

HOUSE FINANCE COMMITTEE
March 16, 2011
8:07 a.m.

8:07:04 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:07 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman

ALSO PRESENT

Representative Mike Hawker; Senator Cathy Giessel; Bryan Butcher, Commissioner, Department of Revenue; Joe Balash, Deputy Commissioner, Department of Natural Resources; Bruce Tangeman, Deputy Commissioner, Department of Revenue; Dan Seamount, Commission Chairman, Alaska Oil and Gas Conservation Commission.

PRESENT VIA TELECONFERENCE

Steve Davies, Sr. Petroleum Geologist, Alaska Oil and Gas Conservation Commission; Frank Molli, Production Forecast Consultant, Department of Revenue.

SUMMARY

HB 110 PRODUCTION TAX ON OIL AND GAS

HB 110 was HEARD and HELD in Committee for further consideration.

#HB110

HOUSE BILL NO. 110

"An Act relating to the interest rate applicable to certain amounts due for fees, taxes, and payments made and property delivered to the Department of Revenue; relating to the oil and gas production tax rate; relating to monthly installment payments of estimated oil and gas production tax; relating to oil and gas production tax credits for certain expenditures, including qualified capital credits for exploration, development, and production; relating to the limitation on assessment of oil and gas production taxes; relating to the determination of oil and gas production tax values; making conforming amendments; and providing for an effective date."

8:08:45 AM

BRYAN BUTCHER, COMMISSIONER, DEPARTMENT OF REVENUE, initiated the PowerPoint presentation: "Fall 2010 Oil Production Forecast."

Commissioner Butcher began with Slide 2: "Three Categories for Forecasted Production."

1. Currently Producing- Includes base production and enhanced recovery production from in rate enhancing activities (perforations, stimulations, well workovers, gas and water injection support).
2. Currently under Development- New projects that are currently funded or awaiting project sanction in near future.

8:12:03 AM

Commissioner Butcher discussed Slide 3: "Three Categories of Forecasted Production."

3. Currently under Evaluation- Includes technically viable projects in the stage where engineering, cost, risk and reward are being actively evaluated. Unfunded

but are considered to have a high chance of being brought to fruition.

[8:12:52 AM](#)

Commissioner Butcher discussed Slide 4: "Factors that Affect Production Forecasting."

1. GEOLOGY

- Rock type and formation characteristics
- Depth, thickness, pressure
- Oil and gas characteristics (oil gravity, viscosity, water content, etc.)

2. DEVELOPMENT PLAN

- Well density and development rate
- Well bore size and completion technique
- Artificial lift and enhanced oil recovery
- Facilities and surface operations

3. COMMERCIAL

- Project economics
- Oil price and market conditions
- Government Policy: access, regulation, taxation

4. PRODUCTION PROFILE

- History, stage of depletion
- Use production profile to extrapolate trends

5. TIMING!

Commissioner Butcher discussed Slide 5: "North Slope Production Decline."

FY 1988: production peak -> 2.01 million barrels per day (bpd).

FY 2010: production -> 644,000 bpd, a 68% decline since peak.

FY 1988 to date: production decline rate ~ 5% per year, on average.

Over the last 10 years, production decline rate ~ 4.2% per year, on average.

We expect the decline rate to flatten out to 3.2% per year, on average, through FY 2030.

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Commissioner Butcher detailed the graph on Slide 6: "ANS Production History and Forecast." The slide depicts the forecast from 1977 with the sharp increase to approximately 2 million barrels in 1988. He pointed out the precipitous decline through the 1990s. The largest producer is the Prudhoe Bay field illustrated in yellow.

8:15:43 AM

Commissioner Butcher discussed Slide 7: "Forecasted ANS Production FY 2010-2020." He noted that the area shaded light gray indicates fields that are "currently producing." The area continues to decline over the next ten years at the same slope seen in the last ten years. The "under development" portion is shown in darker grey while "under evaluation" is illustrated in black and is the most speculative of the three.

8:16:53 AM

Commissioner Butcher discussed Slide 8: "Conclusion on Production."

- Production forecasting requires consideration of each project's geology, development plans, commerciality, production profiles, decline curves and timing.
- Department uses extensive well and field specific data acquired from producers, AOGCC, and DNR.
- New field development is very important in mitigating decline rates.

Vice-chair Fairclough asked if geologists expect a high probability of oil in the fields. She asked for the opinion of the department. She referred to North Slope production decline illustrated in Slide 5 and the statement "We expect the decline rate to flatten to approximately 3.2% per year, on average through FY 2030." She wondered about the number of barrels that are anticipated to flow through the line in 2030. Commissioner Butcher deferred the question to Frank Molli.

FRANK MOLLI, PRODUCTION FORECAST CONSULTANT, DEPARTMENT OF REVENUE, responded that the estimated production through

the pipeline in the year 2030 is 328,000 barrels of oil per day.

Vice-chair Fairclough asked for an estimated price of oil in 2030. Commissioner Butcher responded that the department's estimates extend through 2020 only.

Co-Chair Stoltze asked for a projection of oil prices needed to cover the budget growth. Mr. Molli offered to provide the answer.

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Vice-chair Fairclough agreed that the throughput time's price must be anticipated for the price of oil in the future.

Representative Guttenberg asked about variables or scenarios for a development plan.

JOE BALASH, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES responded that a plan of development is used to describe the commitment made by the lessees to develop a unit. A unit is comprised of a collection of leases that contain common interest in the oil pool that lies beneath them. The plan of development describes the pool and how it will be developed and the timing for development. The plans are submitted to the Department of Natural Resources (DNR) when the unit is formed under the department's regulations. When the unit is formed on non-state land, particularly federal land, a different process is utilized with the Bureau of Land Management (BLM).

Representative Guttenberg asked if influential variables are viewed when a development plan is submitted. He wondered about potential permitting problems, unnecessary delays and potential mitigation of the issues.

Mr. Balash responded that the Division of Oil and Gas contains a unit with a specific manager. The manager works with the unit operator. The department elicits feedback to improve the understanding of progress within the reservoirs. He imagined that some units are simpler, as they are small with a single owner. The larger and more complex the reservoir the more effort required for development of the field. The specific plans developed are

communicated between the individual unit managers and the operator.

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Representative Guttenberg asked about the change in the tax structure to incentivize development. He asked about the development plan. He wondered about a forecast for the potential change. Permitting often presents an issue. He asked if other issues exist. Has industry behavior been modified by a certain action in the past?

Commissioner Butcher stated an example of the heavy oil in Ugnu. The economics of the oil are complex as it is very expensive to produce the oil. Fields that are not currently developed are affected by HB 110. The economics of the bill would allow companies to view areas of production that would not have been considered under the current tax structure.

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Representative Gara asked about the Economic Limit Factor (ELF) system allowed for a zero percent tax unless a field was large and productive. He asked why a low tax rate would work now when it was ineffective in the past. He added that the North Slope had a historic price of \$18 to \$20 per barrel through 2002, which increased substantially by 2006. He wondered why the outcome would be different now if the past indicated that a high price of oil coupled with a low tax rate did not incentivize exploration. Commissioner Butcher responded that despite the increase in oil prices in 2006, the forecasted price of oil is much greater. The level of industry expertise with the advent of horizontal drilling makes exploration formerly difficult in 2006, possible. He added that the industry must testify with a compelling case that HB 110 will result in change.

[8:30:53 AM](#)

Co-Chair Stoltze commented that a meeting with the producers is planned.

Representative Gara commented on newer fields that are more difficult to develop. Newer fields require a smaller profit margin. The current system accounts for the smaller profit margin, as the tax rate is only on profits and \$30 of

profit must be made before progressivity kicks in. He pointed out that to make \$30 of profit on a field with \$50 lifting costs; progressivity will kick in at a much higher price. Commissioner Butcher agreed, but stated that the view presented is for the entire life of the field, making it less likely for industry to seek development under the current tax regime. Tax credits are of great benefit on the front end, but the tax structure plays a larger role for the long term.

Representative Gara pointed out that the charts illustrate that the tax rate will not kick in until well over \$100 per barrel. Commissioner Butcher replied that the more expensive the field, the higher the price of oil must be for progressivity to kick in.

[8:33:18 AM](#)

Representative Doogan asked about Point Thompson. He understood that the department had taken Point Thompson off the list because of the legal dispute between the producer and the state. Commissioner Butcher stated that the forecast is two decades out. He suggested that Mr. Molli provide the history.

Mr. Molli stated that Point Thompson expects minor production in 2015 regardless of whether or not a gas line is constructed. The Point Thompson production was included in the "under evaluation" category, which is more speculative than the "currently producing" or "under development" categories.

Representative Doogan asked if the production in Point Thompson was imminent prior to the dispute. Mr. Molli responded that he provided the fall forecast beginning in 2009. He was unsure about the years prior.

[8:35:44 AM](#)

Representative Wilson asked if past forecasts were reviewed prior to making future forecasts. Commissioner Butcher responded that the department is aware of past forecasts, but the awareness does not affect future forecasts. The department's past forecasts have been optimistic. Delays are imminent leading forecasts to appear optimistic.

Representative Wilson requested documentation regarding past production forecast accuracy. Commissioner Butcher offered to provide the requested information to the committee.

BRUCE TANGEMAN, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE informed that he had delivered responses to questions including examples of projections versus actuals included in the committee packet.

Representative Hawker acknowledged that forecasting was historically optimistic. He pointed out that some areas slated for exploration contain issues that are beyond the control of the legislature. The federal policy currently prevents some development. He wondered about the rationalization about the probability of the degree of optimism in the current projections. Mr. Molli responded that the "under evaluation" layer proves the most uncertain.

[8:40:28 AM](#)

Mr. Molli noted that Umiat was discovered in 1946 by the Navy and has 12 wells drilled into the reservoir. Several wells are productive. The current operator plans to explore further leading to a high probability that the field will produce further. He expressed uncertainty regarding Point Thompson. Each project had its range of certainty.

Representative Hawker agreed about the substantial degree of uncertainty in the foreword projection. He saw the forecast as optimistic. He pointed out Slide 4 and the factors affecting production forecasting. He opined that one missing factor was the fundamental premise of the availability of capital. Unlimited availability of investment capital leads to vastly different circumstances. He stated that the point had not been addressed to his knowledge. He wondered if the degree of capital was considered in the forecasting process.

[8:43:28 AM](#)

Mr. Molli answered that he did not consider the availability of capital when forecasting oil production. He imagined that the consideration was made by the operators.

Representative Joule requested additional information regarding an effective tax rate. He requested a global picture regarding incentives. He asked how much the economic downfall impacted investment decisions regarding resources.

[8:47:06 AM](#)

Commissioner Butcher responded that he would provide the committee with an effective tax rate slide that accounts for the credits. He was sure that the industry would provide further insight. He pointed out that Alaska's exploratory wells continue to drop, while exploration in other states is rising.

Representative Costello questioned the accuracy of the forecast. She informed that her staff had done research on the topic of accuracy. Her staff calculated the average error rates and applied them to the future. The findings illustrate that in 2019, 343,000 barrels per day were calculated compared to the forecasted 551,000 barrels per day.

Representative Costello asked about the 3.2 percent decline and the reason for the flattening curve. Commissioner Butcher offered to provide the committee with the requested information in graph form to offer a history of the forecast's accuracy. He asked Mr. Molli to provide insight regarding future production.

[8:50:32 AM](#)

Mr. Molli stated that new production will result from Nikiachuk whose peak is anticipated by 2014 or 2015. Liberty is another new field formerly anticipated to begin in 2012, but since delayed. Alpine West was also delayed.

Representative Costello appreciated the department providing the committee with the information.

[8:52:31 AM](#)

AT EASE

[8:58:51 AM](#)

RECONVENED

DAN SEAMOUNT, COMMISSION CHAIRMAN, ALASKA OIL AND GAS CONSERVATION COMMISSION, introduced himself. He reported serving with the industry in exploration for Marathon in off-shore California. He noted that Mr. Davies is online. He began his PowerPoint presentation "Alaska Oil and Gas Conservation Commission (AOGCC) (copy on file).

9:01:09 AM

Mr. Seamount began with Slide 2: "Alaska Oil and Gas Conservation Commission."

- AOGCC Mission
- Charts and Statistics
 1. Historical O & G Activity
 2. Drilling Permits (the Plan)
 3. Drilled Wells and Well Work (the Actual Work)
- The Future

9:03:53 AM

Mr. Seamount discussed Slide 3: "Alaska Oil and Gas Conservation Commission (AOGCC)"

Quasi-judicial State regulatory agency
-Oversight for underground oil and gas operations

- Private and public lands in Alaska
- Exercises police power of the state

Regulate drilling and production for oil, gas and geothermal resources.

Mr. Seamount detailed Slide 4: "AOGCC Mission."

- Prevent waste of energy resources (Oil, Gas, Geothermal)
- Promote greater ultimate energy resource recovery
- Protect underground fresh water from damage caused by oil, gas, and geothermal operations
- Protect human safety
- Protect correlative rights

9:05:49 AM

Mr. Seamount discussed Slide 5: AOGCC Jurisdiction."

- Oil and gas resource development
- Geothermal resource development
- Underground storage of natural gas
- Metering accuracy for custody transfer

Mr. Seamount discussed Slide 6: "Types of AOGCC Permits/Decisions."

- Drilling- 2300+ last 10 years
- Wellwork- 4000+ last 10 years
- Underground Injection (EOR, Waste disposal, Gas Storage)- 46 last 10 years
- Special development considerations (dispute adjudication, gas flaring, safety equipment, and others)-67 last 10 years

Representative Doogan asked about the term "well work."

[9:07:36 AM](#)

Mr. Seamount offered to address the question later in the presentation.

Mr. Seamount discussed drilling and well work and the statistics involved in both.

Mr. Seamount joked about the nature of statistics.

[9:09:52 AM](#)

Mr. Seamount discussed Slide 7: "Development Timeline for North Slope Oil Fields." He explained that three types of wells exist: exploration wells, oil producer wells, and service wells. Service wells are the enhanced oil recovery wells, which inject fluids or gasses into the pools to allow recovery of the resource. He pointed out that 29 percent of the field wells are service wells.

[9:11:08 AM](#)

Representative Gara commented on statistics showing that exploration wells are declining while development wells are increasing. He asked if a development well seeks to maintain production or increase production of a field. Mr. Seamount answered both; development wells maintain and increase production. He added that well work includes work

done on existing wells to repair them or to increase production.

Representative Gara stated that the mentioned chart was one year behind. He wondered why companies are investing more money in development wells than exploration wells. Mr. Seamount replied that the requested trends and data will be discussed later in the discussion. He could not speculate on the industry's decisions. His experience was that exploration was a result of oil price, although he admitted that did not correlate in Alaska.

[9:13:47 AM](#)

Representative Hawker appreciated Slide 7. He interpreted that the chart illustrated approximately 20 major developments initiated during the Economic Limit Factor (ELF) tax structure. Mr. Seamount concurred.

[9:15:09 AM](#)

Mr. Seamount added that the chart illustrates the lengthy time that elapses between discovery and actual production. Economics, permitting agencies, and litigation can all delay the process.

[9:15:56 AM](#)

Representative Joule injected that the Coastal Zone Management was also a player in the thriving industry.

Representative Hawker pointed out that none of the mentioned 20 plus developments existed offshore.

Representative Doogan commented on the three types of activity charted on Slide 7. He asked about the difference between the discovery, limited regular production, and regular production categories. Mr. Seamount responded that limited production includes well testing.

Representative Doogan understood that many of the listed wells lacked the limited production category. Mr. Seamount agreed. He stated that when the infrastructure is present, then the limited regular production category is unnecessary.

[9:18:33 AM](#)

Mr. Seamount stated that the chart was compiled by Mr. Davies.

Mr. Seamount introduced Slide 8: "Alaska Oil and Gas Conservation Commission."

- AOGCC Mission
- Charts and Statistics
 1. Historical O & G Activity
 2. Drilling Permits (the Plan)
 3. Drilled Wells and Well Work (the Actual Work)
- The Future

Mr. Seamount moved on to Slide 9: "Alaska Oil and Gas Activity." The graph illustrates his agency's involvement in Alaska since 1957. He stated that the blue curve illustrates drilling permits processed by AOGCC. He noted a drop in the curve around 1968 as a result of industry leaving Cook Inlet for the newly discovered Prudhoe Bay. He believed that Cook Inlet continued to hold vast potential and has been sorely neglected since 1968.

Mr. Seamount pointed out the next great increase during the development of Prudhoe Bay and Kuparuk. The activity diminished in the mid 2000s. He added that the green curve on the chart includes the number of active wells. An active well is any well that the inspector must deal with. Finally, the purple curve indicates the number of reservoirs overseen and the plans of development that have been approved.

[9:21:45 AM](#)

Representative Gara expressed confusion about the chart. He asked if the blue dots signify wells or permits. Mr. Seamount stated that the blue dots are permits processed. The number of permits processed is similar to the number of wells drilled and provides an accurate indicator of activity.

Representative Gara asked if drilling wells are a combination of exploration wells, service wells and development wells. Mr. Seamount responded yes. He added that the alternate energy wells in the form of geothermal and underground coal gasification are also included.

Representative Gara noted that in 2010, roughly 2500 drilling wells existed. He asked if development and service wells were plentiful. Mr. Seamount responded that the number of well permits is 170, but the number of active wells is 4500.

Representative Gara pointed out that the chart indicates approximately 170 wells in 2010. Mr. Seamount replied that the number of active wells is greater than 4500. An active well is any well dealt with by inspectors; these may include wells that are not producing. The number of producing wells is greater than 2000.

[9:25:05 AM](#)

Representative Doogan commented on the number of permits. He supposed that until 1984, production increased. He commented on the sharp decline in permits in 1985. Another rise is illustrated lasting until 1999 where yet another sharp decline is shown. He asked to know the reason for the declines. Mr. Seamount stated that 1999 provided an anomaly. He did not have an explanation for the sharp decline. He thought the question might be better asked of industry. Representative Doogan asked again about 1985. Mr. Seamount supposed that the major development of Prudhoe Bay and Kuparuk had declined.

Mr. Seamount detailed Slide 10: "Alaska's Average daily Oil and NGL Production Rate." He stated that Commissioner Butcher had provided great detail about the slide earlier in today's presentation. He noted the decline in Alaska's production shown between 2000 and 2003 due to the development of the Alpine and Northstar fields. Alpine was the largest field discovered in the United States at the time. He understood that two or three additional areas have been discovered, but have yet to be developed.

[9:28:19 AM](#)

Representative Edgmon asked about developing technology and horizontal drilling. He wondered whether an existing well that utilizes the horizontal drilling technique would be considered a development well. He wondered about identifying the trends on the chart regarding the advent of horizontal drilling and its effect on active wells. Mr. Seamount responded that extended lateral drilling has been used in Alaska since the early 2000s. The wells employing

lateral drilling are considered development wells. The technology of horizontal drilling has improved greatly and could open up additional resources.

Representative Edgmon stated that he was seeking correlations between the advent of horizontal drilling and the data provided on Slide 9. Mr. Seamount stated that he was in the process of speculating that correlation.

[9:31:09 AM](#)

Vice-chair Fairclough asked if a correlation might be drawn between the flattening of the blue line in 1999 on Slide 10 and the discovery on Slide 11. She wondered if explorers were in the middle of processing instead of drilling or bringing the production online. Mr. Seamount liked the observation, and admitted that he had not considered the idea.

Representative Gara wondered if the advent of horizontal drilling would lead to the expectation of a lower number of wells since each well reaches further. Fewer wells are required to obtain a certain amount of oil. Mr. Seamount stated that Representative Gara's observation was partially correct. He added that one might encounter reserves otherwise unseen.

Representative Gara asked if the Liberty field was affected by a federal decision regarding drilling pad construction. He asked if Mr. Seamount had confidence in the progression of the field. Mr. Seamount did not know the answers.

[9:33:43 AM](#)

Vice-chair Fairclough asked a question about the graph on Slide 9. She wondered if the blue dots signify permits, and the green triangles indicate active wells. Mr. Seamount agreed that the green triangles indicate active wells requiring inspection. The wells indicated are not necessarily producing wells.

Representative Guttenberg asked if one well is drilled with five different horizontal directions, is it considered one or five wells. Mr. Seamount replied five with one surface hole.

[9:35:56 AM](#)

Mr. Seamount continued with Slide 11: "North Slope Average Daily Oil and NGL Production Rate." He offered very little commentary since Commissioner Butcher addressed the slide earlier.

Mr. Seamount discussed Slide 12: "Alaska Oil and Gas Conservation Commission."

- AOGCC Mission
- Charts and Statistics
 1. Historical O & G Activity
 2. Drilling Permits

Mr. Seamount discussed Slide 13: "Exploratory Well Permits (1996-2010)." He mentioned the various participants with approved permits. He noted the trends in exploration wells. He highlighted 2010 where the majority of exploratory well permits were for alternate energy permits for underground coal gasification and geothermal.

Mr. Seamount highlighted Slide 14: "Exploratory Well Permits (1996-2010) Statewide: Oil and Gas." He noted that without the alternative energy permits in 2010 see a drastic drop with only three exploration permits submitted.

Co-Chair Stoltze asked if the permits led to the source of the one well discussed in committee. Mr. Seamount clarified that the chart indicates permits applied for versus wells drawn. He understood that one exploration well would be drilled this year. Co-Chair Stoltze wished to amplify Mr. Seamount's statement as exploration wells are the source of much committee debate.

[9:39:31 AM](#)

Representative Doogan believed the chart illustrated two well permits issued in 2010, neither by the major producers on the North Slope. Mr. Seamount agreed and indicated that the next slide would illustrate exploratory well permits.

Mr. Seamount turned to Slide 15: "Exploratory Well Permits (1996-2010) Statewide: Oil and Gas." The chart illustrates the wells drilled by the four large companies (Unocal, Marathon, ConocoPhillips, and British Petroleum). He added that zero permits were received in 2010 from the four major

producers. The drop off began in 2005 and decreased steadily to zero in 2010.

Mr. Seamount discussed Slide 16: "Exploratory Well Permits (1996-2010) Statewide: Oil and Gas." The slide removed the four major producers and shows what other potential investors planned for Alaska. The drop-off by the four majors in 2002 was made up by newcomers for awhile.

[9:41:35 AM](#)

Vice-chair Fairclough queried Slides 15 and 16. She asked about the price related to the big producers being drawn to other markets with a higher rate of return. She questioned the availability of drilling rigs on the North Slope and when the particular overlay could be expected so that it could be seen whether the situation was constrained by the ability to access drilling rigs. Finally, she wondered if permits were not being issued (like at Pt. Thompson) and whether that might affect the situation. She understood that ACES regulations were not significantly addressed until the current year.

Mr. Seamount responded that he did not know the answer to the questions. He thought the operators could answer. He stated that the slides indicated an oil price curve; back in the 1990s, the price of oil was \$20 per barrel and in 2008 it was \$130 per barrel. The price today at close to \$100 was still high. The numbers could be superimposed on the curves; he did not see any correlation with oil price. He noted that in the past, oil price was "king" and powered the decision to drill wells. The impact did not seem the same in Alaska.

[9:44:04 AM](#)

Representative Costello recalled a Forbes magazine article which listed Alaska's North Slope as one of the top ten oil provinces of the future. She asked about the difference between the article and today's presentation. Mr. Seamount asked Representative Costello to clarify her question.

Representative Costello clarified that she was unsure why the interest in Alaska was waning when, from a geologist's point of view a viable resource exists. Mr. Seamount stated that as a geologist who has worked throughout the country, he found the North Slope had the greatest hydrocarbon

potential. He recalled ten years ago when investment was limited because of the high cost of doing business in Alaska. He added that infrastructure costs limited the interest as well.

[9:46:23 AM](#)

Representative Edgmon asked about requirements for production of data regarding geothermal potential. He wondered if the data was easy to produce. Mr. Seamount stated that he will require production data from the alternate energy exploration.

Representative Edgmon stated that the requirement did not exist in the past. Mr. Seamount concurred.

[9:47:37 AM](#)

Representative Gara expressed concern regarding a policy change using only one year of data. He commented that years of little exploration were documented in the chart as far back as 1996. He wondered why so few exploration wells were drilled in those years. Mr. Seamount did not know.

Representative Gara asked why only two exploration wells were slated for 2010.

Representative Hawker clarified that the number of approved permits is listed on the left side of the graph. Mr. Seamount agreed and noted three permits in 2010 and four in 1999.

Representative Gara recalled that Mr. Seamount expressed confusion regarding the low number of permits in both 2010 and 1999. Mr. Seamount concurred.

Representative Gara commented on the high price of lifting oil on the North Slope. He wondered if the high price along with the high cost of infrastructure were ongoing deterrents. Mr. Seamount did not know.

[9:50:54 AM](#)

Representative Doogan asked about off shore interest. Mr. Seamount responded that areas greater than three miles offshore are considered federal waters.

Representative Doogan understood that an evaluation of prospectivity based on the likelihood of finding oil might lead to offshore drilling.

Mr. Seamount responded that over twenty basins exist in Alaska with the potential for oil and gas and only two produced so far. He added that a couple of onshore places have proven oil and gas, the National Petrochemical and Refiners Association (NPRA) and Arctic National Wildlife Refuge (ANWR).

Representative Doogan commented that Conoco is very close to a potential offshore site.

Vice-chair Fairclough wondered about the producer's ten year plans. She supposed that decisions about resources may be shifting. She wondered if companies adopt profiles on the decade as the census occurs every ten year. In 1999 and 2000 the big producers made management decisions.

[9:54:09 AM](#)

Representative Guttenberg commented on Slide 16 and the green shaded for the Department of Interior. Mr. Seamount responded that the Department of the Interior drilled a number of coal bed methane exploration wells in the past few years for a geological survey evaluating North Slope and Aleutian potential.

Co-Chair Thomas wondered why HB 110 incentivizes the majors as opposed to the independents. He opined that the independent companies ought to be incentivized.

[9:55:52 AM](#)

Representative Hawker enjoyed the chart illustrated on Slide 14 along with the stories that it tells. He mentioned the highs and lows of oil prices illustrated. He noted a precipitous decline in oil prices in 1998 and 1999 leading to economic crisis in Alaska. He wondered if exploratory drilling helped to extend the life of the Trans-Alaska Pipeline System through the actual successful completion of wells on the North Slope.

[10:00:11 AM](#)

Mr. Seamount expressed concern about the slow pace of exploration.

HB 110 was HEARD and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 10:01 AM