

OIL & GAS COMPETITIVENESS REVIEW BOARD

February 5, 2015
9:01 a.m.

Taken Via Telephone

OIL & GAS COMPETITIVENESS REVIEW BOARD:

Tom Hendrix, Chair
Commissioner Randy Hoffbeck
Deputy Commissioner Bob Swenson
Kara Moriarty
Tom Maloney
Peter Stokes
Director Kristin Ryan
A. J. (Joey) Merrick
Commissioner Mark Myers
Commissioner Michael Gallagher

Others participating:

Stephanie Alexander, Department of Revenue
Tim Ryherd, Department of Revenue
Bob Pawlowski, DNR

PROCEEDINGS

CHAIR HENDRIX calls the meeting to order, and asks Ms. Alexander to call the roll. He asks for a motion to approve the agenda.

MS. MORIARTY makes a motion to approve the agenda.

DIRECTOR RYAN seconds.

There being no objection, the motion is approved.

CHAIR HENDRIX moves on to the minutes from October 2, 2014, and November 2, 2014, and asks for a motion to approve.

MR. MALONEY makes a motion to approve the minutes of October 2, 2014, and the minutes of November 2, 2014.

DEPUTY COMMISSIONER SWENSON seconds.

Commissioner Gallagher abstains; Commissioner Hoffbeck abstains; there being no objection, the motion is approved, with a notation that a few folks have not had a chance to review them.

CHAIR HENDRIX moves on to the draft report and states that the group will begin with the one dated January 31, 2015, with the comments and write-ups.

MS. MORIARTY asks what the end goal is for today's meeting.

CHAIR HENDRIX replies that what he would like to achieve is to make a notation of the changes needed to make to this document and get the next meeting scheduled to have a final review of what will be submitted. He states that the Legislature has not yet responded as to when this can be presented to them. He adds that he would like to be done with this report at the next meeting.

MR. STOKES asks if all of the changes were accepted in the February 5th version or just additions to the unedited one.

MR. RYHERD replies that there were no adoptions of any changes. He explains that he edited and modified several graphs. He states that it is a significantly different document, but there are significant sections that are the same.

CHAIR HENDRIX states that there are two documents: one with written comments; the other has been worked on trying to move ahead quickly. He suggests laying them side by side and going through it page by page and making comments of what changes will be made to the February 5th document. He states that almost the complete board is here, and he begins going through the first three pages, adding that there has not been any content change.

DEPUTY COMMISSIONER SWENSON states that there is a lot of good information and it is a very important body of work. He continues that the whole gist of this is to make sure the reader understands that.

CHAIR HENDRIX comments that the group is in agreement that the door has not even cracked open. He states that this group was mandated to be able to bring forth answers to questions that are going to take years to answer and will take thoughtful study. He continues that this has to be brought in front of the Legislature with the task of letting them know that this work is extremely important for Alaska and Alaskan people, and that a conclusion for the report will not be had. He adds that with this report there is a need to ask for funding to get to that point and to start digging into the competitiveness and how it is viewed. He states that, as far as to being conclusive, care in the wording is important as to not having the final answers. He states that it is fine to drop that first sentence off.

DEPUTY COMMISSIONER SWENSON agrees wholeheartedly with the Chair.

MR. RYHERD states that he will edit the document from February 5th to reflect what is being said today and will resend it to all at the end of the meeting.

Editing the document resumes.

MS. MORIARTY states confusion to the third paragraph, third sentence on page 4.

A discussion ensues.

MR. PAWLOWSKI states that the comments on the permitting and the infrastructure are being noted and will be worked out of the chapters in there.

The discussion continues.

COMMISSIONER MYERS talks about sources that are potentially in Alaska. He states that if there was an attempt to develop them, a different infrastructure would be needed.

MR. STOKES agrees, stating that if it makes a more complete assessment as a board it should be done.

CHAIR HENDRIX asks if everyone is okay with keeping the Fiscal Regime Styles in the back of the document for now.

All agree.

CHAIR HENDRIX moves to the Alaska Peer Group Selection.

A discussion ensues.

MR. PAWLOWSKI states that he can work on addressing the points on infrastructure and permitting, and other things associated with that.

A discussion ensues as to why the east coast of Canada was not included in the peer group.

CHAIR HENDRIX asks if that should be included in the report.

COMMISSIONER MYERS states it is not necessary. He continues that it is a valuable point of reference because there is experience, production, large infrastructure costs with production, and has some similarity to Alaska.

The discussion moves on to Hydrocarbon Endowment.

CHAIR HENDRIX calls a five-minute break.

(Break taken.)

CHAIR HENDRIX moves back to Hydrocarbon Endowment.

The discussion continues.

MR. PAWLOWSKI asks if there is an interest in a comparison that includes conventional versus unconventional. He continues that it could reference the growth in different basins that shifted from conventional to unconventional.

COMMISSIONER MYERS replies that would be useful to see.

CHAIR HENDRIX states that it is especially important to be inclusive with unconventional reserves because there are unconventional reserves that are incomparable. He adds that is a resource that has not been tapped.

COMMISSIONER MYERS asks, in doing Alaska, would a distinction between reserve and undiscovered resource base need to be done because there are no proven reserves.

MR. MALONEY responds, that is the same challenge with all the potential reserve numbers when looking at prospective hydrocarbons.

COMMISSIONER MYERS suggests using mean technically recoverables, undiscovered, as the basis.

CHAIR HENDRIX moves on to comments on the written content for the hydrocarbon endowment. He states that there are several edits and would like to go through what to include and exclude.

A discussion ensues.

MR. RYHERD explains that one of the deficiencies of this entire document is that it is not very well footnoted.

The footnotes are gone over.

The discussion continues moving to the next pages including gas, methane and viscous oil.

MR. RYHERD states that there is no significant revenue in coalbed methane. He adds that there is no production but significant potential, which can be inserted.

CHAIR HENDRIX moves on to Lease Sales.

MR. PAWLOWSKI notes the addition of Federal, University and Native Corporations. He states that this section pulled a lot of content.

The discussion continues.

CHAIR HENDRIX moves on to Exploration and Development, stating that a lot of content was put in on drilling activity in Alaska, exploratory wells, development and service wells, and rig counts with tables.

MR. RYHERD states that the tables have been updated and goes through the updates. He adds that the new one is more comprehensive and includes Cook Inlet and North Slope.

A discussion ensues.

MR. PAWLOWSKI states that there is quite a bit of content added on infrastructure.

CHAIR HENDRIX states that someone made a comment that he totally disagrees with. The statement is: "There are no significant infrastructure deficiencies identified." It may be true for the current producers. Facility access is one of the major hurdles of bringing a new discovery online unless it is of sufficient size to maintain its own stand-alone facilities, so in that sense it is very deficient.

MR. RYHERD states that he will write it up.

The discussion continues.

CHAIR HENDRIX moves on to page 38 of the 31st and 31 of the 5th, stating that there is a comment that the map is not very clear.

MR. PAWLOWSKI states that has been replaced.

CHAIR HENDRIX moves on to Frontier Basins and Exploration License Areas.

A discussion ensues.

MR. MALONEY asks if the expansion of the ENSTAR natural gas storage helps everything down in Cook Inlet.

MR. PAWLOWSKI replies yes, and part of the impetus was the loss of the flexibility that was offered by the LNG facility. He continues that the Frontier Basin will be cleaned up.

CHAIR HENDRIX moves on to Status of Labor and Employment in Alaska, and states that there was a bunch added.

MR. PAWLOWSKI states that it was totally rewritten. He continues that the important points were the distinction of onshore and offshore federal regulations with the University land, the Division of the State of Alaska Land Management and DNR, between the Division of Oil and Gas, and the Division of Mining, Land and Water, and the State Pipeline Coordinator's Office as far as how the permitting systems work for geophysical exploration; and plans of operation and the regulatory upgrades to increase competitiveness. He continues that this is also where the Division of Mining, Land and Water worked very extensively on ice roads and off-road travel permits, and on water quality management, leases, and easements. He adds that this is fundamentally a new section.

CHAIR HENDRIX states that this will be gone through individually.

A discussion ensues.

CHAIR HENDRIX moves to a correction needed under Geophysical Exploration Permit, and then asks if the Regulatory Upgrades have been rewritten.

MR. PAWLOWSKI replies yes.

MS. MORIARTY states that there is no mention of the regulatory hurdles of the federal government, which may be helpful. She continues that she will share a chart that talks about all the different agencies that a physical oil and gas project has to work with for permits.

CHAIR HENDRIX agrees that a table to show the complexity should be included.

MR. PAWLOWSKI asks if a simple table that identified the number of agencies at the federal, state, and local levels suffice as an introduction. He adds that he would like to see Kara's report.

CHAIR HENDRIX states that he would also like to see that report. He moves on to Alaska's Oil and Gas Fiscal System. He continues that the comment is: This section is generally referring only no non-Cook Inlet area that has Cook Inlet-specific rules and limitations. He asks if that should be incorporated into the text.

MR. RYHERD replies that Cook Inlet has a different fiscal regime.

CHAIR HENDRIX moves on to Royalty, Rents and Bonuses which have been combined together.

A discussion ensues.

CHAIR HENDRIX wraps up and asks if everyone is available for the 13th. Everyone agrees and he asks Stephanie to put out a public notice of a meeting from 9:00 to noon on Friday, March 13, 2015. He adds that some agenda items were not gotten to and will be pushed out to the next agenda. He thanks everyone for the tremendous amount of work done today.

(Meeting adjourned at 12:00 p.m.)