in place to have a safe and successful program. Just like they did in the 1980’s.

Looking Forward

We are poised for the 2015 drilling program; however, there are many obstacles to overcome. As we have rolled up our sleeves to work on regulatory issues with Shell we have independently concluded that the U.S. government’s terms, conditions, stipulations and mitigations are overly complex and prescriptive. As Iñupiat we feel that adaptive management and performance-based stipulations and mitigation are more amenable to a culturally and environmentally safe program. Adaption is natural for us as it provides the flexibility to adjust – adaptation to our environment and conditions are what have allowed us to survive in the Arctic for as long as we have. We feel the government can learn and better use the **TRADITIONAL KNOWLEDGE** that we bring to the table – we hope they will **LISTEN**.



The environmental groups say the Arctic is unknown, that there is not a lot of scientific research or findings in the Arctic OCS - but that is not true. Our lands and waters have been explored and used for thousands of years by our people and for over a hundred years by western culture. This is not a region of unknowns; instead, it is an area of robust scientific research – some of which is being done by our own people and local government. We agree that the environment is changing and that we need to be mindful and watchful of the changes but that is natural for us and the AIO members. We are natural observers; we have had to be for our survival and we will continue to be in order to THRIVE.

While we appreciate the concern for the Iñupiat’s well-being in the Arctic, I will caution the extreme environmental movement to stop using our livelihood as a fundraising ploy. Iñupiat lives matter, and their romantic illusions of the Arctic are misguided and dangerous. We are quite capable of speaking for ourselves. We are humble people with strong resolve - and have an eye on the future for the viability of our communities.

We have a voice and we exercise it regularly through the appropriate avenues. AIO developed comments to submit to BOEM and BSEE on the proposed New Arctic Standard Rule. Our view of the new Rule is that it is overly prescriptive in its approach and we feel that in and of itself increases risk and in fact can create new risks for our waters. Without a more flexible policy the Department of Interior is eliminating innovation and the inclusion of new technologies into an operators program.

We recommended that the Department rescind the current proposed Rule and develop a new Rule that includes a performance-based approach. We support and endorse the findings of the National Petroleum Council’s Arctic Potential study released in March. In our comments to the Department we suggested that they use the NPC study as the foundational basis for development of a new Rule that more adequately addresses the challenges exploring in the Arctic OCS.

(pause)

I have a list.

In particular... we suggest to DOI that they use the NPC findings as follows:

1. Embrace the decades of study that have been done in the Arctic and acknowledge that, while the Arctic environment poses some different challenges as compared to other oil and gas production areas, the region is generally well understood;
2. Acknowledge that industry has the ability to work safely and effectively in ice-covered waters.” This fact has been demonstrated since the mid-1970s, when the first U.S.-based well was drilled from an ice island in Alaska state waters;
3. Recognize that most of the U.S. Arctic offshore conventional oil and gas potential can be developed using existing field-proven technology;
4. Recognize that there are proven oil spill response methods in ice;
5. Accept that the economic viability of the U.S. Arctic development is challenged by operating conditions and the need for updated regulations that reflect Arctic conditions.

6. Recognize that multiple, overlapping regulatory agencies with, in some instances, conflicting regulatory objectives, bring a high level of uncertainty, additional cost, and delay to permitting processes and reduce the predictability of regulatory oversight.
7. Provide a mechanism to allow for industry and regulators to work together to perform the analyses, investigations, and any necessary demonstrations to validate technologies for improved oil spill prevention and source control.
8. Incorporate the use of Traditional Knowledge throughout the regulatory process. We couldn't agree more!

(pause)

As I stated before this was one of our major premises in our agreement with Shell is that we could give them our perspectives about how best to work in the Arctic while at the same time protecting our cultural and subsistence livelihood.

In the meantime, AIO is working hard to inform our people of our interest in the OCS. We are hopeful that Shell is able to drill in 2015 and look forward to our collective success with the program. Wish us well.

TAIKUU – Thank you Your Highness – Thank you everyone for listening.