State of Alaska
FY2008 Governor's Operating Budget

Department of Natural Resources
Oil & Gas Development
Component Budget Summary

Component: Oil & Gas Development

Contribution to Department's Mission

The Division of Oil and Gas manages oil and gas lands in a manner that assures both responsible oil and gas exploration and development and maximum revenues to the state.

Core Services

A. Encourage Exploration and Development:
- Make prospective lands available for oil and gas exploration, development, and production on a predictable basis.
- Provide publicly available existing and new oil- and gas- related information to technical users, the general public, and the press through technical publications, informational pamphlets, the Web site, or personal contact.
- Provide technical and policy support for the Alaska congressional delegation, the governor's office, the Legislature, and the commissioner of DNR.
- Adjudicate exploration and development permits effectively and maintain a proactive inspection program.

B. Maximize Benefits of Development and Production to the State:
- Administer conventional oil and gas leases and exploration licenses, as well as exploration incentive programs.
- Maximize the economic and physical recovery of hydrocarbon resources through unitized or cooperative operations.
- Ensure that exploration, leasehold, and unit-related operations are conducted in a timely and environmentally sound manner, with emphasis on long-range system integrity.
- Advocate responsible oil and gas development throughout the State.

C. Maximize Non-tax Revenue from State Oil and Gas Production:
- Ensure that the state receives full value from the extraction and sale of state oil and gas resources.
- Develop marketing strategies and negotiate agreements for the sale of royalty oil and gas to provide in-state benefits and revenue enhancements.
- Ensure that bonus, rental, license fees, net profit, and royalty payments are correct, allocated to the proper revenue fund and received when due.
- Ensure that shared federal bonus, rent, and royalty revenues are properly received and allocated to the proper revenue fund.
- Ensure that the state's resource ownership interests are effectively represented in the North Slope gas contract and provide technical and commercial support in the negotiations.

End Results	Strategies to Achieve Results
A: Encourage Exploration and Development. Target #1: Maintain 3,600,000 acres or more under lease during fiscal year. Measure #1: Amount of state acreage under lease. Target #2: Maintain 1,500,000 acres or more under exploration license during fiscal year. Measure #2: Amount of state acreage under license. Target #3: Ten new exploration wells in fiscal year. Measure #3: Number of new exploration wells drilled per year.	**A1: Hold regularly scheduled lease sales.** Target #1: Five sales held on schedule in accordance with the Five-Year Program. Measure #1: Number of sales held on schedule. **A2: Promptly issue leases and licenses without compromising legal integrity of the lease or license.** Target #1: Leases awarded within nine months of lease sale. Measure #1: Average time to award a lease. Target #2: Licenses awarded within 18 months. Measure #2: Number of licenses awarded within 18

	months. **A3: Actively market and evaluate Alaska's oil and gas potential.** Target #1: Two new companies actively exploring in Alaska per fiscal year. Measure #1: Number of new oil and gas companies actively exploring or developing in Alaska. **A4: Evaluate new areas for oil and gas exploration and development prior to a final best interest finding.** Target #1: Evaluate 100 percent of proposed sale/exploration license areas. Measure #1: Percent of potential lease sale/exploration licenses evaluated. **A5: Efficiently adjudicate exploration permits.** Target #1: 100 percent of exploration permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year. Measure #1: Percent of exploration permits issued within the timeline.
End Results	**Strategies to Achieve Results**
B: Maximize benefits of development and production to the state. Target #1: Five percent maximum decrease in statewide oil and gas production from previous fiscal year. Measure #1: Percentage change in rate of production.	**B1: Efficiently adjudicate development permits.** Target #1: 100 percent of development permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year. Measure #1: Percent of development permits issued within the timeline. **B2: Promptly adjudicate completed lease assignments.** Target #1: 100 percent of lease assignments adjudicated within 15 working days. Measure #1: Percentage of lease assignments adjudicated within 15 working days. **B3: Keep up with the increasing numbers of unit-related decisions (plans of exploration/development/PAs).** Target #1: 90 percent of unit/participating area decisions issued within 90 days. Measure #1: Percentage of unit/participating area decisions negotiated and issued within 90 days. **B4: Negotiate new unit agreements that accelerate exploration and development and maximize the economic benefit to the state.** Target #1: Negotiate two new unit agreements per fiscal year.

	<u>Measure #1:</u> Number of new unit agreements. **B5: Perform inspections of oil and gas operations.** <u>Target #1:</u> 100 percent of seismic, exploratory, and production operations inspected each year. <u>Measure #1:</u> Percent of seismic, exploratory, production operations inspected each year.
End Results	**Strategies to Achieve Results**
C: Maximize non-tax revenue from state oil and gas production. <u>Target #1:</u> $ 1.6 billion <u>Measure #1:</u> Amount of non-tax revenue received for total state production of oil and gas.	**C1: Ensure that the state receives the best negotiated value in the sale of its royalty-in-kind (RIK) oil and gas.** <u>Target #1:</u> Receive $ .30 per barrel more from RIK as opposed to royalty-in-value (RIV). <u>Measure #1:</u> Difference between RIK and RIV. **C2: Conduct timely audits.** <u>Target #1:</u> Complete four royalty audits each fiscal year. <u>Measure #1:</u> Number of royalty audits completed during FY. **C3: Ensure that the state receives full value for oil and gas royalty-in-value (reopeners).** <u>Target #1:</u> 100 percent of reopeners increase value. <u>Measure #1:</u> Percent of reopeners that increase value.

Major Activities to Advance Strategies

- Public outreach - MatSu, North Slope, Alaska Peninsula, Healy, and Nenana; conventions, conferences, symposiums
- Oil and gas advocacy-independents, new entrants and new areas in the state
- Evaluate frontier and producing basins; pursue gas hydrates, shallow biogenic gas, and tight gas sands
- Ensure full value for the state's oil and gas resources
- Evaluate requests for royalty-in-kind sales
- Timely and accurate oil and gas royalty accounting
- Timely perform royalty and net profit share lease audits
- Timely processing of lease assignments
- Evaluate requests for unitization of oil and gas leases
- Active inspection and permit compliance work
- Timely permitting
- Respond to requests for exploration licensing - Healy areas
- Hold regular competitive, areawide lease sales
- Encourage leasing of federal onshore and offshore lands in manner most beneficial to the state
- Processing royalty relief applications

FY2008 Resources Allocated to Achieve Results

FY2008 Component Budget: $13,665,900

Personnel:	
Full time	93
Part time	0
Total	93

Performance Measure Detail

A: Result - Encourage Exploration and Development.

Target #1: Maintain 3,600,000 acres or more under lease during fiscal year.
Measure #1: Amount of state acreage under lease.

Acres under lease

Year	YTD Total
2003	4.6 million
2004	4.6 million
2005	4.0 million
2006	3.9 million

Analysis of results and challenges: FY06: Leased acreage expiring or relinquished is being reacquired or replaced with other acreage. In the five lease sales held this year: 360 tracts sold; 402 total bids; 41 different bidders; and $38.7 million in high bids. Without continued budget resources acreage under lease will drop.

In 2004, the Legislature eliminated the Shallow Natural Gas Program. During FY05, many of the existing shallow natural gas leases were relinquished resulting in less acreage under lease than anticipated. In addition, a number of conventional leases were relinquished as a result of recent company mergers. These relinquishments were unanticipated and beyond the control of DNR; however, relinquished acreage will be reoffered for lease.

Target #2: Maintain 1,500,000 acres or more under exploration license during fiscal year.
Measure #2: Amount of state acreage under license.

Acres under license

Year	YTD Total
2003	1.6 million
2004	1.6 million
2005	1.7 million
2006	1.3 million

Analysis of results and challenges: FY06: Consideration of a 208,000 acre exploration license in the Healy Basin has been delayed at the request of the applicant. Also, there was a decrease in acreage due to expiration of the Copper River Basin license. Ten percent of the Copper River Basin license is being converted to conventional oil and gas leases. DO&G received no new license proposals in FY05 or FY06. DNR rejected the Holitna license converted under AS 38.05.177 in FY05. These lower potential, higher risk areas require more outreach, promotion and availability of public data.

In FY05, DO&G completed the title work, best interest finding and public process for the Bristol Bay Exploration License. The license was awarded to the applicant, however, the applicant failed to execute the license. Applicants have chosen not to execute two of the last four exploration licenses awarded by DO&G, a circumstance beyond DNR's control, resulting in lower licensed acreage than anticipated.

Target #3: Ten new exploration wells in fiscal year.
Measure #3: Number of new exploration wells drilled per year.

Analysis of results and challenges: FY06: Twenty-three exploration wells were permitted during the period; eight were drilled. The decision whether to drill the wells is beyond the control of the division. The permits were issued in a timely matter. Promoting the improved project economics under the Petroleum Profits Tax and other incentive programs should result in increased activity.

FY05: Fifteen wells drilled.
Eight were completed in northern Alaska during FY05: five on state Beaufort Sea tidewater leases (one a possible oil discovery, no information yet on the others); one on a state North Slope onshore lease; and two on federal NPR-A leases. At least seven were completed in the Cook Inlet Basin (all onshore): four on state leases; one on a MHT lease; and two on CIRI leases. Five of the Cook Inlet wells are classified as gas discoveries.

A1: Strategy - Hold regularly scheduled lease sales.

Target #1: Five sales held on schedule in accordance with the Five-Year Program.
Measure #1: Number of sales held on schedule.

Analysis of results and challenges: 100 percent in compliance.

A2: Strategy - Promptly issue leases and licenses without compromising legal integrity of the lease or license.

Target #1: Leases awarded within nine months of lease sale.
Measure #1: Average time to award a lease.

Analysis of results and challenges: FY06: North Slope Foothills – awarded in nine months, Cook Inlet awarded in 16 months, North Slope awarded in 12 months, Beaufort Sea awarded in 10 months, Alaska Peninsula awarded in 12 months.

The primary driver on the length of time to issue the leases is the time it takes to acquire the title reports and a review by surveys of the lease tracts. The length of time has increased partly due to the increased number of tracts receiving bids. In addition, the title shop within the DML&W has been struggling with recruiting and retaining qualified staff to complete the work in a timely manner. Without a stable, fully trained work force in the title and surveying sections, oil and gas leases will continue to be awarded later than desired.

FY05: North Slope Foothills sale – six weeks to award. Cook Inlet sale –10 months to award. Beaufort Sea sale – six months to award. North Slope sale – eight months to award.

Target #2: Licenses awarded within 18 months.
Measure #2: Number of licenses awarded within 18 months.

Analysis of results and challenges: FY06: One license in process and one denied; both are beyond the target timelines; one was problematic due to significant local opposition and minimal overall value to the state, award of the second has been delayed at the applicant's request.

FY 05: Awarded Bristol Bay Exploration License 14 months after receiving application.

A3: Strategy - Actively market and evaluate Alaska's oil and gas potential.

Target #1: Two new companies actively exploring in Alaska per fiscal year.
Measure #1: Number of new oil and gas companies actively exploring or developing in Alaska.

Analysis of results and challenges: FY06: Four companies have entered or re-entered the Alaska market. Shell has re-entered Alaska in a big way, buying leases in the Alaska Peninsula sale and the MMS Beaufort

Sea Sale. ENI is now involved in Alaska. Benchmark purchased numerous leases in the Cook Inlet Sale area and is pursuing exploration plans. Duke Energy and several individuals also purchased leases in Cook Inlet. Swift Energy and Centurion Gold have partnered with existing lease holders. With continued budget we will be able to evaluate oil and gas potential along gasline corridor and perform follow-up lease sale planning and avoid delays in releasing public oil and gas information. We will also pursue facility sharing agreements and continue outreach to companies not currently active in Alaska.

FY05: Three new companies are involved in Alaska.
Alaska Energy Alliance, Rutter & Wilbanks Corp, and Storm Cat Energy Corp acquired leases in the recent Cook Inlet lease sale.

FY04: Four new companies are involved in Alaska.
Kerr-McGee has partnered with Armstrong Alaska Inc. in Beaufort Sea exploration, and Pioneer Natural Resources Alaska Inc. acquired leases in the Beaufort Sea, North Slope, and Mat-Su areas. Fortuna acquired leases in the Beaufort Sea, and Pioneer Oil and Gas acquired leases in Cook Inlet.

A4: Strategy - Evaluate new areas for oil and gas exploration and development prior to a final best interest finding.

Target #1: Evaluate 100 percent of proposed sale/exploration license areas.
Measure #1: Percent of potential lease sale/exploration licenses evaluated.

Analysis of results and challenges: FY06: Significant subsurface geological information pertaining to evaluation of the Alaska Peninsula lease sale has been released. Other lease sale areas are under continual review. Additional resources will be necessary to evaluate unexplored areas nominated for exploration licensing since such areas are outside of areawide lease sale areas that are subject to ongoing assessment by division staff.

FY05: Evaluated hydrocarbon potential on unleased tracts prior to all scheduled lease sales. Initial Alaska Peninsula geological field program completed.

FY04: Evaluated hydrocarbon potential on unleased tracts prior to all scheduled lease sales.

A5: Strategy - Efficiently adjudicate exploration permits.

Target #1: 100 percent of exploration permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year.
Measure #1: Percent of exploration permits issued within the timeline.

Percent of exploration permits issued on time

Year	YTD Total
2003	90 %
2004	90 %
2005	100 %
2006	95 %

Analysis of results and challenges: FY06: 95 percent issued on time. All deadlines for ACMP review have been met; issuance of permits has lagged ACMP approval due to workload and staffing issues. Ability to timely adjudicate the anticipated expansion of the permitting workload, including Alaska Peninsula permits, gas line permitting, gas hydrates, and gas-only exploration licenses and leases will also be addressed by increased, permanent resource allocation.

FY05: 100 percent issued on time.
With increased resources to fund a Natural Resource Specialist IV and a Natural Resource Specialist III the division's ability to adjudicate new and increasing statewide gas-related exploration activities, including Alaska Peninsula permits, gasline permitting, gas hydrates and gas-only exploration licenses and leases has been increased.

FY04: 90 percent issued on time.

B: Result - Maximize benefits of development and production to the state.

Target #1: Five percent maximum decrease in statewide oil and gas production from previous fiscal year.
Measure #1: Percentage change in rate of production.

Percentage Change in Production

Fiscal Year	Oil %	Gas %
FY 2003	-2.0%	-2.4%
FY 2004	-1.7%	0.8%
FY 2005	-7.8%	1.9%
FY 2006	-6.2%	-1.0%

Analysis of results and challenges: FY06: This year's drop was due to unanticipated maintenance in the Prudhoe Bay Unit for August and September 2005 and major disruptions involving North Slope gathering pipelines starting in March 2006. Gas production showed a slight decrease (1.0 percent) for the same period. New satellite pool development in exiting units, new field development underway and planned, and continued viscous oil development will reduce but not eliminate the production decline. The Lease Monitoring and Engineering Integrity initiative requires new budget support to implement. Without continued budget support production will decline even faster.

B1: Strategy - Efficiently adjudicate development permits.

Target #1:100 percent of development permits issued within the timelines set by the Alaska Coastal Management Program during fiscal year.
Measure #1: Percent of development permits issued within the timeline.

Percent of permits issued on time

Year	YTD Total
2003	0
2004	0
2005	100%
2006	100%

Analysis of results and challenges: FY06: 100 percent issued on time.
Current resources are maximized with current workload. With additional resources to fund a NRS IV and a NRS III the division has been more equipped to keep up with the fast paced schedule of gas-related development activities, including gas line permitting, gas hydrates and gas-only exploration licenses.

FY05: 100 percent issued on time.
The division is actively participating in the permitting for the Oooguruk and Nikaitchuq North Slope offshore development proposals and Ninilchik and Kasilof onshore gas developments in Cook Inlet. Offshore development projects continue to be a permitting challenge due to increased environmental and oil spill response issues.

B2: Strategy - Promptly adjudicate completed lease assignments.

Target #1:100 percent of lease assignments adjudicated within 15 working days.
Measure #1: Percentage of lease assignments adjudicated within 15 working days.

Percent of lease assignments within 15 days

Year	Aver # days	YTD Total
2004	15.5	54.9%
2005	28.6	22.1%
2006	14.0	100%

Analysis of results and challenges: FY06: 100 percent issued within 15 days; overall average time to issue is 14 days. More than 1,000 lease assignments adjudicated.

FY05: 22.1 percent issued within 15 days; overall average time to issue is 28.6 days FY05 performance was impacted by the gas line negotiations. Internal alignments were made to meet the target in the first quarter of FY06.

B3: Strategy - Keep up with the increasing numbers of unit-related decisions (plans of exploration/development/PAs).

Target #1:90 percent of unit/participating area decisions issued within 90 days.
Measure #1: Percentage of unit/participating area decisions negotiated and issued within 90 days.

% of unit decisions within 90 days

Year	YTD Total
2004	100%
2005	100%
2006	100%
2007	100% 1 qtr FY07

Analysis of results and challenges: 100 percent compliance in first quarter FY07.

100 percent compliance in FY06.
Oil and gas units and participating areas (PAs) are the operating and commercial framework for most oil and gas production in Alaska. The division's continued ability to manage the state's units is critical to the state's economic future. These complex negotiated unit and PA agreements provide the framework for maximizing production with minimum environmental impact while protecting the rights of all parties.

Two unit managers left the state service or retired in FY07. One has been hired as of October 2006, but the second is still under recruitment.

100 percent compliance in FY05.

100 percent compliance in FY04.

B4: Strategy - Negotiate new unit agreements that accelerate exploration and development and maximize the economic benefit to the state.

Target #1: Negotiate two new unit agreements per fiscal year.
Measure #1: Number of new unit agreements.

Analysis of results and challenges: Six new units were negotiated and approved in FY06. Three new unit agreements are in negotiation in the first quarter of FY07. Last year, unitization activity surged onshore North Slope as independents rushed to explore for new oil and gas. Managing these and more units can be done if staff positions are filled soon and made permanent.

One new unit agreements in FY05.

Three new unit agreements in FY04.

B5: Strategy - Perform inspections of oil and gas operations.

Target #1:100 percent of seismic, exploratory, and production operations inspected each year.
Measure #1: Percent of seismic, exploratory, production operations inspected each year.

Analysis of results and challenges: FY06: 90 percent. New staff hired in the third quarter has been quickly coming up to speed and assisting in the inspection program. The new positions are crucial in meeting this established goal.

Ongoing exploration activities and incremental changes to existing development increase each year the total number of sites requiring on-site inspection for compliance with lease and permit conditions. Permanent addition of permitting staff has had significant positive impact on achieving goals, including additional of expected gas-related activities, including gas line permitting, Alaska Peninsula activities, gas hydrates, and gas-only exploration licenses.

85 percent complete in FY05. Operations not inspected by June 30, 2005, include those planned for summer construction or inspection, and seismic operations planned for next winter.

85 percent complete in FY04.

C: Result - Maximize non-tax revenue from state oil and gas production.

Target #1:$ 1.6 billion
Measure #1: Amount of non-tax revenue received for total state production of oil and gas.

Amount of non-tax revenues

Fiscal Year	YTD Total
FY 2004	$1.42 billion
FY 2005	$1.91 billion
FY 2006	$2.39 billion

Analysis of results and challenges: FY06: this amount includes income from royalties, bonus bids, rental payments, and state share of federal oil and gas revenues (regular payments as well as money from reopeners and audits) from oil and gas throughout the state. Without continued budget support audit activity will decrease, royalty settlement reopeners will be less effective and analysis of pipeline tariff rates and quality bank fees will be postponed.

The royalty, audit, and commercial sections continue to monitor royalty payments, royalty settlement agreements with lessees, and royalty-in-kind contracts, and take advantage of every opportunity to assure that the state is getting full value for its royalty and gas.

The FY04 ANS spot price averaged $32.36 a barrel and TAPS volume was 0.973 million barrels per day of oil.
The FY05 ANS spot price averaged $44.83 a barrel and TAPS volume was 0.909 million barrels per day of oil.
For FY06 ANS spot price averaged $62.08 a barrel and TAPS volume was 0.837 million barrels per day of oil.

C1: Strategy - Ensure that the state receives the best negotiated value in the sale of its royalty-in-kind (RIK) oil and gas.

Target #1: Receive $ .30 per barrel more from RIK as opposed to royalty-in-value (RIV).
Measure #1: Difference between RIK and RIV.

Analysis of results and challenges: In FY08, Quality Bank rulings from the Federal Energy Regulatory Commission will result in both prospective and retroactive adjustments to the RIK contract price for RIK purchasers.

FY06: 100 percent compliance.
Without continued budget support there will be a delay in RIK analyses and billing.

100 percent compliance in FY06.
100 percent compliance in FY05.
100 percent compliance in FY04.

With the conclusion of the ExxonMobil royalty settlement agreement reopener, the commercial section will assist the division in making a claim for retroactive adjustments in the price of royalty in-kind oil sold during the period January 2001 to March 2004.

C2: Strategy - Conduct timely audits.

Target #1: Complete four royalty audits each fiscal year.
Measure #1: Number of royalty audits completed during FY.

Analysis of results and challenges: Nine royalty audits are currently in progress.

Four audits were completed in FY06.

The Audit Section is responsible for auditing, analyzing, or verifying virtually all of the oil and gas royalties collected by the State of Alaska, which at $2.4 billion in FY06 are the state's largest single component of revenue (excluding federal and investment revenues). The section's auditors are responsible for verifying oil and gas royalties either directly through audits or through review and negotiations during periodic amendments to royalty settlement agreements (called reopeners in the case of agreements with the three major oil producers on the North Slope). Without continued budget support audits will be delayed.

Eight royalty audits completed in FY05.

Four royalty audits completed in FY04.

C3: Strategy - Ensure that the state receives full value for oil and gas royalty-in-value (reopeners).

Target #1:100 percent of reopeners increase value.
Measure #1: Percent of reopeners that increase value.

Analysis of results and challenges: First quarter FY07: The state successfully negotiated a settlement of the ExxonMobil reopener in September 2006. ExxonMobil has committed to refile royalty payments for the period from January 2001 to the present. An additional $21 million to be paid to the state by March 15, 2007.

Key Component Challenges

The Division of Oil and Gas manages the state’s oil and gas resources with a staff of 93, consisting of highly specialized technical experts educated as geologists, geophysicists, engineers, IT professionals, attorneys, economists, accountants, commercial analysts, and natural resource specialists who work in asset teams but administratively are assigned to seven sections: administration, audit, commercial, leasing/permitting, resource evaluation, royalty accounting, and units. They strive to accomplish the following:

Encourage Exploration and Development by:

- Promoting and facilitating an increased role for independent oil and gas companies willing to develop new regions of the state.
- Participating in outreach activities.

- Improving the quality and quantity of information on the division's Web site in order to attract new companies to Alaska and facilitate resource development in the state.
- Providing public data and evaluating the geological framework and initial oil and gas potential for interested companies to fully evaluate the resource potential of the Alaska Peninsula for oil and gas lease sales.
- Increasing division's participation in geological field work in the North Slope foothills, central North Slope, the Alaska Peninsula, and Cook Inlet basin in support of DGGS field programs that promote exploration in these areas.

Maximize Benefits of Development and Production to the State by:

- Better evaluating Cook Inlet long-term gas supply and deliverability. The commercial section routinely updates estimates of Southcentral Alaska energy requirements and the demand for natural gas.
- Minimizing or eliminating vacancies and keeping the division fully and competently staffed to rapidly lease acreage, promote or compel early exploration, development, and production, and maximize revenues to the state.
- Increasing the number of permitters/inspectors to oversee oil and gas operations in populated areas and increased Cook Inlet gas exploration and development.
- Ensuring the system integrity of the oil and gas infrastructure used to extract, process, and transport Alaska's oil and gas resources to minimize down time and maximize revenue to the state.

Maximize Non-tax Revenue from State Oil and Gas Production by:

- Evaluating the project scope and commercial factors affecting proposed gas pipeline projects and negotiating with multiple parties: producers, pipeline companies, Alaska Natural Gas Development Authority (ANGDA), Port Authority, and others interested in various natural gas projects.
- Adding commercial and audit expertise to evaluate oil and gas pipeline tariff proposals, royalty reduction applications, North Slope gas fiscal systems, North Slope and Cook Inlet facility sharing models and improve audit capabilities.
- Providing negotiation expertise in every division decision to create commercial opportunities for the state.
- Preparing for additional royalty in-kind (RIK) oil and gas sales and tracking potential retroactive price adjustments as required under existing RIK sales contracts.
- Improving and expanding the oil and gas royalty accounting system so that the division can continuously monitor crude and gas values, field processing and transportation costs, and thus audit royalty payers quickly and timely and reopen and renegotiate royalty settlement agreements to rapidly enhance state revenues.

Major activities occurring in or planned for FY07 - FY08 are discussed below. In the upcoming fiscal year, the division expects to see an increase in activity by independents, both large and small, and other new entrants to Alaska. As the major oil companies dealt with maximizing existing assets, merger-related staffing and portfolio issues, and other worldwide opportunities, independents and new entrants initiated a surge in unitization onshore and south of existing Prudhoe Bay and Kuparuk oilfields. These lessees are eager to explore for gas and oil reserves for TAPS and find new gas reserves for a gas pipeline to supply North America. While the frontier exploration efforts of the majors has diminished, except for activity in NPRA, they have been active in the development of satellite fields near existing infrastructure and viscous oil reservoirs within existing units. The majors are also proceeding with the initial permitting stages for the development of the western Colville River Delta and NPRA. On the horizon is Liberty in the Beaufort Sea, Pioneer's Ooguruk project, Anadarko's Nikaitchuk project, Anadarko's Jacob's Ladder, ENI Petroleum's Rock Flour, AVCG's Whiskey Gulch, new viscous oil drill sites and additional production facilities at Prudhoe Bay and Milne Point, and continued activity associated with West Sak development in Kuparuk. This change in exploration effort from majors to independents is clearly reflected in recent lease sale results and ownership interest assignments.

Cook Inlet exploration activity has already increased and a higher than normal level of activity is expected to continue for several years as the search for new gas reserves continues by both traditional explorers and new entrants. Along with higher oil and gas prices and increasing local demand, Cook Inlet is experiencing a resurgence in exploration activity and growth in new production and gas storage deliverability. The division continues negotiating two new units with offshore exploration drilling begun in the fourth quarter FY06. New production from the Ninilchik Unit is being delivered to markets, and Kasilof gas production is expected by the end of the second quarter of FY07.

A. Encourage Exploration and Development:

- With the demand for additional areawide lease sales and exploration licenses comes an increase in title work and lease administration as well as environmental and socioeconomic review in the form of best interest findings, development of mitigation measures, and compliance with the Alaska Coastal Management Program. The division is also seeing success in the administration's efforts to bring new independents into the state, with a resulting increase in staff time assisting and educating new bidders and lessees.

- With regard to leasing and licensing, the division continues to review all mitigation measures for competitive lease sales and exploration licensing, modifying these measures as new concerns arise and the oil and gas industry evolves. Each exploration license requires a specific best interest finding. In some cases, an Alaska Coastal Management Program (ACMP) consistency determination is required (ensuring the license provisions are consistent with the state's ACMP and local management plans). The division is currently evaluating an exploration license proposal in the Healy basin and beginning the best interest finding process for the North Slope and Beaufort Sea sale areas to be finalized in time for the expiration of the current findings in 2008-2009.

- Increased title work: Exploration licensing, along with the addition of a fifth areawide sale area, has presented the division with previously unscheduled work requirements, most notably title work. Each license proposal requires title work on up to 500,000 acres. Title work in these areas can be both complicated and time-consuming because of multiple subsurface estate ownership issues. Keeping up with this increased title workload has been difficult for the division's two-person title unit. The Division of Mining, Land, and Water also is facing a significant challenge in recruiting and retaining qualified staff in the title research function, and has had to balance preparation of title reports for oil and gas with other state projects. The division anticipates title work demands to remain high as a result of successful lease sales in FY07.

Areawide Oil and Gas Lease Sales: The resource evaluation section will continue to provide geological, geophysical, and engineering support for the five annual areawide oil and gas lease sales on the state's current master lease sale schedule. This information is utilized by the commercial and lease sales sections together with economic and cost data to establish the bidding terms of the areawide lease sales. As during FY06, assessments of the Alaska Peninsula and North Slope Foothills areawide lease sale areas will continue to require additional surface and subsurface studies to provide improved assessments of their petroleum potential. New surface and subsurface geological studies underway in the Cook Inlet basin are designed to spur industry interest from smaller operators.

  - Alaska Peninsula competitive areawide oil and gas lease sale: After only two years of intensive technical and promotional preparation, the first of this series of areawide lease sales was held in October 2005. Two bidders, Shell Offshore Inc. and Hewitt Minerals Corp, exposed approximately $1.3 million to acquire 37 tracts in the Port Moller area. In the two years prior to the lease sale this division and the Division of Geological and Geophysical Surveys (DGGS) were successful in acquiring and disclosing substantial geological information to educate the local populace and to encourage industry interest. Much remains to be learned, however, about the distribution and character of source, trap, and reservoir rocks, and the regional petroleum system. Assimilation of this information into the basin assessment should continue in preparation for follow-up lease sales. Others involved in the basin assessment include the Alaska DGGS, the Bristol Bay Native Corporation, and the U.S. Geological Survey (USGS). The U.S. Minerals Management Service might also become involved as it reassesses the petroleum potential of the offshore portion of the Bristol Bay basin and the possibility of again offering leases in the adjacent offshore federal waters now subject to a federal leasing moratorium.

  - North Slope Foothills areawide oil and gas lease sale: This large gas-prone area remains essentially unexplored despite the early high interest apparent in the initial foothills lease sale. Failure to timely resolve the gas pipeline issue resulted in return of many of the leases and cancellation or delay of several promising industry exploration programs. Recent congressional and federal actions, and ongoing negotiations with stranded gas owners and pipeline companies are encouraging. Upon a decision to construct a gas line, the North Slope Foothills areawide lease sale area will likely become one of the hottest exploration plays in North America. Collaborative field work there by the division, the DGGS, and the USGS during recent years has resulted in collection and publication of baseline geological data that should be expanded, compiled, and published in order to attract investors to the area. Those studies will continue during FY07.

- Alaska Gas Line: Upon agreement to construct a trans-Alaska gas pipeline, resource evaluation geoscientists and engineers will have to assess the resource potential of gas-prone areas and possible conventional and unconventional gas reservoirs throughout state lands on the North Slope and in the Interior. North Slope Foothills area lessees and others have proposed extensive geophysical and drilling exploration projects that will move forward upon successful conclusion of a gas line contract. The extensive size of the foothills lease sale area and the large quantity of new information received from related programs will require dedication of substantial resources from the section.

- Gas Hydrates Exploration and Development Technology: With an eye to future development of Alaska's resource base, the state has, and will, play a significant role in a federally funded five-year northern Alaska gas hydrate exploration, production, and development research program. While the state is not providing direct financial support to the program, resource evaluation section geoscientists and petroleum engineers are expected to play significant roles in designing exploration methods and developing production technology. During FY06 and continuing into FY07, the division has a petroleum geophysicist working on methane hydrates research by attending workshops with the USGS and MMS and attending NAPE to support industry outreach. Division geoscientists have identified the publicly available well and seismic data and are currently working on obtaining industry seismic to use for their hydrate research.

- The division is working with West CARB (West Coast Regional Carbon Sequestration Partnership), a consortium of western states, and ARI (Advanced Resources International Inc., the consulting firm) in identifying areas in Alaska to store carbon dioxide. Division personnel compiled a map entitled "CO2 Sequestration Base Map – Alaska Basins & Infrastructure" for use in discussions with West CARB during late August 2006 to discuss the scope of the division's involvement, duties, and responsibilities.

- Arctic National Wildlife Refuge: If a decision is made to open the refuge we expect the division, including the resource evaluation section, to be invited by federal agencies to participate in development of resource assessments and operational regulations.

- Public Outreach: During FY07, the division will remain a key player in the administration's program to attract new players to Alaska's oil patch. Resource evaluation staff plays a key role by compiling, formatting, and distributing technical information of value to explorers. This information is produced in the forms of maps, charts, photographs, and reports depicting and describing the petroleum potential and petroleum system character of petroliferous basins in the state. That involvement is expected to grow throughout FY07 as the division, often in collaboration with the Division of Geological and Geophysical Surveys, expands surface and subsurface studies. Most, if not all, of the information will be Web-enabled to assure timely and equitable distribution to the public. The division will also continue to use this information in booth displays and handouts to promote Alaska opportunities at several national conventions throughout the year. Resource evaluation geologists and geophysicists have created industry interest in Cook Inlet and the North Slope by providing map compilations summarizing geological, geophysical, and currently producing areas on the North Slope and Cook Inlet and facilitating companies' searches for publicly available well log, seismic, and engineering data. The division's interaction with a variety of oil and gas exploration companies, including majors and independents, has provided companies interested in investing in Alaska critical information that facilitates the search for basic data to jump start exploration and development ventures. Recent industry interactions have included Shell, Benchmark, FEX, Petro-Canada, Chevron, Pioneer, ConocoPhillips, Brooks Range Petroleum, in addition to other agencies and individuals with links to the Alaska oil and gas industry. As a result of public outreach the division has attracted several smaller companies including Benchmark, Duke, and Rutter and Wilbanks, who bid in the 2006 Cook Inlet lease sale. The division must continue to find and use innovative methods of outreach to attract new companies to Alaska. The division's outreach programs include a promotional booth at three large oil and gas trade shows: American Association of Petroleum Geologists (AAPG) and two North American Prospect Expos (NAPE). This year, the outreach will continue to include the Bristol Bay Basin/Alaska Peninsula lease sale.

    - A frequent complaint in the past has been that the state resource agencies publish too little information regarding the petroleum potential of the state. Recent additions to the resource evaluation staff have provided the division with substantial expertise in several specialized fields of geology and allowed collection, analysis, and publication of information to a degree previously not possible. This was evidenced by the value of the information published and distributed during the short time available to prepare for the Alaska Peninsula areawide lease sale. Collection, interpretation, and publication of such information remain division goals as we attempt to provide useful information for companies considering or conducting exploration in Alaska.

    - The cartography group within the resource evaluation section provides virtually all of the mapping, graphics, software, and conventional and Web-interfaced publication support for the division. The group prepares most of the graphics used by DNR and division management at their presentations to the administration and Legislature, other departments, and industry groups. This past year, personnel in the resource evaluation section prepared and published new and updated technical products for distribution on the DO&G and DGGS Websites and CD-ROMs, including interpretive geologic reports, GIS-based North Slope Oil and Gas Resources poster series, detailed Brookian sequence stratigraphic cross section, PAC COM conference presentation, online page Key Sources of Alaskan Oil and Gas Data, Areawide Leasing and Licensing Programs, AAPG and NAPE booth montage series, including:

- Oil and Gas programs for the North Slope of Alaska
- Regional Geology of the North Slope of Alaska
- Seismic Data Availability for the North Slope of Alaska
- Gravity and Magnetic Data Availability for the North Slope of Alaska
- North Alaska Plays and Petroleum Systems
- State of Alaska Leasing and Licensing Map

- In addition, the division is preparing a series of type well log displays that provide information on the producing formation for the major producing areas on the North Slope.

B. Maximize Benefits of Development and Production to the State:

- The division is at the forefront of the state's overall oil and gas system integrity initiative. This effort will result in the state being in a position, for the first time, of anticipating where potential system failures and production stoppages may occur, and requiring proactive measures to minimize production stoppages. This effort will require a significant increase in the division's engineering and technical expertise and inspection capacity. In addition to an increase in personal service costs, the effort will also require additional contracting and travel expenses.

- Increased demand for administration of oil and gas leases: The North Slope, Beaufort Sea, North Slope Foothills, Cook Inlet, and Alaska Peninsula areawide lease sales will continue to increase the number of leases the division issues. As a result of the increased areawide leasing activity, along with a decrease in the number of leases expiring (due to production and unitization), the number of leases being administered has risen dramatically in the past few years (see Figures 1 and 2). Keeping up with the rising number of oil and gas leases that must be administered by the division is a constant challenge.

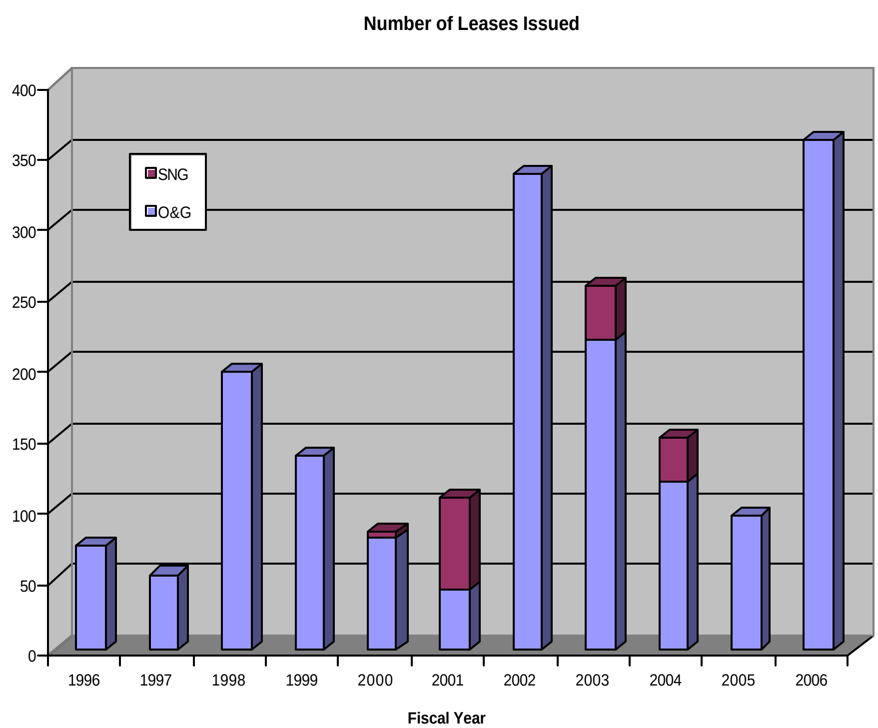

Figure 1

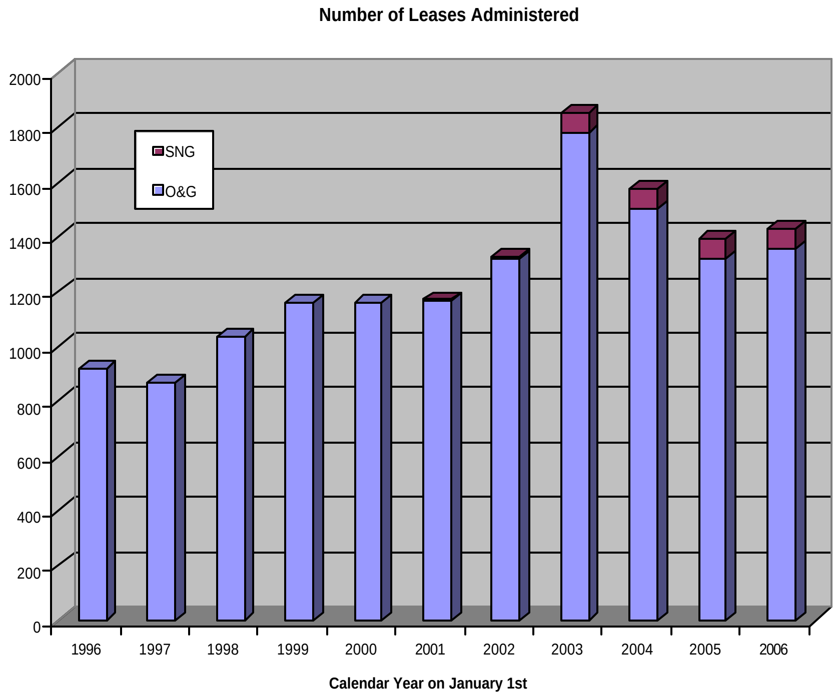

Figure 2

- Permitting: Exploration and development activity will also require more time from the division's permitting group. More projects will have to be reviewed, permitted, and monitored for stipulation compliance. The ongoing push towards North Slope gas commercialization and heavy (viscous) oil development at Prudhoe Bay, Kuparuk River, and Milne Point will increase the permitting and inspection workload due to new developments, pads, pipelines, and infrastructure on the North Slope. As remote fields become developed, greater distances and more complex logistics are involved with traveling to locations for inspections. Staff is actively participating in industry and government-sponsored programs to extend the winter tundra travel season and evaluate novel options for operating in the summer season.

- High oil and gas prices and the decline in gas reserves and deliverability are causing an increase in exploration and development activity in Cook Inlet. Smaller companies and new companies are showing an interest in drilling exploration wells and operating existing facilities. These new entrants have less experience and resources compared to more established Alaska operators which can slow permitting and other approvals. Staff are spending larger amounts of time educating and guiding these companies through the permitting process, as well as on oversight and monitoring activities in the field, and formulating performance bonds to lower risk to the state.

- The increase in leasing and licensing for oil and gas in previously nontraditional oil and gas areas such as Bristol Bay, Copper River, Nenana, Healy, and the upper and lower Susitna Valley translates into more complicated and time-consuming permitting activities involving the applicants, state and local agencies, and the public.

- The division is actively participating in the permitting for the Oooguruk and Nikaitchuq North Slope offshore development proposals. Offshore development projects continue to be a permitting challenge due to increased environmental and oil spill response issues. As instructed by the Legislature, DO&G reviewed the subject of Cook Inlet platform abandonment and drafted regulations for public review. In addition, DO&G developed regulations and guidelines on the topic of platform bonding requirements.

- Successful involvement by new explorers has led to an increased number of lease assignments. We expect this trend to continue. Rapid processing of assignments accelerates the oil and gas development process. Figure 3 shows the continued elevation of the number of assignments over the past several years. A major challenge is keeping up with the fast pace of exploration permitting, leasing, and lease assignment approval requests.

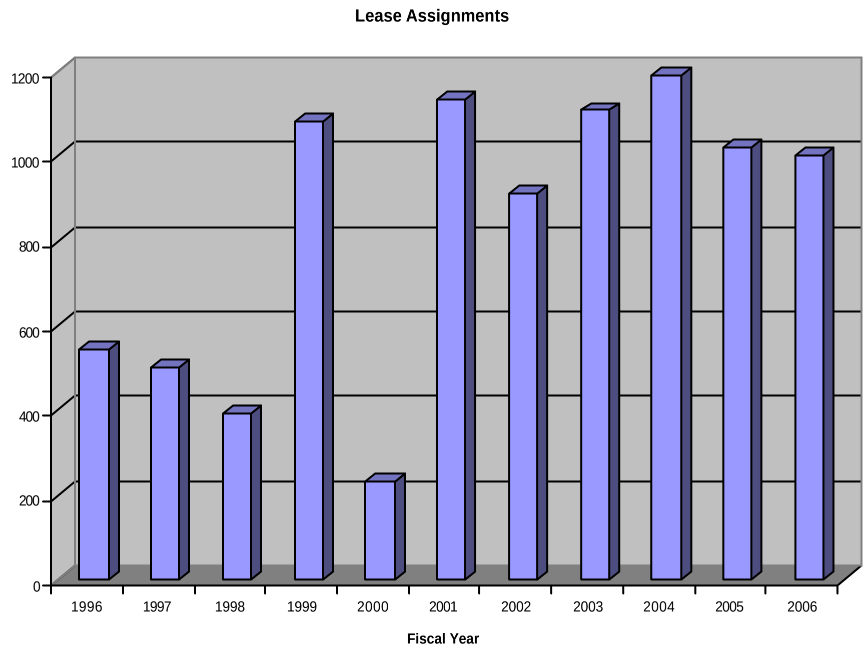

Figure 3

- Oil and gas units and participating areas (PAs) are the operating and commercial framework for most oil and gas production in Alaska and the division's continued ability to manage the state's units is critical to the state's economic future. Unit and PA agreements provide the framework to maximize production and benefits with minimum environmental impact while protecting the rights of all parties. In order to offset the decline in production from the main reservoirs at Prudhoe Bay and Kuparuk, an increasing percentage of Alaska's oil production will need to come from new and smaller reservoirs, each requiring the formation of one or more PAs. A challenge facing DO&G is adjusting Alaska's model unit agreement to fit smaller independent companies in ways that encourage development of higher risk projects, like unconventional gas resources. Additionally, several pools scheduled for exploration and development have multiple royalty ownership, numerous private lands and surface issues, and have management authority that must be shared in cooperative unit agreements. Other challenges include the need for regulatory reform to match today's industry; the need to strengthen lease and unit terms; providing mechanisms for operators to gain access to facilities without restricting the rights of facility owners; and providing ways to release lands held by certified wells that have been shut-in too long.

- As of October 2006, the division currently oversees 38 active units and 59 active participating areas. Eighty-six unit actions were adjudicated in FY06. Figures 4, 5, and 6 illustrate the significant long-term increase in units and participating areas and the new production associated with them. Last year, the North Slope saw increases in new units and we expect to see at least two new units and one additional PA in Cook Inlet next year. Managing the increased workload associated with the increase in unit activity is one of the major challenges facing the division, especially in light of new changes to petroleum taxation and gas pipeline agreement negotiations. Negotiations are longer and involve more companies. Unit agreements and decisions related to gas demand in Cook Inlet and a gas pipeline to supply North America will require full staffing levels.

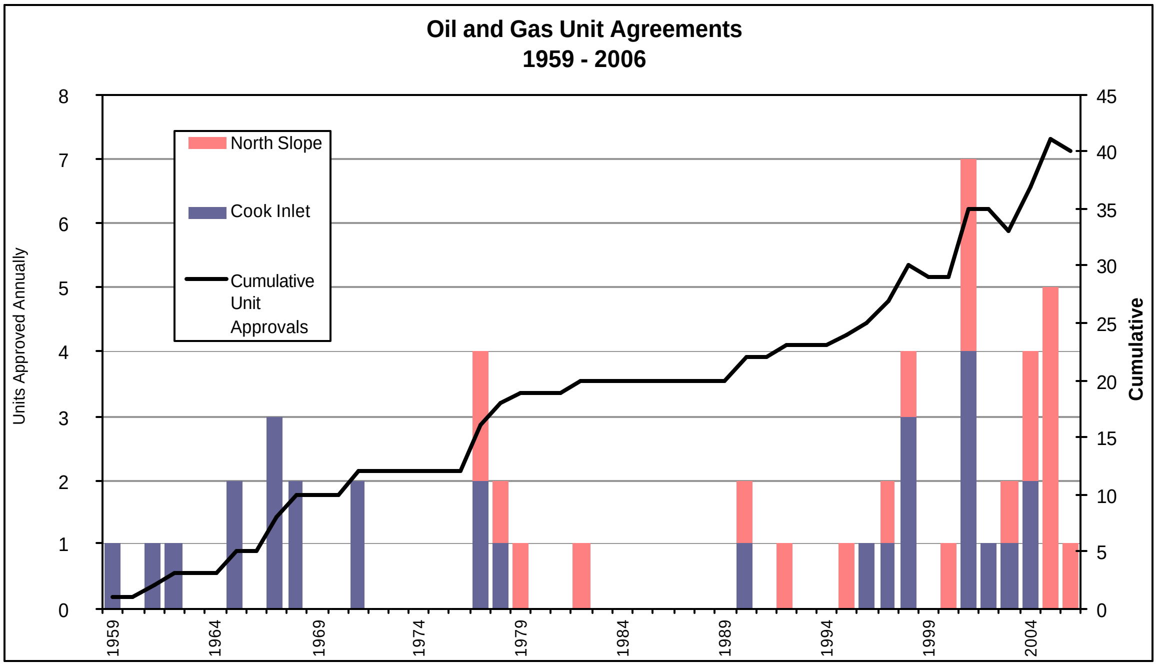

Figure 4

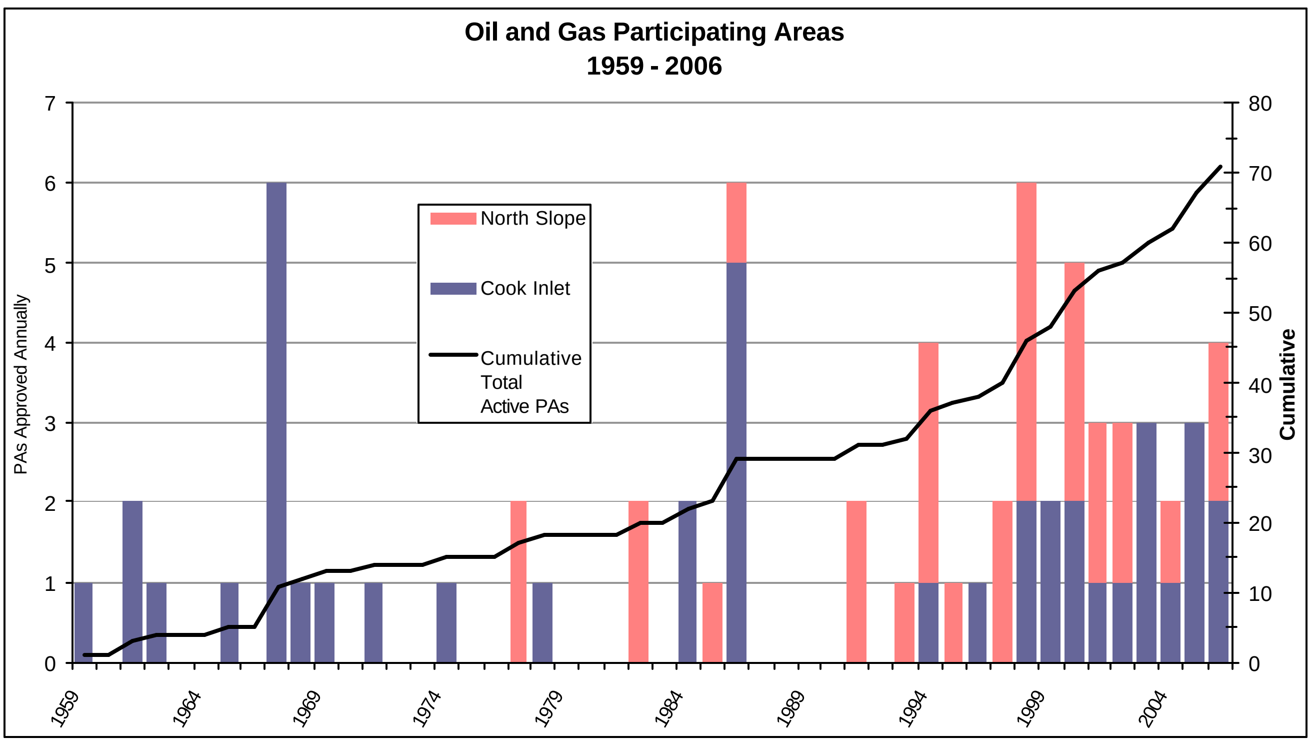

Figure 5

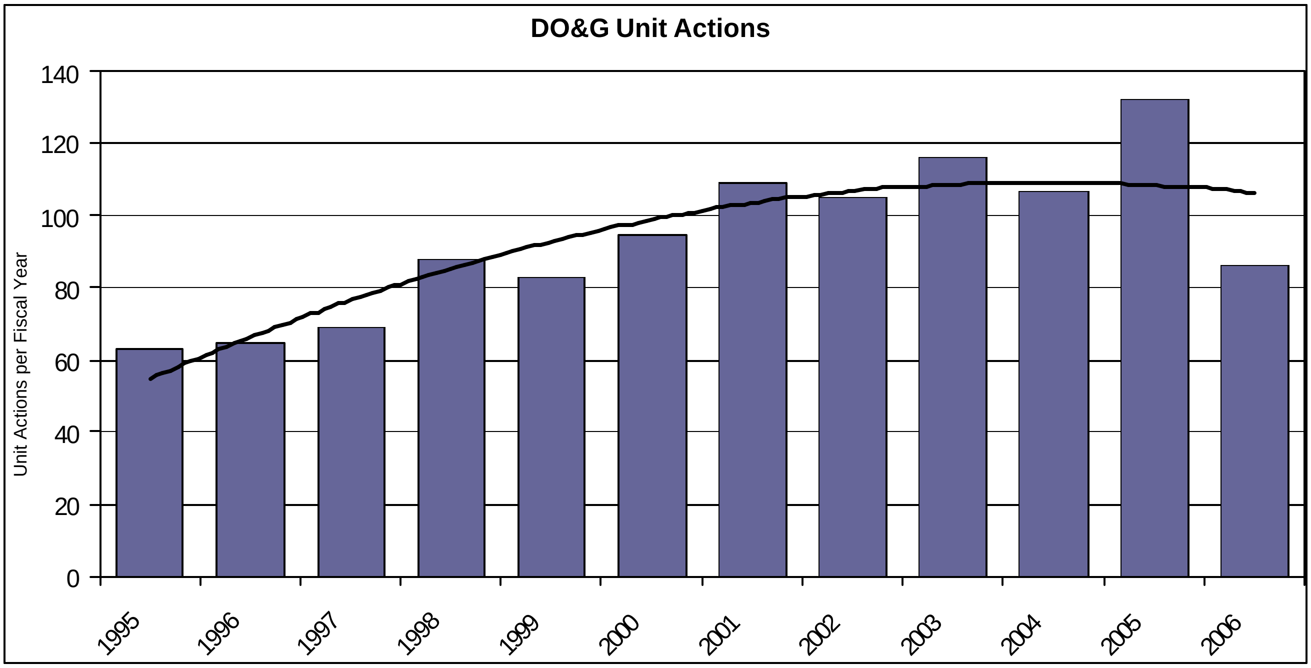

Figure 6

- Oil and gas production from satellite pools and new field start-ups is an increasingly important part of North Slope output. In 2004, over 27 percent of ANS oil output was from new pools, new participating areas, and expansion areas of older participating areas that began production since 1995. (See Figure 7 and Figure 7A.)

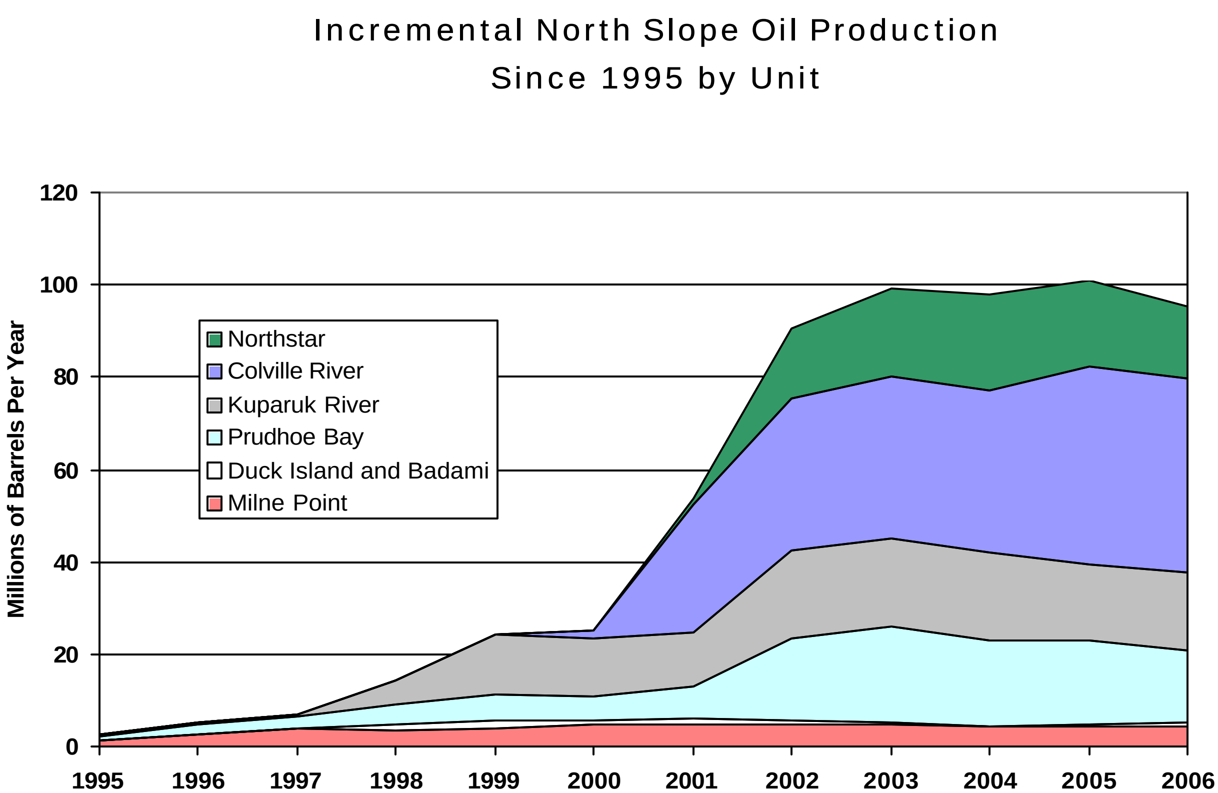

Figure 7

Year	Incremental Oil Production Since 1995 (Millions of Barrels)	Total North Slope Oil Production (Millions of Barrels)	Percentage of Incremental to Total Oil Production
1995	2.578	550.928	0.5%
1996	5.231	529.395	1.0%
1997	6.945	499.146	1.4%
1998	14.268	456.849	3.1%
1999	24.509	404.554	6.1%
2000	25.185	376.499	6.7%
2001	53.542	368.483	14.5%
2002	90.556	371.794	24.4%
2003	98.962	368.110	26.9%
2004	97.788	346.090	28.3%
2005	100.627	326.244	30.8%
2006 (Est)	95.432	295.594	32.3%

Figure 7A

- Additionally, relatively high oil and gas prices and the potential for a North Slope gas pipeline are leading to much greater activity in the division and in the field. Moreover, the equalization of the interests in the Prudhoe Bay and Kuparuk units has spurred an increase in the activity for satellite developments and gas-related projects in those units. As a result of a number of successful "satellite" wells, the number of unit actions has increased. Although they involve fewer barrels than flow from the major reservoirs at Prudhoe Bay and Kuparuk, many of these actions are extremely complex. Much of the new activity occurs at the edges of existing units or at the conjunction of two (or more) units and involves commingling of different production streams owned by different parties or having different royalty terms through common facilities using facility sharing agreements.

- New lessees, such as Pioneer and Kerr McGee, are proposing development and production projects that involve facility sharing agreements with existing units. Anadarko recently acquired Kerr McGee and took over as operator of the Nikaitchuq project. Anadarko is currently in the process of combining the current Nikaitchuk and Tuuvak units into one unit and is evaluating the economics of the project. Preparing the required authorization forms to allow all parties to participate in facility sharing is the responsibility of the respective unit managers.

- In connection with ongoing negotiations under the Stranded Gas Development Act, unit managers are identifying unit and lease terms (such as point of sale/delivery point, field costs, gas conditioning obligations and fees, take in-kind, and gas balancing) that potentially will need to be harmonized with any proposed new fiscal contract/system.

- Gas storage benefits residents, businesses, industrial users, and producers by maximizing reservoir recovery and balancing seasonal swings in gas demand from summer to winter. Development of underground gas storage facilities is as important to economic security and market deliverability in Alaska as it is in the Lower 48. The division issued two gas storage leases in FY06, including the state's largest storage facility at Kenai. Gas storage (not for EOR purposes) is new to the state, and the division is developing an efficient process for handling gas storage lease and unit approvals. Gas storage approvals involve staff from all sections of the division and resemble a participating area decision that includes a complete application determination, 30-day public comment period, ACMP consistency review, and lease best interest finding. We expect two or more gas storage lease applications in Cook Inlet in the next two years, and possibly several on the North Slope. Challenges include ownership issues that complicate future storage agreement equity determinations, and regulatory reform.

- The commercial section works with the units, lease sales, and resource evaluation sections in developing commercial terms for lease sales and creating appropriate incentives to encourage the formation, expansion, and timely development of units and participating areas. The section also supports the audit staff on issues related to the market of Alaska's oil and gas, the cost and profitability of marine and pipeline transportation, and other economic indicators.

- The commercial and resource evaluation sections also provide analysis and data for the department either in support of the administration's legislative initiatives or to respond to information requests from the Legislature on bills that may impact oil and gas development.

- The commercial section, with a focus on value creation, provides expertise to the rest of the division each time there is a commercial interaction with industry. The division calls upon this expertise to identify value and provide experienced negotiation skills to capitalize on each commercial opportunity.

- <u>Resource Allocations and Assessments:</u> Each year the division verifies initial tract allocations for all new units and participating areas, and final tract allocations for participating areas that are in the first two years of production. Tract allocations are the process of determining actual and estimated production from beneath lease tracts and are the basis of equitable distribution of revenue to the lessee and royalty owners. They require compilation of complex geological, geophysical, and reservoir engineering simulation models which when combined with past production data can predict future production for the assumed life of a field. The process can take several months to complete depending on the complexity of land ownership, and may be delayed if the division's geologic and engineering results differ from those proposed by the unit operator.

    - <u>Northstar Unit Tract Allocation:</u> The final allocation of the Northstar field reserves, originally scheduled for FY06, was delayed by the operator's success with additional development drilling. It is now expected to occur in the second quarter of FY08 due to the need to include production histories from late-drilled wells. Because both federal and state leases with differing leasing terms are included in the Northstar unit, the reallocation process will involve the U.S. Minerals Management Service as well as the Alaska Oil and Gas Conservation Commission.

    - <u>Colville River Allocation Review:</u> In FY06, the division conducted the Third Revision of the Alpine PA and

Five-Year Alpine Reserves Revision. The division also approved two PAs and two more are expected to be approved in the second quarter of FY07. In conjunction with the new participating areas, division staff negotiated the CRU Gas Management Agreement which allows for the royalty-free movement of gas among all the participating areas in the unit for the benefit of enhanced oil recovery, pressure maintenance, and unified operations. All gas produced in the CRU will benefit oil production unit wide no matter where the gas comes from. The division expects additional PA activity in the CRU in the coming years as ConocoPhillips brings additional satellite pools online.

- Colville River Unit satellite developments: ConocoPhillips recently applied for five participating areas in the Colville River Unit, the Fiord Nechelik and Fiord Kuparuk PAs, a roadless development north of CD1, the Nanuq and Nanuq Kuparuk PAs south of CD2 and the Qannik participating area in the western part of the CRU.

- Ninilchik Unit Tract Allocation: In FY06, the division redefined the Falls Creek participating area, and reviewed production allocation for the new Paxton participating area.

Resource Assessments: Progress in the gas pipeline, gas hydrates research, and possibly ANWR leasing will support ongoing investigations by resource evaluation staff during FY07. Given the amount of federal money made available for study of gas hydrate potential, resource evaluation staff will likely contribute to those studies. Resource assessments are also key decision elements when evaluating exploration licenses, land selections, and surface access routes. Joint DO&G and DGGS geological field programs provide regional geological surface mapping along with detailed geological outcrop studies that are integrated with subsurface geological and geophysical data. During the summer of 2006 (FY06-07) joint DO&G/DGGS geological field programs included:

- Nanushuk Formation Stratigraphic Studies: Detailed measured sections, northern Foothills state lands and southern NPRA, worked from spike camps on Colville River and Ivotuk airstrip. Two weeks, June 2006.
- North Slope Energy Program Kavik-area STATEMAP: Geologic mapping, stratigraphic-tectonic studies, and Industry Sponsors Tour on state lands adjacent to ANWR. One week DO&G participation in three-and-a-half week program, July 2006.
- Alaska Peninsula Field Program: Geologic mapping, structural, and stratigraphic studies focusing on Port Moller-Herendeen Bay area. Two weeks, August 2006.
- Cook Inlet Field Program: Initiated multi-year basin analysis of Cook Inlet basin with stratigraphic studies of tertiary reservoir formations, Kachemak Bay, and lower Kenai Peninsula region. One week, September 2006.

During the summer of 2007 (FY07-08): Additional North Slope and Cook Inlet geological field parties are tentatively planned:

- North Slope Energy Program: Geologic mapping and topical studies in the northern Foothills near Dalton Highway and possibly in the southern Foothills near Siksikpuk River. Possible multi-borehole Foothills shallow coring drilling program to resolve subsurface structural relationships in disturbed belt and/or stratigraphic relationships in Kavik area. Estimating 2-5 weeks DO&G participation, depending on the scope and personnel involvement.
- Cook Inlet Field Program: Continuation of project initiated in 2006, expanding to west-side Cook Inlet and/or Matanuska Valley areas. Estimating 2-3 weeks DO&G participation, depending on scope and personnel involvement.

There is also a possibility of a joint DO&G/DGGS Alaska Peninsula studies project that could possibly include the following studies:

- Field studies to characterize hydrocarbon source rock and speculative reservoir potential of Triassic Kamishak, Jurassic Kialagvik formation and equivalent Tuxedni Group strata; relevant to both Bristol Bay and Cook Inlet basin analysis. Estimating 1-2 weeks DO&G participation if program executed next summer.
- Commission an engineering study to evaluate feasibility and cost of re-entering and re-evaluating the Becharof State 1 well for potential local gas supply to eastern Bristol Bay communities (suggested to BBNC).

    - Evaluate cost and benefits of acquiring publicly-available high-resolution aeromagnetic data in southwestern Alaska Peninsula/Bristol Bay, where no aeromagnetic coverage currently exists, as a means of encouraging industry exploration in region.

- The resource evaluation section also provides the technical assistance needed to support leasing and unit applications and decisions after issuance of leases. The resource evaluation group is responsible for determining the accuracy of the geology, geophysics, and engineering data and derivative products (maps, cross sections, and reservoir calculations) that are used to determine the accuracy of the unit operator's tract allocations within a participating area before it goes into production.

    - Various incentive programs offered by the state have encouraged several independents to invest in exploration and development opportunities across Alaska during FY05 and FY06. These operators, unlike the long-established majors, tend to explore and develop their lease holdings quickly in order to generate immediate cash flow. The workload on the resource evaluation section is expected to increase as the number of geological and reservoir assessments of unit and participating area applications increase with exploration and the development of new fields.

    - While it remains to be seen if high oil prices continue through FY07 and if exploration drilling increases as a result, accelerated development drilling is expected to continue. The now common use of technology such as multilateral horizontal completions generates much larger quantities of technical data than did the conventional drilling practices of the past. Compilation and interpretation of these data will increase the work load of resource evaluation staff when reviewing unit and participating area applications and when determining tract allocations.

    - As the primary term of many leases approach expiration, it has become common practice for lessees to attempt to secure lease term extensions through various last-minute means such as applying for unitization or alteration of unit boundaries. In an attempt to encourage petroleum exploration and development, the division sometimes approves such activities, but conditions approvals with performance commitments designed to ensure no loss of state revenue. Each of these unexpected proposals must be evaluated by resource evaluation staff within a very short time and, with other division staff, performance commitments developed.

  - Royalty Reduction: In FY06-07 a team of division staff completed the analysis and negotiations that led to an award of a royalty modification in the Oooguruk Unit. In the first quarter of FY07, the team provided the analysis and recommended the denial of a royalty modification for the Nikaitchuq Unit. As of this writing, a preliminary finding of the commissioner's decision has been published to be followed by a final finding and determination. This underscores the importance of a thorough and credible evaluation of such applications to avoid the state granting royalty incentives where they are not needed – in violation of AS 38.05.180 (j) – and the need that the state must tailor royalty modification approvals to the specific economic characteristics of each application.

C. Maximize Non-tax Revenue from State Oil and Gas Production

- The Royalty Accounting Section continues to accurately invoice royalty payments to the state. During FY06**,** the Royalty Accounting Section accurately invoiced $1,304.6 million to the state royalty-in-kind oil purchaser and processed and analyzed an additional $1,090.0 million in oil and gas royalty-in-value, net-profit share lease, federal payments, rents, bonuses, and other fees for a total $2,394.6 million.

- Oil and Gas Leasing and Accounting Systems Integration. The Division of Oil and Gas entered a professional services contract in June 2004, resulting in an overall division-wide database model. This model integrates the data, application, and reporting processes for oil and gas Lease Sales and Administration, Units Administration, Royalty Accounting, Permitting, Best Interest Findings, and Well Data. Applications to perform business processes were begun in the spring of 2005, including: Lease Sales, Lease Administration, Units Administration, Royalty Accounting, and Permitting and Best Interest Findings. These applications are being developed in parallel to one another to ensure the tightest integration possible. Since all of these processes have been manual, except for Royalty Accounting, development is slower to allow for detailed evaluation of each process and its integration with associated business processes. The end result will be automation of lease assignments to increase the accuracy and information detail and decrease the processing time. Lease assignment information will be available to each lessee, through a secure online logon unique to each lessee or client. Unit applications and Permitting will also use secure online log-on processes to gather unit and permit applications, both of which are establishing standardized formats and content tailored to individual lessee needs. This should eliminate paper processing for these activities over the next two to three years. Automated Royalty Reporting processes are also being upgraded to provide real-time reporting and error notification to lessees. This will enable lessees to file and make corrections of misfiled reports prior to end-of-the month filing deadlines, thus speeding up royalty reporting processing, reducing errors, and promoting increased reporting and payment accuracy. During FY06 and the first half of FY07, computer software applications for Lease Sales, Lease Administration, Units Administration, Customer Information, Royalty Reporting and Royalty-In-Kind Billing have been deployed to the staging environment. Data for these applications has also been converted in its entirety for all but Lease Administration. These applications are now being tested prior to deployment to full production use by the division. Permits, Applications, Well Data, and Royalty-In-Value business processes have been completed to varying degrees, and will be deployed to staging for testing during the first half of FY07.

- The Division of Oil and Gas Document Management System: Division IT staff reviewed potential document management system software and consulting services and purchased hardware for use in the setup of two document capture stations within the division during FY06. During this time the state adopted standards for such systems and a consultant was selected. Consultant services were contracted in September of FY07 to conduct document handling requirements for all business areas of the division. Initial setup of software and hardware are expected to be completed during the first half of FY07 along with an overall document management model based on statewide document retention standards and the division's own needs for document support. This system will be fully integrated with the division's DOGMA database and applications system. Following initial setup, an overall priority and strategy will be implemented to capture on a daily basis those documents identified as critical to the division's normal business practices. In addition, work will begin in the second half of FY07 to capture historical documents based on the priorities and plan approved by division managers.

- The division has a three-year contract with the U.S. Minerals Management Service to perform audits of federal oil and gas leases in Alaska. The audit section has one auditor who is exclusively engaged in audits of federal leases in Cook Inlet and another auditor who is extensively engaged in federal audits. The state receives 50-90 percent of the audit recoveries obtained by the division's federal auditors, depending on where the federal lease is located. Additional Cook Inlet audits are planned for FY07.

- The audit section was extensively engaged in an audit of Exxon's marine transportation costs during FY06, and continued to devote substantial effort to the Exxon royalty reopener through September 2006. An arbitration hearing concerning the company's marine transportation costs was scheduled to occur in September 2006, which involved a major role for the audit section in both prehearing preparation and discovery. The audit section also supports the division's royalty reopeners with other major North Slope producers, particularly with respect to analysis of marine transportation costs, which along with pipeline tariffs are the major deductions to arrive at the state's royalty value. A new auditor position was authorized by the Legislature for FY07. The audit section recovered approximately $1.4 million in audit claims during FY06.

- Royalty reopeners and the value of North Slope royalty oil: In the early 1990s, the major North Slope oil producers and the state entered into royalty settlement agreements that tied each producer's royalty obligation to publicly available market indicators of value and provided for deductions for marine transportation, pipeline tariffs, and other adjustments. The settlements with BP and ARCO (now ConocoPhillips) have been occasionally amended to change the formulas used to calculate the lessees' royalty payments. In late FY01, the division compared the amounts being paid under these formulae to market value as measured by ANS sales contracts and actual receipts and found the formulas wanting. Consequently, the division "reopened" the royalty settlement agreements with BP, ExxonMobil, and ConocoPhillips to renegotiate a valuation methodology that better reflects the market value of ANS. The conclusion of the BP and ConocoPhillips reopeners in FY03 resulted in payment of an additional $11 million by BP and ConocoPhillips in retroactive adjustments. Additionally, the position of the state in the future has been improved by new prospective methods incorporated in the royalty settlement agreements.

- The state's longstanding reopener dispute with ExxonMobil was successfully concluded in September 2006. As a consequence of the settlement ExxonMobil will pay the state approximately $23.2 million in retroactive royalty value adjustments (January 2001-July 2006). ExxonMobil has until March 15, 2007, to re-file royalty returns and make full payment. The settlement also amends ExxonMobil's royalty settlement agreement to set out prospectively the value of ANS royalty oil. Resolution of this dispute will also generate retroactive adjustments to the price of RIK oil purchased under the provisions in two contracts between the state and Williams Alaska Petroleum Inc. The division estimates that Williams' rebilling may exceed $15 million in additional FY08 royalty revenue.

- The successful negotiation of reopeners with BP, ConocoPhillips and ExxonMobil illustrates how the state has benefited dramatically from proactive management of its royalty revenues. While the division has always expressed a willingness to conclude these reopeners through amicable negotiation, it has also demonstrated that it is willing to exercise all of the state's rights under the royalty settlement agreements to press for the state's fair share.

- Royalty-in-kind sales: The division continues to supply royalty-in-kind (RIK) oil to the Alaska refining industry. The percentage of RIK to total royalty has increased over the past three fiscal years. In FY03, the division sold 38.3 percent of ANS royalty oil in-kind. In FY04 that percentage increased to 46.6 percent, in FY05 the percentage was 51.8 percent, and in FY06 the percentage increased to 59.9 percent. The Flint Hills Resources (FHR) contract incorporates innovative terms and should yield a substantial price premium to the state over what the state would have received for its royalty in-value oil. The commercial section is also tasked with monitoring the other terms of the FHR contract, including the promise by FHR to sell wholesale gasoline in Anchorage and Fairbanks at the same posted price. Division staff continues to evaluate future RIK oil and gas sales and provide advice and recommendations to the commissioner on potential sale terms. Stranded Gas Development Act negotiations with various parties all have royalty-in-kind features that have been analyzed by division staff.

- Alaska North Slope Gas Pipeline: The division staff continues to devote a significant amount of time to research and analyze ANS gas projects. For example, the division devoted at least 10,000 staff hours to gas pipeline projects in FY05. Staff have developed in-house expertise in the marketing and valuation of gas and gas liquids in the United States and Canada, transportation economics, and rate-making. The division continues to contract and provide contract management for major studies in gas price forecasting, royalty valuation, and commercial financing.

The division provided technical support to DNR management, the Governor, the Gas Cabinet, the Congressional Delegation, and contributed to the Stranded Gas Working Group to formulate the state's position in developing a stranded gas contract with the producers and other potential pipeline owners.

Significant Changes in Results to be Delivered in FY2008

A. Encourage Exploration and Development:

1) Due to competitive areawide leasing and the addition of the exploration license program, it currently takes the division many months after the sale to conduct title reviews and award leases. The division's goal is to again be able to award leases nine months following a lease sale, as the limited capacity within the title shop within DML&W is resolved.

2) Develop and maintain staff of professionals that meet or exceed the best in the oil industry. The division has been very fortunate to be able to add a set of critical skills to the technical staff; skills and knowledge that will allow much more comprehensive and detailed assessments of the petroleum potential of sedimentary basins across the state and improved dissemination of those assessments through scientific publications. The addition of three geologists, all with substantial and recent industry experience, will provide the division with recognized expertise in the specialties of sedimentology, clastic depositional systems, fluvial sedimentology, petrography, structural, reservoir, and subsurface geology. All three also have significant project and program management experience. The division's geophysical staff now numbers three following employment of a geophysicist proficient in seismic data processing and interpretation, including analyses of 3-D attribute processing. Most of the petroleum geologists and geophysics on staff have more than 20 years of industry experience and are highly respected for their technical expertise. Retention of staff remains an issue.

3) Although limited in number, the division now has a scientific asset team that equals any and is superior to most of those found in the private sector. On the commercial side, the division has filled its vacant petroleum investment manager position with a highly experienced gas marketer. Demand for these professionals in the

private sector and the corresponding high private sector salary is troublesome. Turnover in these positions may result in reduced delivery of services of FY08 and beyond.

4) The division continues to manage costs by limiting the amount of travel to the North Slope for public hearings, conducting hearings via teleconference, relying only on the division's Web site to disseminate information, and eliminating the printing of excess copies of the Five-Year Oil and Gas Leasing Program. However, significantly increased travel will be required as part of the system integrity initiative. Increased travel is also required to inspect seismic and drilling activities in the Copper River and Nenana areas.

5) Oil and gas data and general information are being made available to the public and other agencies on the division's Web site. Fewer printed publications are available over the counter.

B. Maximize Benefits of Development and Production to the State:

1) The system integrity initiative will add significantly to the division’s budget needs in FY2007 and 2008. In addition to adding engineering and other technical expertise, the division will need to add inspectors and shift workload among existing positions. In addition, the effort will add contractual and travel costs to the division’s budget.

2) Oil and gas activities in the populated Mat-Su and Kenai areas have increased the public attention on our permitting and inspection program. The division’s goal is to be more proactive in conducting inspections of surface activities on the Kenai Peninsula and in the Mat-Su Valley, and actively conduct a public outreach program.

3) The division continues to work with lessees to commercialize undeveloped oil and gas on the North Slope.

C. Maximize Non-tax Revenue from State Oil and Gas Production

1) Royalty valuation reopeners, audit of leases not covered by royalty settlements, pipeline tariff evaluation, analysis of North Slope gas fiscal systems, long term Cook Inlet gas supply and deliverability forecasts, and RIK oil and gas sales will require additional time of technical and commercial staff as well as support staff.

2) Professional and support staff will participate in more royalty and net profit share audits, evaluate Cook Inlet and North Slope oil and gas royalty reduction requests and rulings, analyze Cook Inlet gas valuation proposals and options for storage of Cook Inlet gas.

3) Assuming that a North Slope gas contract is approved under the Stranded Gas Development Act or other authorization; considerable effort will be required from division staff to draft the detailed accounting, audit, measurement, LLC and commercial structure agreements that will be annexes to the contract or separate stand alone agreements. The division must maintain the technical and commercial staff required to draft these critical agreements and then be prepared to implement them as a project moves forward.

Major Component Accomplishments in 2006

A. Encourage Exploration and Development:

1) In cooperation with the Division of Geological and Geophysical Surveys, conducted four field parties during the summer of 2006 (FY06-07) including 1) a detailed study of Nanushuk outcrops in the northern foothills state lands and southern NPR-A; 2) North Slope Energy Field Program in the Kavik area on state lands adjacent to ANWR including surface geologic mapping, stratigraphic-tectonic studies, and industry sponsor tour; 3) Alaska Peninsula Field Program including surface geological mapping and structural and stratigraphic studies focused in the Port Moller-Herendeen Bay area; and 4) the initial reconnaissance for a multiple-year Cook Inlet basin analysis field program focusing on the structure and stratigraphy of the Tertiary reservoir section, primarily the Sterling, Beluga, Tyonek, and Hemlock reservoirs in the Katchemak Bay and lower Kenai Peninsula region.

2) Collaborated with the Division of Geological and Geophysical Surveys to continue the resource assessment field program in the North Slope Foothills lease sale area and arranged for continued support and participation by interested oil and gas companies.

3) Recruited and employed additional geological, geophysical, reservoir engineering, commercial, and technical support staff competent in disciplines such as sedimentology, clastic depositional systems, fluvial sedimentology, petrography, structural, reservoir and subsurface geology; seismic processing and interpretation; petroleum reservoir engineering; and GIS to supplement existing staff and to provide essential research capability necessary to support the division's expanding role as a source of technical information. Most of the petroleum geology and geophysics on staff have more than 20 years of industry experience.

4) Five lease sales held, resulting in 1,640,733.94 gross acres being leased and the state receiving $38.7 million in apparent bonus bids; 360 leases sold; 402 total bids; and 41 different bidders.

5) Issued 162 oil and gas leases.

6) Worked extensively with affected landowners who own property overlying state oil and gas leases proposed for exploration and/or development.

7) Provided technical support to the Legislature and the Alaska Congressional Delegation on a variety of oil and gas issues including advances in Arctic technology and practices, gas hydrates, and oil and gas incentives.

8) Partially funded and participated in geological field programs investigating the hydrocarbon potential of the NPRA and North Slope Foothills in support of lease sales and the North Slope gas pipeline supply studies. Planning for similar fieldwork has been undertaken to support the Alaska Peninsula/Bristol Bay Basin sale resource assessment.

9) Continued expansion of the content of the division's Web site in order to support oil and gas programs. A major addition to content during the past year is the suite of unit maps with supporting lease information. Major Web-interfaced informational data packages now being undertaken include Alaska Peninsula/Bristol Bay basin, Mat-Su Valley, and Kenai Peninsula "atlases" to support conventional and nonconventional gas leasing programs in those areas. The Web site has proven to be a successful means of distributing notices, decisions, and general oil and gas information to industry and the public, and the demand for additional public information continues to grow.

10) Worked closely with new Cook Inlet and North Slope explorers, including Aurora, Storm Cat, Escopeta Oil Inc., Pioneer Natural Resources, AVCG, Brooks Range Petroleum, Kerr-McGee, and ENI to facilitate their exploration activities.

11) Initiated study of the Prudhoe Bay reservoir and economic impacts associated with gas "blowdown" to establish optimal gas offtake rate for possible gas pipeline open season – developed scope of work for consultant and issued RFP.

12) Provided review and draft approvals of metering changes related to transit line bypass repairs and production rerouting at Prudhoe Bay necessitated by shut-in transit lines.

13) Negotiated the CRU Gas Management Agreement which allows for the royalty-free movement of gas within all participating areas in the unit.

14) Negotiated development agreements and unit reconfiguration at Ooguruk and Nikaitchuq offshore projects with final approvals by end of the second quarter FY07 and oil flowing in FY07 and FY08 respectively.

15) Effectively managed the increase in unit activity in both Cook Inlet and on the North Slope and Beaufort Sea, and responded quickly to customer information and other educational needs.

16) Negotiated and issued leases authorizing two gas storage facilities in Cook Inlet to promote increased gas deliverability and enhance energy security and reliability.

17) Published the division statistical oil and gas report that includes gas and oil production, 20-year forecasts, and estimates of remaining reserves for Cook Inlet and North Slope.

18) Preparation and dissemination of an information package and facilitation of a conference hosted by the Governor providing independent operators comprehensive information and guidelines regarding exploration, development and production activities in Alaska. Contributed to the study that resulted in a longer tundra opening on the North Slope, thereby extending the exploration season in that region.

19) With help of consultants, prepared a facility-sharing study as a primer for North Slope explorers. Follow-up on this first study continues.

B. Maximize Benefits of Development and Production to the State:

1) Managed 38 active units and 59 participating areas (PAs) within those units. Management of the units and PAs included negotiation of new unit agreements; negotiation of expansions and contractions to units and PAs; tract allocation and equity determinations; negotiation and monitoring of facility-sharing and production commingling agreements for the new PAs; review of plans of exploration, development, and tract operations for units and PAs; DNR representation before various state and federal agencies; and response to inquiries from the Legislature, oil and gas industry, and public. Unit and PA activity levels have increased due to the development of satellite pools, optimism that a gas pipeline will be constructed across the North Slope foothills, increased need for new gas supplies in Cook Inlet, high oil and gas prices, and development or exploration of prospects and pools having multiple royalty owners other than the State of Alaska.

2) Conducted geological reviews of nearly all unit and participating area management functions accomplished by the division's unit administration section. Many of these functions required determination or verification of tract allocations for equitable revenue distribution to the state and other stakeholders.

3) Continued "partnering" with the federal Minerals Management Service in management and oversight of jointly-owned lands in the Northstar and Cosmopolitan Units. The division also "partnered" with the federal Bureau of Land Management on issues regarding management of several jointly-owned fields in the Cook Inlet/Kenai Peninsula region. In similar fashion, the division worked in close partnership with the Arctic Slope Regional Corp. to ensure continued development of the Alpine field and NPRA acreage and with the CIRI at Deep Creek, Three Mile Creek, and Ninilchik Units.

4) With ASRC, ConocoPhillips Alaska, and Anadarko Petroleum, established new tract allocations for the North Slope's Alpine field to adjust revenue distribution for the results of new in-field drilling and actual well production rates.

5) Participated in interdisciplinary meetings of state resource agencies (AOGCC, OPMP, OHMP, ML&W, DEC, and F&G) addressing issues such as well control and the critical issues of early North Slope tundra travel and the abbreviated winter drilling seasons.

6) Processed 1,185 oil and gas lease assignments.

7) Initiated the permitting process for North Slope offshore oil development projects at the Oooguruk and Nikaitchuk units.

8) Initiated analysis of royalty reduction applications submitted by lessees of the Oooguruk and Nikaitchuk units-technical data, subsurface information, economic information, production forecasts and cost projections.

9) Participated with the federal Bureau of Land Management and the federal Minerals Management Service in a promotional trip to Calgary, Alberta to advise Canadian oil and gas companies of Alaska opportunities, regulatory framework, and operational environment.

C. Maximize Non-tax Revenue from State Oil and Gas Production

1) In FY06, petroleum revenue collected by the Departments of Natural Resources and Revenue accounted for approximately 89 percent of general fund unrestricted revenue. Total royalty, settlement, rental, federal share, and bonus revenue collected by DNR was approximately $2,394.6 million. Distribution was as follows: $1,783.9 million General Fund; $598.7 million Permanent Fund; and $12.0 million School Fund. Revenue increased 25.7 percent from FY05 to FY06, largely due to the increased price of oil.

2) In FY06, the division received payments for audit claims relating to Cook Inlet oil and gas producers.

3) Completed the long-disputed royalty settlement agreement reopener arbitration with ExxonMobil.

4) Provided commercial, technical, and policy support to the Governor's gas pipeline team and the Legislature's gas pipeline committee.

5) Participated in numerous negotiating sessions and discussion groups with the gas line sponsor group and interested pipeline companies and other project proponents in connection with applications and expressions of interest submitted under the Stranded Gas Development Act (SGDA).

6) Participated with staff from Departments of Law and Revenue to hire consultants to formulate state position papers and formulate/analyze options available to the state with respect to ongoing negotiations under the SGDA.

7) Supervised several consultants hired by the state to formulate options for SGDA negotiations, prepare offers to project proponents, and analyze and model proposals submitted under the SGDA.

8) Built a complex, robust economic model to analyze multiple gas sale and pipeline options, and fiscal systems jointly with staff from Department of Revenue.

9) Worked independently on audit planning, performance, and resolution of audit claims under the Legislature's transfer from the Department of Revenue to the Department of Natural Resources of the authority to conduct audits of revenues from royalty and net profit shares from state oil and gas leases and costs associated with exploration incentive credits granted under AS 38 and AS 41. This transfer of audit responsibilities has produced greater government efficiency with respect to royalty and net profit share issues.

10) Continued to monitor progress and compliance by FHR under its royalty-in-kind oil contract.

Statutory and Regulatory Authority

AS 31.05.035
AS 38.05.020
AS 38.05.035
AS 38.05.130
AS.38.05.131-134
AS 38.05.135
AS 38.05.137
AS 38.05.145
AS 38.05.177
AS 38.05.180
AS 38.05.181
AS 38.05.182
AS 38.05.183
AS 38.06
AS 41.06
AS 41.09
AS 46.40
11 AAC 02
11 AAC 03
11 AAC 04
11 AAC 05
11 AAC 82
11 AAC 83
11 AAC 89
11 AAC 96.210 - 96.240
11 AAC 110
11 AAC 112

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Oil & Gas Development
Component Financial Summary

All dollars shown in thousands

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	8,079.8	10,377.2	12,101.3
72000 Travel	259.8	240.8	273.0
73000 Services	1,134.6	2,241.6	909.7
74000 Commodities	325.0	702.6	335.0
75000 Capital Outlay	101.7	56.5	46.9
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	**9,900.9**	**13,618.7**	**13,665.9**
Funding Sources:			
1002 Federal Receipts	143.3	188.2	214.1
1004 General Fund Receipts	6,619.3	8,565.2	9,124.6
1005 General Fund/Program Receipts	56.8	60.2	68.0
1007 Inter-Agency Receipts	5.4	0.0	0.0
1053 Investment Loss Trust Fund	0.0	858.7	0.0
1061 Capital Improvement Project Receipts	20.0	17.2	17.2
1105 Alaska Permanent Fund Corporation Receipts	2,930.9	3,067.5	3,380.2
1108 Statutory Designated Program Receipts	0.0	150.0	150.0
1153 State Land Disposal Income Fund	125.2	711.7	711.8
Funding Totals	**9,900.9**	**13,618.7**	**13,665.9**

Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Unrestricted Revenues				
General Fund Program Receipts	51060	156.3	145.0	160.0
Unrestricted Fund	68515	2,394,570.1	2,003,864.6	1,867,651.0
Unrestricted Total		**2,394,726.4**	**2,004,009.6**	**1,867,811.0**
Restricted Revenues				
Federal Receipts	51010	143.3	188.2	214.1
Interagency Receipts	51015	5.4	0.0	0.0
General Fund Program Receipts	51060	56.8	60.2	68.0
Statutory Designated Program Receipts	51063	0.0	150.0	150.0
Capital Improvement Project Receipts	51200	20.0	17.2	17.2
Permanent Fund Earnings Reserve Account	51373	2,930.9	3,067.5	3,380.2

Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
Investment Loss Trust Fund	51393	0.0	858.7	0.0
State Land Disposal Income Fund	51434	125.2	711.7	711.8
Restricted Total		**3,281.6**	**5,053.5**	**4,541.3**
Total Estimated Revenues		**2,398,008.0**	**2,009,063.1**	**1,872,352.3**

Summary of Component Budget Changes
From FY2007 Management Plan to FY2008 Governor

All dollars shown in thousands

	General Funds	Federal Funds	Other Funds	Total Funds
FY2007 Management Plan	**8,625.4**	**188.2**	**4,805.1**	**13,618.7**
Adjustments which will continue current level of service:				
-Delete Legislative One-time funding for Workload	0.0	0.0	-858.7	-858.7
-Delete O&G Gasline Increased Workload Multi-year approp Sec7(d)(2), CH6, SLA2005, P11 L10 lapse date 06/30/07	-1,551.9	0.0	0.0	-1,551.9
-Delete O&G Gasline Increased Workload Multi-year approp Sec20(d)(2), CH3, FSSLA2005, P107, L11 lapse 06/30/07	-321.7	0.0	0.0	-321.7
-Fund Source Adjustment for Exempt Employees Health Insurance Increases	0.7	0.0	-0.7	0.0
-FY 08 Health Insurance Increases for Exempt Employees	3.9	0.0	2.0	5.9
-Fund Source Adjustment for Retirement Systems Increases	155.3	0.0	-155.3	0.0
Proposed budget increases:				
-Replace One-time Funding for Oil and Gas Workload	1,318.1	0.0	0.0	1,318.1
-FY 08 Retirement Systems Rate Increases	962.8	25.9	466.8	1,455.5
FY2008 Governor	**9,192.6**	**214.1**	**4,259.2**	**13,665.9**

Oil & Gas Development
Personal Services Information

Authorized Positions			Personal Services Costs	
	FY2007 Management Plan	**FY2008 Governor**	Annual Salaries	7,177,930
Full-time	93	93	Premium Pay	5,079
Part-time	0	0	Annual Benefits	5,066,069
Nonpermanent	3	3	*Less 1.21% Vacancy Factor*	(147,778)
			Lump Sum Premium Pay	0
Totals	**96**	**96**	**Total Personal Services**	**12,101,300**

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant III	1	0	0	0	1
Accountant IV	3	0	0	0	3
Accounting Clerk II	1	0	0	0	1
Accounting Tech I	1	0	0	0	1
Accounting Tech II	3	0	0	0	3
Accounting Tech III	1	0	0	0	1
Administrative Assistant	1	0	0	0	1
Administrative Clerk II	3	0	0	0	3
Administrative Manager II	1	0	0	0	1
Analyst/Programmer III	1	0	0	0	1
Analyst/Programmer IV	4	0	0	0	4
Cartographer II	3	0	0	0	3
Cartographer IV	1	0	0	0	1
Chief Petroleum Geologist	1	0	0	0	1
Commercial Analyst	8	0	0	0	8
Deputy Director	1	0	0	0	1
Division Director	1	0	0	0	1
Geologist II	1	0	0	0	1
Geologist III	1	0	0	0	1
Micro/Network Tech II	1	0	0	0	1
Natural Resource Mgr I	1	0	0	0	1
Natural Resource Mgr II	1	0	0	0	1
Natural Resource Spec I	2	0	0	0	2
Natural Resource Spec II	3	0	0	0	3
Natural Resource Spec III	4	0	0	0	4
Natural Resource Spec IV	3	0	0	0	3
Natural Resource Spec V	2	0	0	0	2
Natural Resource Tech I	1	0	0	0	1
Natural Resource Tech II	5	0	0	0	5
Natural Resource Tech III	1	0	0	0	1
Oil & Gas Revenue Auditor II	1	0	0	0	1
Oil & Gas Revenue Auditor III	3	0	0	0	3
Oil & Gas Revenue Auditor IV	2	0	0	0	2
Oil & Gas Revenue Specialist	1	0	0	0	1
Operations Res Anl I	1	0	0	0	1
Petroleum Economist I	1	0	0	0	1
Petroleum Geologist I	6	1	0	0	7
Petroleum Geologist II	2	1	0	0	3
Petroleum Geophysicist I	1	0	0	0	1

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Petroleum Investments Manager	1	0	0	0	1
Petroleum Land Manager	4	0	0	0	4
Petroleum Manager	1	0	0	0	1
Petroleum Market Analyst	1	0	0	0	1
Petroleum Reservoir Engineer	3	0	0	0	3
Publications Spec III	1	0	0	0	1
Secretary	1	0	0	0	1
Student Intern I	3	0	0	0	3
Totals	**94**	**2**	**0**	**0**	**96**