

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS

April 29, 2003

3:20 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Hugh Fate
Representative Jim Holm
Representative Harry Crawford
Representative Beth Kerttula

MEMBERS ABSENT

Representative Lesil McGuire
Representative Norman Rokeberg

OTHER LEGISLATORS PRESENT

Representative Cheryll Heinze

COMMITTEE CALENDAR

HOUSE BILL NO. 246

"An Act relating to the limitation on upland acreage that a person may take or hold under oil and gas leases; and providing for an effective date."

- MOVED HB 246 OUT OF COMMITTEE

HOUSE BILL NO. 277

"An Act relating to the powers of the Regulatory Commission of Alaska in regard to intrastate pipeline transportation services and pipeline facilities, to the rate of interest for funds to be paid by pipeline shippers or carriers at the end of a suspension of tariff filing, and to the prospective application of increased standards on regulated pipeline utilities; allowing the commission to accept rates set in conformity with a settlement agreement between the state and one or more pipeline carriers and to enforce the terms of a settlement agreement in regard to intrastate rates; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS ACTION

BILL: HB 246

SHORT TITLE: OIL & GAS AUDITS & ACREAGE LIMITS

SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

Jrn-Date	Jrn-Page		Action
04/04/03	0783	(H)	READ THE FIRST TIME - REFERRALS
04/04/03	0783	(H)	O&G, RES
04/04/03	0783	(H)	FN1: INDETERMINATE (DNR)
04/04/03	0784	(H)	GOVERNOR'S TRANSMITTAL LETTER
04/24/03		(H)	O&G AT 3:15 PM CAPITOL 124
04/24/03		(H)	Scheduled But Not Heard
04/29/03		(H)	O&G AT 3:15 PM CAPITOL 124

WITNESS REGISTER

MARK MYERS, Director
Division of Oil & Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Presented HB 246 and answered questions.

MARK HANLEY, Public Affairs Manager, Alaska
Anadarko Petroleum Corporation
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 246.

ACTION NARRATIVE

TAPE 03-19, SIDE A

Number 0001

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at 3:20 p.m. Representatives Kohring, Holm, Fate, Crawford, and Kerttula were present at the call to order. Also present was Representative Heinze.

HB 246-OIL & GAS AUDITS & ACREAGE LIMITS

Number 0079

CHAIR KOHRING announced that the only order of business would be HOUSE BILL NO. 246, "An Act relating to the limitation on upland acreage that a person may take or hold under oil and gas leases; and providing for an effective date." [HB 246 was sponsored by the House Rules Standing Committee by request of the governor.]

Number 0118

MARK MYERS, Director, Division of Oil & Gas, Department of Natural Resources, explained that HB 246 recognizes changes in the state's oil and gas leasing programs and changes in the view of economics relating to some Interior basins and other areas. Now there is an expanded leasing program, he reported, with much more interest by traditional North Slope explorers and developers and by newer "independents" that have picked up a sizable amount of acreage.

MR. MYERS noted that current state law limits a company to 500,000 acres of onshore non-unitized acreage. He said he believes the purpose of that well-thought-out law was to ensure a competitive environment in which no one company dominates Alaska's oil and gas industry. Along with increased interest in Interior basins since [enactment of that law], however, two new programs have been passed. One, exploration licensing, allows a company to pick up to 500,000 acres with a license that later can be converted to a lease if the work commitments are met. Thus a company with a single exploration license in an Interior basin might use its entire statewide accumulation in converting to leases, which would make that company ineligible to "play in other areas." Under that program, the exploration-related economics aren't seen as being highly linked from basin to basin, Mr. Myers said, "so we don't see the competitive issue there that would exist, ... say, on the central North Slope."

MR. MYERS reported that the other new program is the shallow gas leasing program, under which a company can get up to 100,000 acres that would count against the company's statewide accumulation [limit], an aggregate of 500,000 [acres]. He told members:

We think a larger number is more appropriate. We do understand the original intent, ... we believe, of the 500,000 acres to the North Slope. To that end, the incremental change in the bill is to increase that number from 500,000 to 750,000; so, incrementally, a company could pick up 250,000 acres. But there's a catch: no more than 500,000 acres can be on ... the traditional North Slope, and we picked the Umiat [Meridian] baseline.

Number 0350

MR. MYERS pointed to a map on the wall and mentioned areas where traditional state lands for oil and gas [development] have been. He explained:

We don't particularly want to see an additional concentration of ownership in that area, in particular, but in other areas south of that line, we think it's appropriate, again, because of the geological distinctness in the basin, the large amount of state land available, and the desire to see more exploration licenses and more leasing ... under the shallow gas program, in addition to potentially more leasing on shore in [the] Cook Inlet area.

... We think this falls within the intent of the original 500,000-acres [limit] but expands it and creates better opportunities. We also know that several of our explorers and developers are near or at the 500,000-acre limit, which prohibits them or limits their ability to be able to purchase leases or licenses south of that line. So, again, we're trying to expand the ability of current companies that are at or near their limit and encourage companies to pick up maybe two exploration licenses - those sorts of things - which they [may] convert to leases.

Number 0439

REPRESENTATIVE HOLM asked what non-unitized acreage is.

MR. MYERS answered:

Under state law, once production starts, basically, almost all the production from the state is ... in oil and gas units. An oil and gas unit's an aggregate of leases put together either for joint exploration or development. The unit then ... typically extends the primary term of the lease, but also has work-commitment requirements. ... The primary term of a lease is basically for the initial exploration phase. Once you find something, our lease is [for] either seven- or ten-year periods. You're going to go well beyond that primary period in the production. So there needs to be a mechanism, first of all, to hold those leases.

Finally, our oil fields are typically much larger than a single lease. So you want to produce that in common, through common facilities, to maximize production and to maximize performance of the reservoir as well. So, to do that, the leases are aggregated together, formed into what's called a unit, which holds those leases beyond their primary terms ... as a net operation.

There's typically a single unit operator, then, and a single set of facilities, and then multiple well pads drilling into that unit. So ... it's sort of an economic and a physical unit designed to extend the leases, but also to see aggregate production. The unit must be based on the underlying geology, and the work commitment must be appropriate to developing [the] underlying resources.

And then, ultimately, units contract to ... very close to the size of the actual reservoir, ... what's called a participating area. So units initially start out larger; they can, from that point, either contract down to the size of the reservoir or expand as additional reservoirs that are produced through those common facilities are found and discovered. But they (indisc.) by production, so those ... leases within those units are exempt from the 500,000-acre limit.

Number 0608

REPRESENTATIVE KERTTULA asked how many companies are at or near the 500,000 acres right now and whether any companies have come forward saying they feel they are being precluded or that this will result in too much acreage in one company's hands.

MR. MYERS highlighted the four major players currently. He said right now the companies at or close to the limit are Anadarko [Petroleum Corporation] and Petro-Canada; under the limit, but not significantly so, is ConocoPhillips [Alaska, Inc.]. Noting that BP at one time was [near or at the limit], he said, "Of course, with their divestiture, it's probably not an issue." He went on to say:

As far as concerns, I think legitimately people can be concerned with owning too much acreage in a single basin. ... And we're trying to increase competition in areas south of the Umiat [Meridian] baseline. So

there may be some companies that might oppose this if they see this as creating more competition in that area.

There's also, clearly, a philosophy that we need to accelerate development, and by allowing more acreage, there is a counterargument saying that you might defer people from developing their existing acreage by letting them acquire more, or diluting their potential capital for exploration in that area.

The counterargument to that is, ... I think I agree with that on the central North Slope, [but] moving to these new areas, you need a large amount of acreage; that's what that exploration license is about, because you have no proven potential in those areas, and ... you need a core baseline to build the infrastructure to produce those hydrocarbons. So you need a significant quantity of oil and gas in that area. And to do that, you have to acquire a lot of acreage and [do a lot of] exploration to do it.

As a basin matures, that changes. ... In a mature, producing area, maybe ... the number would be too large. But in frontier basins, where clearly we're trying to attract capital - like in our license areas, for example, Nenana basin - a company needs to be able to acquire a substantial position to justify the exploration capital, the risk, and then to capitalize a significant quantity of oil or gas.

Number 0801

MARK HANLEY, Public Affairs Manager, Alaska; Anadarko Petroleum Corporation, told members he'd like to echo Mr. Myers' testimony. He said Anadarko Petroleum Corporation is supportive of the bill and appreciates its introduction by the governor. He acknowledged that his company is approaching and is right at the 500,000-acre limit. He noted that the foothills [of the North Slope], in particular, has large areas that haven't been explored for a long time, and said [a company] can use up a lot of its acreage just trying to understand what might be there.

Number 0861

CHAIR KOHRING asked Mr. Hanley whether he thinks the 750,000 acres is a good number for the limit.

MR. HANLEY said he thinks it is reasonable.

CHAIR KOHRING noted that he hadn't asked Mr. Myers how that number was chosen.

Number 0883

CHAIR KOHRING asked whether anyone else wished to testify and then closed public testimony.

Number 0911

REPRESENTATIVE FATE moved to report HB 246 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 246 was reported from 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 3:31 p.m.