Oil and Gas Leasing and Accounting Systems Integration Phase 2		**FY2005 Request:**	**$100,000**
		Reference No:	**37969**

AP/AL: Appropriation
Project Type: Information Systems
Category: Natural Resources
Location: Statewide
Contact: Mark Myers
House District: Statewide (HD 1-40)
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Estimated Project Dates: 07/01/2003 - 06/30/2006

Brief Summary and Statement of Need:

Phase 2 of this project 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. This FY05 capital project will complete the redesign of 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:	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Total
Gen Fund	$100,000						$100,000
Total:	$100,000	$0	$0	$0	$0	$0	$100,000

☐ State Match Required ☐ One-Time Project ☐ Phased - new ☑ Phased - underway ☐ On-Going
0% = Minimum State Match % Required ☐ Amendment ☐ Mental Health Bill

Operating & Maintenance Costs:

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

Additional Information / Prior Funding History:

SLA03/CH82 - $150,000

Project Description/Justification:

Prior Funding History and Status:

Phase I of this project, funded in FY04 for $150,000, will provide a Division-wide database model and initial applications redevelopment and programming for lease administration and royalty accounting. The Phase I project work was based on the original request of a two phased project of which FY05 would be Phase II. This FY05 Phase II portion of the project intends to pick up where the prior funded work leaves off. Phase II is intending to program as many of the user applications as described in the database model in Phase I. The prior funds are to be spent by December 31, 2004. The FY05 request is for $50,000 less than was estimated in preparation for the FY04 request.

These redesign and reprogramming projects build on the previous OGRA CIPs. Previous CIP projects involved the standardization of oil and gas royalty reporting through design and implementation of standard report formats, content, requirements. The standardized reporting has also been automated using National Standards for Electronic Data Interchange. To date all lessees are reporting using these standardized reports and deliver reports electronically. The benefits are that all lessees now report for all required fields on time and that these reports are loaded to an electronic database upon receipt. In contrast, historically, reports were incomplete, not filed, or filed late, and data loading was weeks behind in many cases. All of these past deficiencies have been eliminated. Other benefits include real-time report availability, more detailed reporting, improved data quality, and immediate reconciliation of reported amounts due with actual payments received.

Detailed Project Justification:
This FY05 CIP is requested to meet a critical need to complete the redesign and expansion of 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. The redesign, started in FY04, incorporates lease administration processes with 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 addressed Phase I but contained insufficient funding on its own to complete the minimum applications programming needed. When both phases are completed, the redesigned system would; accommodate a complete system of processes necessary to continue royalty accounting tasks, redesign and integrate lease administration tasks with OGRA, and accommodate new Division-wide databases and new processes.

The FY05 Phase II project will provide enhancements to the lease sales and lease administration processes, complex royalty reconciliation calculations, royalty accounting issue analysis, report generation, and data recovery and analysis of lease and royalty data. These enhancements support more sophisticated retrieval and data analysis by commercial analysts for assessing current and future oil and gas royalty values for maximizing the royalty value received for state oil and gas resources. In addition, two-way systems communication will provide for integrated data retrieval and exchange between the DNR Land Administration System, the Department's Revenue and Billing System, and the Division's well data systems to more efficiently conduct monthly transactions processing.

This system, addressed by Phase I and Phase II, 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 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; better information and quicker response to state policy makers; and provide non-confidential production and revenue information available to the public.

Completing additional applications development for royalty accounting, leasing, and commercial evaluations will create a more versatile and robust system that would meet the critical and immediate needs for royalty value assessment. Incorporating the lease administration with royalty accounting into an expanded system provides an easily updated database and automated processes to be integrated with the Department's statewide lease administration system upgrade. Completing the updating and integration of the lease and accounting processes started in FY04 is critical for systems 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 and programming applications of 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 Phase II will negatively impact the state's ability to make sound contractual decisions maximizing royalties paid by lessees.

Why is this Project Needed Now:
It is important to complete the programming of those critical applications started with the FY04 funding. Not approving this project will negatively impact the state's ability to make sound contractual decisions maximizing royalties paid by lessees. It is important to complete these updates so that these systems are functioning in advance of increased gas production and sales. While oil transactions make up ninety percent of the current royalty dispositions, future gas resource sales, usually comprised of even more complex transactions and analysis, will be dependent on these same systems and thus would also significantly benefit from having these system processes fully functional.

Specific Spending Detail:

Line Item Expenditures:

Contractual Services $85,000.00

Consulting Services (73000): Professional services contract(s) would be used to prepare detailed system designs and programming of new and updated administrative, analytical, and managerial applications as a continuation of FY04 work to redesign and update existing lease and royalty applications for the expanded system. It would also provide additional training for Division personnel in how to use the system.

Supplies $ 7,500.00

Equipment $ 7,500.00

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.

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 anticipated.