

ALASKA STATE LEGISLATURE
SENATE RESOURCES COMMITTEE

February 21, 2001
3:35 p.m.

MEMBERS PRESENT

Senator John Torgerson, Chair
Senator Drue Pearce, Vice Chair
Senator Pete Kelly
Senator Robin Taylor
Senator Kim Elton
Senator Georgianna Lincoln

MEMBERS ABSENT

Senator Rick Halford

COMMITTEE CALENDAR

SENATE BILL NO. 77

"An Act repealing the exception that applies to collection and payment of interest of \$150 or less on royalty or net profit share underpayments and overpayments; and providing for an effective date."

MOVED SB 77 OUT OF COMMITTEE

CS FOR HOUSE JOINT RESOLUTION NO. 7(RES)

Urging the United States Congress to pass legislation to open the coastal plain of the Arctic National Wildlife Refuge, Alaska, to oil and gas exploration, development, and production.

MOVED CS HJR 7(RES) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

SB 77 - No previous action to consider.

HJR 7 - No previous action to consider.

WITNESS REGISTER

Mr. Darwin Peterson
Staff to Senator Torgerson
State Capitol Bldg.
Juneau AK 99811

POSITION STATEMENT: Commented on SB 77.

Mr. Mark Meyers, Director
Division of Oil and Gas
Department of Natural Resources
550 W 7th, Ste 800
Anchorage AK 99501

POSITION STATEMENT: Supported SB 77.

Representative Beverly Masek
State Capitol Bldg.
Juneau AK 99811

POSITION STATEMENT: Sponsor of HJR 7.

Mr. Ed Grasser
Staff to Representative Masek
State Capitol Bldg.
Juneau AK 99811

POSITION STATEMENT: Commented on HJR 7.

Mr. John Schoen
Audubon Alaska
308 G St, #217
Anchorage AK 99501

POSITION STATEMENT: Commented on HJR 7.

Ms. Adeline Raboff
No address provided
Fairbanks AK

POSITION STATEMENT: Opposed HJR 7.

Ms. Sue Schrader
Alaska Conservation Voters
Alaska Conservation Alliance
P.O. Box 22151
Juneau AK 99802

POSITION STATEMENT: Opposed HJR 7.

ACTION NARRATIVE

TAPE 01-15, SIDE A

Number 001
#SB77

SB 77-NET PROFIT SHARE UNDER/OVERPAYMENTS

CHAIRMAN JOHN TORGERSON called the Senate Resources Committee meeting to order at 3:35 p.m. and announced SB 77 to be up for consideration.

MR. DARWIN PETERSON, Staff to Senator Torgerson, sponsor, said,

In 1998, the Legislature enacted AS 38.05/135(g), exempting the Department of Natural Resources from calculating interest on small over or underpayments of royalty if the interest is \$150 or less. The cost of calculating these small over/underpayments was more than the interest received or credit applied. Prior to 1998, DNR was calculating these small payments manually. For the 12 months prior to October 31m 2000, the state processed 1716 royalty filings where interest amounts were between a negative \$150 and a positive \$150. The net amount of these under/overpayments was a positive \$4,096.

The effort of calculating, processing and tracking interest for small under/overpayments was not cost effective for either oil companies or the state. With the advent of the state's new Oil and Gas Royalty Accounting system, all interest is calculated electronically. Also, most royalty payers are using mainframe computer systems and sending their royalty reports electronically. The failure to repeal AS 38.05.135(g) would require the Department and royalty payers to reprogram their computer systems to not compute under or overpayments of interest less than \$150.

The sophisticated computer systems used by the royalty payers and the state are now able to quickly compute the interest owed on even the smallest under or overpayment. All the royalty payments are automatically summed together and one wire transfer is used for payment. The repeal of AS 38.05.135(g) will solve the problem of the administrative burden on the part of the royalty payers and the state to manually track very small amounts of interest. It is an unnecessary expense to reprogram computer systems to handle separate interest calculations for these small amounts of interest, especially when a much easier option is available.

MR. MARK MEYERS, Director, Division of Oil and Gas, supported SB 77 because it provides a more complete and accurate answer and involve less work and it will be revenue neutral in the long run. He thought the lessees would support the bill as well.

CHAIRMAN TORGERSON noted the committee had a letter of support from Mr. Geoffrey Stein, Associate General Tax Counsel, BP.

SENATOR PEARCE moved to pass SB 77 from committee with the accompanying fiscal note and individual recommendations. There were

no objections and it was so ordered.

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#HJR7

HJR 7-ENDORSING ANWR LEASING

CHAIRMAN TORGERSON announced HJR 7 to be up for consideration.

REPRESENTATIVE MASEK, sponsor, said:

Opening the coastal plain to oil and gas exploration and development is supported by a majority of Alaskans including those who live close to the coastal plain. One of the leading arguments made against opening ANWR that is made by environmental preservationists concern the health of the Porcupine Caribou herd. Records indicate that concern may be overstated as the Central Arctic Caribou herd has prospered since development at Prudhoe Bay has taken place. Furthermore, most biologists have not offered any conclusions that development would be detrimental. That herd has survived development at Prudhoe Bay, but it has grown since it was opened.

REPRESENTATIVE MASEK said that production at Prudhoe Bay is declining and ANWR might represent our best opportunity to locate and recover sizeable reserves of oil. It is in our financial and best interest as a state to provide opportunities to extend oil production and use of the existing infrastructure.

It has been said that reserves we locate in ANWR may only provide six months of oil given America's current rate of consumption. Alaskans should not look at this opportunity that way. A discovery in ANWR would provide years of good jobs for Alaskan and it would insure that the state treasury continues to receive oil revenues for a much longer period. Both jobs and state revenues are something that other industries cannot replace, at least not at the current levels provided by the oil industry. With the election of President Bush and continued control of Congress by Republicans, Alaska has its best chance right now to persuade the federal government and the American public to open ANWR. With the energy problems California is experiencing along with the increase in energy costs across the nation over the past year, Alaska has a window of opportunity to convince the American public that exploration and development in ANWR would be in the nation's best interests. We should take advantage of that opportunity.

SENATOR LINCOLN said her district covers Arctic Village and Venetie where the Porcupine Caribou herd is part of their life. They have been consistent with their concern for the core area for calving and that they might move from there. She asked how she would respond to those concerns.

REPRESENTATIVE MASEK said her point was valid, but since the pipeline opened over 20 years ago, the caribou herd has and continues to prosper. Biologists are saying that the pipeline is good in that area, because in some cases the caribou go to it to get in the shade and in some cases they go up on the gravel beds where there is a wind and they can get away from the bugs. She is under the impression the Gwich'in people have applied for permits in the past around Kaktovik and they did not find any oil, so it seems a contradiction if they are saying the caribou are not being protected. If they had found oil, they would have developed it. "If the caribou herd was in decline, we would have to look at it differently."

SENATOR LINCOLN said that Arctic Village and Venetie never applied for any oil exploration for themselves. She has also witnessed the caribou under the pipeline and the buildings, but she can't get to them there. She didn't know if their migration had changed due to the pipeline. She is very concerned for the migration pattern of this Porcupine Caribou herd. Her mother told her when she grew up in Rampart that you could almost walk across the backs of the caribou that were bank to bank in the Yukon River that went right through their village. In her lifetime, Senator Lincoln said, she hadn't seen those caribou at all, although she has heard there is a herd of about 25 that is 30 miles below Rampart.

SENATOR LINCOLN appreciated the improvements in HJR 7 recognizing how much her villages depend on the caribou for their livelihood, but she could not support it because of just knowing the area and how much it could possibly have a negative affect on the lives of the people there.

REPRESENTATIVE MASEK responded that she understood Senator Lincoln's concerns and she also thought protecting the animals was important. There were a lot of moose in the area she grew up in and couldn't say the oil effected them. She pointed out that a number of Senator Lincoln's constituents work for the oil companies and she is on the Doyon Board which has a drilling rig on the Slope. Opening up ANWR would open up more possibilities for her constituents.

Number 1100

CHAIRMAN TORGERSON asked why there was a "no more clause." He thought it might cloud the issue as well as the 9010 part telling Congress we might be coerced into accepting something we don't want to.

REPRESENTATIVE MASEK replied that issue had been discussed in the House Resource Committee and she felt it was an important message to send to Congress.

CHAIRMAN TORGERSON replied that he didn't disagree, but he thought it might cloud the main message, which is to open up ANWR. The resolution gets into wilderness areas, the no more clauses, and the 9010.

REPRESENTATIVE MASEK said she didn't know if it would get to the Delegation in time to deliver it to the Energy Council before it met in D.C. if they would start changing it.

SENATOR TAYLOR noted that on the bottom of page 2 she addresses the concerns of the Porcupine Caribou herd, but on page 3, line 12 the same thing is restated and is coupled with the concept of using the state's workforce to the maximum extent possible. It seemed like an odd combining of the two.

MR. ED GRASSER, staff to Representative Masek, explained that to a large extent this was the same resolution that passed last year, although the House changed parts of it. One "whereas" was taken out because it was no longer timely.

SENATOR TAYLOR noted that back in the 70's everyone thought the Central Arctic Caribou herd would be hurt by the pipeline, but all the statistics he has heard say that herd is 7 to 9 times greater today since the building of the pipeline. He asked if there was any factual basis for the concerns that have been expressed about the Porcupine Caribou herd.

MR. GRASSER replied that he had discussed that issue with Pat Volcanberg, ADF&G who said that the normal rule of thumb has been to err on the side of caution if you don't have scientific data. It appears that most caribou herds throughout Alaska would be able to sustain the development in ANWR because they traditionally change their migration routes. However, biologists just aren't sure.

SENATOR TAYLOR said he wasn't questioning the validity of a concern. He was questioning the basis for it. There must be some basis for it in fact. He thought evidence in the form of the Central Arctic Caribou herd actually increasing 7 to 9 times after

the pipeline was built would indicate that the facts are that if you build another pipeline, you will probably help the caribou in that area, not hurt them.

MR. GRASSER said he wasn't aware of any evidence.

SENATOR ELTON said he thought it was interesting that as part of the packet there were two documents; one was an overview by Ken Whitten, retired ADF&G Research Biologist, which noted:

The Porcupine Caribou herd far exceeds the Central Arctic herd in importance as a regional subsistence resource and the preferred coastal plain habitats in the Arctic Refuge are much narrower than the range of the Central Arctic herd and the disturbances so far have only displaced Central Arctic caribou and other coastal plain inhabitants - a few predators. But if a similar special displacement, and he acknowledges that there was a displacement of the Central Arctic herd, which would occur in the Arctic Refuge, caribou would be driven to foothills and mountains with more abundant predators and/or lower quality forage and consequently, that herd may not fare as well as the Central Arctic herd did, apparently.

SENATOR ELTON pointed out another document from some biologists, both active and inactive. He thought it was clear there is some dispute about what might happen.

MR. JOHN SCHOEN, senior scientist, Audubon Alaska, said prior to working for Audubon, he spent 20 years as a wildlife biologist for the ADF&G. While there, he supervised research work on ANWR in 1989 and 90, including work by Ken Whitten. He serve as an affiliate professor of wildlife biology at UAA.

MR. SCHOEN urged caution regarding oil development and its effects on the wildlife and wilderness within the coastal plain of ANWR saying:

The Refuge is the United States' only conservation unit that encompasses an intact arctic ecosystem. In 1960, when the original Arctic National Wildlife Range was established, the purposes for its establishment were for preserving the areas unique wildlife, wilderness and recreation values.

MR. SCHOEN read an excerpt of a letter signed by over 250 North American scientists including 60 Alaskan scientists regarding the Arctic Refuge:

Five decades of biological study and scientific research has confirmed that the coastal plain of the Arctic Refuge forms a vital component of the biological diversity of the Refuge and merits the same kind of permanent safeguards and precautionary management as the rest of the original conservation units. In contrast to the broad coastal plain to the west, the coastal plain in the Refuge is much narrower, from 15 - 40 miles to the Brooks Range. This unique compression of habitat concentrates the occurrence of a wide variety of species, including polar bears, grizzly bears, wolves, caribou, musk ox and more than 130 migratory birds. The coastal plain provides essential calving and post-calving habitat to the Porcupine Caribou herd. The Gwich'in Nation of Alaska and Canada depends upon the sustained productivity of the Porcupine herd and are justifiably concerned about security. Extensive research on the Central Arctic herd at Prudhoe Bay indicates that there have, indeed, been appreciable losses of preferred calving and summer habitats in response to petroleum development.

MR. SCHOEN continued:

Biologists have also identified conservation concerns with other wildlife populations in the Arctic Refuge including polar bears, musk oxen and snow geese. Based on our collective experience and understanding of the cumulative affects of oil and gas exploration and development on Alaska's North Slope, we do not believe the impacts have been adequately considered for the Arctic Refuge and mitigation without adequate data on this complex ecosystem is unlikely.

MR. SCHOEN added that they do not think this issue is just a simple issue of mitigating impacts to caribou, but it's more a fact of safeguarding the entire ecological integrity of the Refuge including the coastal plain, which is largely the biological heart of the Refuge. He agreed with others that there is a high degree of uncertainty and a need for precautionary measures.

Number 1800

SENATOR PEARCE said the Porcupine Caribou herd had been under minute research for quite a few years in terms of calving areas. Calving did not always take place in the heart of the calving grounds in the 1002 area, rather, in some years the snow was deep and the calving took place further up the mountain. She asked if there was research that the sustained productivity of the herd was

less in those years.

MR. SCHOEN replied that he thought there were only two out of the 8 to 10 closely monitored years that the Porcupine herd did not calve in the "core calving area" within the 1002 area. There are concerns that if they go further up the foothills, they're in an area that won't provide as valuable or nutritious forage and that area is more prone to higher density of predators, including grizzly bears and wolves.

SENATOR PEARCE said she thought there were more than two years out of 10 that the primary calving was not in that core area and didn't think there was any scientific research showing there was less sustained productivity in those years. She noted that the letter Mr. Schoen referenced was based on research that was done before 1991 and does not include some of 90's when some of the calving happened outside of the core area.

CHAIRMAN TORGERSON commented that the Canadian Gwich'in argument is starting to carry less weight with him when they are starting to sell drilling rights on their land and building pipelines.

MS. ADELIN RABOFF, Fairbanks, said she was born and raised in the Arctic village of Fort Yukon. She does not agree with this resolution at all. She wanted to see ANWR maintained as a wilderness. Any development there would be detrimental to the wildlife. She mentioned that persistent pollutants contribute to global warming and are detrimental to fish and waterfowl, as well. A lot of water would be taken from the lakes and rivers causing more impacts.

SENATOR LINCOLN asked her if the Porcupine Caribou herd changed its migratory patterns or something happened in the core calving area, what would be the impact upon Arctic Village and Venetie.

MS. RABOFF answered that it would probably create a real hardship. In approximately 1950, the Porcupine Caribou herd was in the Sheenjek Valley and all the calves died. [indisc.]

MS. SUE SCHRADER, Alaska Conservation Voters and Alaska Conservation Alliance, said they are sister, nonprofit organizations dedicated to protecting Alaska's environment through public education and advocacy. They represent over 35,000 registered Alaskan voters. Their members are concerned with the energy distribution problems going on in California and the effect they are having on the national economy, but they don't think opening ANWR to exploration and drilling is the answer to the current situation.

MS. SCHRADER reminded the committee that there are thousands of Alaskans who are joined by hundreds of thousands of Americans and

they are all opposed to opening the Refuge. They have a variety of reasons. "It is disingenuous to lead the American people to believe that we can drill our way to oil independence," she said.

The amount of oil there is a debate. The U.S. contains about five percent of the world's population and yet every year we use 25 percent of the world's produced oil. We are not going to be satisfied by simply opening the Refuge. She said seeing pictures of caribou rubbing themselves on the pipeline does not accurately portray the impacts of oil development on the North Slope. The impacts that Prudhoe Bay have caused on caribou are scientifically documented Ms. Schrader said. Also, resources vital to the subsistence lifestyle and all the North Slope should be protected. There should be scientific evidence proving that oil exploration and drilling will not impact the caribou and other resources that the Gwich'in depend on before ANWR is opened. Not doing that clearly makes opening ANWR a human rights issue. She hoped they would take time to read the letter that 200 scientists signed so they could have an understanding of why so many Alaskan and Americans are going to fight very hard to protect ANWR.

MS. SCHRADER commented about the Porcupine Caribou herd that a letter dated December 11 states that in four of the past 30 years the caribou have not calved on the coastal plain. The scientific articles substantiating that claim are attached to that letter.

SENATOR LINCOLN asked if there was research she could site that would answer Senator Taylor's concerns.

MS. SCHRADER responded that Senator Elton pointed him in the right direction to Ken Whitten's article.

TAPE 01-15, SIDE B

MS. SCHRADER said it states that there are 5,000 caribou roughly in the mid 1970s when oil development first started and in the year 2000 it is 27,000. She said the scientific articles are listed there and could be found at the Juneau Library.

SENATOR TAYLOR clarified that he had reviewed the referenced documents and he said that the "scientists" who signed the letter weren't all scientists. Most of them were managers of environmental organizations. Mr. Whitten doesn't even start looking at the herd until the mid-70s when the herd was less than 5,000. He had asked if there was any historic or factual basis for the concerns expressed on adversely impacting a caribou herd.

MS. SCHRADER responded that she had a scientific article that she would provide him.

SENATOR TAYLOR moved to pass CSHJR 7(RES)am from committee with

individual recommendations.

SENATOR KELLY objected for purposes of discussion and asked if there was an outdated section that needed to be taken out.

CHAIRMAN TORGERSON said he thought there was testimony that it was already taken out.

SENATOR TAYLOR mentioned a typographic error that the drafters could clean up on page 3, line 12. That was so ordered.

SENATOR KELLY removed his objection.

SENATOR LINCOLN objected for purposes of discussion. She always has difficulty with weasel words like "maximum extent possible" on page 3, line 12 where it says "and uses the state's work force to the maximum extent possible;"

She said it doesn't mean anything and she doesn't like to see that kind of language in a resolution. The last "Further Resolved" was new language from last year. After noting those things, she said she wasn't supporting the resolution anyway, but would remove her objection.

CHAIRMAN TORGERSON said that without objection, CSHJR 7(RES)am moved from committee with individual recommendations and the accompanying fiscal note.

CHAIRMAN TORGERSON adjourned the meeting at 4:30 p.m.

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