

Thanks for the opportunity to present House Bill 82 to the committee on April 6, 2021.

We would like to emphasize that this bill is only concerned with leasing the mineral estate *below* the sea floor of Kachemak Bay so that the State will have a stronger position for collecting royalties if gas under that acreage is drained. If this bill is not passed, that acreage can still be drained from adjacent leases that are already issued with permitted projects. Section 3 of the bill explicitly denies surface access offshore consistent with the current protections already in place for the fisheries of Kachemak Bay.

Surface Impacts

Will this bill increase the potential for leaks?

No. Well engineering is highly regulated by the Alaska Oil & Gas Conservation Commission (AOGCC) to ensure wells are safe and will not contaminate surface waters or drinking water aquifers. Furthermore, leases granted under this legislation explicitly do not allow any surface usage, so there would be no possibility of pipelines, drilling rigs, platforms, or any other sort of impact to the waters of Kachemak Bay, the sea floor, or the fisheries.

Mitigation measures

The [2018 Cook Inlet Best Interest Finding](#) is an excellent resource for addressing many of the questions that came up in committee. Before the Division of Oil and Gas leases or licenses state land, Alaska statutes require the Director make a written finding of whether the lease or license is or is not in the state's best interest. The written finding, called the Best Interest Finding, is updated every ten years for the areawide lease sales with calls for new information and public comment periods occurring each year. The process of developing a best interest finding includes opportunities for input from a broad range of participants, including: the public; state, federal, and local government agencies; Alaska Native organizations; resource user groups; non-government organizations (NGOs); and any other interested parties. Some topics that arose during our presentation include:

- LDA and Critical Habitat Areas currently within the Cook Inlet Sale Area: Page 4-4
- Fish and Wildlife uses and value: Page 5-2
- Spill prevention, detection, and response: Page 6-21
- Governmental powers to regulate oil and gas, Alaska Oil and Gas Conservation Commission: Page 7-8
- Reasonably foreseeable effects of leasing and subsequent activity: Chapter 8
- Mitigation measures: Chapter 9

In 2019, the Cook Inlet Sale Area was augmented to include state uplands and tide and submerged lands of the Iniskin Peninsula. A similar public process would be required before including any other additional state lands in the Cook Inlet areawide boundary: [Decision of New Substantial Information and Supplement 2020 Cook Inlet Areawide Lease Sale \(12/17/2019\)](#) and [Cook Inlet Areawide Oil and Gas Lease Sale Supplemental Finding of the Director \(12/17/2019\)](#).

Mitigation measures are also addressed in the approval of surface use permits in detail. For example, in the approval document for the [Seaview Exploration, Lease Plan of Operations Decision, Exploration Phase](#), there are explanations for what is to be done with drilling waste, which includes drilling mud. There is also a list of the other agencies that the operator must seek permits from for specific activities.

Public notice

The Division engages the public for comment on applications as required in our governing statutes and regulations. For example, the following public notices related to development in the Anchor Point area were published in the last few years:

- Seaview Project
 - [Seaview 2018 Exploration and Evaluation Program](#) (June 26, 2018 through July 25, 2018)

- [Lease Plan of Operations Development Phase](#) (April 27, 2020 through May 27, 2020)
- [Unit Formation Application](#) (September 1, 2020 through October 5, 2020)
- Whiskey Gulch Project
 - [Lease Plan of Operations Exploration Phase](#) (February 2, 2021 through March 4, 2021)

Other divisions and State agencies also typically engage the public through publication of notices.

Fracking and waste disposal

Hydraulic fracturing, commonly called “fracking,” is neither uncommon nor especially dangerous. Well permitting is heavily regulated, as is the process of fracking and disposal of drilling waste such as drilling mud or fracking fluids. Furthermore, the Division of Oil & Gas does not permit well drilling or associated activities such as fracking or waste disposal. Those activities are under AOGCC’s jurisdiction. If members of the committee have further questions about these issues, they encouraged to contact the AOGCC for information.

Directional Drilling

Does Section 1 of the bill contemplate directional drilling?

The intent of Section 1 and the rest of this bill is to allow for leasing of and revenue collection drainage for vertical wells and for access through directional drilling. Please keep in mind that directional drilling has zero impact on the surface of any lands (including water) aside from where the drilling pad is located. Drilling pads are governed by permit authorizations issued by the Division of Oil & Gas with special attention paid to the mitigation measures described elsewhere.

The current well, Seaview 8, and the next planned well, Seaview 9, will both produce gas from wells drilled to about half a mile from the established drilling pad. More wells could be drilled from that pad to even greater distances.

Seaview Gas Reservoir

How deep is the gas?

Technical information is reviewed in the decision to approve the Clark Participating Area ([posted on the DOG website](#)). Of note on page 2: “Hilcorp proposes the CPA include the Lower Sterling, Beluga, and Tyonek reservoirs as shown between 250’ and 5,500’ true vertical depth in the Seaview 8 well.” The well data for the Seaview 8 well is still held confidential by AGOCC, so we cannot confirm what specific zones are being targeted for development without disclosing confidential information.

Revenue estimate

Is there an estimate for revenue the State would receive from this legislation?

No. It is not possible to reasonably estimate what revenue could come from the offshore acreage contemplated in this legislation due to a lack of data. It will be years before such an estimate will be possible, and then only if a well is drilled to drain and collect reservoir performance data for that acreage.

Correlative rights

The AOGCC is the agency for adjudicating correlative rights of oil and gas. These disputes are rare, since production is nearly always from lands governed by a lease, under which the lessor and lessee already agree to terms before production even begins. For those rare cases where mineral owners refuse to lease, or when there are multiple mineral owners who disagree over the terms of apportioning royalties, the AOGCC must then step in.

An example of this is the Kenai Loop field, in which part of the mineral estate is owned by the State (managed by DNR), the Alaska Mental Health Trust (MHT), and Cook Inlet Region Inc (CIRI). There was a dispute between DNR, CIRI, MHT, and the operator over the terms of unitization and how to allocate production. There were additional

problems, such as CIRI terminating their lease agreement with the operator, and ultimately the operator's application to form a unit [was denied](#) in 2013. The proceedings under AOGCC to resolve the dispute took a further two years, resulting in a settlement agreement after much time and money was expended by the parties, including DNR. Among the lessons learned from that experience was that it is best to avoid that sort of dispute if possible. Therefore, DNR is seeking to make this land available for leasing.

Royalty distribution

How are royalties distributed?

There are presently 420 tracts in the Seaview unit. Nearly all of them are held by private landowners. The details of who these owners are and what acreage they own in the unit are found in [Exhibit A to the unit agreement](#). Those tracts are also mapped in Exhibit B. Exhibit C lists the tracts in the Clark Participating Area, which is the acreage within the unit determined to contribute to production from available data. The amount of production allocated to each owner is found in the *Tract Percentage* column. Acreage may be added or removed from the participating area and the tract allocations may be adjusted as more reservoir performance data is gathered, especially after sustained production commences and more wells are drilled.

In the exhibits, you may note that about 13% of the unit and 2% of the participating area are "uncommitted." Uncommitted acreage is held by private mineral owners who have refused to sign a lease with the operator. The royalty value of any production allocated to those uncommitted owners is held in escrow until an agreement is reached with the owner or until the end of the life of the field. The specifics of that procedure is governed by AOGCC and will be described in a pending "Pool Rules" conservation order issued by that agency.

Although it is very rare, mineral owners who may disagree with the acreage included or excluded from the participating area, or the tract allocation factors, may seek to appeal to the Commissioner of DNR. They may also petition the AOGCC for correlative rights.