State of Alaska
FY2009 Governor's Operating Budget

Department of Natural Resources
Oil & Gas Development
Component Budget Summary

Component: Oil & Gas Development

Contribution to Department's Mission

The Division of Oil and Gas manages oil and gas lands in a manner that assures both responsible oil and gas exploration and development and maximum revenues to the state.

Core Services

A. Encourage Exploration and Development:
- Make prospective lands available for oil and gas exploration, development, and production on a predictable basis.
- Provide publicly available existing and new oil- and gas- related information to technical users, the general public, and the press through technical publications, informational pamphlets, the web site, or personal contact.
- Provide technical and policy support for the Alaska congressional delegation, the governor's office, the legislature, and the commissioner of DNR.
- Adjudicate exploration and development permits effectively and maintain a proactive inspection program.

B. Maximize Benefits of Development and Production to the State:
- Administer conventional oil and gas leases and exploration licenses, as well as exploration incentive programs.
- Maximize the economic and physical recovery of hydrocarbon resources through unitized or cooperative operations, exploration, and development.
- Ensure that exploration, leasehold, and unit-related operations are conducted in a timely and environmentally sound manner.
- Technically evaluate the geological, geophysical, and engineering aspects of unit and participating area applications and calculate tract factors to determine the state's royalty share.
- Require and monitor programs to maximize long-range system integrity, and maintain a proactive compliance program.
- Advocate responsible oil and gas development throughout the State.

C. Maximize Non-tax Revenue from State Oil and Gas Production:
- Ensure that the state receives full value from the extraction and sale of state oil and gas resources.
- Develop marketing strategies and negotiate agreements for the sale of royalty oil and gas to provide in-state benefits and revenue enhancements.
- Ensure that bonus, rental, license fees, net profit, and royalty payments are correct, allocated to the proper revenue fund and received when due.
- Ensure that shared federal bonus, rent, and royalty revenues are properly received and allocated to the proper revenue fund.
- Ensure that the state's resource ownership interests are effectively represented in the Alaska Gasline Inducement Act (AGIA) process and provide technical and commercial support in the evaluation of AGIA applications.

End Result	Strategies to Achieve End Result
A: Encourage Exploration and Development. Target #1: Maintain 3,600,000 acres or more under lease during fiscal year. Measure #1: Amount of state acreage under lease. Target #2: Maintain 1,500,000 acres or more under exploration license during fiscal year. Measure #2: Amount of state acreage under license.	**A1: Hold regularly scheduled lease sales.** Target #1: Five sales held on schedule in accordance with the Five-Year Oil and Gas Leasing Program. Measure #1: Number of sales held on schedule. **A2: Promptly issue leases and licenses without compromising legal integrity of the lease or license.** Target #1: Leases awarded within nine months of lease

<u>Target #3:</u> Maximize number of new exploration wells permitted in fiscal year. <u>Measure #3:</u> Percentage of new exploration well applications permitted per year.	sale. <u>Measure #1:</u> Average time to award a lease. <u>Target #2:</u> Licenses awarded within 18 months. <u>Measure #2:</u> Number of licenses awarded within 18 months. **A3: Actively market and evaluate Alaska's oil and gas potential.** <u>Target #1:</u> Two new companies actively exploring in Alaska per fiscal year. <u>Measure #1:</u> Number of new oil and gas companies actively exploring or developing in Alaska. **A4: Evaluate new areas for oil and gas exploration and development prior to a final best interest finding.** <u>Target #1:</u> Evaluate 100 percent of proposed sale/exploration license areas. <u>Measure #1:</u> Percent of potential lease sale/exploration licenses evaluated. **A5: Efficiently adjudicate exploration permits.** <u>Target #1:</u> 100 percent of exploration permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year. <u>Measure #1:</u> Percent of exploration permits issued within the timeline.
End Result	**Strategies to Achieve End Result**
B: Maximize benefits of development and production to the state. <u>Target #1:</u> Five percent maximum decrease in statewide oil and gas production from previous fiscal year. <u>Measure #1:</u> Percentage change in rate of production.	**B1: Efficiently adjudicate development permits.** <u>Target #1:</u> 100 percent of development permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year. <u>Measure #1:</u> Percent of development permits issued within the timeline. **B2: Promptly adjudicate completed lease assignments.** <u>Target #1:</u> 100 percent of lease assignments adjudicated within 15 working days. <u>Measure #1:</u> Percentage of lease assignments adjudicated within 15 working days. **B3: Keep up with the increasing numbers of unit-related decisions (plans of exploration/development/PAs).** <u>Target #1:</u> 90 percent of unit/participating area decisions issued within 90 days. <u>Measure #1:</u> Percentage of unit/participating area decisions negotiated and issued within 90 days. **B4: Negotiate new unit agreements or modifications**

	to current unit agreements that accelerate exploration and development and maximize the economic benefit to the state. Target #1: Negotiate two unit agreements per fiscal year that provide for accelerated exploration and development. Measure #1: Number of unit agreements that accelerate exploration and development. **B5: Perform inspections of oil and gas operations.** Target #1: 100 percent of seismic, exploratory, and production operations inspected each year. Measure #1: Percent of seismic, exploratory, production operations inspected each year.
End Result	**Strategies to Achieve End Result**
C: Maximize non-tax revenue from state oil and gas production. Target #1: $ 1.6 billion Measure #1: Amount of non-tax revenue received for total state production of oil and gas.	**C1: Ensure that the state receives the best negotiated value in the sale of its royalty-in-kind (RIK) oil and gas.** Target #1: Receive $ .30 per barrel more from RIK as opposed to royalty-in-value (RIV). Measure #1: Difference between RIK and RIV. **C2: Conduct timely audits.** Target #1: Complete four royalty audits each fiscal year. Measure #1: Number of royalty audits completed during FY. **C3: Ensure that the state receives full value for oil and gas royalty-in-value (reopeners).** Target #1: 100 percent of reopeners increase value. Measure #1: Percent of reopeners that increase value.

Major Activities to Advance Strategies

- Local Government outreach - Mat-Su, North Slope, Alaska Peninsula, Healy, and Nenana; process familiarization, development of MOU's.
- Oil and gas advocacy - independents, new entrants and new areas in the state
- Evaluate frontier and producing basins; pursue gas hydrates, shallow biogenic gas, and tight gas sands
- Ensure full value for the state's oil and gas resources
- Evaluate requests for royalty-in-kind sales
- Timely and accurate oil and gas royalty accounting
- Timely perform royalty and net profit share lease
- Evaluate requests for unitization of oil and gas leases
- Active inspection program for permit and system integrity compliance
- Timely permitting
- Respond to requests for exploration licensing - All areas
- Hold regular competitive, areawide lease sales
- Encourage leasing of federal onshore and offshore lands in manner most beneficial to the state
- Processing royalty relief applications in a manner that maximizes value to the state

FY2009 Resources Allocated to Achieve Results

FY2009 Component Budget: $13,913,700

Personnel:	
Full time	98
Part time	0
Total	98

Performance Measure Detail

A: Result - Encourage Exploration and Development.

Target #1: Maintain 3,600,000 acres or more under lease during fiscal year.
Measure #1: Amount of state acreage under lease.

Acres under lease

Year	YTD
2003	4.6 million
2004	4.6 million
2005	4.0 million
2006	3.9 million
2007	5.3 million

Analysis of results and challenges: FY07: Leased acreage expiring or relinquished is being reacquired or replaced with other acreage. In the last five lease sales: 103 tracts sold; 123 total bids; 17 different bidders; and $5.9 million in high bids. Without continued budget resources, acreage under lease will drop.

FY06: Leased acreage expiring or relinquished is being reacquired or replaced with other acreage. In the five lease sales held this year: 360 tracts sold; 402 total bids; 41 different bidders; and $38.7 million in high bids. Without continued budget resources acreage under lease will drop.

In 2004, the Legislature eliminated the Shallow Natural Gas Program. During FY05, many of the existing shallow natural gas leases were relinquished resulting in less acreage under lease than anticipated. In addition, a number of conventional leases were relinquished as a result of recent company mergers. These relinquishments were unanticipated and beyond the control of DNR; however, relinquished acreage will be reoffered for lease.

Target #2: Maintain 1,500,000 acres or more under exploration license during fiscal year.
Measure #2: Amount of state acreage under license.

Acres under license

Year	YTD
2003	1.6 million
2004	1.6 million
2005	1.7 million
2006	1.3 million
2007	1.3 million

Analysis of results and challenges: FY07: The Healy Basin license is still on hold, at applicant request. Two new exploration license requests have been received and are under review: Houston and Crooked Creek. The Copper River Basin license has been converted to conventional oil and gas leases, due to be issued soon. The division received no new license proposals in FY05 or FY06. DNR rejected the Holitna license converted under AS 38.05.177 in FY05. These lower potential, higher risk areas require more outreach, promotion and availability of public data.

FY06: Consideration of a 208,000 acre exploration license in the Healy Basin has been delayed at the request of the applicant. Also, there was a decrease in acreage due to expiration of the Copper River Basin license. Ten percent of the Copper River Basin license is being converted to conventional oil and gas leases. DO&G received no new license proposals in FY05 or FY06. DNR rejected the Holitna license converted under AS 38.05.177 in FY05. These lower potential, higher risk areas require more outreach, promotion and availability of public data.

In FY05, DO&G completed the title work, best interest finding and public process for the Bristol Bay Exploration License. The license was awarded to the applicant, however, the applicant failed to execute the license. Applicants have chosen not to execute two of the last four exploration licenses awarded by DO&G, a circumstance beyond DNR's control, resulting in lower licensed acreage than anticipated.

Target #3: Maximize number of new exploration wells permitted in fiscal year.
Measure #3: Percentage of new exploration well applications permitted per year.

Analysis of results and challenges: FY07: Twenty-one exploration/delineation wells were drilled and completed on the North Slope. Of this total, six new exploration wells drilled in NPR-A; eight exploration wells drilled on state lands; and seven delineation wells on state lands in existing units (wells drilled to gather reservoir information in order to determine development strategy for shallow heavy oils sands (West Sak and Schrader Bluff formations in Nikaitchuq, West Sak, and Milne Point units) during the past fiscal year. Companies are investing in drilling delineation wells to determine the economic viability of producing heavy oil (Schrader Bluff / West Sak). No exploration wells were drilled. Aurora drilled the Endeavor well in Cook Inlet on private land. The majority of drilling in Cook Inlet involves development drilling within existing units, predominantly by Marathon and Chevron. Several exploration wells are planned in FY08 by new operators. To date there is no jack-up rig in Cook Inlet available to drill exploration wells. Pioneer is currently drilling an oil delineation well in the Cosmopolitan Unit. The division requests data for the DOR EIC program AS 43 55.025. For 06-07, the division requested data for eight exploration wells, five wells were drilled in NPR-A, and nine seismic surveys were conducted (all but one on the North Slope and most were in NPR-A. The DOR exploration incentive program has been popular with industry). As a result of the program, companies that receive credit are required to provide confidential seismic and well data to the state. The wells are released in a 24-month time frame. The seismic information becomes publicly available in 10 years. Prior to this statute there was no vehicle to release seismic data to the public.

FY06: Twenty-three exploration wells were permitted during the period; eight were drilled. The decision whether to drill the wells is beyond the control of the division. The permits were issued in a timely matter. Promoting the improved project economics under the Petroleum Profits Tax and other incentive programs should result in increased activity.

FY05: Fifteen wells drilled. Eight were completed in northern Alaska during FY05: five on state Beaufort Sea tidewater leases (one a possible oil discovery, no information yet on the others); one on a state North Slope onshore lease; and two on federal NPR-A leases. At least seven wells were completed in the Cook Inlet basin (all onshore): four on state leases; one on a MHT lease; and two on CIRI leases. Five of the Cook Inlet wells are classified as gas discoveries.

A1: Strategy - Hold regularly scheduled lease sales.

Target #1: Five sales held on schedule in accordance with the Five-Year Oil and Gas Leasing Program.
Measure #1: Number of sales held on schedule.

Analysis of results and challenges: 100 percent in compliance.

A2: Strategy - Promptly issue leases and licenses without compromising legal integrity of the lease or license.

Target #1: Leases awarded within nine months of lease sale.
Measure #1: Average time to award a lease.

Analysis of results and challenges: FY07: Leases resulting from North Slope 2006A and Beaufort Sea 2006A lease sales were awarded within nine months; leases from Alaska Peninsula 2007 were awarded within five months; Cook Inlet 2007 lease awards are in progress. FY06: North Slope Foothills awarded in nine months; Cook Inlet awarded in 14 months; North Slope awarded in 12 months; Beaufort Sea awarded in 10 months; Alaska Peninsula awarded in 12 months.

The primary driver on the length of time to issue the leases is the time it takes to acquire the title reports and a review by surveys of the lease tracts. The length of time has increased partly due to the increased number of tracts receiving bids. In addition, the title shop within the Division of Mining Land and Water has been struggling with recruiting and retaining qualified staff to complete the work in a timely manner. Without a stable, fully trained work force in the title and surveying sections, oil and gas leases will continue to be awarded later than desired.

FY06: North Slope Foothills – awarded in nine months, Cook Inlet awarded in 16 months, North Slope awarded in 12 months, Beaufort Sea awarded in 10 months, Alaska Peninsula awarded in 12 months.

The primary driver on the length of time to issue the leases is the time it takes to acquire the title reports and a review by surveys of the lease tracts. The length of time has increased partly due to the increased number of tracts receiving bids. In addition, the title shop within the DML&W has been struggling with recruiting and retaining qualified staff to complete the work in a timely manner. Without a stable, fully trained work force in the title and surveying sections, oil and gas leases will continue to be awarded later than desired.

FY05: North Slope Foothills sale – six weeks to award. Cook Inlet sale –10 months to award. Beaufort Sea sale – six months to award. North Slope sale – eight months to award.

Target #2: Licenses awarded within 18 months.
Measure #2: Number of licenses awarded within 18 months.

Analysis of results and challenges: FY07: Two exploration license applications were received in FY07; Crooked Creek and Houston. Those applications are in progress and on schedule. The Healy Exploration License application remains "on hold."

FY06: One license in process and one denied. Both are beyond the target timelines – one was problematic due to significant local opposition and minimal overall value to the state; award of the second has been delayed at the applicant's request.

FY05: Awarded Bristol Bay Exploration License 14 months after receiving application.

A3: Strategy - Actively market and evaluate Alaska's oil and gas potential.

Target #1: Two new companies actively exploring in Alaska per fiscal year.
Measure #1: Number of new oil and gas companies actively exploring or developing in Alaska.

Analysis of results and challenges: FY07: Two new companies, ENI and Brooks Range Petroleum drilled wells as operator on the North Slope. ENI shot a small 2D seismic survey in FY06, resulting in the drilling of three wells in FY07. Brooks Range drilled two wells just north of the Prudhoe Bay Unit using existing seismic data. It's difficult to pinpoint the reasons a company enters a basin, but the division's participation in annual conventions and other outreach programs are certainly a factor. Savant plans on drilling its Kupcake prospect near Endicott (Liberty) next drilling season. Benchmark entry into a sizeable acreage position in Cook Inlet is a good example of the success of the division's outreach program. Some of the new companies, such as Brooks Range, consist of individuals who worked for major oil companies in Alaska for a good part of their careers and are able to form a company with the drilling of specific prospects in mind. ENI acquired Kerr-McGee's interest in the Nikaitchuq Unit and drilled two delineation wells this past winter in preparation for potential future development. Shell suffered major setbacks in its offshore MMS program due to North Slope Borough's concerns over disrupting subsistence whale hunts.

FY06: Four companies have entered or re-entered the Alaska market.

Shell has re-entered Alaska in a big way, buying leases in the Alaska Peninsula sale and the MMS Beaufort Sea sale. ENI is now involved in Alaska. Benchmark purchased numerous leases in the Cook Inlet sale area and is pursuing exploration plans. Duke Energy and several individuals also purchased leases in Cook Inlet. Swift Energy and Centurion Gold have partnered with existing lease holders. With continued budget, we will be able to evaluate oil and gas potential along gas pipeline corridor and perform follow-up lease sale planning and avoid delays in releasing public oil and gas information. We will also pursue facility sharing agreements and continue outreach to companies not currently active in Alaska.

FY05: Three new companies are involved in Alaska.
Alaska Energy Alliance, Rutter and Wilbanks Corp., and Storm Cat Energy Corp. acquired leases in the recent Cook Inlet lease sale.

FY04: Four new companies are involved in Alaska.
Kerr-McGee has partnered with Armstrong Alaska Inc. in Beaufort Sea exploration, and Pioneer Natural Resources Alaska Inc. acquired leases in the Beaufort Sea, North Slope, and Mat-Su areas. Fortuna acquired leases in the Beaufort Sea, and Pioneer Oil and Gas acquired leases in Cook Inlet.

A4: Strategy - Evaluate new areas for oil and gas exploration and development prior to a final best interest finding.

Target #1: Evaluate 100 percent of proposed sale/exploration license areas.
Measure #1: Percent of potential lease sale/exploration licenses evaluated.

Analysis of results and challenges: FY07: Two new exploration license areas were evaluated for their subsurface oil and gas potential and another license area that was under appeal was reviewed. Also, two areas nominated for geothermal exploration received some geologic review. Since the data for these areas are mostly surface geology with some geophysical electro-magnetic surveys, it is difficult to quantify potential. More data will certainly be collected in the future for this type of play.

FY06: Significant subsurface geological information pertaining to evaluation of the Alaska Peninsula lease sale has been released. Other lease sale areas are under continual review. Additional resources will be necessary to evaluate unexplored areas nominated for exploration licensing because such areas are outside of areawide lease sale areas that are subject to ongoing assessment by division staff.

FY05: Evaluated hydrocarbon potential on unleased tracts prior to all scheduled lease sales. Initial Alaska Peninsula geological field program completed.

FY04: Evaluated hydrocarbon potential on unleased tracts prior to all scheduled lease sales.

A5: Strategy - Efficiently adjudicate exploration permits.

Target #1: 100 percent of exploration permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year.
Measure #1: Percent of exploration permits issued within the timeline.

Percent of exploration permits issued on time

Year	YTD
2003	90 %
2004	90 %
2005	100 %
2006	95 %
2007	98 %

Analysis of results and challenges: FY07: All ACMP timelines were met; issuance of permits lagging ACMP reviews has improved despite continued hiring and retention challenges.

FY06: Ninety-five percent issued on time.

All deadlines for ACMP review have been met; issuance of permits has lagged ACMP approval due to workload and staffing issues. Ability to timely adjudicate the anticipated expansion of the permitting workload, including Alaska Peninsula permits; gas line permitting; gas hydrates; and gas-only exploration licenses and leases will also be addressed by increased, permanent resource allocation.

FY05: One hundred percent issued on time.
With increased resources to fund a Natural Resource Specialist IV and a Natural Resource Specialist III the division's ability to adjudicate new and increasing statewide gas-related exploration activities, including Alaska Peninsula permits, gas hydrates and gas-only exploration licenses and leases has been increased.

FY04: 90 percent issued on time.

B: Result - Maximize benefits of development and production to the state.

Target #1: Five percent maximum decrease in statewide oil and gas production from previous fiscal year.
Measure #1: Percentage change in rate of production.

Percentage Change in Production

Year	Oil %	Gas %
FY 2003	-2.0%	-2.4%
FY 2004	-1.7%	0.8%
FY 2005	-7.8%	1.9%
FY 2006	-6.2%	-1.0%
FY 2007	-13.2%	-9.6%

Analysis of results and challenges: FY07: This year's drop was due to unanticipated maintenance in the Prudhoe Bay Unit due to corrosion in the gathering pipelines. New satellite pool development in exiting units, new field development under way and planned, and continued viscous oil development will reduce, but not eliminate, the production decline. The Lease Monitoring and Engineering Integrity initiative requires new budget support to implement. Without continued budget support, production will decline even faster.

B1: Strategy - Efficiently adjudicate development permits.

Target #1: 100 percent of development permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year.
Measure #1: Percent of development permits issued within the timeline.

Percent of permits issued on time

Year	YTD
2005	100%
2006	100%
2007	100%

Analysis of results and challenges: FY07: 100 percent of permits due were issued on time.
Current resources are maximized with current workload.

FY06: One hundred percent issued on time.

FY05: One hundred percent issued on time.
The division is actively participating in permitting for the Oooguruk and Nikaitchuq North Slope offshore development proposals and Ninilchik and Kasilof onshore gas developments in Cook Inlet. Offshore development projects continue to be permitting challenges due to increased environmental and oil spill response issues.

B2: Strategy - Promptly adjudicate completed lease assignments.

Target #1: 100 percent of lease assignments adjudicated within 15 working days.
Measure #1: Percentage of lease assignments adjudicated within 15 working days.

Percent of lease assignments within 15 days

Year	Aver # days	YTD
2004	15.5	54.9%
2005	28.6	22.1%
2006	14.0	100%
2007	38.0	100%

Analysis of results and challenges: FY07: Of 973 assignments, 45 percent were issued within 15 days; the overall average time to issue an unusually large number of lease assignments was 38 days.

FY06: 100 percent issued within 15 days; overall average time to issue is 14 days. More than 1,000 lease assignments adjudicated.

FY05: 22.1 percent issued within 15 days; overall average time to issue is 28.6 days FY05 performance was impacted by the gas line negotiations. Internal alignments were made to meet the target in the first quarter of FY06.

B3: Strategy - Keep up with the increasing numbers of unit-related decisions (plans of exploration/development/PAs).

Target #1: 90 percent of unit/participating area decisions issued within 90 days.
Measure #1: Percentage of unit/participating area decisions negotiated and issued within 90 days.

% of unit decisions within 90 days

Year	YTD
2004	100%
2005	100%
2006	93%
2007	100%

Analysis of results and challenges: One hundred percent compliance in FY07. The units section is fully staffed and capable of analyzing the increasing number of unit actions. Oil and gas units and participating areas (PAs) are the operating and commercial framework for most oil and gas production in Alaska. The division's continued ability to manage the state's units is critical to the state's economic future. These complex negotiated unit and PA agreements provide the framework for maximizing production with minimum environmental impact while protecting the rights of all parties.

93 percent compliance in FY06. Same note as above.

100 percent compliance in FY05.

100 percent compliance in FY04.

B4: Strategy - Negotiate new unit agreements or modifications to current unit agreements that accelerate exploration and development and maximize the economic benefit to the state.

Target #1: Negotiate two unit agreements per fiscal year that provide for accelerated exploration and development.
Measure #1: Number of unit agreements that accelerate exploration and development.

Analysis of results and challenges: Four new units were negotiated and approved in FY 07.

Six new units approved in FY06.

One new unit agreements in FY05.

Three new unit agreements in FY04.

B5: Strategy - Perform inspections of oil and gas operations.

Target #1: 100 percent of seismic, exploratory, and production operations inspected each year.
Measure #1: Percent of seismic, exploratory, production operations inspected each year.

Analysis of results and challenges: FY07: Ninety-five percent of operations inspected.

FY06: Ninety percent. New staff hired in the third quarter has been quickly coming up to speed and assisting in the inspection program. The new positions are crucial in meeting this established goal.

Ongoing exploration activities and incremental changes to existing development increase each year the total number of sites requiring on-site inspection for compliance with lease and permit conditions. Permanent addition of permitting staff has had significant positive impact on achieving goals, including additional expected gas-related activities, gas pipeline permitting, Alaska Peninsula activities, gas hydrates, and gas-only exploration licenses.

Eighty-five percent complete in FY05. Operations not inspected by June 30, 2005, include those planned for summer construction or inspection, and seismic operations planned for next winter.

Eighty-five percent complete in FY04.

C: Result - Maximize non-tax revenue from state oil and gas production.

Target #1: $ 1.6 billion
Measure #1: Amount of non-tax revenue received for total state production of oil and gas.

Amount of non-tax revenues

Year	YTD
FY 2004	$1.42 billion
FY 2005	$1.91 billion
FY 2006	$2.39 billion
FY 2007	$2.16 billion

Analysis of results and challenges: FY07: This amount includes income from royalties, bonus bids, rental payments, and state share of federal oil and gas revenues (regular payments as well as money from reopeners and audits) from oil and gas throughout the state. Without continued budget support, audit activity will decrease, royalty settlement reopeners will be less effective, and analysis of pipeline tariff rates and quality bank fees will be postponed.

The royalty, audit, and commercial sections continue to monitor royalty payments, royalty settlement agreements with lessees, and royalty-in-kind contracts, and take advantage of every opportunity to assure that the state is getting full value for its royalty and gas.

The FY04 ANS spot price averaged $32.36 a barrel and trans-Alaska pipeline system (TAPS) volume was 0.973 million barrels per day of oil. The FY05 ANS spot price averaged $44.83 a barrel and TAPS volume was 0.909 million barrels per day of oil. For FY06 ANS spot price averaged $62.08 a barrel and TAPS volume was 0.837 million barrels per day of oil. For FY07 ANS spot price averaged $62.58 a barrel and TAPS volume was 0.731.8 million barrels per day of oil.

C1: Strategy - Ensure that the state receives the best negotiated value in the sale of its royalty-in-kind (RIK) oil and gas.

Target #1: Receive $ .30 per barrel more from RIK as opposed to royalty-in-value (RIV).
Measure #1: Difference between RIK and RIV.

Analysis of results and challenges: In FY08, Quality Bank rulings from the Federal Energy Regulatory Commission will result in both prospective and retroactive adjustments to the RIK contract price for RIK purchasers. Without continued budget support, RIK analyses and billing will be delayed.

100 percent compliance in FY07.
100 percent compliance in FY06.
100 percent compliance in FY05.
100 percent compliance in FY04.

With the conclusion of the ExxonMobil royalty settlement agreement reopener, the commercial section will assist the division in making a claim for retroactive adjustments in the price of royalty-in-kind oil sold during the period January 2001 to March 2004.

C2: Strategy - Conduct timely audits.

Target #1: Complete four royalty audits each fiscal year.
Measure #1: Number of royalty audits completed during FY.

Analysis of results and challenges: Ten royalty audits are currently in progress.

Seven audits were completed in FY07.
The audit section is responsible for auditing, analyzing, or verifying virtually all of the oil and gas royalties collected by the State of Alaska, which is one of the state's largest two components of revenue (excluding federal and investment revenues). The audit section also audits federal leases in Alaska under a delegation from the U.S. Minerals Management Service, and the State of Alaska receives a share of the federal royalties. The section's auditors are responsible for verifying oil and gas royalties either directly through audits or through review and negotiations during periodic amendments to royalty settlement agreements (called reopeners in the case of agreements with the three major oil producers on the North Slope). Without continued budget support, audits and audit recoveries will be delayed.

Four audits were completed in FY06.

Eight royalty audits completed in FY05.

Four royalty audits completed in FY04.

C3: Strategy - Ensure that the state receives full value for oil and gas royalty-in-value (reopeners).

Target #1: 100 percent of reopeners increase value.
Measure #1: Percent of reopeners that increase value.

Analysis of results and challenges: FY07: The state continued to progress its royalty settlement reopener with BP, and has prepared for royalty settlement reopeners with ConocoPhillips. ExxonMobil has refiled royalty reports from January 2001 to December 2006 and paid $12.2 million. In addition, royalty payers whose value is tied to Exxon's value also refiled their reports and paid the state $8.7 million. The state also has an accounts receivable with one company for $7.0 million. The division is currently analyzing a potential royalty settlement agreement reopener with a major oil producer.

Key Component Challenges

The Division of Oil and Gas manages the state's oil and gas resources with a staff of 99, consisting of highly specialized technical experts educated as geologists, geophysicists, engineers, IT professionals, attorneys, economists, accountants, commercial analysts, and natural resource specialists who work in asset teams but administratively are assigned to seven sections: administration, audit, commercial, leasing/permitting, resource evaluation, royalty accounting, and units. They strive to accomplish the following:

Encourage Exploration and Development by:

- Promoting and facilitating an increased role for independent oil and gas companies willing to develop new regions of the state.
- Participating in outreach activities.
- Improving the quality and quantity of information on the division's Web site in order to attract new companies to Alaska and facilitate resource development in the state.
- Increasing division's participation in geological field work in the North Slope foothills, central North Slope, the Alaska Peninsula, and Cook Inlet basin in support of DGGS field programs that promote exploration in these areas.

Maximize Benefits of Development and Production to the State by:

- Better evaluating Cook Inlet long-term gas supply and deliverability. The commercial section routinely updates estimates of Southcentral Alaska energy requirements and the demand for natural gas.
- Minimizing or eliminating vacancies and keeping the division fully and competently staffed to rapidly lease acreage; promote or compel early exploration, development, and production; and maximize revenues to the state.
- Increasing the number of permitters/inspectors to oversee oil and gas operations in populated areas and increased Cook Inlet gas exploration and development.
- Ensuring the system integrity of the oil and gas infrastructure used to extract, process, and transport Alaska's oil and gas resources to minimize down time and maximize revenue to the state.

Maximize Non-tax Revenue from State Oil and Gas Production by:

- Developing and implementing the Alaska Gasline Inducement Act to promote a competitive approach to a gas pipeline that speeds development and maximizes the value of the state's gas resources.
- Providing analysis to the Department of Revenue so that proposed changes to Alaska's production tax improve incentives for exploration and development.
- Participating in proceedings of Alberta's Energy Utility Board to develop policies that ensure Alaska receives full value for natural gas liquids in the event that a gas pipeline terminates in Alberta.
- Adding commercial and audit expertise to evaluate oil and gas pipeline tariff proposals, royalty reduction applications, North Slope gas fiscal systems, North Slope and Cook Inlet facility sharing models and improve audit capabilities.
- Providing negotiation expertise in every division decision to create commercial opportunities for the state.
- Preparing for additional royalty in-kind (RIK) oil and gas sales and tracking potential retroactive price adjustments as required under existing RIK sales contracts.
- Improving and expanding the oil and gas royalty accounting system so that the division can continuously monitor crude and gas values, field processing and transportation costs. This would result in quicker and more timely audits to rapidly enhance state revenue.

Major activities occurring in or planned for FY08 - FY09 are discussed below. In the upcoming fiscal year, the division expects to see an increase in activity by independents, both large and small, and other new entrants to Alaska. As the major oil companies dealt with maximizing existing assets, merger-related staffing, portfolio issues, and other worldwide opportunities, independents and new entrants initiated a surge in unitization onshore and south of existing Prudhoe Bay and Kuparuk oil fields. These lessees are eager to explore for gas and oil reserves and find new gas reserves for a gas pipeline to supply North America.

While the frontier exploration efforts of the majors has diminished, except for activity in NPRA, they have been active in the development of satellite fields near existing infrastructure and viscous oil reservoirs within existing units. The majors are also proceeding with the initial permitting stages for the development of the western Colville River delta and NPRA. Chevron, with partner Unocal, has permitted 15 wells in the White Hills area south of the Kuparuk Unit. Neither company has drilled a well on the North Slope in almost a decade. Chevron is staging its equipment and mobilization from Franklin Bluffs (Mile 39.6 on the Dalton Highway). Likely targets are the upper Cretaceous and the Kuparuk formation.

BP is planning to develop its Liberty field in the Beaufort Sea by extended-reach drilling from existing onshore facilities at Endicott. Pioneer completed construction of the gravel island for its Oooguruk project. ENI has acquired sole ownership of the Nikaitchuq project earlier this year from Anadarko (previously Kerr-McGee's) and has applied for royalty relief. Anadarko's Jacob's Ladder will continue drilling the well it suspended last winter due to tundra travel restrictions, ENI Petroleum's Rock Flour drilled three exploration wells south of the Kuparuk field. Savant plans on drilling a well, Kupcake, near Liberty next drilling season. Several companies are appraising West Sak/Schrader Bluff heavy oil developments. BP and partners built I-Pad at Orion satellite PA to produce reserves in the northern portion of that PA in the Prudhoe Bay Unit adjacent to the Milne Point S Pad development. ConocoPhillips drilled several West Sak appraisal wells (northeast West Sak), area wells, and laterals at 1J pad to determine the economic viability of producing viscous oil. ENI drilled two Schrader Bluff appraisal wells in the Nikaitchuq Unit and BP drilled two Schrader Bluff appraisal wells, Liveano #1 and Pesado #1 in the Milne Point Unit. This change in exploration effort from majors to independents is clearly reflected in recent lease sale results and ownership interest assignments.

Cook Inlet exploration activity has decreased (no exploration wells were drilled in FY07). Most of the drilling activity is Chevron and partner Unocal drilling development gas wells in existing units. Gas storage has become important to help with deliverability. The division continues negotiating two new units with offshore exploration drilling begun in the fourth quarter FY06. New production from the Ninilchik Unit is being delivered to markets, and Kasilof gas production is expected by the end of the second quarter of FY07. Pioneer is drilling a delineation oil well in the Cosmopolitan Unit. The well is drilling from an onshore pad directionally to the offshore for appraisal (economic feasibility).

A. Encourage Exploration and Development:

- With the demand for additional areawide lease sales and exploration licenses comes an increase in title work and lease administration as well as environmental and socioeconomic review in the form of best interest findings, development of mitigation measures, and compliance with the Alaska Coastal Management Program. The division is also seeing success in the administration's efforts to bring new independents into the state, with a resulting increase in staff time assisting and educating new bidders and lessees.

- With regard to leasing and licensing, the division continues to review all mitigation measures for competitive lease sales and exploration licensing, modifying these measures as new concerns arise and the oil and gas industry evolves. Each exploration license requires a specific best interest finding. In some cases, an Alaska Coastal Management Program (ACMP) consistency determination is required to ensure the license provisions are consistent with the state's ACMP and local management plans. The division is currently evaluating two new exploration license proposals, in the Mat-Su and Interior areas, and has begun the best interest finding process for the North Slope and Beaufort Sea sale areas to be finalized in time for the expiration of the current findings in 2008-2009.

- Increased title work: Exploration licensing, along with the addition of a fifth areawide sale area, has presented the division with previously unscheduled work requirements, most notably title work. Each license proposal requires title work on up to 500,000 acres. Title work in these areas can be complicated and time-consuming because of multiple subsurface estate ownership issues. Keeping up with this increased title workload has been difficult for the division's two-person title unit. The Division of Mining, Land and Water also is facing a significant challenge in recruiting and retaining qualified staff in the title research function, and has had to balance preparation of title reports for oil and gas with other state projects. The division anticipates title work demands to remain high as a result of successful lease sales in FY07.

<u>Areawide Oil and Gas Lease Sales:</u> The resource evaluation section will continue to provide geological, geophysical, and engineering support for the five annual areawide oil and gas lease sales on the state's current master lease sale schedule. This information is utilized by the commercial and lease sales sections together with economic and cost data

to establish the bidding terms of the areawide lease sales. As during FY06, assessments of the Alaska Peninsula and North Slope Foothills areawide lease sale areas will continue to require additional surface and subsurface studies to provide improved assessments of their petroleum potential. New surface and subsurface geological studies under way in the Cook Inlet basin are designed to spur industry interest from smaller operators.

Resource Assessments: Progress in the gas pipeline, gas hydrates research, and possibly ANWR leasing will support ongoing investigations by resource evaluation staff during FY07. Given the amount of federal money made available for study of gas hydrate potential, resource evaluation staff will likely contribute to those studies. Resource assessments are also key decision elements when evaluating exploration licenses, land selections, and surface access routes. Geological field programs offered jointly by the Division of Oil and Gas and DGGS provide regional geological surface mapping along with detailed geological outcrop studies that are integrated with subsurface geological and geophysical data. During the summer of 2007 (FY07-08), geological field programs provided jointly by the two divisions included:

- North Slope Energy Program Field Studies: Detailed measured sections, and stratigraphic-tectonic investigations, preliminary geologic mapping, and Industry Sponsors Tour near the Dalton Highway in the north-central foothills state lands. Worked from logistics camp at Galbraith Lake and remote spike camps at key outcrop locations. Three-and-a-half week program, June-July 2007.
- Alaska Peninsula Field Program: Structural studies focusing on the Ugashik Lakes and Bruin Bay fault systems adjacent to the northern part of the Alaska Peninsula Areawide Sale. Measured sections, thermal maturity, source rock, and reservoir evaluation of Triassic Kamishak and Jurassic Kialagvik formations at Puale Bay. Two week program, August 2007.
- Cook Inlet Field Program: Continued multi-year stratigraphic and tectonic studies of Cook Inlet basin, emphasizing Tertiary reservoir formations in lower Kenai Peninsula and west side Cook Inlet. Three-and-a-half week program; May, August, and September 2007.

During the summer of 2008 (FY08-09): Additional North Slope and Cook Inlet geological field parties are tentatively planned:

- North Slope Energy Program: Continued Inch-to-mile scale geologic mapping, structural studies and stratigraphic investigations of Lower Cretaceous to Paleocene units in the northern Foothills near Dalton Highway. Estimating three-four weeks division participation.
- Cook Inlet Field Program: Continuation of regional basin evaluation initiated in 2006 and progressed in 2007. Estimating two-three weeks division participation.

A joint division/DGGS Alaska Peninsula studies project that could include the following studies is also possible:

- Field studies to characterize hydrocarbon source rock and speculative reservoir potential of Triassic Kamishak, Jurassic Kialagvik formation and equivalent Tuxedni Group strata; relevant to both Bristol Bay and Cook Inlet basin analysis. Estimating one-two weeks division participation if program executed next summer.
- Commission an engineering study to evaluate feasibility and cost of re-entering and re-evaluating the Becharof State 1 well for potential local gas supply to eastern Bristol Bay communities (suggested to BBNC).
- Evaluate cost and benefits of acquiring publicly-available high-resolution aeromagnetic data in southwestern Alaska Peninsula/Bristol Bay, where no aeromagnetic coverage currently exists, as a means of encouraging industry exploration in region.

Alaska Gas Line: Upon award of a license under AGIA, resource evaluation geoscientists and engineers will have to assess the resource potential of gas-prone areas and possible conventional and unconventional gas reservoirs throughout state lands on the North Slope and in the Interior. North Slope Foothills-area lessees and others have proposed extensive geophysical and drilling exploration projects that will move forward upon successful conclusion of a gas pipeline contract. The extensive size of the foothills lease sale area and the large quantity of new information received from related programs will require dedication of substantial resources from the section.

Gas Hydrates Exploration and Development Technology: A joint DOE, USGS, industry team successfully drilled the Mount Elbert well, testing several gas hydrates prospects within the Milne Point field on the North Slope. As reported in the Petroleum News in early 2007, the BP-operated stratigraphic test penetrated several hundred feet of hydrate-bearing sandstone. The well proved that established oil and gas exploration concepts can be successfully adapted to hydrates exploration. A significant amount of core and log data was collected and is being analyzed in preparation of the study's next phase, a long-term production test.

The DOE mandate of understanding by 2015 how much of the North Slope in-place gas hydrate resource might be recovered will be strongly supported by this and other efforts on the slope. A division resource evaluation petroleum geophysicist has begun analysis of the highly prospective west end Prudhoe, to be used as a potential secondary area for evaluation, if needed. In addition, division geoscientists are supporting industry studies by facilitating access to public well and seismic data to be used in hydrates research.

- The division is working with West CARB (West Coast Regional Carbon Sequestration Partnership), a consortium of western states, and ARI (Advanced Resources International Inc., the consulting firm) in identifying areas in Alaska to store carbon dioxide. Division personnel compiled a map entitled "CO2 Sequestration Base Map – Alaska Basins & Infrastructure" for use in discussions with West CARB during late August 2006 to discuss the scope of the division's involvement, duties, and responsibilities. Division personnel created a large-scale net sand map of the Tertiary Cook Inlet basin based on well-log data.

- Arctic National Wildlife Refuge: If a decision is made to open the refuge we expect the division, including the resource evaluation section, to be invited by federal agencies to participate in development of resource assessments and operational regulations.

- Public Outreach: During FY09, the division will remain a key player in the administration's program to attract new players to Alaska's oil patch. Resource evaluation staff plays a key role by compiling, formatting, and distributing technical information of value to explorers. This information is produced in the forms of maps, charts, photographs, and reports depicting and describing the petroleum potential and petroleum system character of petroliferous basins in the state. During April 2007, resource evaluati staff joined the DGGS energy section staff in hosting its first annual two-day meeting with industry geoscientists and managers in Anchorage to share results of recent petroleum systems studies of the North Slope, Cook Inlet, and Alaska Peninsula. That event was highly successful, attended by more than 50 geologists from numerous companies, and will be repeated during March 2008. Such interactions are expected to flourish throughout FY08 as the division continues to integrate surface and subsurface studies.

  Most, if not all, of the information will be Web-enabled to assure timely and equitable distribution to the public. The division will also continue to use this information in booth displays and handouts to promote Alaska opportunities at several national conventions throughout the year. That involvement is expected to grow throughout FY09 as the division, often in collaboration with the DGGS, expands surface and subsurface studies.

  Resource evaluation geologists and geophysicists have created industry interest in Cook Inlet and the North Slope by providing map compilations summarizing geological, geophysical, and currently producing areas on the North Slope and Cook Inlet and facilitating companies' searches for publicly available well log, seismic, and engineering data. The division's interaction with a variety of oil and gas exploration companies, including majors and independents, has provided companies interested in investing in Alaska critical information that facilitates the search for basic data to jump-start exploration and development ventures. Recent industry interactions have included Shell, Benchmark, FEX, Petro-Canada, Chevron, Pioneer, ConocoPhillips, Brooks Range Petroleum, and other agencies and individuals with links to the Alaska oil and gas industry.

- A frequent complaint in the past has been that the state resource agencies publish too little information regarding the petroleum potential of the state. Recent additions to the resource evaluation staff have provided the division with substantial expertise in several specialized geologic and geophysical fields, allowing the collection, analysis, and publication of information to a degree previously not possible. Close collaboration between the division's resource evaluation section and the DGGS energy section, including regular staff teleconferences, ensure that both groups are committed to the collection, interpretation, and publication of information relevant to companies considering or conducting exploration in Alaska.

- The cartography group within the resource evaluation section provides virtually all of the mapping, graphics, software, and conventional and Web-interfaced publication support for the division. The group prepares most of the graphics used by DNR and division management at their presentations to the administration and Legislature, other departments, and industry groups. This past year, personnel in the resource evaluation section prepared and published new and updated technical products for distribution on the division's Web site and the DGGS Web site and on CD-ROMs, including interpretive geologic reports, GIS-based North Slope Oil and Gas Resources poster series, detailed Brookian sequence stratigraphic interpretations, online page Key Sources of Alaska Oil and Gas

Data, Areawide Leasing and Licensing Programs, AAPG and NAPE booth montage series, including:

- Oil and Gas programs for the North Slope of Alaska
- Regional Geology of the North Slope of Alaska
- Seismic Data Availability for the North Slope of Alaska
- Gravity and Magnetic Data Availability for the North Slope of Alaska
- North Alaska Plays and Petroleum Systems
- State of Alaska Leasing and Licensing Map
- In addition, the division has prepared a data packet focusing on the resource potential of the Point Thomson area. This data collection is being supplemented with interpretive information for release later in 2007 or 2008, pending resolution of litigation.

B. Maximize Benefits of Development and Production to the State:

- The division is at the forefront of the state's overall oil and gas system integrity initiative. This effort will result in the state being in a position, for the first time, of anticipating where potential system failures and production stoppages may occur, and requiring proactive measures to minimize production stoppages The Petroleum Systems Integrity Office (PSIO) is addressed in a separate component.
- This effort will require a significant increase in the division's technical expertise and inspection capacity.
- A corollary and sizable task is the demand for investigations in response to public concerns. In the first seven months of the PSIO operation, four investigations have been conducted. The workload involved is significant and separate from that of the planned PSIO and permitting functions. In addition to an increase in personal service costs, the effort will also require additional contracting and travel expenses.
- Increased demand for administration of oil and gas leases: The North Slope, Beaufort Sea, North Slope Foothills, Cook Inlet, and Alaska Peninsula areawide lease sales will continue to increase the number of leases the division issues. As a result of the increased areawide leasing activity, along with a decrease in the number of leases expiring (due to production and unitization), the number of leases being administered has risen dramatically in the past few years (see Figures 1 and 2). Keeping up with the rising number of oil and gas leases that must be administered by the division is a constant challenge.

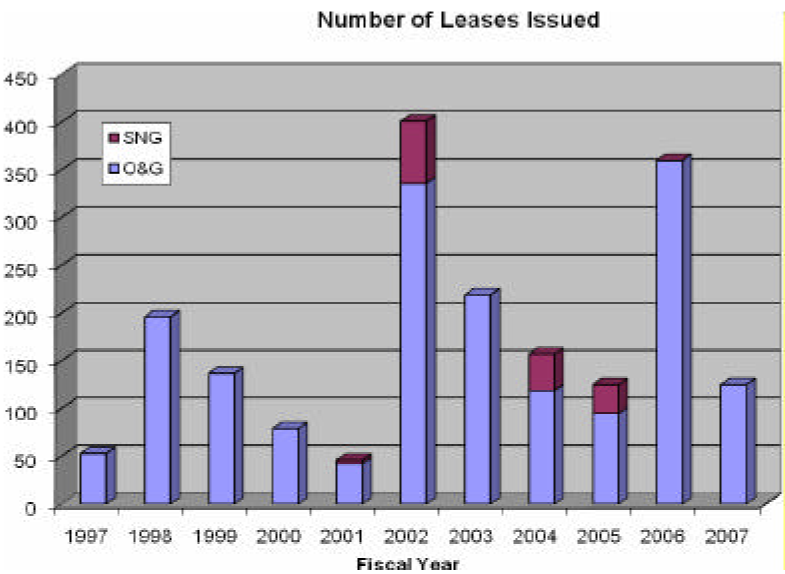

Figure 1

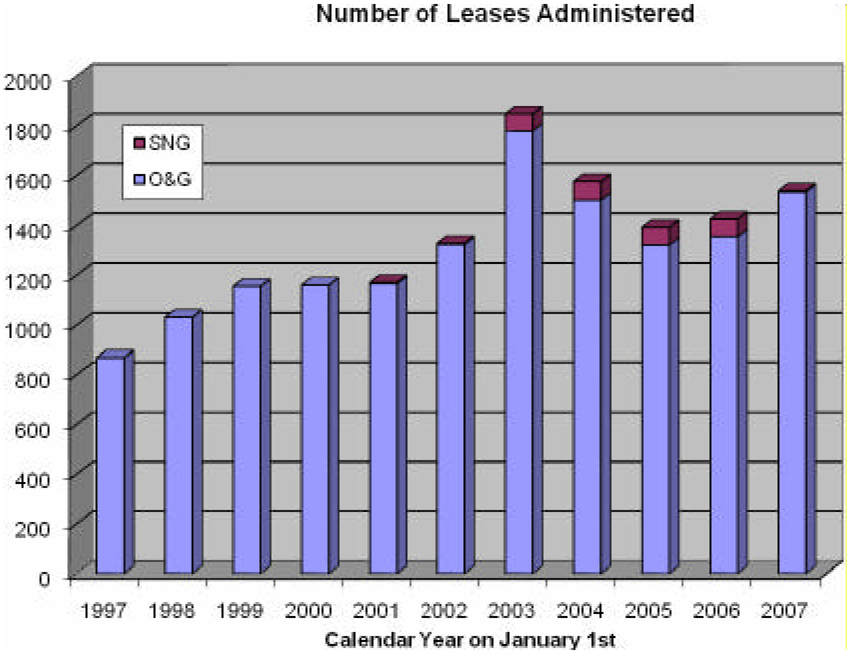

Figure 2

- Permitting: Exploration and development activity will also require more time from the division's permitting group. More projects will have to be reviewed, permitted, and monitored for compliance with stipulations, mitigation measures, and systems integrity requirements. The ongoing push toward North Slope gas commercialization and heavy (viscous) oil development at Prudhoe Bay, Kuparuk River, and Milne Point will increase the permitting and inspection workload due to new developments, pads, pipelines, and infrastructure on the North Slope. As remote fields become developed, greater distances and more complex logistics are involved with traveling to locations for inspections. Staff is actively participating in industry and government-sponsored programs to extend the winter tundra travel season and evaluate novel options for operating in the summer season. The challenges of aging infrastructure coupled with increased exploration in Cook Inlet result in replacement and new projects to maintain and increase production.

- High oil and gas prices and the decline in gas reserves and deliverability are causing an increase in exploration and development activity in Cook Inlet. Smaller companies and new companies are showing an interest in drilling exploration wells and operating existing facilities. Compared to more established Alaska operators, these new entrants have less experience and fewer resources, which can slow permitting and other approvals. Staff are spending greater amounts of time educating and guiding these companies through the permitting process, as well as on oversight and monitoring activities in the field, and formulating performance bonds to lower risk to the state.

- The increase in leasing and licensing for oil and gas in previously nontraditional oil and gas areas such as Bristol Bay, Copper River, Nenana, Healy, and the upper and lower Susitna Valley translates into more complicated and time-consuming permitting activities involving the applicants, state and local agencies, and the public.

- Offshore development projects continue to be a permitting challenge due to increased environmental and oil spill response issues.

- Successful involvement by new explorers has led to an increased number of lease assignments. We expect this trend to continue. Rapid processing of assignments accelerates the oil and gas development process. Figure 3 shows the continued elevation of the number of assignments over the past several years. A major challenge is keeping up with the fast pace of exploration permitting, leasing, and lease assignment approval requests.

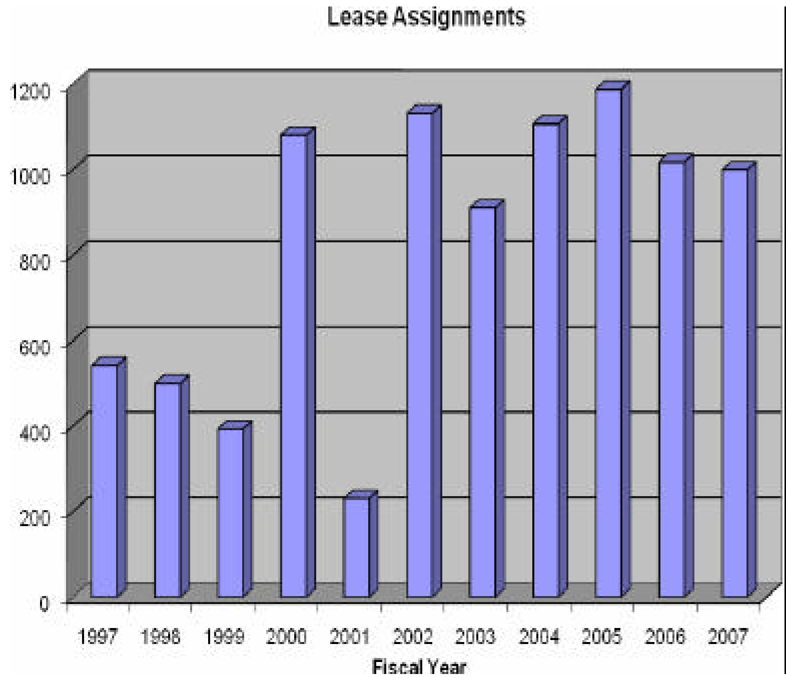

Figure 3

- Oil and gas units and participating areas (PAs) are the operating and commercial framework for most oil and gas production in Alaska, and the division's continued ability to manage the state's units is critical to the state's economic future. Unit and PA agreements provide the framework to maximize production and benefits with minimum environmental impact while protecting the rights of all parties. In order to offset the decline in production from the main reservoirs at Prudhoe Bay and Kuparuk, an increasing percentage of Alaska's oil production will need to come from new and smaller reservoirs, each requiring the formation of one or more PAs. Challenges facing the division include adjusting Alaska's model unit agreement to encourage development of higher risk projects, accommodate units with multiple royalty owners, and protect the state's interest in continuing development of known reservoirs. Several pools now scheduled for exploration and development have multiple royalty ownership, numerous private lands and surface issues that complicate unit administration, and have management authority that must be shared in cooperative unit agreements. Other challenges include the need to strengthen lease and unit terms to ensure timely development of the resource and providing mechanisms for operators to gain access to facilities without restricting the rights of facility owners.

- As of October 2007, the division oversees 38 active units and 59 active participating areas. Eighty-six unit actions were adjudicated in FY07. The total number of active units is the same as FY 2006, but four units were terminated and four new units approved. Figure 4 illustrates the significant long-term increase in participating areas. Negotiations are more complex; involving stakeholders and more complex geologic formations.

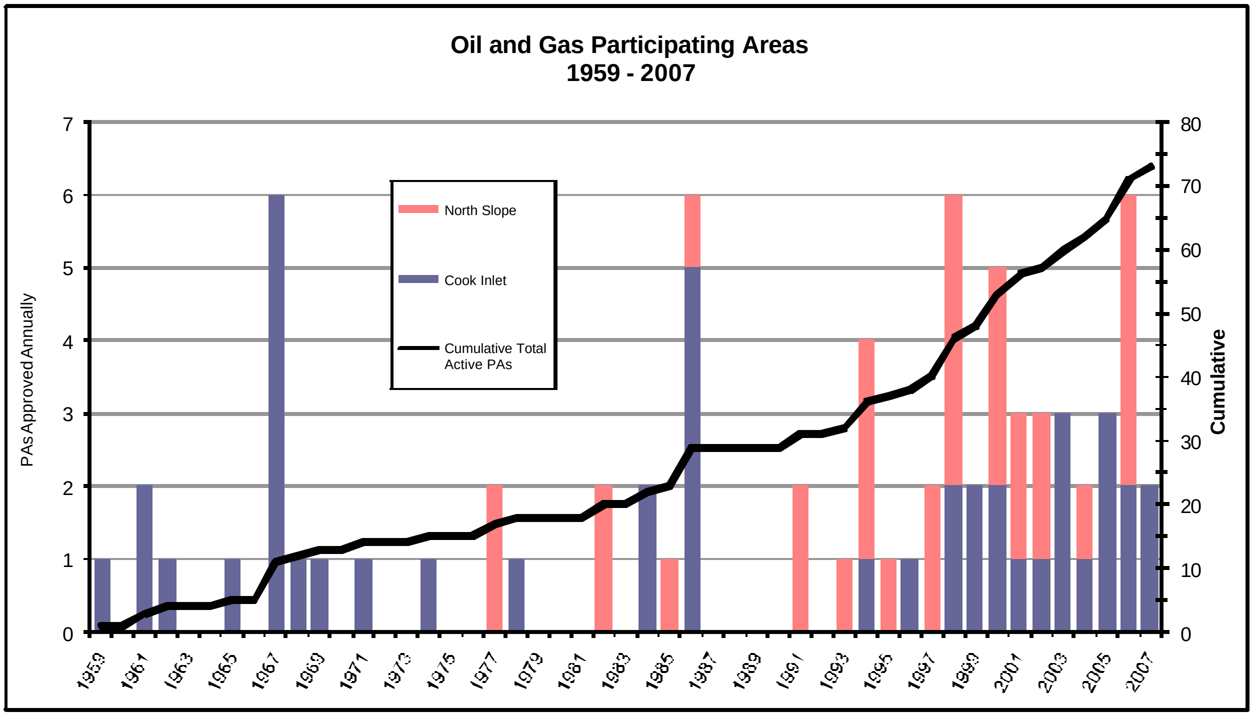

Figure 4

- Oil and gas production from satellite pools and new field start-ups are an increasingly important part of North Slope output. In 2004, more than 27 percent of ANS oil output was from new pools, new participating areas, and expansion areas of older participating areas that began production since 1995. (See Figure 5 and Figure 5A.)

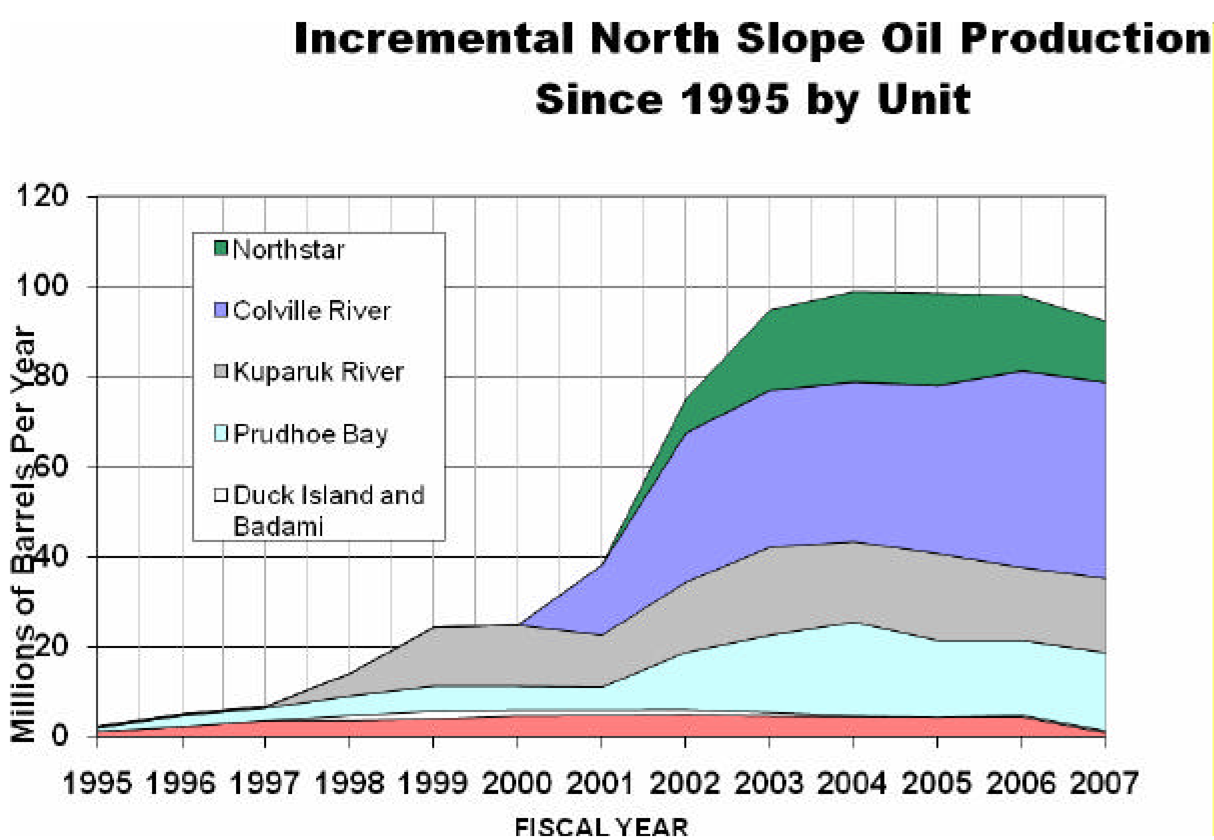

Figure 5

Fiscal Year	Incremental Oil Production Since 1995 (Millions of Barrels)	Total North Slope Oil Production (Millions of Barrels)	Percentage of Incremental to Total Oil Production
1995	2.578	550.928	0.5%
1996	5.231	529.395	1.0%
1997	6.945	499.146	1.4%
1998	14.268	456.849	3.1%
1999	24.509	404.554	6.1%
2000	24.989	389.294	6.4%
2001	38.320	372.251	10.3%
2002	75.171	375.618	20.0%
2003	94.901	367.215	25.8%
2004	98.840	361.623	27.3%
2005	98.462	333.164	29.6%
2006	97.983	309.437	31.7%
2007	92.298	270.749	34.1%

Figure 5A

- Additionally, relatively high oil and gas prices and the potential for a North Slope gas pipeline are leading to much greater activity in the division and in the field. Moreover, the equalization of the interests in the Prudhoe Bay and Kuparuk units has spurred an increase in the activity for satellite developments and gas-related projects in those units. As a result of a number of successful “satellite” wells, the number of unit actions has increased. Although they involve fewer barrels than flow from the major reservoirs at Prudhoe Bay and Kuparuk, many of these actions are extremely complex. Much of the new activity occurs at the edges of existing units or at the conjunction of two (or more) units and involves commingling of different production streams owned by different parties or having different royalty terms through common facilities using facility sharing agreements.

- Gas storage benefits residents, businesses, industrial users, and producers by maximizing reservoir recovery and balancing seasonal swings in gas demand from summer to winter. Development of underground gas storage facilities is as important to economic security and market deliverability in Alaska as it is in the Lower 48. Gas storage (not for EOR purposes) is new to the state, and the division is working to develop an efficient process for managing gas storage leases to enhance the Cook Inlet gas market.

- The commercial section works with the units, lease sales, and resource evaluation sections to develop commercial terms for lease sales and creating appropriate incentives to encourage the formation, expansion, and timely development of units and participating areas. The section also supports the audit staff on issues related to the market of Alaska’s oil and gas, the cost and profitability of marine and pipeline transportation, and other economic indicators.

- The commercial and resource evaluation sections also provide analysis and data for the department either in support of the administration’s legislative initiatives or to respond to information requests from the Legislature on bills that may impact oil and gas development.

- The commercial section, with a focus on value creation, provides expertise to the rest of the division each time there is a commercial interaction with industry. The division calls upon this expertise to identify value and provide experienced negotiation skills to capitalize on each commercial opportunity.

- Resource Allocations and Assessments: Each year the division verifies initial tract allocations for all new units and participating areas, and final tract allocations for participating areas that are in the first two years of production. Tract allocations are the process of determining actual and estimated production from beneath lease tracts and are the basis of equitable distribution of revenue to the lessee and royalty owners. They require compilation of complex geological, geophysical, and reservoir engineering simulation models which, when combined with past production data, can predict future production for the assumed life of a field. The process can take several months to complete, depending on the complexity of land ownership, and may be delayed if the division's geologic and engineering results differ from those proposed by the unit operator.

  - Northstar Unit Tract Allocation: The final allocation of the Northstar field reserves, originally scheduled for FY06, was delayed by the operator's success with additional development drilling. It is now expected to occur in the second quarter of FY08 due to the need to match production histories with the geologic and reservoir models. Because both federal and state leases with differing leasing terms are included in the Northstar Unit, the reallocation process will involve the U.S. Minerals Management Service as well as the Alaska Oil and Gas Conservation Commission.

Colville River Allocation Review: In FY06, the division conducted the Third Revision of the Alpine PA and Five-Year Alpine Reserves Revision. The division also approved two PAs and two more are expected to be approved in the second quarter of FY07. In conjunction with the new participating areas, division staff negotiated the CRU Gas Management Agreement which allows for the royalty-free movement of gas among all the participating areas in the unit for the benefit of enhanced oil recovery, pressure maintenance, and unified operations. All gas produced in the CRU will benefit oil production unit-wide, no matter where the gas comes from. ConocoPhillips applied for and received four new participating areas in 2006. The Fiord Kuparuk and Fiord participating areas were approved on August 1, 2006. Sustained production from both PAs started on August 8, 2006. Both PAs are being developed from a new drill site CD3. The Nanuq Kuparuk and the Nanuq Nanuq PA's were approved on November 14, 2006. Both PAs are being developed from new drill site CD4. Production commenced in November 2006.

  - Colville River Unit satellite developments: ConocoPhillips recently applied for five participating areas in the Colville River Unit, the Fiord Nechelik and Fiord Kuparuk PAs, a roadless development north of CD1, the Nanuq and Nanuq Kuparuk PAs south of CD2. CP will apply for Qannick PA in late 2008 (FY 09)
  - Ninilchik Unit Tract Allocation: In FY06, the division redefined the Falls Creek participating area and reviewed production allocation for the new Paxton participating area.

- The resource evaluation section also provides the technical assistance needed to support leasing and unit applications and decisions after issuance of leases. The resource evaluation group is responsible for determining the accuracy of the geology, geophysics, and engineering data and derivative products (maps, cross sections, and reservoir calculations) that are used to determine the accuracy of the unit operator's tract allocations within a participating area before it goes into production.

  - Various incentive programs offered by the state have encouraged several independents to invest in exploration and development opportunities across Alaska during FY05 and FY06. These operators, unlike the long-established majors, tend to explore and develop their lease holdings quickly in order to generate immediate cash flow. The workload on the resource evaluation section is expected to increase as the number of geological and reservoir assessments of unit and participating area applications increase with exploration and the development of new fields.

  - While it remains to be seen if high oil prices continue through FY07 and if exploration drilling increases as a result, accelerated development drilling is expected to continue. The now common use of technology such as multilateral horizontal completions generates much larger quantities of technical data than did the conventional drilling practices of the past. Compilation and interpretation of these data will increase the workload of resource evaluation staff when reviewing unit and participating area applications, and when determining tract allocations.

  - As the primary term of many leases approach expiration, it has become common practice for lessees to attempt to secure lease term extensions through various last-minute means such as applying for unitization or alteration of unit boundaries. In an attempt to encourage petroleum exploration and development, the division sometimes approves such activities, but conditions approvals with performance commitments designed to ensure no loss of state revenue. Each of these unexpected proposals must be evaluated by resource evaluation staff within a very short time and, with other division staff, performance commitments developed.

- Royalty Reduction: In FY07, a team of division staff completed the analysis of an application for royalty modification in the Nikaitchuq Unit. In the second quarter of FY08, the division will review a new application for royalty modification in the Nikaitchuq Unit, reflecting a differently configured project. This underscores the importance of a thorough and credible evaluation of such applications to avoid the state granting unneeded royalty incentives – in violation of AS 38.05.180 (j) – and the need that the state must tailor royalty modification approvals to the specific economic characteristics of each application.

C. Maximize Non-tax Revenue from State Oil and Gas Production

- The Royalty Accounting Section continues to accurately invoice royalty payments to the state. During FY07**,** the Royalty Accounting Section accurately invoiced $1,256.9 million to the state royalty-in-kind oil purchaser and processed and analyzed an additional $901.4 million in oil and gas royalty-in-value, net-profit share lease, federal payments, rents, bonuses, and other fees for a total $2,158.3 million.

- Oil and Gas Leasing and Accounting Systems Integration. The Division of Oil and Gas entered a professional services contract in June 2004, resulting in an overall division-wide database model. This model integrates the data, application, and reporting processes for oil and gas lease sales and administration, units administration, royalty accounting, permitting, best interest findings, and well data. Applications to perform business processes were begun in the spring of 2005, including: lease sales, lease administration, units administration, royalty accounting, and permitting and best interest findings. These applications are being developed in parallel to one another to ensure the tightest integration possible. Since all of these processes have been manual, except for royalty accounting, development is slower to allow for detailed evaluation of each process and its integration with associated business processes. The end result will be automation of lease assignments to increase the accuracy and information detail and decrease the processing time. Lease assignment information will be available to each lessee, through a secure online log-on unique to each lessee or client. Unit applications and permitting will also use secure online log-on processes to gather unit and permit applications, both of which are establishing standardized formats and content tailored to individual lessee needs. This should eliminate paper processing for these activities over the next two to three years. Automated royalty reporting processes are also being upgraded to provide real-time reporting and error notification to lessees. This will enable lessees to file and make corrections of misfiled reports prior to end-of-the month filing deadlines, thus speeding up royalty reporting processing, reducing errors, and promoting increased reporting and payment accuracy. During FY06 and the first half of FY07, computer software applications for lease sales, lease administration, units administration, customer information, royalty reporting and royalty-in-kind billing have been deployed to the staging environment. Data for these applications has also been converted in its entirety for all but lease administration. These applications are now being tested prior to deployment to full production use by the division. Permits, applications, well data, and royalty-in-value business processes have been completed to varying degrees, and will be deployed to staging for testing during the first half of FY07.

- The Division of Oil and Gas Document Management System: Division IT staff reviewed potential document management system software and consulting services and purchased hardware for use in the set-up of two document capture stations within the division during FY06. During this time the state adopted standards for such systems and a consultant was selected. Consultant services were contracted in September of FY07 to conduct document handling requirements for all business areas of the division. Initial setup of software and hardware was completed during FY07 along with an overall document management model based on statewide document retention standards and the division's own needs for document support. This system will be fully integrated with the division's DOGMA database and applications system. Following initial setup, an overall priority and strategy will be implemented to capture on a daily basis those documents identified as critical to the division's normal business practices. In addition, work began in FY07 to capture historical documents based on the priorities and plan approved by division managers.

- The division has a three-year contract with the U.S. Minerals Management Service to perform audits of federal oil and gas leases in Alaska. The audit section has one auditor who is exclusively engaged in audits of federal leases in Cook Inlet and another auditor who is extensively engaged in federal audits. The state receives 50-90 percent of the audit recoveries obtained by the division's federal auditors, depending on where the federal lease is located. Additional Cook Inlet audits and a North Slope audit of federal leases at Northstar are planned for FY08.

- The audit section supports the division's royalty reopeners with major North Slope producers, particularly with respect to analysis of marine transportation costs, which along with pipeline tariffs are the major deductions to arrive at the state's royalty value. The audit section recovered approximately $10.8 million in audit claims during FY07.

- The Audit Section recently drafted proposed regulations relating to AGIA.

- Royalty reopeners and the value of North Slope royalty oil: In the early 1990s, the major North Slope oil producers and the state entered into royalty settlement agreements that tied each producer's royalty obligation to publicly available market indicators of value and provided for deductions for marine transportation, pipeline tariffs, and other adjustments. The settlements with BP and ARCO (now ConocoPhillips) have been occasionally amended to change the formulas used to calculate the lessees' royalty payments. In late FY01, the division compared the amounts being paid under these formulae to market value as measured by ANS sales contracts and actual receipts and found the formulas wanting. Consequently, the division "reopened" the royalty settlement agreements with BP, ExxonMobil, and ConocoPhillips to renegotiate a valuation methodology that better reflects the market value of ANS. The conclusion of the BP and ConocoPhillips reopeners in FY03 resulted in payment of an additional $11 million by BP and ConocoPhillips in retroactive adjustments. Additionally, the position of the state in the future has been improved by new prospective methods incorporated in the royalty settlement agreements.

  The state's longstanding reopener dispute with ExxonMobil was successfully concluded in September 2006. ExxonMobil re-filed royalty reports from January 2001 to December 2006 and paid an additional $12.2 million. In addition royalty payers whose value is tied to Exxon's value also refilled their reports and paid the state $8.7 million. The state also has an accounts receivable with one company for $7.0 million.

- The successful negotiation of reopeners with BP, ConocoPhillips, and ExxonMobil illustrates how the state has benefited dramatically from proactive management of its royalty revenues. While the division has always expressed a willingness to conclude these reopeners through amicable negotiation, it has also demonstrated that it is willing to exercise all of the state's rights under the royalty settlement agreements to press for the state's fair share.

- Royalty-in-kind sales: The division continues to supply royalty-in-kind (RIK) oil to the Alaska refining industry. The percentage of RIK to total royalty has increased over the past three fiscal years. In FY03, the division sold 38.3 percent of ANS royalty oil in-kind. In FY04 that percentage increased to 46.6 percent, in FY05 the percentage was 51.8 percent, in FY06 the percentage increased to 59.9 percent, and in FY07 the percentage increased to 64 percent. The Flint Hills Resources (FHR) contract incorporates innovative terms and should yield a substantial price premium to the state over what the state would have received for its royalty in-value oil. The commercial section is also tasked with monitoring the other terms of the FHR contract, including the promise by FHR to sell wholesale gasoline in Anchorage and Fairbanks at the same posted price. Division staff continues to evaluate future RIK oil and gas sales and provide advice and recommendations to the commissioner on potential sale terms. Stranded Gas Development Act negotiations with various parties all have royalty-in-kind features that have been analyzed by division staff.

- <u>Alaska North Slope Gas Pipeline:</u> The division staff continues to spend considerable time researching and analyzing ANS gas projects. Division staff worked hard in FY 2007 to draft AGIA, present it to the Legislature, and draft the request for AGIA applications. Division staff continue to work to design the process for evaluating AGIA applications and administering the contract to construct a gas pipeline to transport Alaska's North Slope gas resources to market. To assist in this project, the division contracted and provided contract management for major studies in gas price forecasting, royalty valuation, commercial financing, pipeline design, construction cost, project management, timing and timing risk.

The division continues to provide technical support to DNR management, DOR Management, and the Governor, formulating and implementing AGIA.

Significant Changes in Results to be Delivered in FY2009

A. Encourage Exploration and Development:

1) Due to competitive areawide leasing and the addition of the exploration license program, the division currently requires many months after the sale to conduct title reviews and award leases. The division's goal is to again be able to award leases nine months following a lease sale, as the limited capacity within the title shop within DML&W is resolved.

2) Develop and maintain a staff of professionals that meet or exceed the best in the oil industry. The division has been fortunate to be able to add a set of critical skills to the technical staff, skills and knowledge that will allow much more comprehensive and detailed assessments of the petroleum potential of sedimentary basins across the state and improved dissemination of those assessments through scientific publications. The addition of three geologists, all with substantial and recent industry experience, will provide the division with recognized expertise in the specialties of sedimentology, clastic depositional systems, fluvial sedimentology, petrography, structural, reservoir, and subsurface geology. All three also have significant project and program management experience.

   Most of the petroleum geologists and geophysicists on staff have more than 20 years of industry experience and are highly respected for their technical expertise. Retention of staff remains an issue. The resource evaluation group consists of four petroleum geophysicists and five petroleum geologists, one reservoir engineer, two geologists, and four natural resource technicians. The petroleum geologists, geophysicists and engineer are charged with oversight and technical evaluation of all units and participating areas in the state and managing all the confidential G,G &E data that is submitted in support of applications and tract allocations. The resource evaluation group has begun constructing geologic and reservoir models to evaluate hydrocarbons in place and recoverable to ensure that the state is receiving a fair royalty share of oil and gas. Without having an experienced, seasoned, staff with industry experience able to identify, scope, and manage the projects, the state could not evaluate the tract allocation factors provided by industry. Retaining this staff is of great concern, with industry looking for experienced geologists, geophysicists, and engineers and able to pay significantly higher salaries and bonuses. The division has been unable to successfully recruit a petroleum reservoir engineer because of the high demand for experienced individuals in industry.

3) Although limited in number, the division now has a scientific asset team that equals any and is superior to most of those found in the private sector. The division has added a commercial analyst with more than 27 years of industry experience, and filled a long-vacant petroleum economist position. Demand for these professionals in the private sector and the corresponding high private sector salary is troublesome. Turnover in these positions could result in reduced delivery of services of FY08 and beyond.

4) The division continues to manage costs by limiting the amount of travel to the North Slope for public hearings, conducting hearings via teleconference, relying only on the division's Web site to disseminate information, and eliminating the printing of excess copies of the Five-Year Oil and Gas Leasing Program. However, significantly increased travel will be required as part of the system integrity initiative. Increased travel is also required to inspect seismic and drilling activities in the Copper River and Nenana areas.

5) Oil and gas data and general information are being made available to the public and other agencies on the division's Web site. Fewer printed publications are available over the counter.

B. Maximize Benefits of Development and Production to the State:

1) The system integrity initiative may add significantly to the division's budget needs in FY2008 and 2009, depending on policy decisions where to take this initiative. In addition to adding engineering and other technical expertise, the division may need to add inspectors and shift workload among existing positions. In addition, the effort may add contractual and travel costs to the division's budget.

2) Oil and gas activities in the populated Mat-Su and Kenai areas have increased the public attention on our permitting and inspection program. The division's goal is to establish routine inspections of surface activities on the Kenai Peninsula and in the Mat-Su region comparable in frequency to those conducted on the North Slope.

3) The division continues to work with lessees to commercialize undeveloped oil and gas on the North Slope.

C. Maximize Non-tax Revenue from State Oil and Gas Production

1) Royalty valuation reopeners, audit of leases not covered by royalty settlements, pipeline tariff evaluation, analysis of North Slope gas fiscal systems, long-term Cook Inlet gas supply and deliverability forecasts, and RIK oil and gas sales will require additional time of technical, commercial, and audit staff as well as support staff.

2) Professional and support staff will participate in more royalty and net profit share audits, evaluate Cook Inlet and North Slope oil and gas royalty reduction requests and rulings, analyze Cook Inlet gas valuation proposals and options for storage of Cook Inlet gas.

3) The division must maintain professional staff to support the development and management of a gas pipeline project under AGIA.

Major Component Accomplishments in 2007

A. Encourage Exploration and Development:

1) Alaska Gas Inducement Act (AGIA): Division of Oil and Gas was instrumental in crafting legislation and providing legislative testimony in furtherance of commercializing North Slope natural gas resources.

2) In cooperation with the Division of Geological and Geophysical Surveys (DGGS), the division conducted four field parties during the summer of 2006 (FY06-07), including 1) a detailed study of Nanushuk outcrops in the northern foothills state lands and southern NPR-A; 2) North Slope Energy Field Program in the Kavik area on state lands adjacent to ANWR including surface geologic mapping, stratigraphic-tectonic studies, and industry sponsor tour; 3) Alaska Peninsula Field Program including surface geological mapping and structural and stratigraphic studies focused in the Port Moller-Herendeen Bay area; and 4) the initial reconnaissance for a multiple-year Cook Inlet basin analysis field program focusing on the structure and stratigraphy of the Tertiary reservoir section, primarily the Sterling, Beluga, Tyonek, and Hemlock reservoirs in Kachemak Bay and the lower Kenai Peninsula region.

3) Collaborated with DGGS to continue the resource assessment field program in the North Slope Foothills lease sale area and arranged for continued support and participation by interested oil and gas companies.

4) Recruited and employed additional geological, geophysical, reservoir engineering, commercial, and technical support staff competent in disciplines such as sedimentology, clastic depositional systems, fluvial sedimentology, petrography, structural, reservoir and subsurface geology; seismic processing and interpretation; petroleum reservoir engineering; and GIS to supplement existing staff and to provide essential research capability necessary to support the division's expanding role as a source of technical information. Most of the petroleum geology and geophysics on staff have more than 20 years of industry experience.

5) Five lease sales held, resulting in 5.3 million gross acres being leased and the state receiving $5.9 million in bonus bids; 103 tracts sold; 123 total bids; and 17 different bidders.

6) Provided technical support to the Legislature and the Alaska congressional delegation on a variety of oil and gas issues, including systems integrity, advances in Arctic technology and practices, gas hydrates, and oil and gas incentives.

7) Partially funded and participated in geological field programs investigating the hydrocarbon potential of the NPRA and North Slope Foothills in support of lease sales and the North Slope gas pipeline supply studies. Planning for similar fieldwork has been undertaken to support the Alaska Peninsula/Bristol Bay Basin sale resource assessment.

8) Continued expansion of the content of the division's web site in order to support oil and gas programs. A major addition during the past year is the suite of unit maps with supporting lease information. Major web-interfaced informational data packages now being undertaken include Alaska Peninsula/Bristol Bay basin, Mat-Su Valleys, and Kenai Peninsula "atlases" to support conventional and nonconventional gas leasing programs in those areas. The web site has proven to be a successful means of distributing notices, decisions, and general oil and gas information to industry and the public, and the demand for additional public information continues to grow.

9) Worked closely with new Cook Inlet and North Slope explorers, including Aurora, Storm Cat, Escopeta Oil Inc., Pioneer Natural Resources, AVCG, Brooks Range Petroleum, and ENI to facilitate exploration activities.

10) Initiated study of the Prudhoe Bay reservoir and economic impacts associated with gas "blowdown" to establish optimal gas off-take rate for possible gas pipeline open season – developed scope of work for consultant and issued RFP.

11) Provided review and draft approvals of metering changes related to transit line bypass repairs and production rerouting at Prudhoe Bay necessitated by shut-in transit lines.

12) Negotiated the CRU Gas Management Agreement which allows for the royalty-free movement of gas within all participating areas in the unit.

13) Negotiated development agreements and unit reconfiguration at Oooguruk and Nikaitchuq offshore projects with final approvals by end of the second quarter FY07 and oil flowing in FY07 and FY08 respectively.

14) Effectively managed the increase in unit activity in both Cook Inlet and on the North Slope and Beaufort Sea, and responded quickly to customer information and other educational needs.

15) Negotiated and issued leases authorizing two gas storage facilities in Cook Inlet to promote increased gas deliverability and enhance energy security and reliability.

16) Published the division statistical oil and gas report that includes gas and oil production, 20-year forecasts, and estimates of remaining reserves for Cook Inlet and North Slope.

17) Preparation and dissemination of an information package and facilitation of a conference hosted by the Governor providing independent operators comprehensive information and guidelines regarding exploration, development and production activities in Alaska. Contributed to the study that resulted in a longer tundra opening on the North Slope, thereby extending the exploration season in that region.

18) With help of consultants, prepared a facility-sharing study as a primer for North Slope explorers. Follow-up on this first study continues.

19) Worked to recover leases containing known reserves of hydrocarbons held in units that were not being produced so that they can be re-leased under terms that will insure development.

B. Maximize Benefits of Development and Production to the State:

1) Developed AGIA "must haves" concerning pipeline tariffs to ensure that the state receives maximum value from its gas resources.

2) Managed 38 active units and 59 participating areas (PAs) within those units. Management of the units and PAs included negotiation of new unit agreements; negotiation of expansions and contractions to units and PAs; tract allocation and equity determinations; negotiation and monitoring of facility-sharing and production commingling agreements for the new PAs; review of plans of exploration, development, and tract operations for units and PAs; DNR representation before various state and federal agencies; and response to inquiries from the Legislature, oil and gas industry, and public. Unit and PA activity levels have increased due to the development of satellite pools, optimism that a gas pipeline will be constructed across the North Slope foothills, increased need for new gas supplies in Cook Inlet, high oil and gas prices, and development or exploration of prospects and pools having multiple royalty owners other than the State of Alaska.

3) Conducted geological reviews of nearly all unit and participating area management functions accomplished by the division’s unit administration section. Many of these functions required determination or verification of tract allocations for equitable revenue distribution to the state and other stakeholders.

4) Continued “partnering” with the federal Minerals Management Service in management and oversight of jointly-owned lands in the Northstar and Cosmopolitan Units. The division also “partnered” with the federal Bureau of Land Management on issues regarding management of several jointly-owned fields in the Cook Inlet/Kenai Peninsula region. In similar fashion, the division worked in close partnership with the Arctic Slope Regional Corp.(ASRC) to ensure continued development of the Alpine field and NPRA acreage and with the CIRI at Deep Creek, Three-Mile Creek, and Ninilchik Units.

5) With ASRC, ConocoPhillips Alaska, and Anadarko Petroleum, established new tract allocations for the North Slope’s Alpine field to adjust revenue distribution for the results of new in-field drilling and actual well production rates.

6) Participated in interdisciplinary meetings of state resource agencies (Alaska Oil & Gas Conservation Commissiont (AOGCC), Office of Project Managment & Permitting (OPMP), Office of Habitat Management & Permitting (OHMP), Mining, Land & Water (ML&W), Department of Environmental Conservation (DEC), and Alaska Department of Fish & Game (ADF&G)) addressing issues such as well control and the critical issues of early North Slope tundra travel and the abbreviated winter drilling seasons.

7) Processed 973 oil and gas lease assignments.

8) Initiated program development of the Petroleum Systems Integrity Office: hired lead technical personnel, and completed a statutory and regulatory gap analysis to identify infrastructure and activities lacking oversight. Initiated blanket notification requirements for safety and shutdown events, and developed the first draft system integrity plan for the Prudhoe Bay Unit. Initiated development of a Quality Assurance Program to serve as an umbrella structure for operators’ unit programs, and expanded the permitting compliance function to incorporate key system integrity elements. Continued a cooperative agreement initiated with the US Department of Transportation/Pipeline and Hazardous Materials Safety Administration in late FY06, relative to information sharing and comprehensive system integrity efforts.

9) Completed analysis of royalty reduction applications submitted by lessees of the Oooguruk and Nikaitchuq units-technical data, subsurface information, economic information, production forecasts and cost projections, and initiated analysis of a revised application submitted by Nikaitchuq unit lessees.

10) Participated in U.S. congressional hearings relative to system integrity events in Prudhoe Bay, addressing process safety and state/federal cooperation.

11) Developed lease terms for Alaska’s geothermal resources.

C. Maximize Non-tax Revenue from State Oil and Gas Production

1) In FY07, petroleum revenue collected by the Departments of Natural Resources and Revenue accounted for approximately 89 percent of general fund unrestricted revenue. Total royalty, settlement, rental, federal share, and bonus revenue collected by DNR was approximately $2,158.3 million. Distribution was as follows: $1,613.3 million General Fund; $534.2 million Permanent Fund; and $10.8 million School Fund. Revenue decreased 9.9 percent from FY06 to FY07, largely due to the decreased oil production.

2) In FY07, the division received payments in the amount of $10.8 million for audit claims relating to Cook Inlet and North Slope oil and gas producers.

3) Completed royalty settlement agreement amendment relating to marine transportation costs with ConocoPhillips. Actively engaged in a royalty settlement agreement reopener with BP; initiated reopener process with ConocoPhillips.

4) Provided commercial, technical, and policy support to the formulation, drafting, and passage of the Alaska Gasline Inducement Act .

5) Provided lead role in the drafting of the AGIA Request for Applications and in the evaluation of applications submitted under AGIA.

6) Participated with staff from Department of Law to hire consultants and formulate state position papers and formulate/analyze options available to the state with respect to AGIA.

7) Supervised a host of consultants to develop AGIA's Request for Applications (RFA) and RFA evaluation methods and protocols, and to assist in the analysis of RFA responses.

8) With the aid of consultants, built a complex, flexible, robust, and sophisticated economic model to analyze multiple pipeline proposals under AGIA.

9) Provided modeling and policy support to the Department of Revenue in the formulation of Alaska's Clear and Equitable Share legislation, especially in terms of how tax policy effects on exploration and development incentives.

10) Worked independently on audit planning, performance, and resolution of audit claims under the Legislature's transfer from the Department of Revenue to the Department of Natural Resources of the authority to conduct audits of revenues from royalty and net profit shares from state oil and gas leases and costs associated with exploration incentive credits granted under AS 38 and AS 41. This transfer of audit responsibilities has produced greater government efficiency with respect to royalty and net profit share issues.

11) Continued to monitor progress and compliance by FHR under its royalty-in-kind oil contract.

Statutory and Regulatory Authority

AS 31.05.035
AS 38.05.020
AS 38.05.035
AS 38.05.130
AS 38.05.131-134
AS 38.05.135
AS 38.05.137
AS 38.05.145
AS 38.05.177
AS 38.05.180
AS 38.05.181
AS 38.05.182
AS 38.05.183
AS 38.06
AS 41.06
AS 41.09
AS 46.40
11 AAC 02
11 AAC 03
11 AAC 04
11 AAC 05
11 AAC 82
11 AAC 83
11 AAC 89
11 AAC 96.210 - 96.240
11 AAC 110
11 AAC 112

Contact Information

Contact: Kevin Banks, Acting Director
Phone: (907) 269-8800
Fax: (907) 269-8938
E-mail: kevin.banks@alaska.gov

Oil & Gas Development
Component Financial Summary

All dollars shown in thousands

	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	9,205.3	10,667.0	11,949.6
72000 Travel	313.5	273.0	302.0
73000 Services	1,369.1	1,702.1	1,266.2
74000 Commodities	312.9	335.0	349.0
75000 Capital Outlay	75.5	46.9	46.9
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	**11,276.3**	**13,024.0**	**13,913.7**
Funding Sources:			
1002 Federal Receipts	174.7	214.1	221.5
1004 General Fund Receipts	7,221.3	8,490.7	8,996.0
1005 General Fund/Program Receipts	60.2	60.0	62.0
1007 Inter-Agency Receipts	6.2	0.0	0.0
1053 Investment Loss Trust Fund	858.7	0.0	0.0
1061 Capital Improvement Project Receipts	8.2	17.2	17.2
1105 Alaska Permanent Fund Corporation Receipts	2,825.7	3,380.2	3,444.3
1108 Statutory Designated Program Receipts	0.0	150.0	450.0
1153 State Land Disposal Income Fund	121.3	711.8	722.7
Funding Totals	**11,276.3**	**13,024.0**	**13,913.7**

Estimated Revenue Collections

Description	Master Revenue Account	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
Unrestricted Revenues				
General Fund Program Receipts	51060	139.8	0.0	0.0
Unrestricted Fund	68515	2,158,331.3	2,519,877.9	1,751,501.3
Unrestricted Total		**2,158,471.1**	**2,519,877.9**	**1,751,501.3**
Restricted Revenues				
Federal Receipts	51010	174.7	214.1	221.5
Interagency Receipts	51015	6.2	0.0	0.0
General Fund Program Receipts	51060	60.2	60.0	62.0
Statutory Designated Program Receipts	51063	0.0	150.0	450.0
Capital Improvement Project Receipts	51200	8.2	17.2	17.2
Permanent Fund Earnings Reserve Account	51373	2,825.7	3,380.2	3,444.3
Investment Loss Trust Fund	51393	858.7	0.0	0.0

Estimated Revenue Collections				
Description	**Master Revenue Account**	**FY2007 Actuals**	**FY2008 Management Plan**	**FY2009 Governor**
State Land Disposal Income Fund	51434	121.3	711.8	722.7
Restricted Total		**4,055.0**	**4,533.3**	**4,917.7**
Total Estimated Revenues		**2,162,526.1**	**2,524,411.2**	**1,756,419.0**

Summary of Component Budget Changes
From FY2008 Management Plan to FY2009 Governor

All dollars shown in thousands

	General Funds	Federal Funds	Other Funds	Total Funds
FY2008 Management Plan	**8,550.7**	**214.1**	**4,259.2**	**13,024.0**
Adjustments which will continue current level of service:				
-O&G Gasline Increased Workload Multi-year approp Sec7(d)(2), CH6, SLA2005, P11 L10 lapse date 06/30/08	-777.9	0.0	0.0	-777.9
-ETS Chargeback Redistribution	4.6	0.0	0.0	4.6
-FY 09 Health Insurance Increases for Exempt Employees	4.8	0.0	1.4	6.2
-FY 09 Bargaining Unit Contract Terms: General Government Unit	203.0	7.4	73.6	284.0
Proposed budget increases:				
-Alaska Gasline Inducement Act (AGIA) Implementation	391.7	0.0	0.0	391.7
-Exempt Employees Salary Parity with Alaska Oil and Gas Conservation Commission (AOGCC)	216.7	0.0	0.0	216.7
-Expanded Audit Function passed in fiscal note for HB2001 (November 2007 Special Session)	464.4	0.0	0.0	464.4
-Increased Royalty Modification Applications	0.0	0.0	300.0	300.0
FY2009 Governor	**9,058.0**	**221.5**	**4,634.2**	**13,913.7**

Oil & Gas Development
Personal Services Information

Authorized Positions			Personal Services Costs	
	FY2008 Management Plan	**FY2009 Governor**	Annual Salaries	8,217,587
Full-time	93	98	COLA	283,885
Part-time	0	0	Premium Pay	0
Nonpermanent	3	3	Annual Benefits	3,943,161
			Less 3.98% Vacancy Factor	(495,033)
			Lump Sum Premium Pay	0
Totals	**96**	**101**	**Total Personal Services**	**11,949,600**

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	1	0	0	0	1
Accountant IV	2	0	0	0	2
Accounting Clerk II	1	0	0	0	1
Accounting Tech I	1	0	0	0	1
Accounting Tech II	3	0	0	0	3
Accounting Tech III	1	0	0	0	1
Admin Operations Mgr I	1	0	0	0	1
Administrative Clerk II	3	0	0	0	3
Administrative Officer II	2	0	0	0	2
Analyst/Programmer IV	4	0	0	0	4
Cartographer II	3	0	0	0	3
Cartographer IV	1	0	0	0	1
Chief Petroleum Geologist	1	0	0	0	1
Commercial Analyst	8	0	0	0	8
Data Processing Mgr I	1	0	0	0	1
Database Specialist III	1	0	0	0	1
Deputy Director	1	0	0	0	1
Division Director	1	0	0	0	1
Geologist II	1	0	0	0	1
Geologist III	1	0	0	0	1
Micro/Network Spec I	1	0	0	0	1
Natural Resource Mgr I	1	0	0	0	1
Natural Resource Mgr II	1	0	0	0	1
Natural Resource Spec I	2	0	0	0	2
Natural Resource Spec II	3	0	0	0	3
Natural Resource Spec III	5	0	0	0	5
Natural Resource Spec IV	5	0	0	0	5
Natural Resource Spec V	2	0	0	0	2
Natural Resource Tech I	1	0	0	0	1
Natural Resource Tech II	5	0	0	0	5
Natural Resource Tech III	1	0	0	0	1
Oil & Gas Revenue Audit Master	2	0	0	0	2
Oil & Gas Revenue Auditor II	1	0	0	0	1
Oil & Gas Revenue Auditor III	3	0	0	0	3
Oil & Gas Revenue Auditor IV	2	0	0	0	2
Oil & Gas Revenue Specialist	1	0	0	0	1
Petroleum Economist I	1	0	0	0	1
Petroleum Geologist I	6	0	0	0	6

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Petroleum Geologist II	2	2	0	0	4
Petroleum Geophysicist I	1	0	0	0	1
Petroleum Investments Manager	1	0	0	0	1
Petroleum Land Manager	4	0	0	0	4
Petroleum Manager	1	0	0	0	1
Petroleum Market Analyst	1	0	0	0	1
Petroleum Reservoir Engineer	3	0	0	0	3
Pipeline Engineer	1	0	0	0	1
Secretary	1	0	0	0	1
Student Intern I	3	0	0	0	3
Totals	**99**	**2**	**0**	**0**	**101**