

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

January 20, 2012

1:04 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Alan Dick
Representative Neal Foster
Representative Bob Herron
Representative Cathy Engstrom Munoz
Representative Berta Gardner
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Dan Saddler
Senator Cathy Giessel

COMMITTEE CALENDAR

OVERVIEW(S): DEPARTMENT OF NATURAL RESOURCES

- HEARD

OVERVIEW(S): SHALE OIL TASK FORCE UPDATE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DANIEL S. SULLIVAN, Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint overview of the Department of Natural Resources.

BRENT GOODRUM, Director
Division of Mining, Land and Water
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: During the Department of Natural Resources overview, answered questions.

ED FOGELS, Deputy Commissioner
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: During the Department of Natural Resources overview, answered questions.

WILLIAM BARRON, Director
Division of Oil & Gas
Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation on North Slope shale oil development and an update on the Shale Oil Task Force.

ACTION NARRATIVE

[1:04:34 PM](#)

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 1:04 p.m. Representatives Dick, Herron, Wilson, Gardner, Foster, Munoz, Kawasaki, Seaton, and Feige were present at the call to order. Representative Sadler and Senator Giessel were also present.

OVERVIEW(S): Department of Natural Resources

[1:04:54 PM](#)

CO-CHAIR FEIGE announced that the first order of business would be an overview of the Department of Natural Resources by Commissioner Sullivan.

[1:05:26 PM](#)

DANIEL S. SULLIVAN, Commissioner, Department of Natural Resources (DNR), stated that a key priority at DNR is to have a strong, respectful, and responsive relationship with the

legislature and to show this all of DNR's directors are present in person or online, as was done last year.

COMMISSIONER SULLIVAN noted that decisions on two important cases before the Alaska Supreme Court were announced earlier today: the Carlson case, which will have very important fiscal ramifications for the state both on the case and going forward, and the Nondalton case, which directly affects DNR. He said these decisions are victories for the state and reflect the hard work of the Department of Law as well as the cooperation of the Alaska State Legislature, which was critical for the Carlson case.

[1:08:48 PM](#)

COMMISSIONER SULLIVAN, in response to Representative P. Wilson, explained that in the Carlson case the court reversed itself, admitting that the previous decision to charge the state a "super high" interest penalty was incorrect and should have been lower. The savings on the remanded interest rate is a big deal to the state not only on the case, but going forward. He then directed attention to the January 1, 2012, op-ed he wrote for the Fairbanks Daily News-Miner that highlights some of the issues before the state.

[1:11:13 PM](#)

COMMISSIONER SULLIVAN then began his Power Point overview by pointing out that DNR has revised its mission statement to simplify it and to synchronize it more closely with what the department thinks is the constitutional mandate [slide 4]. He said DNR has also expanded its core services from two to four to better reflect what all of the department's directors do.

COMMISSIONER SULLIVAN noted that the Department of Natural Resources manages one of the largest portfolios in the world of oil, gas, minerals, and renewables such as water, land, and timber [slide 5]; only 17 countries in the world are larger than the state of Alaska. Jumping ahead to slide 9, he directed attention to the oil and gas estimates depicted for Alaska's North Slope. He also noted that since the last legislative session, the U.S. Geological Survey (USGS) came out with revised Cook Inlet estimates, which are quite significant. Additionally, Alaska has a huge mineral potential, ranking in the top 10 in the world for important minerals [slide 10].

[1:13:21 PM](#)

COMMISSIONER SULLIVAN introduced DNR's two deputy commissioners, Ed Fogels and Joe Balash, as well as the directors of the department's seven divisions: Franci Havemeister, Director, Division of Agriculture; Chris Maisch, Director, Division of Forestry; Bob Swenson, Acting Director, Division of Geological & Geophysical Surveys; Brent Goodrum, Director, Mining, Land and Water; Bill Barron, Director, Division of Oil & Gas; Jean Davis, Director, Division of Support Services; and Ben Ellis, Director, Division of Parks & Outdoor Recreation. He then introduced the following DNR staff members: Kurt Gibson, Director, Gas Pipeline Office; Tom [Crafford], Director, Office of Project Management & Permitting; and Mike Thompson, [State Pipeline Coordinator], office of the State Pipeline Coordinator.

[1:20:49 PM](#)

REPRESENTATIVE HERRON recalled that at the committee's 1/18/12 overview of the Division of Agriculture, a witness said that he could not speak highly enough of director Franci Havemeister and the work she does. However, the witness didn't believe that was the impression DNR held of the division. Therefore, the witness expressed the desire for the Division of Agriculture to be moved elsewhere. He inquired as to the commissioner's thoughts about this testimony.

COMMISSIONER SULLIVAN allowed that it is very easy in DNR, particularly in the commissioner's office, to focus solely on oil and gas issues and sometimes minerals at the expense of all the other divisions. He related that last year he committed the commissioner's office to not do that. Although Ed Fogels has gotten out to the communities very regularly in addition to Franci doing a good job, he acknowledged there could be improvement in terms of him "stepping up more." The department's commitment is sincere, he continued, and while the job has probably been half done the department is working on it.

[1:23:48 PM](#)

REPRESENTATIVE GARDNER asked if there is any foreseeable opportunity to obtain the title to the school lands that were promised at statehood.

COMMISSIONER SULLIVAN stated that he is not up to speed on that issue, and therefore deferred to Mr. Goodrum.

BRENT GOODRUM, Director, Division of Mining, Land and Water, Department of Natural Resources, offered to research the issue and provide any information obtained to the committee.

REPRESENTATIVE GARDNER informed the committee that obtaining title to the school lands is one of the priorities of the statewide Parent Teacher Association. She explained that at statehood, every state was promised grids 31 and 16 of every community or the equivalent. The aforementioned hasn't occurred in Alaska. She acknowledged that it takes some federal action to release these titles.

[1:25:19 PM](#)

COMMISSIONER SULLIVAN remarked that the Division of Mining, Land and Water has made good progress with the federal government in terms of finalizing some of the issues related to the remaining land selections with the federal government. He offered to brief the committee on the land selections issues.

REPRESENTATIVE GARDNER related she has heard there is enough oil on the North Slope to justify construction of a pipeline, if the state didn't already have a pipeline. She asked if the commissioner would concur, regardless of whether or not a pipeline would be the best way to obtain it.

COMMISSIONER SULLIVAN acknowledged that the estimates are still very significant. Governor Parnell has laid out his vision, albeit ambitious, of 1 million barrels per day through the Trans-Alaska Pipeline System (TAPS). With regard to whether there are enough hydrocarbons on the North Slope to reach the governor's vision, he opined that there are. Commissioner Sullivan further opined that the North Slope is an area of enormous promise.

REPRESENTATIVE P. WILSON also expressed interest in the issue of obtaining title to school lands and the follow-up on that.

COMMISSIONER SULLIVAN agreed to get back to the committee on that issue soon.

[1:28:16 PM](#)

REPRESENTATIVE MUNOZ requested that the commissioner speak to the additional resources the legislature approved last year to address the backlog of permitting.

COMMISSIONER SULLIVAN opined that addressing the backlog of permitting was a great example of how the executive and legislative branches came together to address an important issue. The department is [reviewing] a strategy with regard to a comprehensive permitting reform. As mentioned, last year the governor's budget included an increment of \$5-\$6 million that mostly went to the Division of Mining, Land and Water, which has resulted in significant improvement. In fact, the division has hired over 30 people, has chosen a system to revamp the technical aspects of DNR's system, and has made a significant dent in the backlog. Still, new permit applications are being received.

MR. GOODRUM informed the committee that since July 1, about 31 employees have been hired and trained. During that time the division has reduced the backlog by almost 20 percent. As of December 30, 2011, there remain 2,095 authorizations to process, which is a reduction of about 560 from July 1, 2011. The division, he related, has reviewed better tools to provide better visibility and transparency with the issue. In fact, next month the division will begin working with IBM on a pilot project to improve the process.

COMMISSIONER SULLIVAN interjected that although the division still has a long way to [reduce the backlog and improve the process]; it's being attacked from a number of different directions.

[1:31:53 PM](#)

REPRESENTATIVE MUNOZ inquired as to whether DNR has the opportunity to comment to the Alaska Energy Authority (AEA) on the draft Southeast Alaska Integrated Resource Plan. She further inquired as to what the plan may mean in terms of mineral development in Southeast Alaska.

COMMISSIONER SULLIVAN indicated that he wasn't aware of the aforementioned plan, but would review it.

REPRESENTATIVE MUNOZ related that one issue of concern is the lack of consideration for existing energy loads for existing and proposed mines. She clarified that the concern is that the energy loads of existing and proposed mines aren't being considered in the recommendations for investment or not.

COMMISSIONER SULLIVAN reiterated he would review the plan.

1:33:30 PM

CO-CHAIR SEATON turned attention to mariculture and the permitting of shellfish farms. He related his understanding that no longer will those with a ten-year transferrable permit be able to apply and obtain a renewal in the ninth year of the permit, rather in the tenth year one would have to reapply for a brand new permit. The aforementioned change, he opined, will cause severe disruption since the mariculture farmer won't know whether he/she would have a farm or not. This change seems to run counter to the commissioner's comments in relation to permitting thus far, he pointed out. He asked whether DNR is working on resolving the [change in permitting] internally or does it require a statutory change.

COMMISSIONER SULLIVAN, with regard to the permitting reform, emphasized that it's an ongoing process to make the system more efficient. He mentioned that it's important for legislators to make DNR aware what constituents are saying.

1:36:08 PM

ED FOGELS, Deputy Commissioner, Department of Natural Resources, informed the committee that the department has been having internal meetings regarding how to streamline and be more efficient with the issuance of aquatic farming leases. He acknowledged that under the current structure it has taken the department a while to renew the leases. Although not optimal, in the interim the department has been issuing land use permits while the lease is being renewed. In part, the department is reviewing the actual structure and statutes and regulations that govern aquatic farming in order to determine if any changes can be made at that point. Also, efforts with the backlog and the streamlining of the process should help that situation. The department, he related, is also reviewing the commercial standard for geoduck farming to ensure it's a realistic standard.

CO-CHAIR SEATON noted his appreciation of the department's efforts and encouraged the department to keep the legislature informed of its efforts with regard to aquatic farming.

MR. FOGELS clarified that DNR is reviewing the renewal mechanism. He offered that one option could be a mechanism to extend an existing lease while the renewal is being reviewed and processed. He acknowledged that it is not optimal to have an existing lease expire while it is being reviewed for renewal.

1:38:31 PM

CO-CHAIR SEATON then turned attention to the change in the mission statement, which he characterized as "quite a different direction." The past mission statement of DNR was: "To develop, conserve, and enhance natural resources for present and future Alaskans." However, the new mission statement says: "Responsibly develop Alaska's resources consistent with public interest." Co-Chair Seaton then pointed out that, in part, AS 37.07.014(a) says:

Responsibilities of the legislature.

(a) To carry out its legislative power under art. II, sec. 1, Constitution of the State of Alaska, and to promote results-based government, the legislature shall issue a mission statement for each agency and the desired results the agency should achieve.

CO-CHAIR SEATON noted that although the House Resources Standing Committee has jurisdiction of this matter, it hasn't been involved in DNR's change in mission statement. He then asked if the change in mission statement was done solely through the executive branch or was the legislature involved in some manner.

COMMISSIONER SULLIVAN answered that to his knowledge the legislature was not involved in the change in mission statement. The change, he stated, was the department's effort to streamline [the language]. The language "Responsibly and within the public interest" attempts to more succinctly capture the future generation issues and focus on the [department's] constitutional mandate. Commissioner Sullivan said that he was unaware of the constitutional statute regarding mission statements, but said he is willing to work with the committee.

1:41:40 PM

CO-CHAIR FEIGE returned to the renewal of permits and added that there are all kinds of commercial use permits for which a mechanism to make the renewal process smoother would be [desirable]. Similarly, he expressed interest for designated department staff to have the authority to extend permits and such that are being reviewed when they are about to expire.

COMMISSIONER SULLIVAN, regarding permits, related that the department has been cognizant of the "basis of where they exist." Therefore, a direct mandate in statute is clear and

[would cause] DNR to return to the legislature regarding the change whereas statutory provisions that request the agency make regulations is a looser connection. Furthermore, agencies also promulgate regulations within the authority granted by the legislature, although not specifically connected by a statutory provision. The department will be reviewing the aforementioned, he said.

[1:44:38 PM](#)

COMMISSIONER SULLIVAN, returning to his presentation, directed attention to slide 12 entitled "TAPS Arresting Throughput Decline." Although the declining oil through TAPS has been a critical issue for decades, only recently has the federal government recognized it as a national issue. The notice by the federal government is positive and he attributed it to the department's actions, including op-ed pieces, articles, testimony, and meetings with the federal government. Commissioner Sullivan opined that the declining throughput in TAPS is the number one economic issue on which the state should be focused, as was related in the governor's recent "State of the State" speech. He reminded the committee that at the end of last session, the governor set out a vision and strategy to implement the vision. Over the last year, DNR has worked relentlessly to realize the governor's vision and implement his strategy. The work of DNR and other agencies falls into one of these five elements outlined on slide 13. This strategy is starting to bear fruit, he opined. In fact, he stated that this winter looks to be a busy exploration season, as evidenced by slide 14 which provides a snapshot of North Slope exploration. Still, one must remember that even when a large quantity of oil is found it takes a long time to develop it.

COMMISSIONER SULLIVAN moved on to slide 15 regarding the success of the North Slope lease sale. He pointed out that the December North Slope lease sale was extended and DNR made the pitch regarding why they should bid on acreage in the North Slope to several companies, which was also done to some extent for Cook Inlet as well. He noted that DNR coordinated closely with the federal government in order that the state's sale would be the same day as the National Petroleum Reserve-Alaska (NPR-A) lease sale. The aforementioned had a positive impact as it resulted in companies bidding in both the state and federal areas, which he opined was beneficial.

[1:50:55 PM](#)

REPRESENTATIVE KAWASAKI asked whether DNR has had discussions with any of the [bidders] regarding how the oil and gas gets to the pipeline into the main Prudhoe Bay field.

COMMISSIONER SULLIVAN suggested that if significant quantities of oil were found, the focus of any of the companies would be [to utilize] state land to get it into TAPS. In further response to Representative Kawasaki, Commissioner Sullivan said that [the discussions] with the companies mostly focus on the exploration work as the companies tend to view these [bids] in very distinct phases. If oil is discovered, the companies then perform calculations to determine whether to proceed with development. Therefore, there hasn't been much discussion regarding development with any of these companies while they are in the exploration phase. Upon finding oil, the decision of if and when to develop it relates to the tax issue.

[1:53:27 PM](#)

REPRESENTATIVE KAWASAKI mentioned the bridge over the Colville River, which after many years of discussion and process, finally has permits in place. The Colville River Bridge is an example of plans in the works. He asked if Commissioner Sullivan means to say that the state doesn't have any plans past exploration. He further asked if any company has approached the department regarding roads that will be necessary for future projects.

COMMISSIONER SULLIVAN answered that in terms of roads the state is considering a number of areas. For instance, the road to Umiat is part of the five-part strategy. Furthermore, roads-to-resources tried to coordinate areas where there are high prospective oil and gas aspects and where infrastructure would be required. He noted that the stated worked tirelessly on the CD-5 [Alpine Satellite Development Plan], but the holdup has been the federal government, which finally reversed itself. He mentioned that DNR played an important role in that reversal.

[1:56:08 PM](#)

CO-CHAIR SEATON, regarding the roads issue, related his understanding that on the North Slope they have been operating on a policy of ice roads during exploration. However, testimony in November 2011 indicated that may not have been most effective in some areas. He inquired as to whether DNR has the ability to decide that a gravel road that is traveled by more than one company makes more sense than an ice road. Or, will a gravel

road only be allowed after there are proven reserves and the company is applying for development, he asked.

COMMISSIONER SULLIVAN reminded the committee that ice roads have typically been utilized during the exploration phase in order to leave a minimum footprint. However, the issue is in regard to balancing the minimal impact with the costs in an area where the cost of doing business is very high compared to other hydrocarbon basins. With regard to whether there is a way to extend the exploration phase beyond the current three to four months [when ice roads can be utilized] is being reviewed by DNR. He offered to get back to the committee on the matter of whether the use of ice roads is statutory, regulatory, or a best practice requirement.

CO-CHAIR SEATON remarked that it would be advisable for the committee to hold hearings on this matter in order to remove some of the barriers to development.

COMMISSIONER SULLIVAN related that he has frequently heard that crews are hired for four months in Alaska because that's the extent of the exploration season. Therefore, even the exploration period is very costly.

CO-CHAIR FEIGE highlighted that much of the exploration is heavily incentivized, whereby the state is contributing a fair amount of tax relief or outright cash. He opined that when the ice road melts it's the state's/people's money that is soaking into the ground because incentives were used to build it. However, if [gravel roads] were utilized, the state/people would experience more benefits for the funds the state provides to incentivize the exploration.

COMMISSIONER SULLIVAN said that the roads-to-resources concept considers that. For example, there has already been a focus on the road to Umiat.

[2:02:00 PM](#)

CO-CHAIR SEATON opined that in this venue those kinds of conversations with local communities can be held. He pointed out that facility access is another issue. He then asked whether DNR is working on facility access issues with existing companies or is it only a commercial term between existing TAPS and new players.

COMMISSIONER SULLIVAN related that much of the shale oil task force work has been focused on conceptualizing shared key infrastructure, in terms of roads or other aspects. However, Co-Chair Seaton's question speaks to the present and the future. Although DNR has continually reviewed facilities' access issues, such issues have typically played out on the North Slope through the various entities and private sector companies.

[2:04:28 PM](#)

CO-CHAIR SEATON highlighted that the state is incentivizing upstream costs to a large extent, particularly with high oil prices. In fact, at times the state is paying as much as 90 percent of the entire cost for the facilities. Therefore, he wanted to ensure that DNR is reviewing the access that is provided from the large state investment into the facilities.

REPRESENTATIVE P. WILSON commented that sometimes the state implements things to help that don't help.

COMMISSIONER SULLIVAN opined that there is no one who doesn't want to incentivize oil production and put more oil in the pipeline, it's just a matter of how to do so while avoiding policies with unintended and negative consequences.

[2:07:05 PM](#)

COMMISSIONER SULLIVAN, returning to his presentation and slide 15, returned to his discussion of the December 2011 lease sale. During that lease sale, DNR tried to attract a diverse group of investors. The aforementioned was accomplished to some degree, he opined. Although the state has made a good start, it's far from the goal of turning around the TAPS throughput.

[2:08:12 PM](#)

WILLIAM BARRON, Director, Division of Oil & Gas, Department of Natural Resources, in response to Co-Chair Feige, answered that Royale Energy is an independent company from California that specializes in shale oil and gas development.

COMMISSIONER SULLIVAN remarked that sometimes having the small, nimble companies is as useful as having the [large] major companies.

[2:09:03 PM](#)

COMMISSIONER SULLIVAN, moving on to slide 16, identified the significant activity in Cook Inlet, including a combination of a new USGS study and a state lease sale. The recent Cook Inlet activity includes a diverse group of companies. He credited the activity in Cook Inlet to the quite aggressive, competitive tax and investment incentives available. The department, he related, has worked very hard at balancing exploration and safety.

[2:10:49 PM](#)

REPRESENTATIVE KAWASAKI directed attention to slide 16 and the USGS estimates for Cook Inlet. He inquired as to when DNR will know whether the estimated undiscovered volumes of hydrocarbons in Cook Inlet are correct or not.

COMMISSIONER SULLIVAN said that the best way to determine if the estimates are correct is to obtain more players. The more responsible exploration work in the area, the more ability there will be to true up the numbers. Although a year-and-a-half ago committee members likely wouldn't have believed that there would be a renaissance in the Cook Inlet, that's clearly the case and the department wants to encourage that. However, he reiterated the need to do so in a responsible and safe manner.

[2:12:57 PM](#)

REPRESENTATIVE KAWASAKI inquired as to when the department would consider the Cook Inlet estimates correct.

COMMISSIONER SULLIVAN clarified that the Cook Inlet estimates are technically recoverable but undiscovered. These are the best guess numbers from looking at a lot of new information, but are very different from booked reserves. The closer a site is to booked reserves is almost always a function of exploration work. The booked reserves on the North Slope are close to the 5 billion barrel range. Still, there is enormous potential on the North Slope. He reiterated that as more explorers enter Cook Inlet, the better the numbers will be.

[2:14:40 PM](#)

REPRESENTATIVE KAWASAKI related that he is excited to hear about the additional Cook Inlet gas reserves, but at the same time cautious because the question becomes "What does that leave for an in-state gasline?" If there are large booked reserves of natural gas in Cook Inlet, he questioned how that would impact a

stand-alone pipeline from the North Slope to Anchorage. He inquired as when the administration will view [a stand-alone pipeline] as feasible.

COMMISSIONER SULLIVAN highlighted that the administration is very focused on the high cost of energy in Interior and rural Alaska. The department believes gas is one of the components of addressing that high cost. Commissioner Sullivan opined that if significant resources become available in Cook Inlet, it bodes well for both the Anchorage area and the state. Therefore, a renaissance in Cook Inlet is not necessarily bad for the rest of the state. The department, as is the governor, is focused on commercializing North Slope gas for two strategic reasons: in-state needs; maximize that commodity for all Alaskans.

[2:17:50 PM](#)

CO-CHAIR SEATON recalled hearing that Nordaq had a gas find such that it was going for contract sales for 15 million cubic feet per day for 30 years. He asked if that's the kind of numbers DNR is hearing. He also asked what trillion cubic feet (tcf) field would be accessed north of the Swanson Oil Field on land under the Arctic National Wildlife Refuge (ANWR).

COMMISSIONER SULLIVAN said he doesn't have the specifics on the Nordaq contract sales. However, it illustrates the promise of what is going on in Cook Inlet. He clarified that he would refer to the happenings in Cook Inlet as a "mini-Renaissance" because he didn't want to overplay it.

[2:19:42 PM](#)

REPRESENTATIVE P. WILSON opined that the [increased] activity in the Cook Inlet would never have happened if the legislature hadn't put into place incentives to do so.

COMMISSIONER SULLIVAN agreed and said the companies would likely say the same. The Cook Inlet is probably one of the most competitive areas in the state and is a good example of what some tax reductions can do in terms of spurring activity.

[2:21:00 PM](#)

CO-CHAIR SEATON interjected that he didn't want to overplay the incentives because one of the big incentives is the gas contracts, which create a payable venture. He pointed out that if the situation was as it was a few years ago when gas was at

\$2.50, the incentives wouldn't matter because the companies still couldn't make money and wouldn't invest. He emphasized the need to recognize that the gas sales contracts being approved in Cook Inlet are \$6-\$9 mcf, which results in a payable venture. Co-Chair Seaton said he wanted to be sure that those who want cheap energy don't want to return to \$2.00 per mcf gas.

COMMISSIONER SULLIVAN agreed that investment is a function of the economic returns, which is a function of taxes and price. Still, Commissioner Sullivan opined that the tax incentives played a significant role with the mini-Renaissance.

[2:22:52 PM](#)

COMMISSIONER SULLIVAN, returning to his presentation, directed attention to slide 18 entitled "Strategic & Critical Minerals." He characterized the strategic and critical minerals sector as a positive for 2011. In this sector there was a lot of activity in terms of production. Referring to Slide 19, what's quite impressive from DNR's perspective is that one-third of the 2010 total mineral exploration investment in the U.S. was in Alaska. Certainly, that includes large projects, but the fact that 34 exploration projects spent over \$1 million in 2010 illustrates that it was broad-based [investment]. The impact of such investment into mineral exploration on local economies in terms of jobs and high wages is enormous, particularly in rural economies. For instance, the Fort Knox mine employs over 800 employees with an average wage of \$80,000. He then pointed out that the map of 2010 mineral exploration projects on slide 20 illustrates how broad based the exploration is. Slide 21 provides the outline of a summit DNR held on Alaska strategic and critical minerals. The summit was sold out and included at least one representative of a foreign government, which indicates the strong interest in Alaska's minerals.

REPRESENTATIVE P. WILSON interjected that she attended the conference, which she enjoyed.

[2:26:32 PM](#)

REPRESENTATIVE FOSTER returned attention to slide 19, and pointed out that it relates that in 2011 a Nome offshore mineral lease sale received over \$9 million in winning bids for 84 tracts on approximately 24,000 acres. Since the Nome port is currently at capacity, he asked whether DNR has reviewed ways to address congestion.

COMMISSIONER SULLIVAN said that this issue has been under discussion in the office and will likely result in trips to Nome and Kotzebue to obtain a sense of the issue.

REPRESENTATIVE FOSTER clarified that although Nome is appreciative and excited about what this offshore mineral lease sale will do for the economy, it does want to be sure to address any associated challenges it creates.

[2:28:29 PM](#)

COMMISSIONER SULLIVAN continued his presentation with slides 22-23, which provide an overview of the accomplishments in agriculture and parks and outdoor recreation as well as the Alaska boating safety program. He then moved on to slide 24 entitled "Timber Resources" and acknowledged that communities have been closed because of access difficulties, particularly for federal resources. With the help of the legislature, DNR started to address some of these issues. For example, last year the governor had an initiative to double the size of the Southeast State Forest and consider ways in which to create new jobs. Referring to slide 25, Commissioner Sullivan complimented Alaska's firefighters who kept the fires in the state at bay and even helped fight fires in Texas.

[2:31:59 PM](#)

COMMISSIONER SULLIVAN then directed attention to slide 26 and opined that in 2011 the state made some progress in cooperating with the federal government on resource development issues. He highlighted that Alaska finally obtained what DNR believes to be the correct answer to the CD-5 development, although it took two years and a lot of additional work. Commissioner Sullivan told the committee that DNR is doubling its efforts as the federal government is necessary in terms of responsible resource development. He noted that issues remain with the environmental impact statement (EIS) for Point Thomson.

[2:33:47 PM](#)

COMMISSIONER SULLIVAN moved to his review of year 2011, which he characterized as a good year. He opined that when the resource development sector of the economy does well, it helps other sectors. Still, there are some very significant issues that need to be addressed. As mentioned in the governor's "State of the State" speech, the most significant issue to address is the TAPS throughput. However, he mentioned that he was surprised

that some are debating whether the aforementioned is even an urgent issue. From DNR and the administration's perspective, the TAPS throughput is definitely an urgent issue and resulted in a large part of last year working toward getting more oil into the pipeline system.

[2:35:08 PM](#)

REPRESENTATIVE HERRON related that he told the governor he didn't like the status-quo, but that HB 110 goes too far. Therefore, he questioned where the [compromise] lies.

COMMISSIONER SULLIVAN stressed that the administration is focused on the amount of TAPS throughput, rather than the tax reform that some have said is a \$2 billion give-away. The rationale is that if production is increased, then the tax reform won't be a give-away because increased investment at the high oil prices will be an increase to state coffers. He related his understanding that the modeling of the \$2 billion give-away doesn't include any increased production, which is the goal of the tax reform.

[2:37:38 PM](#)

COMMISSIONER SULLIVAN then remarked that one of the disappointments of the last session was that when there was opposition to HB 110, no one offered anything else. Furthermore, he said he has never heard the governor refer to HB 110 as a "take it or leave it" proposition. The governor/administration has been focused on meaningful tax reform; that is numbers that will result in meaningful investment. To reach 1 million barrels of oil a day in 10 years will probably take tens of billions of additional dollars in investment and the state is not getting near that now. However, oil exploration and production is booming all over the U.S., yet Alaska, the location with probably the largest hydrocarbon system, is still declining. The administration attributes the aforementioned to the state's cost structure, particularly since there are inherent costs on the North Slope that are unavoidable.

[2:39:58 PM](#)

COMMISSIONER SULLIVAN, continuing his presentation, turned to the governor's focus on commercializing Alaska's very large resources of North Slope natural gas. Over the past year, the governor has asked the companies to align and consider a

liquefied natural gas (LNG) perspective. As part of the administration's strategy, the commissioner noted that he has discussed with potential markets what Alaska has to offer in terms of Alaska's comparative advantages with natural gas, as outlined on slide 30. He then directed attention to the map on slide 31, which relates the strategic proximity of Alaska LNG to Asia. He moved on to slide 32 which relates the key principles for any project and the governor's roadmap to a gasline.

[2:42:15 PM](#)

REPRESENTATIVE KAWASAKI recalled a discussion with Dr. Pedro Van Meurs this past November regarding commercializing natural gas in large quantities. The discussion was disappointing when he heard that commercializing natural gas might be severely economically challenged due to competition from various countries to gain a foothold in eastern natural gas markets.

COMMISSIONER SULLIVAN remarked that there are a lot of experts who opine on various issues. Although commercializing Alaska's natural gas isn't easy, Alaska does offer advantages including a stable investment and political climate and geo-strategic portfolio diversification. Countries consider the aforementioned. Furthermore, Alaska has been a reliable supplier of LNG to Asia for over 40 years. He mentioned that in discussions with potential countries, they have illustrated they are aware of Alaska's North Slope gas.

[2:45:05 PM](#)

REPRESENTATIVE HERRON said he thinks the governor's roadmap to a gasline surprised people. He inquired as to similarities between the governor's roadmap to a gasline and the commissioner's work on pipelines in the Central Asian Caspian Sea. He assumed those were under aggressive schedules as well.

COMMISSIONER SULLIVAN said the key takeaway he has tried to bring to his work [with DNR] is the importance of trying to align interests and work in partnerships, which isn't always easy.

[2:47:51 PM](#)

COMMISSIONER SULLIVAN, returning to his presentation, directed attention to slide 33. He then emphasized that every day DNR tries to balance responsible resource development with protecting the environment and other important interests in the

state. The state, he opined, has a good track record in achieving the aforementioned. In conclusion, Commissioner Sullivan acknowledged that there are challenges and opportunities and that the key to it all will be to align interests and establish partnerships.

OVERVIEW(S): Shale Oil Task Force Update

[2:49:59 PM](#)

CO-CHAIR FEIGE announced that the next order of business would a [Shale Oil Task Force] update.

[2:50:24 PM](#)

WILLIAM C. BARRON, Director, Division of Oil & Gas (DOG), Department of Natural Resources, first clarified that he is not representing Great Bear Petroleum LLC, but he felt it important to provide a briefing on the company's activities [slide 2]. He said Great Bear is progressing its program fairly well, securing all of the primary governmental permits - state, local, and federal. Furthermore, it is in the process of identifying and securing a drilling rig and once a rig is secured the company will progress permits through the Alaska Oil and Gas Conservation Commission (AOGCC) and Alyeska Pipeline Service Company for a waiver of easement over to the pipeline area. He understood that Great Bear has submitted most of the needed material to AOGCC and has been in dialogue with Alyeska Pipeline. Alyeska Pipeline has already issued a letter requesting more technical specificity about the equipment that will be coming into that area. Great Bear is now targeting site preparation for March and April [2012] and will begin drilling activity after that. The company had originally discussed winter activities with the division and AOGCC, but that was pushed back primarily due to trying to identify an appropriate rig.

[2:52:44 PM](#)

CO-CHAIR SEATON recollected that in its 11/1/11 testimony before the committee Great Bear said it had partnered with Halliburton and at its own expense Halliburton was proceeding on the drilling of another series of wells within that lease structure. He inquired whether Halliburton has applied for permits for that separate shale exploration proof-of-concept stage.

MR. BARRON replied that "no applications or permits have been supplied or submitted by Halliburton."

2:53:25 PM

MR. BARRON resumed his presentation, explaining that the Shale Oil Task Force [slide 3] is a group of representatives from many state agencies and is under Commissioner Sullivan [Department of Natural Resources]. He relayed that Commissioner Sullivan said it is known that Alaska is going to have some shale development and the issues associated with some of those developments in the Lower 48 are understood, and it is incumbent upon the state to be pro-active in this regard. The Division of Oil & Gas was directed to take the lead role and the task force groups - Alaska Department of Fish & Game, Department of Environmental Conservation, Department of Transportation & Public Facilities, Alaska Oil and Gas Conservation Commission, and others - are working to get their collective arms around all the issues associated with shale. The task force has looked at all of the existing permits that are required for drilling and facilities, and the state's statutes and regulations should be more than adequate to satisfy the drilling and development of shale operations because it is not much different than drilling a conventional well.

2:54:31 PM

MR. BARRON related that AOGCC is reviewing its statutes and regulations relative to hydraulic fracturing. He offered his belief that there will be no major changes in the AOGCC's process because over 25 percent of Alaska's existing wells have already been hydraulically fractured. The Shale Oil Task Force will continue looking at permitting efficiencies relative to the overall conceived development plan. There will be a lot of permits and activity so the task force is looking at ways to package, bundle, or group permits relative to a location; for example, a pad-type design in cases where there is one pad with several wells. The task force is engaging its federal counterparts and understands that at this juncture the U.S. Corps of Engineers will be the lead federal agency and will work with the U.S. Coast Guard, U.S. Fish & Wildlife Service, and the National Marine Fisheries Service.

2:56:05 PM

MR. BARRON said he asked the task force to particularly drill down on general infrastructure. Infrastructure will be key and

because sharing that infrastructure will be an advantage to both the state and the operating companies, the task force is encouraging that activity. Gravel and water sources, water disposal, and water re-use play into a major shale operation that is heavily dependent on hydraulic fracturing, which is 90-some percent water driven. The task force, having gotten its hands around the permitting side, has now shifted to the "nuts and bolts" discussion.

[2:57:09 PM](#)

MR. BARRON discussed a task force proposal which the governor has included in his Fiscal Year 2013 (FY 13) budget for \$1.1 million. Of that, \$1 million is associated with environmental baseline work and was submitted through the Division of Oil & Gas. This was done in concert and dialogue with members of the task force and the division will continue to diligently engage all of those representatives. The intent is to find what areas, concerns, or data that representatives in that group believe necessary to adequately establish baseline environmental work for the shale area, which has primarily been leased by Great Bear and Royale. The purpose here is that many times federal agencies will take the word of a state agency over the word of an independent company. "Our" objective is to help those companies establish what that baseline is and use that information progressively for the state. The \$100,000 is associated with the Division of Geological & Geophysical Surveys (DGGs) and Bob Swenson's group in terms of overall geologic assessment of North Slope shale oil potential.

[2:58:39 PM](#)

REPRESENTATIVE KAWASAKI inquired whether the issue of fracturing fluid chemicals allegedly contaminating water supplies will be part of the environmental data and AOGCC study prior to passage of a permitting process.

MR. BARRON replied that many of the chemicals used in fracturing are household chemicals that can be found under the kitchen sink. The baseline studies that [the division] would propose would look at groundwater and the geological framework of where aquifers are located and how best to protect them. He said he did not imagine that AOGCC would be working too hard to identify those chemicals but may be working on regulations requiring the reporting of what those chemicals are. Fracfocus.org is an organization that has been doing this quite well and is becoming quite the repository for that information. Many companies are

pro-actively adding their list of agents into that database so people can see what they are.

3:00:28 PM

REPRESENTATIVE KAWASAKI pointed out that household chemicals kept under the sink are locked up so the baby cannot get to them. He said he wants to make sure that chemicals are dealt with before the permitting process (indisc.).

MR. BARRON allowed that it is a good concern and said that a lot of work is being done on some of the issues in the Lower 48 associated with groundwater, or allegedly associated with groundwater contamination. To his knowledge, most of those issues have been associated with very, very old wells and not the new wells being drilled and fractured. Today's technology for well design and construction, even in the past 30 years, is much more robust than was done in the 1920s and 1940s. States where issues are being heard, such as PA, NY, and OH, have thousands of wells that were drilled in the 1900s and whose locations are unknown, so some of this contamination may or may not be associated with fracturing, but may be associated with old wells that are now beginning to fail because of the way they were constructed; a lot of work still needs to be done in that regard.

3:01:59 PM

CO-CHAIR SEATON noted that many of Alaska's regulations or statutes relate to units, yet the understanding is that once proof of concept is done in these substrates every well will be a development well and not an exploratory well. Since this seems to be different from "our" framework, he would like to know how that is progressing. Regarding hydraulic fracturing and groundwater contamination, he said he does not think Alaska has quite the same issues as other places because the permafrost goes down a couple thousand feet. However, the permafrost will be penetrated with a well that will be pumping hot oil. He asked whether the division or AOGCC is addressing thawing of the permafrost around the well and what could happen if a seal in the well broke.

3:03:54 PM

MR. BARRON, regarding well construction in the Arctic, responded that [shale] wells would not be constructed any differently than the existing 2,000-plus wells that penetrated the same

permafrost and that have been pumping hot oil and water for the last 30-plus years. The designs required by AOGCC already more than adequately protect the permafrost area, he said, so he does not know that this would be a new concern given that this has been a concern since the original discovery at Prudhoe Bay.

MR. BARRON, regarding units, explained that that is a conundrum still being work on because of how to protect the state's interest relative to leases and acreage and the entire concept for having a unit. Typically, a unit is formed for the protection of the owners and of the proper development and optimization of that resource. In a shale development, in theory and in practice, each well is its own unit and that is what the division is working through, not necessarily whether that is appropriate because right now the division believes it is appropriate. The question is whether there is an issue associated with the leasing and the term of that lease relative to a company trying to secure a great amount of lease acreage with a term on it and at the same time trying to do advance drilling and timeliness of trying to develop those acres in the primary lease term. In a unit, however, the company gets extra time and the unit is held as long as there is production. So it is a timing issue relative to the appropriateness of leases and the units thereof and holding of that acreage - and that is what is being discussed.

[3:06:03 PM](#)

REPRESENTATIVE HERRON, in regard to permitting efficiencies and bundling, asked whether that is reinventing the wheel or is following other models elsewhere.

MR. BARRON replied that the [task force] is trying to look at various models, bundling being one example. It must be ensured that whatever the model, it is appropriate for the area itself. The model that would be used next to a highway may be different than the one used in a much more environmentally sensitive area; [the task force] wants to be flexible, but appropriate. In further response, Mr. Barron confirmed that the wheel would not be reinvented; rather, models that the [task force] is already aware of would be emulated.

[3:08:14 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:08 p.m.