

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

February 26, 2003

3:35 p.m.

**MEMBERS PRESENT**

Senator Scott Ogan, Chair  
Senator Thomas Wagoner, Vice Chair  
Senator Fred Dyson  
Senator Ralph Seekins  
Senator Ben Stevens  
Senator Kim Elton  
Senator Georgianna Lincoln

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

Confirmation Appointments to the Alaska Oil and Gas Conservation Council: Randy Ruedrich and Sarah H. Palin

**PREVIOUS ACTION**

No previous action to record.

**WITNESS REGISTER**

Ms. Sarah Palin  
1140 W Parks Hwy  
Wasilla, AK 99654

Mr. Randy Ruedrich  
1515 West Thirteenth Avenue  
Anchorage, AK 99501-4214

**ACTION NARRATIVE**

**TAPE 03-8, SIDE A**

Number 0001

**CHAIR SCOTT OGAN** called the Senate Resources Standing Committee meeting to order at 3:35 p.m. Senators Wagoner, Ben Stevens, Dyson, Seekins, Elton and Chair Ogan were present. The committee took up the confirmation hearings of Sarah Palin and Randy

Ruedrich to the Alaska Oil and Gas Conservation Commission (AOGCC).

[While the committee took a brief at-ease, SENATOR LINCOLN arrived.]

CHAIR OGAN asked Ms. Palin her reasons for wanting to serve on the AOGCC and what she will "bring to the mix."

MS. SARAH PALIN, Governor's appointee to the AOGCC, told members she is motivated to serve because she believes that oil and gas development is the state's bread and butter. She feels that the issues facing this industry are significant and its regulatory agency needs to have fair and objective views. She will be grateful for the opportunity to serve. She believes the bottom line is that if Alaskans want good schools, state troopers, and the infrastructure to fund those, Alaskans need a healthy oil and gas industry. She repeated that she is motivated and challenged to serve in this capacity.

CHAIR OGAN took questions from members.

SENATOR ELTON asked Ms. Palin her reaction to the Permanent Fund Board of Directors' request of the AOGCC to do an investigation of tariff and lease issues.

MS. PALIN said that resolution raised concern about the North Slope operators, especially in respect to the costs associated with the pipeline. Her first reaction was that it will provide the AOGCC with an opportunity to work with all of the appropriate agencies involved with tariffs, facility pricing, and maintenance and operation practices, especially on the North Slope, and to take any necessary steps appropriate to increase production for state leases and to maximize recovery. She said she sees it as a good opportunity to look at the practices of the AOGCC and other agencies to see if things can be done better.

SENATOR ELTON then asked Ms. Palin how she will deal with the fact that her husband works for BP when she must deal with agendas that come before the AOGCC that involve BP.

MS. PALIN said she spoke to Governor Murkowski, Chief of Staff Clark, and the AOGCC attorney about this matter before accepting this nomination. She answered:

"... and have been assured also that because of my husband's position, he - and I say this respectfully - he is blue collar, an hourly paid employee up there on the North Slope in production. He's not a manager, he works, so he's not making policy and affecting policy so there is that differentiation there. But I am filling out a form that I've been told by the attorney to go and do in order to disclose that my husband is an employee of BP. And then I've been told on a case-by-case basis our ethics chair, whoever that would be, and our Governor appoints that, will rule on whether I should vote on anything that has to do with BP - again on a case-by-case basis.

SENATOR ELTON thanked Ms. Palin.

MS. PALIN added that Dan Seamont, a former Governor's appointee, is a sitting AOGCC commissioner and is also married to an employee of an industry company in Alaska. He has had no conflicts of interest.

CHAIR OGAN asked Ms. Palin what she sees the most important role of the AOGCC to be.

MS. PALIN said the bottom line is to maximize the recovery of oil and gas for the benefit of Alaskan citizens, to prevent waste of the resources, and to make sure that first and foremost Alaska citizens are able to derive the benefits from our resources. She said that according to the AOGCC statute, her role is to work with the other two commissioners to help maximize recovery.

CHAIR OGAN said often, to maximize recovery, producers have to jump through a lot of hoops with AOGCC, because AOGCC regulates their technical operations. He said the AOGCC can help or hinder maximum production by changing the number of hoops they have to jump through. The other side of the argument is that the AOGCC doesn't want to be so lenient as to crowd the rights of other producers, worker safety or the safety of the environment. He asked Ms. Palin how she will balance that out.

MS. PALIN said that is where the fairness and objectivity that a commissioner needs to bring to this job and role fit in. She stated:

Again, Senator, I think if we keep in mind always that for the benefit of Alaskan citizens is the foundation

on what the commission needs to build upon, the job of being objective should not be that difficult. And, to be perfectly honest with you also, I never hid the fact that I am pro-development and pro-oil and gas, if you will, in terms of recognizing that oil and gas is our state's bread and butter and we need to get that maximum value and maximum recovery from the resources if we want to have a healthy economy in our state. So, in that term too Senator, any unnecessary hoops any of the industry has had to jump through that have just created a hindrance to progress and to growing a stronger economy, I would want our commission to consider the proposals and the changes that, perhaps, industry would have for us to be considered, and I'll have an open mind about that.

CHAIR OGAN noted that Ms. Palin will be asked to make rulings on very technical issues and that her resume does not show a background in oil and gas development. He said that experience is not necessary for the public member but asked, "How are you going to keep people from blowing a bunch of smoke up your skirts?"

MS. PALIN said thankfully, the AOGCC has technical staff. She has done some research and believes they give objective and fair advice to the commissioners. She agreed she does not have an oil and gas technical background but she believes the three commissioners, one a geologist and the other a petroleum engineer, will be able to make fair and objective decisions.

CHAIR OGAN said his previous statement was not meant to be sexist; he uses it with anyone. He then added that Ms. Palin has been a quick study and did a great job for the City of Wasilla. He believes she will be a good spokeswoman for the AOGCC and has good administrative skills. He cautioned however, that at the end of the day, the Legislature would need to do what is in the state's best interest.

SENATOR LINCOLN said she read Ms. Palin's resume and had some of the same questions about her resume and what the AOGCC is responsible for. She noted she also read in a newspaper article that Ms. Palin said she was offered some other positions within the Administration but turned it down. She asked Ms. Palin why she wants to serve on this particular commission and what she wants to achieve while serving.

MS. PALIN said she turned down two prior offers to work in the Administration because she wants to raise her family in the Matanuska Valley. She said she is grateful for this opportunity because she recognizes the significance of the oil and gas industry and the public role on the commission. She believes the founders of the board were wise to place a public member on the AOGCC. She said as the mayor of Wasilla, she was tasked with so many duties in the fastest growing area in the state. She said she would be able to bring the skills she has from that position to the AOGCC.

SENATOR LINCOLN asked how long she has been in office.

MS. PALIN said her AOGCC position is full-time and today is day six.

SENATOR LINCOLN said the AOGCC is responsible for accepting written plans submitted by lessees and to hold public hearings. The AOGCC would then "grant approval of the plan if the plan contains a voluntary agreement by the lessee to use its best efforts to employ residents in this state and to contract with firms in this state for work in connection with the development of the field...." She asked Ms. Palin what she would do to improve Alaska hire and utilization of Alaska businesses in the oil industry.

MS. PALIN assured her she will do all that the AOGCC is legally able to do to encourage and ensure that Alaska hire is the common practice. She told members that her husband is an Alaska Native who works on the North Slope. The opportunity he has been given for all of these years as an Alaskan has affected her perspective on the Alaska hire issue positively. She repeated that she will do all that she can to see that Alaska hire is strengthened.

SENATOR LINCOLN noted that one of the AOGCC's responsibilities is to protect the public interest in exploration and development of oil and gas resources while protecting health and safety, the environment and property rights. She pointed out that part of her district encompasses the ANWR footprint and that the residents of Arctic Village and Venetie are very concerned about the Porcupine Caribou herd. She asked Ms. Palin how she plans to protect that herd so that those villagers can continue to derive the benefits that former generations have.

MS. PALIN said the AOGCC members have not discussed that issue yet but her perception is that the AOGCC has been underutilized

in terms of outreach and in terms of an education process going both ways with facts coming from the people who live in that area and from the scientific community. She believes the AOGCC needs to do more outreach and to interact with the residents of that region more.

CHAIR OGAN thanked Ms. Palin and asked Mr. Ruedrich why he wants to serve on the AOGCC and what he views as its greatest mission.

MR. RANDY RUEDRICH told members he came to Alaska in the early 1970s and worked in the [oil] industry. At that time, the AOGCC was the center of attention and he thought it was the government. Over the years he has continued to view the AOGCC as a very significant portion of what makes the Alaska oil industry function. He believes with his background, he can help the AOGCC work toward maximum recovery of the resources for revenue generation and to create jobs for Alaskans and business for companies and contractors.

SENATOR WAGONER said that the oil fields in Cook Inlet are past the maturing stage and are in decline. There has been discussion about removing two or three platforms in the near future. His concern is that with quickly changing technology, the oil will remain in place if the platforms are removed and the wells are cemented. He asked Mr. Ruedrich his thoughts on that matter.

MR. RUEDRICH said the AOGCC's job is to maximize the recovery from state property and to regulate on private and federal lands. Regarding the platforms in Cook Inlet, he said the AOGCC needs to work carefully with operators to encourage them to keep their assets viable for as long as practicable because they may be able to do more recovery in the future from assets deemed to be at the end of their life. He pointed out that Cook Inlet has the positive aspects of the [indisc.] platform coming on line as a new producer. All of the gas fields around the Inlet are now on line and gas is a commercial activity, which is important to all of Southcentral Alaska.

SENATOR WAGONER asked if it would be beneficial to provide some type of incentive for these companies for a short period of time to see if technology improves.

MR. RUEDRICH said he thinks an incentive is worth consideration but he didn't have any thoughts on what that might be. He said he had a brief chat with a manager who invited the commissioners to come see what is going on and that perhaps some incentives could be a derived benefit of that.

SENATOR ELTON noted that Mr. Ruedrich described the core role of the AOGCC as, "an implementing agency that creates jobs for Alaskans."

MR. RUEDRICH explained that he believes it is critical that when the AOGCC approves a permit to drill a well, 30 to 50 people have a job. It is the quickest way to create real activity. A huge percentage of the people who work for contractors on drilling rigs are Alaskans. In that sense, the AOGCC is a direct link and the more drilling permits it approves, the more activity it will create for the contractors of Alaska.

SENATOR ELTON said that while he doesn't disagree with the characterization Mr. Ruedrich made of one of the AOGCC's roles, clearly there is a regulatory control role. He then said that Mr. Ruedrich was investigated by the federal government and possibly by the AOGCC when he was the general manager of Doyon for reinjecting waste into wells. He asked what he will bring to the AOGCC from that experience.

MR. RUEDRICH said it makes one very aware that the underground injection control system regulations the AOGCC administers for the EPA are extremely important. He was very aware of those regulations before leaving Alaska in the late 1980s and, as he was working to implement them, he became aware that he had a situation of non-compliance. The problem was immediately resolved after it was discovered. An extensive investigation ensued, which raised the sensitivity of doing that work correctly. The current injection projects on the Slope minimize waste on the surface immediately so that there is essentially a zero discharge.

SENATOR ELTON corrected himself and noted that Mr. Ruedrich worked for Doyon Drilling rather than Doyon. He then asked what the mix of instate and out-of-state employees was during his 10-year tenure at Doyon Drilling.

MR. RUEDRICH said his recollection is that Doyon Drilling probably always employed at least 80 percent Alaska residents, and occasionally 90 percent. He believes the numbers are still very similar today.

SENATOR ELTON asked if that includes the contractors.

MR. RUEDRICH said that is correct.

SENATOR ELTON asked Mr. Ruedrich to comment on the Permanent Fund Corporation Board of Directors' request that the AOGCC investigate tariff and lease issues that may impact state revenues.

MR. RUEDRICH said his initial reaction was curiosity, but after reflecting on it, the document will give different aspects of the Murkowski Administration an opportunity to work together to understand what the other does and what can be done to increase revenue for operators and the state.

SENATOR ELTON said that he was not sure how Mr. Ruedrich felt about the request from his answer. He noted Mr. Brady instigated the resolution.

MR. RUEDRICH said it is not a matter of agreeing or disagreeing with the request, instead he believes an investigation will be very helpful.

SENATOR SEEKINS said his association with Mr. Ruedrich goes back to when he was working for Doyon Drilling. He asked if Senator Lincoln was a director of Doyon at the time and had direct oversight of Doyon Drilling.

SENATOR LINCOLN said she is a member of the Doyon Drilling Board.

SENATOR SEEKINS noted he was also on the state chamber of commerce executive board when they first met and that Mr. Ruedrich was doing some tremendous things in terms of local hire, especially for some of the young shareholders.

MR. RUEDRICH said that Doyon Drilling was not working to maximize profit; it was aiming to maximize shareholder W-2 and corporate profit. Doyon Drilling frequently had as high as 40 percent shareholder hire. The only difficulty he can recall is that other operators would hire some of Doyon Drilling's highly qualified employees during slower periods.

SENATOR SEEKINS said he thought Doyon Drilling's effort was very impressive. He asked if there will be an opportunity to encourage those same efforts in his current position.

MR. RUEDRICH said the AOGCC cannot guide anyone about who to employ. However, the commission can leave a message with anyone who asks.

SENATOR SEEKINS said he served with Mr. Brady on the Permanent Fund Board of Trustees under the Hickel Administration. He asked if it would be helpful if the Senate, rather than the Permanent Fund Board, asks the AOGCC to look at ways to get fallow leases into production.

MR. RUEDRICH said to maximize recovery on undiscovered oil, such as federal leases, the AOGCC might have to change its charter. He felt that is more specifically under DNR's venue.

SENATOR SEEKINS commented that it might have more horsepower coming from the Legislature rather than the investment arm.

SENATOR LINCOLN clarified that Mr. Ruedrich was employed by Doyon Drilling while she was on the Doyon Drilling board and she is still a member of that board. She asked Mr. Ruedrich if he plans to continue to be the Republican Party chair and, if so, that may affect his decisions.

MR. RUEDRICH said his position is not paid, so he did not list it on his resume because it is not an employment activity. Second, he does not think his involvement in the party, based on changes in federal law, will have any impact on state activities. He noted the bipartisan campaign reform act that passed Congress last year requires a segregation of authority. He has transferred the state operations duties of the Republican Party of Alaska to Paulette Simpson. He will be dealing with the federal issues. That segregation should remove any perceived issues of conflict. It also reduces his Republican Party involvement to what he would be doing outside of the hours of his AOGCC involvement.

SENATOR LINCOLN asked if he has stepped down as the state party chair.

MR. RUEDRICH said he remains the chairman but only deals with federal matters of the party.

SENATOR LINCOLN said her question still stands and whether he believes as the state party chair, the decisions he makes will be affected by that position.

MR. RUEDRICH said no because he believes issues in the interest of Alaskans are non-partisan in this context. The activities of the AOGCC are to improve the recovery of resources and the maximization of revenue for the state.

SENATOR LINCOLN asked if he applied for the AOGCC position.

MR. RUEDRICH said he did.

SENATOR LINCOLN said she was confused by Mr. Ruedrich's statement that he could talk about Alaska hire. She noted the AOGCC's statute says the AOGCC can use its best efforts to employ residents and contract with Alaskan companies if the company volunteers to do so. She asked him to comment on that section.

MR. RUEDRICH said he thinks it is extremely important for lessees to employ Alaskans, no matter where the capital comes from. He firmly believes that Native Alaskans should be employed.

SENATOR LINCOLN said she was speaking about qualified Alaskans, not Alaska Natives.

MR. RUEDRICH replied:

If we give people who have been trained to do the work, and we have so many people in this state, we have the opportunity - Alaskan contractors employing local employees, not people who fly in because we have a lot of people here who are very qualified, engaged in oil field work. I can specifically say the lack of work is such that people that I know extremely well have worked outside of Alaska most of this year, on loan by their companies to other locations around the world, Lower 48, Middle East, etcetera, because we do not have work here and I think we need to reverse that situation. It's nice to have Alaskans exported to work but it's better to have them working at home.

TAPE 03-8, SIDE B

SENATOR LINCOLN said the Governor has stated publicly several times that Alaska needs more exploration of oil resources, which can be accomplished by improving access, expanding the drilling window and reducing the permitting time. She asked Mr. Ruedrich to comment about his role in that regard.

MR. RUEDRICH said the permits issued by the AOGCC are issued within 30 days. Frequently, if an operator needs a permit expedited, the AOGCC has issued permits the next day or within in a three-day period. He expects the AOGCC to help simplify

some of the other aspects by providing more technical information to its sister agencies throughout the state to increase their understanding of the problems.

CHAIR OGAN referred to AS 31.05.009, the AOGCC statute that pertains to the qualifications of members. He asked if Mr. Ruedrich is a qualified petroleum engineer.

MR. RUEDRICH said he finds the term "qualified petroleum engineer" to be interesting. He said he does not have a degree in petroleum engineering; all three of his degrees are in chemical engineering. Of the people in this industry doing the work deemed to be "petroleum engineering" inside of the drilling community, the production community, and the [indisc.] reservoir, about one-third are chemical engineers and a like percentage are mechanical engineers. Less than a third are actually petroleum engineers. His experience in the oil and gas business over the last 33 years has been almost exclusively in reduction aspects. His background in working with pipelines and the shifting of crude oil is minimal. Most of his experience has been involved with petroleum engineering work.

CHAIR OGAN said the statute says that one AOGCC member shall be a certificated petroleum engineer or have earned a degree from a university in the field of engineering and has at least ten years of professional subsurface experience in the oil and gas industry in drilling, well operations, production process operations and reservoir engineering. He noted Mr. Ruedrich's resume shows a lot of upper level management experience but he wondered how much field experience he has.

MR. RUEDRICH said he worked as a drilling engineer or a drilling foreman from 1970 through 1981 in Texas, Alaska and California, and proceeded into his first management job in 1982 in Dallas, Texas and returned to Alaska in 1983 to manage the ARCO drilling activities. His capital budget was up to \$1 million per day at times. He summarized that he has about 11 years of hands-on experience and about 20 years of management experience. During the last three years, he worked as a consultant.

CHAIR OGAN asked Mr. Ruedrich to recite the simplest form of the equation for linear flow in Darcy's Law.

MR. RUEDRICH replied:

Essentially, for the group at hand, if you just state it in a simple sense, if you're flowing through porous

rock, the flow rate that you have is a function of the pressure applied, and the restrictions through which your flow rate reaches the permeability. So, it's the permeability multiplied by the pressure gives you the flow that you've achieved.

CHAIR OGAN asked Mr. Ruedrich if he was able to recite the formula.

MR. RUEDRICH recited the formula.

CHAIR OGAN asked Mr. Ruedrich the difference between a pipe ram and a blind ram and a BOP.

MR. RUEDRICH explained that a blind ram has no room to be open and would have no flow with nothing in the hole. A pipe ram has a specific half moon opening in each of two sides. If it has a five-inch half circle opening on both sides, it will allow five-inch pipe to be inside and seal against it.

CHAIR OGAN asked Mr. Ruedrich to talk about logging as a method to determine reservoir properties, such as porosity, rock type, and water salinity. He asked what kinds of logs are used to determine porosity.

MR. RUEDRICH said porosity laws involve sonic laws that measure the characteristics of the rock, or density, where a radioactive source is used and the re-radiation is collected. Neutron tools can also be used and are a different form of radioactive logging that measure the density of the material and characterizations of the fluids in the rock. He then asked to address a comment that Senator Lincoln made earlier and said the [indisc.] caribou herd had about 2,000 to 2,500 animals. That same herd ranges during the calving and summer grazing seasons on the oil area of the North Slope and is now in excess of 20,000 animals. He feels that an oil field can be developed properly in the midst of a vibrant caribou herd.

CHAIR OGAN said the ANWR bill is in Congress's court at this point. He asked that the committee not belabor the point at this time as he doesn't see how the AOGCC's operations will affect the wildlife. He then thanked Ms. Palin and Mr. Ruedrich for their willingness to serve. He believes the AOGCC is one of the most important commissions in the state. It helps generate the revenues needed to operate state functions in government. He asked the appointees to be diligent and look out for the state's best interests.

SENATOR WAGONER moved to advance Sarah Palin's nomination to the full body for consideration. There being no objection, the motion carried.

SENATOR DYSON moved to advance Randy Ruedrich's nomination to the full body for consideration. There being no objection, the motion carried.

There being no further business to come before the committee, CHAIR OGAN adjourned the meeting at 4:40 p.m.