

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

March 13, 2015

3:31 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

PRESENTATION: ALASKA'S OIL AND GAS COMPETITIVENESS REPORT 2015

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

THOMAS HENDRIX, JR., Chair
Alaska Oil and Gas Competitiveness Review Board (OGCRB) and
Vice President, Oil & Gas
Carlile Transportation Systems, Inc.
Palmer, Alaska

POSITION STATEMENT: Presented Alaska's Oil and Gas
Competitiveness Report 2015.

JERRY BURNETT, Deputy Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Presented information related to the report
on Alaska's Oil and Gas Competitiveness.

ACTION NARRATIVE

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CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:31 p.m. Present at the call to order were Senators Costello, Coghill, Wielechowski, Stoltze, and Chair Giessel. She noted that Senator Stedman was excused.

PRESENTATION: Alaska's Oil and Gas Competitiveness Report 2015

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CHAIR GIESSEL announced a report from the Alaska Oil and Gas Competitiveness Review Board.

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THOMAS HENDRIX, JR., Chair, Alaska Oil and Gas Competitiveness Review Board (OGCRB), and Vice President, Oil & Gas, Carlisle Transportation Systems, Inc., Palmer, Alaska, presented Alaska's Oil and Gas Competitiveness Report 2015. He provided his background that he said suits him well for being on this board.

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JERRY BURNETT, Deputy Commissioner, Department of Revenue (DOR), introduced himself.

MR. HENDRIX noted their work did not support the required statutory requirements of the board. The factors that brought that about was that the first board meeting was very late in getting started, there had been an administrative change and several new board members came on board, but they have had 10 subsequent board meetings since then, so they have been diligent.

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MR. HENDRIX explained that the board was formed as a part of SB 21 and was created to establish and maintain salient data regarding oil and gas exploration, development, and production and to advise the Alaska Legislature on the state's fiscal system, labor pool, and regulatory competitiveness. The statute mandates that the board give recommendations on or before December 31, 2015, but there are no recommendations in the report. They have compiled the data they feel it will get them in delivering the board's work.

He described that the board is made up of:

Two public members:

- Joey Merrick who is a business manager and secretary for Alaska Laborers Local 341
- Rodney Brown who is the business manager for the UAA Local 375)

Three administration department heads:

- Department of Revenue Commissioner Randall Hoffbeck
- Kristin Ryan who is Spill Prevention and Response Coordinator at the Department of Environmental Conservation (DEC)
- Mark Myers who is Department of Natural Resources commissioner

One commissioner:

- Alaska Oil and Gas Conservation Commissioner Gallagher

Three oil and gas subject matter experts:

- Petroleum Engineer, Pete Stokes with Petrochemical Resources
- Geologist, Curt Freeman, President, Avalon Development
- CPA, Tom Malone, private citizen

Two industry trade group representatives:

- Thomas Hendrix, Alaska Support Industry Alliance
- Kara Moriarty, Chair, Alaska Oil and Gas Association (AOGA)

MR. HENDRIX invited Mr. Burnett to talk about how the DOR is handling staffing and support for their efforts.

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MR. BURNETT related that the DOR fiscal note had enough funding for board administrative help and travel. A special assistant to the commissioner works closely with the board in writing the report and handling the meetings. Tim Ryherd, a DOR Commercial Analyst, provided technical support, but due to changing of administrations and the late start, an RFP was not funded (about \$300,000) but it is still needed. Receipt of funding will affect the length of time it takes the board to do its work.

MR. HENDRIX's next slide listed Alaska's resource development peer groups or its competition, all located in North America, Europe, Pacific Regions, and in the Arctic. All jurisdictions had concessional type fiscal arrangements, tax and royalties similar to Alaska, have similar sized reserves in undiscovered resource potential and have a history of significant hydrocarbon production. They are: Alaska, California, North Dakota, Oklahoma, Texas, U.S. Gulf of Mexico OCS, U.S. Alaska OCS, Alberta, Canada-Northwest Territories, Canada-Beaufort Sea, Australia, Norway and the United Kingdom.

He said this list came from work the state had already done and all of the departments had been very helpful in gathering data assimilated into a report.

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MR. HENDRIX showed a graph depicting peer resource potential indicating that Alaska has about one-third of the nation's reserves.

He explained that he broke down Alaska's land and lease sales into three sections: federal lands, private lands and state lands. Federal lands (61 percent) are vast and locked up; state lands (27 percent) have more potential for development in the short term and Alaska has more consistent reliable lease/sale programs than the federal government. Private land (12 percent) is the smallest offering, contrary to many of its peers.

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MR. HENDRIX showed the effects of passing SB 21 on drilling activity in Alaska on an AOGCC slide of total drilling including workover rigs and water wells for disposal and noted that this measurement is different than the next Baker Hughes' slide of drilling rig activity. He explained that the activity doesn't show the boom and bust cycles to the degree that one sees in some peer groups, like North Dakota and Texas, where the rigs are immediately laid. In Alaska, the number of active drilling rigs is pretty consistent, but it could be improved, and the board might find that Alaska might be a good place to do business during low oil prices.

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MR. HENDRIX described the current North Slope infrastructure and the challenges it has. He spoke of the excellent maintenance of the Dalton Highway, the "road to resources," but he added that the board will need to examine access to resources in terms of ports, bridges, and roads in order for the state to stay competitive.

He showed a map of infrastructure in the Cook Inlet and six Frontier Basins. Cook Inlet has 34 fields all connected to infrastructure going to oil and gas processing facilities; he said that Kenai is booming right now. The six Frontier Basins include areas around Fairbanks, Glennallen, Kotzebue, Emmonak, Egegik, and Port Mueller. They are harder to get to, but some activity is being seen in the Fairbanks area.

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MR. HENDRIX said in order for Alaska to be competitive in the oil and gas industry, trained and available workforce are priorities. He said they will develop a measurable metric to use in looking at what plans are out there to have a robust workforce for. He pointed out that two private folks on the board are representatives of labor and the study of labor is going to be a key piece of the research the board will do.

He introduced the regulatory and permitting structure slide, another key issue that keeps popping up. There is no measurement to tell the board how difficult it is to deal with the state when it comes to getting permits, but every yellow box on the slide is something that could effectively be changed or fixed. The process should be simple and effective and one that is not costly to the producers.

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SENATOR MICCICHE joined the committee.

MR. HENDRIX showed a slide depicting the large number of permitting requirements. The next slide described Alaska's oil and gas fiscal system in 2014 and showed the four main components that generate state revenue. It didn't show the federal and local taxes generated from production. His next slide was not meant as a comparison, but showed the petroleum fiscal regimes of peer groups. For instance, Norway and Australia in deep water fiscal regimes have high taxes but no royalty.

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MR. HENDRIX explained that the RFP mentioned earlier will require \$300,000 to commission a third-party study. The study has been scoped to help the board come up with recommendations. He said the board is strong and has been working hard.

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MR. BURNETT added that the draft RFP was not included in the budget request because of the lateness of the first board meeting. If the funding comes through they could get the RFP on the street. It was discussed with the governor and the board is trying to make sure that there is a publically funded independent look rather than coming from any one industry group.

MR. HENDRIX said if the board does not receive the funding it can't deliver the required report that is already late. After the December 2015 report the next one is due on January 15, 2017. Should they not be funded and go through an almost entire

year delay, legislation will be needed to change the deadlines for 2017 and 2021.

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SENATOR MICCICHE asked if there is a reason they wouldn't issue the RFP just to have a better understanding of what the study costs.

MR. HENDRIX said he was not versed in state protocol, but he thought they would put out an RFP and ask for a price of doing it. Then he found out that meeting the state's protocols meant writing it the way it is.

MR. BURNETT said the board could write a request for information (RFI), but the board was confident that the \$300,000 is close to the cost having done studies over the years. It would be limited to up to \$300,000 and be done on a bid basis.

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SENATOR STOLTZE said the trend has been knowing how much the state has sort of sets the price and asked if they could do some fishing before putting all the gear together.

MR. HENDRIX said they could do "fishing," but want to be able to execute on a contract.

MR. HENDRIX thanked the committee for its time and the Department of Revenue, the Department of Natural Resources, the Department of Labor and Workforce Development, Department of Transportation and Public Facilities, the Department of Environmental Conservation and the Alaska Oil and Gas Conservation Commission for their help on the report.

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CHAIR GIESSEL said it is a formidable undertaking and thanked Mr. Hendrix for taking it on.

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There being nothing further to come before the committee, Chair Giessel adjourned the Senate Resource Standing Committee at 4:04 p.m.