

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

April 12, 2007

3:15 p.m.

**MEMBERS PRESENT**

Representative Vic Kohring, Chair  
Representative Kurt Olson, Vice Chair  
Representative Jay Ramras  
Representative Mike Doogan  
Representative Scott Kawasaki

**MEMBERS ABSENT**

Representative Nancy Dahlstrom  
Representative Ralph Samuels

**OTHER LEGISLATORS PRESENT**

Representative Berta Gardner

**COMMITTEE CALENDAR**

**CONFIRMATION HEARING:**

ALASKA OIL AND GAS CONSERVATION COMMISSION

Cathy Foerster - Anchorage

- CONFIRMATION ADVANCED

**HOUSE JOINT RESOLUTION NO. 13**

Urging the attorney general, the producers of natural gas in the Cook Inlet region, and the Regulatory Commission of Alaska to work to secure long-term and affordable supplies of natural gas for the people and businesses of the state.

- HEARD AND HELD

**HOUSE BILL NO. 183**

"An Act relating to the regulation and permitting of drilling and other operations by the Alaska Oil and Gas Conservation Commission, to civil penalties assessed by the commission, to reconsideration and appeal of decisions and the allocation of costs in investigations and hearings before the commission, and

to information filed with and fees of the commission; and providing for an effective date."

-MOVED CSHB 183(O&G) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 13

SHORT TITLE: NATURAL GAS FOR STATE RESIDENTS

SPONSOR(S): REPRESENTATIVE(S) GARDNER

03/12/07	(H)	READ THE FIRST TIME - REFERRALS
03/12/07	(H)	O&G, L&C
04/12/07	(H)	O&G AT 3:00 PM CAPITOL 120

BILL: HB 183

SHORT TITLE: OIL & GAS CONSERVATION COMMISSION

SPONSOR(S): RULES BY REQUEST OF LEG BUDGET & AUDIT BY REQUEST

03/07/07	(H)	READ THE FIRST TIME - REFERRALS
03/07/07	(H)	O&G, RES, JUD
04/12/07	(H)	O&G AT 3:00 PM CAPITOL 120

**WITNESS REGISTER**

CATHY FOERSTER, Commissioner  
Alaska Oil and Gas Conservation Commission (AOGCC)  
Department of Administration  
Anchorage, Alaska

POSITION STATEMENT: Testified as an appointee to the Alaska Oil and Gas Conservation Commission and testified in support of HB 183.

REPRESENTATIVE BERTA GARDNER  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Testified as the sponsor of HJR 13.

JOHN K. NORMAN, Chair  
Alaska Oil & Gas Conservation Commission (AOGCC),  
Department of Administration  
Anchorage, Alaska

POSITION STATEMENT: Answered a question during the hearing on HJR 13 and testified during the hearing on HB 183.

MARIE DARLIN, Volunteer Coordinator  
Capital City Task Force

American Association of Retired Persons  
Juneau, Alaska

POSITION STATEMENT: Testified in support of HJR 13.

KEVIN BANKS, Acting Director  
Central Office  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HJR 13.

CHERYL SUTTON, Staff  
to Representative Ralph Samuels  
Juneau, Alaska

POSITION STATEMENT: Presented HB 183 on behalf of the House Rules Committee, sponsor by request of the Legislative and Audit Committee, which Representative Ralph Samuels chairs.

JUDY BRADY, Executive Director  
Alaska Oil and Gas Association (AOGA)  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of CSHB 183.

MARK WORCESTER, Senior Counsel  
Anchorage Legal Department  
ConocoPhillips Alaska, Inc.  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 183.

#### **ACTION NARRATIVE**

**CHAIR VIC KOHRING** called the House Special Committee on Oil and Gas meeting to order at [3:15:39 PM](#). Representatives Ramras, Doogan, Kawasaki, Olson, and Kohring were present at the call to order.

#### CONFIRMATION HEARING

Alaska Oil and Gas Conservation Commission

[3:15:54 PM](#)

CHAIR KOHRING announced that the first order of business would be the re-confirmation hearing of Cathy Foerster to the Alaska Oil and Gas Conservation Commission.

[3:16:49 PM](#)

CATHY FOERSTER, Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), informed the committee that she has been serving on the AOGCC since her appointment in 2005. She stated that she wished to be reappointed for three reasons. Firstly, she said she has a personal interest to stay in Alaska with her family and to work for the good of the state. Secondly, the AOGCC is involved in several important and highly technical engineering projects, is updating the regulations regarding well safety, and is reviewing processes regarding gas disposition. Ms. Foerster said that the state has invested time to develop her knowledge of these complex issues, and it would be difficult to educate a new commissioner in a timely manner. Thirdly, she enjoys her work as an engineer and her term with the AOGCC has been enlightening and interesting. In addition, she expressed her belief that the AOGCC is an ethical and worthy commission. Ms. Foerster informed the committee that, to correct a previous statement, ExxonMobil Corporation has put the Point Thomson study on hold and it is not progressing at this time.

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CHAIR KOHRING observed that commissioners to the AOGCC are appointed for six years.

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MS. FOERSTER explained that the terms are staggered, and the issues before the committee are very complex, technical, and lengthy in resolution.

CHAIR KOHRING asked for the amount of commissioners' salaries.

MS. FOERSTER answered that her salary is \$130,000 per year. She added that commissioner's responsibilities are; prevent waste of hydrocarbons, protect correlative rights, and ensure greater ultimate recovery. In addition, the three commissioners adjudicate on drilling application permits, evaluate conservation issues, ensure public safety, protect ground water during oil and gas operations, and mediate conflicts regarding access to facilities.

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CHAIR KOHRING asked Ms. Foerster to highlight achievements of her past service.

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MS. FOERSTER responded that the AOGCC has revised the blow-out preventer regulations to reflect the latest technology and operating practices. In addition, the Prudhoe Bay gas off-take study was completed to prepare for the off-take allowable report. Also, the commission has developed a computer based data storage and retrieval information system that will enable new operators to evaluate existing oil wells and to appraise a new prospect.

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CHAIR KOHRING requested Ms. Foerster's opinion of HB 183.

MS. FOERSTER opined that HB 183 will clarify the statutes regarding the authority of the AOGCC and said that she supports the bill.

[3:28:31 PM](#)

REPRESENTATIVE DOOGAN made a motion to advance from committee the nomination of Cathy Foerster to the Alaska Oil & Gas Conservation Commission and asked for unanimous consent.

[3:28:48 PM](#)

CHAIR KOHRING announced that there being no objection, the confirmation was advanced from the House Special Committee on Oil and Gas.

The committee took an at-ease from 3:28 p.m. to 3:30 p.m.

HJR 13-NATURAL GAS FOR STATE RESIDENTS

[3:31:02 PM](#)

REPRESENTATIVE BERTA GARDNER, Alaska State Legislature, sponsor, explained that HJR 13 is designed to ensure that any decision regarding the exportation of Cook Inlet gas is made with appropriate consideration of the all interests. She said that the state has an interest in its citizen's welfare, in the development of natural resources, in economic development and in revenue. Representative Gardner pointed out that since 2002, gas prices in Southcentral Alaska have increased by 97 percent. Citizens, especially those on fixed incomes, are struggling to pay heating and fuel bills. ENSTAR Natural Gas Company reports

that the problem is increasing costs due to the depletion of known reserves. Alaska's isolation creates an effective natural gas monopoly although there are three major oil companies, ConocoPhillips Alaska, Inc., Marathon Oil Corporation, and Chevron Oil Company, operating in the region. There are also problems with deliverability issues; storage problems and a wide variation in supply and demand. Representative Gardner emphasized that the supply of natural gas in this region is not by a free market system; in fact, regulation by the Regulatory Commission of Alaska (RCA) is required.

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REPRESENTATIVE GARDNER further explained that ConocoPhillips Alaska, Inc. and Marathon Oil Company, owners of the Kenai Liquefied Natural Gas plant, have applied for a two-year extension of their license to export natural gas to Japan. The extension request states that there are sufficient reserves to support local and export needs. However, local utilities have unmet gas needs. She said that Alaska consumers realize that gas is sold on the world market and high export prices and profits will support the facility and its employees, but the possibility of exporting one-third of Alaska's natural gas needs to be considered by a "holistic" view. Representative Gardner informed the committee that since HJR 13 was filed, the state has opposed the extension of the export license, unless certain conditions are met. Those conditions are: local utility gas needs are guaranteed for two years, maintenance of an eight year reserve ratio, and open access to the natural gas plant by third party buyers. In spite of the state's intervention, she urged the committee to adopt HJR 13 to assure citizens that the legislature approves of the state's policy to protect the best interests of all of Alaska.

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REPRESENTATIVE OLSON observed that the U. S. Department of Energy, Office of Fossil Energy, deadline for testimony has passed and the resolution will have no effect on its decision.

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CHAIR KOHRING asked for justification to continue with the resolution.

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REPRESENTATIVE GARDNER responded that HJR 13 also requests the RCA to expedite any review of utility contracts and encourages natural gas producers in the Cook Inlet region to ensure an adequate and affordable long-term supply of natural gas for Alaskans.

[3:38:06 PM](#)

REPRESENTATIVE DOOGAN asked why the resolution calls on the attorney general to evaluate the extension request application.

[3:38:19 PM](#)

REPRESENTATIVE GARDNER answered that the attorney general can represent the interests of all Alaskans regarding a federal application extension request.

[3:38:41 PM](#)

REPRESENTATIVE DOOGAN further asked whether the attorney general is the appropriate arm of the state government to intervene.

REPRESENTATIVE GARDNER said yes.

[3:38:54 PM](#)

CHAIR KOHRING referred to HJR 13, page 2, line 12, and asked what measures the state will take to "ensure the availability of affordable natural gas".

[3:39:23 PM](#)

REPRESENTATIVE GARDNER responded that it would be irresponsible of the state to contemplate exporting one-third of the natural gas reserves if Alaskans do not have access to fuel to heat their homes. She noted that a careful decision should be made considering the profitability of the plant and the local access to gas issue.

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CHAIR KOHRING assumed that the facts presented in the resolution have come from reliable sources.

REPRESENTATIVE GARDNER assured the committee that the facts are reliable.

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REPRESENTATIVE OLSON observed that the contract has been in place for forty years and that previous extensions have been for periods of six to nine years.

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JOHN K. NORMAN, Chair, Alaska Oil & Gas Conservation Commission (AOGCC), Department of Administration, confirmed that this extension request is for a period of two years.

[3:41:51 PM](#)

REPRESENTATIVE KOHRING questioned whether the sponsors of the resolution had considered approaching the industry for support for individuals who are impacted by high natural gas prices for home heating fuel.

[3:42:35 PM](#)

REPRESENTATIVE GARDNER replied that she had not. She pointed out that Alaska is a northern state, but also an energy producing state. When contacted by constituents about high home heating costs, her legislative office will often suggest programs to assist home owners with conserving energy.

CHAIR KOHRING said that he was not enthusiastic about the resolution.

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REPRESENTATIVE GARDNER replied that, although the attorney general is acting on this issue, she said that she decided to pursue the passage of HJR 13 to demonstrate the legislature's support.

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REPRESENTATIVE OLSON requested that ConocoPhillips Alaska, Inc. and Marathon Oil Corporation have an opportunity to respond to the legislation before moving HJR 13 out of committee.

[3:45:14 PM](#)

REPRESENTATIVE RAMRAS said that he also wants to hear from the industry, due to the precedent the legislature may set. He noted that he agreed with the concept and that Fairbanks has also seen increases in the cost of natural gas. Representative Ramras expressed his concern that passage of the resolution will render Cook Inlet gas less valuable.

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REPRESENTATIVE GARDNER reiterated that natural gas exportation should not be banned; however, all impacts of the export license extension should be considered.

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REPRESENTATIVE OLSON expressed his concern that the resolution may send mixed signals to the industry. This resolution potentially nationalizes a production facility in the Cook Inlet at the same time the state is debating passage of the Alaska Gas Inducement Act (AGIA).

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REPRESENTATIVE GARDNER informed the committee that the sponsors spoke with the industry prior to filing HJR 13.

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MARIE DARLIN, volunteer coordinator for the Capital City Task Force of the American Association of Retired Persons (AARP), expressed her organization's support for the resolution. She said that AARP's hope is that this resolution will afford some stabilization of utility costs for members who want to spend their retirement in Alaska on a limited income.

[3:50:56 PM](#)

REPRESENTATIVE RAMRAS expressed his belief that the days of low gas prices are over. He explained that Alaska gas prices are now tied to the Henry Hub Natural Gas Index and prevailing national gas prices. Representative Ramras pointed out that Fairbanks has a refinery 12 miles away and should have low gas available; however, Alaska royalty oil is priced on the world market. Representative Ramras opined that even North Slope gas, when it becomes available, will be more expensive for Anchorage consumers due to transportation costs. When gas prices are low, the cost of transportation makes the production of gas

uneconomic. Even gas priced at \$7.95 must be discounted for transportation. In Fairbanks, he added, utilities buy gas, liquefy it, transport it, and regassify it, resulting in a cost of over \$20. He concluded that, as contracts have expired and markets for higher priced gas are available, higher gas prices are to be expected for everyone.

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MS. DARLIN expressed her understanding of the situation, and repeated that any assistance in the cost of utilities is appreciated.

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REPRESENTATIVE OLSON shared his concerns about the cost of gasoline in his district, where 80 percent of the gasoline in the state is produced. He informed the committee that Tesoro Alaska Petroleum Co. provided pricing information that indicated that a percentage of its gas is purchased on the spot market and imported, and a percentage is local or from the North Slope. Representative Olson stated that gasoline refined in Soldotna is 25 cents per gallon less to buy in Anchorage, than in Soldotna.

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MS. DARLIN added that Southeast pays the highest prices due to the cost of transportation.

[4:00:12 PM](#)

KEVIN BANKS, Acting Director, Central Office, Division of Oil and Gas, Department of Natural Resources, expressed his belief that HJR 13 will demonstrate the efforts of the state to serve the residents of Southcentral Alaska. He indicated that the administration supports the conditioned approval of the extension for the liquefied natural gas (LNG) plant and that the plant itself is central to the market dynamics in the region. Mr. Banks stated that the committee has an understanding of the reasons behind the increase in prices and his hope is that the exhaustion of the Cook Inlet supply of natural gas and subsequent importation of gas will be forestalled by construction of a gas pipeline from the North Slope.

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REPRESENTATIVE DOOGAN expressed his understanding that the consumer demand for Cook Inlet gas is insufficient to make exploration worthwhile, unless influenced by demand from the Agrium plant.

[4:05:08 PM](#)

MR. BANKS explained that the domestic demand for gas for heating and electricity is about 50 billion cubic feet (Bcf) per year. The LNG plant requires 60 to 70 Bcf per year and Agrium, at capacity, could require 50 to 55 Bcf per year. The large consumers will draw gas supplies all year around. He continued to explain that Cook Inlet gas field prospects vary in size and a lower demand will mean that smaller prospects will not be developed.

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CHAIR KOHRING announced his intention to hold the resolution for additional testimony.

[4:08:22 PM](#)

REPRESENTATIVE GARDNER said there are amendments to HJR 13 that will conform to the senate companion bill, and that will be offered at the next meeting.

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CHAIR KOHRING announced that HJR 13 was held in committee with public testimony closed.

[4:08:57 PM](#)

HB 183-OIL & GAS CONSERVATION COMMISSION

[4:09:06 PM](#)

CHAIR KOHRING announced that the next of business would be HOUSE BILL NO. 183, "An Act relating to the regulation and permitting of drilling and other operations by the Alaska Oil and Gas Conservation Commission, to civil penalties assessed by the commission, to reconsideration and appeal of decisions and the allocation of costs in investigations and hearings before the commission, and to information filed with and fees of the commission; and providing for an effective date."

[4:09:14 PM](#)

CHERYL SUTTON, Staff to Representative Ralph Samuels, Alaska State Legislature, informed the committee that HB 183 was introduced through House Rules Committee at the request of the Legislative Budget and Audit Committee and the Alaska Oil and Gas Conservation Commission (AOGCC). She offered the Committee Substitute (CS) and noted that it reflects changes that are the result of interactions between the AOGCC, the Alaska Oil and Gas Association (AOGA), and other industry members.

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REPRESENTATIVE DOOGAN moved to adopt CSHB 183, Version 25-LS0586\0, Bullock, 4/11/07, as the working document. There being no objection, Version 0 was before the committee.

[4:11:39 PM](#)

JOHN K. NORMAN, Chair, Alaska Oil & Gas Conservation Commission (AOGCC), Department of Administration, informed the committee that VERSION 0 addresses updates to the Alaska Oil and Gas Conservation Act. The original act was enacted as Chapter 40, SLA 1955, by the territorial legislature. He noted that [CSHB 183] was proposed by the AOGCC in order to update and clarify the statutes governing the AOGCC. The bill contains the authority for the AOGCC to require permits for the underground storage of gas, and specific statutory authority to regulate for the public safety and health as recommended by Legislative Budget and Audit. Mr. Norman stated that the AOGCC was already active in this field, and that even with the change in statute, AOGCC will not interfere with regulations already put in place by the Department of Labor (DOL) or the Department of Environmental Conservation (DEC). In addition, CSHB 183 will modify AOGCC authority regarding water well testing for coal bed methane. Mr. Norman pointed out that the appellate provisions of the original act have been subject to the AOGCC's consistent interpretation, and that interpretation was upheld by the Alaska Supreme Court, cite Allen et al versus Alaska Oil and Gas Conservation Commission, Pacific Reporter, 147 P.3d, page 664 (Alaska 2006). He said that the result is that appeals from the AOGCC will be handled in the same manner as any other agency.

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MR. NORMAN turned to the subject of permitting fees. This bill will remove the \$100 permitting fee charged for a drill permit.

Mr. Norman said that this fee generates a nominal amount that does not cover the cost of processing the permits and, in fact, creates extra bookkeeping. The AOGCC recommended eliminating the fee because the bulk of the regulatory fees are paid in a different manner and future electronic filing will supersede paper check refunds. Another provision of the bill will move more information into the public domain at an earlier time. He noted that information on applications for permits to drill is held confidential for 24 months. Using models from other states, the AOGCC recommended determining the length of the confidentiality period on an individual basis and writing new regulations regarding proprietary information.

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MR. NORMAN told the committee that another provision of CSHB 183 will specify that information, provided to the AOGCC by an operator on a voluntary basis, will not be held confidential in the event of the subsequent filing for a hearing or a petition. Mr. Norman said that a change in the penalty provision will increase the penalty to the maximum of \$100,000 for a single violation and up to \$10,000 per day for a continued violation. The additional penalty allows the AOGCC to assess penalties on violations of a short, but serious, nature. The penalty provision also grants the AOGCC the ability to assess the penalty of two-times the market value for the wasting of gas. Finally, the change in statute includes the addition of criteria that will be applied by the commission when determining findings.

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REPRESENTATIVE DOOGAN asked what violation qualifies for a \$100,000 fine from the AOGCC.

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MR. NORMAN responded that an example would be a penalty levied for falsification of test results or reports.

[4:30:00 PM](#)

REPRESENTATIVE OLSON asked about the provisions for the pigging of feeder lines.

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MR. NORMAN answered that the pigging of feeder lines is not within the jurisdiction of the AOGCC. The commission's focus is on the operations and drilling that take place under the earth. As operations move upstream, the jurisdiction transfers to the Department of Environmental Conservation or the U. S. Department of Transportation.

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REPRESENTATIVE DOOGAN asked whether there are substantive changes to the bill by the committee substitute (CS).

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MS. SUTTON directed the committee's attention to the updated sectional analysis for the CS.

MR. NORMAN informed the committee that the industry indicated its concern about the penalty provision. In response, the AOGCC made subtle changes to Sec. 7, the confidentiality statute. In addition, in Sec. 8, there are wording changes intended to address the industry's concern that it would retain its right to object to the public disclosure of information, despite the wording in the statute. Mr. Norman said that Sec. 14 is a consolidation of several provisions in the original bill.

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REPRESENTATIVE KAWASAKI asked whether the bill is the result of an audit or recommendations by the AOGCC commissioners.

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MR. NORMAN replied that the commissioners initiated all of the changes; however, a legislative auditor advised that the AOGCC should be concerned about environmental and worker safety issues and that its authority over these issues should be stated in statute, or by an agreement with other state agencies. He explained that the AOGCC is involved with environmental and worker safety and, in fact, references to safety are found in its statutes and in regulations. However, the AOGCC recently concluded a large enforcement action that emphasized the lack of its specific authority for the regulation of safety issues. This lack of authority contributed to the commissioner's desire for the changes in the statute.

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CHAIR KOHRING opened the hearing to public testimony.

[4:39:00 PM](#)

JUDY BRADY, Executive Director, Alaska Oil and Gas Association (AOGA), informed the committee that her organization has no major objections to the bill and supports CSHB 183.

[4:41:14 PM](#)

MARK WORCESTER, Senior Counsel, Anchorage Legal Department, ConocoPhillips Alaska, Inc., told the committee that Mr. Norman and his staff have taken a step forward to update the regulations, and are willing to work with the oil and gas industry. He said that ConocoPhillips Alaska, Inc. supports the bill and encourages its passage.

[4:44:14 PM](#)

CHAIR KOHRING closed public testimony. He then asked Mr. Norman whether the changes in the statute will loosen restrictions or pose additional restrictions on the coal bed methane industry.

[4:46:00 PM](#)

MR. NORMAN expressed his belief that the coal bed methane industry will not be affected by the bill. He said that this provision is a technical course correction and that, normally, production testing poses no threat to fresh water. Strengthening the bill gives the AOGCC the authority to oversee development and address legitimate concerns, but does not target non-conventional gas.

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REPRESENTATIVE KAWASAKI requested further explanation on the change in Sec. 5 regarding coal bed methane. He noted that "regular" was added and "production testing" was deleted.

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MR. NORMAN explained that "regular" production refers to a discovery that leads to commercial production. Removal of the requirement of a water well test program and gathering of baseline information applies to the early phase of the

discovery, and poses no threat to water supplies. The change clearly states that, at the time of the commencement of regular production, the testing requirements will be implemented.

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REPRESENTATIVE KAWASAKI questioned whether the change is contrary to the voter approved initiative.

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MR. NORMAN expressed his belief that the change is not contrary to any initiative of which he is familiar.

[4:50:12 PM](#)

REPRESENTATIVE OLSON moved to report CSHB 183, Version 25-LS0586\O, Bullock, 4/11/07, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection CSHB 183(O&G) was reported from the House Special Committee on Oil and Gas.

[4:51:08 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 4:51 p.m.