



April 4, 2013

The Honorable Kurt Olson, Chairman
Alaska State House of Representatives
Labor and Commerce Committee
Juneau, Alaska 99801

Subject: House Bill 198: "An Act relating to the primary period of an oil and gas or gas only leases and the extension of a lease; relating to terms to be included in an oil and gas or gas only lease; relating to rental for an oil and gas or gas only lease; and providing for an effective date."

Dear Representative Olson:

Thank you for the opportunity to comment on House Bill 198. As you are aware, House Bill 198 would allow the Commissioner of Natural Resources to extend the term of oil and gas leases or gas only leases beyond the original primary term. This legislation offers an alternative to last minute rushes to create units, propose placement of rigs or other lease saving operations that would allow an operator to hold its oil and gas lease. The Department of Natural Resources (Department) has seen this done on a repeated basis using valuable time while the company continues to hold the unit or oil and gas lease while requesting further extensions with no actual work being performed.

Apache Alaska Corporation (Apache) is, in general, supportive of this legislation. As a new operator in Alaska we have acquired a significant amount of acreage which has leases that will expire before we are able to complete our seismic exploration activities, which help us delineate what, if any, potential oil or gas resources are under our leases.

Since entering Cook Inlet in the fall of 2010, Apache has been aggressive in exploration and development efforts. Apache has and continues to find new and innovative ways to conduct seismic so as to create only the slightest disturbance while gathering good quality data. We have employed a cutting-edge technology that, in 2012, resulted in acquiring seismic on over 200,000 acres within the Cook Inlet basin. There is still a lot of work left to do and, in working with the Department, Apache is hopeful that it will have the opportunity to continue its 3D seismic program to better identify the potential of the Cook Inlet Basin.

As you deliberate this bill Apache would recommend the committee adopt the following changes:

1. Section 2, page 2, lines 25-26. Delete the following – "... posting of a performance bond by the lessee,..." The cost of acquiring and providing a performance bond is excessive and overly burdensome, and it would be difficult to fashion the criteria to determine whether the operator has met the "performance" obligations. The required finding that the lease extension is in the "best interest of the state" and the commissioner's discretion in deciding whether to grant the lease extension should be sufficient.

2. Section 2, page 3, lines 7-12: Change that new sentence to read: "If the commissioner grants a one-time lease extension, upon extension, the rental for the extension time frame shall be set at a reasonable rate, in the commissioner's discretion, based on consideration of whether the lessee has demonstrated reasonable diligence to explore and/or develop the lease during the primary term, but not to exceed 150 percent of the rate for the preceding year of the lease term." The \$250/acre rate set out in the proposed bill is excessive and would be cost-prohibitive in most if not all situations.

As you deliberate this legislation should you have questions please feel free to contact me or Lisa Parker at 907-792-7302.

In advance, thank you for your consideration of this important piece of legislation.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "John L. Hendrix", is written over a large, loopy blue circular mark.

John L. Hendrix
General Manager

cc: Lisa Parker, Apache
Obie O'Brien, Apache
Ron Solt, Apache
Andy Taylor, Apache