

OIL & GAS COMPETITIVENESS REVIEW BOARD

November 13, 2014  
2:00 p.m.

Taken at:

VIA TELEPHONE

**OIL & GAS COMPETITIVENESS REVIEW BOARD:**

Tom Hendrix, Chair  
Deputy Commissioner Mike Pawlowski  
Kara Moriarty  
Peter Stokes  
Curt Freeman  
Tom Maloney  
Kristin Ryan  
Commissioner David Mayberry

**Others participating:**

Stephanie Alexander, Department of Revenue  
Tim Tyherd, Department of Revenue  
Michael Hurley, ConocoPhillips  
John Tichotsky, Department of Revenue  
Dorie Choquette, Department of Revenue

**PROCEEDINGS**

CHAIR HENDRIX asks for a motion to call the meeting to order.

DEPUTY COMMISSIONER PAWLOWSKI makes a motion to call the meeting to order.

MR. MALONEY seconds.

CHAIR HENDRIX reminds everyone that this is a public meeting and asks Ms. Alexander to call the roll. He then asks for a motion to approve the agenda.

MR. MALONEY makes a motion to approve the agenda.

DEPUTY COMMISSIONER PAWLOWSKI seconds.

CHAIR HENDRIX states that the next order on the agenda is to continue the discussion from the last meeting. He begins with the bullet where we left off. *“Industry input on identifying the competitive peer group that would be helpful.”*

He states that this is extremely important in pulling the peer group together for presentation to the Legislature.

COMMISSIONER MAYBERRY states that the RFP for the survey speaks to that as a tool for obtaining that kind of information.

MS. MORIARTY agrees that the best way to get industry input on all of these areas, including competitiveness, is through that survey.

COMMISSIONER MAYBERRY adds having a general notice for public comment that industry might participate in as a follow-up.

DEPUTY COMMISSIONER PAWLOWSKI states that at the last meeting a discussion about the existing work to date done by the Department of Revenue identifying a peer group and about maintaining that group was discussed. He suggests starting with that group, recognizing in the language that the RFP is actually the process to keep that group evolving as additional jurisdictions are identified.

CHAIR HENDRIX wholeheartedly agrees that would be a good starting point for the conversation with the Legislature. He moves on to the next bullet:

*“Included in that peer group summary, formulate a ‘similarity score’ to identify which peers are most similar to Alaska, making the comparison, and, by extension, comparative analysis on competitiveness that is much more focused.”* He states that the pursuit for the RFP could cover that bullet, and he moves to the next bullet:

*“Once identified, there should be a tabular summary of the peer group.”*

*“The board should receive guidance from the Canadian Competitive Review Board on how to identify its peers and what metrics it used.”*

He asks if Ms. Moriarty touched on that in this draft.

MS. MORIARTY replies that she did not necessarily touch on how the Canadian Competitive Review Board identified its peers, although one of the suggestions is that whoever is selected has experience in this type of work.

DEPUTY COMMISSIONER PAWLOWSKI states that this should be captured as an action item to deliver to the Department of Revenue staff to leverage those contacts to get access to the information. Their offices will have the appropriate contact for the PNER organization.

CHAIR HENDRIX moves to the next bullet:

*“The report the board produces can rely on Tim Ryherd’s October 15<sup>th</sup> presentation to the board in the following ways: utilizing a peer cost comparison chart, page 44; utilizing the graphs, pages 61 through 65, which shows the distinction between investment levels in green field versus brown field project’s craft a chart similar to page 33, which would be constructed to show the divisible and indivisible incomes generated by a given volume of petroleum sales. Government take, costs, and operation take should be reflected in the percentages. This should be done in 2014 prices and variables, an average of operating costs and revenue splits under Senate Bill 21. A pie chart, similar to page 34, illustrating the proportionate breakdown of government take should be included. Particular emphasis should be on the federal take. A table should be used*

*to compare the costs and government take at different wellhead prices, as well as under either Senate Bill 21 or Alaska's Clear and Equitable Share Act, ACES. The form can follow the charts on pages 48 through 50, but with an emphasis on optics and readability, particularly for laymen. In other words, this is a tabular comparison."*

DEPUTY COMMISSIONER PAWLOWSKI asks the board to consider whether going forward on comparisons to ACES or analysis of ACES actually remains relevant for the work on the table.

CHAIR HENDRIX states that it is important for the public to be able to understand what the current tax regime looks like and what it could have looked like.

DEPUTY COMMISSIONER PAWLOWSKI states that the concern he has in the analysis is that as time passes and even within the short year since Senate Bill 21 became effective, there are many moving pieces in the system that it is not as straightforward as the current environment and plugging in ACES. He thinks that there should be, in the report, an attempt to capture and summarize the discussions about why Senate Bill 21 was enacted and for historical context the fact that it was upheld by a vote of the people in a referendum.

MR. STOKES states that it is not going to be a valid comparison going forward because, assuming that all the investment being made today would have happened under ACES is not valid and to really compare ACES to the current tax system, all expenditures and all investments need to be accounted for. He continues that it is a double counting of how taxes would have occurred, but under different circumstances and does not think it is valid because the investments would probably not have occurred under ACES.

DEPUTY COMMISSIONER PAWLOWSKI states that there are ways to put these things in the appropriate context in that report. He continues that one of the best ways to do that is looking at investment without getting into a revenue analysis of SB 21 versus ACES.

CHAIR HENDRIX agrees and states there should be a timeline on the type of metrics, number of wells drilled and number of barrels produced rather than a financial analysis of this legislation versus that legislation. He moves on to the next bullet. *"Identify the regressive and progressive thresholds for Senate Bill 21 at various wellhead prices, costs, et cetera."*

He states that on a comparative, when doing a peer-group analysis, they will be able to see this.

DEPUTY COMMISSIONER PAWLOWSKI states that should be able to be done with the income statement information that will come out in the fall Revenue Sources Book as the most up-to-date information.

MR. MALONEY asks for a summary of the types of things in the book for the folks that are not familiar with it.

DEPUTY COMMISSIONER PAWLOWSKI replies that the appendices have some of the best data tables and there is one of them throughout the book of what goes on with the oil and gas revenues. He states that those become the base numbers that the public and people use when trying to calculate an understanding of Alaska's oil and gas economics for the current year.

CHAIR HENDRIX states that the next bullet is: *“Aside from fiscal factors, the board’s report should devote substantial time towards other factors that affect investment decision in Alaska and, thereby, its competitiveness. Those factors include: Oil and gas potential; operating, labor, and transportation costs; access; infrastructure; permitting; land status challenges; climate issues; Alaska Native rights issues; fish-wildlife issues; environmental impacts; and the policies of nongovernmental organizations, NGOs.”*

DEPUTY COMMISSIONER PAWLOWSKI states that a lot of things will not be captured in detail in this initial report. He continues that it is a statement that there are many factors that the board has identified and should be conscious of, but not necessarily in these first iterations.

A discussion ensues.

MS. RYAN asks if there is some metric that companies use to assess infrastructure.

MS. MORIARTY replies that she is not sure, and that it is not something that has been talked about as an industry group.

CHAIR HENDRIX suggests that could be drafted into the survey. He moves on to the next bullet: *“The metrics used to assess the baseline of Alaska’s competitiveness should be updated quarterly. Factors such as production, the number of new wells coming online, the comparative price of Alaska North Slope crude versus WTI as well as future projects that have received financial commitments should be included. Further factors include the duration of processing permits, the number of applications overall, the number of issues as to why applications are delayed, and the number of individuals working on permit processing should be included in the report.”*

He states that the next bullet is: *“The Department of Labor and Workforce Development should update its job force numbers for the oil and gas positions on a quarterly basis to the group as well.”*

A discussion ensues.

CHAIR HENDRIX moves on to the next bullet: *“Any third-party survey that assesses Alaska’s continual pursuit of competitiveness should be split between existing producers and new-entry participants/explorers. The survey should ask about permitting hurdles, the fiscal system’s durability, leasing and unit issues, manpower development, infrastructure needs, and how those are or are not being met by Alaska.”*

Next is: *“An update on the Alberta activity levels after implementing the recommendation of its Competitive Review Board would be very helpful.”*

The next bullet is, *“Providing an update for 2013, 2014, and 2015 plans by operator and field would be useful to the board in its analysis.”*

DEPUTY COMMISSIONER PAWLOWSKI suggests looking to DNR, who is the land manager and oversees the plans of development, for what information may or may not be available to this board to understand what is going on in the North Slope operating, Cook Inlet middle earth areas.

A short discussion ensues.

CHAIR HENDRIX states that all the bullets through page 6 have been gone through. He continues that page 7 talks about report layout and further considerations by the board. He moves on to the next step on the agenda, which is a review of the scope for the potential RFP. He adds that the document is on the website. He asks Ms. Moriarty to take the lead on this.

MS. MORIARTY states that she looks forward to some feedback on this document. She continues that she tried to capture in an RFP proposal what was talked about in the best way for industry to provide meaningful data to be utilized, so the responses would not be attributable to any certain company. She states that she tried to make it clear about what is being looked for in a contractor with an emphasis on the contractor needing experience in this kind of work, what methods would be used, and what the project team qualifications are.

CHAIR HENDRIX asks for any comments and suggests starting with the overview and working our way down.

DEPUTY COMMISSIONER PAWLOWSKI comments that it is very helpful and very well done. He states that what will happen next is a review, and then Stephanie will run it through the procurement shop. He continues that it will get spit out in the form that it would look in a State RFP. He adds that there are specific rules about the way the State scores proposals and divvies up things based on the input of the people doing the RFP, within limitations.

MR. STOKES states that it is a really well-drafted document; one of the better State RFPs he has seen. He suggests adding in not only industry, but also public. He states that the survey should include public ideas and make sure that the surveyor is addressing that, as well.

DEPUTY COMMISSIONER PAWLOWSKI states that he understands what Board Member Stokes is saying, but does not necessarily think it needs to be part of this RFP. He adds that he would like to see it as a separate solicitation, because the targeted collection of information from the specific investors is of a different value than the public comment. He sees it as a separate survey within.

A discussion ensues.

CHAIR HENDRIX states that in the preparation of putting this document together and having it reviewed by procurement, there is a need for a procurement adviser to advise on how to best weigh this. He continues that the full board should have a face-to-face meeting to get this hammered out.

DEPUTY COMMISSIONER PAWLOWSKI states that in a bit over a week this can run through the procurement format at Revenue and put it in the way an RFP would look as a draft.

MR. STOKES asks for 10 or 15 minutes on the agenda for Monday to have some discussion with the procurement officer.

CHAIR HENDRIX states that the work on the RFP will continue at the meeting on the 17<sup>th</sup>. He adds that he would also like to resume scoping for future board meetings.

A short discussion ensues.

CHAIR HENDRIX asks Stephanie if the Deputy Commissioner might be able to reach out to the Commissioner of the Department of Natural Resources and ask for a scoping number of how many customers they see, explorers and producers, on a grand scale, just for a number estimate for the 17<sup>th</sup>.

MR. STOKES suggests having a DNR designee at the meetings.

CHAIR HENDRIX states that is a good point, and states the need to think about deliverables over the weekend and make a list to be prepared for the next meeting. He asks for a motion to adjourn.

MR. MALONEY makes a motion to adjourn the meeting.

COMMISSIONER MAYBERRY seconds.

CHAIR HENDRIX thanks everyone for their time and adjourns the meeting.

(Meeting concluded at 3:23 p.m.)