

OIL & GAS COMPETITIVENESS REVIEW BOARD

October 30, 2014  
9:00 a.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  
A. J. "Joey" Merrick, II  
Commissioner David Mayberry

**Others participating:**

Stephanie Alexander, Department of Revenue  
Tim Tyherd, Department of Revenue  
Lisa Parker

**PROCEEDINGS**

CHAIR HENDRIX asks for a motion to approve the agenda.

MR. STOKES makes a motion to approve the agenda.

DEPUTY COMMISSIONER PAWLOWSKI seconds.

*There being no objection, the motion is approved.*

CHAIR HENDRIX thanks everyone for sending the information back. He trusts that all had a chance to read over the feedback. He states that in the time frame and in the mission there is a need to map out how the information will be delivered. He continues that this is a very complex set of data that has to be analyzed. He asks for any thoughts or comments.

MR. STOKES states that in reading through this there is very good insight from a lot of diverse board members. He continues that there is a short time frame to deliver a product to the Legislature and suggests working through the observations and feedbacks and categorizing

whether something is on the short-term deliverable or should be in the longer-term planning for what is hoped to be accomplished with a particular item.

DEPUTY COMMISSIONER PAWLOWSKI building on Board Member Stokes' recommendation suggests leading the discussion through item by item and section of the work turned in by everyone.

CHAIR HENDRIX states that Stephanie sent out a culmination of the information that came in from various board members after the presentations at the initial meeting on October 15. She consolidated them into a document. He asks if the document is available to the public and, if so, where.

MS. ALEXANDER replies, yes, it is available on the Department of Revenue website. There is a tab for the Oil and Gas Competitiveness Review Board, under the documents.

CHAIR HENDRIX begins with the first bullet, *"The rhetoric around the recent ballot referendum on Proposition 1, determining whether Senate Bill 21 should be either repealed or upheld, gave the impression that the production tax is the overarching factor for a company's decision to invest in Alaska's oil and gas sector. Though the production tax is an important factor, it is one of several factors companies weigh when considering investment decisions."* He believes that is true and also believes that a large part of the mission surrounding the other challenges that producers have in the state are all considerations that need to be fleshed out. He continues explaining the need to harnessing the metrics and deciding how far back to begin. He adds that this will result in traceability on the start and in the tracking.

MR. STOKES states that ideally we will take and borrow from the various departments, consolidate it all together, and have a picture on all the aspects that are kept current. He adds that only the best that really pertain to the mission here will be chosen.

DEPUTY COMMISSIONER PAWLOWSKI agrees and states that the next bullet is *"The leading economic indicator for the oil and gas industry is the number of development wells currently being drilled and those planned for drilling."*

He continues that this is also reworking or enhancing existing wells. He agrees that is definitely a leading economic indicator and it would also be good to look at the in-field enhancements on existing infrastructure.

COMMISSIONER MAYBERRY states that there is a substantial amount of existing data on those subjects on the website. He continues that there is also data on development wells and figures on production of oil and gas. He adds that this is a link on our website that the information can be put together easily. He states that he would be happy to work with Deputy Commissioner Pawlowski and DNR to put this into a dashboard that any interested person could easily navigate.

A short discussion ensues on what is available online.

MR. MALONEY agrees that it is really valuable data to look at to see how that will impact Alaska over the next year or two, as the number of drill rigs and other quantifiable information is potentially dramatically increased.

CHAIR HENDRIX agrees that drilling is a very important indicator and does relate to all those things.

DEPUTY COMMISSIONER PAWLOWSKI suggests that the report should provide the key indicators, and also where to get the information behind it. He states that it becomes an educational tool for the policy makers and the public, understanding that this is a dashboard window into all of the other information.

CHAIR HENDRIX suggests providing a link on the dashboard to get to where that data is coming from, which department, and it should be a repository that is easy to maneuver to the different agencies and to dig deeper into a topic for more information.

The discussion continues.

COMMISSIONER MAYBERRY suggests that one of the action items that the board needs is to solicit public comment in order to understand the way people are thinking, and getting feedback on the items that need to be addressed.

MR. STOKES states that another piece that would be very informative would be to have a sort of projection of publicly announced rigs coming into the oil and gas field on the North Slope.

The Committee agrees, and moves on, discussing the dashboard.

CHAIR HENDRIX states that the next bullet is *“The volatility of oil prices is something that Alaska must acknowledge as a fact and also something the State cannot control. Investments in oil and gas for exploration, development, and production often span several price cycles.”* He states that oil pricing is a key factor in considerations that producers are making, and is also a key factor for the State’s revenue sources. He continues that historic oil pricing is a very important component to look at by both this Committee and the public.

DEPUTY COMMISSIONER PAWLOWSKI states that is an easy deliverable from Revenue. He continues that the process of updating both forward-looking and backward-looking data is constant. He goes down two additional bullets to the cost component, stating that is also part of DOR. He states that the information on the cost of the entire value chain, from the shipping and transportation to market and then upstream with lease expenditures is collected. He explains this more fully.

A discussion on this ensues.

CHAIR HENDRIX states that the fourth bullet is *“Alaska’s primary oil and gas fields are aging, requiring additional reservoir stimulation techniques to generate additional oil and gas production.”*

He continues that this is well known. There is a lot more well work-over activity and that could be captured in that well activity piece of the dashboard, whether it was a new well or one that is being worked over.

He moves on to the sixth bullet, *“The cost of transporting oil and gas to market is a significant element of the cost of production, and although some basins in Alaska have world-class infrastructure, new basins may not. Factors that increase the cost of transportation would be identified, and their impact monitored and forecasted.”*

MR. STOKES states that is a great statement to give some context to the report. But actually monitoring factors such as cost of transportation might be long term, not the short term.

CHAIR HENDRIX moves to the next bullet, *“The take from oil and gas revenues by the federal government is both substantial and nonnegotiable. Alaska must derive a relatively small portion of revenues once this is taken into account. A material portion of any reduction in government take given up by the State of Alaska goes to federal government, not the producer of oil.”*

He states that the dashboard has to have the make-up of what is the tax by region for oil production, and how that is impacted by state tax, lease cost and federal taxes. He continues that the breakdown needs to be transparent to the public looking at the cost and the tax burden of a well. He adds, that it is important to also show the federal tax portion as well as that of the state.

MR. FREEMAN agrees.

MR. RYHERD comments that the federal income tax box is a black box because the corporate income tax return from any operator is confidential. He states that it can be modeled based on assumptions, but because every operator is different, the amount is not clearly indicated.

CHAIR HENDRIX suggests some current data on the dashboard showing what the oil price is, how much of that is taken by others than the producer, and that those stratified chunks are as close to the amount as possible.

MS. MORIARTY states that once the existing data is in and the model continued and moving forward potentially at different price points, most of the models already include the government take comparison to state take, federal take, and industry take. She continues that it is one of the best ways to compare how we stack up against other regions because not everyone’s tax system is an apples-to-apples comparison.

A short discussion ensues.

DEPUTY COMMISSIONER PAWLOWSKI explains that fiscal models are built for different jurisdictions, and then the same project is run through each of those models and they are compared to how the project kicks out from each one.

CHAIR HENDRIX states that the next bullet, *“Existing oil and gas leases have elements that -- though they vary from one lease to another -- cannot change for the duration of the lease. These elements include lease bonuses, rents, and royalties. Despite the limitations with existing oil and gas leases, the board may wish to offer advice on future lease terms, to the extent changes there may still influence Alaska’s competitiveness.”*

MR. FREEMAN states that this one might be stretching out beyond the assigned duties. He continues that there is a need to monitor in terms of costs, how things like the royalties and the rents and bonuses affect the competitiveness. But in terms of recommending or negotiating, it does not seem appropriate.

CHAIR HENDRIX agrees that if it ever presented itself, it would be far down the road. He moves on to the next bullet, *“Though Alaska has tremendous gas resources to be produced, the operational expenditures (OPEX) and capital expenditures (CAPEX) required for exploration, development, and production are much higher than in the contiguous United States. Shale gas, though expensive, enjoys massive production numbers, in turn, driving down the price of gas, making Alaska natural gas extremely uneconomic in the ‘Lower 48’ market.”*

DEPUTY COMMISSIONER PAWLOWSKI states that he is reading this as really North Slope gas and is not sure it falls into the deeper near-term report.

CHAIR HENDRIX agrees, and states that this can wait until after the January 31 report.

A short discussion ensues.

CHAIR HENDRIX calls for a break.

(Break.)

CHAIR HENDRIX moves on to the next bullet, *“Industry would welcome a regulatory system that is consistent, fair, and able to withstand legal challenges. This is a significant variable when comparing Alaska to potential competitors.”*

He states that those peers or potential competitors will be identified when competing to get investment and resource development here. He continues that the next bullet, *“State agencies have a wealth of information. The Alaska Oil and Gas Conservation Commission, the Department of Revenue, and the Department of Natural Resources can all be called upon for expertise they and the people within those agencies possess.”*

He states that there is a tremendous amount of information out there, and we have already seen participation.

## **RECOMMENDATIONS**

CHAIR HENDRIX thanks Ms. Alexander for her work on putting together the recommendations.

*“Regulatory and permitting structure: Agencies should offer their ideas on improving the regulatory process. However, the idea should be supported by evidence rather than simply asserted, well-intended proposals in the past to reform the regulatory and permitting structure actually resulted in creating further obstacles.”*

MR. FREEMAN states that clarity and supported evidence is absolutely critical to making sure that the message is clear and supported by facts, not assertions.

MS. RYAN states there are two aspects to this: the permitting process, and the various requirements with which people must comply. She continues that there is also the process and the appeals process. She states that there are two things to consider: one is to make sure the right activities are being regulated to protect the environment; and making sure that permits are issued in a timely manner and challenges can be dealt with efficiently.

A discussion ensues.

CHAIR HENDRIX states that the next bullet is *“It is important to get feedback as quickly as possible from the interested party, producers, support industry, et cetera, on potential changes to the regulatory and permitting environment. The board has a compressed time frame, and gathering this information is necessary. Without it, the board does not have as complete of an assessment as it should on how the status quo operates and where the improvements can be made.”*

He continues that this is important because it goes along with outreach to get feedback from the public about their experiences, what could be better and what is working.

DEPUTY COMMISSIONER PAWLOWSKI states the need for the board to talk about how to achieve the public outreach. He continues that it is a recognition for some preliminary observations, but recommendations for changes cannot be made prior to receiving the actual work and input. He adds that he does not think that is achievable in this compressed timeline.

A discussion segues into the methodology and how to recommend moving forward and identifying it for the Legislature so they understand what is being recommended.

MS. MORIARTY volunteers to start a rough draft for the Commission to review as far as a scope for what this RFP would look like. She continues that the first RFP is getting a request for proposal for building a survey mechanism that would be sent out to current, potential, and former oil and gas operators, explorers, and producers in Alaska to get their input as to how they view these four components: Regulatory, competitiveness, permitting and so on. She adds that she could have the rough draft out to the group by midweek next week.

CHAIR HENDRIX asks that be directed to Stephanie for distribution. He states that he has this listed as a meeting that needs to be scheduled before adjourning today. He asks Ms. Moriarty for a draft deadline at close of business on the 5<sup>th</sup>.

MR. STOKES clarifies that the actual survey would be developed once someone is identified to do the survey.

MS. MORIARTY replies that the RFP would identify topics for the survey, but that survey instrument would need to be developed by whoever the contractor is. She adds that the request for proposal will need to identify topics from a survey company.

DEPUTY COMMISSIONER PAWLOWSKI states that it would be helpful to provide a timeline for the board of what a procurement process looks like.

CHAIR HENDRIX agrees. He moves back to the bullets: *“State regulatory agencies should be staffed and equipped to issue consistent permits, determinations, or findings that would withstand judicial challenges. Compare Alaska’s metrics on permitting and its regulatory paradigm with other North American producing areas.”*

A short discussion ensues.

CHARI HENDRIX states *“Status of labor pool. The board should learn what the manpower projections are by type for all work associated with new drilling rigs or other planned capital projects.”*

He continues, that is a fairly board statement and the information for that would come from numerous different sources.

After discussion, he moves to the next bullet, *“Building on the briefing from the Department of Labor and Workforce Development at the October 15 meeting, the board should specifically request the preparation of data to support workforce development efforts now. Department of Labor should also present its plan on requesting legislative support next session.”*

DEPUTY COMMISSIONER PAWLOWSKI explains that, procedurally, the Department will not necessarily be in a position to talk to this board about this until after a Governor, particularly with a budget announcement, makes them available publicly. He suggests working with the Department to provide an inspection that is similar to what is being talked about with the dashboard about data that is out there, but essentially a summary of the status of where the Department is, what they see the workforce needs are, and have them help develop this section.

CHAIR HENDRIX states that is a good idea and would be a good starting point. He suggests setting a meeting with the Department of Labor to go over what help is needed. He moves on to public and private infrastructure. *“The board should consider hiring a third-party firm to conduct an in-depth survey from oil and gas industry members on its assessment of Alaska’s infrastructure. This will avoid issues of individual companies not wishing to divulge information that would put it at a competitive disadvantage and aggregate the information more quickly and efficiently.”*

The next bullet is, *“The board should schedule a meeting with Commissioner Pat Kemp of the Alaska Department of Transportation, DOT. The meeting should consist of an overview of what infrastructure projects have been funded, planned, researched, or considered to facilitate resource development in Alaska. Examples include the Roads to Resources Project, the James Dalton Highway, and port improvements. Infrastructure deficiencies on the State’s part for oil and gas should be explained. Comparing projects in the past against those being proposed in the future is helpful to better understand the State’s role as a facilitator for industry.”*

DEPUTY COMMISSIONER PAWLOWSKI suggests scheduling a meeting with Commissioner Kemp and giving him these bullets and the direction so that they can come in and meet and talk about how best to represent this.

CHAIR HENDRIX states that the next bullet is *“An assessment of the differences in infrastructure needs from a green field project to a brown field project would be very useful. Alaska currently has both, and understanding those nuances would benefit the board.”*

A discussion ensues.

MR. STOKES goes back to the bullets on the thorough assessment of the rings on the North Slope and begins a discussion.

COMMISSIONER MAYBERRY clarifies that wells need to be drilled to obtain production, but when there is a discovery and wells that are producing, rigs are not on hand just to facilitate production.

CHAIR HENDRIX agrees and moves on to competitiveness. The first bullet is *“First and foremost, the board should clearly and quickly identify who is in Alaska’s immediate competitive group. The board should use the DOR handout from the October 15 meeting, which listed the ‘Alaska Oil and Gas Fiscal Regime Report’ dated January, 2012, to identify those competitors. By going down the list and removing the geographically irrelevant international competitors, the board can be more narrowly focused.”*

He states that this is getting to the identification of the peer groups. He lists them as: California; North Dakota; Oklahoma; Texas; U. S. Gulf of Mexico Outer Continental Shelf; U. S. Alaska Outer Continental Shelf; Canada, which would be the province of Alberta, the Northwest Territories, Canada, the Beaufort Sea; Australia; Norway; and the United Kingdom.

A discussion ensues.

CHAIR HENDRIX moves on to scheduling of meetings. He states that there is a meeting to go over Kara’s work scope for the request for information and for the prep for an RFP. Next is another meeting with Department of Labor and then a meeting with DOT.

DEPUTY COMMISSIONER PAWLOWSKI states that the third week in November would probably be best.

CHAIR HENDRIX states that a potential afternoon meeting would be for November 17. A telephone meeting is scheduled for November 13 from 2:00 to 3:30 p.m. He thanks everybody for attending today, and recognizes Deputy Commissioner Pawlowski.

DEPUTY COMMISSIONER PAWLOWSKI expresses his appreciation to this board for taking the time and working so well over teleconference. He continues that it is financially very efficient for the Department, and not everybody is able to do it or see that it is beneficial.

CHAIR HENDRIX thanks all again, and concludes the meeting.

(Meeting concluded at 11:58 a.m.)