

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS

January 18, 2005

10:03 am

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Nancy Dahlstrom
Representative Berta Gardner
Representative Norm Rokeberg
Representative Ralph Samuels

MEMBERS ABSENT

Representative Beth Kerttula
Representative Lesil McGuire

OTHER LEGISLATORS PRESENT

Representative David Guttenberg
Representative Mary Kapsner
Representative Mike Kelly
Representative Kurt Olson
Representative Jay Ramras
Representative Woodie Salmon

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 4

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 CSHJR 4 (O&G) OUT OF COMMITTEE

OVERVIEW: DIVISION OF OIL AND GAS

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HJR 4

SHORT TITLE: ENDORSING ANWR LEASING

SPONSOR(S): REPRESENTATIVE(S) HAWKER

01/10/05 (H) READ THE FIRST TIME - REFERRALS
01/10/05 (H) O&G, RES
01/18/05 (H) O&G AT 10:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE MIKE HAWKER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified as the sponsor of HJR 4.

KEVIN HAND, Director
Arctic Power
4041 B Street
Anchorage, Alaska 99503

POSITION STATEMENT: Answered questions regarding Arctic Power.

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

POSITION STATEMENT: Presented an overview of the Division of Oil & Gas.

REPRESENTATIVE CARL GATTO
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Posed questions to Mark Myers.

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at [10:03:36 AM](#). Representatives Kohring, Rokeberg, Dahlstrom, Samuels, and Gardner were present at the call to order.

HJR 4 - ENDORSING ANWR LEASING

[10:05:27 AM](#)

CHAIR KOHRING announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 4, "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."

REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, sponsor of HJR 4, expressed his interest in opening the Arctic National Wildlife Refuge (ANWR) to oil development, and stated that this

resolution mirrors the language used in the prior year's resolution.

[10:07:56 AM](#)

CHAIR KOHRING opened the meeting to public testimony. No one wished to testify, so he closed the public hearing.

[10:09:06 AM](#)

KEVIN HAND, Director, Arctic Power, in response to questions from Representative Rokeberg, stated that Arctic Power personnel are hard at work in Washington, D.C. He said that lobbying is expensive and "our opponents ... have the capability to raise a much greater amount of resources than we do." He requested that Arctic Power be included in the governor's supplemental budget request for \$1.85 million to continue efforts lobbying the U.S. Congress. He also mentioned HB 32, which would appropriate \$1.3 million to Arctic Power.

MR. HAND, in further response to Representative Rokeberg, clarified that Arctic Power has requested \$1.85 million from the governor. He said that Arctic Power is "in somewhat of a healthy shape", and has been fundraising and soliciting the support of business, industry, and the people of Alaska. Although Arctic Power is able to fund its operations currently but he predicted "some things taking place in D.C. and nationwide where it would quickly exhaust our resources to be able to take place in that debate."

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REPRESENTATIVE ROKEBERG asked Mr. Hand if there was an "informal nose count" of supporters in the U.S. House and the U.S. Senate.

MR. HAND responded affirmatively, and stated that the election results have been favorable to Arctic Power, which has many supporters and strong allies in the U.S. Congress. He remarked that Arctic Power made specific gains in the U.S. Senate, where a net of three votes were picked up to [place ANWR] over the "threshold of 50 votes". He stated, "If it came up to an up-down vote in the U.S. Senate ... we have votes there hard and fast for the supporters of ANWR."

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REPRESENTATIVE ROKEBERG referred to the final resolve in HJR 4, which states:

FURTHER RESOLVED that the Alaska State Legislature opposes any unilateral reduction in royalty revenue from exploration and development of the coastal plain of the Arctic National Wildlife Refuge, Alaska, and any attempt to coerce the State of Alaska into accepting less than the 90 percent of the oil, gas, and mineral royalties from the federal land in Alaska that was promised to the state at statehood.

REPRESENTATIVE ROKENBERG said that this has to do with the "historic 90:10 - 50:50 argument". He asked Mr. Hand to explain how that "plays in Washington" and what effect it has had in the past.

MR. HAND answered that the resolution calls for a 90:10 split to the State of Alaska. He mentioned that, historically, the U.S. Congress has changed this to a 50:50 split, "There is some question with the Statehood Act and such, with the legal precedent it involved". He pointed out that U.S. Congressman Don Young has refiled a bill which calls for a 90:10 split to the State of Alaska.

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CHAIR KOHRING requested that the committee take action on the legislation, acknowledging that there was an amendment that the committee needed to address.

REPRESENTATIVE SAMUELS moved to adopt Amendment 1, labeled 24-LS0179\A.1, Chenoweth, 1/14/05, which read:

Page 3, line 23, following "Representatives;":

Insert: "the Honorable Nancy Pelosi, Minority Leader of the U.S. House of Representatives;"

Page 3, line 24, following "Senate;":

Insert: "the Honorable Harry Reid, Minority Leader of the U.S. Senate; the Honorable Pete V. Domenici, Chair of the Energy and Natural Resources Committee of the U.S. Senate;"

REPRESENTATIVE ROKEBERG objected for discussion purposes.

REPRESENTATIVE HAWKER explained that the amendment would make a minor change to HJR 4; it would add three names to the list of resolution recipients.

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REPRESENTATIVE ROKEBERG asked how much it would cost to make additional copies of the resolution to send to "the Democrats who've never supported this position". He voiced his concern about "the reluctance on the part of the Democratic Party as a party platform as well as ... through their leadership in Congress to not support this concept in the past."

CHAIR KOHRING commented that the resolution wouldn't be sent to all members of the Democratic or Republican parties, just to certain leaders.

REPRESENTATIVE GARDNER noted that for the Alaska State Democratic Party, "It is part of the party platform to open ANWR and it does us no harm, and could be of great benefit, to underline that with the national leaders as well."

REPRESENTATIVE ROKEBERG agreed with the "theory of trying to broaden the net and [get] more support for this". He said, "Organized labor has supported this in the past and I look forward to their support in the future because of the amount of jobs this activity would generate throughout the country." He withdrew his objection.

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There being no objection, Amendment 1 was adopted.

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REPRESENTATIVE SAMUELS moved to report HJR 4 as amended out of committee with individual recommendations and the attached zero fiscal note. There being no objection, it was so moved.

OVERVIEW: DIVISION OF OIL AND GAS

[10:22:55 AM](#)

MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources, presented an overview of the division. He informed the committee that the high oil prices have helped the division tremendously. He separated the money that the state

earns directly from oil and gas into two segments: money the state receives as the owner of the resource; and the money the state receives through the general power of taxation. He presented a brief overview of the state petroleum revenue sources [see handout, page 3: "The State Revenue Pie"]. He said that the majority of the revenue comes from "our actual ownership of the oil".

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MR. MYERS explained that the State of Alaska has received about \$1.4 billion in royalties as a landowner. Of that money, three-quarters goes to the general fund (GF) and one-quarter goes to the permanent fund. About \$362 million went into the permanent fund in fiscal year (FY) 2004.

MR. MYERS pointed out that the state's tax incomes are divided into three categories: the severance tax, the corporate income tax, and the oil and gas property tax. Two-thirds [of the total tax income] comes from the severance tax, while one-third comes from the other taxes. Mr. Myers noted that, last year, the oil and gas revenue made up about 87 percent of the unrestricted GF.

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MR. MYERS emphasized the need for increased oil and gas exploration. He recommended that several companies explore together because it requires a significant investment in risk capital. He observed that, judging by current trends, future exploration will be completed by independent companies. He urged [the legislature] to encourage these companies to commence exploring in the very near future.

MR. MYERS referred to a bar graph on page 5 of the handout entitled "Fiscal Year Oil and Gas Revenue From State Lands" to explain the state's current revenue from landowner royalties.

MR. MYERS stated that the exploration activities on the North Slope have been fairly average for the past few years. He used a map entitled "North Slope Oil and Gas Activities and Discoveries January 2005" of page 6 of the handout to point out this year's key exploration wells. He said he found it encouraging to see the diversity of new explorers that are going into predevelopment activities.

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MR. MYERS, in response to Representative Gardner, related his belief that there is adequate resource potential, and that the state needs to determine the best way to attract capital. He commented that the state needs to have more technical data available to the independent companies, and needs to be user-friendly for investors. He highlighted the importance of shared facility access and the elimination of red tape and commercial barriers.

MR. MYERS, responding to a question by Representative Rokeberg, stated that a stable tax regime, particularly one that encourages reinvestment, is an important element. He questioned whether the current Alaska tax regime was appropriate to encourage new investment.

MR. MYERS, in response to Representative Samuels, said that there is a large amount of gas in the North Slope, and if it is proven to be commercial-grade, it will be a win-win proposition for both oil and gas. He speculated on areas throughout the North Slope that will be "predominantly gas-prone with oil". He stated, "The incremental advantage [of] producing the gas and oil together greatly increases the economics of the field."

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MR. MYERS then discussed the North Slope development activities for 2004 and 2005. He stated that the main reservoirs in North Slope production are in a steady state of decline; about 27 percent of the current production is coming from areas that have begun producing within the last 10 years.

MR. MYERS then turned the committee's attention to Cook Inlet, where the first indications of a gas shortage are becoming apparent. He advocated for more efficient use of pipeline infrastructure, more offshore exploration, and for the continued acceleration of onshore drilling. He stressed that "getting a jack-up rig in the inlet, ... getting three or four companies willing to ... take the exploration risk to go drill those wells" are two key components to exploration in Cook Inlet.

MR. MYERS, at the request of Chair Kohring, described a jack-up rig for the committee. This type of mobile rig is used to explore in deeper water; it has giant legs that can be raised in order to float the rig to a particular location where the legs are then lowered and the drilling platform rises up. He said that there used to be jack-up rigs all over Alaska, but they are no longer in the state. The rigs are still used in the Gulf of

Mexico and overseas; to transport a rig to Alaska now is very expensive. He suggested that the cost could be spread out if the rig were used for several projects.

MR. MYERS, in response to a question from Representative Gardner, replied that directional drilling techniques are currently being used offshore, but there is a limit to the effectiveness of such a technique; offshore in Cook Inlet there are geological and engineering constraints requiring that drilling occur within two or three miles of shore. He said that there are points where it is technologically better to set an offshore platform and drill straighter holes.

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CHAIR KOHRING announced that the committee would recess until the conclusion of the House floor session.

CO-CHAIR KOHRING reconvened the House Special Committee on Oil and Gas at [11:49:02 AM](#). Representatives Kohring, Samuels, Gardner, and Dahlstrom were present at the call to order. Representative Rokeberg arrived while the meeting was in progress.

[11:50:31 AM](#)

MR. MYERS presented an overview of the division's work on the proposed gas pipeline. He said [the division] is currently in negotiations with the producer's consortium for both the upstream and midstream components for gas production and for a gas line. [The division] is in separate negotiations with TransCanada and others for an independently constructed pipeline that is focused on the midstream portion. [The division] has spent an extensive amount of time creating economic models for a gasline, and has developed a sophisticated pricing model.

MR. MYER said that the state has put together a comprehensive offer for the producers, which he felt would significantly improve the economics for the producers. In fact, producers recently returned a counter-proposal. The state's proposal involves a significant amount of state involvement, and the state would market and sell gas.

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CHAIR KOHRING asked if there would be less financial risk for the producers if the state took partial ownership of the pipeline.

MR. MYERS responded as follows:

There's kind of two issues there. One is the issue of state ownership of the pipeline and the other is the state shipping gas as a shipper on the pipeline, and they're really distinct issues. If you look at ownership in the pipeline, if you're an upstream producer, then you generally want to acquire a 15 percent rate of return or so upstream. Pipelines simply are regulated utilities that don't make that kind of money. Therefore, if you invest your capital in a project that is going to receive overall less than 15 percent rate of return, then it's a net drag on your actual rate of return that you use as ... an investment metric. The state takes a chunk of that and we might be delighted with a 14 percent rate of return, for example. For a governmental entity, a guaranteed long-term relatively safe 14 percent rate of return looks pretty attractive, where it won't for an oil company necessarily. So, in that case ownership in the pipeline improves the rate of return calculations for the producers. What it does not do is improve their cash flow, because, again, pipeline is a real good cash asset, and it provides a steady stream ... amount of cash. So depending on how a producer is looking at the ... investment in the project, it can be a ... very positive thing, in the sense of raising the rate of return, but it has a potential negative effect on cash flow. So there's a balancing there for them ... as there is for the state. ... So bottom line is, in general though, if the metric is truly the rate of return on the project state ownership in the pipe helps. It also shows that we're serious about getting the project done.

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MR. MYERS explained that there would be a risk-sharing component between the state and the producers; if the state takes its royalty taxes or converts its taxes to royalty, the state would be freeing the producer of the obligations they normally have to transport and market the gas. By owning some of the capacity in the line, the state would be taking part of the shipper's risk.

Mr. Myers stated that, with the expected prices, the risk is not that significant to the producers and shippers, although they may prefer to share it. He emphasized the importance of filling the capacity on the pipeline, and marketing the gas at a price that is higher than shipping prices.

MR. MYERS described negotiating on the midstream section of the pipeline and discussed methods for the state to be involved in an independent pipeline.

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REPRESENTATIVE SAMUELS noted that [the state] might fear that a producer-owned pipeline would have too much control since they would own the gas, the pipeline and the market. He said that [the state] might also fear that an independent pipeline wouldn't have any incentive to keep costs down.

MR. MYERS agreed with Representative Samuels. He said the state needs to ensure access to and expandability of the proposed pipeline. He stated that [the division] has not dismissed a liquefied natural gas (LNG) project; [the division] is still in the process of analyzing aspects of such a project.

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CHAIR KOHRING asked if there are any other states that have a partial-ownership agreement.

MR. MYERS answered that, to his knowledge, there are no other states with such an agreement.

CHAIR KOHRING asked if there is any strategic advantage for the state to own part of the Trans-Alaska Pipeline System (TAPS).

MR. MYERS responded that this is an issue [the division] needs to fully analyze. In response to Representative Rokeberg, Mr. Myers said that [the division] is exploring the option [of owning part of TAPS].

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REPRESENTATIVE ROKEBERG asked if Mr. Myers knew what the dismantlement, removal, and restoration (DR&R) reserves were for the owners of TAPS.

Mr. MYERS stated that he did not know; the state and federal governments have not defined how much cleanup they will require, and so it is difficult to know how expensive the cleanup will be.

REPRESENTATIVE ROKEBERG stated:

Much of that has already been written off ... on the books of the owners, and one of the ongoing debates has been whether that money should have been reserved in [indisc.] a sinking fund and put aside, and the producers/owners have always indicated that ... the strength of their balance sheet was sufficient to be able to cover this cost.

MR. MYERS remarked that during the state's recent renewal the right-of-way recently it insisted on parent company guarantees.

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REPRESENTATIVE ROKEBERG pointed out that the state requires the salvage or removal of platforms in Cook Inlet. He stated that one of his goals is to ensure that his constituents have enough gas to heat their homes in the future. He recalled a recent Department of Energy (DOE) study released last July that indicated there is significant shortage in Cook Inlet. He said he had heard that a spur line from any gas project would cost about \$300 million. He asked Mr. Myers to tell the committee what kind of volume [a spur would provide] and how much money would be necessary to study the spur.

MR. MYERS explained that [the division] assumes that a volume equal to current usage will have to come from a North Slope pipeline, which is "approximately 200 million per day ... to feed Fairbanks and Southcentral. ... It's about 80 bfc [billion cubic feet] per year internal." He said that one would also need to account for industry usage as well.

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REPRESENTATIVE ROKEBERG asked if Mr. Myers had an estimated cost for the preliminary engineering requirements.

MR. MYERS replied no; but estimated that the upfront costs would be in the tens of millions of dollars.

REPRESENTATIVE CARL GATTO, Alaska State Legislature, asked:

When we ... say we have to do DR&R when the line no longer has a throughput, how much throughput is considered enough to count it as throughput and at what level do we say ... "At 50 barrels a day, you're just pushing oil through the line so you don't have to take it apart."?

MR. MYER answered that it all depends on price, but he thinks that around 200,000 barrels per day through TAPS is "where the next huge tranch of reengineering probably would have to be done." He said that [a company] could theoretically push much smaller volumes through a pipeline, but the cost of the tariff and the cost of maintaining the infrastructure, even in a depreciated pipeline, would become so high that it would not be economically feasible to do it. He commented that the economic limit number has historically been "between 300 and 200 thousand barrels."

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REPRESENTATIVE GATTO asked if a major producer who wanted to get out of the DR&R could push 50 barrels a day through the line on the assumption that this would be cheaper than actually removing the line and restoring the environment to its original state.

MR. MYER replied, "We're seeing a micro-version of that in the Cook Inlet platforms." He referred to legislation passed a couple of years ago that gave automatic royalty reductions at certain levels to extend the life of the platforms. He stated that there is a threshold at which the operational costs exceed the liability [of the cost of abandonment]. He said that there are other methods besides parent company guarantees that can be used for companies that are not as financially strong or if financial conditions change over time.

REPRESENTATIVE GATTO asked:

Would we be violating any federal laws if indeed we tried to negotiate with the companies to say, "If you leave it in place, and you're off the hook for DR&R, and that's worth a billion dollars to us, we'll take the billion and leave it."?

MR. MYERS replied that there are environmental standards that have to be met no matter who does the final abandonment; if the state took the money it would be obligated to meet those

requirements. He explained that there are some discretionary requirements within the state which are conditions of the right-of-way lease, but there are pipeline sections on federal and Native lands, and the state would have an obligation to meet those right-of-way lease agreements.

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REPRESENTATIVE ROKEBERG commented:

We have at least a [\$]10 billion property replacement value in the \$20 to \$30 billion cost of building an oil pipeline. So we have a huge national asset that's only running at 50 percent capacity. ... One major ... argument for opening up ANWR would be that we have this enormous transportation asset If we did, as a state, own a portion of the TAPS we could ameliorate some of the access problems for independence, if we opened up ... that portion of the line and made sure it was more openly accessible to the independent producers.

CHAIR KOHRING commented that perhaps another committee should amend the ANWR resolution to reflect this.

REPRESENTATIVE ROKEBERG noted that, in the 10 years he has been in the legislature, the state has gone from under 50 percent to almost 63 percent reliance on imported oil. This is due mostly to the diminution of North Slope production by a million barrels a day.

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CHAIR KOHRING asked Mr. Myers to describe the effects of bills passed by the legislature last year, specifically House Bill 28 and Senate Bill 285, and to say whether they have "extended the lives of the rigs in Cook Inlet and delayed their eventual shutdown."

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MR. MYERS replied, "[Senate Bill 285] certainly has helped ... I would call it a pretty efficient incentive." He described current platform activities in Cook Inlet. He noted that another big incentive was the development tax credit for gas, and said that whether due to the incentives or the natural

marketing conditions, exploration activity is occurring for smaller and smaller onshore gas fields.

REPRESENTATIVE ROKEBERG mentioned other previous bills concerning oil and gas development.

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MR. MYERS said that the recent development incentives have been very focused and deliberate, and are more likely to succeed than the "broad brush" approach. He noted that the impacts of the overall larger severance tax credit is more difficult to measure. He remarked that this credit could really be useful in a frontier basin where there is no infrastructure.

MR. MYERS commented that it's important for the state to get the "right terms" on the potential gas pipeline because it could have a major long-term effect on the state's economy. He said:

If we look at something in terms of the potential of the North Slope being in the several hundred tcf [trillion cubic feet] versus the 35 tcf, it makes a huge difference in the way the project is viewed from a national perspective, but also from the state's long-term ... fiscal future. It also means that ... if the exploration potential ... materializes, then the economic impact to the state increases dramatically.

MR. MYERS stated that there are two major elements on the North Slope: conventional gas and gas hydrates. Hydrates are about 180-200 times denser than the same volume of conventional gas; the United States Geological Survey (USGS) estimates that there are at least 100 tcf of gas hydrates underlying the existing infrastructure in the Prudhoe-Kuparuk-Milne Point area. In comparison, that's more gas than is present in the Prudhoe Bay and Point Thomson conventional reservoirs.

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MR. MYERS estimated that the United States uses about 70 billion cubic feet (bcf) per day. He emphasized the need for [the state] to quantify the gas potential in order to get the explorers to find and develop the resources as quickly as possible, and to begin long-term commercial tests with gas hydrates.

MR. MYERS said that it is important that the gas pipeline be designed such that it is able to expand. He stated, "Every well, ... in my knowledge, in the North Slope that's been drilled encountered gas. The gas belt is huge out through the entire slope and out into the Beaufort Sea ... [there is a] huge quantity of gas, both conventional and nonconventional."

MR. MYERS discussed coalbed methane potential on the North Slope, noting that the division does not yet know how to carry out coalbed methane production in areas with permafrost. He made an economic comparison with conventional gas, saying that the latter could be initially produced at a much lower cost.

MR. MYERS, in response to Representative Rokeberg, stated that a significant quantity of gas and some oil was found in the Chukchi Sea. He said that perhaps technology will exist in the future to enable production out there.

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MR. MYERS explained that DOE has recently funded major studies on gas hydrate potential. New modeling suggests that gas hydrates within the existing Milne Point-Prudhoe Bay area could be produced at economic rates. He said that he will be going out to Washington, D.C., next week with a joint proposal to continue hydrate funding. He said that there is no production of gas hydrates in Alaska at this time. Moreover, he said he didn't know of any dedicated hydrate production anywhere in the world. He noted that there has been some initial production testing, and he thinks [hydrates] could easily add another 50-100 tcf of reserve base to the North Slope.

MR. MYER, in response to Representative Rokeberg, said that he believes there are other deposits of gas hydrates in northern Canada and the Mackenzie River areas, and he's sure there are other locations as well. He explained that the gas hydrates on the North Slope appear to be charged by the conventional gas system, and they are in conventional structural trapping mechanisms.

MR. MYERS stated that there were two recent DOE-funded projects on the North Slope: in the first, Anadarko Petroleum Corporation drilled for hydrates while testing out its Arctic platform with some new drilling technologies. He said, "They were less than successful on the hydrate leg of that." In the second project, BP-Alaska focused on evaluating hydrates.

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MR. MYERS, in response to Representative Gatto, related his understanding that Anadarko is looking for different commercial uses for the Arctic platform; the one they built was a small prototype version. He said there is no drilling application for it right now, but maybe some day it can be used for drilling in ANWR.

MR. MYER described other alternate technologies, such as modular production equipment and lighter weight rigs. He said that the administration is considering building staging areas in the [Brooks Range] foothills, among other possibilities. He emphasized the need for lowering exploration costs in areas that are far away from infrastructure.

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MR. MYERS presented a quick overview of additional projects, particularly those dealing with the proposed gas pipeline. He noted that Doyon Limited Corporation is working with the U.S. Fish and Wildlife Service on a land swap in the Yukon Flats basin. The USGS recently "upped their resource estimate" based on seismic data of the basin, where they have a mean estimate of 5.5 tcf. He also commented on the Copper River basin, where a small company will be drilling an exploration well. He said, "We're starting to see these other basins going to the next wave of exploration; people have acquired the licenses ... now the drilling has started ... so that's very encouraging news for us."

MR. MYERS stated that the leasing program is going very well. He noted that preparations are being made for the Bristol Bay lease sale for this fall. In fact, the Best Interest Finding (BIF) will be completed by the end of this month. He said that there has been tremendous local support for this project on the Alaska Peninsula.

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MR. MYER noted that [the division] is doing additional geological fieldwork and making technical information available to industries. Next week [the division] will have people at the National Petroleum Exposition to promote [oil development on the Alaska Peninsula]. He opined that [the state] has "a real shot at a basin that could provide an LNG project." He remarked on other topics: the governor's continued meetings with independent

companies; the streamlined permitting that "seem to be working"; the need to encourage maximizing use of existing facilities; changes in shallow gas licensing; and development of new infrastructure by Point Thomson.

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REPRESENTATIVE ROKEBERG voiced concern about the scoping and costs for the BIFs for "coalbed methane-type or expiration licensings".

MR. MYERS answered that these license areas lock [the land] up for about a seven-to-ten year period, so "it's not like you go back and have an areawide sale every year."

REPRESENTATIVE ROKEBERG asked what the annual lease payments to the state are [by Usibelli Coal Mine Inc. for the Healy Basin Exploration License Area], and if this is enough to offset the cost of the BIF.

MR. MYERS answered, referring to page 23 of the handout entitled "Proposed Healy Basin Exploration License Area":

The \$500,000 ... is merely the work commitment, so it's a dollar per acre or that initial application fee, and we actually lowered the rentals ... in order to make it competitive with the shallow gas leasing program, if they choose ... a gas-only process. So truly this will be marginally self-funding ... it will probably pay for its cost in terms of the upfront fee; ... it will not do a whole lot more than that. On the other hand, we're getting the basin evaluated. Recognizing these areas simply do not have the same potential return on investment you do on the North Slope, so ... in all honesty we are foregoing money in this process. We've increased the cost structure but we have a public process that's acceptable, whereas we really didn't on the shallow gas-leasing program.

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REPRESENTATIVE ROKEBERG remarked that it's costing the GF to have this type of a licensing program.

MR. MYERS agreed, and said that [the division] had not wanted to economically penalize the companies who had applied to the old program.

MR. MYERS then turned the committee's attention to photographs of naturally occurring oil and gas seeps on the Alaska Peninsula within the potential lease sale area. He said that this is an area where [the state] could see a significant positive economic impact.

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MR. MYERS, responding to a question from Representative Gatto, said that he did not know if the Environmental Protection Agency (EPA) would require a natural oil seep to be cleaned up if it was on a job site.

REPRESENTATIVE GATTO remarked that any substitute for natural gas will be more expensive, and if natural gas was not available to a community, it would have to convert to an alternative fuel source. He said:

That conversion itself could be worth \$5,000 to \$10,000. Most of us, therefore, would probably consider it similar to ... [paying] a tax of \$5,000 to \$10,000. ... A lot of people would be willing to do it when you consider the alternative of a new oil furnace, new flues, new things, and a product that is less-friendly. This is an enormous part of the equation that, if we do not have gas for residents and the community, we suffer from the increase cost plus the conversion.

REPRESENTATIVE ROKEBERG commented that the Cook Inlet area uses natural gas; since there is so much coal in that area, coal could be used as the primary electrical power generation source and offset that as the alternate fuel source.

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MR. MYERS discussed House Bill 531, regarding coalbed methane, that the legislature passed last year. He stated that he is very proud of the standards the bill established, and said, "I thought we hit truly the right balance." He reviewed some of the environmental standards; strong water protection, noise standards, light shielding, erosion control, and abandonment procedures.

REPRESENTATIVE GATTO pointed out that the French generate about 70 percent of their power using nuclear power. He inquired as to whether they made a good choice.

REPRESENTATIVE ROKEBERG stated that nuclear is back into play due to necessity and the inability of hydrocarbons to meet that growth. He said that the primary growth in the United States is going to be coal.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at [1:07:21 PM](#).