

ALASKA LEGISLATURE

2445

HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

AIDEA's Programs

CREDIT

Loan Participation Program

AIDEA can purchase up to an 80% participation in a bank originated loan, with total participation not to exceed \$10 million, to develop, acquire, or enhance Alaska business enterprises.

Business and Export Assistance Program

A loan guarantee program which provides financial institutions with a guarantee of up to 80%, not to exceed \$1 million, on the principal of the loan. Transactions are primarily intended to assist manufacturing enterprises to export goods and services.

Conduit Revenue Bond Program

Issue revenue bonds which may be taxable or tax-exempt. AIDEA acts as a conduit and neither the assets nor credit of AIEA or the State of Alaska is at risk in this program.

AIDEA/AEA

AIDEA's Programs

CREDIT (continued)

Rural Development Initiative Fund (RDIF)

The RDIF is a loan program designed to create job opportunities in rural Alaska by providing small businesses with capital that may not be available through conventional markets.

- *This program provides loans for working capital, equipment, or construction.*
- *To be eligible for this loan, the business must be Alaskan-owned and located in a community of 5,000 or less that is not connected by road or rail to Anchorage or Fairbanks, or a population of 2,000 or less that is connected by road or rail to Anchorage or Fairbanks.*
- *DCED, Division of Investments, administers this program for AIDEA.*

AIDEA/AEA 

AIDEA's Programs

DEVELOPMENT FINANCE

Development Finance Program

The program is designed to finance the infrastructure necessary to support economic development projects in Alaska.

- *AIDEA owns the project and is repaid for use of the asset.*
- *These projects must have an economic benefit for Alaska, be supported by their local government, and be financially feasible.*
- *Projects requiring more than \$10 million in bonding require legislative authorization*

AIDEA/AEA 

Recent Accomplishments

- *During FY2003, purchased approximately \$39.7 million in loan participations originated through financial institutions for business and projects in Alaska. At June 30, 2002, had approved loan participation purchase commitments for an additional \$29.3 million.*
- *Continued to work with Teck Cominco Alaska and the U.S. Corp of Engineers to study the potential feasibility of a deep water port to service the DeLong Mountain Transportation System.*
- *Issued refunding bonds for the Federal Express Aircraft Maintenance Facility, resulting in an annual debt service savings of \$215,000.*
- *AIDEA loaned the Four Dam Pool Joint Action Agency \$77.1 million to finance the purchase of the Four Dam Pool Project previously owned by the Alaska Energy Authority. The loan is payable over 25 years with interest at 6.5% per annum.*

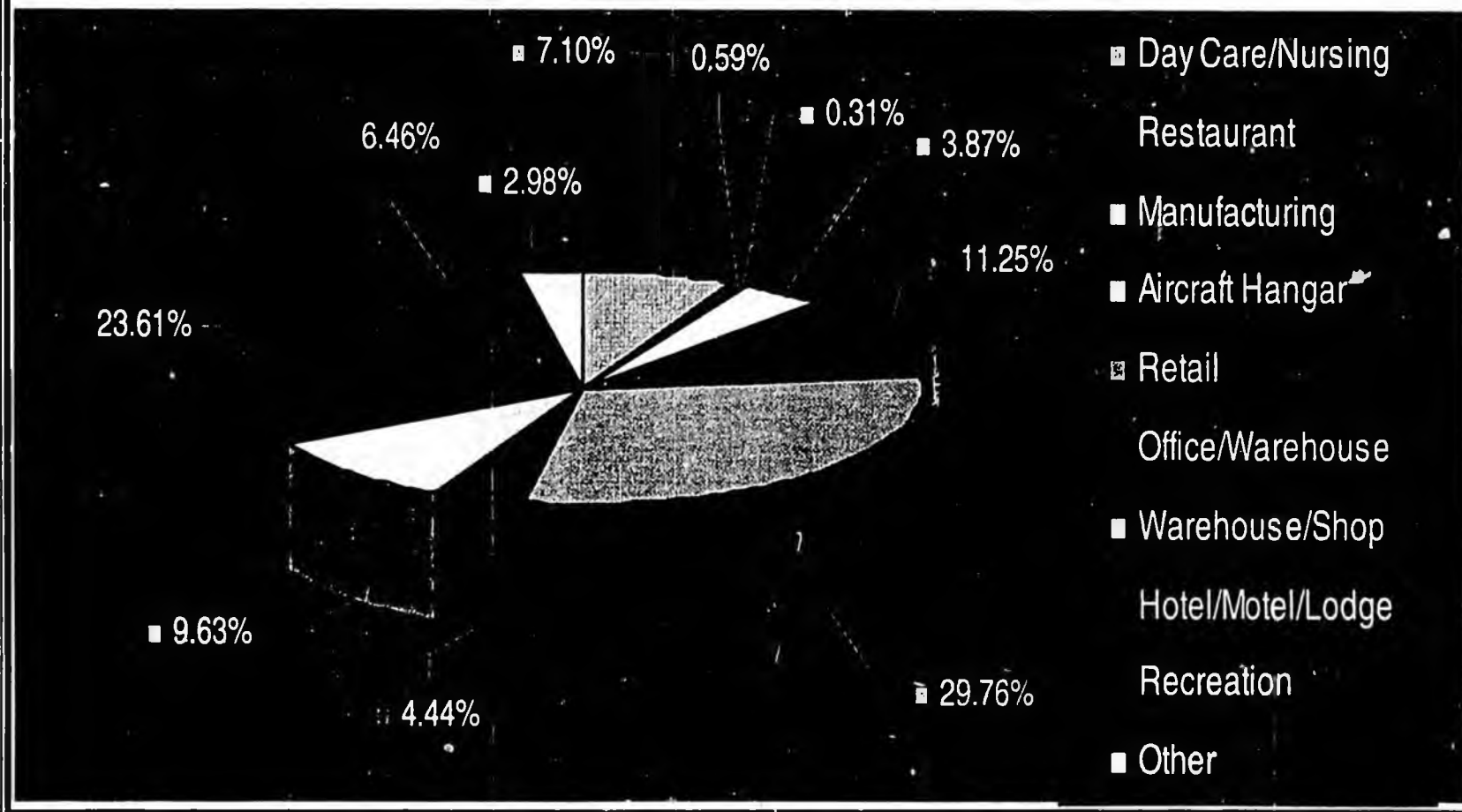
AIDEA/AEA

AIDEA Loan Portfolio: Diversity and Performance

Loan programs play an important role in fulfilling AIDEA's mission, while also providing a long-term investment for AIDEA. Through loan participations and loan guarantees with the banking industry, AIDEA provides opportunities to finance Alaska businesses.

(As of September 30, 2002)

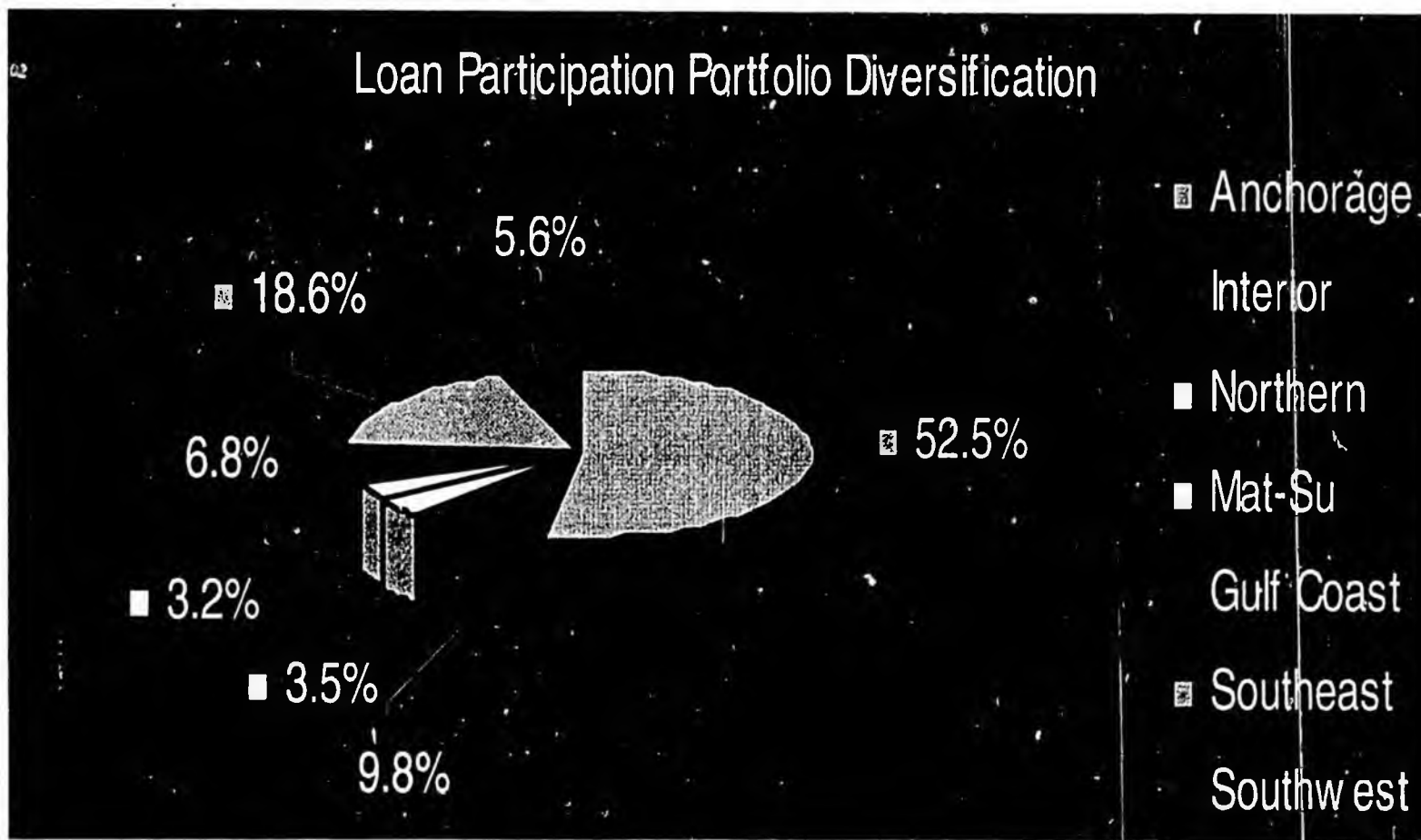
Industry Diversification



AIDEA Loan Portfolio: Diversity and Performance

(As of September 30, 2002)

Geographic Diversification



Development Finance Projects

Project	6/30/02 Net Book Value	Status
DeLong Mountain Transportation System (DMTS)	\$257 million	Project has been in operation since 1990; a port expansion was completed in 1999. Cominco pays AIDEA \$17.7 million per year in user fees.
Federal Express Aircraft Maintenance Facility	\$25 million	Facility is complete and in operation.
Healy Clean Coal Facility	\$56 million	Facility is in mothball status.
Suneel Coal Load-Out Facility	\$6 million	AIDEA purchased a 49% equity interest in the facility in 1995 to help retain jobs related to coal export.
Ketchikan Shipyard	\$3 million	This facility was transferred from DOT/PF and is operational.
Skagway Ore Terminal	\$2 million	Terminal is vacant.
Snettisham Hydroelectric Project	\$89 million	Revenue bonds were issued in 1998 to finance the project. Project operations continue.
Alaska Seafood Center	\$22 million	Start-up operations continue.

Investment Overview

- **Investment Objectives**
 - ✓ Safety
 - ✓ Liquidity
 - ✓ Yield
- **Conservative Investments**
 - ✓ U.S. Treasuries
 - ✓ U.S. Agencies
 - ✓ Corporate bonds
- **Large portion managed by investment managers to increase return**
- **Remainder is invested to meet liquidity needs or are held by bond trustee's under bond resolutions.**

AIDEA/AEA

Dividend Policy

The dividend program was created in 1996 and carefully structured to provide certainty and stability to the Authority and its investors. The dividend policy allows AIDEA to make a contribution to the General Fund; provides financial flexibility to the Board to determine the dividend; and provides substantial protection to the Authority's bond owners to insure their investment remains secure.

The dividend is to be not less than 25% nor more than 50% of the Authority's net income for the fiscal year two years before the year the dividend is to be paid (the "base year"). In no event may the dividend exceed base year unrestricted net income as defined in statute. The AIDEA Board determines the dividend taking into consideration: a) base year net income, b) income trends, c) project and loan flow projections, d) bond covenant impacts, e) rating agency concerns, and f) unanticipated needs.

Recap of AIDEA Dividends to State of Alaska

June 30	Net Income	Payable In FY	Dividend	Net Income %
1995	37,461,096	1997	15,000,000	40.042%
1996	42,902,054	1998	16,000,000	37.294%
1997	42,880,361	1999	16,000,000	37.313%
1998	52,373,699	2000	26,000,000	49.643%
1999	37,092,829	2001	18,500,000	49.875%
2000	35,597,000	2002	17,500,000	49.161%
2001	40,299,000	2003	20,149,500	50.000%
Cumulative			288,606,039	129,149,500 44.749%

AIDEA/AEA

Bond Ratings/Bond Capacity

Following the implementation of AIDEA's Dividend Policy in 1996, AIDEA's market acceptance significantly improved. In early 1997, for the first time, AIDEA was able to issue AAA insured general obligation bonds when it completed the largest bond sale in its 30-year history. AIDEA again received a AAA insured rating when it issued general obligation refunding bonds in 1998 and 2002. AIDEA has a strong underlying A(2) and A- rating by Moody's Investors Service and Standard & Poor's respectively. Strong bond ratings allow AIDEA to have greater access to capital markets and a broader investment pool, lowering borrowing costs for important economic development projects.

Since 1989, pursuant to AS 44.88.105(d), bonds issued by AIDEA may not carry the moral obligation of the State, unless the moral obligation a) is specifically authorized by the Legislature, b) secures bonds to refund moral obligation bonds originally issued prior to 1989, or c) secures bonds issued for a power transmission intertie.

None of the new project bonds issued by AIDEA since 1989 carry the State's moral obligation. Outstanding state moral obligation bonds as of June 30, 2002, total \$10,735,000. This represents only 4% of the total bonds outstanding of \$271,065,000. Moral obligation bonds are not debts or liabilities of the State.

AIDEA/AEA

Alaska Energy Authority Oversight

AIDEA provides all staffing for the Alaska Energy Authority (AEA). This encompasses the oversight of the operations and maintenance of all AEA owned power projects, the management and staffing of AEA's Rural and Alternative Energy Programs, the administration of the Power Cost Equalization (PCE) Program, and the administration of the Circuit Rider Program.

AIDEA/AEA

Alaska



Department of
Community and
Economic Development

Department of Community and Economic Development Overview



Edgar Blatchford, Commissioner

**Presented to the
House Finance Committee**

February 2003

Our Mission

**“Promoting strong communities
and a healthy economy”**

- Provide consumer protection through regulation of banking, securities and corporations, insurance, professional occupations and business licensing
- Promote economic development in the state through domestic and international promotion of tourism, seafood, timber, minerals, and other products, and encouragement of business and industrial development
- Administer several loan programs
- Foster the development of independent local governments by providing technical, financial, and program assistance to communities

The Department Consists of the Commissioner's Office plus Seven Divisions

- **Administrative Services**
- **Banking, Securities, and Corporations**
- **Community and Business Development**
- **International Trade and Market Development**
- **Insurance**
- **Investments**
- **Occupational Licensing**

The Department Houses Six Independent Agencies

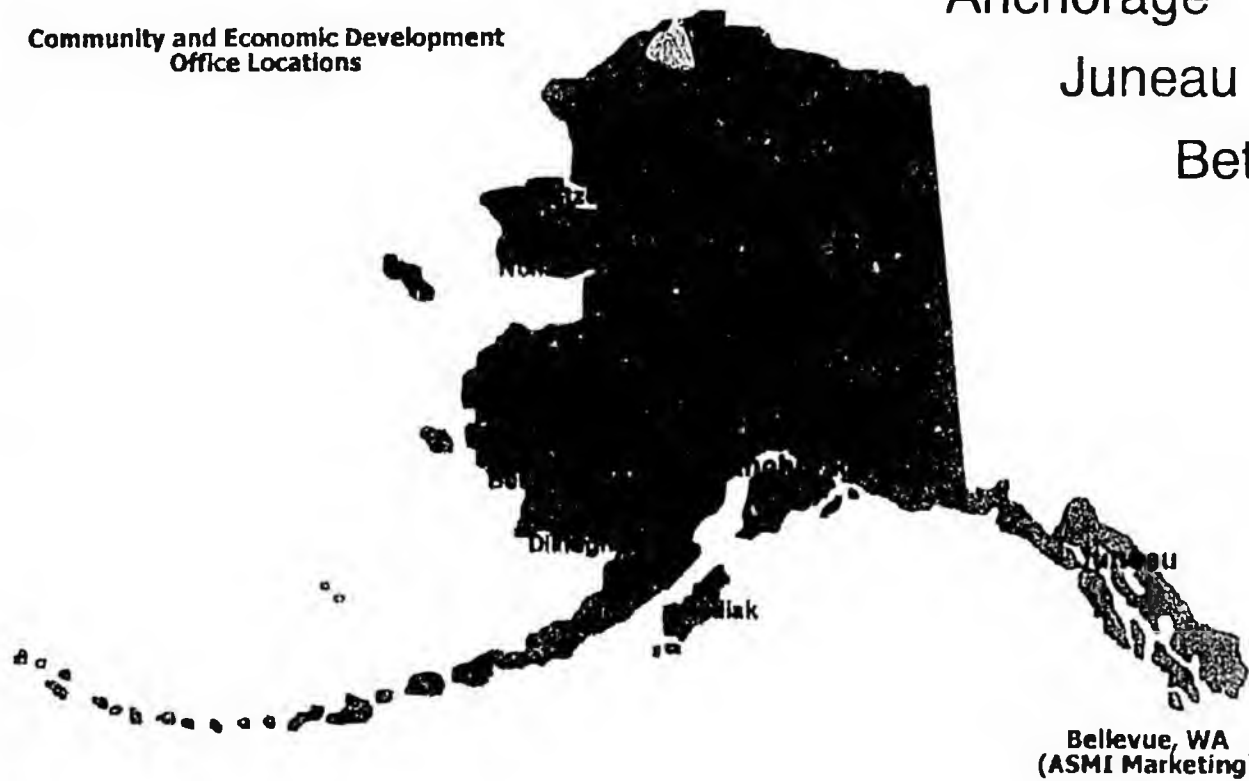
- **Alaska Aerospace Development Corporation**
- **Alaska Industrial Development and Export Authority/Alaska Energy Authority**
- **Alaska Railroad Corporation**
- **Alaska Seafood Marketing Institute**
- **Alaska Science and Technology Foundation**
- **Regulatory Commission of Alaska**



Who We Are

Total employees 507

Community and Economic Development
Office Locations



Anchorage

Juneau

Bethel

Dillingham

Fairbanks

Kodiak

Ketchikan

Kotzebue

Nome

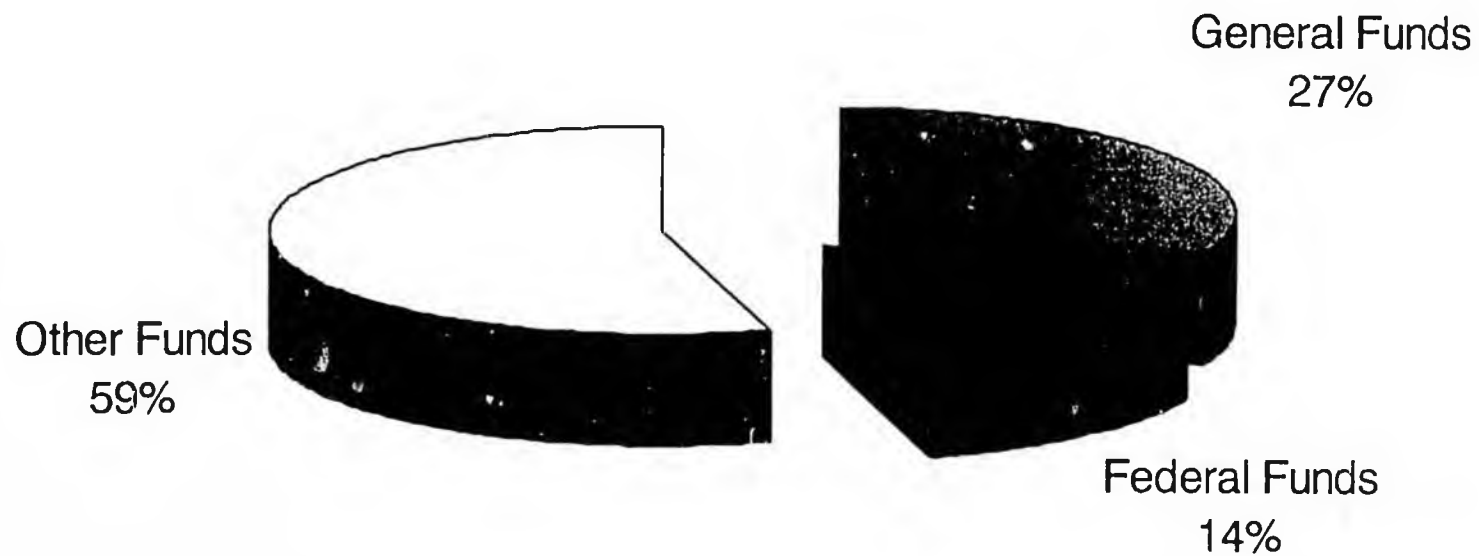
Tok

Bellevue

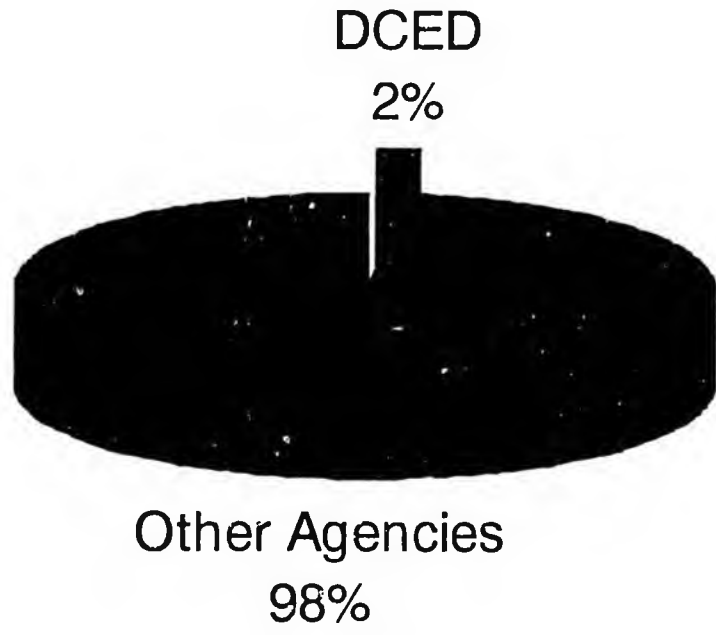
Bellevue, WA
(ASMI Marketing)

FY03 DCED Budget Sources

\$151.8 million



FY03 Statewide General Fund



Economic Development Issues and DCED Strategies

Department's role in resource development

- Oil development is the most important revenue source for the state, but fishing, mining, timber, tourism and agriculture industries provide the bulk of the jobs to Alaskans.
- Aggressively promote and revitalize our resource industries while being mindful of our obligation to protect our environment.
- Consult and work with the people of rural Alaska and regional governments in making changes and implementing development plans.
- Jobs in rural Alaska should first be for the people who live there.
- Work with Native Regional Corporations to determine how the state might be able to assist them in developing their resources.
- A close working relationship between the State and the Alaska Native corporations can provide the economic engine for Alaska.

Economic Development Issues and DCED Strategies

Fishing Industry

- Fishing provides more jobs in Alaska than any private industry.
- However, parts of the fishing industry, particularly the salmon industry, are in trouble.
- We are suffering from severely depressed salmon market prices that are, in large part, being driven by a flood of farmed salmon.
- As a result, average ex-vessel prices for Alaskan wild salmon are low.
- The department has worked closely with the Legislative Salmon Task Force and is reviewing their recently released report and recommendations for the Alaska salmon industry.

What We Will Do

- Think "outside of the can" and find new markets for our salmon.
- Examine every option including calling on the cruise ship industry to buy our wild Alaska salmon to serve its passengers.
- Become more innovative in marketing our wild Alaska salmon.
- Increase quality control and assist in transporting our fresh, wild salmon to market.
- Aggressively expand our fledgling mariculture industry.
- Work with our Congressional Delegation to try to arrange for additional federal purchases of the warehoused canned salmon.
- Meet with processors and look for new markets and investments to see how we can reduce the impacts to coastal fishing communities caused by the closure of the Wards Cove operations.
- Gain control of federal and state funds and direct them to where they'll do the most good to revitalize the fishing industry in Alaska.
- Work with the Congressional Delegation on reauthorization of the Magnuson-Stevens Fisheries Management and Conservation Act. This act has a direct bearing on decisions affecting Alaska fisheries.
- The Divisions of Community & Business Development (CBD) and Investments, and ASMI are actively involved in addressing seafood industry problems with overall department coordination is in CBD.
- Investments administers two major loan programs, the Commercial Fishing Revolving Loan Fund (CFRLF) and the Fisheries Enhancement Revolving Loan Fund (FERLF), that can play an important role in any industry restructuring efforts.
- Work diligently to review, support and implement Task Force recommendations about the structure and operations of ASMI along with several other legislative initiatives.

Economic Development Issues and DCED Strategies

Mining Industry

- Mining holds the potential to provide thousands of high-paying jobs to Alaska – but that potential is not being realized.
- Permitting problems, lack of infrastructure, and environmental litigation delay development and increase costs.
- Other parts of the world do a better job of attracting investment because their costs are lower.

What We Will Do

- Work with DNR to help businesses navigate permitting requirements; help coordinate permits through the large project team concept; and develop infrastructure in our important mining regions, for example, the Donlin Creek project in Western Alaska.
- Seek the support of the Bush administration for rail extension to Fort Greely to access the new missile defense system, which would not only benefit the military, but the mining and agricultural sectors, as well.
- Alaska has many promising mineral prospects including the potential for world class mines at Pogo and Kensington.
- Establish a Governor's Subcabinet on Rural Development (DCED, DNR, DOT).

Economic Development Issues and DCED Strategies

Timber Industry

- The Murkowski Administration intends to do all we can to restore the timber industry in Southeast Alaska.
- This proud industry, which once supported 4,200 jobs, now provides just 650 jobs.
- While we cannot bring back the heyday of timber jobs provided by the integrated pulp and sawmill industries of the 60's and 70's, we can create an atmosphere in which investors are willing to come to Alaska to build plants and create jobs.

What We Will Do

- Work with state, federal, local governments, and timber communities to promote business development and a positive investment climate.

Economic Development Issues and DCED Strategies

Agriculture

- There are many excellent success stories from the MatSu Valley to Delta Junction, and from Kenny Lake to the Kenai Peninsula.
- The recent Legislative Budget and Audit report on the Division of Agriculture pulls no punches in its indictment of the state's failed efforts to promote and assist the farming community.

What We Will Do

- Help work on a reorganization plan to promote Alaska's agricultural opportunities. Alaska's farmers can and should continue to provide a significant level of self-sufficiency for Alaska's residents.
- Continue to assist in the promotion of the international sales of agricultural products such as asparagus, carrots, and potatoes.

Economic Development Issues and DCED Strategies

Tourism

- Alaska tourism provides countless business opportunities for small business and employment for thousands of Alaskans.
- With improved access and new world-class destinations our tourism potential is without limits.
- One example is the Kennicott/McCarthy area. Why has it taken so long for this area to attract significant tourism? Access.
- Access to Alaska's largest park – the Wrangell-St. Elias – was first built for mineral exploration, via the Copper River Railroad from the south to Chitina, and to the north, the mining road to Nebesna. We who enjoy the park today are the beneficiaries of our pioneer ancestors who had the grit and the gumption to carve that access out of the wilderness.
- Additionally, we need a northern route into the 6 million acre Denali National Park, the state's number one tourist destination.
- As we improve our transportation infrastructure, we open new opportunities for this industry and for people of all ages to experience Alaska.

What We Will Do

- Work with industry to address the funding of Alaska tourism marketing and development needs.
- Help build infrastructure that promotes tourism.
- Contract for marketing services to increase awareness of Alaska as a visitor destination.
- Provide research, planning and development assistance to individuals, businesses, organizations and communities interested in tourism.
- Conduct regular research projects to measure the economic impact of tourism activity in Alaska.

Economic Development Issues and DCED Strategies

Pacific Rim Trade

- This is a critical time for Alaska exporters. It is important for Alaska to maintain an active, effective trade presence in the state's traditional Pacific Rim export markets during the current worldwide business slowdown.
- The dollar value of goods exported to 89 countries from Alaska totaled \$2.4 billion in 2001, a decrease of less than one percent from 2000.

What We Will Do

- Maintain active trade representation in key foreign countries.
- Promote Government to Government Relations so important to Alaska's trading partners.
- Connect buyers and sellers of Alaska products.
- Organize trade missions/in-bound and out-bound.
- Participate in trade shows.
- Provide information on web, in newsletters, in customize reports and in seminars.

Economic Development Issues and DCED Strategies

Business Recruitment and Development

- In order to expand and diversify the economy, Alaska must attract new industry and investment to the state.
- Doing so will help expand employment opportunities for Alaskans and diversify the tax base.
- Business and investment recruitment is a highly competitive endeavor as cities, counties and states across America compete to attract business to their communities. In reality, the competition is global.
- If Alaska is to succeed in attracting its fair share, sufficient resources to enable an effective, pro-active recruitment program will need to be deployed.

What We Will Do

- Spread the word about Alaska's unique advantages and attributes as a business location.
- Conduct outreach by participating at trade shows and advertising.
- Respond to company requests for information and technical assistance.
- Find partners for development projects
- Reauthorize and work with Alaska Regional Development Organizations (ARDO's) to promote local and regional development.
- Promote Alaska as a location for film projects.

Economic Development Issues and DCED Strategies

Rural Development

- The Northwest Arctic and North Slope Boroughs have partnered together to address economic development in their regions and provide a model we will encourage other regions to look consider to identify ways to create synergies with other regions to work with the state to meet the challenges of development together.
- This administration recognizes the contribution Alaska Natives and Alaska Native organizations have made to this great state. We are committed to a healthy spirit of cooperation with the Alaska Native community. As a majority of the state's resource development will take place in rural Alaska, rest assured that rural Alaska will have a seat at the table during the decision-making process.

What We Will Do

- Work with Native Regional Corporations to determine how the state might assist them in development their resources.
- Establish Governor's Subcabinet on Rural Development (DCED, DNR, DOT).
- Work with the Denali Commission to provide jobs in rural Alaska.
- Coordinate with rural, federal, and state agencies.
- Ensure residents of small rural communities in western Alaska get the maximum benefits from our fisheries resources through the Community Development Quota (CDQ) Program.

Community Development Issues and DCED Strategies

Community Development

- Experience has shown that community development and economic development must go hand-in-hand to create healthy communities and strong economies.

What We Will Do

- Establish Governor's Subcabinet on Rural Development (DCED, DNR, DOT).
- Coordinate with rural, federal, and state agencies.
- Offer Land Management & Mapping - Ensure public projects have site control, administer the Municipal Lands Trust program; and produce and provide community maps
- Support the Local Boundary Commission - Offer recommendations regarding municipal boundary changes and incorporations; provide administrative and technical support to the Local Boundary Commission.
- Provide Local Government Assistance - Ensure municipalities are functions and viable; provide advice and assistance regarding public services, financial management, elections, ordinances, etc.; offer newly elected officials training.
- Offer Rural Utility Business Advisor (RUBA) Assistance - Encourage rural water and sewer utilities to operate as a business; offer business, finance, personnel and management assistance to local governments and organizations.
- House State Assessor & Assist/Monitor Local Property Tax Determinations - Assist municipalities regarding assessment and tax issues; make local property full an true value determinations; monitor local assessment practices for compliance with State law.

Community Development Issues and DCED Strategies

Funding Resources

- More than 50 smaller municipalities rely on state shared revenue for over 20% of their operating budget.
- Communities have experienced an 80% reduction in two major revenue sharing programs over the past 15 years.

What We Will Do

- Award and administer Capital Matching Grants, Community Development Block Grants (CDBG), Communities Priorities Program, Emergency Shelter Grants, Federal Payments in Lieu of Taxes (PILT), Legislative Grants, Mini-grant Program, National Forest Receipts, National Petroleum Reserve-Alaska (NPRA) Grants, Safe Communities (Municipal Assistance), Shared Fisheries Business Tax and State Revenue Sharing.
- Improve the coordination of community infrastructure development; coordinate and conduct meetings with agency, community and regional representatives to discuss community projects.

Community Development Issues and DCED Strategies

Information

- People often have misconceptions about Alaska. Access to timely and accurate Alaska information can guide decisions to invest in Alaska businesses and communities.

What We Will Do

- Offer an array of primary source information associated with business and community development opportunities.
- Maintain the Alaska Community Database, Alaska Economic Information System (AEIS), Economic Development Resource Guide (EDRG) and the Rural Alaska Project Identification Delivery System (RAPIDS) capital project database.

Regulatory Functions Protect Consumers

The Department provides consumer protection through regulation of banking, securities and corporations, insurance, professional occupations, business licensing and utilities.

What We Will Do

- Continue to monitor and protect consumer rights.
- Improve consumer access to information and regulatory services. The department will expand on-line purchase and renewal of Alaska Business Licenses and occupational licensing, while beginning to offer on-line access to banking, securities and corporations services.

(2) an assessment of the degree to which the original objectives of the program have been achieved expressed in terms of performance, effects, or accomplishments of the program and of the program or need that it was intended to address;

(3) a statement of the performance and accomplishments of the program in each of the last four completed fiscal years and of the costs incurred in the operation of the program;

(4) a statement of the number and types of persons affected by operation of the program;

(5) a summary statement, for each of the last three completed fiscal years, of the number of personnel employed in carrying out the program and a summary of the cost of personnel employed under contract in carrying out the program;

(6) an assessment of the effect of the program on the economy of the state;

(7) an assessment of the degree to which the overall policies of the program, as expressed in regulations adopted by the agency, board, or commission and its decisions, meet the objectives of the legislature in establishing the program;

(8) an analysis of the services and performance estimated to be achieved if the life of the agency, board, or commission were to be continued;

(9) a prioritized list of the activities the agency, board, or commission would be expected to perform if the life of the agency, board, or commission were to be continued, from the most important to the least important.

(g) All goals and objectives, plans, programs, estimates, budgets, and other documents forwarded to the office of management and budget by a state agency under this section are public information after the date they are forwarded.

(h) Each agency shall, with participation of its employees, develop methods for measuring agency results. A group or committee established by an agency to develop methods of measuring results shall include a representative of each of the bargaining units that represents employees of the agency. (§ 1 ch 188 SLA 1970; am § 4 ch 95 SLA 1971; am § 1 ch 97 SLA 1976; am § 5 ch 149 SLA 1977; am § 6 ch 168 SLA 1978; am § 28 ch 63 SLA 1983; am §§ 4, 5 ch 27 SLA 1998; am §§ 1, 2 ch 98 SLA 2002)

Effect of amendments. — The 1998 amendment, effective August 3, 1998, rewrote subsection (a) and added subsection (h).

2002, in subsection (a) added paragraph (13) and made stylistic changes; and in subsection (f) added paragraph (9) and made stylistic changes.

The 2002 amendment, effective September 26,

NOTES TO DECISIONS

Public disclosure of budget impact memoranda. — Budget impact memoranda prepared by state department heads at the request of the director of the Office of Management and Budget pursuant to this section, although meeting the threshold requirements of the deliberative process privilege, were re-

quired to be disclosed by the terms of subsection (g). *Capital Info. Group v. State, Office of Governor*, 923 P.2d 29 (Alaska 1996).

Stated in *M-K Eng'g Co. v. Alaska Power Auth.*, 662 F. Supp. 303 (D. Alaska 1986).

Sec. 37.07.060. Governor's recommendation. (a) The governor shall formulate the operating and capital improvements programs and financial plans required to be recommended to the legislature by AS 37.07.020 after considering the state agency proposed program and financial plans, and other programs and alternatives that the governor considers appropriate. The plans must include the governor's recommended missions and results, recommended strategies to implement the missions and results, recommended measures for determining whether the missions and desired results are achieved, including an assessment of whether prior year missions and desired results have been achieved, recommended operating program for the succeeding fiscal year, recommended capital improvements program for the succeeding six fiscal years, recommended programs for the upgrading of public buildings and facilities prepared in accordance with AS 35.10.015, and recommended revenue measures to support the programs.

Alaska State Legislature
HOUSE OF REPRESENTATIVES
Committee on Finance
Agenda

Room 519 Capitol Building - 1:30 P.M.

February 6, 2003 - Thursday

Agency Overviews:

ck ✓ Department of Community and Economic Development
Edgar Blatchford, Commissioner, Department of Community
and Economic Development

7:00 ✓ Alaska Industrial Development and Export Authority
Ron Miller, Executive Director, Alaska Industrial
Development and Export Authority, (AIDEA)

3:00 ✓ Oil & Gas Conservation Commission, DOA
Daniel T. Seamount, Jr., Commissioner, Alaska Oil and Gas
Conservation Commission, Department of Administration

6:00 ✓ Cammy Oechsli Taylor, Chair, Alaska Oil and Gas Conservation
Commission
(power point)

Subject: Feb 3 - 8 schedule

Date: Thu, 30 Jan 2003 14:11:08 -0900

From: Louanne Christian <Louanne_Christian@legis.state.ak.us>

To: lhfeltc+schedule@legis.state.ak.us

February 3, 2003 - Monday

Jpc

Agency Overviews: Alaska Court System
Alaska Permanent Fund Corporation
Military and Veterans Affairs

February 4, 2003 - Tuesday

Lier

*HB 75-APPROP: OPERATING BUDGET/LOANS/FUNDS
*HB 76-APPROP: MENTAL HEALTH BUDGET
Introduction of Governor's Budget
Cheryl Frasca, Director, Division of Management & Budget, Office of the Governor

Agency Overviews: Alaska Mental Health Trust Authority
~~Department of Natural Resources~~
Alaska Housing Finance Corporation (AHFC)

February 5, 2003 - Wednesday

Shal

Agency Overviews: Postsecondary Education Commission
Department of Fish and Game
Department of Transportation and Public Facilities

February 6, 2003 - Thursday

Jpc


Agency Overviews: Department of Community and Economic Development
Alaska Industrial Development and Export Authority (AIDEA)
~~Department of Administration~~ - *Oil & Gas*

*W...
L...*

February 7, 2003 - Friday

Jpc

Agency Overviews: Department of Public Safety
Department of Education and Early Development

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Alaska State Legislature
HOUSE OF REPRESENTATIVES
Committee on Finance

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SCHEDULE
HOUSE FINANCE COMMITTEE
WEEK OF JANUARY 27 – FEBRUARY 1, 2003

Room 519 Capitol Building - 1:30 P.M.

January 27, 2003 - Monday

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Agency Overviews: Office of Management and Budget
Department of Law
Department of Labor and Workforce Development

January 28, 2003 - Tuesday

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Agency Overviews: Alaska Aerospace Development Corporation, DCED
Alaska Seafood Marketing Institute, DCED
Alaska Railroad Corporation (DCED)

January 29, 2003 - Wednesday

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Appointment: William A. Corbus, Commissioner, Department of Revenue

Agency Overviews: Department of Revenue

FY 04 State Revenue Forecast - Department of Revenue

Agency Overviews: Alaska Science and Technology Foundation, DCED

January 30, 2003 - Thursday

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Agency Overviews: Department of Environmental Conservation
Regulatory Commission of Alaska, DCED

January 31, 2003 - Friday

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Agency Overviews: Department of Health and Social Services
Department of Corrections

Alaska Oil and Gas Conservation Commission
(AOGCC)

House Finance Committee

February 6, 2003



AOGCC
Program
Overview

1

Alaska Oil and Gas Conservation Commission
Outline

- **Who we are**
 - History
 - Relationship to Other Agencies & Industry
 - Mission
 - Where we work
 - Customers & Operators/Owners
- **What we do**
 - Primary Services
 - Goals and Strategies
- **How we do it**
 - Permitting, UIC, Inspections, Field Studies, Electronic Initiative
- **How is our work load changing**
- **How well we do it**
- **What we plan to do this year**
- **How to contact us**



2

1

History of the AOGCC

- 1955- Created Before Statehood- Alaska Oil and Gas Conservation Act created the Alaska Oil and Gas Conservation Commission (AOGCC)- Governor of the Territory of Alaska, Commissioner of Mines, Highway Engineer.
- 1958- Implementing regulations adopted by AOGCC
- 1959- At Statehood- the State Organization Act, AOGCC abolished, function and authority transferred to the Department of Natural Resources (DNR). Hearings and decisions issued by Alaska Oil and Gas Conservation Committee consisting of Director of Division of Mines & Minerals, State Petroleum Geologist, the State Petroleum Engineer, Deputy Commissioner of DNR
- 1977 Onset of Prudhoe Bay Production
- 1978 Legislation enacted to re-create the AOGCC to administer the Alaska Oil & Gas Conservation Act. AS 31.05 amended by Chapter 158, S.L.A 1978
- 1979- AOGCC re-created as an independent quasi-judicial agency within the executive branch of the state housed in DNR.
- 1980- AOGCC placed in the Department of Commerce and Economic Development for administrative purposes.
- 1991- AOGCC transferred to DNR for administrative purposes.
- 1994- AOGCC transferred in the Department of Administration for administrative purposes.

3

How Does AOGCC Fit In?

	Oil Company	DNR DO & G	AOGCC
Ownership of Resource	Lessee of Oil & Gas Lease (Has right to drill and produce)	Landlord & Lessor of Oil & Gas Lease	(Role is Regulatory, not proprietary)
Jurisdiction	Only on lands where they have right to drill and produce	State Land Only	State, Federal and Private lands
Economics	Profit Oriented	Manages State Owned Resources for Revenue & Other Value	Prevent Waste & Maximize Recovery
Net interest	Majority of Production	Minority of Production (Royalty)	None

4

Alaska Oil and Gas Conservation Commission (AOGCC)

Independent, quasi-judicial
agency

Established under the
Alaska Oil and Gas
Conservation Act (AS 31).



Regulatory authority-
outlined in Title 20,
Chapter 25 of the Alaska
Administrative Code.

Mission

Protect the public interest in oil and gas resources.
The Oil and Gas Conservation Act requires all oil and gas drilling, production and measuring operations to be conducted in a manner that prevents physical waste of the resource, promotes greater ultimate recovery and affords all owners of oil and gas rights an equal opportunity to recover their fair share of the resource.



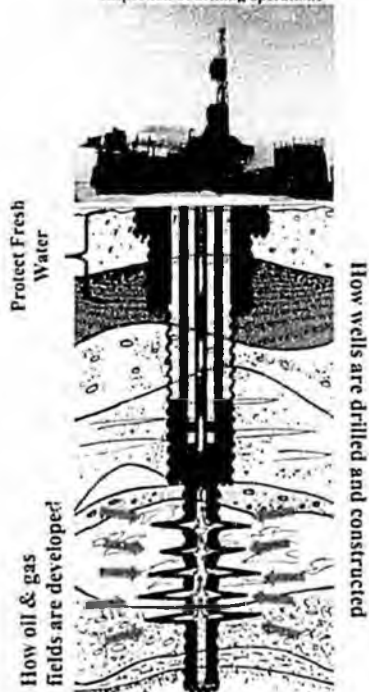
Meter proving on pipelines

AOGCC regulates operations affecting subsurface oil & gas resources, ensures the reliability of oil & gas flow measurements, and ensures that underground sources of drinking water are protected

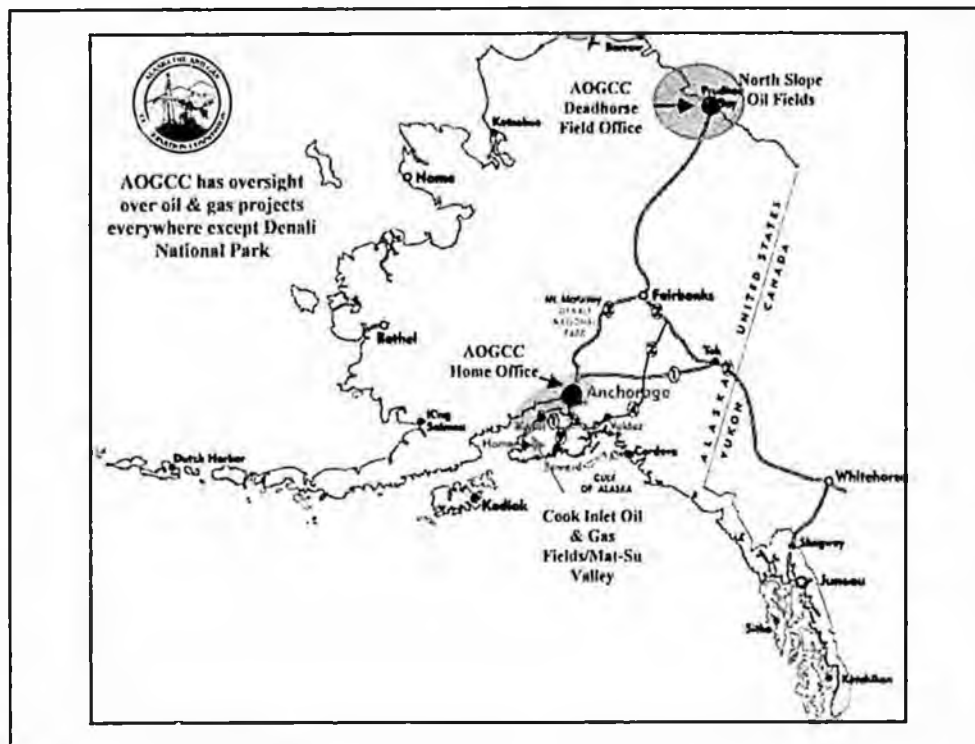
By

- Permitting
- Inspecting
- Field Studies/ Surveillance
- Incident Investigations

Inspection of drilling operations



6



CUSTOMERS



- Alaskans
- Oil & Gas Companies (major recent influx)
- Alaska Department of Natural Resources
- Alaska Department of Revenue
- Alaska Department of Environmental Conservation
- U.S. Environmental Protection Agency
- U.S. Department of the Interior, Minerals Management Service, and Bureau of Land Management
- U.S. Department of Energy
- Trade Organizations
- Other Interested Parties

**OIL AND GAS OPERATORS AND OWNERS
NORTH SLOPE**

- BP Exploration (Alaska) Inc.
- ConocoPhillips Alaska Inc.
- Anadarko Petroleum Corp.
- ExxonMobil U.S.A.
- Pioneer Natural Resources AK Inc.
- Encana Oil & Gas (USA) Inc.
- Arctic Falcon Exploration LLC
- Chevron U.S.A.
- Unocal Alaska
- PetroCanada
- Burlington Resources
- TotalFinaElf
- Shell
- Texaco
- Pennzoil
- Petrofina Delaware Inc.
- North Slope Borough



- Winstar & UltraStar Petroleum
- Armstrong Resources LLC
- Alaska Venture Capital Group
- U.S. Department of Interior
- UMC Petroleum Corporation

**OIL AND GAS OPERATORS AND OWNERS
COOK INLET/MAT-SU VALLEY**

- Unocal Alaska
- Forest Oil Corp.
- Marathon Oil Company
- Phillips Alaska Inc./ConocoPhillips
- XTO Energy Inc.
- Evergreen Resources (Alaska) Corp.
- Anadarko
- CIRI
- Aurora Gas LLC
- Northstar Energy Group Inc.
- Pelican Hill Oil & Gas Inc.
- Alaska Crude Corporation
- Frontier Petroleum
- Prodigy Oil & Gas LLC
- Escopeta



OTHER AREAS

- Evergreen Resources (Alaska) Corp.
- Andex Resources LLC¹⁰
- Cassandra Energy Corp.

AOGCC PRIMARY SERVICES

Regulate, monitor and inspect all subsurface activities directly related to oil and gas exploration and production including the design and integrity of wells, well control procedures and equipment, reservoir management plans and proposed underground injection programs.

- Hold Hearings
- Issue pool rules and other conservation orders.
- Approve and monitor plans for reservoir development and enhanced oil recovery.
- Approve permits for initial drilling, re-drill, sidetrack, and remedial well operations. This includes the evaluation and approval of proposed designs for drilling fluids, well control, casing, cementing and well completion operations.
- Inspect drill rigs and wells to insure compliance with AOGCC regulations.
- Witness safety valve, mechanical integrity, and blowout preventer tests.
- Witness meter-proving, calibration, and oil quality tests.
- Enforce well spacing rules
- Monitor production rates, injection well pattern, gas/oil/water ratios, and pressure maintenance efforts.
- Monitor and evaluate gas flaring.
- Collect and maintain all oil and gas production records.
- Collect and maintain all well history files and well log records.
- Administer Alaska's Underground Injection Control (UIC) program and the annular waste disposal program. 11

AOGCC Goals and Strategies

PREVENT PHYSICAL WASTE OF THE RESOURCE

- Evaluate drilling programs to ensure proper well design, construction and well control equipment. - *Permitting & Inspections*
- Inspect wells and drilling projects to verify compliance with approved regulations, procedures and safety requirements for drilling and production practices. - *Inspections*
- Evaluate proposals for reservoir development. - *Field Studies*



AOGCC Goals and Strategies (Continued)

ENSURE GREATER ULTIMATE RECOVERY

- Analyze production data, including reservoir pressure, gas-oil ratios, water cut, etc., to ensure these variables fall within the required parameters necessary to provide for greater ultimate recovery.- *Field Studies*
- Review and approve development proposals, including plans for enhanced oil recovery operations and gas development.- *Field Studies*

INDEPENDENTLY ASSESS OIL AND GAS DEVELOPMENT

- Independently audit/verify that oil and gas proposals are in compliance with the purposes and intent of Title 31.- *Field Studies & Permitting*

PROTECT ALASKA'S UNDERGROUND SOURCES OF DRINKING WATER

- Provide engineering and geological review of all applications for underground disposal of drilling wastes.- *Field Studies & Permitting*
- Provide engineering and geological review of all applications to drill oil and gas wells.- *Permitting*

13

AOGCC Goals and Strategies (Continued)

PROTECT CORRELATIVE RIGHTS

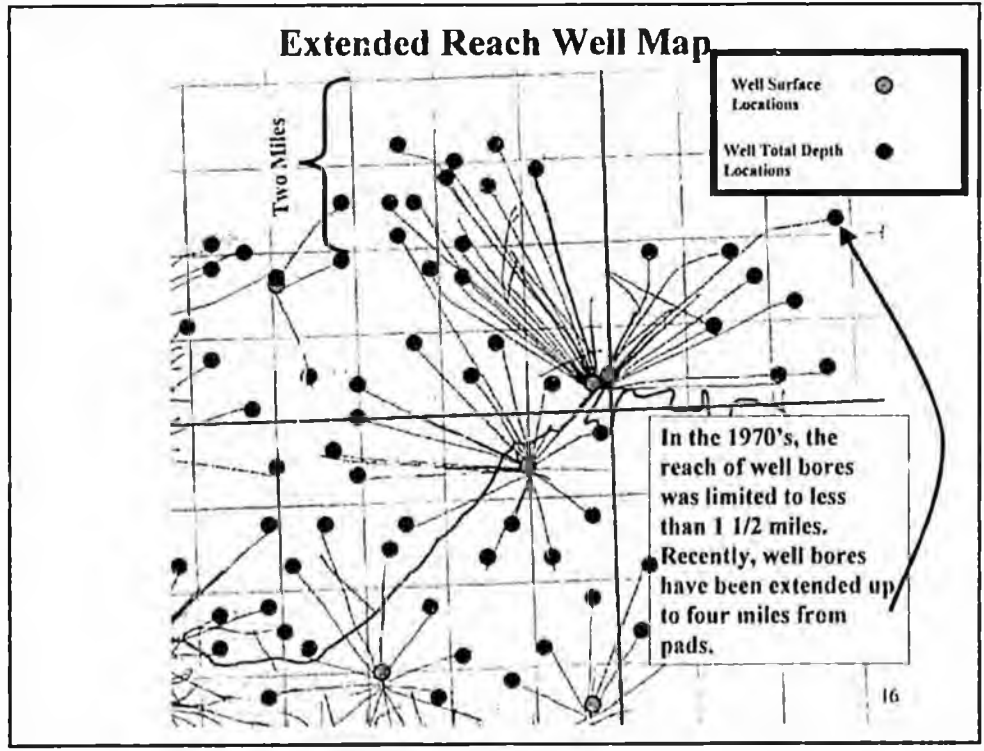
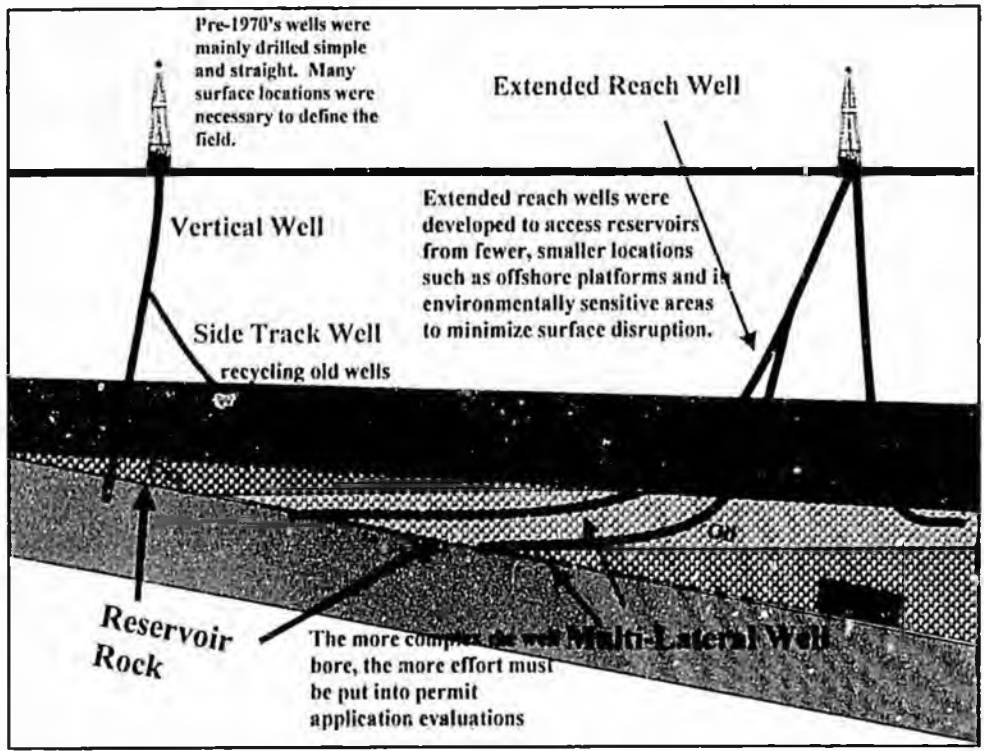
- Provide all owners of oil and gas rights the opportunity to recover their fair share of the resource through well spacing provisions, permit review, and pooling authority.- *Permitting & Field Studies*

ADJUDICATE DISPUTES BETWEEN OWNERS

- Provide a public forum to resolve disputes between owners. - *Field Studies*



14



UNDERGROUND INJECTION PROGRAM

AOGCC has primacy for implementing the federal Underground Injection Control (UIC) Program. This allows the state to regulate underground injection activities for the purposes of enhanced oil recovery and the most environmentally protective disposal of oil field waste.



The proper underground injection of material to enhance oil recovery has resulted in billions of dollars in revenue to the State of Alaska

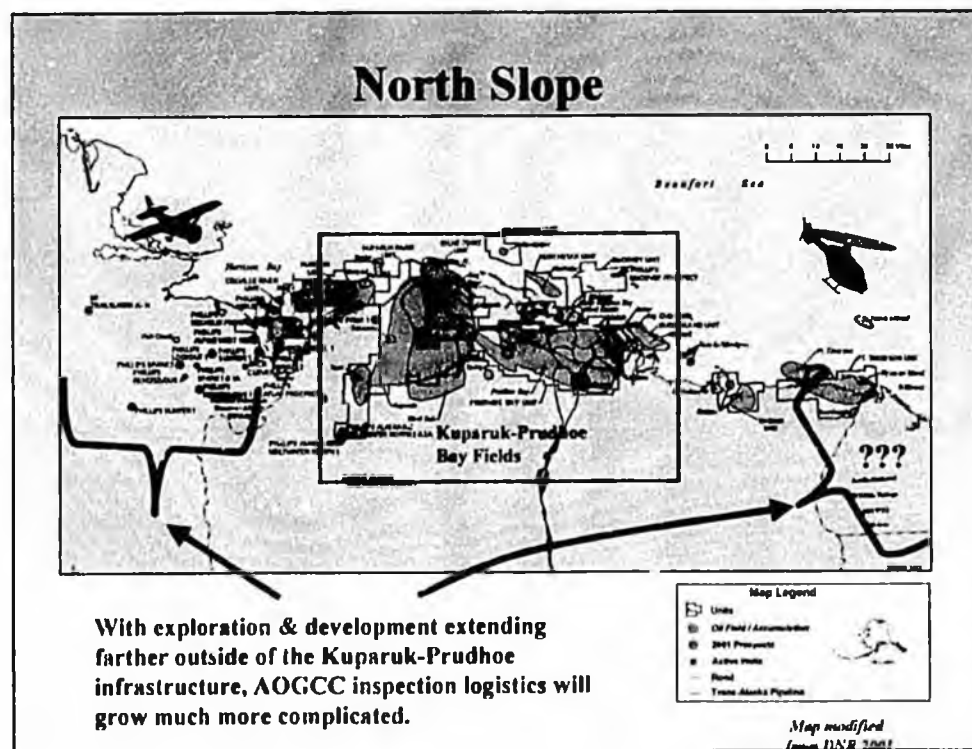
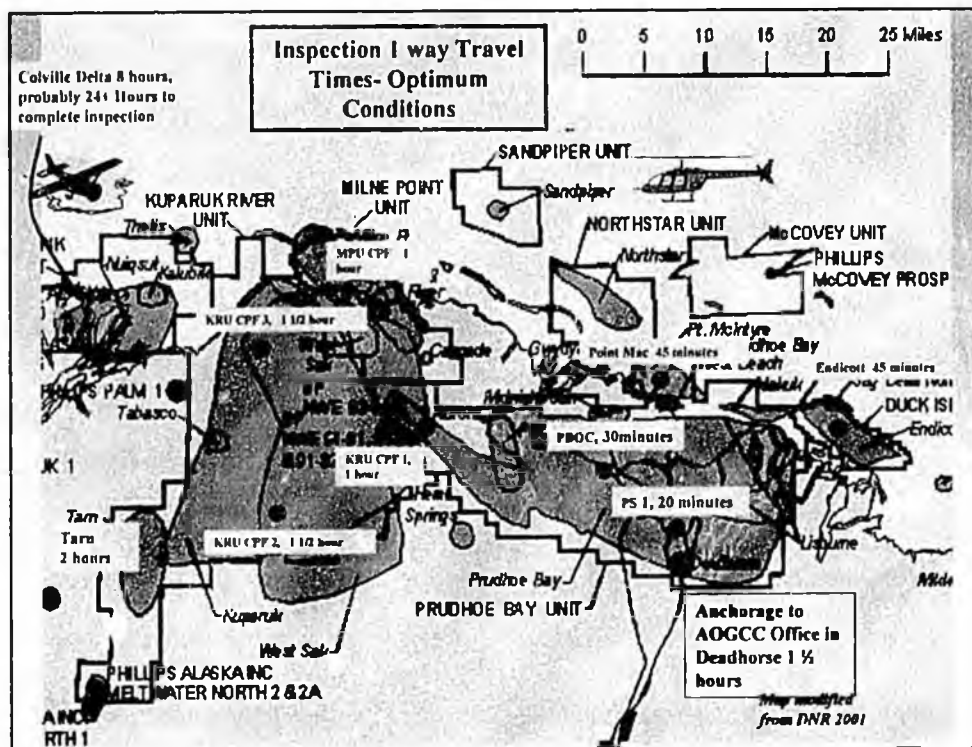
And

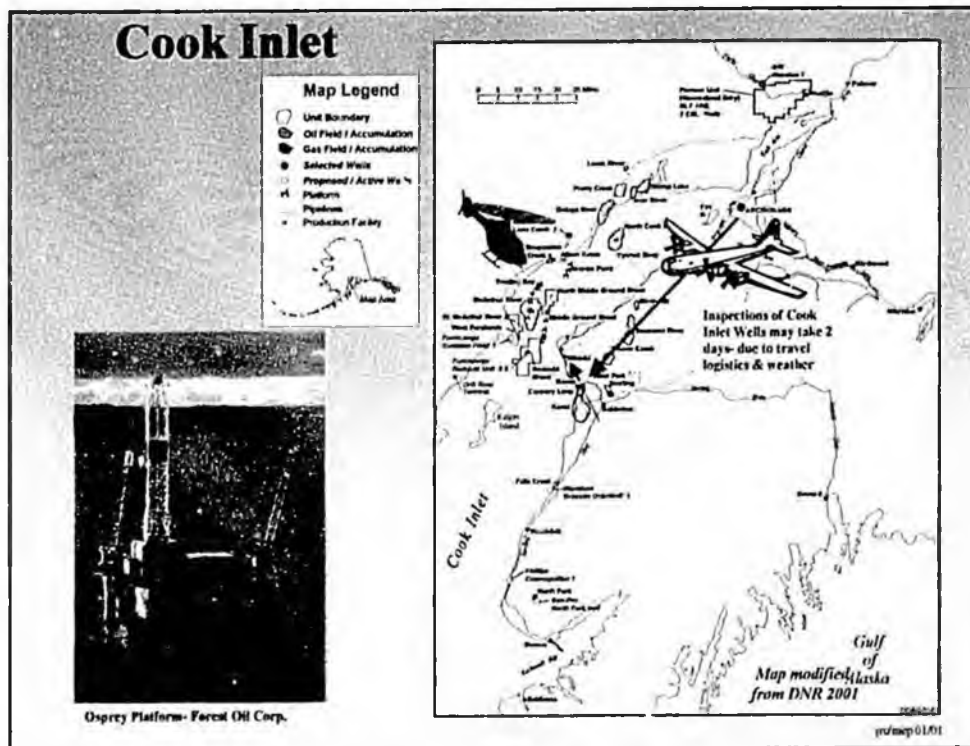
The best place to put waste is deep underground. ¹⁷

Inspections

- Inspect and ensure compliance of drilling rigs, blow-out prevention equipment tests, safety valve, and mechanical integrity tests in order to prevent accidents and/or blowouts
- Meter proving and calibration ensure accurate volume measurement. Oil & Gas tax & royalty revenues are calculated based upon volumes reported from the meters.

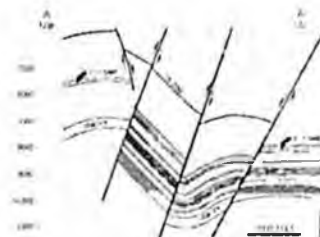






Field Studies/Reservoir Evaluations- Statute

- Review proposed plans of development
- Evaluate monthly production and injection reports
- Evaluate reservoir performance to promote greater ultimate recovery.



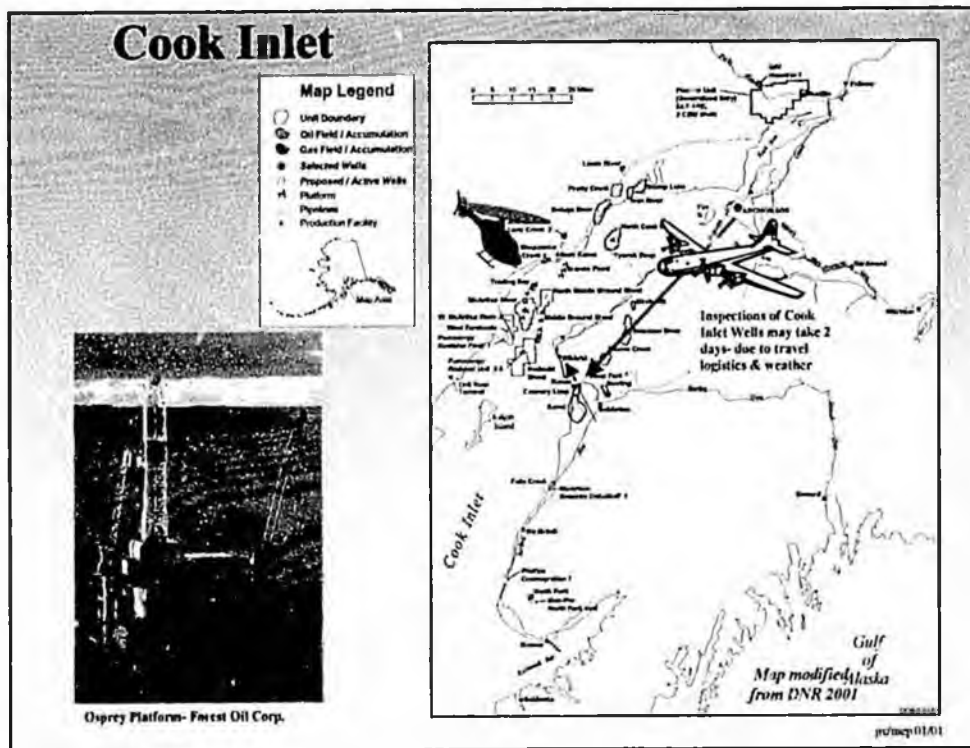
CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



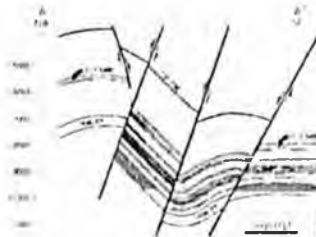
Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska



Field Studies/Reservoir Evaluations- Statute

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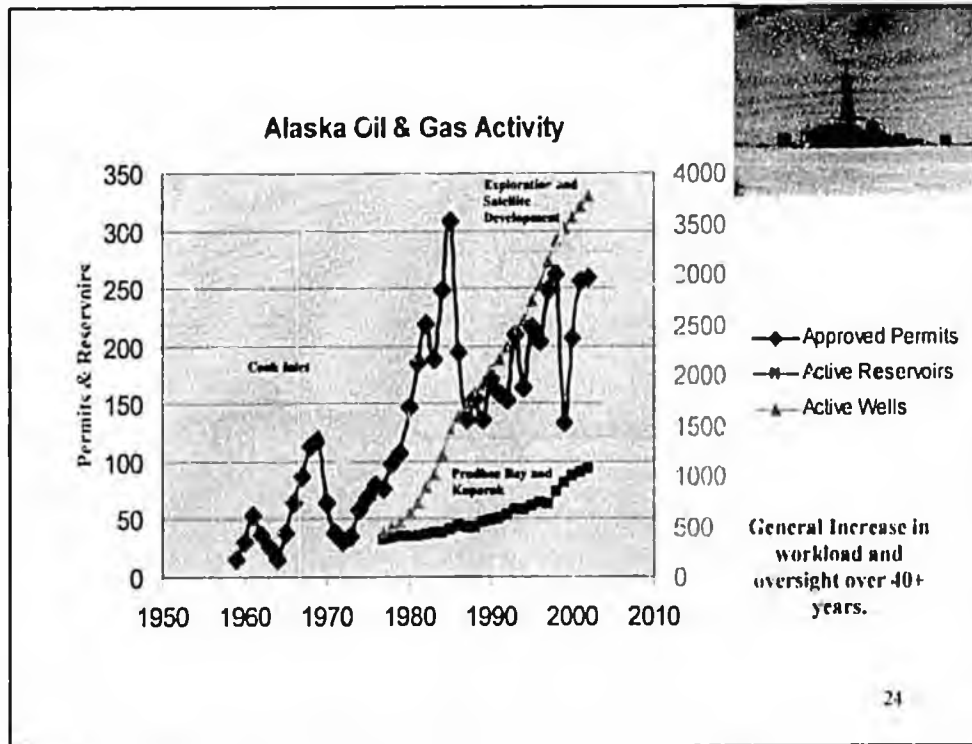
Alaska Oil and Gas Conservation Commission



• **Key Issues/ Initiatives for FY03- 04**

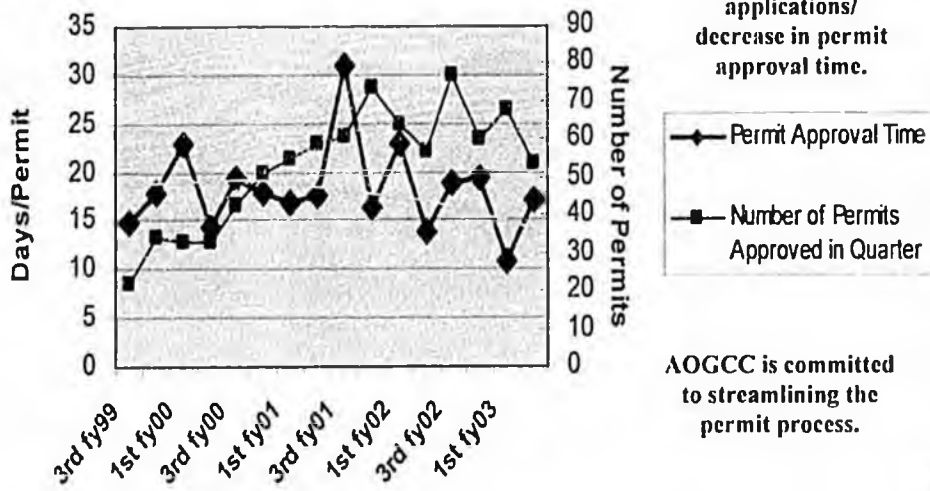
- **Permitting- Streamline-** especially for new exploration and unconventional gas (ie: coal bed methane)
- **Regulation Modification-** less complicated for simpler unconventional shallow gas and coal bed methane drilling.
- **North Slope Gas Pipeline-** evaluate conservation issues regarding depletion of oil reservoir energy
- **Electronic Data-** To encourage development, Storage & Retrieval Capability leading to improved information access, management and e-commerce.
- **UIC program-** Maintain an active role in light of changing federal policy.
- **Mature & Aging Oil Fields-** ensure safe and skillful operations in accordance with good oil field engineering practices.
- **Audit and Compliance Capability-** Update & Maintain
- **Business Process Review-** Survey finished, implement changes and response to findings.

23



24

Drilling Permit Approval Time



25



**Alaska Oil and Gas Conservation Commission
(AOGCC)**

House Finance Committee

February 6, 2003



**AOGCC
Program
Overview**

Alaska Oil and Gas Conservation Commission (AOGCC)

Independent, quasi-judicial
agency

Established under the
Alaska Oil and Gas
Conservation Act (AS 31).



Regulatory authority-
outlined in Title 20,
Chapter 25 of the Alaska
Administrative Code.

Mission

Protect the public interest in oil and gas resources.

The Oil and Gas Conservation Act requires all oil and gas drilling, production and measuring operations to be conducted in a manner that prevents physical waste of the resource, promotes greater ultimate recovery and affords all owners of oil and gas rights an equal opportunity to recover their fair share of the resource.



2 5:59AM

Meter proving on pipelines

AOGCC regulates operations affecting subsurface oil & gas resources, ensures the reliability of oil & gas flow measurements, and ensures that underground sources of drinking water are protected

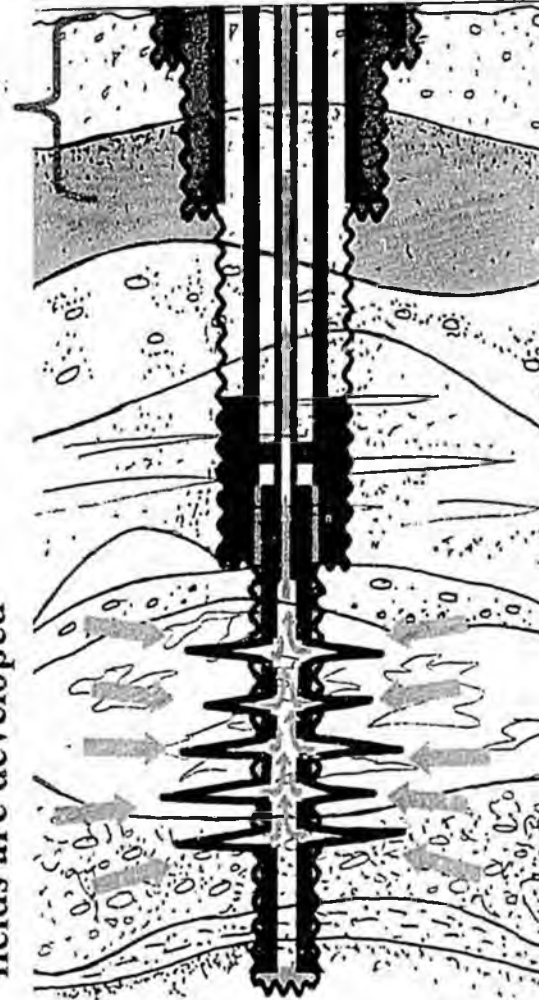
By

- **Permitting**
- **Inspecting**
- **Field Studies/ Surveillance**
- **Incident Investigations**

Inspection of drilling operations



Protect Fresh Water

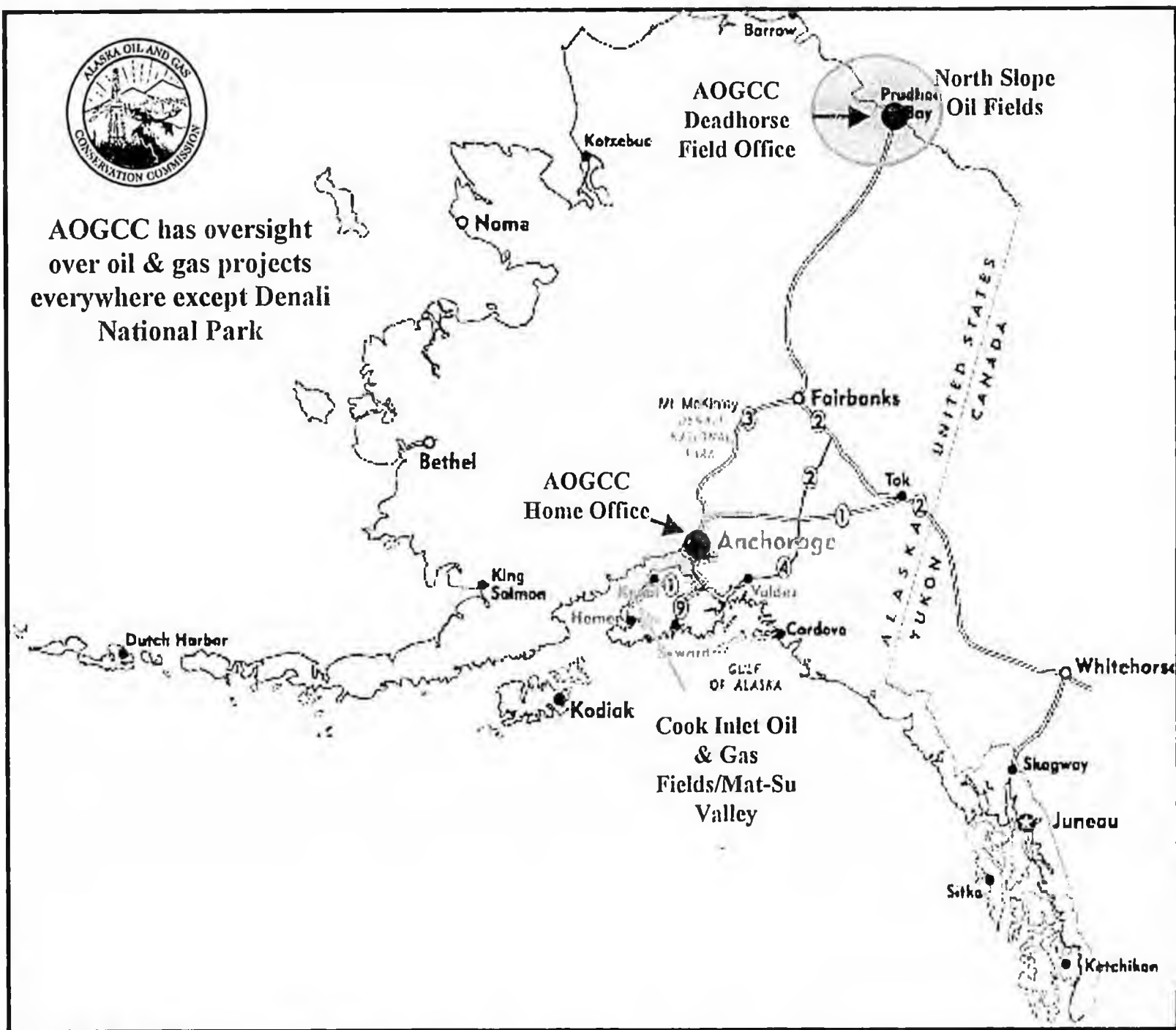


How oil & gas fields are developed

How wells are drilled and constructed

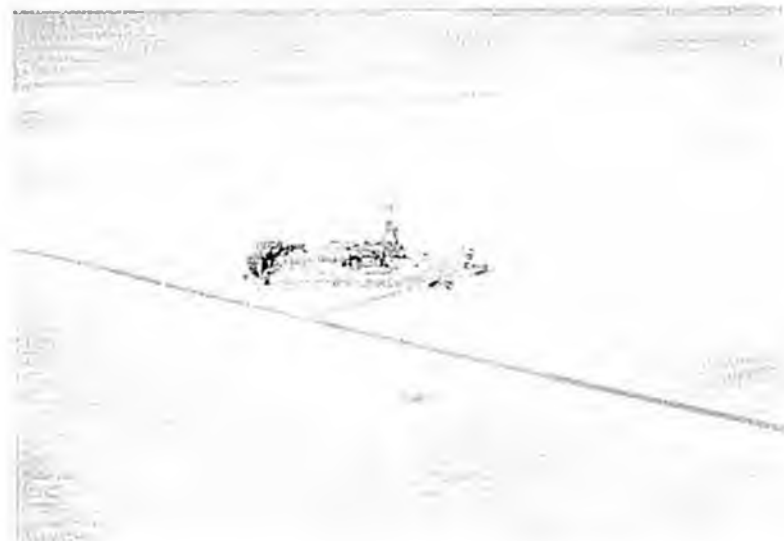


**AOGCC has oversight
over oil & gas projects
everywhere except Denali
National Park**



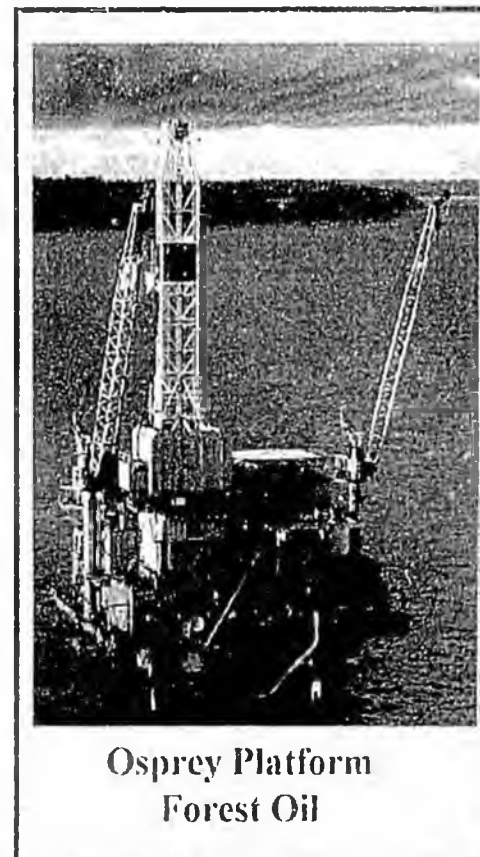
OIL AND GAS OPERATORS AND OWNERS NORTH SLOPE

- **BP Exploration (Alaska) Inc.**
- **ConocoPhillips Alaska Inc.**
- **Anadarko Petroleum Corp.**
- **ExxonMobil U.S.A.**
- **Pioneer Natural Resources AK Inc.**
- **Encana Oil & Gas (USA) Inc.**
- **Arctic Falcon Exploration LLC**
- **Chevron U.S.A.**
- **Unocal Alaska**
- **PetroCanada**
- **Burlington Resources**
- **TotalFinaElf**
- **Shell**
- **Texaco**
- **Pennzoil**
- **Petrofina Delaware Inc.**
- **North Slope Borough**
- **Winstar & UltraStar Petroleum**
- **Armstrong Resources LLC**
- **Alaska Venture Capital Group**
- **U.S. Department of Interior**
- **UMC Petroleum Corporation**



OIL AND GAS OPERATORS AND OWNERS COOK INLET/MAT-SU VALLEY

- **Unocal Alaska**
- **Forest Oil Corp.**
- **Marathon Oil Company**
- **Phillips Alaska Inc./ConocoPhillips**
- **XTO Energy Inc.**
- **Evergreen Resources (Alaska) Corp.**
- **Anadarko**
- **CIRI**
- **Aurora Gas LLC**
- **Northstar Energy Group Inc.**
- **Pelican Hill Oil & Gas Inc.**
- **Alaska Crude Corporation**
- **Frontier Petroleum**
- **Prodigy Oil & Gas LLC**
- **Escopeta**



OTHER AREAS

- **Evergreen Resources
(Alaska) Corp.**
- **Andex Resources LLC₁₀**
- **Cassandra Energy Corp.**

Pre-1970's wells were mainly drilled simple and straight. Many surface locations were necessary to define the field.

Extended Reach Well

Extended reach wells were developed to access reservoirs from fewer, smaller locations such as offshore platforms and in environmentally sensitive areas to minimize surface disruption.

Vertical Well

Side Track Well

recycling old wells

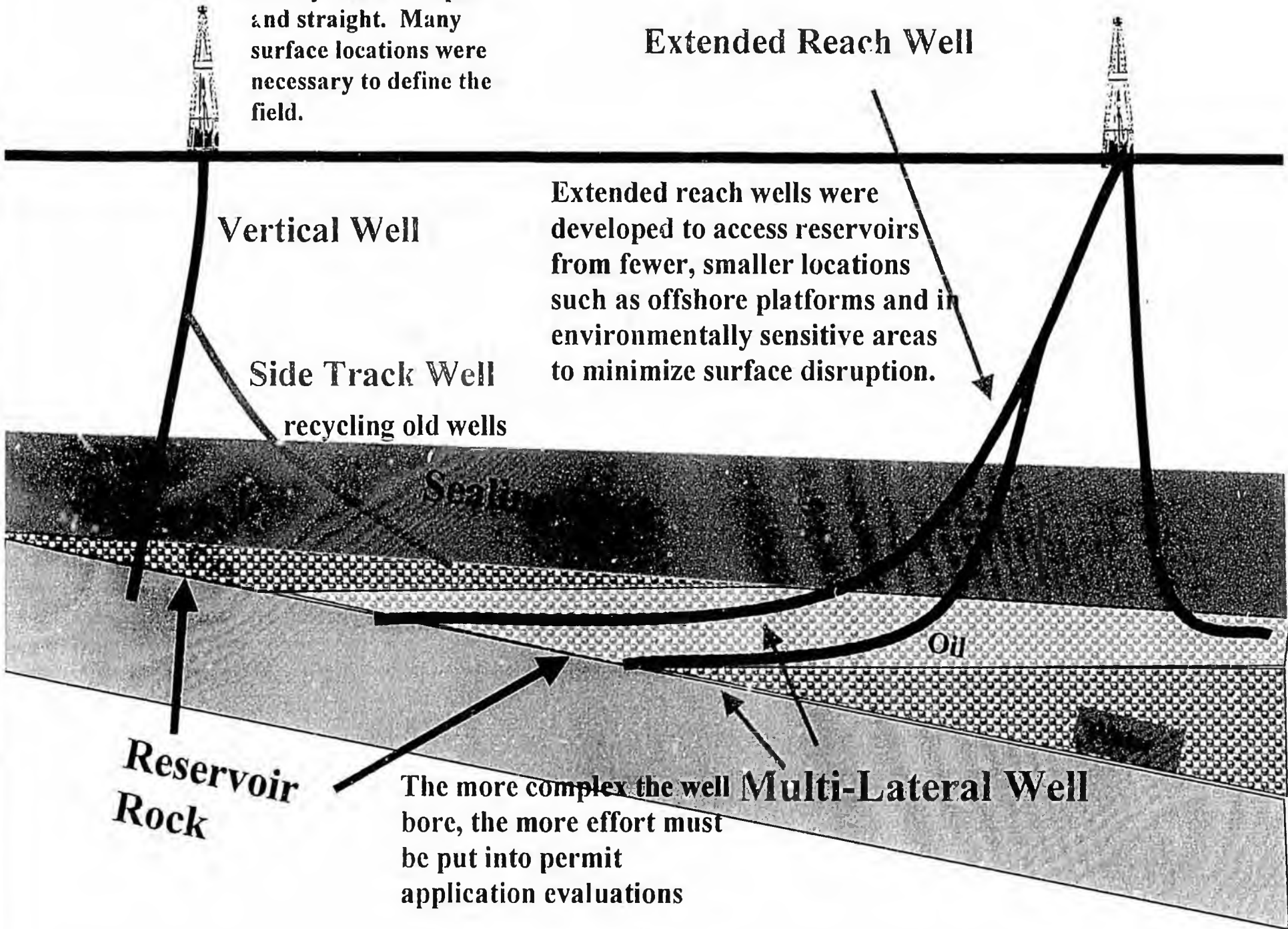
Seal

Oil

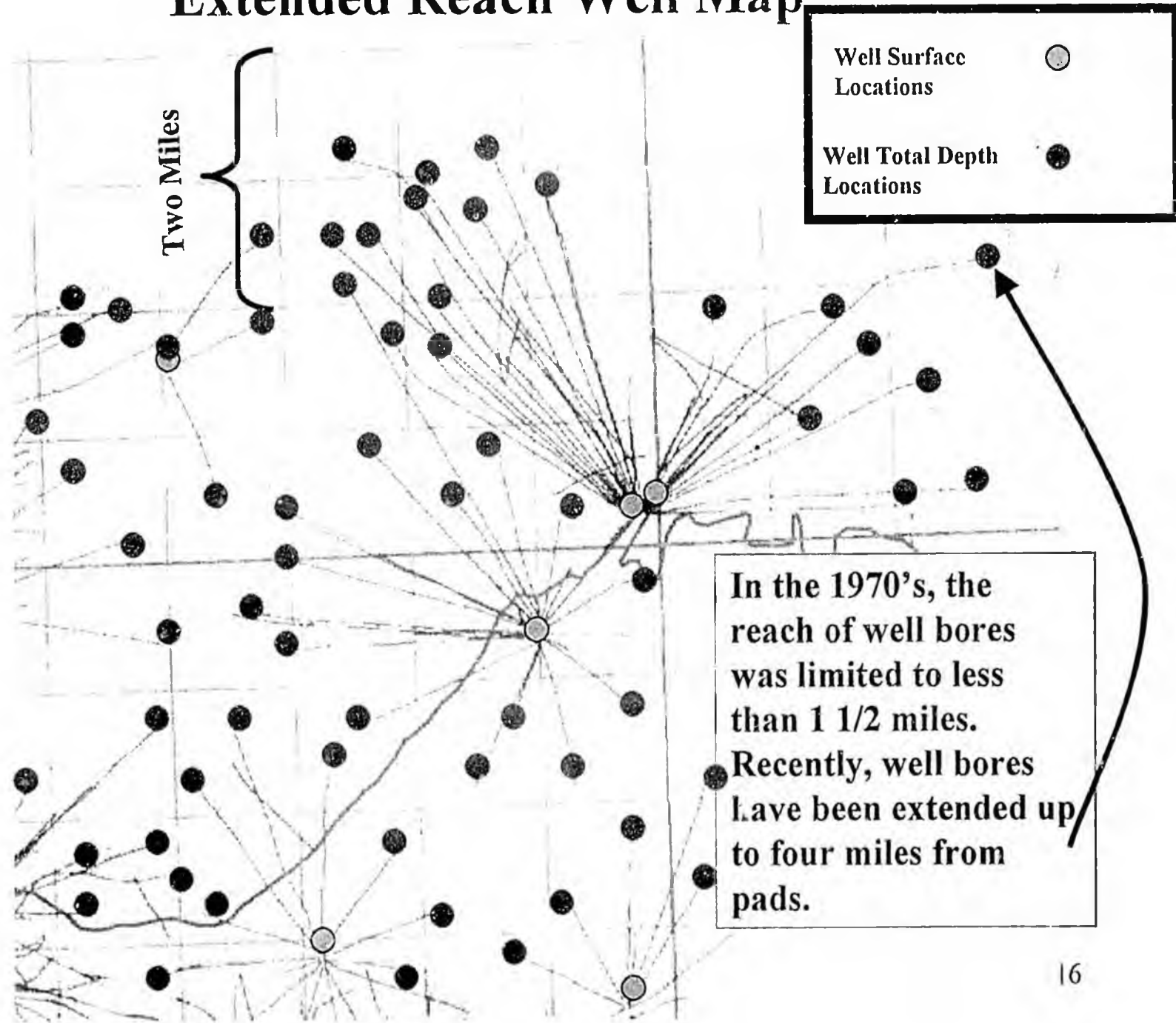
Reservoir
Rock

The more complex the well bore, the more effort must be put into permit application evaluations

Multi-Lateral Well



Extended Reach Well Map



UNDERGROUND INJECTION PROGRAM

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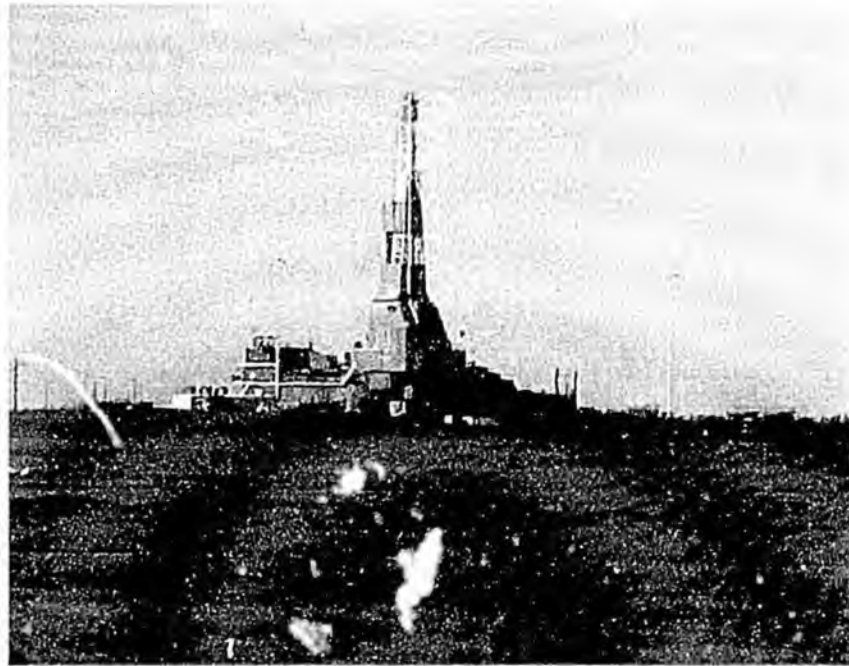
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And

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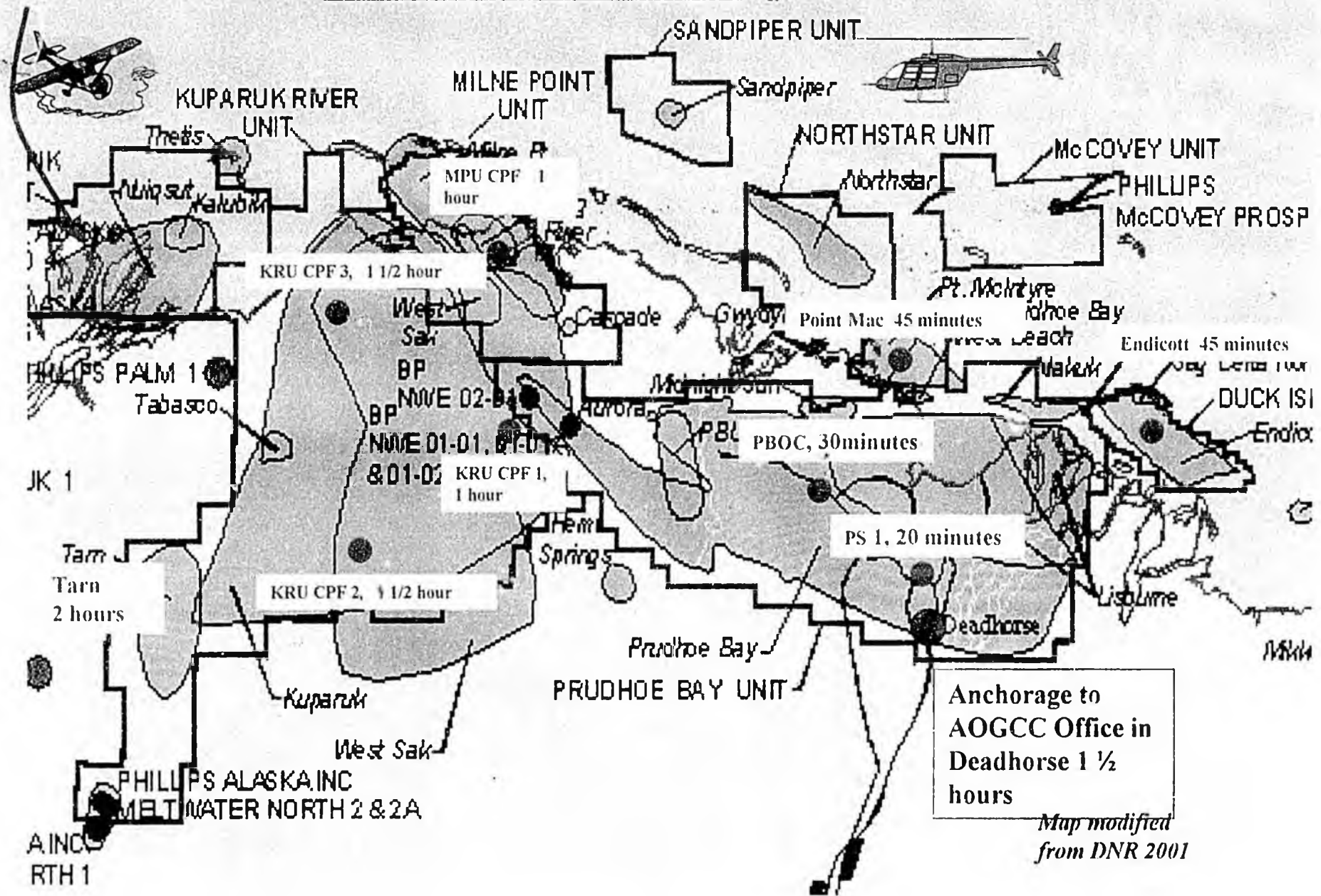
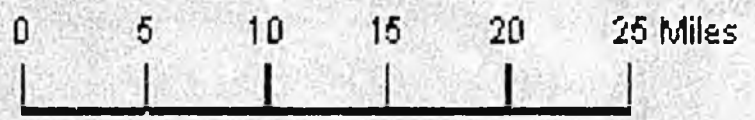
Inspections

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- Meter proving and calibration ensure accurate volume measurement. Oil & Gas tax & royalty revenues are calculated based upon volumes reported from the meters.



Colville Delta 8 hours,
probably 24+ Hours to
complete inspection

Inspection 1 way Travel Times- Optimum Conditions











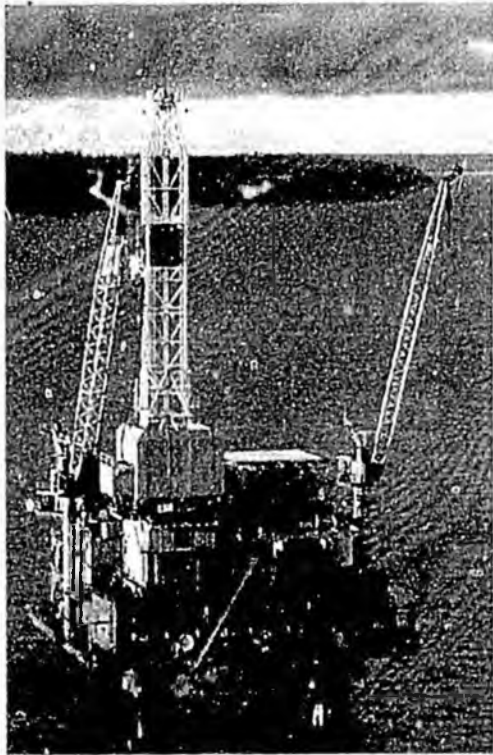
Anchorage to
AOGCC Office in
Deadhorse 1 1/2
hours

Map modified
from DNR 2001

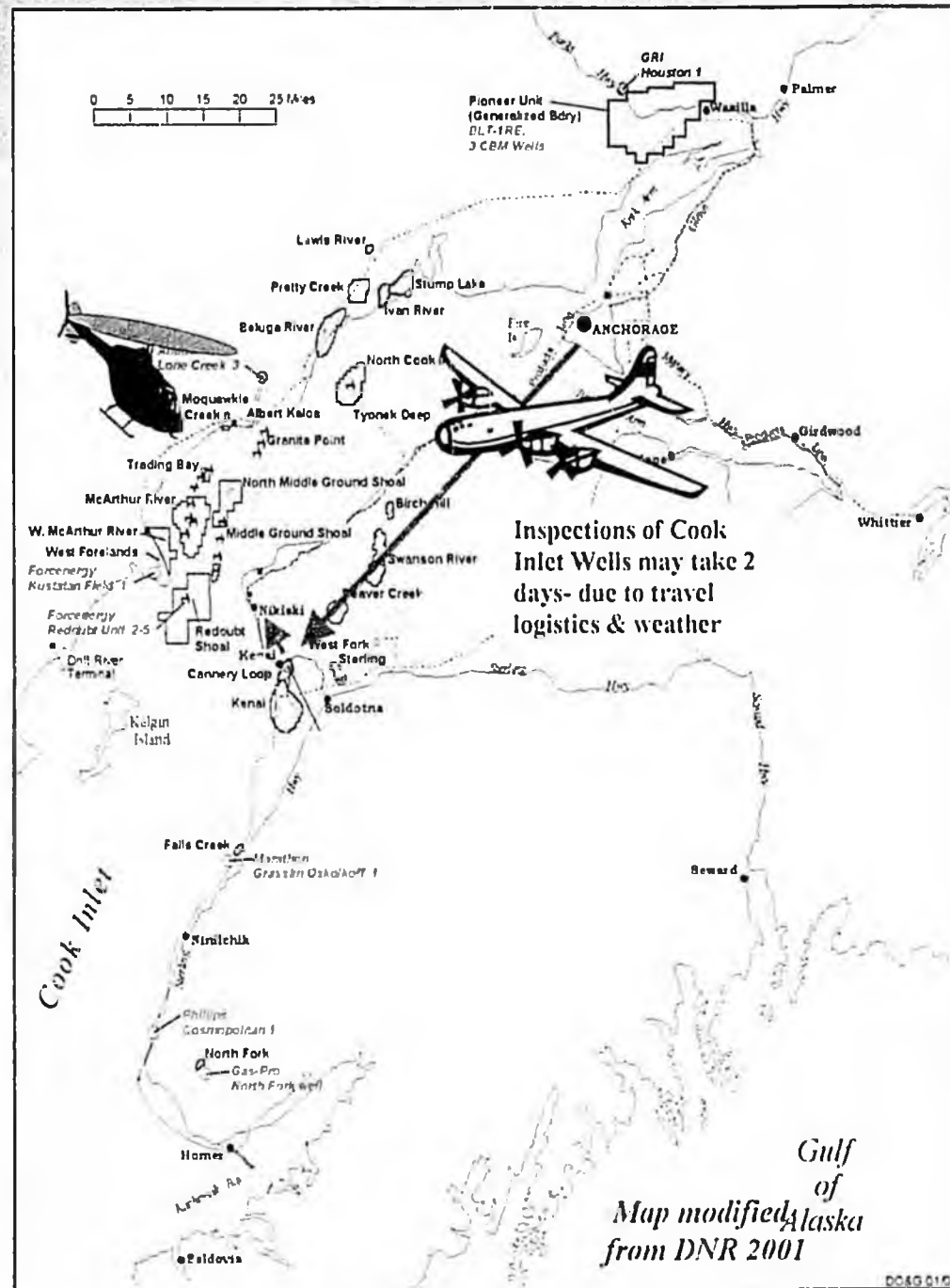
Cook Inlet

Map Legend

-  Unit Boundary
-  Oil Field / Accumulation
-  Gas Field / Accumulation
-  Selected Wells
-  Proposed / Active Wells
-  Platform
-  Pipelines
-  Production Facility

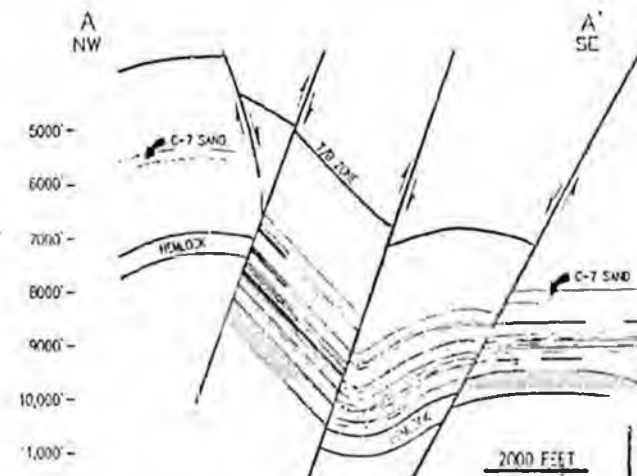


Osprey Platform- Forest Oil Corp.

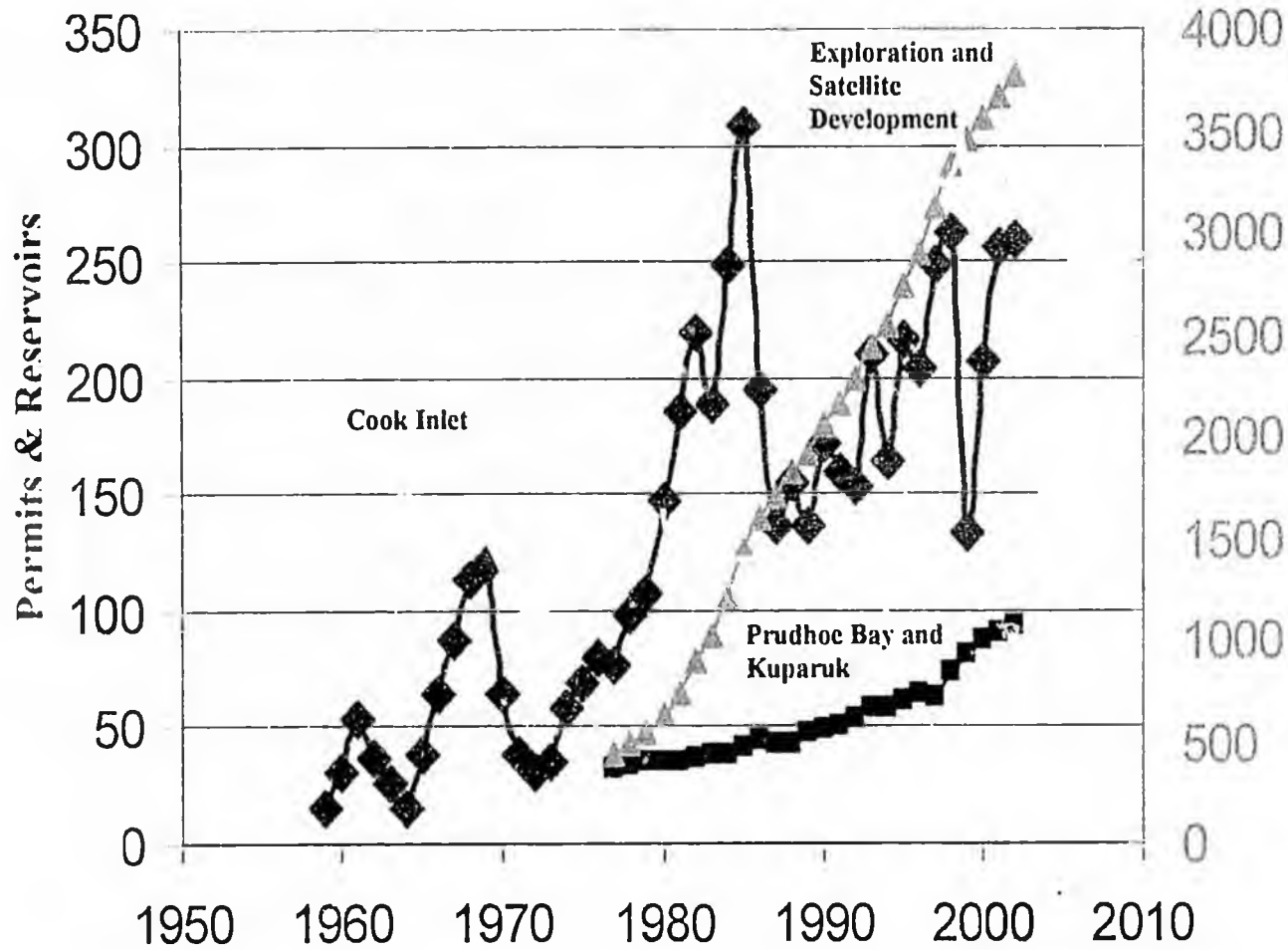


Field Studies/Reservoir Evaluations- Statute

- Review proposed plans of development
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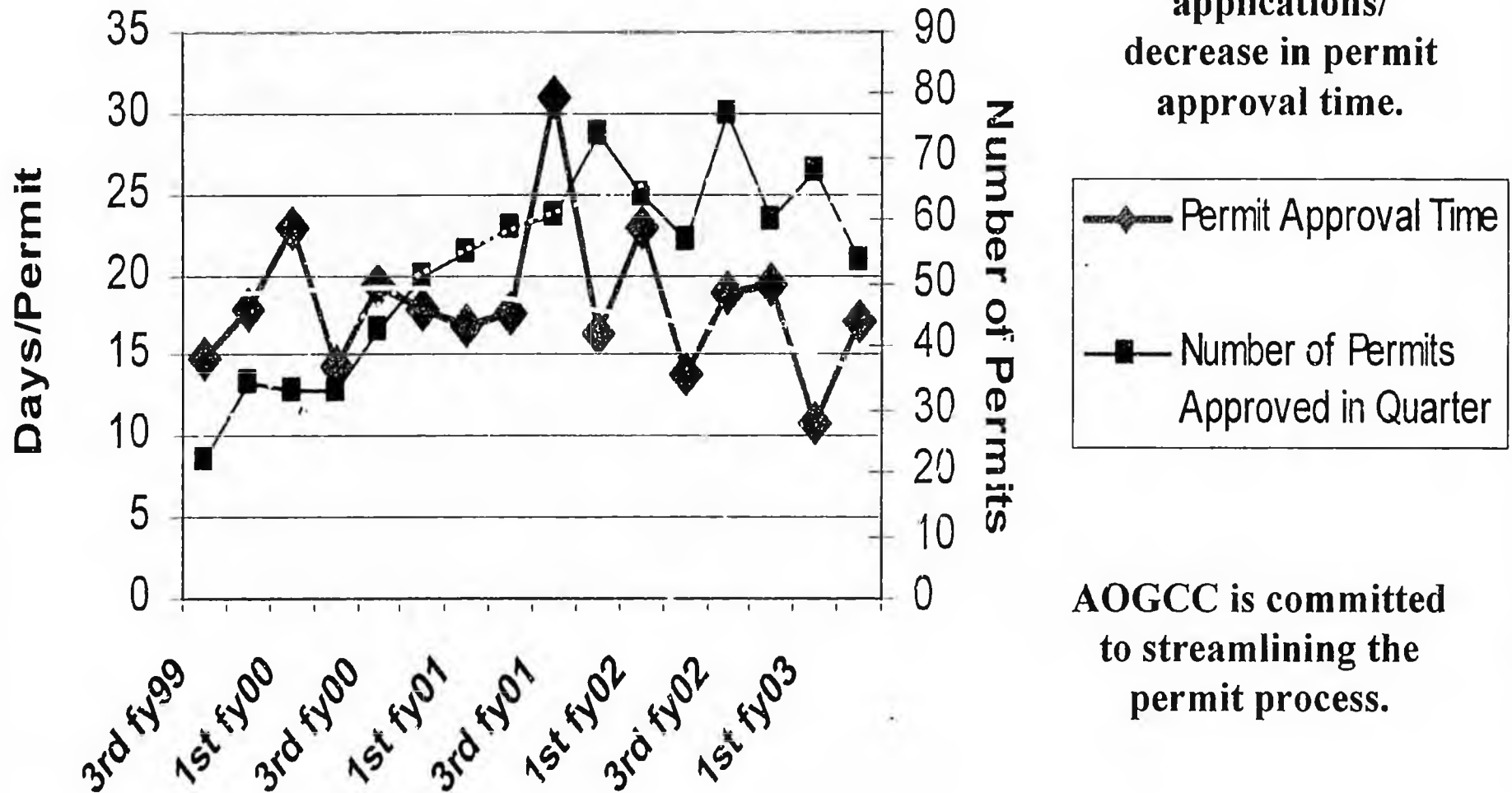
Alaska Oil & Gas Activity



- ◆ Approved Permits
- Active Reservoirs
- ▲ Active Wells

General Increase in workload and oversight over 40+ years.

Drilling Permit Approval Time



Alaska Oil and Gas Conservation Commission
(AOGCC)

Contact Information

Phone- (907) 297-1433 FAX- (907) 276-7542

State Of Alaska Web- www.state.ak.us

AOGCC Web- www.state.ak.us/local/akpages/ADMIN/ogc/homeogc.htm

AOGCC Regulations- www.state.ak.us/local/akpages/ADMIN/ogc/art199.htm

Alaska Oil & Gas Conservation Act-

www.legis.state.ak.us/cgi-bin/folioisave?stattx99/query=*/doc/{t11885}?

2/7/03

OVERVIEW:

DPS

DCED

HFIN

FILE

STATE OF ALASKA

DEPARTMENT OF PUBLIC SAFETY

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 111200
JUNEAU, ALASKA 99811-1200
PHONE: (907) 465-4322
FAX: (907) 465-4362

February 7, 2003

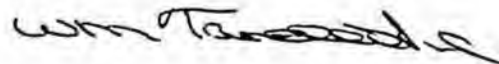
Alaska State Legislature
House Finance Committee Members
State Capitol
Juneau, AK 99811-1182

Dear Finance Committee Members:

Enclosed you will find the text of an email message I sent to Department of Public Safety employees on February 5, 2003. The message clearly sets out my leadership philosophies and expectations of performance and conduct for all employees. I trust that you will find those philosophies and expectations to be appropriate in ensuring exceptional public safety services to all Alaskans.

If you have any questions, please do not hesitate to call me.

Sincerely,



William Tandeske
Commissioner

Enclosure: a/s