

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS

April 8, 2002

9:04 a.m.

MEMBERS PRESENT

Representative Hugh Fate, Vice Chair
Representative Fred Dyson
Representative Vic Kohring
Representative Gretchen Guess
Representative Reggie Joule

MEMBERS ABSENT

Representative Scott Ogan, Chair
Representative Mike Chenault

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 308(FIN)

"An Act relating to the Alaska coastal management program and the responsibilities of the Alaska Coastal Policy Council; and providing for an effective date."

- MOVED CSSB 308(FIN) OUT OF COMMITTEE

CS FOR SENATE BILL NO. 319(FIN)

"An Act relating to shallow natural gas; and providing for an effective date."

- MOVED CSSB 319(FIN) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: SB 308

SHORT TITLE: COASTAL ZONE MGMT PROGRAM/COUNCIL

SPONSOR(S): SENATOR(S) THERRIAULT

Jrn-Date	Jrn-Page		Action
02/19/02	2233	(S)	READ THE FIRST TIME - REFERRALS
02/19/02	2233	(S)	RES, FIN
03/04/02		(S)	RES AT 3:30 PM BUTROVICH 205
03/04/02		(S)	Moved CS(RES) Out of Committee MINUTE(RES)

03/06/02		(S)	RLS AT 0:00 AM FAHRENKAMP 203
03/06/02		(S)	<Pending Referral>
03/06/02	2385	(S)	FN1: ZERO(GOV)
03/06/02	2385	(S)	RES RPT CS 5DP 2NR TECH TITLE CH
03/06/02	2385	(S)	DP: TORGERSON, TAYLOR, HALFORD, STEVENS
03/06/02	2385	(S)	WILKEN; NR: LINCOLN, ELTON
03/21/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/21/02		(S)	Moved CS(FIN) Out of Committee MINUTE(FIN)
03/22/02	2492	(S)	FIN RPT CS 4DP 3NR TECH TITLE CH
03/22/02	2492	(S)	DP: KELLY, GREEN, WILKEN, LEMAN;
03/22/02	2492	(S)	NR: DONLEY, AUSTERMAN, WARD
03/22/02	2492	(S)	FN1: ZERO(GOV)
03/27/02		(S)	RLS AT 10:45 AM FAHRENKAMP 203
03/27/02	2543	(S)	READ THE SECOND TIME
03/27/02	2543	(S)	FIN CS ADOPTED UNAN CONSENT
03/27/02	2544	(S)	ADVANCED TO THIRD READING UNAN CONSENT
03/27/02	2544	(S)	READ THE THIRD TIME CSSB 308(FIN)
03/27/02	2544	(S)	PASSED Y17 N3
03/27/02	2544	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
03/27/02	2544	(S)	ELLIS NOTICE OF RECONSIDERATION
03/27/02	2540	(S)	RULES TO CALENDAR 1OR 3/27/02
03/28/02	2562	(S)	RECONSIDERATION NOT TAKEN UP
03/28/02	2562	(S)	TRANSMITTED TO (H)
03/28/02	2562	(S)	VERSION: CSSB 308(FIN)
04/01/02	2733	(H)	READ THE FIRST TIME - REFERRALS
04/01/02	2733	(H)	O&G, RES
04/08/02		(H)	O&G AT 9:00 AM CAPITOL 124

BILL: SB 319

SHORT TITLE: SHALLOW NATURAL GAS: LEASING & DISCHARGES

SPONSOR(S): SENATOR(S) TORGERSON

Jrn-Date	Jrn-Page		Action
02/19/02	2236	(S)	READ THE FIRST TIME -

			REFERRALS
02/19/02	2236	(S)	RES, FIN
02/27/02		(S)	RES AT 3:30 PM BUTROVICH 205
02/27/02		(S)	Moved CSSB 319(RES) Out of Committee
02/27/02		(S)	MINUTE(RES)
03/01/02	2339	(S)	RES RPT CS 6DP 1NR SAME TITLE
03/01/02	2339	(S)	DP: TORGERSON, TAYLOR, STEVENS, WILKEN,
03/01/02	2339	(S)	LINCOLN, ELTON; NR: HALFORD
03/01/02	2339	(S)	FN1: (DNR)
03/26/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/26/02		(S)	Moved CSSB 319(Fin) Out of Committee
			MINUTE(FIN)
03/27/02	2535	(S)	FIN RPT CS 7DP 1NR NEW TITLE
03/27/02	2535	(S)	DP: KELLY, OLSON, WILKEN, AUSTERMAN,
03/27/02	2535	(S)	GREEN, WARD, LEMAN; NR: DONLEY
03/27/02	2535	(S)	FN1: (DNR)
03/28/02		(S)	RLS AT 8:30 AM FAHRENKAMP 203
03/28/02		(S)	-- Time Change --
03/28/02		(S)	MINUTE(RLS)
03/28/02	2556	(S)	RULES TO CALENDAR 3/28/02
03/28/02	2557	(S)	READ THE SECOND TIME
03/28/02	2557	(S)	FIN CS ADOPTED UNAN CONSENT
03/28/02	2557	(S)	ADVANCED TO THIRD READING UNAN CONSENT
03/28/02	2557	(S)	READ THE THIRD TIME CSSB 319(FIN)
03/28/02	2557	(S)	PASSED Y17 N- E3
03/28/02	2557	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
03/28/02	2562	(S)	TRANSMITTED TO (H)
03/28/02	2562	(S)	VERSION: CSSB 319(FIN)
04/01/02	2733	(H)	READ THE FIRST TIME - REFERRALS
04/01/02	2733	(H)	O&G, RES
04/08/02		(H)	O&G AT 9:00 AM CAPITOL 124

WITNESS REGISTER

SENATOR GENE THERRIAULT
Alaska State Legislature
Capitol Building, Room 121

Juneau, Alaska 99801
POSITION STATEMENT: Sponsor of SB 308.

DANA OLSON
HC-30 Box 5438
Wasilla, Alaska 99654
POSITION STATEMENT: Testified on SB 308, expressing concerns and requesting changes; voiced concerns about SB 319.

JOHN T. SHIVELY, Lobbyist
for Foothills Pipe Lines Ltd.
1336 West 12th Avenue
Anchorage, Alaska 99501
POSITION STATEMENT: Testified in support of [SB 308], particularly the phasing section.

SENATOR JOHN TORGERSON
Alaska State Legislature
Capitol Building, Room 427
Juneau, Alaska 99801
POSITION STATEMENT: Sponsor of SB 319.

MARK MYERS, Director
Division of Oil & Gas
Department of Natural Resources
500 West 7th Avenue, Suite 800
Anchorage, Alaska 99501-3560
POSITION STATEMENT: Answered question relating to the acreage change in SB 319.

CHARLOTTE MacCAY, Senior Administrator
of Environmental and Regulatory Affairs
Teck Cominco Alaska Inc.
3105 Lakeshore Drive, Building A, Suite 101
Anchorage, Alaska 99517
POSITION STATEMENT: Testified on SB 319, stating support for most provisions in the bill; offered support for the fee increase if the monies are directed to the shallow gas program; testified in support of a five-year lease term with renewal options, which isn't part of the bill.

KEVIN A. TABLER, Manager of Land and Government Affairs
Union Oil Company of California (Unocal)
P.O. Box 196247
Anchorage, Alaska 99519
POSITION STATEMENT: Testified in support of SB 319.

JOHN TANIGAWA, Special Projects Manager
Evergreen Resources Alaska Corporation
P.O. Box 871845
Palmer, Alaska 99645

POSITION STATEMENT: Testified in support of SB 319, but mentioned having an acreage limitation of 138,240 acres.

ACTION NARRATIVE

TAPE 02-22, SIDE A
Number 0001

VICE CHAIR FATE called the House Special Committee on Oil and Gas meeting to order at 9:04 a.m. Representatives Fate, Dyson, Kohring, and Guess were present at the call to order. Representative Joule arrived shortly thereafter.

SB 308-COASTAL ZONE MGMT PROGRAM/COUNCIL

[Contains discussion of HB 439]

Number 0065

VICE CHAIR FATE announced the first order of business, CS FOR SENATE BILL NO. 308(FIN), "An Act relating to the Alaska coastal management program and the responsibilities of the Alaska Coastal Policy Council; and providing for an effective date."

Number 0089

SENATOR GENE THERRIAULT, Alaska State Legislature, sponsor, explained that in its current form, SB 308 encompasses two main ideas. First, coastal resource areas no longer may [incorporate by reference] the state statutes and regulations. A problem in the past has been that coastal resource areas or districts have interpreted statutes and regulations differently from the way state agencies do in arriving at consistency determinations. Therefore, the Division of Governmental Coordination (DGC) has indicated to coastal resource districts that they are to adopt their own programs, rather than just adopt by reference the statutes and regulations; this occurred some time ago. What the bill does [in Section 1] is enshrine DGC's directive in statute.

SENATOR THERRIAULT explained that Section 2 deals with phasing of a gas pipeline project in Alaska. The language is route-specific and project-neutral. "We have some definite ideas of where we would like the line to be built," he told members, "but

we don't much care who builds it." Therefore, he said, the language is structured to allow anyone to take advantage of the routes that are suggested.

Number 0240

SENATOR THERRIAULT noted that this committee had dealt with the petition process in [HB 439], sponsored by [the House Special Committee on Oil and Gas, which is chaired by] Representative Ogan. Because that bill is in the Senate currently, and because it came to the Senate first, the petition process has been removed from this version of SB 308. However, the title is relatively broad. He explained that SB 308 had been sent to the House with a broad title on purpose, so that if there were any problems dealing with the petition process through [HB 439], then [SB 308] would be available as a vehicle to make sure that petition-process change is taken care of.

SENATOR THERRIAULT reported that Representative Ogan's staff had been dealing with "the Senate committees" to come up with language that fixes the problem. Unfortunately, it will trigger a title change, which would require a two-thirds vote on a title-change resolution when it comes back to the House. The desire is to keep SB 308 as a possible vehicle, in case that title change isn't possible.

Number 0365

SENATOR THERRIAULT returned attention to phasing [Section 2]. He explained:

In order to get a consistency determination, before you can actually get your permits, you're supposed to submit your entire project, because a gas pipeline project is so large that it's virtually impossible to anticipate every permit, every stream crossing that you're going to need for the project. So what this language does is it allows that that consistency determination would be able to be phased in over a length of time.

[There was a partial motion to move the bill, but Legislative Information Office (LIO) personnel interjected because there were testifiers.]

Number 0480

DANA OLSON testified via teleconference on her own behalf, noting that she lives in an affected coastal district. She told members she is very concerned about the coastal management program. She asked that a legal and factual basis be provided for the bill, adding that Thomas Dewey once said that a problem well defined is half solved. She expressed concern that SB 308 "has been primarily a reactionary type of situation."

MS. OLSON requested changes. She asked that the committee add a fiscal note to SB 308 in order to implement AS 46.03.040, a state requirement for an environmental plan. She added, "If implementation of this plan is not desired by the legislature, then I ask that you put a provision on this bill and repeal it. Having this provision sit here on this bill is meaningless." She further requested compliance with "the amendments to the coastal management Act, which are stated 'not complied with.'" She said amendments to the coastal management Act require that consideration of the entire coastal zone - and not just a coastal district - be looked at. She noted that one of the particular problems she is addressing is "the legal and factual basis for construction permits."

Number 0645

JOHN T. SHIVELY, Lobbyist for Foothills Pipe Lines Ltd., testified via teleconference in support of [SB 308], particularly the phasing section. He explained:

This is [an] issue we've worked with, with Senator Therriault and with the administration. As the Senator said, generally, in order to get a consistency determination, which is required for a project in the coastal zone, you have to have all your permits ready to go. This project is way too big and complicated for that, and ... the language in the bill in front of you allows the administration to phase and actually make what would be, I believe, several consistency determinations, if they were necessary. So we think it's a good piece of legislation, and we support its adoption.

Number 0720

VICE CHAIR FATE asked whether there were questions or if anyone else wished to testify; there was no response. He announced that public testimony was closed.

Number 0773

REPRESENTATIVE KOHRING requested that Senator Therriault address the concerns expressed by Ms. Olson.

SENATOR THERRIAULT replied by saying he has been involved in legislation dealing with the coastal zone [program] for a number of years, and has proposed bills in the past that either eliminated the program or made sweeping changes. He then said:

This bill doesn't do it. It's very specific, noncontroversial things as far as dealing with the administration - people that run the program. With [regard] to the first section that talks about the nonadoption through reference, that's currently basically in place through the directive of Division of Governmental Coordination; we're just enshrining that in statutes.

SENATOR THERRIAULT addressed phasing:

As the former commissioner [Mr. Shively] indicated, the gas pipeline project is such a level of complexity that having all your permits ready to go - so that a complete consistency determination can be granted at once - is virtually impossible. And the people running the program ... on behalf of the administration agree with that.

SENATOR THERRIAULT concluded by saying he wasn't sure what the other concerns were about the way the program operates, but didn't believe they specifically concerned the two sections being asked for in this legislation.

Number 0885

REPRESENTATIVE KOHRING, with the concurrence of Vice Chair Fate, asked Ms. Olson whether Senator Therriault's answer had addressed her concerns adequately.

MS. OLSON said no. She said the bill is rather broad, and she emphasized the need to look at the whole problem, instead of "piecemealing" it. Ms. Olson added, "It's causing people to react to every little, particular problem, where it really needs to be looked at in a larger scope."

REPRESENTATIVE KOHRING requested that Ms. Olson call his office or e-mail or fax her concerns to him for a further look.

Number 0955

SENATOR THERRIAULT remarked that the statutory reference used by Ms. Olson deals with the Department of Environmental Conservation, not DGC. He suggested someone might want to introduce a bill to address that, but said it wasn't his intention with SB 308.

Number 0990

VICE CHAIR FATE asked whether there were further questions; none were offered. He thanked participants and again announced that public testimony was closed.

Number 1013

REPRESENTATIVE DYSON moved to report CSSB 308(FIN) from committee with individual recommendations and the attached [zero] fiscal note. There being no objection, CSSB 308(FIN) was moved out of the House Special Committee on Oil and Gas.

Number 1041

VICE CHAIR FATE called an at-ease at 9:20 a.m. He called the meeting back to order at 9:23 a.m.

SB 319-SHALLOW NATURAL GAS: LEASING & DISCHARGES

Number 1059

VICE CHAIR FATE announced the final order of business, CS FOR SENATE BILL NO. 319(FIN), "An Act relating to shallow natural gas; and providing for an effective date."

Number 1101

SENATOR JOHN TORGERSON, Alaska State Legislature, sponsor of SB 319, explained that the shallow gas leasing program originally was proposed to enable exploration and production of shallow gas deposits in rural areas, in order to supply energy to villages, mines, and other rural users. However, now that the program is fully operational - with more than 100 leases processed and nearly 200 pending - it is apparent the program has become a

vehicle for commercial gas development in Fairbanks, Big Delta, the Matanuska-Susitna area, and the lower Kenai Peninsula.

SENATOR TORGERSON reported that the bill changes the program in five distinct ways. First, it increases revenues to the State of Alaska. [Section 2] raises application [fees] for shallow gas leases from \$500 to \$5,000, which more closely reflects the state's processing costs. [Section 4] increases annual fees from 50 cents an acre to \$1 an acre. Second, the bill lowers administrative costs [in Section 4] by eliminating a requirement that the Department of Natural Resources (DNR) notify lessees by certified mail when rental fees are due. It also removes the deadlines for issuing leases; the deadlines have proven unworkable and don't recognize the work required by DNR in processing leases in populated areas that [may have] complex land-ownership patterns.

SENATOR TORGERSON explained that third, the bill provides better reservoir management and increased value to lessees. The depth limitation of 3,000 feet has been replaced with a requirement that some portion of the field must be within 3,000 feet of the surface. The total acreage that may be held by a lessee has been increased [in Section 2] from 46,080 acres to an aggregate of 100,000 acres; he said DNR believes the acreage increase reflects the greater amount that may be necessary to have a viable shallow gas leasing program.

Number 1230

SENATOR TORGERSON noted that fourth, the bill removes the requirement that the applicant conduct a title search. He said DNR routinely conducts a title search for land before leases are issued; furthermore, no title company will conduct a thorough title search of the subsurface estate and warranty title. In addition, there is improved protection for surface estate owners through bonding. However, the lessee must secure a bond as a precondition of obtaining the lease. If damages occur and the lessee and landowner cannot reach an agreement on the amount of damages, either party may seek relief in the courts, he said, and DNR would release the bond as directed by the court. These proposed new bonding provisions would help protect surface owners by ensuring that substantial bonds are in place prior to the exploration and development of the leases.

SENATOR TORGERSON specified that the fifth change is actually a timeline for converting the existing leases to the new program, giving them through September 30 [2002] to do that.

Number 1309

REPRESENTATIVE DYSON noted that this is an area about which Chairman Ogan has expressed a lot of interest. He asked whether it would be possible to talk with him by telephone.

VICE CHAIR FATE, after consulting with the committee aide, said Chairman Ogan [who was absent for medical reasons] wasn't available.

REPRESENTATIVE DYSON asked whether delaying passage of the bill until the next hearing, in order to receive comment from Chairman Ogan, would cause a problem with the timeline.

Number 1361

SENATOR TORGERSON reported that Chairman Ogan is aware of the bill, which he said they'd discussed earlier. "I don't believe he has any problems with it," Senator Torgerson offered; he acknowledged, however, that he wasn't sure whether changes had been made since Chairman Ogan last reviewed it. He told Representative Dyson that the key is passage this year, and he said it wouldn't hurt to hold it for a period of time. He indicated his understanding, however, that Chairman Ogan has been most interested in Evergreen [Resources], which is in favor of the bill.

Number 1408

VICE CHAIR FATE called an at-ease at 9:27 a.m. He called the meeting back to order at 9:28 a.m.

Number 1417

REPRESENTATIVE KOHRING expressed appreciation to Senator Torgerson for what he is trying to do with the legislation. He remarked on the mention of Evergreen Resources' support for the legislation and surmised that the fee increases aren't objectionable to that company or others in the industry. He added that he couldn't help notice the tenfold increase in the annual rental fees, as well as the increase in the per-acreage rental fees. He requested that Senator Torgerson address that, as well as the [portion of the sponsor statement that says the fees aren't to] discourage parties of genuine interest and ability from developing [shallow natural gas] resources, given that companies will be paying more money.

SENATOR TORGERSON noted that before being asked to consider this bill, he was "going down a parallel path on how to convert the shallow gas leasing into a more conventional leasing program." At \$500 a lease, he said, he'd been concerned that some of the 300 lessees were just betting on possible success and tying up the land for \$500 because nothing was required to happen.

SENATOR TORGERSON indicated DNR personnel had said going from [\$500] to \$5,000 more closely reflects costs, which he understood to be perhaps \$3,500 a lease. He referred to discussion about "pure rural users," for which this was originally intended. He remarked, "I committed to revisiting this program so that we could have, basically, a rural development kind of a community-by-village lease program where it would still be available." He added, "Other than that, none of the companies oppose the current increases, or at least not that I'm aware of."

Number 1594

VICE CHAIR FATE noted that Mark Myers of DNR's Division of Oil & Gas was online to answer questions. He referred to the acreage [in Section 2], pointing out that 46,080 acres is two townships, whereas 100,000, the new amount in the bill, is between four and five townships. Although he had no objection to the new amount, he suggested perhaps it could be a multiple of a whole township. He asked Senator Torgerson whether he'd considered that.

SENATOR TORGERSON replied no. He said the increase was worked out between DNR and the producers, "in recognition that it takes a lot of acreage and a lot of wells to produce the shallow gas." He added that the reservoirs don't necessarily follow boundaries or straight lines; he suggested perhaps the particular increase recognizes that also. He suggested it would be a great question for Mr. Myers.

Number 1685

MARK MYERS, Director, Division of Oil & Gas, Department of Natural Resources (DNR), testified via teleconference in response. He said:

Typically, we don't end up with totally even numbers when we do the work because, again, in these large blocks there's typically other subsurface owners as well, particularly in the areas where the leases have

been. So the numbers end up being not directly related.

MR. MYERS further explained that with the 100,000 acres, "the thought process was that that's a very large-size, coal-bed-methane-type unit, where they would depressurize ... a large unit." Regarding the existing [46,080 limit], he said there have been clear examples of units larger than that, which needed to be that large for "economy-of-scale production." He concluded:

We were trying to get a number significantly large enough, that was as large or larger than any of the largest coal-bed-methane units we knew. That's not to say an individual company might not need to have two or three units, again, for ... their total production scenarios.

So, the 100,000 acres wasn't a magical number. It's simply a number to recognize the commercial size of development. And we recognize that in the filing program; ... people will file for a full township, but not get that full amount of acreage. So the even-versus-odd number didn't make much difference to us because, again, that's something that's sorted out in the title search, ultimately, at the time of lease issuance. But, again, we would have no problem in rounding those numbers ... if the committees and Senator Torgerson were comfortable with that.

Number 1740

VICE CHAIR FATE clarified that he wasn't anticipating rounding it, but had wondered whether there was a desire to keep the acreage at a multiple of a [township]. He said the question had been answered adequately. He thanked Senator Torgerson and Mr. Myers for their testimony.

Number 1795

CHARLOTTE MacCAY, Senior Administrator of Environmental and Regulatory Affairs, Teck Cominco Alaska Inc., testified via teleconference, noting that Teck Cominco Alaska operates the Red Dog Mine north of Kotzebue. Ms. MacCay offered the following testimony:

I'm here today to talk about a potential energy source we're looking at to replace our extensive use of diesel fuel. Briefly, the Red Dog Mine employs some 400 Alaskans, of which 60 percent are NANA [Regional Corporation] shareholders. The mine produces over a million tons of zinc and lead concentrates each year, and ships it out through our port for a three-month period. To crush the ore and make the concentrate requires some 28 megawatts of power using approximately 18 million gallons of diesel each year.

In the area where we have found indications of shallow gas, the terrain is rolling hills to rugged mountains, much different than either the Matanuska Valley or Prudhoe Bay. The rugged nature of the region presents a need to have a more flexible definition for the depth limitation for a shallow gas lease. The depth language suggested in this legislation will assist the state and the leaseholder in knowing which areas are part of the lease and in allowing us to fully utilize a reservoir once it's been tapped.

Number 1870

MS. MacCAY continued:

Currently, Teck Cominco holds four state shallow gas leases, for a total of 23,000 acres, and NANA has the adjoining land to the east, for nearly 100,000 acres, which also has shallow gas. To adequately cover a target or a concept takes considerable acreage. The current lease has an acreage limitation of 46,000 acres to any one company; this is not sufficient acreage for a project. The suggested 100,000-acre limit offered in this legislation is supported by Teck Cominco.

Surface ownership in this portion of Alaska is fairly straightforward, with three major owners: the National Park Service, whose land we know is off limits; the State of Alaska land; and the private lands of NANA. So the issues of addressing surface owners separately is not an issue for Teck Cominco.

The fee change requested by the administration is considerably more than the initial legislation - in fact, double for rentals and ten times for application

fees. We understand the administration's desire to generate more revenue to administer the program, and Teck Cominco can support the fee increases if the monies are directed to the shallow gas program. Otherwise, the increase is a significant [added] cost to an already cost-sensitive business, particularly for rural Alaskan development.

Number 1941

MS. MacCAY continued:

Development of a shallow gas field in Northwest Alaska has many impediments [that] some areas share and some don't. Location is a major impediment due to access and the ability to bring large equipment in and out during the summer months only. The lack of roads in the area and the desire to maintain the pristine nature of the region is a high cost and time impediment.

It is very difficult, if not impossible, to test a shallow gas lease within the three years provided in the current lease when work is so seasonal. Logic would say a lease should be at least five years for a primary term, with renewal options as provided. Although not provided in this legislation, we would support a five-year term with renewal options.

Development of a shallow gas field is much different than a conventional field in Cook Inlet or on the Slope. Instead of 2 to 5 holes to develop a gas field, it will take 50 to 100 holes to develop a shallow gas field. A longer lease is needed to accommodate this work, and the cost per hole needs to be kept at a minimum, or a field becomes uneconomic very quickly.

Number 1989

MS. MacCAY continued:

To date, Teck Cominco has followed the mineral exploration effort in the Red Dog area as a tool to help defray costs and delineate areas of potential gas resource. The methane gas we have found is low-pressure, and is located lateral to and underlying our

ore zones. Extensive work has been completed to date, but the next phase is to conduct a flow test. The flow test cannot be supported until the depth below surface of a field is better defined, as this bill proposes to do.

Arctic operations will always present numerous challenges not present elsewhere. Teck Cominco Alaska addresses many of these each and every day at Red Dog. By passing this legislation, you will have addressed a major challenge and impediment that we otherwise could not address.

VICE CHAIR FATE thanked Ms. MacCay and requested that she fax her written testimony.

Number 2054

REPRESENTATIVE JOULE asked whether any benefits would be realized by the people who live in the area.

MS. MacCAY replied:

At this point, our exploration has been limited to just following our own mineral exploration. But it appears that there's probably a greater gas field potential than what we've already defined. ... Currently, we've defined enough to replace Cominco's 18 million gallons. But if we continue exploration and find further gas, then it's possible that we could transmit power to the villages of Kivalina and Noatak.

MS. MacCAY noted that for Noatak, in particular, the barges cannot get there to deliver fuel "at this time," and fuel costs for both villages are quite high. The power would have to be transmitted, not the gas, because neither village is large enough to support the power generation itself.

Number 2112

REPRESENTATIVE JOULE asked, "And should this all come to pass, the other thing that you would free up is the 18-million-gallon storage capacity?"

MS. MacCAY responded, "If we were able to convert from diesel fuel to shallow gas, not only would we eliminate a lot of the risk of shipping in the 18 [million gallons] of gas each summer,

[but] it would also cut the air emissions and many pollutants to about half."

Number 2158

KEVIN A. TABLER, Manager of Land and Government Affairs, Union Oil Company of California (Unocal), testified via teleconference in support of SB 319, noting that Unocal is currently conducting an aggressive gas exploration program in the Cook Inlet area and is very interested in any legislation dealing with gas and gas exploration. He said:

The shallow gas leasing program augments the existing areawide leasing program and enhances the access to, and development of, the state's natural gas resources. We are very supportive of this program and other leasing programs providing access to the state's mineral wealth.

I have participated in hearings on the Senate side and have listened today to the remarks of Senator Torgerson and the few remarks of director [Mark] Myers of the Division of Oil & Gas and others in support of this bill, and wish to lend Unocal's support in passage of this legislation, for the varied reasons already articulated. The amendments identified in SB 319 provide for better administration and clarification of the shallow gas leasing program and are certainly in the best interest of the State of Alaska.

VICE CHAIR FATE thanked Mr. Tabler and requested that he fax any written comments.

Number 2232

JOHN TANIGAWA, Special Projects Manager, Evergreen Resources Alaska Corporation, testified via teleconference in support of SB 319, noting that his company is a wholly owned subsidiary of Evergreen Resources, Inc. He told members:

Last December, I moved to Wasilla to oversee our operations, and I am the person who is accountable and responsible for our activities up here. Currently, we have [46,080] acres of shallow gas lease applications near Willow. These applications are pending with the Division of Oil & Gas.

Today, I testify in support of Senate Bill 319. SB 319 removes obstacles [to] our ability to explore for and to develop shallow natural gas. Evergreen Resources Alaska's specialties extend to Alaska the main focus of Evergreen Resources, which is coal bed methane, unconventional gas, and shallow natural gas development.

These activities require at least 100,000 acres, or roughly four townships, to establish the necessary economies of scale for initial development. Due to the challenges of operating in an arctic environment, however, increasing that acreage limitation to 138,240 acres, or six townships, increases the ... economic viability of shallow natural gas.

We strongly support increasing the depth limitation to one that relies on science and geology for the specific play. And we are certain that we can drill, complete, and produce natural gas [wells] below 3,000 feet in a safe, environmentally responsible manner, using already existing technologies that we currently employ.

Finally, ... the shallow natural gas program is the primary reason why Evergreen is in Alaska. We are grateful that the legislature is making this program possible and for improving it. Changes proposed in this bill provide us the necessary latitude to operate in an economically sound and environmentally safe manner. We acknowledge the Division of Oil & Gas for collaborating with us and other [stakeholders], and this is an excellent example of how state agencies and industry can work together to benefit not just government and industry, but particularly the public.

Number 2359

REPRESENTATIVE KOHRING remarked, "I want to thank you guys for all the exploration and prospective development in the Mat-Su. It's certainly going to translate to some economic activity out there." He then asked whether Mr. Tanigawa sees the [increase in] fees as a problem for his company.

MR. TANIGAWA said no. He explained:

We believe that in this time of fiscal challenges for both the state and the industry, it is important that this program be ... self-funding. And I believe that the oil and gas industry has a long history of funding its own regulations at the borough and state and federal levels. And we believe that this program should be no different [and] not seek any taxpayer support to comply with this proposed regulation.

VICE CHAIR FATE thanked Mr. Tanigawa and called on Dana Olson.

Number 2423

DANA OLSON testified via teleconference on her own behalf. A property owner in a potentially affected area, Ms. Olson said she was testifying with regard to the socioeconomic impacts of the program upon communities. She expressed concern that the definition of "rural" is too broad because there are well-defined communities in the Matanuska-Susitna Borough. She said this activity could potentially displace people and have impacts on communities.

MS. OLSON further said DNR's land-use plans are out of date, and Title 38 requires revision when necessary. She pointed out that land-use plans go through a public process [beyond] just testifying to the legislature. She cited AS 46.03.040, saying it is "a requirement for environmental plans that DEC [Department of Environmental Conservation] has not done, nor has it been approved by the governor." She suggested the committee may want to repeal it, if it is no longer relevant.

MS. OLSON further suggested the fees are too low when it comes to impacting communities. Remarking that the amount in the bill seems rather arbitrary, Ms. Olson said she'd like to see some "factual basis for what the effects will be on communities before a generalized fee is required."

MS. OLSON turned attention to a proposed Knik Arm power plant in Cook Inlet; she indicated one provision is utilization of both oil and natural gas. She suggested power plants generally should be required to use cleaner fuel sources. "It doesn't make much sense to go in and do all this development and not require industry to use it," she concluded.

Number 2569

VICE CHAIR FATE thanked Ms. Olson and asked whether anyone else wished to testify; there was no response. He closed public testimony.

Number 2585

REPRESENTATIVE DYSON expressed appreciation for the sponsor's bringing this bill forward. He said it sounds as though there is no downside. He suggested there is a great advantage to having the administrative costs covered by the fees paid by the industry. If the fees are more than enough, Representative Dyson remarked, it is a public resource being used and can support public services, which is good public policy and helps to get public support for the industry. He added that his former concerns about showing deference to Chair Ogan had been assuaged.

Number 2628

REPRESENTATIVE DYSON moved to report CSSB 319(FIN) from committee with individual recommendations and the attached fiscal note. There being no objection, CSSB 319(FIN) was moved out of the House Special Committee on Oil and Gas.

ADJOURNMENT

Number 2649

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 9:50 a.m.