MINUTES
SENATE FINANCE COMMITTEE
April 27, 2007
1:37 p.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately 1:37:27 PM.

PRESENT

Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman, Co-Chair
Senator Charlie Huggins, Vice Chair
Senator Joe Thomas
Senator Fred Dyson
Senator Donny Olson
Senator Kim Elton

Also Attending: JOHN NORMAN, Chair, Alaska Oil & Gas Conservation Commission

Attending via Teleconference: From an Offnet Location: CATHY FOERSTER, Petroleum Engineering Commissioner, Alaska Oil & Gas Conservation Commission

SUMMARY INFORMATION

SB 104-NATURAL GAS PIPELINE PROJECT

The Committee heard testimony from the Alaska Oil & Gas Conservation Commission. The bill was held in Committee.

#sb104

CS FOR SENATE BILL NO. 104(JUD)
"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

This was the ninth hearing for this bill in the Senate Finance Committee.

Co-Chair Stedman informed the Committee that John Norman, Chair of the State of Alaska Oil and Gas Conservation Commission (AOGCC) would be updating the Committee on the gas offtake study the Commission conducted. Mr. Norman would also address other issues he deemed important in regards to the Alaska Gasline Inducement Act (AGIA).

1:38:07 PM

JOHN NORMAN, Chair, Alaska Oil & Gas Conservation Commission, communicated that besides himself, the Commission included Daniel Seamount and Cathy Foerster, who served as the geology commissioner and the petroleum engineering commissioner, respectively.

Mr. Norman stated that the primary mission of AOGCC, which is one of the oldest regulatory agencies in the State, "is to regulate the exploration and production of oil and gas within the State for the following purposes: prevent waste, protect co-relative rights which is a way of saying that all of the owners of a resource have their fair chance to recover their portion of it; work to ensure greater ultimate recovery of Alaska's valuable hydrocarbon resources; and protect underground sources of fresh water."

1:39:22 PM

Mr. Norman characterized AOGCC as "an independent quasi-judicial regulatory commission." He distributed a 19-page packet of material [copy on file] which included a copy of his prepared remarks as well as a copy of the non-confidential portion of the February 28, 2007 Prudhoe Bay Major Gas Sales Study report compiled by AOGCC on gas offtake levels. Other attachments included papers that would assist in understanding "the trade-offs between production of oil verses gas in the different reservoirs, one directed toward Prudhoe Bay, a second specifically directed toward Point Thomson, and a third to the North Slope generally."

1:40:25 PM

Mr. Norman read from his written remarks as follows.

This afternoon I'll discuss the AOGCC's role in North Slope gas sales and give you a status report.

Most knowledgeable Alaskans know the significance of 35 TCF of natural gas. However, very few people realize that hundreds of millions of barrels of oil and condensate could be lost if gas offtake is not correctly managed.

Oil is Alaska's bird in the hand and gas in our bird in the bush. The AOGCC is responsible for setting the gas offtake allowables from the North Slope oil fields to ensure that we do not harm our bird in the hand while aspiring to grasp our bird in the bush.

In general, maintaining reservoir pressure enhances oil recovery, but producing gas depletes reservoir pressure. Therefore, gas reserves in most fields are usually sold only after most of the oil has been produced. Until then, the gas that is produced with the oil is used to promote increased liquid production in various ways.

For example, gas might be reinjected into the reservoir to provide the energy needed to get the liquid hydrocarbons to the surface, or the gas might be used for enhanced oil recovery operations.

Both of those are happening right now at Prudhoe Bay and other North Slope fields.

Therefore, North Slope gas sales will involve trade-offs between oil and gas recovery. It's not practical to get every drop of oil out of the ground before starting gas sales, and the AOGCC certainly does not take that position. We just want to ensure that the trade-offs that inevitably will occur, result in greater ultimate recovery of both gas and oil.

Prudhoe Bay has an existing gas offtake allowable. It is 2.7 BCF per day and was set in 1977.

The AODCC usually waits for an application from the operator to apply or modify pool rules. However, in 2005 we recognized that:

(1) North Slope gas sales discussions were heating up,

(2) the 2.7 BCF per day gas offtake allowable for Prudhoe Bay was set in 1977, about the time the field began to produce; and, although that offtake rate was based on the best available information at the time, we now have 30 years and 11 billion barrels of production and production-related data to help determine a better number

(3) most of the publicly discussed pipeline options could require more than 2.7 BCF per day offtake from Prudhoe Bay

(4) performing the necessary studies to determine an appropriate offtake could take a lot of time, and

(5) the AOGCC did NOT want to cause any project delays.

1:45:28 PM

Mr. Norman departed from his prepared remarks to emphasize that AOGCC's "normal process" would be to receive an application from "some owner or the operator" requesting AOGCC to consider changing the daily gas offtake level or other action. The submittal of an application would typically trigger a process that would include public hearings as opposed to AOGCC actively taking action "ahead of the owners." The concern that no such application had been submitted by any owner, then or to date, prompted AOGCC to undertake the study on its own in anticipation of activities prompted by AGIA.

1:46:15 PM

Co-Chair Stedman interrupted to ask whether not having any applications is something the State "should be concerned about" or was there sufficient time to do the required work "between now and when we need to have gas for a gasline."

1:46:27 PM

Mr. Norman expressed that the three commissioners were concerned about it. That concern prompted them, "on our own initiative, to undertake the studies that we have done." He advised the Committee that there would be "one answer for Prudhoe Bay and another for Point Thomson."

Mr. Norman assured the Committee that the work conducted by the Commission has allowed AOGCC to be "well positioned now to move very quickly and be in a position to do proper rule making on Prudhoe Bay gas offtake". The situation in Point Thomson would be addressed separately in his remarks.

1:47:14 PM

Senator Olson asked regarding the make-up of the Commission, specifically whether the demands placed on it might require more than three commissioners.

1:47:43 PM

Mr. Norman divulged that the Commission has discussed whether its size affects its ability to properly "discharge our responsibilities." The determination is that the size is "good." The Commission's "staff is excellent" and issues are addressed. He pointed out, however, that "the things that go wrong, the enforcement actions, the investigations" do place a drain on the Commission's geologists, engineers, and other resources.

1:48:22 PM

Mr. Norman returned to his prepared remarks.

> To give us the most current information, BP and the other Prudhoe Bay working interest owners agreed to provide the AOGCC staff and consultants access to their simulators including the underlying engineering, geologic, and geophysical information. They voluntarily set up a data room in BP's Anchorage offices, equipped with computers and software allowing review of the simulator results.

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> It is very important to note that the data and information offered meet the standards of AS 31.05.035(d) and 20 AAC 25.537(b) governing confidentiality of information.
>
> In simple terms, the data made available to us was not something we were otherwise entitled to, it belonged solely to the Prudhoe Bay working interest owners, we needed it to

perform our study, and the only way for us to get access to it would be to agree to keep it confidential.

The study began in January 2006, and ended in late 2006. BP and its partners were helpful and provided us all that we needed.

1:50:42 PM

This past February, we published a summary report, approved by BP and its partners. The report is available on the AOGCC website.

1:51:01 PM

To that point, Mr. Norman directed the Committee to a copy of a confidential summary memorandum [copy on file], dated February 28, 2007, about the Prudhoe Bay Major Gas Sales Study that he received from Jane Williamson, Senior Reservoir Engineer. [NOTE: This memorandum is numbered page 8 in the packet of material distributed by the AOGCC.]

As soon as we announced that we had completed our study, everyone wanted to know the magic number, but it's not that easy.

Mr. Norman avowed, however, that the Commission would be "prepared, upon receipt of an application by an operator, to move very quickly to be able to update" the existing 2.7 billion cubic feet (BCF) of gas per day offtake rate.

First, it's a multi-variable equation. The right offtake volume will depend on when sales start, how aggressively the oil has been produced in the meantime, and what mitigating steps are in place and planned. And second, there are legal restrictions on what results of the study we can share and how we share them.

As soon as we have enough information to make a meaningful determination, we will hold public hearings and make as much information available as is needed and legally allowed to support the assigned offtake allowable.

1:52:51 PM

We intend to complete our evaluations and make our final rulings on gas offtake allowables for both Prudhoe Bay and Point Thomson well in time for the "open season" process.

1:53:28 PM

That said, here's what we can say:

(1) The later gas sales begin, the smaller the oil losses.

(2) Depending on the life of the North Slope infrastructure, delaying too long could result in decreased gas recovery.

(3) The lower the offtake rate, the smaller the oil losses.

(4) The more the oil production is accelerated before gas sales start, the smaller the oil losses.

1:54:59 PM

(5) The more that is done to mitigate the detrimental effects of gas sales, the smaller the oil losses.

(6) Oil loss is more sensitive to the acceleration of oil production and the mitigating steps than it is to start-up timing or offtake rate.

By the time we get a pipeline built, selling gas from Prudhoe Bay will likely be okay at a higher offtake rate than the current 2.7 BCF per day, provided BP and its partners continue working: (1) to accelerate oil production (for example: aggressive infield drilling and operational vigilance to minimize production interruptions) and (2) to mitigate for gas losses (gas cap water injection and using CO_2 for EOR, for example).

Mr. Norman communicated that injecting water as opposed to reinjecting gas is another proven "method of filling that voidage and helping to maintain reservoir pressure." Another mitigating method being tested is the injection of CO_2, which is a byproduct of gas that can be recycled and used to mitigate the void resulting from the sale of gas and maintain oil production.

We are comfortable that, unless a substantial delay occurs (which could make our analysis stale and require additional analytical work), we will be adequately prepared to determine the Prudhoe Bay gas offtake allowable when an application comes before us.

1:56:23 PM

Mr. Norman stated that the information AOGCC currently has would allow them to be "well-positioned" for two to three years to determine the appropriate Prudhoe Bay gas offtake level. The study would require updating after that.

1:56:53 PM

Mr. Norman concluded his remarks on Prudhoe Bay by stating that the AOGCC is at the moment "positioned to move fairly quickly" when an application was submitted. He reiterated that the receipt of an application is "the triggering event that normally would occur, and it would be our reference that the owner or operator come in and submit an application to us and say that this is our desired offtake amount."

1:57:38 PM

Now I would like to talk about Point Thomson, where we can't make such a confident statement.

One year ago the AOGCC, Exxon, and its partners agreed upon a similar process for studying the allowable gas offtake from Point Thomson. The AOGCC contracted reservoir evaluation consultants to assist its technical staff in performing the Point Thomson study. Exxon and its partners agreed to give AOGCC staff and consultants access to a data room in Exxon's Houston offices. It was agreed that the data room would include reservoir engineering, geologic and simulation information and would be equipped with computers and software allowing review of the simulator results. The study was supposed to begin before September 2006 and last up to six months. Exxon and its partners indicated that they planned to apply to the Commission in late 2006 or early 2007 for Pool Rules and a gas offtake allowable rate for Point Thomson.

1:59:04 PM

Unfortunately, we were not able to follow that timeline. Exxon had delays in preparing the data room and information. The process was finally slated to begin late last year, about the same time that Department of Natural Resources found Exxon and its partners to be in default on their leases. We attended one meeting where Exxon presented a small portion of the information we would need, but since then the study has been on hold pending resolution of legal issues.

2:00:19 PM

Without a thorough study, it will be difficult for the AOGCC to have sufficient information to make a gas offtake ruling on Point Thomson. So that one remains a wild card - in many ways.

2:01:06 PM

Mr. Norman concluded his remarks on Point Thomson and summarized AOGCC's position on both Prudhoe Bay and Point Thomson gas reservoirs as follows.

So, in summary:

(1) There are hundreds of millions of barrels of oil and condensate at risk if Alaska doesn't manage gas sales properly.

(2) The AOGCC is charged with setting gas offtake allowables that will protect Alaska's valuable hydrocarbon resources.

(3) The AOGCC intends to perform its function so that it does not delay the project, i.e., before an open season.

(4) We've done the technical work to prepare us to address Prudhoe Bay's offtake without causing that delay.

(5) There's still a lot to be done for Point Thomson; so delay is possible there.

Mr. Norman concluded his prepared testimony and advised that he and Kathy Foerster, AOGCC's petroleum engineering commissioner who was participating via teleconference, were available to answer Committee questions.

2:02:47 PM

Co-Chair Stedman asked the Committee to first direct their questions to issues concerning Prudhoe Bay.

Co-Chair Stedman asked how much time would be required for AOGCC to finalize its gas offtake analysis and provide a recommendation in order to "facilitate the gasline."

2:03:11 PM

Mr. Norman stated that if the Commission received an application from an entity today, a determination could be made within six months. This would provide sufficient time for AOGCC to conduct a technical review and meet legal requirements such as noticing to the public. There were individuals and entities in the State that had "strong feelings on what ought to happen with the gas and they have an opportunity and a right to be heard in a public forum."

2:04:35 PM

Co-Chair Stedman understood therefore that moving forward on a Prudhoe Bay application would not be problematic, even though no application has been presented to date.

2:04:47 PM

Mr. Norman affirmed that if an application was submitted to AOGCC today, a six month time period would be realistic. Commission action, absent a request, could be likened to "shooting in the dark". This is because the AOGCC, as a quasi-judicial agency, must operate in a manner similar to a court. Rather than "dictating the pace of development," operators submit an application to the Commission which would specify their needs. AOGCC would either approve or deny or approve with some amendments.

Mr. Norman also noted that the Commission must meet other statutory requirements. For instance AOGCC would conduct hearings and inquiries if it finds that some entity was considering an activity that would result in waste.

2:06:23 PM

Co-Chair Stedman identified having "a successful binding open season sooner than later" as being an area of concern in regards to AGIA. Thus, the question is when must the Commission provide it's determination in order to accommodate an open season in 36 months.

2:06:48 PM

Mr. Norman replied that, at a minimum, an operator or owner should submit their application to the Commission six months before the open season. In addition to knowing the applicant's anticipated startup date, the Commission must know what offtake rate the applicant was seeking to make their project work. Otherwise, the Commission would be guessing.

2:07:42 PM

Mr. Norman also stressed that, even though the requested offtake volume would not be tapped for years, it is important that the applicant consider what could be done "right now to accelerate production to remove this tradeoff between oil and gas." The applicant should also consider "what mitigation measures could be employed to make sure that, in producing gas, you don't waste oil." These things would be addressed during the public forum.

Mr. Norman reiterated that the study recently conducted by AOGCC was an abnormal procedure, as their mission is to regulate the industry. Typically the process is triggered by the receipt of an application as it would provide the Commission "something tangible and specific to act on". At this point in time, this element is missing in regards to either Prudhoe Bay or Point Thomson.

2:08:50 PM

Co-Chair Stedman asked a timeframe for a Commission determination on Point Thomson.

Mr. Norman deferred to AOGCC's petroleum engineering commissioner, Kathy Foerster.

2:09:10 PM

KATHY FORESTER, Petroleum Engineering Commissioner, AOGCC, testified via teleconference from an offnet location and informed the Committee that a minimum of 18 months would be required for the Commission to make a Point Thomson determination. However, the process could not even begin until the Commission received "access to sufficient Point Thomson information owned by the Point Thomson's owners." The analysis of that information, once received, would take "a minimum of one year". The Commission would then require an additional six months in which to review the application.

2:10:13 PM

Senator Elton referred to Mr. Norman's testimony about the six points the Commission was comfortable saying [See Time Stamp 1:53:28 PM]. To that point, he recalled [unspecified] testimony presented to the Committee the previous year "which suggested that, at this point in time, every well that is drilled that hits only gas is like a dry hole" since there is no way to get it to market. Therefore, he suggested that consideration should be given to adding another point to the afore-referenced list, that being "that the sooner we get a gas pipeline, the more oil we may produce and get into the oil pipeline."

Senator Elton contended that more oil would be available if more drilling was conducted as a result of having a gas pipeline.

2:11:30 PM

Mr. Norman agreed that the ability to transport gas in addition to oil would stimulate more activity. He clarified however, that the points he made were speaking to the focus of the Commission, which was to ensure that oil would not be wasted in the effort to harvest gas.

2:12:06 PM

Mr. Norman re-emphasized that there was more than two billion barrels of recoverable oil remaining in Prudhoe Bay. "That is a huge reservoir." To put this in context, he noted that in December of 2006, there was a report of a huge discovery of oil in the Gulf of Mexico. The report was referring to a one billion barrel field.

Mr. Norman pointed out that the two billion barrels of oil remaining in Prudhoe Bay would be the sixth biggest oil field ever discovered in the United States, irrespective of the 11 billion barrels of oil that have already been produced in Prudhoe Bay.

Mr. Norman stressed that the potential to produce that remaining oil should not be reduced "in a rush to get gas going." The Commission believes that the effort should not be an "either - or" scenario. The Commission would strive to both accelerate the effort and mitigate any effort that would be detrimental to the recovery of oil in the endeavor to have gas available for sale "when the operators are ready."

2:13:59 PM

Senator Elton asked whether the Commission has contemplated taking action against Exxon to recover some of the money spent on such things as hiring a consultant to assist in the analyses of the Point Thomson data, now that Exxon has decided against making the data available.

Senator Elton also asked whether that decision was solely Exxon's or whether it was influenced by others with an interest in the field.

Mr. Norman stated that to date, the Commission has not "considered any recourse or recovery" of the approximate $200,000 that has been expended. The Commission has however, written a letter to Exxon seeking clarification on their position. He was of the understanding that Exxon was considering continuing the effort.

Mr. Norman disclosed that it would be AOGCC's desire "to continue this informational exchange with Exxon while" the legal proceedings regarding the viability of their leases in Point Thomson "played out". AOGCC considered the two issues "distinct". He was optimistic that the informational exchange would occur.

2:16:14 PM

Ms. Foester agreed with Mr. Norman. AOGCC would like Exxon to reach a firm decision in regards to the informational exchange before AOGCC took any action that might "damage our relationship with Exxon". Since Exxon's position has changed repeatedly over the past several months, the Commission submitted a written request to them seeking "a formal decision" on their part. If they decided not to proceed, the Commission could consider other avenues. Working with them at this point is in the best interest of the Commission.

2:17:19 PM

Senator Elton asked Ms. Foester whether Exxon would independently make the decision or whether it would be made in conjunction with the other parties involved in Point Thomson.

Ms. Foester stated that due to operating agreements and other "working interest ownership" agreements, all four of the owner companies would be involved in making the decision. While the operating agreements would detail the specific parameters, she understood that two and perhaps three of the four primary owner companies, BP, Exxon, Chevron, and ConocoPhillips, must agree on the course of action.

2:18:25 PM

Co-Chair Stedman asked Ms. Foester to discuss the operator decision making process further as conflicting testimony in this regard has often been provided.

Ms. Foester stated that the confusion surrounding this issue is often compounded by "agency speak" in which an agency such as AOGCC refers to the operator as the entity. A decision, however, often requires other owners' agreement. Often times, all must "agree or it doesn’t happen."

Ms. Foester stated that in the case of sharing the Prudhoe Bay data, "if one of the major owners had said no, then it could not have happened." That is typically the way things are in unit operating agreements as well as their accompanying financial agreements. For example, if "Exxon wanted to drill a well at Point Thomson and the other owners didn’t agree then it might not happen."

Ms. Foester clarified that when AOGCC speaks about who's drilling a well at Point Thomson, instead of saying it is being drilled by Exxon, BP, ConocoPhillips, and Chevron, they simply say Exxon. Thus, a reference to the operator should be viewed in the sense that that entity is representing all of "the working interest owners." She apologized for any misunderstanding this might cause.

2:19:39 PM

Mr. Norman agreed with Ms. Foester. The answer to how a decision is made would lie within the unit operating agreement. These agreements typically specify what percentage of approval would be required "for certain things to occur." While this information was not readily available, a copy of the agreement was on file with the State of Alaska.

Mr. Norman stated that the situation could however be complicated by regulations regarding what might be considered proprietary information. This might include such things as anonymity or, in this case, whether there even is, in light of the legal questions, a Point Thomson unit agreement at this point in time.

2:21:09 PM

Co-Chair Stedman communicated that the Point Thomson unit operating agreement fills up 14 boxes.

2:21:16 PM

Senator Huggins asked for further information regarding the "data room;" specifically how access or non-access to it would affect the time frame and cost of the analysis.

2:21:52 PM

Mr. Norman stated that if AOGCC conducted its own study without access to the data, the cost in terms of time and developing information, "would be significant." The operators have a long in-depth history of information about these reservoirs. AOGCC does not. Rather than provide a broad estimate of the expense today, AOGCC could provide more accurate costs at a later date. It was likely that it would cost AOGCC millions of dollars to develop the type of information possessed by the operators.

Mr. Norman advised that the effort might also create conflict as some of the required information was proprietary and legal action would be required to access it. That also would "translate into time." The cooperative effort that occurred at Prudhoe Bay worked well.

Mr. Norman noted that even though AOGCC conducted a thorough review of the information provided by operators about Prudhoe Bay, having that information saved a significant amount of time.

2:24:38 PM

Senator Huggins asked how long the Point Thomson evaluation would take if AOGCC had access to a data room.

Mr. Norman deferred to Ms. Foester as she was the commissioner designated to participate in that effort. The other commissioners would receive their information in the same manner the public would.

2:25:24 PM

Ms. Forester remarked that the Prudhoe Bay analysis took approximately one year to complete. AOGCC received access to the data in January 2006 and published a report in February 2007. The expectation is that an analysis of Point Thomson would take 12 to 18 months to complete as, in addition to the multitude of issues reviewed at Prudhoe Bay, Point Thomson had numerous "geological and geophysical questions of great complexity" that must be addressed.

2:26:21 PM

Senator Huggins communicated the understanding that the State has lagged behind in its ability to keep current on operator agreements. He asked AOGCC for an update in that regard.

2:26:53 PM

Mr. Norman explained that an "operating agreement is a companion agreement with the unit agreement." The unit agreement is a negotiated agreement which "describes physical boundaries" and the leases committed to that unit. "The whole idea is to allow a general area to be developed in an orderly fashion" rather than having individual operations occurring randomly. In other words, the goal is to create a unit that would encompass the subsurface reservoir boundary, which, "deep beneath the earth doesn't respect the section lines and townships", and then approach its development "in the most orderly way with each owner recovering its own share."

Mr. Norman stated that once a unit agreement is developed, an operating agreement for that area would be formed. In the case of Prudhoe Bay, three parties, ConocoPhillips, BP, and Exxon, formed a group and drew up an operating agreement. One of the first things addressed in that agreement was to designate who would be the operating partner.

Mr. Norman communicated that a multitude of details would be addressed in an operating agreement. For instance, it would specify the course of action that would be taken if the operator resigned; how to replace an operator; and the level of authority the operator would have in regards to making expenditures.

Mr. Norman stated that attached to an operating agreement is a financial schedule which specifies how the accounting would occur. This would include such things as how much the operator could charge the others for operating overhead expenses and other expenditures.

Mr. Norman remarked that an operating agreement would also specify such things as how the operator would notify the partners when wells are drilled. In some cases, when a new well is drilled, the partners choose whether or not to participate on it. Even if they initially choose not to participate, they could opt in later. They would however be subject to a penalty in recognition of the fact that other partners had taken the risk.

Mr. Norman informed the Committee that over time, the original operating agreement is typically amended numerous times; new companies might enter into the agreement and some of the original companies might leave. This creates "layers of first amended, tenth amended operating agreements and sometimes it can be a fairly difficult chore to work back through all of those layers."

Mr. Norman was unfamiliar with a specific situation which might have prompted Senator Huggins' question. However, the scenario he described is typical of many operating agreements.

2:30:07 PM

Senator Dyson inquired to the volume of gas currently used for fuel or injection in Prudhoe Bay.

Ms. Foester responded that approximately half of a BFC is currently used on site. Thus, two of the current daily 2.7 BCF offtake allowable would be available for sale.

2:30:57 PM

Senator Dyson asked Ms. Foester to speculate, based on advances in technology and other information gleamed since the 2.7 BCF offtake allowable was specified, as to whether the level of a revised offtake allowable would be higher or lower than 2.7 BCF.

2:31:30 PM

Ms. Foester could not speculate as a multitude of variables are involved. These would include such things as how much oil had been removed and what mitigating measures had been put in place to replace gas as a reservoir injector. "If they've done an aggressive job of infield development drilling, and if they haven't had substantial shutdowns to slow things down and go in the opposite direction of accelerating the production, and if they have a good plan in place for replacing that gas with something else, then my expectation is" that the offtake allowable would be higher than the current 2.7 BCF amount.

Ms. Foester acknowledged that the inability of the AOGCC to provide a solid answer is frustrating to many.

2:32:43 PM

Ms. Foester echoed remarks made by Mr. Norman in a separate hearing in which he likened figuring out the allowable offtake level to the Legislature's attempt to provide a State budget amount for FY 2009. It would be impossible to do at the moment because of the multitude of factors that could "happen between now and then that are going to impact that number."

Senator Dyson acknowledged.

Senator Dyson asked whether there were areas in which wells are shut in because the gas/oil ratio (GOR) is out of alignment.

Ms. Foester replied in the affirmative. There are many shut in and cycle wells. Some wells maintain a low GOR and produce constantly. There are wells with high GORs that have been shut in for a number of years. Cycle wells are those whose GOR levels fluctuate and thereby dictate its operation.

Senator Dyson asked whether there is "a pattern" to the wells having high GORs.

Ms. Foester clarified that her expertise in the Prudhoe Bay field was being tested by Senator Dyson's questions. In general, "further out in the oil rim, there's probably lower GOR, and closer in to the gas cap areas of the field would be the higher GOR wells."

Senator Dyson asked whether there are wells to which a process referred to as channeling occurs. In these cases, the reservoir has been negatively affected by high pressure gas being blown through to the well bore.

Ms. Foester would investigate this and provide an answer at a later time.

In response to a question from Senator Dyson, Ms. Foester stated that the average level of CO_2 in the gas is approximately ten or 11 percent.

2:35:16 PM

Senator Dyson asked regarding "the optima way of handling the gas liquids" at this point, irrespective of the fact that there is currently no way to transport them.

Ms. Foester detailed how gas is currently utilized on the North Slope. There is a use "or market" for it; specifically as reinjecting gas into reservoirs is a significant part of "enhanced oil recovery operations".

2:36:32 PM

Senator Elton revisited the situation at Point Thomson and the fact that AOGCC has invested approximately $200,000 into the evaluation process. The question is whether AOGCC had identified a specific timeline in which to work out things with Exxon in consideration of such things as an obligation to pay the consultant contracted by AOGCC to assist in the evaluation.

Senator Elton also inquired to the nature of the agreement with the lease holders at Point Thomson.

2:38:16 PM

Mr. Norman disclosed that the evaluation contract was with "a very well-known national engineering firm that has expertise with this particular type of reservoir." The contract is on a fee for service basis, and therefore AOGCC is not being charged unless services are requested.

Mr. Norman stated that the information resulting from AOGCC's investments to date is being used "as efficiently as possible". An accurate amount expended to date on the Point Thomson study would be provided.

Mr. Norman next discussed the agreement the Commission has with the lease holders at Point Thomson. It is a formal agreement called a Statement of Principles that was based on the Statement of Principles agreement AOGCC developed with the Prudhoe Bay owners. There are not "any real substantive differences" between the two with the exception of a few changes requested by the Point Thompson lease holders during the negotiation process. A confidentiality agreement was attached to the Statement of Principles. He would verify his understanding that the agreements were public documents. Copies would be provided to the Committee if they were.

Mr. Norman characterized the agreement to be a "tight arrangement" as opposed to a contract.

2:40:30 PM

Mr. Norman expressed that the Commission has two paths of action to choose from when in regards to accessing field data. One was to use Commission's "subpoena powers and to try to force information to be forthcoming". The other was to get the operators to "cooperate with us." The latter had been the chosen in regards to Prudhoe Bay. Because of its success, that same path of action was advanced with the Point Thomson operators.

Mr. Norman reiterated that copies of the Statement of Principles agreements for both the Prudhoe Bay and Point Thomson reservoirs would be provided unless that action was prohibited for some legal reason.

2:41:32 PM

Co-Chair Stedman directed that the material be provided to his office for distribution.

2:41:40 PM

Senator Elton clarified his inquiry. Rather than needing a copy of the agreements with the lease holders, he was willing to accept a short analysis from the Commission as to whether one party could abrogate the agreement

Senator Elton also desired to know how long the Commission was willing to wait to hear a decision from Exxon about the data before alternate action might be taken.

Co-Chair Stedman asked whether the requested information could be provided before the May 16 Legislative adjournment date, in light of the volumes of paperwork associated with the agreement.

2:42:40 PM

Mr. Norman assured the Committee that the answer to whether one party could abrogate the agreement would be provided. He understood that the agreement could be terminated. If the level of cooperation failed to meet expectations, the Commission would implement a legal course of action.

Mr. Norman would endeavor to provide as specific an answer as possible to Senator Elton's questions.

2:43:20 PM

Senator Thomas asked for a preliminary analysis of how aggressively the producers were furthering oil production and implementing mitigating factors.

2:44:06 PM

Mr. Norman stated that operators were actively pursuing these goals, however, "the thing that has been disappointing to the Commission and disappointing to all Alaskans are some of the interruptions of production which is a slightly different way of talking about acceleration."

Mr. Norman contended that even though production might stop or a field might be shut in for a while, "hopefully eventually you recover that oil". However, recovery of that production is "at the tail end years later, and by that time, the trade-off becomes more acute between oil and gas because hopefully by that time, you're close to having a pipeline and major gas offtake." The aging infrastructure on the North Slope as an important issue; adequate maintenance would assist in preventing production interruptions.

2:45:03 PM

Mr. Norman stated that AOGCC believes, however, that "the operators are doing all they can to recover oil and certainly it's in their financial interest to do so." The Division of Oil and Gas is also monitoring this.

Mr. Norman stated that the Commission would ask the applicant what more could they do "to accelerate production, and what more could they do "to avoid interruptions of production."

Senator Thomas asked whether the experiences to date might prompt the Commission to include language in leases allowing them to assess data that was reservoir rather than proprietary related. This would remove AOGCC's reliance on having a company provide information voluntarily or having to subpoena it.

2:46:57 PM

Mr. Norman viewed the situation differently. The key to having access to reservoir data is to "secure the leases."

Mr. Norman specified that AOGCC's jurisdiction runs statewide. The Legislature granted them the authority to police State, Alaska Mental Health, federal and Native lands. It has the tools to get the information they need to conduct an analysis.

Mr. Norman contended, however, that "the pathway of a cooperative effort in our opinion got us there faster."

Unfortunately the legal "complication" at Point Thomson has been disruptive to the receipt of the data, "but if we need to fall back on stronger methods, we have subpoena power. We have the ability to convene hearings if waste is imminent and we have the methods that we could employ to get at this information although that is a more complicated way to do it."

There being no further questions, Co-Chair Stedman thanked Mr. Norman and Ms. Foester for their testimony.

The bill was HELD in Committee.

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Co-Chair Stedman conducted housekeeping of the following day's meeting.

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at 2:49:56 PM.