ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
January 31, 2006
6:03 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Lesil McGuire
Representative Berta Gardner
Representative David Guttenberg

COMMITTEE CALENDAR

HOUSE BILL NO. 294
"An Act amending and extending the exploration and development incentive tax credit under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of gas for delivery and sale from a lease or property in the state; providing for an effective date by amending the effective date for sec. 2, ch. 61, SLA 2003; and providing for an effective date."

- MOVED CSHB 294(O&G) OUT OF COMMITTEE

OVERVIEW FROM ALASKA OIL AND GAS ASSOCIATION

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 294
SHORT TITLE: GAS EXPLORATION\DEVELOPMENT TAX CREDIT
SPONSOR(s): REPRESENTATIVE(s) CHENAULT

04/30/05	(H)	READ THE FIRST TIME - REFERRALS
04/30/05	(H)	O&G, RES, FIN
01/26/06	(H)	O&G AT 5:00 PM CAPITOL 124
01/26/06	(H)	Heard & Held
01/26/06	(H)	MINUTE(O&G)
01/31/06	(H)	O&G AT 6:00 PM CAPITOL 124

WITNESS REGISTER

JOHN BARNES, Manager
Alaska Production Region
Marathon Oil Company
Anchorage, Alaska
POSITION STATEMENT: Answered questions regarding HB 294.

JUDY BRADY, Executive Director
Alaska Oil and Gas Association
Anchorage, Alaska
POSITION STATEMENT: Provided an overview of the oil and gas development process in Alaska.

RANDAL BUCKENDORF, Senior Attorney
BP Exploration (Alaska) Inc.
Anchorage, Alaska
POSITION STATEMENT: Discussed the oil and gas permitting process in Alaska from a legal perspective as well as BP Exploration (Alaska) Inc.'s Liberty Project and answered questions regarding it.

MARK MAJOR, Senior Environmental Coordinator
ConocoPhillips Alaska, Inc.
Anchorage, Alaska
POSITION STATEMENT: Discussed ConocoPhillips Alaska, Inc.'s Alpine Satellite Development Project and answered questions regarding it.

PAT FOLEY, Manager
Land, Commercial and Regulatory Affairs
Pioneer Natural Resources, Alaska, Inc.
Anchorage, Alaska
POSITION STATEMENT: Discussed Pioneer Natural Resources, Alaska, Inc.'s Oooguruk Project and answered questions regarding it.

ACTION NARRATIVE

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at 6:03:26 PM. Representatives Kohring, Rokeberg, Samuels, and Dahlstrom were present at the call to order.

HB 294-GAS EXPLORATION\DEVELOPMENT TAX CREDIT

6:03:49 PM

CHAIR KOHRING announced that the first order of business would be HOUSE BILL NO. 294, "An Act amending and extending the exploration and development incentive tax credit under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of gas for delivery and sale from a lease or property in the state; providing for an effective date by amending the effective date for sec. 2, ch. 61, SLA 2003; and providing for an effective date."

6:04:52 PM

CHAIR KOHRING inquired as to how the changed percentages [in HB 294] were derived. He asked, "Was there a reason that justified those particular numbers, or were they just hypothetically chosen?"

6:05:29 PM

JOHN BARNES, Manager, Alaska Production Region, Marathon Oil Company, informed the committee that [the changed percentages] were designed to be a starting point for discussion. He recognized that the Department of Revenue (DOR) will need to complete [economic] modeling in order to provide the Alaska State Legislature with information which would assist it in adjusting the percentages fittingly.

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CHAIR KOHRING commented that even though the State of Alaska would be giving up a "pretty good chunk of money," the net return over time would be "pretty substantial." He added that at a 4:1 ratio, for $1 that [the State of Alaska] would be giving up in extra taxes, granted in the form of credits, [the State of Alaska] would be generating $3 in revenue.

6:07:01 PM

CHAIR KOHRING reminded the committee that [HB 294] was referred to additional committees, which allows for time to adjust the [percentages], if necessary. He expressed his comfort with the [percentages].

6:07:55 PM

REPRESENTATIVE ROKEBERG, in regard to the applicability of the credit to projects south of 68 degrees north latitude, announced his conceptual amendment prohibiting the delivery of Alaska North Slope (ANS) gas south of 68 degrees North latitude.

CHAIR KOHRING noted that he shared Representative Rokeberg's concern.

REPRESENTATIVE ROKEBERG opined that in light of "everything else" that's going on in [the 2006] legislative session, his conceptual amendment would help expedite [HB 294] as well as prevent it from becoming "co-mingled" with other legislation.

6:09:09 PM

REPRESENTATIVE ROKEBERG asked Mr. Barnes if he would have an objection to an amendment [to HB 294] that would prohibit the use of the credit [south of 68 degrees North latitude] for ANS gas.

MR. BARNES responded that he believed that the amendment would be consistent with the original intent of [HB 294].

6:09:46 PM

CHAIR KOHRING clarified that with the amendment, everything south of the Brooks Range would be included in [HB 294], while everything north of the Brooks Range would not be included.

MR. BARNES confirmed that Chair Kohring was correct.

CHAIR KOHRING surmised that Representative Rokeberg's concern is in regard to what will happen if a gas line is built because he wants to ensure that [HB 294] doesn't apply [to a new gas line].

6:10:10 PM

REPRESENTATIVE ROKEBERG [moved that the committee adopt] Conceptual Amendment 1, which would insert AS 43.20.043(f) with the underlined and bolded text such that it would read as follows:

> A taxpayer is not entitled to a credit under this section for expenditures that are made or incurred for the qualified capital investment or for qualified services made for exploration and development of gas that occur in the area of Alaska lying north of 68

degrees North latitude or that are made or incurred to transport gas from reserves located in the area of Alaska lying north of 68 degrees North latitude **or for the delivery of Alaska North Slope natural gas to tidewater below 68 degrees North latitude**.

6:11:10 PM

There being no objection, Conceptual Amendment 1 was adopted.

6:11:32 PM

REPRESENTATIVE ROKEBERG moved to report HB 294 as amended out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 294(O&G) was reported out of the House Special Committee on Oil and Gas.

OVERVIEW FROM ALASKA OIL AND GAS ASSOCIATION

6:12:03 PM

CHAIR KOHRING announced that the final order of business would be an overview from the Alaska Oil and Gas Association.

6:14:55 PM

JUDY BRADY, Executive Director, Alaska Oil and Gas Association (AOGA), informed the committee that the question AOGA is always asked is "Can oil and gas development coexist with effective protection of sensitive environments?" The answer to the question is affirmative and she added that permitting is essentially mitigation. She noted that the Central Arctic caribou herd went from 5,000 to over 35,000 during the 40 years of oil and gas [development] there.

6:15:35 PM

MS. BRADY stated that all of the oil and gas produced in Alaska is produced in sensitive environments. Furthermore, AOGA has developed a toolbox for oil and gas development in sensitive areas in Arctic Alaska. She emphasized the importance of a good environmental reputation and opined that the [oil and gas] industry in Alaska has an "excellent" environmental reputation. For example, even under a national democratic administration, National Petroleum Reserve-Alaska (NPR-A) was re-opened, due to the reputations of the companies on the North Slope.

6:16:46 PM

MS. BRADY informed the committee that Arctic Alaska is the most studied Arctic area in the world and added that there are 40 years worth of studies on water quality and volume, fish, habitat mapping, caribou, subsistence, and vegetation. Vegetation studies are indicators of air quality, she mentioned. She explained habitat mapping, which is conducted prior to the start of a project [to inform] the [oil and gas] companies of the locations of all of the nesting colonies of the various species, whether they are endangered or not. Therefore, the [oil and gas companies] build roads and gravel pads around the nesting areas.

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MS. BRADY exemplified "putting the toolbox to work" through a picture of ConocoPhillips Alaska, Inc. ("ConocoPhillips")'s pipeline through the Colville River. She explained winter seismic operations in which there is currently a zero tolerance for seismic marks on the tundra, in contrast to the five to seven years allowed in the past. She also explained ice road access, which entails about a million gallons of water per mile and costs about $1 million per mile. In regard to footprint reduction, she informed the committee that the pipe on the [North Slope] is raised five to seven or eight feet and sometimes fourteen feet [from the ground].

6:19:03 PM

MS. BRADY, in regard to oil and gas permitting on Alaska's North Slope, reiterated that it's an Arctic environment and stated that most of the North Slope consists of wetlands, which require federal permits. All onshore oil and gas development is inside the North Slope Borough and the majority of oil development has been on state land, although onshore development has recently moved to federal land/NPR-A. She stated that some leases are on Arctic Slope Native Corporation land. Offshore development involves both state and federal land, she noted.

6:19:34 PM

MS. BRADY listed AOGA's "key approvals": environmental assessment (EA) or environmental impact statement (EIS), Wetlands Section 404, North Slope Borough land management regulations, Alaska Coastal Management Program (ACMP) consistency determination, Department of Natural Resources

(DNR), and Department of Environmental Conservation (DEC)'s air/contingency plan (C-Plan). She noted that both North Slope Borough land management regulations and ACMP consistency determination for the North Slope Borough are currently being re-worked.

MS. BRADY listed the questions to which oil companies new to Alaska want to know the answer as follows: how long does it take to permit a project?, how much does it cost?, is there a transparent permitting system?, how complicated is the permitting system?, how subjective is the permitting system?, what are the major issues driving permit approvals?, who should I talk to?, and what permits do I need?

6:20:58 PM

RANDAL BUCKENDORF, Senior Attorney, BP Exploration (Alaska) Inc. ("BP"), explained the complexity of the permitting process in Alaska. In regard to the complexity of the Alaska regulatory regime, he informed the committee that the complexity is mostly due to multiple agency jurisdictions - federal, state, and local. In addition, there are many permits and federal environmental laws and regulations, which are generally prescriptive rather than performance driven. He noted that some of the more recent EIS' in NPR-A have attempted to be performance driven. He mentioned that differing levels of information are required for different permits. There are multiple public comment requirements and AOGA attempts to prevent the overlap of public comment periods.

6:22:36 PM

MR. BUCKENDORF discussed recent State of Alaska permitting reforms. The ACMP was reformed by House Bill 191, which was passed by the legislature in 2003. When a project is being developed in a coastal zone, ACMP mandates the process. Previous to 2003, DEC required permits that didn't work well within the [ACMP] process. House Bill 191 "carved out" the DEC permits and as a result, ACMP is [currently] working "very well."

6:23:26 PM

MR. BUCKENDORF informed the committee that coastal districts are only able to draft enforceable policies that reflect matters of local concern and that do not duplicate matters regulated by federal and state laws and regulations. He noted that the State

of Alaska recently received final federal approval of the statutory and regulatory changes. In the next six to nine months, [ACMP] will be approving all of the local district programs statewide.

6:24:00 PM

MR. BUCKENDORF discussed two additional programs that the legislature has worked to improve in the previous year on state primacy - the National Pollutant Discharge Elimination System (NPDES) and the Underground Injection Control (UIC). In fact, SB 110 directed DEC to seek primacy over the NPDES program. In regard to UIC wells, the state has primacy over the oil and gas wells. He added that SB 103 directed the AOGCC to work with the Environmental Protection Agency (EPA) to attempt to assume primacy over the UIC program.

6:24:43 PM

MS. BRADY added that a concern of AOGA is how the coastal enforcement policies are actually going to work.

6:25:35 PM

REPRESENTATIVE ROKEBERG inquired as to the status of obtaining primacy over the NPDES program.

MR. BUCKENDORF, in regard to the NPDES program, responded that DEC is currently in the process of drafting its program review and regulations. In regard to the UIC program, Commissioner [John] Norman [of the AOGCC] has been conducting meetings with EPA in an attempt to overcome some of the legal hurdles that the federal government requires for handing primacy of a portion [of the UIC program] to the [State of Alaska].

6:26:38 PM

MARK MAJOR, Senior Environmental Coordinator, ConocoPhillips Alaska, Inc. Alaska, Inc. ("ConocoPhillips"), in response to Representative Samuels, clarified that the North Slope Borough Assembly will be voting on its coastal management program on February 7, 2006, which will then be turned into the DNR.

MR. BUCKENDORF, in further response to Representative Samuels, informed the committee that DNR has a statutory deadline for approval. He added that DNR will review the [ACMP] policy-by-policy.

6:27:27 PM

MR. BUCKENDORF discussed two types of legal requirements - procedural and substantive. The procedural legal requirement mandates a process. For example, the National Environmental Policy Act (NEPA) is only federal and typically requires an EA or an EIS. An additional example of a procedural legal requirement is the Coastal Zone Management Act (CZMA). The substantive legal requirement consists of typical permits - air, water discharges, and water use.

6:28:28 PM

MR. BUCKENDORF referred to the major federal programs to exemplify the number of authorizations one needs for most of AOGA's projects. In regard to the federally-delegated/approved programs, the State of Alaska is able to assume primacy, or is sometimes directed to assume primacy. Examples of federally-delegated/approved programs are the Air Permitting Program, UIC, CZMA/ACMP, and the Alaska Water Quality Standards, which have to be approved by EPA. He noted that CZMA is federally dictated; the state isn't required to have a program, but if developed, the federal government is required to approve it.

6:29:35 PM

MR. BUCKENDORF, in regard to ACMP, reiterated that House Bill 191 has helped [the oil and gas industry] because it's a mechanism to develop in a coastal zone. Every known oil and gas resource in the state is considered to be in the coastal zone, she noted. Therefore, ACMP is very important to the oil and gas industry. It's also used to provide state input to Outer Continental Shelf (OCS) activities. He added that the state has developed an "ABC List" that allows an applicant to streamline the [permitting] process and House Bill 191 mandated an expansion of those lists.

6:30:52 PM

MR. BUCKENDORF informed the committee that the ABC List consists of federal and state permits. Without [the ABC List], one would have to go through the ACMP process each time. The A List is categorically consistent. If one receives a permit, he/she is predetermined consistent with CZMA. The B List is a general concurrence determination and allows one to go through [the

process] once and develop a standard list of stipulations that apply at that time and at any time in the future.

MR. BUCKENDORF provided A and B List examples. He also remarked that that the [B List] has allowed [AOGA] to "cut days and weeks off of" the permitting process.

6:32:46 PM

MS. BRADY added that areawide permitting pertains to the B List. The "big piece" that's missing from the B List is a winter exploration well, which AOGA has "done hundreds and hundreds" of such wells. A few years ago, when the State of Alaska attempted to update the B List, all of the agencies went into "deadlock." A winter well has to go through a consistency determination every time, she mentioned.

6:33:23 PM

MR. BUCKENDORF discussed AOGA's local programs. Most of the local areas throughout the state have Title 29 planning and zoning authority, which allows for the development of their own code that dictates planning and zoning ordinances. He stated that there are two primary ways that both the Kenai Peninsula Borough and the North Slope Borough direct oil and gas development, through Title 29 authority as well as CZMA. In the North Slope Borough, for example, both of the [Title 29 authority and CZMA] processes are currently under review. Along with new coastal zone management policies, [local areas] are also developing new planning and zoning regulations, which will also be approved in the next month.

6:34:22 PM

MR. BUCKENDORF explained another example of AOGA's [permitting] process. Most of the North Slope Borough is zoned conservation; although AOGA is given a state or federal lease that allows it to explore for and potentially develop oil and gas, it has to go to the North Slope Borough with a master plan and request that area be rezoned for oil and gas development, instead of conservation. This occurs in every major development.

MS. BRADY added, "Even though it's state land."

MR. MAJOR added, "State land, federal land, private land, we still go through the [North Slope Borough]."

6:35:11 PM

MR. BUCKENDORF, in regard to permitting new resource development projects, remarked that identification of permits are required. Currently, BP is developing a permitting plan for its "Liberty Project." Mr. Buckendorf put together a 50-page memo to analyze the state permits, which is very detailed because of the overlapping jurisdiction.

CHAIR KOHRING requested that Mr. Buckendorf provide [his memo] for the committee.

6:35:58 PM

CHAIR KOHRING inquired as to whether any of the authorizations are duplicative, redundant, or unnecessary. He expressed his desire to help streamline the [permitting] process by eliminating the number of permits that are required as long as it's not compromising the environment and/or contradicting federal law.

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MR. BUCKENDORF discussed examples of permitting time frames, and offered that permitting for small projects takes two to four weeks, for medium projects three to six months, and for large projects three months to more than three years. He noted that the Kensington Mine was a 12-year project. Furthermore, [projects] can take a long time if there are multiple agencies and overlapping jurisdictions.

6:37:33 PM

PAT FOLEY, Manager, Land, Commercial and Regulatory Affairs, Pioneer Natural Resources, Alaska, Inc. ("Pioneer"), informed the committee that Pioneer is a relative newcomer to Alaska since it has been conducting business in Alaska for only about three years. Currently, it has about 26 employees in Alaska and began exploration drilling in 2003. Oooguruk is a development project that's a result of that successful exploration program in 2003.

6:38:06 PM

MR. FOLEY explained that Oooguruk is a single, offshore drill site, which is just off of the Colville Delta. Oooguruk lies in about 4.5 feet of water and involves a single offshore island.

There is no processing on the island; instead, there is a sub-sea buried flowline that connects back to existing infrastructure in the Kuparuk River Unit. Pioneer is near the end of negotiations with Kuparuk River Unit to utilize its facilities for Pioneer's processing. Pioneer's development is about 15,000 to 20,000 barrels per day, at peak. Oooguruk is fairly small and similar [in size] to another drill site within the Kuparuk River Unit. He noted that the facility, after the construction and drilling phase, will be unmanned; it will be remotely operated, with the ability to control wells and contain problems immediately through instrumentation.

6:39:10 PM

MR. FOLEY informed the committee that Oooguruk has three distinct construction phases. At this point, Pioneer is on the cusp of receiving all of its federal, state, and North Slope Borough authorizations and thus the project should commence within the next few days. This winter, Pioneer will install an offshore gravel island, about 500,000 cubic yards of gravel and six acres in size. Next winter, Pioneer will install a sub-sea buried pipeline bundle, which would be followed by a drilling phase of approximately three years.

6:39:51 PM

MR. FOLEY reiterated that there is no processing on the island as it is just a drill site with wells, manifold, storage, and a sub-sea buried pipeline bundle. He noted that there's a very small gravel expansion next to an existing drill site, Kuparuk River Unit 3H, where Pioneer would have some other facilities.

6:40:39 PM

CHAIR KOHRING related his assumption that the reason Pioneer is putting in the pipeline bundle before drilling is because it's aware that there's already a reservoir there.

MR. FOLEY agreed and added that Oooguruk is a discovered resource. The first wells were drilled in the 1970s by ARCO Alaska, Inc., Texaco, and the Amerada Hess Corporation. Pioneer found this same reservoir in its 2003 drilling program and [current] oil prices allow for a project like Oooguruk to be economic.

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MR. FOLEY described the configuration of the flowline bundle, which is buried underneath the sea floor. The key to the flowline bundle is that there's a production flowline. The flowline bundle is a pipe-and-pipe construction, so three phases - oil, gas, and water - are all shipped from the drill site to existing Kuparuk River Unit infrastructure. It's a 12-inch, steel pipeline, with space in between - an annulus - such that it's enclosed in another pipeline. Therefore, there are two levels of containment. In the space in between the annulus, there's a very slight vacuum, which is the leak detection system that allows Pioneer to know immediately if [the flowline bundle] has any kind of a leak from the inside to the outside or from the sea into the outer surface. Therefore, Pioneer has the ability to shutdown wells, protection, and shipping nearly immediately.

6:42:26 PM

REPRESENTATIVE ROKEBERG asked, "Is that produced gas going out?"

MR. FOLEY confirmed that Representative Rokeberg was correct. He added that there's gas that would come out of existing Kuparuk River Unit infrastructure. The gas is used for fuel, gas injection, and reservoir pressure maintenance. In further response to Representative Rokeberg, he explained that all three phases come off of Pioneer's island, so they're exported into Kuparuk River Unit infrastructure. He added that water, gas, and power will all be imported - shipped back to Pioneer's location.

6:43:04 PM

CHAIR KOHRING clarified that the whole bundle is not encased in any way, it just has the bundle straps holding it together.

MR. FOLEY confirmed that Chair Kohring was correct. He added that early in the design stage, conceptually, Pioneer considered enclosing all of it in a super conductor. However, operationally it wasn't feasible; the weight and the difficulty of installation makes it impractical in [an Alaska] environment.

6:43:32 PM

MR. FOLEY remarked that another unique aspect of Pioneer's offshore development is that all of the wells are drilled in well-containment modules. He likened them to steel boxes that are 13-feet high, 40-feet wide, and 40-feet long. [The well-

containment modules] are partially for spill containment, he noted. There is a sump in the bottom of the facility so that any escaping fluid would be contained within the box and could be pumped into storage tanks, injected back into the reservoir, or injected into Pioneer's offshore export line. The idea, he clarified, is that no production and/or leak would ever enter the Beaufort Sea.

6:44:21 PM

MR. FOLEY opined that Pioneer is a responsible developer. He referred to a list of 27 evaluation studies and reports. The evaluation studies and reports represent things that were considered in order to ensure Pioneer designed a project that was safe, responsible, and that mitigated all of the impacts. Since November 2004, Pioneer has incurred nearly $2 million in costs associated with the regulatory process and the evaluation studies and reports. He added that the evaluation studies and reports are the right thing to do in order to design a safe and proper project.

6:45:38 PM

MR. MAJOR discussed ConocoPhillips' Alpine Satellite Development Project. He explained that satellites are small oil fields that are adjacent to another oil field where the oil is going to be produced into an existing infrastructure. He informed the committee that Alpine is the first on-shore, roadless development for commercial production on the North Slope. Alpine is located in the Colville River Delta about 35 miles from the Deadhorse/Prudhoe Bay area and is less than 100 acres. He noted that the existing facilities are producing about 115,000 barrels per day and the annual average, with the winter peak, is about 130,000 barrels per day. ConocoPhillips is adding satellites on to [the existing facilities], he related. He explained that there were a number of changes made to ConocoPhillips' proposal for satellites. For example, the bridge lengths were altered. He noted that there is state land as well as private land. Therefore, Alpine already has some Native corporation involvement.

6:48:42 PM

CHAIR KOHRING related his understanding that the gravel that has been extracted for the use of building the pads is coming from Nuiqsut and that local people are being employed to mine and deliver the gravel.

MR. MAJOR replied yes, and added that ConocoPhillips did most of the gravel work [in 2005].

6:49:03 PM

MR. MAJOR described a map of what was approved in the EIS process. For example, the bridge across the Nigalick channel was lengthened from 1,200 feet to 1,650 feet. The route to the satellites was moved from inside a buffer zone to outside a buffer zone. The drill site was kept in the buffer [zone], but the road access changed dramatically. Also, some of the other smaller bridges were changed. The original proposal had power line poles, which were taken out. ConocoPhillips has to run the power lines on cable trays along the vertical support members (VSM).

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MR. MAJOR, in regard to the Colville Delta (CD) 3, which is north of the existing Alpine facilities, stated that it will be a roadless development. He clarified that roadless doesn't mean that there aren't connector roads, like there is from CD 1 to CD 2. The CD 3 will have its own airstrip and a development area with a pipeline connecting to the Alpine main facilities. The pipelines have to be a minimum of seven feet high. He added that ConocoPhillips will have spill response equipment staged at various channels along the way.

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MR. MAJOR, in regard to CD 4, which is connected to the Alpine facilities by a road, remarked that there is 3.6 miles of road connecting to CD 1. He added that there are seven-foot high pipelines and a 10-acre pad, which has about 20-25 wells on it. ConocoPhillips is going to spend about $.5 billion developing CD 3 and CD 4, which will give it about an extra 20,000 to 25,000 barrels a day of oil production.

6:51:41 PM

MR. MAJOR discussed the proposed CD 5, CD 6, and CD 7 [drill sites]. Currently, ConocoPhillips has sanctioned, which means funded, CD 3 and CD 4. However, CD 5, CD 6, and CD 7 have not been sanctioned or permitted, but have been through the EIS process. Currently, ConocoPhillips is in the process of permitting CD 5. For CD 3 and CD 4, there were seven federal

permits, twenty state permits, and three local permits, plus the rezone process; he noted that the permitting process is after one has gone through the EIS [process]. He noted that CD 5, CD 6, and CD 7 will be about nine to ten acres in size, have seven-foot high pipelines, and all of the fluids will go back to Alpine.

6:52:57 PM

REPRESENTATIVE ROKEBERG inquired as to whether there would be a gravel road "all the way out" to CD 7.

MR. MAJOR replied yes.

6:53:21 PM

MR. BUCKENDORF discussed BP's newest development project, which is the Liberty Project. The Liberty Project is an offshore development project and has 100-150 million barrel recoverable reserves on federal leases on the Outercontinental Shelf. The Liberty Project went through the EIS process from 1998-2002. Several months prior to receiving the final EIS and draft permits, BP decided to hold off on the project. At that point in time, the Northstar project was just being challenged; there were 20 pieces of litigation filed against Northstar, so BP decided to complete the litigation for one project before starting another offshore project.

MR. BUCKENDORF informed the committee that since that time, BP has completely redesigned the Liberty project. For two years, BP looked at developing something similar in design with an offshore island without processing, but having the three phases return to either Endicott or Badami. Just in the last year, because of developments worldwide with extended-reach drilling or long-reach directional drilling offshore in both the United Kingdom and the North Slope, BP Exploration rethought the process for the last nine months, which will now be an onshore single drill pad that will access the offshore leases. It will be the first of it's kind on the North Slope, and probably in the United States.

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MR. BUCKENDORF remarked that the National Marine Fisheries Service's (NMFS) regulations really weren't written to allow one to drill five to seven miles [offshore] to access [oil and gas]; therefore, BP is currently working through some jurisdictional

issues with NMFS. Tomorrow morning, BP will sign a memorandum of understanding and it anticipates the State of Alaska will sign on to [the memorandum] within the next month. To supplement the original EIS, BP is going to evaluate two different drill sites, one of which is closer to Endicott. There isn't a road to Badami or Endicott and the Endicott causeway, so BP is looking at a drill site closer to Badami and one closer to Endicott.

6:56:33 PM

MR. BUCKENDORF informed the committee that BP's base case has it developing a Point Brauer well site, drilling 5.4 miles. Several of the wells will be 8 miles, with the production returning to BP's 100-percent-owned Badami field, which is currently operating.

MR. BUCKENDORF, in response to Representative Samuels, answered that Endicott is largely owned by ExxonMobil and BP.

6:57:23 PM

MR. BUCKENDORF stated that the Liberty Project well appraisal was in 1998, the same year in which ARCO was conducting the final permitting of Alpine. The original concept [of the Liberty Project] was a twin to Northstar.

MR. BUCKENDORF commented that the status of the Liberty Project is that BP is going to spend 2006 going through the "select" phase, which is the "definitive final conceptual level of engineering." Also, BP is going through an extensive pre-application process. In late December, BP will send its draft development plan to the Minerals Management Service (MMS) and the Corps of Engineers. In the second quarter of 2007, BP will begin the supplemental EIS process.

6:58:31 PM

MR. BUCKENDORF explained that the Liberty Project base case consists of 10-15 production and injection wells back to Badami, with a three-phase [pipe]line. He noted that BP is evaluating the Liberty Project as roadless, but the base case has a road as a result of the extensive drilling program. He opined that the Liberty Project is a world-class, extended-reach drilling program and added that BP believes that a road to the facility is necessary. He stated that BP will have both producing and

injecting wells going 8 miles out into the Liberty reservoir, which is well beyond the current envelope of technology.

7:00:08 PM

MR. BUCKENDORF acknowledged that federal, state, and local issues have to be addressed anywhere in the state of Alaska because of the wetlands permitting, which contributes to the lengthy permitting process. Although states have the ability to assume primacy over wetlands permitting from the Corps of Engineers, only four to five states have such because it's a difficult process. As a result of the extensive jurisdiction of the Corps of Engineers in Alaska, any time one wants to develop in a wetlands, [the Corps of Engineers requires an] EIS or EAP. If laying gravel is considered, the EIS process [is required]. He remarked that there are a number of petitions, almost yearly, to try and list more species found in the state or the North Slope as endangered or threatened, or to petition the federal government to set aside critical habitat [areas]. He noted that BP is constantly monitoring those lawsuits by national and worldwide environmental groups to make the process even more difficult. He added that currently there's a NMFS lawsuit to review polar bear habitat for fuel storage.

7:02:15 PM

MR. BUCKENDORF explained that BP has been conducting studies for years and is going through [the EIS process] right now for the Liberty Project. In fact, there will be more studies over the next year to tighten the Liberty Project design. The critical part [of the process] is to conduct the studies up-front, so that in the design work one builds correctly and in an environmentally friendly manner. He opined that BP works in an environmentally friendly manner in Alaska and the North Slope.

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MR. BUCKENDORF reiterated that as a result of the Title 19 land management regulation through the North Slope Borough, every local borough or city in the state has the authority to try and assume Title 19 or to draft coastal management policies. The next six to nine months will be very busy in DNR, he opined, because it is reviewing every set of local policies.

MR. MAJOR added that it was part of the mandate from House Bill 191 enacted in 2003 to have all coastal districts resubmit new plans to conform to regulatory requirements.

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MR. MAJOR, in answering the question, "How long does it take to permit a project?", explained that a lot depends on the location of the project. Generally, for any kind of major project, there's a three- to four-year time frame. If one has to do an EIS, one can plan on a two-year process. The quickest EIS that's been done for oil and gas development was the Alpine satellite EIS, which was an 18-month process.

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MR. BUCKENDORF related that the Northstar Unit EIS took about four years. If controversy arises during the planning and one doesn't address it, it just extends the EIS process. That's one reason why BP began evaluating Liberty from onshore. The Liberty Project is fairly close to Cross Island, which is a major whaling area for the North Slope Borough. He noted that BP involves the North Slope Borough residents in the decision-making and evaluation, thus gaining their support.

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MS. BRADY added that the movement of "habitat" out of the Alaska Department of Fish & Game (ADF&G) into DNR, makes a big difference because there used to be people in [ADF&G] who would deadlock agency work on projects, which is still the case in some of the federal agencies.

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MR. MAJOR reminded the committee to keep in mind that one has to do his/her EIS before he/she can apply for permits. In answering the question, "How much does it cost?", he explained that considering all of the variables, one has to collect base line data. If [a project] is complicated or controversial, one might have to conduct two or three years worth of base line studies before the EIS process is even started, which he added is fairly expensive.

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MR. FOLEY remarked that for projects to be economic, one of the "big drivers" is cycle time. Typically, a North Slope development project, from discovery to production, would take seven to ten years. He informed the committee that when an

independent [company] from the Lower 48 considers coming to Alaska, it is appalled by the time frame. He added that these are companies that are accustomed to finding something and having it sold down a pipeline in six months. In response to how long it takes to permit a project, he answered, "Longer than you could possibly imagine." In response to whether the permitting system is transparent, he answered, "Yes, but it will take many, many months to figure out what it is."

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CHAIR KOHRING reiterated that he is open to any recommendations as to how the [permitting] process can be streamlined, as long as it's not compromising safety and the environment.

MR. FOLEY responded that in general, Alaska has a world-class petroleum system. The people who do business [in Alaska] are world-class operators, and "by far, it is environmentally, the most responsible development anywhere on the planet." He added, to accomplish this it takes time, people, and money.

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REPRESENTATIVE ROKEBERG suggested that the committee think about an ombudsman for the permitting process. Returning to the creation of the areawide leasing concept, he discussed the idea of having base line data available in the best interest finding and extending the life of the best interest finding. In regard to the idea of waiting until one gets the EIS to gather base line data, he said, "Is there not a repository? Or is it proprietary where you can't reuse or have existing data?" He opined that the North Slope area has to be one of the most studied areas in the world, and therefore he said he doesn't understand why some of the data can't be shared.

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MR. FOLEY responded that when Pioneer began [work on Oooguruk], it conversed with other companies and it was at that time that it realized that a project like Oooguruk would probably require an EIS. Pioneer took exception to that because there had been a number of EIS' conducted in this area. The same questions have been asked, the same decisions were ultimately made and documented. Therefore, Pioneer relied upon the [existing] body of knowledge. As a result, Oooguruk will be approved in the next week by an EAP. He noted that when one gets outside of the

Colville Canyon, right in the "backyard" of oil development, it's different.

MR. BUCKENDORF added that there is a large volume of data that is out there and [the oil and gas industry] is constantly building upon it.

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MR. MAJOR added that there is a lot of data in certain areas, but as one moves into a new area, he/she has to have focused studies on that area such that the location of the birds' nests in that area are known as well as the species in the area, and which lakes have fish. To the degree that [operators] are able to, they share data with other operators. [The data] is available through agencies such as the U.S. Fish and Wildlife Service (USFWS), ADF&G, and DNR.

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MR. MAJOR, in response to the subjectivity of the permitting system, explained that the roles are laid out - one is aware of what his/her path has to be. The subjectivity sometimes comes into play when there might not be enough information to make a decision. In further response to questions, he specified that time is a major force in driving permit approvals. There is a limited operating season and generally it's better to operate and do major construction in the winter than in the summer. For projects like the Alpine satellite, Oooguruk, and the Liberty Project gravel placement, all of the work has to be done in the winter. There is a limited window and one always faces getting approval in enough time to get work done during the winter. Otherwise, one loses a year.

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CHAIR KOHRING, in regard to the [limited window of time], questioned whether it's [expanding] in light of the weather changes such as permafrost melting.

MR. MAJOR responded that there have been some real strides in that area. The process that was [previously] used for winter tundra travel on the North Slope was an "on and off switch." The industry is moving toward a system that reflects the equipment being used as well as the time frame. The equipment that was used by the State of Alaska to determine when tundra travel was suitable was a slide hammer - a cone penetrometer

that is used for highways. Currently, there is more of a scientific methodology, using ground temperatures. On federal land, the Bureau of Land Management (BLM) has always worked with [the oil and gas] industry and used cone penetrometers on the back of rolagons for measuring. [The oil and gas industry] has also used weather stations to determine frost depths and temperatures. He noted that last winter there was a little longer tundra travel season than before.

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MR. BUCKENDORF remarked that from his perspective, having worked in the mining, timber, and oil and gas industries for four different companies, [the permitting process] is complex. Alaska is a big state with a lot of federal land and the federal and environmental legal structure is extremely complex. Federal air permitting, which dictates the State of Alaska permitting, is the most complex in the world. The regulations are now numbered and there are tens of thousands of pages. He added that the [State of Alaska] part of the triangle is working pretty well, and compared to five years ago, it's working very well. He added that although the changes from House Bill 191 have been effective thus far, [the oil and gas industry] still has some work to do because there aren't local policies in place yet.

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MR. FOLEY returned to Oooguruk and opined that the [State of Alaska]'s process works relatively well. For example, on Oooguruk, Pioneer started all of its North Slope, state, and federal permits at the same time. All of the state authorizations under ACMP, nearly everything Pioneer needed from DNR, DEC, and the Land and Water Group in Fairbanks, it had by October 2005. The North Slope Borough lagged four months behind, and Pioneer is still waiting for its federal permits.

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MR. MAJOR related that ConocoPhillips found [during a major project that required a lot of state involvement] that it was beneficial to have a state coordinator designated for [that specific] project. The coordinator kept things moving along so there wasn't last minute deadlock and provided some consistency in the process. He remarked that the federal [permitting] process is the one that's lagging [behind]. He concluded that the state process isn't perfect, but works "pretty good."

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 7:22 p.m.