

AP/AL: Appropriation **Project Type:** Information Systems
Category: Natural Resources
Location: Statewide **Contact:** Mark Myers
House District: Statewide (HD 1-40) **Contact Phone:** (907)269-8800
Estimated Project Dates: 07/01/2003 - 06/30/2005

Brief Summary and Statement of Need:

This CIP is requested to meet a critical need to redesign and expand the existing Oil and Gas Royalty Accounting System (OGRA) capabilities. The Division of Oil & Gas Management and Commercial Analysts have a need to extract royalty accounting and lease data. The FY04 capital project will redesign just the existing Accounting and Lease Systems to eliminate duplications between the two systems and to enhance reporting and audit capabilities. A September 2002 completed external review verified the internal assessment by DNR that the database needs to be redesigned in order to meet current and expected needs of the State, and maximize revenue generation and valuation.

Funding:	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>Total</u>
Gen Fund	\$150,000	\$150,000					\$300,000
Total:	\$150,000	\$150,000	\$0	\$0	\$0	\$0	\$300,000

<input type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input checked="" type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	25,000	0
<u>One-Time Startup:</u>	<u>0</u>	
Totals:	25,000	0

Additional Information / Prior Funding History:

This is a new project request.

Project Description/Justification:

This CIP is requested to meet a critical need to redesign and expand the existing Oil and Gas Royalty Accounting System (OGRA) capabilities. This effort is critical because OGRA accounts for \$800 million to \$1 billion dollars in state revenue annually. The OGRA system use and complexity has increased from processing 600-800 transactions per month years ago to 1,500 to 3,000 transactions per month today. These transactions are very complex because of the hundreds of valuation methods used to value oil and gas royalties each month. Independent systems analysis by Resource Data, Inc. (September 2002) has confirmed that OGRA must be redesigned to efficiently retrieve and analyze existing data. The redesign will incorporate lease administration processes with the royalty accounting processes into one integrated system for the commercial evaluation of the state's oil and gas royalties. The commercial evaluation of oil and gas values is critical to maximizing revenues for the state. The FY04 project would redesign the OGRA system database into a larger and broader scope database model. The redesigned system would; accommodate the processes necessary to continue royalty accounting tasks, redesign and integrate lease administration tasks with OGRA, and accommodate new division-wide databases and new processes supporting lease administration that would be developed in FY05 project. The FY04 project will incorporate some enhancements to data retrieval; however the FY05 project will develop more specialized data cleanup and data retrieval processes for commercial and audit analysis of data to maximize the royalty value received for state oil and gas resources.

This critical system processes \$800 million to over \$1 billion dollars each year in oil and gas revenues through 18-36,000 transactions annually. The benefits of the redesigned and expanded OGRA are close integration of leasing and royalty

Oil and Gas Leasing and Accounting Systems Integration **FY2004 Request: \$150,000**
Reference No: 37969

information for immediate data availability and use for commercial assessment of oil and gas royalty values and audit analysis. Having immediate and accurate information is critical to senior oil and gas managers who must make valuation decisions daily. These valuation decisions affect DNR's ability to maximize state revenues from state oil and gas leases. Other benefits include increased speed and efficiency of the division's royalty accounting, audit and commercial evaluation processes, provide improved service to royalty payers, and better information and quicker response to state policy makers, and provide non-confidential production and revenue information available to the public. The new design will eliminate a significant amount of the duplication between DNR computer information systems that store and use oil and gas leasing information.

Both projects together would create a total system that would meet the critical and immediate needs for royalty value assessment. Incorporating the lease administration with royalty accounting into an expanded system would provide an updated database and automated processes to be integrated with the Department's statewide lease administration system upgrade. Updating and integrating the lease and accounting processes in FY04 will provide for FY05 integration with the department's revenue and billing information system. Managers and legislators have an increasing need for current, accurate, and reliable revenue information. The updating and integration of key oil and gas functions is essential for delivering that information quickly and efficiently.

The project costs were based on estimates of designing database models of a similar system magnitude and design, and the implementation workload to program the new system and migrate the existing data to the new system.

Not approving both projects will negatively impact the state's ability to make sound contractual decisions maximizing royalties paid by lessees.

Specific Spending Detail For FY 2004:

Hardware and Software (74000 & 75000): Evaluate and purchase upgrades to system hardware to handle the increased work tasks and processing resulting from expanding the overall scope and capacity of the existing OGRA system. Upgrade the server if necessary to allow for efficient management of the system without impacting the processing currently being done on the system.

Consulting Services (73000): Professional services contract(s) would be used to prepare a detailed data model, a detailed system design, implementation of the system design, and migration of the existing data system to the expanded system. It would also provide training for Division personnel in how to use the system.

Line Item	Estimated \$ Expenditure
73000 - Contractual	\$125.0
74000 - Commodities	\$12.5
75000 - Capital	\$12.5

Project Support:

All oil and gas companies that have producing oil and gas leases would support the implementation of formats and means to reduce the transaction costs and improve efficiency in their Alaska operations. Alaska state agencies include: the Alaska Department of Law, Alaska Department of Revenue, Alaska Department of Community and Economic Development and Divisions within the Alaska Department of Natural Resources. The USDI Minerals Management Service and the Bureau of Land Management would also support improving and expanding the scope of the OGRA system. The public should also support making non-confidential oil and gas production and revenue information more readily available to them.

Project Opposition: None known.