

Oil and Gas Leasing and Accounting Database and Electronic Signatures

FY2006 Request: \$250,000
Reference No: 39991

AP/AL: Appropriation

Project Type: Planning

Category: Development

Location: Statewide

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House District: Statewide (HD 1-40)

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Estimated Project Dates: 07/01/2005 - 06/30/2007

Brief Summary and Statement of Need:

This project provides for the electronic means of managing and tracking large volumes of documents critical to maintaining an administrative record of oil and gas transactions. Specifically, the project will allow the Division to manage and track oil and gas related legal documents, contracts, and correspondence received and stored as on individual leases, permits, and royalty reporting. In addition, it will allow for an electronic signature for lease assignments and royalty reporting. This project is critical to the Division's management and commercial analysts in assessing and maximizing current and future revenue owed the state for its oil and gas resources.

Funding:	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	Total
Gen Fund	\$250,000						\$250,000
Total:	\$250,000	\$0	\$0	\$0	\$0	\$0	\$250,000

<input type="checkbox"/> State Match Required	<input checked="" type="checkbox"/> One-Time Project	<input 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:	0	0
One-Time Startup:	0	0
Totals:	0	0

Additional Information / Prior Funding History:

Phase I of this project, funded in FY04 (SLA03/CH82) for \$150,000, will provide a Division-wide database model and initial applications redevelopment and programming for lease administration and royalty accounting. The FY05 (SLA04/CH159) Phase II for \$100,000 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.

Project Description/Justification:

Additional Historical Project Information:

This FY06 Phase III will provide a means to control all the numerous hard copy legal documents, contracts, and day-to-day business correspondence that are received and stored as part of the administrative record on individual leases, permits, and royalty reporting. In addition, establishing an electronic signature system will provide for two-way secure electronic data exchange and assignment processing with authentication using the State's existing electronic signature registry. The prior funds will be spent by June 30, 2006.

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

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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 FY06 CIP is requested to meet a critical need to manage and control the numerous hard copy legal documents, contracts, and day-to-day business correspondence that are received and stored as part of the administrative record on individual leases, permits, and royalty reporting. It is essential that division managers have timely and efficient retrieval of all critical documents relating to oil and gas issues as they arise for managerial attention. The negotiations and administration of the state's oil and gas leases and resources represent significant economic interest to the state, i.e. on average \$1 billion in revenue annually. Gas resources are just now coming on line and often involve even more complex economic and financial issues. It is critical that a solid document management system be implemented to improve support of current and future oil valuation negotiations and be in place before even more complex gas transaction issues impact existing manual systems. This project would use existing technology and standards being employed throughout the Department to the extent possible, while maintaining the necessary security required for the Division's documents and data.

Establishing an electronic signature system will provide for two-way secure electronic data exchange and assignment processing with authentication using the State's existing electronic signature registry. By using existing technology, data entry, assignment processing, and permit processing can be done on line eliminating error prone data re-entry. Electronic Signature Technology (EST) will also be incorporated with the hundreds of monthly royalty report filings to authenticate these filings in a real time process. Credit card or Automatic Clearinghouse (ACH) credit/debit technologies combined with the EST can reduce costs for receiving payments on assignment and permit applications.

These funds are to purchase hardware, software, and contractual services to establish in-house applications for processing electronic signatures, capturing hard copies of documents in-coming to the division on a daily basis, and for data capture and conversion of historical documents.

The project costs were based on estimates of designing similar systems within the department.

Not approving Phase III will negatively impact the state's ability to make sound contractual decisions and maximizing royalties paid by lessees. Also, additional time will be required to process lease assignments and hard copies of legal documents needed in the negotiations of settlement agreements between the State and lessees.

Why is this Project Needed Now:

With the gas pipeline almost a reality, there will be a significant increase in new North Slope leasing, assignments of current leases, and hopefully exploration. Completing this project in FY06 will allow the Division to handle this greatly increased workload with the current staffing levels and allow the division to process the assignments and retrieve the documents in a timely manner. This will, in turn, increase the timely processing of rental and royalty revenue to the State. With this greatly increased level of leasing and exploration activity, the need to quickly and efficiently retrieve hard copy legal documents is imperative.

Specific Spending Detail:

Line Item Expenditures:

000 Services \$ 200,000.00

Consulting Services: Professional services contract(s) would be used to take existing lease and royalty documents and input them into the new Division wide document management system. In addition, contractual services would be needed to design the electronic signature process for the unique requirements for lease administration and royalty. It would also provide additional training for Division personnel in how to use these systems.

74000 Commodities \$ 5,000.00

75000 Capital Outlay \$ 45,000.00

Hardware and Software: Evaluate and purchase upgrades to system hardware to handle the new document imaging and electronic signature applications. Upgrade the server if necessary to allow for efficient management of the system without impacting the processing currently being done on the system.

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Project Support:

All oil and gas companies that have State oil and gas leases or those that desire to lease State oil and gas acres will strongly support electronic signature applications since it will reduce their transaction cost and greatly speed the leasing process. Alaska state agencies including the Alaska Department of Law, Alaska Department of Revenue, Alaska Department of Commerce, Community, and Economic Development and Divisions within the Alaska Department of Natural Resources would greatly benefit from the efficiencies gained through the document management system which will allow this Division to have electronic access to these documents. This is also true for the US Minerals Management Service and the Bureau of Land Management who would also support a more efficient means of retrieving hard copy documents given to the Division that impact their organization. The public should also support making non-confidential oil and gas documents available to them more quickly and in a cost effective manner.

Project Opposition: None anticipated.