

State of Alaska FY2004 Governor's Operating Budget

Department of Administration Alaska Oil and Gas Conservation Commission BRU/Component Budget Summary

BRU/Component: Alaska Oil and Gas Conservation Commission

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

Contact: Sarah H. Palin, OGCC Commissioner

Tel: (907) 793-1221 **Fax:** (907) 276-7542 **E-mail:** sarah_palin@admin.state.ak.us

Component Mission

To protect the public interest in oil and gas resources.

Component Services Provided

- Issue pooling rules and conservation orders.
- Approve and monitor plans for reservoir development and enhanced oil recovery.
- Approve permits for drilling, completion, and remedial well operations. This includes the evaluation and approval of proposed designs for drilling, well control, casing, cementing and other well completion operations.
- Inspect drill rigs and wells to insure compliance with AOGCC regulations.
- Witness safety valve, mechanical integrity, blowout preventer and diverter tests.
- Witness meter-proving, calibration, and oil quality tests.
- Monitor and enforce well spacing rules, production rates, injection well pattern, gas/oil/water ratios, and pressure maintenance efforts.
- Evaluate and regulate gas flaring for waste determinations.
- Collect and maintain all oil and gas production records.
- Provide information and technical analysis to other state agencies.
- Collect and maintain all well history files and well log records.
- Administer Alaska's Underground Injection Control (UIC) program and the annular waste disposal program.

Component Goals and Strategies

- **PREVENT PHYSICAL WASTE OF THE RESOURCE** - Seek regulatory operational and maintenance changes to improve production economics.
 - Evaluate drilling programs to ensure proper well design, construction and well control equipment. Improper designs and equipment could lead to a blowout, which would result in resource waste and safety concerns. All public entities benefit from this oversight, including Alaskans, industry, other agencies, and all interested parties.
 - Inspect wells and drilling projects to verify compliance with approved regulations, procedures and safety requirements for drilling and production practices. Regulations concerning well completions and drilling are engineered to mitigate resource waste.
 - Evaluate proposals for reservoir development.
 - Conduct investigations when incidents of non-compliance are suspected.
- **ENSURE GREATER ULTIMATE RECOVERY**- Proactively engage all present and potential producers to increase both near-term and long-term production.
 - Analyze production data, including pressure, gas-oil ratios, water cut, etc., to ensure these variables fall within the required parameters necessary to provide for greater ultimate recovery. These data are used to indicate if a field is being operated to obtain optimum ultimate oil and gas recovery. If the data indicate otherwise, the AOGCC will advise the operator to take corrective action, resulting in assurance of the public's royalties and tax benefits.
 - Require and approve reservoir development proposals, including plans for enhanced oil recovery operations and gas development. This is done through the public hearing process where pool rules and other orders are adopted. The approved enhanced oil recovery operations usually result in additional recoveries of more than 10% of the original oil in place. The public benefits through additional royalties and taxes.
- **INDEPENDENTLY ASSESS OIL AND GAS DEVELOPMENT** - Manage the AOGCC as an accountable and efficient

Commission for the State of Alaska.

- Independently audit/verify that oil and gas proposals are in compliance with the purposes and intent of Title 31.
- PROTECT ALASKA'S UNDERGROUND SOURCES OF DRINKING WATER - Alaska has a grant from the EPA to oversee the Class II Underground Injection Control Program under an MOU with the EPA (primacy). State Primacy to permit results in acceleration of resource development.
 - Provide engineering and geological review of all applications for underground disposal of drilling wastes.
 - Provide engineering and geological review of all applications to drill oil and gas wells.
- PROTECT CORRELATIVE RIGHTS - Protects all owners of mineral interests including the State of Alaska.
 - Provide all owners of oil and gas rights the opportunity to recover their fair share of the resource through well spacing provisions, permit review and pooling authority.
- ADJUDICATE DISPUTES BETWEEN OWNERS - Protects members of the public, which own or lease mineral rights resulting in de-bottlenecking of projects.
 - Provide a public forum to resolve disputes between owners.
- PROVIDE PUBLIC ACCESS TO OIL AND GAS RELATED INFORMATION AND DATA STORED AND MAINTAINED BY THE COMMISSION - This will enhance the marketing of the State's oil and gas assets.

Key Component Issues for FY2003 – 2004

- Assist in expanded statewide exploration and development, including National Petroleum Reserve-Alaska (NPRA) and exploration licensing areas that are outside the historic producing areas of the North Slope and Cook Inlet.
- Evaluate and respond to the need for a revised regulatory scheme to streamline and safely over-see new development of coal bed methane and shallow gas resources.
- Continue to evaluate conservation issues associated with any large-scale gas off-take proposal for the Prudhoe Bay Field.
- Update and maintain the Commission's audit and compliance capability.
- Continue to develop electronic data storage and retrieval capability for improved information access, management and e-commerce.
- Maintain an active role to protect Alaska's UIC program in light of changing federal policy.
- Evaluate and respond to changing conditions in mature oil fields to make certain operations are conducted in a safe and skillful manner in accordance with good oil field engineering practices while ensuring that recovery of oil and gas resources is maximized.
- Evaluate and respond to changing conditions in mature and aging oil fields to ensure that operations are conducted in a safe and skillful manner in accordance with good oil field engineering practices.

Major Component Accomplishments in 2002

- Effectively and timely evaluated and issued approvals for an increased number of sub-surface oil and gas operations.
- Continued to efficiently oversee the UIC program and to exercise a national voice regarding state management of underground injection and ground water protection.
- In cooperation with the Department of Natural Resources, applied for and were awarded a \$1.4MM grant from the U.S. Department of Energy to fund the "Alaska Oil and Gas Exploration, Development & Permitting Project" which will augment information technology systems, deliver publicly available subsurface information on-line, and provide a shared web enabled geographic information system (GIS) linking AOGCC, DNR, and DGC information/data. This will encourage additional new development in Alaska.

- Continued to implement document-imaging program, which will allow improved information management and access by all AOGCC clients.
- Continued to refine the oil and gas relational database for management of well data making it more compatible with AOGCC business processes to allow for improved information management and access.
- Continued evaluation of the conservation issues (maximization of oil recovery) associated with the sale of Prudhoe Oil Pool gas.
- Concluded evaluation of safety valve system (SVS) performance in the Western Operating Area (WOA) of the Prudhoe Bay Field and participated in an evaluation of statewide SVS standards through a task force made up of industry representatives and state and federal regulators.

Statutory and Regulatory Authority

AS 31.05 Alaska Oil and Gas Conservation Act
20 AAC 25 Alaska Oil and Gas Conservation Commission

Key Performance Measures for FY2004

Measure:

The average time the commission takes to process permits

Sec 16 Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

For the period January 1 through June 30, 2001, the average time the commission took to process permits was 20 days.

For the period July 1 through September 30, 2001, the average time the commission took to process permits was 17 days.

For the period October 1 through December 31, 2001, the average time the commission took to process permits was 14 days.

For the period January 1 through June 30, 2002, the average time the commission took to process permits was 21.5 days.

For the period July 1, 2002 through September 30, 2002 (first quarter of FY2003), the average time the commission took to process permits was 11 days.

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The AOGCC will continue to work to ensure that permits are issued in a timely manner.

Measure:

The percentage of change when compared to the prior fiscal year in the number of well site inspections.

Sec 16 Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

For the period January 1, 2001 through June 30, 2001 the number of well site inspections is as follows:

Total Number of Active Wells - 3,653

The number of well site inspections witnessed:

1,153 out of 2,612 Safety Valve System Tests;

81 out of 334 Blowout Prevention Equipment Tests;

105 out of 118 Mechanical Integrity Tests;

23 out of 42 Diverter Tests (diverter tests were witnessed on 100% of exploration wells).

For the period July 1, 2001 through September 30, 2001 the number of well site inspections is as follows:

Total Number of Active Wells - 3,653

The number of well site inspections witnessed:

447 out of 1,016 safety valve systems tests;

41 out of 162 blowout prevention equipment tests;

112 out of 117 mechanical integrity tests;

4 out of 19 diverter tests.

For the period October 1, 2001 through December 31, 2001 the number of well site inspections is as follows:

Total Number of Active Wells - 3,701

The number of well site inspections witnessed:

447 out of 1,170 safety valve systems tests;

40 out of 160 blowout prevention equipment tests;

32 out of 38 mechanical integrity tests;

6 out of 21 diverter tests.

For the period January 1 through March 31, 2002 the number of well site inspections was as follows:

Total Number of Active Wells - 3,693

The number of well site inspections witnessed:

571 out of 1,470 total tests. This amounts to 39% witnessed.

When compared to the same quarter in the previous fiscal year, this amounts to a 35% increase in the number of well sight inspections.

For the period April 1 through June 30, 2002 the number of well site inspections was as follows:

Total Number of Active Wells - 3,767

The number of well site inspections witnessed:

681 out of 1,568 total tests. This amounts to 43% witnessed.

When compared to the same quarter in the previous fiscal year, this amounts to a 13% decrease in the number of well sight inspections.

For the period July 1 through September 30, 2002 (first quarter of FY2003) the number of well site inspections was as follows:

Total Number of Active Wells - 3,799

The number of well site inspections witnessed:

525 out of 1,229 total tests. This amounts to 43% witnessed. 525 witnessed inspections represents a 13% decrease in the number of witnessed tests as compared to the same quarter in the previous fiscal year.

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The AOGCC will continue to maximize the number of inspections available resources allow.

Measure:

The percentage of change when compared to the prior fiscal year in the number of independent reservoir evaluations.

Sec 16 Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

During the period January 1 through March 31, 2002 the percentage of change when compared to the prior fiscal year in the number of independent reservoir evaluations (over 3rd Quarter FY 01) is as follows:

| | Initiated | Ongoing | Concluded |
|--------------------------|------------------|----------------|------------------|
| Number of Studies | 8 | 6 | 9 |

| | | | |
|---|-------------------|------------------|------------------|
| Number of Studies One Year Previous Change | 3 167% | 4 50% | 5 80% |
|---|-------------------|------------------|------------------|

During the period April 1 through June 30, 2002 the percentage of change when compared to the prior fiscal year in the number of independent reservoir evaluations (over 4th Quarter FY 01) is as follows:

| | Initiated | Ongoing | Concluded |
|---|------------------|------------------|-------------------|
| Number of Studies | 8 | 5 | 12 |
| Number of Studies One Year Previous Change | 8 0% | 6 17% | 5 140% |

During the period July 1 through September 30 the percentage of change when compared to the prior fiscal year in the number of independent reservoir evaluations (over 1st Quarter FY02) is as follows:

| | Initiated | Ongoing | Concluded |
|---|------------------|------------------|------------------|
| Number of Studies | 9 | 6 | 11 |
| Number of Studies One Year Previous Change | 7 29% | 5 20% | 11 0% |

Benchmark Comparisons:

We currently have no benchmark information for this performance measure.

Background and Strategies:

The AOGCC will continue to maximize the number of independent reservoir evaluations available resources allow.

Alaska Oil and Gas Conservation Commission
Component Financial Summary

All dollars in thousands

| | FY2002 Actuals | FY2003 Authorized | FY2004 Governor |
|--|----------------|-------------------|-----------------|
| Non-Formula Program: | | | |
| Component Expenditures: | | | |
| 71000 Personal Services | 2,344.9 | 2,696.2 | 2,757.2 |
| 72000 Travel | 148.1 | 214.0 | 214.0 |
| 73000 Contractual | 692.1 | 1,134.3 | 1,148.6 |
| 74000 Supplies | 45.5 | 35.6 | 35.6 |
| 75000 Equipment | 70.5 | 71.1 | 71.1 |
| 76000 Land/Buildings | 0.0 | 0.0 | 0.0 |
| 77000 Grants, Claims | 0.0 | 0.0 | 0.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 3,301.1 | 4,151.2 | 4,226.5 |
| Funding Sources: | | | |
| 1002 Federal Receipts | 100.0 | 105.0 | 119.9 |
| 1162 Alaska Oil & Gas Conservation Commission Rcpts | 3,201.1 | 4,046.2 | 4,106.6 |
| Funding Totals | 3,301.1 | 4,151.2 | 4,226.5 |

Alaska Oil and Gas Conservation Commission

Proposed Changes in Levels of Service for FY2004

- The AOGCC is undertaking a business process review to determine if the agency is performing as effectively and efficiently as possible in its regulation of the industry and specifically, in permit and order approvals.
- Recently, the AOGCC re-structured to a team oriented and flat organization enabling it to operate similar to a performance based business. This should result in cost savings, reduction of work redundancy, streamlining of orders and permits, performance accountability, project ownership by staff, improved communication with the clients, and consistency of decisions.
- The AOGCC is cooperating with ADEC to develop an MOA between the agencies to address areas of overlapping jurisdiction and to exchange information and analyses concerning oil and gas projects that will expedite permitting processes.
- The AOGCC is working with EPA to establish reasonable requirements for wells involved disposal injection service. The effort will lead to minimizing duplication of industry reporting and compliance burdens through the development of clear guidance for what fluids can be disposed in a Class II well.
- The AOGCC is the chief repository for subsurface oil and gas related information in the state. The Commission is in the process of converting all of its information into digital form in order to distribute it through the Internet. This effort is an important preliminary step to eventually conducting most of its business on line. With the initiation of e-business the AOGCC will be able to efficiently reshape *much of* its business processes, expand the marketplace for Alaskan oil and gas opportunities, and improve the business environment for Alaskan oil and gas operators.

Summary of Component Budget Changes

From FY2003 Authorized to FY2004 Governor

All dollars in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|---|----------------------|----------------------|--------------------|--------------------|
| FY2003 Authorized | 0.0 | 105.0 | 4,046.2 | 4,151.2 |
| Adjustments which will continue current level of service: | | | | |
| -Annualize FY2003 COLA Increase for General Government and Supervisory Bargaining Units | 0.0 | 0.0 | 3.3 | 3.3 |
| -\$75 per Month Health Insurance Increase for Non-covered Staff | 0.0 | 0.6 | 17.1 | 17.7 |
| Proposed budget increases: | | | | |
| -Continuation COLA Funding | 0.0 | 0.0 | 40.0 | 40.0 |
| -Underground Injection Control Grant | 0.0 | 14.3 | 0.0 | 14.3 |
| FY2004 Governor | 0.0 | 119.9 | 4,106.6 | 4,226.5 |

Alaska Oil and Gas Conservation Commission

Personal Services Information

| | Authorized Positions | | Personal Services Costs | |
|---------------|------------------------------------|----------------------------------|----------------------------------|------------------|
| | <u>FY2003</u> <u>Authorized</u> | <u>FY2004</u> <u>Governor</u> | | |
| Full-time | 27 | 27 | Annual Salaries | 1,970,880 |
| Part-time | 1 | 1 | Premium Pay | 0 |
| Nonpermanent | 0 | 0 | Annual Benefits | 615,059 |
| | | | <i>Less 0.29% Vacancy Factor</i> | <i>(7,509)</i> |
| | | | Lump Sum Premium Pay | 178,770 |
| Totals | 28 | 28 | Total Personal Services | 2,757,200 |

Position Classification Summary

| Job Class Title | Anchorage | Fairbanks | Juneau | Others | Total |
|--------------------------------|-----------|-----------|----------|----------|-----------|
| Accounting Clerk I | 1 | 0 | 0 | 0 | 1 |
| Administrative Clerk III | 2 | 0 | 0 | 0 | 2 |
| Administrative Manager II | 1 | 0 | 0 | 0 | 1 |
| Analyst/Programmer I | 1 | 0 | 0 | 0 | 1 |
| Analyst/Programmer IV | 1 | 0 | 0 | 0 | 1 |
| Commissioner, Oil and Gas Comm | 3 | 0 | 0 | 0 | 3 |
| Natural Resource Manager I | 1 | 0 | 0 | 0 | 1 |
| Petroleum Engineer | 2 | 0 | 0 | 0 | 2 |
| Petroleum Geologist Asst | 1 | 0 | 0 | 0 | 1 |
| Petroleum Geologist I | 1 | 0 | 0 | 0 | 1 |
| Petroleum Inspector | 7 | 0 | 0 | 0 | 7 |
| Reservoir Engineer | 1 | 0 | 0 | 0 | 1 |
| Senior Petroleum Engineer | 1 | 0 | 0 | 0 | 1 |
| Senior Petroleum Geologist | 1 | 0 | 0 | 0 | 1 |
| Senior Petroleum Reservoir Eng | 1 | 0 | 0 | 0 | 1 |
| Special Staff Assistant | 1 | 0 | 0 | 0 | 1 |
| Statistical Technician II | 2 | 0 | 0 | 0 | 2 |
| Totals | 28 | 0 | 0 | 0 | 28 |