

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

March 1, 2005

5:09 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Nancy Dahlstrom
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Beth Kerttula

MEMBERS ABSENT

Representative Lesil McGuire
Representative Berta Gardner

COMMITTEE CALENDAR

CONFIRMATION HEARING(S)

Alaska Oil and Gas Conservation Commission

Daniel Seamount - Anchorage

- CONFIRMATION(S) ADVANCED

OVERVIEW: ALASKA OIL AND GAS CONSERVATION COMMISSION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DANIEL SEAMOUNT, Commissioner
Alaska Oil and Gas Conservation Commission
Anchorage, Alaska

POSITION STATEMENT: Testified as appointee to the Alaska Oil and Gas Conservation Commission.

ACTION NARRATIVE

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at [5:09:47 PM](#). Representatives Dahlstrom, Kerttula, Kohring, Rokeberg, and Samuels were present at the call to order.

CONFIRMATION HEARING

OVERVIEW: ALASKA OIL AND GAS CONSERVATION COMMISSION

CHAIR KOHRING [announced that the committee would consider the confirmation of the appointment of Daniel Seamount to the Alaska Oil and Gas Conservation Commission.]

DANIEL SEAMOUNT, Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), presented an overview of the AOGCC. He directed attention to "slides" printed in a handout available in the committee packet. The first slide contained a photograph of the Alpine oil field, which he explained is one of the newest fields using the latest technological advances. It has a very small footprint, about 100 acres, and produces from an area of over 20,000 acres, he said.

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MR. SEAMOUNT pointed out that the AOGCC basically has nothing to do with the surface, but instead, "we worry about what goes on in those 22,000 acres that are accessed by these high, horizontally-reaching well bores." He then turned to slide 2, which contains the following AOGCC mission statement:

Protect the public interest in oil and gas resources
and protect underground supplies of drinking water.

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MR. SEAMOUNT gave a brief overview of the presentation agenda as written on slide 3. He noted that AOGCC is extremely busy because permitting is at an all-time high. He said:

In two days, [AOGCC] ... is going to be holding its most important hearings in the last 20 years, and that is to look at the issue of potential waste due to the gas line project. And we may not have time to get into that, but I'm always willing to come back and discuss that at some later time. ... [Another issue is] offshore Cook Inlet future, and that would concern what are we going to do with the platforms; are we going to throw them away or are we going to go after

some ... resources that will probably never be accessible unless we preserve some of those platforms for awhile?

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REPRESENTATIVE SAMUELS asked, regarding the gas line oversight, "How do you make the determination on what would be an acceptable loss of potential oil production in order to get a project going?"

MR. SEAMOUNT responded that AOGCC would first do an analysis to determine if there will be waste and how much of it. Then they would decide what to do about it. He said, "Ultimately the decision rests in the legislature's hands, because you guys represent the people. I doubt that you would accept a lot of waste."

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SAMUELS remarked, "But at the end of the day, there's going to be a tradeoff. ... And you'll come up with a recommendation, or do you come up with a number, saying, 'This is how much we're going to leave in the ground by taking this much gas off'?"

MR. SEAMOUNT replied that, by statute, AOGCC makes the decision of what is an acceptable production rate.

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REPRESENTATIVE ROKEBERG asked what "waste" was referring to.

MR. SEAMOUNT answered, "Under the present plan of producing gas, we would be wasting liquids: oil and natural gas liquids. And that waste could be up into the hundreds of millions of barrels, the same amount that you'd have in an alpine field; something that industry's looking for right now."

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REPRESENTATIVE ROKEBERG asked what the timeframe was to do the study.

MR. SEAMOUNT responded that, if AOGCC does the study independently, it would probably take three years. He explained that this is why they've asked to have the supplemental for \$1.2 million fast-tracked, and then the AOGCC would start its own

independent study. He commented that he would prefer to have industry do the study and "have us look over their shoulders" but there appear to be confidentiality issues that are "stretching things out." He remarked, "We need to get this analysis done as quickly as possible."

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REPRESENTATIVE ROKEBERG inquired as to how the analysis can be completed quicker.

MR. SEAMOUNT replied that industry has dozens of geologists and engineers that are highly qualified and have the equipment. He said:

I assume that they will do this analysis on their own. If we could be partners with them through this analysis, not have any real secrets as far as conservation is concerned, and ... be able to relay this information to the public and to the legislature, that'd probably be the most efficient way to do it. But, understandably, there are partners involved, and lawyers involved, and information that goes out has to be sanctioned, and I see that as too much of a roadblock ... to us working together.

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REPRESENTATIVE ROKEBERG asked if it "would be much quicker to do it that way".

MR. SEAMOUNT answered that it would probably be about the same amount of time.

REPRESENTATIVE ROKEBERG remarked that Mr. Seamount had indicated that there would be research and mitigating measures taken during the course of the study, and he questioned how the three-year timeframe fits into an accelerated project. He asked, "Would you assume that you would make the study, and that the project could go forward notwithstanding whatever conclusions you may reach, or is there a chicken-and-egg situation?"

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MR. SEAMOUNT replied, "Theoretically it's possible. We would make a ruling that said that ... the gas rates talked about are not approvable, and there may be a problem there."

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REPRESENTATIVE ROKEBERG asked if AOGCC would make that ruling early or would they have to wait three years before ruling, or if there could be an interim ruling.

MR. SEAMOUNT responded that he hadn't thought about it, but it seemed that an interim ruling would be possible.

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REPRESENTATIVE ROKEBERG remarked that perhaps AOGCC should think about this issue.

REPRESENTATIVE SAMUELS commented that if the AOGCC doesn't rule for three years, "is anybody going to be willing to start doing anything three years from now? Just counting on you saying you can do anything at all when you might come out and say [that] there's too much waste to do anything but 3-B, and 3-B doesn't pay the bills."

MR. SEAMOUNT mentioned that the AOGCC is starting on Thursday with this process, and he'll have a lot more information for the committee after Thursday's hearing.

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CHAIR KOHRING asked Mr. Seamount, "I'd like to know why you're seeking this position and ... what some of your goals are as a member of the [AOGCC]."

MR. SEAMOUNT responded that he was seeking the position because:

I want to continue this extremely challenging, exciting job serving the people of the state. There is a lot to do. Permits are at an all-time high. We've got this very important issue of conservation concerning the gas pipeline. We are in a process of facilitating expanded statewide exploration and development, including NPRA [National Petroleum Reserve - Alaska], and exploration licensing areas that are outside Cook Inlet and the North Slope. I think there's a real exciting time in the near future for the state, and I would like to be part of it.

MR. SEAMOUNT continued:

We are going electronic. We're putting together a website to where all of our information can be accessed ... from anywhere in the world by people that are interested in potentially investing in Alaska. And they can see what kind of great opportunities exist here without having to spend money and fly up here. So there's going to be a lot more investors taking a look at the state, I think, because of our accessibility through the website.

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MR. SEAMOUNT continued:

We've got to maintain an active role in protecting Alaska's underground injection control program. ... There is a bill out there ... where we're taking over responsibility from the EPA [Environmental Protection Agency] for certain types of injector wells, which will ... help to streamline the permitting process, [and] get some of these projects onboard faster.

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MR. SEAMOUNT continued:

We've got mature oil fields out there. The infrastructure is getting older; what do we do with it? Do we take it away and throw it in the Aleutian trench like people are ... thinking of doing with our platforms, or can we do something with them to access resources...? 96 percent of the oil generated in Cook Inlet has never been found. Where'd that oil go? And we can use those platforms to look for that extra oil.

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MR. SEAMOUNT continued:

We're also looking at waste from gas flaring. Alaska has one of the best records of not wasting gas due to flaring but I think we can do better there. ... In Alaska, the amount of gas flared is 0.2 percent of the gas produced. ... But there's room for even more improvement. 0.2 percent of 8 bcf [billion cubic feet] a day is a lot of gas.

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CHAIR KOHRING commented that the committee is working on a bill that would be an incentive to encourage some of the deep-well drilling.

MR. SEAMOUNT pointed out that AOGCC is working on ways to increase its efficiency. He said that it reduced costs by over \$800,000 last year and is looking to reduce costs further this year. He remarked, "I believe we can run the agency a bit cheaper than we have in the past."

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CHAIR KOHRING asked Mr. Seamount to list some of his accomplishments at the AOGCC.

MR. SEAMOUNT pointed to "the web-based dispersal of information worldwide" which was started in 2000, the year he was originally appointed. He also stated that the AOGCC has decreased the time it takes to get a drilling permit from over 20 days down to less than 10 days.

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CHAIR KOHRING made the personal observation that Mr. Seamount has a good relationship with his constituents and that he comes highly recommended in the industry.

REPRESENTATIVE SAMUELS asked Mr. Seamount how much of his job is geology and how much is administration.

MR. SEAMOUNT replied that he does very little geology anymore; most of his job now is managerial.

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CHAIR KOHRING asked Mr. Seamount, "In the course of your work over the last five years, have you come across any major irregularities, in terms of your oversight observations as to what's going on on the North Slope and insuring that the state is in fact getting what we're suppose to?"

MR. SEAMOUNT replied, "Alaska's blessed in that it has world class operators."

CHAIR KOHRING clarified that he was not implying that the industry is not being scrupulous in their operations; he was just wondering if Mr. Seamount had discovered anything that he disagreed with regarding how the industry reported things.

MR. SEAMOUNT responded that there will always be disagreements between the AOGCC and the industry, but he hadn't seen anything major. He noted that the AOGCC always has incident investigations going on; currently there are about 12 investigations.

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REPRESENTATIVE ROKEBERG [moved to forward the name of Daniel Seamount to the joint session of the House and Senate for confirmation.] There being no objection, the confirmation of Daniel Seamount was advanced from the House Special Committee on Oil and Gas.

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MR. SEAMOUNT turned to slide 4 and pointed out that the AOGCC is a quasi-judicial state regulatory agency, not a resource agency. He explained the four main areas of AOGCC oversight: prevention of physical waste of hydrocarbon resources, promotion of greater ultimate recovery, protection of fresh water, and protection of correlative rights.

MR. SEAMOUNT pointed out that slide 5 shows how the AOGCC fits in with ADEC [Alaska Department of Environmental Conservation], ADNRC [Alaska Department of Natural Resources], and industry. He said, "We're regulatory, we're not so much into the economics of the situation, and we're sub-surface."

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MR. SEAMOUNT noted that slide 6 shows the AOGCC oversight strategy, and that its regulations are 20 AAC 25 and Statute Title 31. For regulatory and adjudicatory duties, he explained, the AOGCC has two teams of two reservoir engineers, two petroleum engineers, and two petroleum geologists that work on drilling permits, sundry permits, all order decisions, compliance reviews, and field studies. AOGCC also performs inspections and it polices the sub-surface operations on oil fields. It has one engineer and five on-site inspectors. He noted that AOGCC has two inspectors on the North Slope at all times. He said:

Our inspection program is probably the most complete of any agency in the state. ... And we inspect well control equipment. We make sure that the meters are accurate. ... We make sure that the wells have integrity and that they're not going to leak and spill into other zones. We do equipment checks, ... incident investigations, and at times we do other inspections when we have requests from the interested public.

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CHAIR KOHRING commented that it is unusual that the commission is so small, with only three members. He asked if the gas and oil industry operations in Alaska grows, the AOGCC would need more commissioners.

MR. SEAMOUNT answered, "I'm not sure if we need more commissioners. We may need more staff."

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CHAIR KOHRING remarked that he would support putting additional money into staff for AOGCC.

MR. SEAMOUNT noted that one of the engineers is overwhelmed with incident investigations, and he would like to hire an investigator to do this work.

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MR. SEAMOUNT, in response to questions by Chair Kohring, said that the AOGCC is within the Department of Administration. He said he didn't know if the AOGCC had received any additional funds for this year.

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MR. SEAMOUNT moved to slide 7, which lists the AOGCC's principle clients, including: individual Alaskans, oil and gas industry, ADNDR, ADEC, Alaska Department of Revenue, EPA, U.S. Department of the Interior, U.S. Department of Energy, trade organizations, and other interest parties. He said, "We serve everybody, and that includes the environmental community." He then turned to slides 8 and 9, which listed oil and gas operators and owners on the North Slope and in Cook Inlet/Mat-Su Valley. The number of

operators and owners has quadrupled since the year 2000, he remarked. He said, "Right now we have two work sites: one in Anchorage and one in Deadhorse. We have two teams ...: a west team that looks at Kuparuk, offshore Cook Inlet, [and] West Cook Inlet; and an east team that looks at Prudhoe Bay and the Kenai Peninsula." He noted that there has recently been a well permitted for Copper Basin.

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MR. SEAMOUNT pointed out that the AOGCC has oversight over everywhere in the state except for Denali National Park and Preserve. Slide 11 contained an organizational chart for AOGCC. He said that there are 27 staff members as well as temporary employees on occasion. Slide 12 showed how AOGCC is organized on the North Slope between the two teams, while Slide 13 showed the team organization in Cook Inlet.

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MR. SEAMOUNT turned to slide 14 and explained:

[The map on slide 14] shows that the present production is on the North Slope around Prudhoe Bay and in Cook Inlet, and all the shaded areas are areas that have oil and gas potential. So I believe, as an exploration geologist, that there is a lot of oil left to be found in this state. ... Recently DNR has opened up areas in Bristol Bay, which has active oil seeps.... [It] looks a lot like Cook Inlet. Actually the first oil field in Alaska was in the Gulf of Alaska. Chukchi Basin, to the north has tremendous amounts of potential oil left to be found.

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MR. SEAMOUNT explained that slides 15, 16, and 17 listed the AOGCC goals and strategies for fiscal year 2006. Slide 18 listed AOGCC primary services, which include holding hearings and open meetings, he noted. He said that AOGCC holds an open hearing about every week and about 16 hearings a year.

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MR. SEAMOUNT turned attention to slide 19, a diagram showing how technology has improved over time. "These well bores are getting more and more complex," he said, "and they're taking

more of our time to evaluate." He pointed out that the well on the left side of the slide is a vertical drilled well in the pre-1970s, and the well on the right is an extended reach well, which has multilateral well bores with up to five well bores coming out of one "mother bore". "And we're permitting more and more of those," he commented.

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MR. SEAMOUNT said that slide 20 depicted an extended reach well map showing that wells can reach up to four miles out from the well surface location, and "there's even talk of going up to seven miles."

CHAIR KOHRING asked, "Does that mean we could actually drill outside of ANWR [Arctic National Wildlife Refuge] and get underneath there, and get the oil anyway?"

MR. SEAMOUNT responded, "You could do that now ..., if the federal government would let you. ... You could do that technically, but I don't think legally you could get away with it."

CHAIR KOHRING commented, "Maybe that would be the solution, as opposed to Congress opening up ANWR per se; just opening up the ability to be able to drill underneath the ... formations, from a different location."

MR. SEAMOUNT replied that he didn't think it would be possible to get the "sweetest spot of ANWR from outside, unless you somehow drill from offshore, and there might be some real problems doing that."

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MR. SEAMOUNT moved to slide 21, which was a graph showing Alaska oil and gas activity from the 1950s to 2010. He said:

Right after 1960 was a spurt of drilling at Swanson River, and that's the reason why we became a state: because we showed that we had the resources, that we could be a real member of the United States. And then after that [were] ... the discoveries in Cook Inlet; all the platforms went up and you had another spurt of activities. ... On the left [of the graph] it shows the number of well permits per year, and then it died off. And then there was the discovery at Prudhoe Bay

and Kuparuk, and you see up to 305 wells were permitted in one year during that part of the activity. The crash of the oil prices brought us down to under 150 permits per year, and then a steady increase in the number of wells, up to the present, where we're at second all-time records. In fact, probably ... since 1998, I'll bet you during that time period that's the most number of wells permitted that we've seen in the state, and that includes Prudhoe and Kuparuk times.

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MR. SEAMOUNT pointed out that the graph on slide 21 also showed the number of active wells that the AOGCC has to inspect, "and we just hit 4,000 wells this year." Numbers of reservoirs are also on the graph, and he said that there are 100 currently. He then turned to the graph on slide 22, entitled "Alaska's Daily Oil and NGL Production Rate". He said:

It's broken out through areas of the state, like Cook Inlet, Colville River, other North Slope fields, [and] Prudhoe Bay. ... At the very beginning you see the increase in production due to this spurt of activity here in the Cook Inlet, and then it kind of dies off. And then of course Prudhoe Bay hits, and with this activity, you can see we're getting up to two million barrels a day at one time. And then you see the steady decline. One thing that's kind of disturbing is you see the steady decline in production; it was arrested for a bit by Alpine and North Star development but you can see activity is going up, and still all that extra activity still isn't spurring production as much as it has in the past with these huge discoveries like Kuparuk and Prudhoe Bay.

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MR. SEAMOUNT reiterated that there was an all-time high in permits presently, and last year AOGCC was at an all-time high in orders. In response to Chair Kohring, he explained that an order would be some sort of decision that the AOGCC would make on a request from a party: "they'd want pool rules, they'd want disposal injection order.... An order could be concerning a decision we've made on an adjudication of a spat between two parties. And orders take quite a bit of work; it takes a lot of legal writing.

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MR. SEAMOUNT pointed out, "[Annual well work actions] were at a record in 2004. We had a high number of drilling permits, a record number of well workover permits, and a record number of other. ... It probably has something to do with the price of oil."

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MR. SEAMOUNT, in response to Chair Kohring, stated that [the current high interest in Alaska by the oil and gas industry] is due to a combination of legislative bills and the price of oil.

MR. SEAMOUNT turned to slide 26, containing a graph of permit approval times over the last few years. He noted that in fiscal year 1999 through 2001, the AOGCC was taking about 15-20 days for a permit approval, and in one quarter it took an average of over 30 days per permit, which he felt was unacceptable. He said that the AOGCC started emphasizing that it needed to look at the permits completely and approve them in a reasonable amount of time. Currently, permitting takes about 7 days, he said, while at the same time the numbers of permits have been increasing as well. He commented that the AOGCC approves about one permit every working day now, which equals about 250 per year.

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MR. SEAMOUNT said that slides 27 and 28 list the AOGCC's key challenges and projects. The first challenge is to determine the impacts of major gas sales upon ultimate hydrocarbon recovery from Prudhoe Bay and Cook Inlet.

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CHAIR KOHRING asked if Mr. Seamount had ever denied permits.

MR. SEAMOUNT replied that the AOGCC does deny some permits. He said:

Often we find problems with the permits, with the compliance ... with regulations, or they ask us for a waiver that we don't feel can be granted, and we'll deny that part of it. And then they'll take the permit back, rework it, and give us one that is

compliant. So it looks like we approve 99.5 percent of the permits, but I would say that probably 30 percent of the permits ... require some sort of work before they're approved.

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CHAIR KOHRING encouraged Mr. Seamount to speak to the committee at a later date regarding old Cook Inlet platforms, because the committee is working on legislation to address the issue.

MR. SEAMOUNT commented, "Before we get rid of those platforms, ... every one of those wells ought to be drilled another 5,000 feet deeper. Go down to where the oil's coming from, and just see what's down there."

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CHAIR KOHRING announced that the next committee meeting would be on March 3, focusing on the topic of viscous oil.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at [5:58:50 PM](#).