

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

May 3, 2002

8:05 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Scott Ogan, Chair

OTHER LEGISLATORS PRESENT

Representative John Coghill

COMMITTEE CALENDAR

HOUSE BILL NO. 527

"An Act relating to entry into the Minto Flats State Game Refuge for purposes of exploration and development of oil and gas resources."

- MOVED HB 527 OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 527

SHORT TITLE:MINTO FLATS GAME REFUGE

SPONSOR(S): RESOURCES

Jrn-Date	Jrn-Page		Action
04/30/02	3238	(H)	READ THE FIRST TIME - REFERRALS
04/30/02	3238	(H)	O&G, RES
05/02/02		(H)	O&G AT 1:00 PM CAPITOL 124
05/02/02		(H)	Heard & Held -- Recessed to 5/3/02 8:00 am -- MINUTE(O&G)
05/03/02		(H)	O&G AT 8:00 AM CAPITOL 124

WITNESS REGISTER

MARK MYERS, Director
Division of Oil & Gas
Department of Natural Resources (DNR)
550 West 7th Avenue, Suite 400
Anchorage, Alaska 00501-3560
POSITION STATEMENT: Testified on HB 527.

JAMES HANSEN, Leasing/Evaluations
Central Office
Division of Oil & Gas
Department of Natural Resources
550 West 7th Avenue, Suite 800
Anchorage, Alaska 99501-3560
POSITION STATEMENT: Answered questions pertaining to HB 527.

CHIP DENNERLEIN, Director
Division of Habitat and Restoration
Alaska Department of Fish & Game
333 Raspberry Road
Anchorage, Alaska 99518-1579
POSITION STATEMENT: Testified on HB 527.

JIM HAINES (ph)
(No address provided)
POSITION STATEMENT: Testified on HB 527, saying he wants to ensure that Andex Resources LLC has access and can get its product to market.

KEN BOYD, Oil and Gas Consultant
(No address provided)
POSITION STATEMENT: Testified in support of HB 527.

ACTION NARRATIVE

TAPE 02-26, SIDE A
Number 0001

VICE CHAIR HUGH FATE reconvened the House Special Committee on Oil and Gas meeting at 8:05 a.m. [The meeting had been recessed on May 2, 2002.] Representatives Fate, Dyson, Kohring, and Guess were present at the call to order. Representatives Joule and Chenault arrived shortly thereafter.

VICE CHAIR FATE called an at-ease at 8:06 a.m. and called the meeting back to order at 8:07 a.m.

HB 527-MINTO FLATS GAME REFUGE

Number 0086

VICE CHAIR FATE announced that the committee would consider HOUSE BILL NO. 527, "An Act relating to entry into the Minto Flats State Game Refuge for purposes of exploration and development of oil and gas resources." [HB 527 was sponsored by the House Resources Standing Committee.]

VICE CHAIR FATE called attention to a Department of Natural Resources (DNR) report dated April 12, 2002 [from the Division of Oil & Gas, titled "Notice of Issuance of the Preliminary Finding under AS 38.05.035(e); Proposed Nenana Basin Oil and Gas Exploration License"]. Vice Chair Fate said the report has a "licensee advisory that basically denied anybody from getting a license, and it was brought to the attention of the Interior delegation simply because it was [an] Interior thing, and we talked with [Alaska Department of Fish & Game (ADF&G)] Commissioner Rue about this because it was ... [ADF&G that had objected more] to it than the Department of Natural Resources." Vice Chair Fate noted that Commissioner Rue had written a letter of clarification, which Vice Chair Fate believed had fallen a little short, although it did clarify some of the questions cited in the April 12 report.

VICE CHAIR FATE said there had been oil and gas development in other game refuges, and the thought [behind the bill] was that it would be prudent, at least for the exploration for gas, to apply the language for the "game refuge on the Kenai game reserve" to the Minto [Flats] refuge as well, since the latter lies over the Nenana basin where the highest potential for gas exists. He concluded, "We were concerned and, as a result, we've had this very simple and modest piece of legislation that is extremely important to not only rural Alaska along the Yukon drainage, but to Fairbanks [his own district] also."

VICE CHAIR FATE reiterated the previous day's question to Mr. Myers about where the most valuable resource is, relative to the Nenana Basin.

Number 0398

MARK MYERS, Director, Division of Oil & Gas, Department of Natural Resources, testified via teleconference, noting that there are maps in the April 12 preliminary best-interest

finding. He said the heart of the potential area lies, unfortunately, underneath the northern part of the Minto Flats State Game Refuge. The sedimentary basin is pretty well defined by seismic data shot there in the past; by two exploration wells that were drilled, one in the 1960s and one in the 1980s; and by gravity data, which can give an approximate outline of the basin itself. The basin, which trends northeast-southwest from the Nenana area, almost parallels the Tanana River, which, where it turns north, then bisects the basin. Mr. Myers said the deepest part of the basin, and the most prospective part for generating gas and for potential traps for gas, is north of the Tanana River, approximately underlying the refuge area.

MR. MYERS pointed out that the geologic potential is highest where the wildlife values are highest also. He offered the belief that there is very little potential in the basin for oil, based on data from the two wells and "surrounding outcrop rock data on the fringes of the basin, where it's exposed." He said examples of those rocks are in the coal measures mined by Usibelli [Coal Mine, Inc.] in the Healy area. Because that is the geology believed to underlie the subsurface, the right kinds of rocks to create oil deposits simply aren't believed to be in the basin. However, the right kinds of rocks that can generate gas - mainly coals and associated rocks - are there.

MR. MYERS offered the belief that the basin's depth is at least 16,000 feet, the deepest being in the northern part of the game refuge. There are two kinds of gas: biogenic gas, generated from microorganisms chewing on the coal, and thermogenic gas, generated from deep enough that temperatures and pressures are high enough to generate gas. The two wells drilled on the very fringe of the basin have gas in them, so it is known that gas was generated in the basin. The so-called kitchen, the area where that generation is most likely to have occurred, is believed to be in the northern part of the Minto Flats State Game Refuge. Referring to Andex Resources LLC, he told members:

Again, when we looked at Andex's proposed exploration license, we thought their proposed outline, ... about 500,000 acres, basically encompassed almost all the basin, with the critical area being the 277,000 acres or so in the northern ... part of the basin underlying ... the game refuge. So, again, it's not that we can customize this license area to eliminate that high-potential area if the project is to have a reasonable chance of success.

Number 0678

VICE CHAIR FATE inquired about the two exploratory wells.

MR. MYERS explained that Unocal drilled a well in 1962 on the very edge of the basin, and ARCO drilled the [Totek] Hills well in the early 1980s, perhaps 1984. Offering the belief that both wells were tests for oil because of not understanding the basic geology of the basin, he said they didn't encounter any indications of oil source rocks or any oil in the wells, but did encounter gas; that is the evidence that gas has been generated in the basin. He suggested the need to demonstrate that there is a sufficient thickness of section to encounter a significant thickness of gas for commercial quantities, as well as a trapping mechanism - some way to seal the gas once it is generated.

MR. MYERS explained that under the exploration license process, a licensee will shoot seismic data. The [potential] licensee wants to focus on that northern area, he said, where it sees the best geologic potential. He indicated DNR agrees with that geological assessment, as does the U.S. Geological Survey data, to his understanding; he also said Doyon, Limited, to his belief, has hired some consultants, has done work in the area, and has a very similar view of the basin. He said this is one case in which geologists from various agencies and the private sector all agree where the best potential is: in that northern area [underlying the game refuge].

Number 0809

REPRESENTATIVE CHENAULT said it appears both those test wells were outside the game refuge.

MR. MYERS affirmed that, saying they were drilled at the fringe of the southern part of the basin, outside the proposed license area. He explained that basically there is a prospective reservoir interval of sedimentary rock; below that, in stark contrast, are igneous and metamorphic rocks that have no potential whatsoever for oil or gas. Either those companies had insufficient data or deliberately targeted, in the case of [Totek] Hills, to his belief, the very fringe of the basin; they only got to a few thousand feet in depth and then encountered this nonreservoir-potential rock. That is why the [current potential] licensee is considering needing to go deeper into the basin. He said the gas encountered by those wells at the basin's fringe indicated some gas had migrated into that zone,

but not in commercial amounts. "To explore and find commercial quantities of gas, you've clearly got to move deeper into the basin, into where the basin is thicker," he concluded.

Number 0911

VICE CHAIR FATE asked how much certainty the lessee will have, going into this area, of finding gas in quantity.

MR. MYERS replied that it is always a risk, although these indicators are positive and he believes it is a very good risk. It is known that gas is generated and that many coals are in the basin, so the volume of gas generated is probably "very, very significant." Also, the reservoir rocks "that you produce the gas from" are present and of very high quality. What isn't known is whether the trapping mechanisms or "containers" are there to deal with a large, commercial quantity; he suggested that is much more probable in the northern area.

MR. MYERS brought up another aspect of risk: a licensee going into an area doesn't have the right to produce. The license is a first step, followed by leases if there was success under the licensing program; from those leases would come the production. A licensee in this area would shoot seismic data, the basic tool for finding gas. He pointed out that the technology has changed dramatically since the early 1980s. Modern seismic techniques can find direct indicators of gas. Mr. Myers said:

We think the rocks are the right type in the basin, at the right depths, that there would be direct hydrocarbon indicators from the seismic data, that several different techniques called amplitude versus offset would work here; flat spots or bright-spot technology used in the Gulf of Mexico ought to work ... in this basin as well. So we think this basin is prime, that there's a pretty high likelihood that the seismic data will give a very, very good indication of where to drill here, and that there's a high probability of success (indisc.--coughing) the seismic analysis. That's not always the case ... in other basins. But the rocks are the right type, and the gas indicators ought to work, seismically.

MR. MYERS pointed out that a licensee will spend millions of dollars to shoot modern seismic data, but not without confidence that at the next stage - the lease - there will be access to the land to put facilities in, as well as reasonable confidence

about the ability to put a pipeline in to deliver the gas. A licensee has to look way down the road, and uncertainty with regard to surface access is a huge issue. Mr. Myers elaborated, "They cannot afford to do this project unless they're reasonably comfortable that they can get into the area, and they can - with proper environmental standards - go through the permitting process and actually be able to get the gas to market." He suggested it would be a good question for Andex [Resources LLC], the proposed licensee. He suggested that uncertainty in this case, with regard to the ability to actually build the necessary facilities [because of the game refuge], is perhaps higher than the exploration risk of actually finding commercial quantities of hydrocarbons.

Number 1186

VICE CHAIR FATE asked whether Mr. Myers was saying, then, that it is unlikely the company will try to get the license without the ability to get into the deepest portion [underlying] the game reserve.

MR. MYERS reiterated that it is a good question for the licensee. He surmised that the license would be significantly less desirable to the company, and that the economics would be severely damaged by not having access to the northern area. He said if he were the "explorationist," he probably wouldn't do the project without access to the highest-potential area. He concluded that it is "very, very problematic, to say the least."

Number 1277

VICE CHAIR FATE said some of the conflict was mitigated "when we did discuss this with ... [ADF&G] Commissioner Rue," and that a letter had helped clarify it somewhat. He asked whether Mr. Myers believed the legislature should be involved.

MR. MYERS replied that it's a loaded question, but that with regard to state land, he believes the judgment call is in the legislature's purview. The issue is that this area has known, high wildlife values as well as high gas potential, and oil and gas exploration and development will have some effect on the environment. Mentioning the governor's philosophy of "doing it right, and that we can balance it," Mr. Myers offered his personal belief by drawing an analogy to ANWR [Arctic National Wildlife Refuge], "where we say we can do responsible, safe development." He said it is a balancing act, and a test. The Minto Flats State Game Refuge was created a game refuge because

of its wildlife values; the game management plan has some very tough language, he pointed out, particularly with regard to that northern area. He said [DNR] can work with ADF&G, but ADF&G's mandate is to protect the wildlife, whereas [DNR's] is "to see responsible state oil and gas development." He reiterated his belief that it is predominantly a policy call by the legislature.

Number 1411

REPRESENTATIVE GUESS asked how many other refuges have been opened up to exploration and development.

MR. MYERS answered that Kenai is the classic example. He mentioned Cook Inlet and deferred to Jim Hansen.

Number 1440

JAMES HANSEN, Leasing/Evaluations, Central Office, Division of Oil & Gas, Department of Natural Resources, answered via teleconference, noting that he is the leasing manager for the division. He listed the following refuges in Cook Inlet: Redoubt Bay, Trading Bay, and Susitna Flats. He said those have exploration, and some have production. He noted that the Kenai [National Wildlife] Refuge mentioned by Mr. Myers is a federal one. Mr. Hansen said other state game refuges in the Cook Inlet area have had exploration, but not all of those have production. In response to Representative Guess, he said there are none on the North Slope in the leasing area, and that Cook Inlet has the only ones.

Number 1493

MR. HANSEN, in reply to Representative Chenault, explained that state refuges are called game refuges, whereas the federal ones are called wildlife refuges.

MR. MYERS remarked, "We've seen, I think, pretty successful mitigation of the effects of oil and gas ... in these refuges; we haven't seen, at least to my knowledge, major conflict." He offered his belief that "the system of dual management" can work, "if ... it's so inclined to be done." He also said gas exploration and development is a very different process from that for oil; the environmental impact is far less, and the environmental risks to "wildlife and other values" is a lot less. He said the dominant risk is an oil spill; he asked members to think of the effects on rivers and drainages.

Therefore, there are setbacks and protections built in when licensing and leasing [for oil] in order to protect against an oil spill. With gas, however, that isn't an issue. Furthermore, he mentioned the thermodynamics of a gas line and the permafrost and said:

A gas line in this area would be a buried gas line. It'd be an 18-inch gas line; it would be buried with something like a Ditch Witch, a small piece of equipment. So, again, ... the pad size [is] smaller; again, you don't have oil storage facilities, gathering facilities. There's going to be no tank farms in the area. It'd be a relatively small gravel pad that would be in the area, with producing wells, a little capability to generate electricity for those wells, and a little bit of ... water-and-gas separation equipment. So, [it would have] a very, very small impact. And, again, the examples of that are ... in some of these game refuges. And we think those really are de minimis effects [on] wildlife.

If we were talking about oil, I think we would ... have a lot different, higher level of concern of what could be the catastrophic effects. A little ... buried gas line would be not affected by forest fires or other natural disasters, and, of course, ... a buried line, you can't shoot a hole in it. So, again, if we look at ... the environmental effects, we have to be real cognizant that, in this case, we're overlying an area that ... we basically see no oil potential in, and we're looking at gas, which has very different environmental impacts as well as positive environmental advantages ... to the communities involved and to Fairbanks.

Number 1657

REPRESENTATIVE GUESS asked whether exploration can happen without this bill. She said it seems to be a "certainty" bill to clarify tension between [DNR and ADF&G].

MR. MYERS answered that with or without the bill, there are still outstanding issues of certainty that the lessee has to answer in terms of whether or not, in the northern area, there will be access; it doesn't guarantee that. He added:

I think legislative intent on the issue has value, so I think the bill has some value. But ... it's quite clear there is tension between the agencies, ... I think rightfully so; that's how the system's supposed to work, because we have competing value systems here, and there still is that judgment that ultimately has to be made. So if the legislature deems it appropriate to clarify, I think that's fine. Is the bill absolutely critical? No. What is critical is, the lessee has significant comfort that if they do discover something, they can, in fact, produce it. Without that, they can't go ahead and explore.

Number 1758

REPRESENTATIVE JOULE mentioned public meetings at the end of April in Nenana, Minto, and Fairbanks. He asked whether there was concern about this, especially in the smaller communities in terms of their hunting and trapping issues.

MR. MYERS deferred to Mr. Hansen, who had led those three public meetings.

MR. HANSEN reported that there was concern, especially in Minto and in Nenana, about other people having access to the lands on which they do subsistence hunting. He said, "Their concern is that the wildlife not be impacted, and that ... their way of life not be impacted. In the same meetings, however, they all said they want gas, Minto especially." He said a gentleman in Minto had reported that he pays \$130 a barrel for heating oil, "and they want gas." He added, "As long as it can be done with mitigation measures to protect the wildlife and the habitat, as that's how we do it elsewhere, they have no problem with this project going forward, but they do want their way of life preserved."

Number 1840

REPRESENTATIVE JOULE said it seems the biggest issue would be access, including how it would work; he suggested that impact would be from the initial accessing. He offered his understanding from testimony that day that impacts on wildlife could be mitigated.

MR. MYERS replied:

Yes, we can mitigate those impacts. As far as access, that is something that will be worked out with [ADF&G], the [DNR's] Division of [Mining], Land & Water ..., who also deals with access, and the Division of Oil & Gas. It's also a concern ... of Doyon [Limited] to want this project to go forward; they are concerned about access also. So, it's an issue that's there, and it's something we can deal with ... to everybody's satisfaction.

Number 1912

CHIP DENNERLEIN, Director, Division of Habitat and Restoration, Alaska Department of Fish & Game, speaking via teleconference, offered to provide an overview from the department's perspective or to answer questions.

REPRESENTATIVE JOULE asked whether, as [ADF&G] went through the process, the local fish and game advisory committees were utilized, to what extent, and what their reaction was.

MR. DENNERLEIN said they'd talked with the local advisory committees, and the office in Fairbanks had a series of discussions with Doyon, Limited, whose executive, Jim Mery, he has known for a very long time. Noting that he'd worked with Mr. Mery and with CIRI [Cook Inlet Region, Incorporated] and CIRI Production Company, Mr. Dennerlein said that in his past, he did the environmental work on a development gas well that CIRI Production Company drilled in the Kenai National Wildlife Refuge, and thus is familiar with "both sides of the house here." He reported that Doyon, Limited, has dual concerns: protection of subsistence resources, particularly for the villages, as well as wanting the gas. He remarked, "So we've made extra effort - our staff up there - and Doyon has been excellent in sitting down and working with us to balance those concerns. So, the answer is yes, with the advisory committees, with villages, and through ... Doyon and TCC [Tanana Chiefs Conference, Inc]."

Number 2041

REPRESENTATIVE GUESS requested Mr. Dennerlein's overview and his thoughts about this process, the need for this bill, and whether he and the Division of Oil & Gas can work this out.

MR. DENNERLEIN agreed with Mr. Myers that there are two valuable resources [in the basin]: it is known that there is wildlife,

and it is suspected and hoped, by the state, that there is gas. With regard to the area north of the river, the Minto Flats area, Mr. Dennerlein said the concern with and attention to it predates establishment of the refuge. In all of the Tanana basin plan, it was the single area of most importance for wildlife; areas of that were the most productive, particularly for waterfowl, and some of the most sensitive in all the Tanana basin plan. Establishment of the refuge followed. Furthermore, this area has the highest public-use harvest of waterfowl in Alaska, for both sport and subsistence use, and is consistently productive. Areas north of the river are pretty extensive complexes of interwoven lakes, ponds, and wetlands that are prominent from the air, he noted.

MR. DENNERLEIN explained that development of subsurface oil and gas resources is allowed in the Minto Flats State Game Refuge by law; the test is compatibility with the fundamental purposes - "in other words, that you can do it right, and you can do it without harming the fundamental purposes of wildlife protection ... and public use in sustaining ... those uses and harvests." It is not only in statute, but also is in the plan and in the "publicly adopted regulations."

Number 2188

MR. DENNERLEIN addressed access to the northern area. He said it is hard to look at such access as a "blanket over the whole area." There are three aspects of access. With regard to the first, access for exploration, he said, "We don't see that as a problem"; referring to Mr. Myers' testimony, he said there are new techniques, for example. The second aspect of access for a company, for drilling and development, involves pads and may involve reserve pits and "getting on the ground and producing." The third, long-term access is production and maintenance.

MR. DENNERLEIN noted that a licensee or operator needs to know two things if [gas] is found: whether the company can produce it, and whether the company can get it out [to market]. Therefore, the issues are pads and onsite development of a gas well or wells, and the pipeline. Referring to the commissioner's letter mentioned earlier, he offered that [ADF&G] can "work with those" and define specific areas that are better to operate from; for example, there can be directional drilling. He suggested the big issue would be the ability to get the resource across [the refuge] or out, if found. He said, "If we can do the submerged or the buried pipeline, great; ... that's going to take some in-field work because of the wetlands

complexes and things, but it's really a matter of ... having the company know that we can work with them over the general area, which we can, and the commissioner's letter says that."

Number 2335

MR. DENNERLEIN also indicated the commissioner's letter says there will be some places incompatible with onsite, physical development such as an access road or a pad. He added, "The statute says that, and I think we can make that determination." He suggested that within those sideboards, however, a variety of techniques can be found using today's technology to "accomplish the project." As for the pipeline, he said it will just require a combination of design, engineering, and siting; [ADF&G] and [the Division of] Oil & Gas will have to work in the field to get it right. He mentioned having the legislation reflect what the regulations say, that as long as it's compatible with those fundamental purposes, development of these resources is allowed by law in the refuge.

Number 2393

REPRESENTATIVE GUESS asked whether that means that the bill doesn't prohibit ADF&G from following its [current] statutory guidelines.

MR. DENNERLEIN answered in the affirmative, noting that some areas in the Minto Flats are physically, from a biological and terrain [standpoint], much more sensitive than the coastal plain of ANWR, where the state has taken the position that it can be developed correctly but that some places may be precluded from development. With regard to Minto Flats, he said it is exactly the same situation, and concluded, "We don't think that it precludes the overall development, and we think this bill allows us to make those site-specific decisions in the field, ... moving forward with the intent that we're going to have a viable natural-gas production program if the company is good enough and lucky enough to define producible quantities of a reserve."

Number 2470

REPRESENTATIVE GUESS asked Mr. Dennerlein whether the Kenai [National Wildlife Refuge] is similar, and what those impacts have or have not been.

MR. DENNERLEIN answered that there are similarities and differences. The interior complex of ponds and wetlands in

Minto Flats is the "hot spot" in that whole drainage. The similarities are on the west side along some of the key rivers, and the mix of wetlands adjacent to those; there are some similar environments. He said it is [easier] siting, in most cases, on the west side. Another difference is that in the Susitna Flats there is both oil and gas. When oil is produced, it is still shipped by boat, he said, noting that this week he and the Department of Environmental Conservation (DEC) were dealing with an old reserve pit in a refuge "that has some nasty stuff in it and needs to get out of there." That won't be the case for Minto Flats, he indicated, adding that drilling fluids and pad sizes have really changed, as have directional drilling opportunities. He emphasized changes in technology, but said there is more sensitivity in parts of the Minto Flats refuge; thus siting will be "a little trickier, but doable, and we have the advantage of better in-field practices and knowledge over time."

Number 2583

VICE CHAIR FATE asked Mr. Dennerlein whether any endangered species are in the sensitive areas.

MR. DENNERLEIN replied, "Not that we are aware of." Indicating there is a large mix of waterfowl species, many of them harvestable, he mentioned management plans and "joint flyway plans that we're involved in with ... 11 other states we share resources with."

Number 2626

REPRESENTATIVE CHENAULT noted that one proposal talks about ice roads. He asked what concerns the department would have with regard to wintertime drilling and waterfowl issues.

MR. DENNERLEIN answered, "Seasonal operations would be very important to us." Surmising that any company would like as much of a window as possible, he characterized DNR as very sensitized "on seasonal." Furthermore, Doyon, Limited, is a major player there; mentioning its shareholders and subsistence users, he said, "We would have pretty common agreement and allies about what would be ... reasonable windows to ... go in on the ground and do some of the ... work. I don't see a problem there."

Number 2761

MR. DENNERLEIN referred to an issue raised by Representative Joule and a message sent by Jim Mery [of Doyon, Limited] to Representative Coghill expressing initial confusion and concern about ADF&G's position and whether it was a "blanket prohibition." Mr. Dennerlein told members:

I want to let the committee know that our biologists first said, "Yes, our preference - our world view, I'll be honest - is we'd rather this not be in the lease sale." The advisory was meant to say, if the core area is going to be included, then we want to put this advisory in to let the licensee know we need to sit down and do this site-by-site work, and there may be ... some places ... we want to avoid.

MR. DENNERLEIN noted that [Mr. Mery] of Doyon, Limited, had sent a note to Representative Coghill that said the following:

The current ADF&G position and commitment are all that we could reasonably expect at this early stage, [and] recognize that there are sensitive areas, ... some of which will need to be avoided; others will require appropriate mitigation measures; and in some, we are satisfied with ADF&G's position and look forward to continue to working with them in a positive and productive manner.

Number 2801

JIM HAINES (ph) testified via teleconference, emphasizing that he was speaking as a private citizen, although he'd recently retired from the Division of Oil & Gas. He said he'd worked with Jim Mery for more than ten years, trying to put some sort of program together, and has had some "face-to-face confrontations at the commissioner level with [ADF&G] over the refuge and the language." He said the access language was addressed more than ten years ago, and that he would like to help however he can in ensuring that Andex Resources LLC, which is committed to spending millions of dollars, has proper access and the ability to get its product out and to market.

Number 2869

KEN BOYD, Oil and Gas Consultant, came forward to testify, noting that he was speaking on his own behalf, although he'd been either deputy director or director of the Division of Oil & Gas for more than 10 years, and had been an exploration

geophysicist for 17 years with a couple of oil and gas companies. He concurred with Mr. Myers' testimony in terms of the basin, as well as the testimony of Mr. Haines; he said both had worked for him for 10 years, working closely on these issues. Stating support for HB 527, he remarked, "I'm actually sorry that we need it." He noted that he'd worked for Arctic Power [a lobbying group dedicated to opening ANWR to exploration] and said he'd made about 20 trips to the North Slope and had taken the Secretary of the Interior on her first trip to ANWR, NPR-A [National Petroleum Reserve - Alaska], and Alpine to see the operations in those very sensitive areas. Mentioning the discussion of evolving technology, he stressed its importance.

MR. BOYD offered his belief that [the state] should either be "open for business" or not; he said the problem here is uncertainty. He mentioned that in 1992 he and Mr. Haines, then manager of "permit and compliance," had met with Jim Mery of Doyon, Limited, at a time when companies were "leaving the state in droves."

TAPE 02-26, SIDE B
Number 2960

MR. BOYD mentioned the North Slope and Cook Inlet, and said companies would nominate small areas and wind up cutting up prospects in half; some year passed, and finally areawide leasing was adopted, which he said has been one of the most successful programs. Returning to 1992, he said a huge amount of land in Interior basins wasn't being developed; companies weren't nominating these basins because they were geologically difficult, unknown, and far from infrastructure, and companies were "sticking right close to TAPS [Trans-Alaska Pipeline System]." A new program was needed, and what was adopted for exploration licensing is a hybrid of "a whole bunch of programs that are done all over the world."

MR. BOYD said the United States is unique in some ways: the federal and state programs are "auction programs" whereby the highest bidder wins the lease for a period of time, pays a bonus and rental, and has a fixed royalty; overseas, however, it is mostly done "by license, or some version of that word, or 'concession' is often used." He added, "We decided not to use 'concession' because it just doesn't sound right, so we use the word 'license.'" He said that with the licensing program, there is no upfront bonus bid; the purpose is to put the money that a company bids "into the ground, just as Andex has done." He said

he thinks it is an important program, but acknowledged that it hadn't caught on right away. He asked Mr. Myers to correct him if necessary, then remarked, "I would say that ... exploration licensing was conceived in the Tanana and Nenana basins; it was actually born in Copper River, where the first license was issued a couple of years ago. The division now has licenses before them in ... the Susitna area, and now here ... in the Nenana basin."

Number 2854

MR. BOYD offered his belief that exploration isn't a problem in ANWR or "virtually anywhere" because it is mostly done in winter and is easily mitigated. However, no company will explore without development [if something is found]. He said he believes there needs to be certainty with regard to both exploration and development; if areas are to be identified as off-limits, it should be specified where those are, and what the reasoning is. Saying he perhaps should have been a biologist, Mr. Boyd remarked, "You follow the animals around, and the ones that are most critical, that's where the oil is. It works in ANWR, it works in NPR-A, it works in the Kenai, and it seems to work here." He concluded by saying he believes this area can be opened for successful exploration and development, and that access to these lands is needed in order to have a successful licensing program.

Number 2763

REPRESENTATIVE GUESS asked whether Mr. Boyd believes there is a problem with what Mr. Dennerlein was talking about, the need for site-by-site work.

MR. BOYD replied:

If those areas are currently identified and there's a reason for that, I guess I don't have a problem. My problem is that those areas have a tendency to sort of wander sometimes. ... If the areas can be identified upfront, I think the company then has the certainty to say, "I'm not interested anymore; it just takes too much off the table."

Number 2763

REPRESENTATIVE GUESS asked whether, by definition, the oil and gas industry is an uncertain industry.

MR. BOYD responded, "There's no question about that, ... but you don't want to keep piling uncertainty on top of uncertainty." He recalled that when he was in the business, the greatest risk was the exploration risk, with a one-in-ten chance of success. With new technology, there is a five-in-ten success ratio in some areas. Now, however, there seems to be risk with regard to permitting, and companies have expressed concern about access and mitigation measures. He concluded, "More risk doesn't make it better."

Number 2707

VICE CHAIR FATE asked whether anyone else wished to testify; he then closed public testimony. He surmised that if this is commercially successful, it will potentially bring cheaper energy to the Yukon basin as well.

REPRESENTATIVE GUESS asked why Andex Resources LLC hadn't testified, since this is a bill the company should support.

VICE CHAIR FATE noted that Andex Resources LLC had provided a lot of testimony on HB 307, an "incentive bill."

Number 2581

REPRESENTATIVE KOHRING moved to report HB 527 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 527 was moved out of the House Special Committee on Oil and Gas.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 9:02 a.m.