

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 28, 2006

3:35 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Ralph Seekins, Vice Chair
Senator Ben Stevens
Senator Fred Dyson
Senator Bert Stedman
Senator Kim Elton

MEMBERS ABSENT

Senator Albert Kookesh

COMMITTEE CALENDAR

CS FOR HOUSE BILL NO. 395(FIN)

"An Act relating to the period of the fire season; and providing for an effective date."

MOVED CSHB 395(FIN) OUT OF COMMITTEE

CS FOR HOUSE BILL NO. 420(FSH)

"An Act relating to riparian protection standards for forest resources and practices; and providing for an effective date."

MOVED CSHB 420(FSH) OUT OF COMMITTEE

Point Thomson Update

Confirmation Hearing - Department of Natural Resources
Commissioner: Michael Menge

CONFIRMATION ADVANCED

PREVIOUS COMMITTEE ACTION

BILL: HB 395

SHORT TITLE: FIRE SEASON DATES

SPONSOR(S): REPRESENTATIVE(S) OLSON

01/25/06	(H)	READ THE FIRST TIME - REFERRALS
01/25/06	(H)	RES, FIN
02/06/06	(H)	RES AT 1:00 PM CAPITOL 124
02/06/06	(H)	Moved Out of Committee
02/06/06	(H)	MINUTE(RES)

02/08/06 (H) RES RPT 6DP 1NR
 02/08/06 (H) DP: GATTO, ELKINS, LEDOUX, CRAWFORD,
 OLSON, RAMRAS;
 02/08/06 (H) NR: SAMUELS
 02/14/06 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 02/14/06 (H) Heard & Held
 02/14/06 (H) MINUTE(FIN)
 03/02/06 (H) FIN AT 1:30 PM HOUSE FINANCE 519
 03/02/06 (H) Moved CSHB 395(FIN) Out of Committee
 03/02/06 (H) MINUTE(FIN)
 03/06/06 (H) FIN RPT CS(FIN) NT 5DP 2NR 1AM
 03/06/06 (H) DP: HAWKER, FOSTER, KELLY, MEYER,
 CHENAULT;
 03/06/06 (H) NR: JOULE, HOLM;
 03/06/06 (H) AM: WEYHRAUCH
 03/22/06 (H) TRANSMITTED TO (S)
 03/22/06 (H) VERSION: CSHB 395(FIN)
 03/24/06 (S) READ THE FIRST TIME - REFERRALS
 03/24/06 (S) CRA, RES
 04/10/06 (S) CRA AT 1:30 PM BELTZ 211
 04/10/06 (S) Moved CSHB 395(FIN) Out of Committee
 04/10/06 (S) MINUTE(CRA)
 04/12/06 (S) CRA RPT 4DP
 04/12/06 (S) DP: STEDMAN, WAGONER, STEVENS G,
 KOOKESH
 04/28/06 (S) RES AT 3:30 PM BUTROVICH 205

BILL: HB 420

SHORT TITLE: FOREST RESOURCES & PRACTICES STANDARDS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/01/06 (H) READ THE FIRST TIME - REFERRALS
 02/01/06 (H) FSH, RES
 02/15/06 (H) FSH AT 8:30 AM CAPITOL 124
 02/15/06 (H) Moved CSHB 420(FSH) Out of Committee
 02/15/06 (H) MINUTE(FSH)
 02/17/06 (H) FSH RPT CS(FSH) 5DP
 02/17/06 (H) DP: HARRIS, WILSON, ELKINS, THOMAS,
 LEDOUX
 03/22/06 (H) RES AT 1:00 PM CAPITOL 124
 03/22/06 (H) Moved CSHB 420(FSH) Out of Committee
 03/22/06 (H) MINUTE(RES)
 03/24/06 (H) RES RPT CS(FSH) 5DP 2NR
 03/24/06 (H) DP: SEATON, ELKINS, LEDOUX, CRAWFORD,
 RAMRAS;
 03/24/06 (H) NR: GATTO, OLSON
 04/11/06 (H) TRANSMITTED TO (S)

04/11/06 (H) VERSION: CSHB 420(FSH)
04/12/06 (S) READ THE FIRST TIME - REFERRALS
04/12/06 (S) RES, FIN
04/28/06 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

REPRESENTATIVE CURT OLSON
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HB 395.

CONRAD JACKSON, Staff
Representative Curt Olson
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Introduced HB 395 on behalf of the sponsor.

SCOTT WALDEN, Coordinator
Office of Emergency Management
Kenai, AK

POSITION STATEMENT: Supported HB 395.

MARTY WELBOURN FREEMAN, Program Manager
Forest Resources
Division of Forestry,
Department of Natural Resources (DNR),

POSITION STATEMENT: Presented HB 420.

JAMES DURST
Office of Habitat Management & Permitting
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Supported the process and the outcome of HB 420.

BILL VANDYKE, Director
Division of Oil & Gas
Department of Natural Resources
400 Willoughby Ave.
Juneau, AK 99801-1724

POSITION STATEMENT: Participated in the Point Thompson update.

MIKE MENGE, Commissioner
Department of Natural Resources
400 Willoughby Ave.

Juneau, AK 99801-1724

POSITION STATEMENT: Presented Point Thompson update;
Commissioner designee - Department of Natural Resources.

ACTION NARRATIVE

CHAIR THOMAS WAGONER called the Senate Resources Standing Committee meeting to order at [3:35:11 PM](#). Present at the call to order were Senators Ben Stevens, Fred Dyson, Kim Elton and Chair Thomas Wagoner. Senators Bert Stedman and Ralph Seekins arrived shortly thereafter.

CSHB 395(FIN)-FIRE SEASON DATES

CHAIR THOMAS WAGONER announced HB 395 to be up for consideration.

REPRESENTATIVE CURT OLSON, sponsor of HB 395, introduced Conrad Jackson.

[3:35:58 PM](#)

CONRAD JACKSON, staff to Representative Curt Olson, said that HB 395 would move the start and end dates of the fire season back one month. He explained that moving the start date back is particularly important so that fire fighting personnel and equipment will be in place to fight early-season fires.

More early fires are seen around the state because spruce bark beetle infestations have resulted in increased fuel sources. Without the proper equipment and personnel in place, these early fires have the potential of growing and becoming much more difficult to contain and extinguish.

[3:37:09 PM](#)

SENATOR BERT STEDMAN joined the committee.

SENATOR KIM ELTON asks if the season starts one month earlier and ends one month earlier.

Mr. Jackson replied yes. Initially the idea was to start the season one month earlier to deal to pre-green up fires, but that resulted in a fiscal note that approached \$1 million. Moving the end date back one month made it possible to zero the fiscal note so that's what was done.

CHAIR WAGONER commented that on the Kenai Peninsula the rainy season begins in early August. By the end of August the dew

point is usually down so this wouldn't be a problem for that area.

[3:39:54 PM](#)

SCOTT WALDEN, Coordinator, Kenai Peninsula Borough Office of Emergency Management, stated support for the amended version of HB 395. In the Kenai area the spring fires are of greater concern than in the late season and it's prudent to mobilize resources early. He noted that if a fire were to overlap past August, there is the opportunity for supplemental help.

CHAIR WAGONER closed public testimony.

[3:42:01 PM](#)

Senator Dyson moved to report CSHB 396(FIN) from committee with individual recommendations and zero fiscal note. No objection was stated, and it was so ordered.

[3:42:35 PM](#) at ease [3:43:51 PM](#)

HB 420-FOREST RESOURCES & PRACTICES STANDARDS

CHAIR WAGONER announced HB 420 to be up for consideration.

MARTY WELBOURN FREEMAN, Forest Resources Program Manager, Division of Forestry, Department of Natural Resources (DNR), explained that HB 420 updates the riparian management standards in Region II in Southcentral Alaska. Specifically that is the area along streams, particularly salmon and other high-value fish streams. Riparian standards have already been updated for Regions I and III so this is the last in a long process.

MS. FREEMAN said the process began with a science and technical committee composed of fisheries biologists, forest ecologists, soil scientists, and hydrologists that looked at relevant information and made recommendations. The recommendations were given to an implementation group, which was composed of representatives of the people potentially affected including forest land owners, the timber industry, the fishing industry, environmental groups, and the agencies that would implement the bill. The idea was to develop practical ways to make the scientists' recommendations work on the ground. Those recommendations are reflected in HB 420.

MS. FREEMAN noted that the Board of Forestry worked on and endorses the broadly supported bill. Significant landholders in

Region II have been contacted and have expressed a comfort level, she said.

HB 420 is specifically tailored to Region II conditions, which are different than the other regions. In particular it has more dynamic rivers that overlap with areas that have potential for commercial forestry. In Region II the volume of timber is lower than other regions, but the fishery values are high. For instance, Region II represents just 11 percent of the land area in the state and it has between 30 percent and 50 percent of the recreational sport fishing.

[3:47:10 PM](#)

MS. FREEMAN related that the bill broadens the buffers on large dynamic rivers and narrows the buffers on smaller streams. This was a concern to the timber industry because small streams are numerous and difficult to plan around. She described this as a specifically tailored balance.

SENATOR BEN STEVENS recalled the rewrite for Region III and asked if the set backs are similar.

MS. FREEMAN replied the buffers are different in each region to accommodate specific conditions. Region II is quite different from Region III because of the number of large rivers that overlap with timber that has commercial potential. She said wider buffers are needed on those stream types because the way they recruit wood into the stream to form islands and side channels is by eroding the banks as the channels shift. The side channels are particularly important for fish habitat.

SENATOR BEN STEVENS asked if the percentage of wide buffers is greater in Region II than in Region III.

MS. FREEMAN responded Region II has more large and small rivers, but it's an overall package that is reasonable in terms of protecting the resources and the impact that would have on landowners.

[3:49:20 PM](#)

JAMES DURST, Office of Habitat Management (OHM), Department of Natural Resources (DNR), Fairbanks, said DNR/OHM fully supports the process and the outcome.

CHAIR WAGONER closed the public hearing.

SENATOR BEN STEVENS asked where he could find definitions for the different stream and river types.

MS. FREEMAN replied the last section of the bill contains the specific definitions for the water bodies that are specific to Region II. Each region has its own classification system based on the stream type, the topography, and the distribution of fish in the particular stream.

SENATOR BEN STEVENS asked if she was referring to Section 6 on page 8.

MS. FREEMAN said yes.

[3:51:11 PM](#)

SENATOR BERT STEDMAN moved to report CSHB 420(FSH) from committee with individual recommendations and attached fiscal note. No objection was stated, and it was so ordered.

[3:51:49 PM](#) at ease [3:52:45 PM](#)

Pt. Thomson Unit update

CHAIR WAGONER announced the next order of business was a Pt. Thomson update. He recapped a conversation he had with Commissioner Menge some months ago when Exxon was given an additional six-month extension. At that time the commissioner indicated that was the last extension Exxon was entitled to. Noting that the process had taken years, he asked if there was an end in sight.

MICHAEL MENGE, Commissioner Designee, Department of Natural Resources (DNR), said next year would mark 30 years since Pt. Thomson was unitized and it has yet to show benefit to the State of Alaska. Describing Pt. Thompson as pivotal and integral under the current negotiations for a gas pipeline, he said that without that piece there would be no pipeline. The reason is that Prudhoe Bay is still actively producing oil so the gas that is taken from the Prudhoe Bay reservoir will be strictly monitored to ensure that it doesn't impact oil production. As oil production declines more gas will be taken from Prudhoe Bay, but initially Pt. Thompson will provide much of the gas going into the system.

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SENATOR SEEKINS arrived.

COMMISSIONER MENGE said it's time to take definitive steps to bring this process to an end and last November he took the step to delay execution of the faultfinding date to May 31. Doing so did not diminish the State's authority either to compel development of the resource or to take the leases back.

He presented four possibilities open to Exxon relating to the upcoming deadline.

1. Ask for another extension.
2. Provide an acceptable plan of development.
3. Appeal the director's decision.
4. Do nothing.

COMMISSIONER MENGE outlined four possibilities that are open to the Department of Natural Resources.

1. Take the draconian step of ordering the unit into production.
2. Find the unit in default and initiate dissolution procedures on the unit.
3. Order the currently held leases with certified wells into production.
4. Provide another extension.

COMMISSIONER MENGE said although he has the authority to order the leases into production, doing so would be a very challenging step for him to take, but in any event he would not barter away the State's tremendous leverage.

COMMISSIONER MENGE said that each of the options at his disposal comes with a definable series of reactions that would benefit or hinder the State's effort to commercialize North Slope gas. These critical issues must and will be resolved to benefit the people of the State of Alaska, he vowed.

[4:01:05 PM](#)

CHAIR WAGONER questioned how much longer Exxon would be allowed to delay drilling exploration wells because without them it is difficult to know what kind of plan-to-develop to enter into.

COMMISSIONER MENGE agreed and described the gas reserves in terms of a pie. Two thirds of the reserves have been proven and the existence of the final third will be proven or not proven based on the additional drilling. The gas that is proven by virtue of the certified wells and the additional drilling defined the 9 Tcf of gas. That 9 Tcf of gas coupled with Prudhoe Bay will be used in the negotiations for a gas pipeline contract.

CHAIR WAGONER asked how much oil Point Thompson has.

BILL VANDYKE, Director, Division of Oil & Gas, Department of Natural Resources (DNR), answered gas condensate is probably the bulk of the liquid that will come out of Point Thompson, but the limited data available indicates a fairly viscous oil leg under parts of the unit. In all likelihood, he said, the gas liquids amount to a couple hundred million barrels.

CHAIR WAGONER asked if 17 percent or 18 percent of the production is liquid.

MR. VANDYKE replied the liquid content is similar to Prudhoe Bay gas.

[4:04:24 PM](#)

CHAIR WAGONER questioned whether Exxon would ask for another extension.

COMMISSIONER MENGE replied based on legislative proceedings in the next several weeks it would be reasonable to assume they would.

CHAIR WAGONER asked if they would request a change in the lease.

COMMISSIONER MENGE said he wasn't aware of any changes. He elaborated that Point Thompson is a very high-pressured reservoir and a liquids only production would be a costly operation. He noted that given that Exxon is in default the State is at a significant advantage. Everyone, including Exxon, recognizes the leverage the State has and given the performance of the courts on unit lease issues, the State is in a pretty good position.

[4:06:26 PM](#)

SENATOR RALPH SEEKINS asked what benefit Alaskans would receive in granting another extension.

COMMISSIONER MENGE replied it might give the legislature time to contemplate the gas contract.

SENATOR SEEKINS asked how long it would take to develop Point Thompson.

COMMISSIONER MENGE replied the gas would be developed contiguous with the gas into the system, which is eight years or so.

SENATOR SEEKINS said with that in mind, how long would the extension be.

COMMISSIONER MENGE responded he could defend granting an extension until the legislature was finished with its considerations. Beyond that there is no reason to extend the current 30-year process, he said.

SENATOR SEEKINS cited constituent concerns related to a gas pipeline contract without a date-certain construction or delivery agreement. People are getting tired of the foot-dragging, he said.

CHAIR WAGONER agreed that people are getting impatient and that's why he asked for the update.

[4:10:38 PM](#)

SENATOR KIM ELTON cited page 9 of the October 27, 2005 amended decision that says DNR won't accept Exxon's proposal to amend the expansion agreement by tying it to the Stranded Gas Development Act. He asked if DNR's plans have changed and whether any of the previously mentioned possibilities for Exxon or the State have become part of the discussion on the Stranded Gas Development Act.

COMMISSIONER MENGE replied Point Thompson is an integral part of the North Slope commercialization project and on May 10 he hopes to be able to elaborate.

SENATOR ELTON asked him to outline what led him to change the department's direction since July 27, 2005 when he said he wouldn't accept Exxon's proposal to negotiate these things under the Stranded Gas Development Act.

COMMISSIONER MENGE said he would defer to Mr. Vandyke to review the chronology and then he would explain the actions he took.

MR. VANDYKE said it's fair to say that Pt. Thomson has always been in the forefront of the gas line negotiations. When the unit operator asked to tie Point Thompson development or drilling commitments to the gas line negotiations, DNR did not believe that was the way to go. The people in charge a year ago wanted those authorities to remain independent and separate from any Point Thompson commitments and that's what was done at the time. As yet there has been no deviation from that position, he said.

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COMMISSIONER MENGE clarified that is a director's decision and if it were appealed it would be appealed to him, as commissioner. He would then make a decision and the will of the legislature and the governor would help him shape that decision.

4:16:24 PM

SENATOR ELTON said he suspects that foot-dragging may be beneficial for the unit operator if the PPT passes in close to its present form - particularly with regard to the credits. He questioned whether that is correct. If so, he asked the extent of the financial benefit to the unit operator.

COMMISSIONER MENGE replied his role is to preserve the State's options and not undercut the quality of the legislature's deliberations. He opined it is probably in the State's best interest to let the 30-year long process drag on for weeks or months longer, but not years. The answer, he said, depends on the final actions the legislature takes and the governor takes.

SENATOR ELTON said assuming that the governor's 20/20 bill passes, what financial benefits would the operator have accrued by dragging its feet.

COMMISSIONER MENGE said he wasn't trying to duck the question, but he really couldn't answer because the 20/20 and the contract are still soft on that issue.

SENATOR BEN STEVENS remarked the easy answer is that they have benefited by the fact that the price of oil has risen to \$70 per barrel and the state didn't do that.

SENATOR ELTON said true, but there are wells that should have been drilled that haven't been and he believes Exxon would receive a credit.

SENATOR BEN STEVENS cited page 22 of the findings and asked for an explanation for why the owners and operators stated that the gas cycling project wasn't commercially viable.

COMMISSIONER MENGE replied because the reservoir is very high pressured and so a great deal of gas energy and hardware will be needed to bring the gas up, strip the liquids out, and put the gas back down in the well. That coupled with the need for a pipeline and the unknown risk factors lead Exxon and perhaps BP to say it is not economic. DNR may have a different view, but

the economics do hinge on a balance and even the State's economists differ as to the economic viability of the Point Thompson liquids.

[4:22:40 PM](#)

SENATOR BEN STEVENS asked if the claim that the gas cycling project would not be commercially viable relates to the expense of recycling the extremely high-pressure gas.

COMMISSIONER MENGE said he believes that is the BP and Exxon position. Ultimately, the economic benefit is defined by adding total costs versus the price of the product that is taken to market.

SENATOR BEN STEVENS noted that 18 wells have been drilled in and around the unit. He asked if there are accurate estimates for the Point Thompson reserve at this time.

MR. VANDYKE explained there is an unknown area in the northwest part of the unit, but the core of the gas pool is well delineated. There are two pods of gas, but the extent to which they are connected is an unknown.

[4:25:05 PM](#)

SENATOR BEN STEVENS asked if the unit is accurately delineated for oil production.

MR. VANDYKE responded it is likely that 50,000 to 70,000 barrels of marketable liquid could be produced per day and then 1 Bcf to 2 Bcf of gas would be reinjected into the ground.

SENATOR BEN STEVENS again asked whether Point Thompson is delineated enough to produce an economic oil field.

COMMISSIONER MENGE restated the question and asked Mr. Vandyke what the volume of liquids is in the area that is known to exist.

MR. VANDYKE answered it's in the range of 8 Tcf or 9 Tcf of gas and 2 Mcf or 3 Mcf of liquids would be produced. The oil production would not be significant if the effort was to only produce the oil leg because the gas must be cycled to get the bulk of the liquids.

SENATOR BEN STEVENS said he understands that, but he doesn't know enough to agree or disagree with the statement that a gas cycling project at Point Thompson is not commercially viable. He

too is frustrated by the delay, but if Exxon is forced to a duty to produce the production has to be within the current infrastructure because there's nowhere to go with the dry gas.

CHAIR WAGONER pointed out that the document was written before PPT and that will have a large bearing on the economics once they get the credits.

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SENATOR BEN STEVENS said even if PPT passes with an incentive for development, he wouldn't think there would be production from that area until there's an outlet for the high-pressure dry gas.

SENATOR ELTON directed attention to page 2 of the amended decision, which says Point Thompson is commercial and can be produced without a gas pipeline. As Senator Stevens pointed out, on page 22 the owners disagree with that decision. That point is the nut that has elicited argument for the last 2 or 3 decades, he said.

SENATOR BEN STEVENS commented, the owners did not write page 22; it was part of the decision so the question remains.

SENATOR SEEKINS said he was seeking assurance from DNR that the delay is not because the leaseholder is waiting for the optimum time to develop the product.

COMMISSIONER MENGE pledged that the State's best interest is the driving force behind his decisions.

4:34:06 PM

CHAIR WAGONER read a portion of a July 27, 2005 letter from former Director Meyers to Richard Owens that stated the punitive action the State would take if Exxon modified the 22nd plan-of-development, but failed to drill by June 15, 2006. What punitive action would the State take to force the unit owner to do what should have been done 15 years ago, he asked.

COMMISSIONER MENGE said the director's decision holds the unit owner in default and if Exxon appeals that decision to me, "we will do the analysis and will come down with a final administrative action in that regard." Exxon has the right to appeal the commissioner's decision to the courts, but the State generally wins those decisions.

CHAIR WAGONER closed the hearing on Point Thompson.

Confirmation Hearing

Michael Menge, Commissioner, Department of Natural Resources

[4:36:31 PM](#)

CHAIR WAGONER announced the committee would take up the confirmation hearing for Michael Menge as commissioner of the Department of Natural Resources.

MICHAEL MENGE, Commissioner designee, Department of Natural Resources (DNR) highlighted his 30-year state and federal career and pledged to always give honest opinions and forthright suggestions. We may not always agree, he said, but our common interest is the people we serve.

[4:39:21 PM](#)

SENATOR DYSON moved to advance the name of Michael Menge as commissioner of the Department of Natural Resources for consideration by the full legislature. He noted that agreeing to advance the confirmation does not indicate an intention to vote either for or against the appointee. No objection was stated, and the confirmation was advanced.

There being no further business to come before the committee, Chair Wagoner adjourned the meeting at [4:39:57 PM](#).