



THE STATE  
of **ALASKA**

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March 29, 2013

The Honorable Bill Stoltze, Co-Chair  
The Honorable Alan Austerman, Co-Chair  
House Finance Committee  
State Capitol Room 505  
Juneau, AK 99801

Dear Representatives Stoltze and Austerman:

I wanted to thank you for inviting the Department of Natural Resources to testify before the House Finance Committee on March 26, 2013 on HB129, Oil and Gas Exploration/Development Areas. This correspondence allows me to reiterate a few of the points from the testimony and to answer your question about how geographical areas would be determined. I understand the bill will be before the committee next Monday, and we will be available to answer other questions.

The Division of Oil and Gas manages its oil and gas leasing program through areawide lease sales conducted each year. The decision to lease is made in a "Best Interest Finding" issued after an extensive public process and evaluation of criteria under AS 38.05.035(g).

HB129 will simply allow "geographical areas" to be reviewed holistically through a public process prior to beginning an exploration or development phase of an oil and gas project. HB129 also specifies that the Division will conduct public notice under AS 38.05.945(b) and (c).

Reviewing exploration or development activities across geographical areas is a discretionary tool that will add efficiency to the process for approving subsequent plans of operations. The process outlined in this bill is optional, not mandatory, pursuant to the bill language. Further, the process outlined in the bill does not change the existing regulatory obligation for the Division to approve lease or unit specific operations for individual projects. After an area has been approved for exploration or development, it provides certainty to the public and industry that future activities will be conducted within those approved parameters.

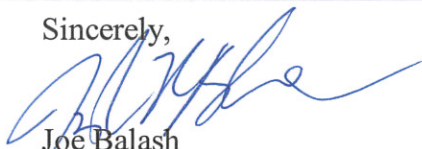
The bill language contemplates that an area of approval (or "geographical area" as referenced in the bill title) could include all or part of an oil and gas lease sale area previously approved for leasing under AS 38.05.035(e). Geographical areas will be defined based on the amount of oil and gas development in a given area and anticipated exploration and development activity. The reason that geographical areas are not further defined in this bill is to maintain flexibility as circumstances change. Whether to assess exploration for an area as broad as an areawide lease sale area, or a

narrower subset of a lease sale area, will largely depend on the degree of existing oil and gas development in the area as well as residential settlement. Because levels of oil and gas development will change over time, it is important to maintain flexibility to adjust geographical areas when considering exploration or development.

When preparing a public notice for evaluating exploration in a geographical area, the Division would define the areal extent, describe the types of exploration activities, and propose special conditions and parameters for exploration activities within the defined area. The public would have an opportunity to evaluate exploration activities, as well as the size of the overall area under consideration. For development, the geographical area will likely be much smaller, such as an oil and gas unit. But to limit the development areas to only oil and gas units would limit our ability to consider joint development across multiple leases that have not been unitized, or to combine developed areas of existing units into one development phase approval. If HB129 passes, we will adopt regulations to implement this statute. The public will have an opportunity to provide input during the regulation adoption process.

I want to thank the Committee members for their time and look forward to responding to specific questions that the Committee may have during its evaluation of HB129. Please let me know if you require more information, we are happy to provide it.

Sincerely,



Joe Balash  
Deputy Commissioner

Cc: Daniel Sullivan, Commissioner Department of Natural Resources  
Bill Barron, Director, Division of Oil and Gas, Department of Natural Resources  
Representative Neuman, Vice Chair  
Representative Costello  
Representative Edgmon  
Representative Holmes  
Representative Munoz  
Representative Thompson  
Representative T. Wilson  
Representative Gara  
Representative Guttenberg  
Representative Kawasaki, Alternate  
Representative Hawker, Alternate