

**ALASKA STATE LEGISLATURE**  
**SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

February 2, 2004

1:34 p.m.

**TAPE (S) 04-01 SIDE A**

**MEMBERS PRESENT**

Senator Bert Stedman, Chair  
Senator Thomas Wagoner, Vice Chair  
Senator Gary Stevens  
Senator Kim Elton  
Senator Georgianna Lincoln

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

SENATE BILL NO. 266

"An Act approving an interim classification by the commissioner of natural resources closing certain land within the area of the proposed Bristol Bay (Alaska Peninsula) competitive oil and gas areawide lease sale to oil and gas exploration licensing and shallow natural gas leasing; and providing for an effective date."

MOVED SB 266 OUT OF COMMITTEE

**PREVIOUS ACTION**

No previous action to record.

**WITNESS REGISTER**

Mark Meyers, Director  
Division of Oil and Gas  
Department of Natural Resources  
400 Willoughby Ave.  
Juneau, AK 99801-1724

**ACTION NARRATIVE**

**TAPE 04-01, SIDE A**

**SB 266-BRISTOL BAY OIL & GAS LEASE SALE CLOSURE**

**CHAIR BERT STEDMAN** called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:34 p.m. Present were Senators Elton, Wagoner, Gary Stevens, and Chair Stedman. He announced SB 266 to be up for consideration. He advised that Governor Murkowski requested the bill, which approves an interim classification closing certain land in the Bristol Bay region to oil and gas exploration and natural gas leasing. He stated his intention to move the bill from committee that day then invited Mr. Meyers to testify.

MARK MEYERS, director, Division of Oil and Gas, Department of Natural Resources (DNR) explained that the bill affirms a mineral closing order by the DNR commissioner and for the order to be effective, it must be approved during the first 90 days of the legislative session.

He admitted that the purpose of the bill appears a bit odd in that it closes mineral rights to oil and gas in an area so there can be a competitive sale for oil and gas in the same area. He then pointed to a geologic map of the Alaska Peninsula region to show the area (red outlined area) that is proposed for a conventional sale and said that within that area (blue outlined area) there would be a closure for other oil and gas leasing under the shallow gas program, or exploration licensing. They could then put the area in the competitive lease sale schedule and then lease the mineral rights.

To demonstrate DNR's reasoning, he pointed to a chart showing the geologic cross section of the Alaska Peninsula. He advised members that other programs, in particular the shallow gas program, would lease the mineral rights of just the upper layer in an over the counter program so there would be the potential for the shallow part to be leased to a different party than would bid in the competitive lease sale. He said:

In areas where you have high oil and gas potential, particularly one that is stratified at various depths, you prefer to have a single mineral stake owner. It increases the value and makes it easier to assure that all the resources would be exported for development in an orderly fashion and it prevents a lot of disputes between parties if the mineral stratum was in fact split. We also believe we would get more and higher competitive bids on the sale if the area was all offered and the tracts were kept geologically whole. In a sense, that's what this does.

SENATOR THOMAS WAGONER noted that that doesn't preclude the successful bidder from subbing out a portion of the area to someone with different expertise.

MR. MEYERS agreed that the lessee is able to convert part of the lease to another party. In fact, it is not uncommon in the industry to mitigate risk so that costs and benefits are shared.

He continued saying that DNR believes the area has enough potential and that the competitive sales will bring the highest and best value to the state, if in fact the best interest finding process demonstrates it is appropriate. He repeated they are closing an area so it can potentially be reopened for competitive sale. The area of the closure is just inside the competitive sale area. He referred to the geologic chart again and said:

Just to note, in the blue area up here, the area we are, we have an exploration license proposal at this time. Again, that is allowed. Also in this area we're closed to exploration licensing. Again, the same reasons, the license is in the area where, ideally, you don't think a competitive sale is the best way to go. We're giving a large portion of the land to a single operator for a work commitment is the way to go. In this basin we think there is geologic potential as well as enough data to pull off a competitive sale. We think the resources in the competitive sale will bring in more money to the state in the up front and will help accelerate exploration development from multiple lessees who are willing to explore and develop their land.

SENATOR KIM ELTON asked what the public process is that leads to a competitive lease sale.

MR. MEYER replied there is a best interest finding process, which will take DNR until some time in 2005 to complete. A document that is similar to an environmental impact statement (EIS) is prepared prior to the lease sale. There is a preliminary best interest finding (BIF) prepared after considerable interaction with people in the local area as well as planning and inter-agency work. The preliminary BIF is sent to the public and the agencies for comment after which DNR must address all the comments and adjust them into a best interest finding, which determines whether or not it is in the state's

best interest to lease. It also stipulates what the mitigation measures will be, what areas will be off limits to exploration and what requirements will be placed on the lessees.

SENATOR ELTON asked if there would be no decision until the end of 2005 or in 2006.

MR. MEYER replied there would be decisions made along the way as to the best interest finding, but the complete document won't be ready until 2005. The preliminary BIF will be sent out in late fall 2004.

CHAIR STEDMAN announced that Senator Lincoln joined the meeting then he gave a short recap of the proceedings.

SENATOR GARY STEVENS noted that the area under consideration is a rich fishing area then asked what comments DNR had received regarding damage to the fishing industry.

MR. MEYERS replied the DNR has worked closely with the communities and they have been very supportive. He described the process as a model for integrating the concerns of the fishing community with the balancing for oil and gas issues. DNR has held meetings with the three borough governments, the Bristol Bay Native Corporation, and the Bristol Bay Native Association and he admitted that they own much of the process. DNR expects the sale to be integrated and compatible with the industry.

A part of the proposed sale is to have no development of offshore facilities, but directional drilling to offshore would be allowed, which is an important point to the fishing community. DNR recognizes the value of the fishing resource, the anadromous streams and habitat and those values will be fully integrated into the best interest finding process.

Fishermen have emphasized their need for an economic base and lower power cost for processing fish. To this end, the northern area of the sale tends to be more gas prone and it may provide a source of natural gas to develop a regional power grid. The fishing community realizes that they need to increase the value of their product, they need a lower cost of energy and they are looking at the economic tax base that oil and gas could provide. He said he has enjoyed working with the fishing community because they are straightforward in their concerns and in what they want to receive from the sale.

Governor Murkowski made it clear that the process began as a result of supporting input from the Bristol Bay Native Association, local municipalities and the boroughs. DNR is modeling the process with good stipulations and mitigation so that, if the sale goes forward, the communities' input into the best interest finding will be a key part.

SENATOR GARY STEVENS said he understands the tax base and how that would affect the communities, but he was curious what other economic factors, such as jobs, might be expected. Also, he questioned how to make sure that lower cost power becomes a reality.

MR. MEYERS replied that there are no guarantees. When DNR looked at the design of the exploration license, it was for a quicker process, with a decision scheduled for 2004. That was for the northern basin area where they expected to find enough gas for power generation. They also know that there are several mines in the area that might benefit from the power. That process was specifically around natural gas and local power generation and transmission, but they recognize that the area is large and has a low density.

A second approach would be to find enough gas to create an LNG or a pipeline project. In that case, the commercial development would pay for most of the cost of getting the gas developed and produced. Then the local benefit is there to spin off that development.

Until a full exploration assessment is done, no one knows whether commercial natural gas is present or where the gas might be. The geologic map shows that they expect to find the thicker part of the basin farther south away from the head of the bay.

MR. MEYERS reported that they do know that there is oil potential in the bay because they have found oil source rocks in the basin and there have been oil shows in the wells. For the oil, an export facility would have to be developed, which might entail a pipeline to the south side of the Aleutians to some sort of tanker facility.

SENATOR WAGONER asked whether DNR had any guesstimates regarding the size of the reserves.

MR. MEYERS replied their best guess is the potential for multiple tcfs of gas in fields that could be in the hundreds of millions of barrels. They believe it compares favorably to a

Cook Inlet type sale, but the geology doesn't suggest another Prudhoe Bay. The part of the equation that helps makes a small-scale field feasible for development is the tidewater location.

SENATOR GEORGIANNA LINCOLN noted that the sponsor statement states that local governments and Native organizations requested this yet she had nothing in her file indicating that this was a request of any of those entities. She requested supporting documentation from that area and asked whether there were people from the area who were online and waiting to testify. Next she asked the Chair whether a timeframe had been established for hearing and moving the bill.

CHAIR STEDMAN said there was no one online waiting to testify and no one had signed up to testify in person.

SENATOR LINCOLN asked whether he intended to move the bill that day.

CHAIR STEDMAN replied that was his intention.

SENATOR LINCOLN stated for the record that she would have difficulty voting for the legislation because she didn't have any documentation showing that the local governments are supportive.

MR. MEYERS advised that there is a memorandum of understanding between the Bristol Bay Native Association and the state on the process of holding a lease sale. He stated that they are very supportive. He suggested that a confusing aspect is that SB 266 is a mineral closing order and simply closes the area to oil and gas licensing or shallow gas leasing. It is not a substantive bill regarding the benefits of a lease sale or whether one is justified. He described SB 266 as a small part of the process toward holding a competitive sale in the area. A mineral closing order is necessary to prevent shallow gas leases from being top filed in the area or exploration application licenses to be received for the area.

DNR is in the process of drafting memorandums of understanding in support of the process with all three borough governments in the area. He said they would provide that information to her and other members. With regard to scheduling, they have documentation that shows all public comments and if the best interest finding supports the sale, what happens on a month-to-month timeline. He assured her that that too would be sent to her office.

SENATOR WAGONER asked Mr. Meyers to refer to the map to show possible accesses to the south side and said he would assume that the accesses would be used for both road and pipeline access.

MR. MEYER acknowledged there is discussion between DNR, the Department of Natural Resources (DNR) and the local communities regarding which roads would be for general access and which might spur oil and gas development. There are also discussions about the year around port at Cold Bay and that it might be a major resupply port. Until the sale occurs, it's difficult to pin down what and where actual development will be, but he expects that in the early exploration period much of the transportation needs would be met with barges. Communities have made it clear that they are interested in roads for community development and any decisions regarding longer roads would come later.

CHAIR STEDMAN announced that Dillingham, Bethel, and Anchorage were online, but no one wanted to testify.

SENATOR Elton asked whether someone has an exploration license in the proposed Bristol Basin area and that someone is looking at the shallow resource.

MR. MEYERS referred to the map and said:

The blue area is where if you look at the geology, you can see the lighter colors. The basin thins and we have contours that show that the perspective section is much thinner and we believe more gas prone and less likely to have large-scale commercial quantities of gas. The thought process was, folks want a local energy process as quickly as they can get going. Licensing has, in some cases, some advantages in that it requires a guaranteed work commitment of so many millions of dollars typically being bid. The process of issuing a license is somewhat separate from a competitive sale. So, we've taken the area and divided it into two with the license area. The license area also has a best interest finding, unlike shallow gas leasing. That best interest finding is accelerated relative to this one. A couple of the reasons for that is the license area itself is a much smaller area. Within this proposed area, the actual proposal we have only covers a relatively small percent of it. It's a

much smaller area and it doesn't deal with some of the issues that a competitive sale does. The mineral rights there are for all mineral rights; they're not restricted like shallow gas leasing to a certain depth. Realistically, the base itself is pretty thin. The basin is pretty thin there so it's restricted by the geology.

SENATOR ELTON noted that Wood-Tikchik State Park is just outside the proposed area (The area outside both the red and blue lines.) and asked if there are any state parks or marine sanctuaries that fall inside the red lines.

MR. MEYER replied the red line indicate state lands and DNR is in the process of looking at all the special use areas inside the red lines to determine which areas might be leased. Those considerations all go into the best interest finding process. He said he was not aware of any parks or sanctuaries within the license area. He advised that Jim Hansen or Pat Galvin could give a more definitive answer, but in the lease sale area there is the Bristol Bay Area Plan and other areas that have special use areas, which will be reviewed in the plan for a lease sale.

SENATOR ELTON asked Mr. Meyers to provide him a list of those areas if one was available. He stated that he sits on the Resource Committee as well and it would be helpful if that were a part of the packet.

CHAIR STEDMAN asked if there was anyone else that wanted to speak to the issue. There was no response and he closed public participation.

SENATOR WAGONER made a motion to move SB 266 from committee with the accompanying fiscal notes and individual recommendations.

SENATOR LINCOLN objected and stated that she too sits on the Resource Committee and would ask questions when the bill is heard there. However, it did not sit well with her for the Community and Regional Affairs Committee to hear this bill and not have letters from the affected local governments stating support for this legislation because that information should be heard at this level. She closed saying, "For that reason, and that reason alone, I am objecting to the passage of it today."

SENATOR ELTON voiced reservations about voting in favor of moving the bill that day as well and not because the bill doesn't make sense. He acknowledged that the legislation is a

technical change, but the previous speaker had valid points. Of course resource related issues will be raised in the next committee, but it is the purview of this committee to gage community reaction. He said he expects that if the bill were held in committee, members would then receive supporting documentation that would make him more comfortable in voting in favor of passage.

CHAIR STEDMAN stated that there were two objections and asked for a roll call vote. The motion to move SB 266 passed with Senators Lincoln and Elton voting nay and Senators Wagoner, Gary Stevens, and Chair Stedman voting yea.

CHAIR STEDMAN adjourned the meeting at 2:00 p.m.