

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 7, 2003

1:05 p.m.

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Hugh Fate, Co-Chair
Representative Beverly Masek, Vice Chair
Representative Carl Gatto
Representative Cheryll Heinze
Representative Bob Lynn
Representative Kelly Wolf
Representative David Guttenberg
Representative Beth Kerttula

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CONFIRMATION HEARING

Commissioner, Department of Environmental Conservation

Ernesta Ballard - Juneau

- CONFIRMATION(S) ADVANCED

HOUSE BILL NO. 69

"An Act relating to regulation of shallow natural gas leasing and closely related energy projects; and providing for an effective date."

- MOVED HB 69 OUT OF COMMITTEE

HOUSE BILL NO. 16

"An Act amending the standards applicable to determining whether, for purposes of the Alaska Stranded Gas Development Act, a proposed new investment constitutes a qualified project, and repealing the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration under that Act; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

CONFIRMATION HEARING

Commissioner, Department of Natural Resources

TOM IRWIN - Juneau

- CONFIRMATION HEARING POSTPONED

PREVIOUS ACTION

BILL: HB 69

SHORT TITLE:REGULATION OF SHALLOW NATURAL GAS

SPONSOR(S): REPRESENTATIVE(S) KOHRING

Jrn-Date	Jrn-Page		Action
01/29/03	0086	(H)	READ THE FIRST TIME - REFERRALS
01/29/03	0086	(H)	O&G, RES
01/31/03	0108	(H)	COSPONSOR(S): HEINZE
02/05/03	0135	(H)	COSPONSOR(S): MORGAN
02/06/03		(H)	O&G AT 3:15 PM CAPITOL 124
02/06/03		(H)	Moved Out of Committee
02/06/03		(H)	MINUTE(O&G)
02/07/03	0146	(H)	O&G RPT 6DP 1NR
02/07/03	0146	(H)	DP: CHENAULT, MCGUIRE, ROKEBERG,
02/07/03	0146	(H)	CRAWFORD, FATE, KOHRING; NR: KERTTULA
02/07/03	0147	(H)	FN1: ZERO(ADM)
02/07/03	0155	(H)	COSPONSOR(S): ROKEBERG
02/07/03		(H)	RES AT 1:00 PM CAPITOL 124

WITNESS REGISTER

ERNESTA BALLARD, Commissioner

Department of Environmental Conservation

Juneau, Alaska

POSITION STATEMENT: Testified as appointed commissioner of the
Department of Environmental Conservation.

REPRESENTATIVE VIC KOHRING

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of HB 69.

JACK EKSTROM, Director
Government and Public Affairs
Evergreen Resources, Inc.
Denver, Colorado

POSITION STATEMENT: Provided information and answered questions related to HB 69.

ACTION NARRATIVE

TAPE 03-3, SIDE A

Number 0001

CO-CHAIR HUGH FATE called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Fate, Chenault, Gatto, Heinze, Lynn, Guttenberg, Masek, and Wolf were present at the call to order. Representative Kerttula arrived as the meeting was in progress.

CONFIRMATION HEARING

Commissioner, Department of Environmental Conservation

CO-CHAIR FATE announced the first order of business, the confirmation hearing on the appointment of Ernesta Ballard as commissioner of the Department of Environmental Conservation.

Number 0170

ERNESTA BALLARD, Commissioner, Department of Environmental Conservation (DEC), testified, and noted that she was very pleased that she had the opportunity to have the [overview] with the committee on February 3, and the chance to talk about some of her broad views.

Number 0245

REPRESENTATIVE HEINZE asked Commissioner Ballard if she has had a chance to visit Prudhoe Bay or Valdez.

COMMISSIONER BALLARD, in response, said she had not visited in the capacity of [commissioner] but had visited Prudhoe Bay in other capacities.

REPRESENTATIVE HEINZE remarked, "We're looking forward to you going."

Number 0293

REPRESENTATIVE GATTO told Commissioner Ballard that he has very high expectations for her and is very proud that she is here. He said he thought she was the right person for the job and congratulated her. He told her [the committee] would be happy to meet with her in the future.

Number 0348

REPRESENTATIVE MASEK told Commissioner Ballard that she was fairly impressed, and appreciated the fact that DEC brought forward the information on the removal, cleanup, and prevention of leaking underground storage tanks.

COMMISSIONER BALLARD acknowledged that the staff at DEC had been responsive to the [committee], and had tried to turn around requests quickly. She remarked, "They really have been outstanding," and offered her observation that the 17 days that the legislature had been in session felt to her like about nine months. She remarked, "If we have 104 more to go, I guess we'll all be sort of worn out at the end."

Number 0425

REPRESENTATIVE WOLF thanked Commissioner Ballard for going to his office and talking to him and giving him the information that she provided. He said he looked forward to working with her.

REPRESENTATIVE GATTO said he was going home over the weekend and would be visiting a business establishment to talk to the owner and tell him that his concerns were relayed to the commissioner and that the commissioner had already investigated and responded. He said he thought the people in the community would be delighted to know that there is a commissioner in Juneau that had "done anything within a time span that is considered by any microscopic, almost, compared to the usual time pan." He thanked Commissioner Ballard for getting back to him. Representative Gatto told the committee that Commissioner Ballard had researched some of the statutes to see if the issue that he had brought forward [during the overview] was truly an issue and or "did it violate anything" and responded to him. He remarked, "That's truly the kind of representation that we all want, desire, and would love to have, so, thank you."

Number 0569

CO-CHAIR FATE said it was a pleasure to see somebody who articulates a concise and clear objective and management style. He commended her for it.

Number 0597

REPRESENTATIVE MASEK highlighted the protection status of active paints in Alaska from 1993 to 2002, and said 22 percent met paint standards [in 1993] but the [figure had increased] to 86 percent in 2002. She said she was happy to see the progress that had been made and acknowledged that there was still some work left to do with this issue. She remarked, "Overall, it looks like the blunt force of the work has been established, and I'm really happy to see that."

Number 0660

Co-CHAIR FATE announced that the confirmation hearing was closed.

[No formal motion was made, but the appointment of Ernesta Ballard was treated as advanced from committee.]

HB 69-REGULATION OF SHALLOW NATURAL GAS

CO-CHAIR FATE announced that the next order of business would be HOUSE BILL NO. 69, "An Act relating to regulation of shallow natural gas leasing and closely related energy projects; and providing for an effective date."

Number 0689

REPRESENTATIVE VIC KOHRING, Alaska State Legislature, sponsor, explained that HB 69 would affect the natural gas drilling industry, mainly coal bed methane, not only in the Matanuska-Susitna [Valley], which is where active drilling is presently occurring, but also throughout Alaska where potential exists. He told the committee that the legislation clarifies the authority of the Alaska Oil and Gas Conservation Commission (AOGCC) to regulate the shallow gas and unconventional natural gas resources; it allows the AOGCC to grant variances to the regulatory requirements in certain cases. Representative Kohring explained that operators of the shallow gas drillers are subject to the same regulations as operators of oil wells on the North Slope, but the oil wells are much different in that they are at greater depths, and are very expensive and complex. Operations involve high-pressure situations, and toxic wastes

are produced, he said, and it is not the same kind of operation as the shallow bed methane-type wells, which are, essentially, modified water wells at very shallow depths.

REPRESENTATIVE KOHRING, referring to the issuance of permits for the drilling of shallow gas wells, said AOGCC is required by law to subject those companies to the same rules and regulations that deal with the other more complex wells that are drilled on the North Slope. Therefore, it makes the process much more cumbersome in regard to issuing permits. He said the permitting process is very slow and takes one to two years; there is also more paperwork, which frequently involves thousands of pages of documents that are to be filled out by the applicants; there's more cost involved as a result.

REPRESENTATIVE KOHRING remarked, "So, we're trying to change ... it, which will result in a much more fair process, one that [makes] much more sense, and that's applicable to the shallow gas industry." He expressed hope that the net result would be an increase in shallow gas drilling activities throughout the state; contributions to the economy; and additional royalties to the state treasury. The governor has strongly been pushing the issue of increased oil and gas exploration of the state as a way build the economy and to address the issue of the budget deficit, he said. He suggested [HB 69] was one small step in that direction and said there was a long way to go; there was going to be a lag-time between putting forth legislation, getting it on the books, and actually seeing some real development and the effect to the state treasury.

Number 0914

REPRESENTATIVE KOHRING remarked, "But we have to start somewhere, and this is a real good start; a real good movement in that direction." He talked about potential of areas such as Cook Inlet, and said there is an estimated 1.5 trillion tons of coal there; in that volume of coal is estimated to be about 200 trillion feet of coal bed methane. Representative Kohring referred to areas in Southcentral that are starting to run out of gas, and said [HB 69] presents a phenomenal potential and opportunity for that area's economy. He mentioned 200 trillion cubic feet of natural gas; it's estimated there is enough to supply the entire United States at its current rate of consumption for the next eight years. Representative Kohring explained that obtaining the permits and drilling is a very expensive process and expressed hope that [HB 69] would pass out of committee. He explained that the industry has worked with

the agency; this bill would result in a much more streamlined process that would make it much easier for the industry.

REPRESENTATIVE KOHRING reiterated that the [intention] of the bill was to allow the AOGCC the ability to grant a variance so [these operators] don't have to adhere strictly to the drilling rules and requirements for deep oil wells. He suggested that [HB 69] would make it easier and quicker to issue permits to the operators of the shallow gas, in particular, on coal bed methane-type operations.

Number 1070

REPRESENTATIVE GATTO, referring to the amount of coal available, said it translates into very large numbers of trillions of feet of natural gas. He asked how much gas was available in "shallow bed, shallow coal" deposits as opposed to the major field on the North Slope.

Number 1118

REPRESENTATIVE KOHRING, in response, said he didn't remember the numbers but guessed the amount in question was substantially less. He remarked, "We have just huge ... reserves up on the North Slope, and I don't know what the numbers are." Representative Kohring said the advantage to coal bed methane is that it's easier to get at and is in locations that are very convenient. He talked about the eight wells in Wasilla that had been drilled recently and said there was potential around Cook Inlet, particularly, Beluga, which would be beneficial to the Kenai Peninsula because it's easily accessible and is at such shallow depths, in some cases, 100 to 200 feet down. He said it would be in close proximity to where gas could actually be used, so there would be less transportation issues.

Number 1182

REPRESENTATIVE GATTO offered his understanding that in the area in question there is 35 trillion cubic feet [of gas], but in the coal bed methane there is 200 trillion cubic feet.

REPRESENTATIVE KOHRING, in response, said there is a potential for 200 trillion feet in the proven coal deposits in the Cook Inlet region, and 200 trillion feet is roughly what the United States would consume over the next eight years at the current rate of consumption.

Number 1220

REPRESENTATIVE FATE clarified that the 35 trillion feet is at the wellhead. The 100 million cubic feet is a projected potential and is similar to the projected potential on the Arctic Slope. Therefore, Alaska isn't short of a gas supply. Furthermore, shallow well and nonconventional gas are easy to access and are inexpensive in comparison to the deep drilling on the North Slope.

REPRESENTATIVE GUTTENBERG asked if there has been any review with regard to how other states do this and have developed regulations.

REPRESENTATIVE KOHRING answered that he hasn't researched that issue extensively, other than to review [information from] the State of Colorado. He informed the committee that HB 69 has been patterned after Colorado's legislation, where this approach has worked. Furthermore, Evergreen Resources, which is involved in drilling in Alaska, is from Colorado.

REPRESENTATIVE LYNN inquired as to how much actual permitting time would be saved should HB 69 become law.

REPRESENTATIVE KOHRING responded that in many cases, it's up to one to two years to be issued a permit for these shallow wells. This legislation would probably result in the issuance of permits on such wells occurring in about 30-60 days on average.

Number 1418

REPRESENTATIVE MASEK pointed out that HB 69 is tied to Governor Murkowski's State of the State speech with regard to resource development. She related her belief that it's time that the state develops legislation that would attract companies and make it easier for them to do business.

REPRESENTATIVE HEINZE remarked that HB 69 is a wonderful start. She noted that an article [in the committee packet] specifies that Evergreen Resources owns a 100 percent working interest in 52,000 acres. She asked if that would mean that Evergreen Resources is a royalty owner.

REPRESENTATIVE KOHRING deferred to a representative from Evergreen [Resources, Inc.].

Number 1536

JACK EKSTROM, Director, Government and Public Affairs, Evergreen Resources, Inc., answered: "We would be the operator of record and the owner of the production, but we are not a royalty owner." He explained that the state is the primary royalty owner, and there are some other properties in the unit that are owned by private individuals, as well as some by the federal government. He added, "So they would be the royalty owners within this Pioneer Unit."

Number 1582

REPRESENTATIVE HEINZE asked for an explanation of the tariffs on the gas.

CO-CHAIR FATE interjected that the tariffs are usually applied to the transportation system and the pipeline, but at the present time there is no transportation system; it is in the "exploratory mode."

Number 1627

MR. EKSTROM, in response to a follow-up question by Representative Heinze, said that the Enstar (ph) pipeline runs through the Pioneer Unit, and it is anticipated that the gas would be sold through the Enstar pipeline system and be transported south to Anchorage, Alaska. Because [Evergreen Resources, Inc.] is an exploration production company, it sells the gas to the transporter and "the tariffs are applied at that time."

Number 1635

CO-CHAIR FATE added his belief that those tariffs would probably be set by the [Regulatory Commission of Alaska (RCA)].

Number 1643

REPRESENTATIVE KERTTULA noted that she would inquire about a subject addressed in the previous day's hearing in the House Special Committee on Oil and Gas. She pointed out that the [proposed legislation] would change some of the public notice requirements. She mentioned variances normally used for small, technical engineering decisions, for example, where a long delay is not wanted. She asked if she was correct that [the legislation] would not affect property rights or the broader issues where land owners would be given notice. She said, "So there would still be public notice and people would still be

involved, and ... this is just for the types of things that variances are normally granted for, where there would be no public notice. Is that right?"

Number 1652

REPRESENTATIVE KOHRING told Representative Kerttula she was correct. He told the committee that Evergreen [Resources, Inc.] has been outstanding in regard to its sensitivity to property owners in "the valley," after assuming ownership of a parcel where the previous company had "ruffled some feathers out there."

REPRESENTATIVE KOHRING thanked [the people involved in Evergreen Resources, Inc.] for their interest in Alaska and optimism toward what they can contribute to its economy, and for the month spent drilling. He extended his welcome to other companies, as well.

Number 1753

REPRESENTATIVE GUTTENBERG noted that "everything in the bill is referring to Article 1, which is the administration of the Act, as compared with the ... regulation of operation." He asked [Representative Kohring] if there would be an effect on the public process of permitting - if it would be "shortened, or narrowed, or streamlined."

Number 1798

REPRESENTATIVE KOHRING responded that he thinks that question would be better answered by one of the commissioners of AOGCC; however, he stated that his expectation is that the process would be shortened, which is part of the goal to be accomplished. He said he believes "it's more to address technical issues." For example, he said if there was a problem in the course of drilling a well in the middle of the night, a decision should be rendered quickly, without having to shut down operations.

Number 1831

CO-CHAIR FATE mentioned deep-hole gas wells versus those with pressures "not nearly as great as those that you find at depth." He said that the process that is currently in place is relegated to natural gas "at depth," where pressures are very high.

Number 1876

The committee took an at-ease from 1:30 p.m. to 1:34 p.m.

Number 1884

REPRESENTATIVE HEINZE stated her understanding that eight wells would be dug by spring [2003]. She asked if the results [of drilling those wells] would be available before the legislature adjourns in May.

Number 1900

MR. EKSTROM answered that his expectation is that preliminary results would certainly be available.

REPRESENTATIVE HEINZE asked him to share those results [when available].

Number 1939

REPRESENTATIVE MASEK moved to report HB 69 out of the House Resources Standing Committee with individual recommendations [and the accompanying zero fiscal note]. There being no objection, HB 69 was reported from the House Resources Standing Committee.

Number 1967

REPRESENTATIVE GUTTENBERG shared a comment made by a previous director of [the Division of] Oil & Gas, as follows: "If you want to know where the oil and gas is in Alaska, look for the geese and the caribou."

ADJOURNMENT

Number 1982

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 1:36 p.m.