ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
January 21, 2011
1:06 p.m.

MEMBERS PRESENT

Representative Paul Seaton, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Alan Dick
Representative Neal Foster
Representative Cathy Engstrom Munoz
Representative Berta Gardner

MEMBERS ABSENT

Representative Eric Feige, Co-Chair
Representative Bob Herron
Representative Scott Kawasaki

OTHER LEGISLATORS PRESENT

Representative Dan Saddler

COMMITTEE CALENDAR

OVERVIEW(S): DIVISION OF OIL & GAS~ DIVISION OF GEOLOGICAL AND GEOPHYSICAL SURVEYS~ AND ALASKA OIL & GAS CONSERVATION COMMISSION

- HEARD

OVERVIEW(S): DIVISION OF GEOLOGICAL AND GEOPHYSICAL SURVEYS

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KEVIN BANKS, Director
Division of Oil & Gas
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Provided an overview on the responsibilities of the Division of Oil & Gas.

CATHY FOERSTER, Engineering Commissioner
Alaska Oil & Gas Conservation Commission (AOGCC)
Department of Administration (DOA)
Anchorage, Alaska
POSITION STATEMENT: Gave a presentation on the Alaska Oil & Gas Conservation Commission (AOGCC).

ACTION NARRATIVE

1:06:06 PM

CO-CHAIR PAUL SEATON called the House Resources Standing Committee meeting to order at 1:06 p.m. Representatives Seaton, Wilson, Munoz, Foster, Gardner, and Dick were present at the call to order. Representative Saddler was also present.

OVERVIEW(S): Division of Oil & Gas, Division of Geological and Geophysical Surveys, and Alaska Oil & Gas Conservation Commission

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CO-CHAIR SEATON announced that the only order of business would be overviews from the Division of Oil & Gas, Department of Natural Resources (DNR), and from the Alaska Oil & Gas Conservation Commission (AOGCC).

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KEVIN BANKS, Director, Division of Oil & Gas, Department of Natural Resources (DNR), before beginning his presentation, explained some distinctions between the division and the AOGCC. He pointed out that the division is part the DNR and serves as the landlord of state lands, particularly with respect to the oil industry and its leases held on state lands. The AOGCC manages conservation and the rights of leaseholders and owners of oil and gas throughout the state; however, the division's focus is only on state lands. In addition, the AOGCC functions in a judicial fashion to adjudicate differences related to ownership, and issues related to the conservation of the resource. Although the division is also involved with conservation issues, its responsibilities extend to the economic recovery of oil and gas resources, to ensuring that facilities

minimally impact the environment during development, and to the cost of the recovery of resources.

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MR. BANKS noted that the division sometimes appears before the AOGCC as any other landowner, or oil and gas producer, to work out differences with respect to ownership. He advised that later testimony by the AOGCC would further explain the differences between the two agencies.

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MR. BANKS then began his presentation, noting that during this past year the division spent time on a new strategic plan and on framing a new mission statement. The process involved many members of his staff and he said, "Our lessees and the public can be assured that we are functioning in a way that is accountable, and that our lessees are developing our lands to the maximum benefit of all of us here in Alaska." He indicated that the division receives its authority from AS 38.05.180 and AS 38.05.035, which authorize the division to manage oil and gas lands and geothermal lands, and, with other divisions within the DNR, to inspect oil and gas facilities on state lands and issue permits on land use. Mr. Banks then displayed slide 4 titled, "Gross Oil Volume from State Leases" which illustrated if the state were a producer, it would be the fourth largest in the state. In fact, the state owns in the form of royalty, approximately one-eighth of the oil produced, and plays an important and unique role in the United States because nearly all of the oil produced in the state is on state land.

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MR. BANKS displayed slide 5, which was an organization chart of the division and which indicated functions of the division, including staff who evaluate resources, prepare and administer leases, issue permits, and manage commercial agreements and the royalty-in-kind program. Many members of the division's staff have years of experience in the oil and gas industry. Additionally, there is now a Petroleum Systems Integrity Office (PSIO) to determine the industry's capability to safely and prudently develop resources without accident or loss of revenue. Mr. Banks turned to slide 6 titled, "Achievements in 2010" and informed the committee that a division-wide strategic plan was developed in order to create an environment in which the division acts consciously, not unconsciously, when making

decisions. The second objection of the strategic plan was to inspire confidence and develop work processes "so that people can be assured that the decisions that we make are properly grounded, fully documented, and will be successful if challenged."

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MR. BANKS, in response to questions, clarified that PSIO stands for Petroleum Systems Integrity Office and that the division deputy director is Kurt Gibson. He offered to provide the committee with the names and phone numbers of his staff. Returning to achievements in 2010, he related that before the leasing, discovery, and production of oil, the division must determine the potential of the resource, and that task is done by resource evaluation. The resource evaluation team helps determine the value of leases, the size of units, and serves as a consulting group for the division and for its clients. In fact, the team will soon complete a study, in conjunction with the Alaska Gasline Development Corp. (AGDC), on the Cook Inlet gas supply reserves, and to analyze what new resource reserve production will cost. Slide 9 indicated that the lease staff of contract administrators includes biologists whose responsibilities are to document the best interests of the state when land is offered for lease. In addition, environmental impacts are evaluated, as are federal and state regulations, and competitive lease sales are held once each year for every one of the oil and gas lease sale areas. For example, lease sales are held in October for land on the North Slope, and in May for Cook Inlet land.

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MR. BANKS explained that after oil and gas is found and the leases are sold, the unit administration staff delineates the oil fields. To do this the leases that overlie a potential pool of oil are combined in a unit, so each of the lessees within the unit will share in the costs of development, and so correlative rights are protected. Forming units also minimizes environmental impacts by ensuring development occurs in an orderly way. He described unit administration as where "some of our most sophisticated relationship with the industry occurs at this point, because it involves so much of our division in the engagement. We have the resource and geoscientists working on this, our land people, with their law background, and the commercial folks are usually engaged in creating these decisions ...." Referring to the royalty accounting function of the

division, Mr. Banks noted that the division collected $2.2 million in 2010, and approximately one-half of that was credited to the Alaska Permanent Fund Corporation (APFC). He pointed out that the sale of oil to the Flint Hills Resources refinery is the largest source of income.

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REPRESENTATIVE P. WILSON asked for clarification on the legal requirement that directs 25 percent of oil revenue to the APFC.

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MR. BANKS expressed his understanding that the original constitutional amendment that created the APFC has changed; however, 50 percent of all royalty, bonus bids, and rents associated with resource development goes to the APFC by law. Addressing the audit function of the division, Mr. Banks acknowledged there is often disagreement on the value of oil; as a matter of fact, in 1977, the state initiated litigation on the value of its oil that was not settled for about 16 years. Through this litigation, the question of the value of the production of North Slope oil was resolved in royalty settlement agreements that defined a way to calculate the royalty value of the oil. The audit staff ensures that royalty revenue to the state is correct.

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MR. BANKS informed the committee that economists and petroleum commercial analysts on the commercial staff in his division determine the "market value" of leases at the time the state exercises its periodic opportunities to renegotiate royalty settlement agreements. It is important to research future production cost figures, and he noted that the commercial staff is also called upon to work on gas line issues in cooperation with the Department of Revenue (DOR). Returning to the function of the PSIO, he explained that about three years ago the legislature funded a project called the "gap analysis," which the PSIO has presented to the governor's resource subcabinet. The PSIO was an outgrowth of the failure of the oil transit lines in Prudhoe Bay in March and August of 2006. At that time, the state was informed by the industry that corrosion problems in the Prudhoe Bay area existed to an unknown extent and were more widespread than expected. The first task of the PSIO was to conduct an analysis to determine gaps in the departmental

jurisdictions and oversight of the industry's infrastructure, in addition to possible overlaps of jurisdiction and oversight.

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REPRESENTATIVE P. WILSON asked for the PSIO's findings.

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MR. BANKS responded that the gap analysis is incomplete; however, the industry has provided some information regarding the root causes of burst gas lines, the industry's response to these events, and their inspection programs. The division was able to respond to inquiries from the U.S. Congress regarding the 2006 spill. He expressed his hope that within the next year final answers will be available from the industry as to what types of integrity management, safety oversight, and quality assurance programs are being put in place, and are being followed, by the oil companies.

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REPRESENTATIVE P. WILSON opined that the integrity of the infrastructure of the pipeline is hard to determine, given the age of the system.

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MR. BANKS agreed and said, "I think we have a Mercedes Benz on the North Slope, but it's an old one."

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MR. BANKS advised members that further information from the division was provided in the committee packet.

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REPRESENTATIVE MUNOZ asked whether the division's analysis agrees with the oil industry's projection of a sharp decline in oil production after 2018.

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MR. BANKS related that DOR's forecast for the next few years is a slight uptick next year and then a 5-6 percent decline through

2020. This forecast assumes certain activities will occur, such as pending development projects.

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CO-CHAIR SEATON asked for the projects noted in the division's report that have plans of development.

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MR. BANKS explained that a plan of development is usually a list of activities proposed for the next year for a particular unit. For the Colville River Unit, of which the ConocoPhillips Alaska CD-5 Satellite Construction & Development Program (CD5) is a part, the plan of development may include information about how many wells will be drilled, data evaluation, or whether surface facilities are under consideration; however, since a plan of development is a plan, some of the suggested activities may not get done. Usually the state uses the plan as a guide to the direction of development within a unit. He stressed that the lessees do not often provide the division with any forecast of production that might occur as a consequence of implementing a plan. The division receives data, not interpretative data, and a company's interpretation of potential is not often shared with the division, subsequently the division does not often assign potential to a plan of development.

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CO-CHAIR SEATON asked for the source of production forecasts.

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MR. BANKS expressed his belief that a company is obligated by law to reveal potential new reserves and new production, and these are often reported by the press, but the division does not typically rely on press communications for its work. Discussion about the resource and reserves in a plan of development remains confidential between the producers and the division. Furthermore, this information is more likely to be raw data or whether the company is meeting the criteria for a prudent activity, rather than a forecast of production. The application also holds information from an applicant on a proposed plan of development, but considerable information remains confidential.

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REPRESENTATIVE GARDNER referred to slide 18 titled "Fiscal Year Oil and Gas Revenue on State Lands." She asked whether the indicators for settlement income include income as a result of a tariff dispute.

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MR. BANKS said yes, and clarified that the graph only applies to royalty revenue, not tax revenue. The oil and gas settlements in the early 90's were cash payments made to the state as a result of resolving the Alaska North Slope (ANS) royalty litigation initiated in 1977. Occasionally there is an adjustment related to a change in the calculation of royalty value, or in the Trans-Alaska Pipeline System (TAPS) tariffs.

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REPRESENTATIVE GARDNER has heard from independent producers that the difficulty of gaining access to an existing facility is an impediment to developing and shipping oil and gas. She asked how the legislature can assist so that new explorers and independents can be confident of being able to produce their finds.

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MR. BANKS responded that in unitization the division is usually dealing with one set of owners that participate as a unit and agree to build a single facility; in fact, the division wants to limit the number of facilities associated with a single field. The question of access to a unit when someone outside the unit has made a discovery leaves the new explorer with two choices: building new facilities or sharing existing facilities that belong to someone else. For example, for the Oooguruk field, a sharing agreement was reached with Pioneer Oil Company Inc., so that oil, gas, and water are moved from the Oooguruk field to the Kuparuk River Unit for a fee. On the other hand, at the Nikaitchug Unit, new facilities were built. These decisions are made by the companies based on cost. Although this is a huge challenge, Mr. Banks advised that the division is working on issuing permits that are conditioned on the use of existing facilities, such as an ice road.

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REPRESENTATIVE SADDLER asked whether there are any areas of operation within the division that the legislature could change to improve Alaska's competitiveness in the oil and gas industry.

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MR. BANKS noted that part of the strategic planning underway at the division is "looking at ways of doing things smarter, faster, better." In fact, his staff is working at making what it has better. At the completion of the executive process, he anticipates coming to the legislature with several ideas for solving problems.

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CO-CHAIR SEATON urged Mr. Banks to come to the committee with proposed statutory or policy changes. He then asked which proposed wells have not progressed for reasons other than financial or economic considerations; but because of problems with state or federal permitting, environmental lawsuits, or regulatory hurdles. For example, CD5 is on hold because of a bridge.

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MR. BANKS opined there is not an inventory of such wells. Moreover, this is a difficult question to answer because some wells are not drilled due to access and technical challenges.

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CO-CHAIR SEATON clarified that he was not asking for confidential information, but more information on the obstacles to drilling that have been reported in the press. He asked again about a list, compiled by the state, of wells that are not being drilled "for reasons other than economic."

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MR. BANKS said there is no such list in the Division of Oil & Gas. The division drafts activity maps every four to five months as things change, and notes press articles and permit applications, but does not keep an inventory of projects that have failed. He offered to assemble such a list.

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CO-CHAIR SEATON said this information would be helpful when conflicting testimony is heard by the committee. He then referred to the DOR's "Oil and Gas Production Tax Status Report to the Legislature," dated January 18, 2011, and asked whether the division has conflicts with the data presented in the report.

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MR. BANKS responded he has not reviewed that report. He added that because of the information-sharing now permitted with respect to taxes, the DOR is party to discussions of plans of development. The DNR does not normally receive information with respect to costs, and the DOR's interest in plans of development is driven by the need to predict tax credits.

2:02:01 PM

CATHY FOERSTER, Engineering Commissioner, Alaska Oil & Gas Conservation Commission (AOGCC), Department of Administration (DOA), informed the committee she is presenting today on behalf of Alaska Oil & Gas Conservation Commission (AOGCC) chair Daniel Seamount Jr., who is ill. Ms. Foerster said the commission staff is comprised of the following: three commissioners - a petroleum engineer, a petroleum geologist, and a public member with relevant oil and gas experience; five petroleum engineers; two petroleum geologists; six field inspectors; support staff. The AOGCC mission is to prevent hydrocarbon waste, protect correlative rights, promote greater ultimate hydrocarbon recovery, protect underground fresh water from damage caused by oil and gas operations, and protect human safety in the areas for which it has jurisdiction. She noted that the roles of the commission and of the division are very different, as the division acts as the landlord of state lands, and the commission is concerned with oil and gas practices throughout the state.

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MS. FOERSTER continued to explain that AOGCC jurisdiction is over oil and gas resource development, geothermal resource development, underground storage of natural gas, and metering accuracy for custody transfer. She added that the commission is involved in metering accuracy only when oil or gas is changing ownership. Typical AOGCC operations approvals apply to: the drilling of oil, gas, and geothermal and service wells; sundry wellwork on existing wells; underground injection for enhanced oil recovery, disposal of oilfield waste, or gas storage;

conservation orders that are specific to a field; miscellaneous other approvals. Ms. Foerster called attention to the report in members' committee packets titled, "The Alaska Oil and Gas Conservation Commission, January 21, 2011 Testimony." Page 9 titled, "Exploratory Well Permits (1996-2010)" was a chart indicating the number of operators drilling, and she pointed out that in the earlier years exploratory drilling was dominated by ConocoPhillips Alaska and BP. Looking at later years, many more companies are listed, which is good news.

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MS. FOERSTER turned attention to page 10 titled, "Development and Service Wells/Laterals (1996-2009)" and noted this chart contains similar information related to development and service wells. As Kuparuk and Prudhoe Bay are the biggest fields, ConocoPhillips Alaska and BP continue to dominate. Page 11 was a chart titled, "Alaska Oil & Gas Activity" and indicated the number of permits to drill approved by the commission, the number of reservoirs in the state, the number of active wells, and "what has triggered some of the bumps that have come along the way."

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MS. FOERSTER, in response to a question, explained that on the chart the yellow arrows at Cook Inlet, at Prudhoe Bay/Kuparuk, and at Exploration and Satellite Developments, point out "the bumps." In further response, she explained the purple bar represents the number of permits to drill issued that year, the hot pink bar represents the number of reservoirs, and the green bar represents the number of active wells. Ms. Foerster then addressed hot topics before the commission and noted that the commission's role in North Slope gas sales relates to its mission to prevent hydrocarbon waste and ensure greater ultimate recovery of hydrocarbons during the production of oil and gas. Whenever gas is taken from an oil reservoir that has not finished producing its oil, there is the risk of losing the oil that was not yet produced. The commission has finished a study of the impacts of natural gas sales on Prudhoe Bay oil recovery, and is engaged in a similar study of Point Thomson. Both studies will be used to determine what kind of "off-take allowables," - the amount of gas that can be produced per day without the need to re-inject - that will be allotted to those fields. The commission anticipated the need for these studies prior to receiving a request.

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CO-CHAIR SEATON asked whether the studies are available to the public.

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MS. FOERSTER advised that only the Prudhoe Bay study is completed and a summary is available to the public; however, AOGCC signed a confidentiality agreement with the operators for both studies. In response to Co-Chair Seaton, she said she would ensure that the summary is available on the AOGCC website, and would provide committee members with a copy.

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REPRESENTATIVE P. WILSON requested an explanation of the risk to an oil reservoir created by removing the gas.

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MS. FOERSTER explained that the gas in an oil reservoir maintains the reservoir pressure that pushes the oil through the pipes and to the surface. Thus, as gas is produced, the pressure is depleted and eventually the oil will no longer come up out of the ground. In addition, the gas is used as enhanced oil recovery fluid and is re-injected into the oil portion of the reservoir to maintain pressure. Also, some of the gas from Prudhoe Bay is exported to other fields to enhance recovery, maintain pressure, and increase production, so gas from Prudhoe Bay is being used elsewhere on the North Slope. In the case of Point Thomson, the bulk of the reservoir is a gas condensate, and in the reservoir everything acts as a dense-phase fluid; therefore, the fluid is not really gas or oil because of the temperature and pressure. At production, however, the pressure drops and condensate "falls out" which will produce both gas and liquid in the first wells. Furthermore, as the pressure drops in the reservoir and the liquids fall out, the liquids stick to the walls of rock and to sand grains, and become unrecoverable. This will happen near the wellbore, and will diminish the amount of gas produced. Ms. Foerster concluded that producing Point Thomson as a gas reservoir initially is problematic, not only due to the loss of reserves, but also due to the loss of productivity. A further explanation of these phenomena is found on AOGCC's website.

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CO-CHAIR SEATON asked whether the measurement of hydrocarbons is by British thermal units (BTUs) or by dollars.

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MS. FOERSTER answered that the commission does not base anything on finances, but on volume and physics, and therefore uses BTUs. Ms. Foerster restated AOGCC's role in gas storage: ensure that no hydrocarbon is wasted, by making sure that the injected gas can be recovered, and ensure safe operations. There are seven storage injection orders in Cook Inlet; three at Swanson River, Pretty Creek, Kenai Gas Field, Nicolai Creek, and Cannery Loop. In addition, seven to eight billion cubic feet (BCF) of gas per day is re-injected into the Prudhoe Bay reservoir for storage. Getting the most attention right now is the request to store gas by Cook Inlet Natural Gas Storage, Alaska (CINGSA) and a storage injection order has been issued, although there is a request for reconsideration of the order and therefore details cannot be discussed.

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REPRESENTATIVE GARDNER asked whether the gas that has been re-injected in Prudhoe Bay is ultimately recoverable.

MS. FOERSTER said yes, it will be. Returning to her presentation, she informed the committee that there has been recent non-traditional drilling that falls under AOGCC jurisdiction. Although there is no current coal bed methane activity there has been activity in geothermal drilling and as of July 2010, jurisdiction over geothermal transferred from the DNR to the commission. Recent geothermal activity has been conducted by Naknek Electric Association (NEA), by Ormat Nevada at Mount Spurr, and in the Akutan area, although there is no activity at the present. Ms. Foerster noted that geothermal activity not for commercial use is outside AOGCC authority.

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CO-CHAIR SEATON surmised ground source heat pumps or ocean heat pumps do not fall under AOGCC jurisdiction.

MS. FOERSTER said she believed that is correct.

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REPRESENTATIVE FOSTER asked which department does have jurisdiction over this type of geothermal. Committee staff was directed to ascertain the answer to that question.

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MS. FOERSTER then explained that in the case of the drilling of a well that is not under AOGCC jurisdiction, AS 31.05.027(g) provides that if the commission finds sufficient likelihood of an unexpected encounter of oil, gas, or other hazardous substance, the commission may designate the area subject to its regulations. For example, the Naknek well was drilled on the edge of an oil and gas basin and there was no scientific data to assure the commission that oil and gas would not be encountered. Thus the commission asserted jurisdiction over this project, prior to the transfer of geothermal authority in 2010, to make sure that appropriate safeguards were used. The authority was used again over CIRI's Cook Inlet underground coal gasification (UCG) project. CIRI successfully drilled four wells without the use of blowout prevention equipment; however, the fifth well required the use of blowout prevention equipment and was abandoned. She said, "People don't like it when we assert jurisdiction, but we do it for a reason, and the underground coal gasification is an example of where it's a darn good thing that we did." Turning to the subject of the Deepwater Horizon drilling rig explosion in the Gulf of Mexico, Ms. Foerster recalled that the AOGCC received many inquiries about its policies from state, national, and international agencies during that time. The AOGCC is reviewing the findings from various studies of that incident to see whether anything applies to its operations in Alaska. Based on information from the Gulf of Mexico blowout and spill, the AOGCC began an effort to recruit additional field inspectors and a petroleum engineer. The commission is also reviewing its regulations and statutes to ensure that there are no gaps. A docket has been set to hold a public hearing on this review, which may result in amendments to regulations and statutes.

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MS. FOERSTER advised that BP's Liberty project has some of the same characteristics as the operations in the Gulf of Mexico in that it is an ultra-deep well and is also a very highly extended-reach operation. Therefore, AOGCC will apply more stringent oversight of this well. Regarding suspended wells, the AOGCC clarified its language to require a physical inspection at the time of status reports. The vast majority of

suspended wells is on active wells and platforms, and is therefore not a problem. However, 100 legacy wells in the National Petroleum Reserve, Alaska (NPR-A) are on Bureau of Land Management (BLM) managed land and are not in compliance with BLM or AOGCC regulations. She observed with dismay that it is very difficult for the state to exert authority over federal lands.

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CO-CHAIR SEATON asked whether the abandoned wells in Cook Inlet are in compliance.

MS. FOERSTER explained that if a well has been properly plugged and abandoned according to regulations it does not require monitoring and is 100 percent safe. In further response, she assured the committee that she has looked at every single well in the state that has not been properly plugged and abandoned, and there are none in Cook Inlet that come to her mind.

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REPRESENTATIVE FOSTER asked for the depth of the Liberty well, in comparison to wells in the Gulf of Mexico, and for the general depth of a shallow well.

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MS. FOERSTER said the problem with the Liberty well is not so much its depth as that it requires eight or more miles of horizontal reach. In fact, one of the problems with the Deepwater Horizon in the Gulf of Mexico was not the depth of the well itself, but the depth of the water - it was located in 5,000 feet of water - and the blowout preventer was on the seafloor. In the case of the Liberty well, the blowout preventer will be on Endicott Island; however, the projects are similar in the horizontal distance they have to drill.

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CO-CHAIR SEATON observed that some of the fracking technologies that have allowed shale gas production have been developed and used in Alaska. He asked whether that technology is being used in lateral drilling operations on the North Slope, and if AOGCC has regulations or monitoring pertaining to fracking.

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MS. FOERSTER said the short answer is yes, but there is a longer answer. Hydraulic fracturing is a technology that has been used extensively for 75 years safely; the key is to drill the well properly, case and cement it properly, and establish good mechanical integrity so when the hydraulic frack is done the fluids stay within the zone in which they were injected. Furthermore, if the fluids are transported safely going in and coming out of the well, hydraulic fracturing is a very safe operation. When it is not done properly, "that's when you get into trouble." She cautioned that some of the reporting on shale development is more political than factual. Shale deposits are very wet, and when water and gas are together and the water is not saline, a farmer may use the water for drinking. If there is gas in the water and it catches fire, that is because of nature, not improper fracturing. She stressed that investigators must look at the details of a fractured well incident to determine the cause; it is a complicated issue, but there has never been a scientifically proven problem with groundwater associated with hydraulic fracturing.

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CO-CHAIR SEATON asked, "We don't have any of that problem up here, is that correct?"

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MS. FOERSTER said, "No, we do not."

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CO-CHAIR SEATON questioned whether AOGCC has data on the Shell Offshore Inc. (Shell), platform drilling operation regarding depth, pressure, and blowout preventers, that would reveal what kind of field Shell is exploring.

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MS. FOERSTER acknowledged that there can always be surprises, so the equipment must be adequate to address surprises. She assured the committee that the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEM), which will be regulating Shell's development, will require a large safety factor for blowout prevention equipment and for "tubulars"; in fact, AOGCC geologic data indicates that the Shell development is expected to be in a normally pressured reservoir. Adequate

safety factors will ensure that Shell will be able to cope with abnormal pressures.

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CO-CHAIR SEATON asked whether AOGCC has influence on BOEM regarding well operations and design.

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MS. FOERSTER stated that AOGCC has no jurisdiction in federal waters, but will keep abreast of the operation because of the commission's strong interest thereof.

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CO-CHAIR SEATON recalled a gas blowout in Cook Inlet that burned for 13 months and asked whether there are concerns about the ability to drill a relief well like what was needed in the Gulf of Mexico.

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MS. FOERSTER confirmed that AOGCC is concerned with this issue and relief wells will be addressed at the scheduled public hearing this spring along with all of the offshore regulations and requirements. The commission must determine whether two jack-up rigs are needed in the inlet in order to allow one to drill.

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MS. FOERSTER, in response to Representative Peggy Wilson, indicated that CINGSA stands for Cook Inlet Natural Gas Storage, Alaska.

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CO-CHAIR SEATON expressed his understanding that CINGSA is a wholly-owned subsidiary, perhaps of ENSTAR Natural Gas Company, and functions as a third party storage facility.

MS. FOERSTER concurred.

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REPRESENTATIVE P. WILSON asked Mr. Banks whether there has been no oil and gas revenue on state land since 2002 because there have been no legal settlements.

2:50:12 PM

MR. BANKS said correct, and restated that the revenue shown on slide 18 of his presentation are royalty revenues, not tax revenues.

2:50:31 PM

CO-CHAIR SEATON thanked the presenters.

2:50:38 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:50 p.m.