

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 8, 2012

1:03 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

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 29

Urging the United States Department of the Interior, Bureau of Land Management, to plug legacy wells properly and to reclaim the legacy well sites as soon as possible in order to protect the environment in the Arctic region.

- HEARD & HELD

HOUSE BILL NO. 9

"An Act requiring the Joint In-State Gasline Development Team to report to the legislature recommended changes to state law that are required to enable or facilitate the design, financing, and construction of an in-state natural gas pipeline so that the in-state natural gas pipeline is operational before 2016; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 29

SHORT TITLE: BLM LEGACY OIL WELL CLEAN UP

SPONSOR(S): REPRESENTATIVE(S) MILLETT

01/17/12 (H) READ THE FIRST TIME - REFERRALS
01/17/12 (H) RES
02/08/12 (H) RES AT 1:00 PM BARNES 124

BILL: HB 9

SHORT TITLE: IN-STATE GASLINE DEVELOPMENT CORP

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

01/18/11 (H) PREFILE RELEASED 1/7/11
01/18/11 (H) READ THE FIRST TIME - REFERRALS
01/18/11 (H) RES, FIN
02/06/12 (H) RES AT 1:00 PM BARNES 124
02/06/12 (H) Heard & Held
02/06/12 (H) MINUTE(RES)
02/08/12 (H) RES AT 1:00 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE CHARISSE MILLETT

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified as prime sponsor of HJR 29.

CATHERINE FOERSTER, Engineering Commissioner

Alaska Oil and Gas Conservation Commission (AOGCC)

Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation and testimony in support of HJR 29.

TED MURPHY, Deputy State Director of Resources

Division of Resources

Alaska State Office

U.S. Bureau of Land Management

Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HJR 29.

RENA DELBRIDGE, Staff

Representative Mike Hawker

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 9, provided answers on behalf of Representative Hawker, sponsor, to the questions that were posed by the House Resources Standing Committee on 2/6/12.

JOE DUBLER, Vice President

Alaska Gasline Development Corporation (AGDC)

Director of Finance, Alaska Housing Finance Corporation (AHFC)
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 9, assisted in providing answers to questions posed by committee members during the committee's 2/6/12 hearing on the bill.

KIRSTEN SIKORA, Acting CEO
Alaska Natural Gas Development Authority (ANGDA)
Office of the Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 9, discussed the accomplishments of ANGDA.

SCOTT HEYWORTH, Chairman
Board of Directors
Alaska Natural Gas Development Authority (ANGDA)
Office of the Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Expressed concerns with HB 9.

KAYE LAUGHLIN, Permitting Coordinator
Alaska Natural Gas Development Authority (ANGDA)
Office of the Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 9, outlined the specific work that ANGDA has completed.

CORRIE YOUNG
Anchorage, Alaska

POSITION STATEMENT: Expressed concern with HB 9.

JAMES FIELDS
Glennallen, Alaska

POSITION STATEMENT: Testified in opposition to HB 9.

MERRICK PEIRCE
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 9.

ACTION NARRATIVE

[1:03:59 PM](#)

CO-CHAIR PAUL SEATON called the House Resources Standing Committee meeting to order at 1:03 p.m. Representatives Herron, P. Wilson, Kawasaki, Gardner, Feige, and Seaton were present at the call to order. Representatives Munoz, Foster, and Dick arrived as the meeting was in progress.

HJR 29-BLM LEGACY OIL WELL CLEAN UP

[1:04:17 PM](#)

CO-CHAIR SEATON announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 29, Urging the United States Department of the Interior, Bureau of Land Management, to plug legacy wells properly and to reclaim the legacy well sites as soon as possible in order to protect the environment in the Arctic region.

[1:05:15 PM](#)

REPRESENTATIVE CHARISSE MILLETT, Alaska State Legislature, prime sponsor, predicted that by bringing up the subject of legacy wells HJR 29 will result in big impacts on the state of Alaska because it will lead to discussions and agreements with the federal government about the wells. She explained that between 1944 and 1981 approximately 136 wells were drilled in the National Petroleum Reserve-Alaska (NPR-A). Some were drilled by the U.S. Navy and some by the U.S. Geological Survey. Some of the wells are being used as climate change mechanisms, but an extraordinary number of these wells have not been capped or mitigated at all. This has caused a lot of issues to arise with the Alaska Oil and Gas Conservation Commission (AOGCC) because the wells pose a risk to both wildlife and human life. The well sites are unattractive with many barrels around them. Some wells can no longer be found because they were just bore holes, or have eroded, or have [sunken] into lakes. This is a black eye on Alaska even though those wells were drilled by the federal government. Therefore, HJR 29 urges the U.S. Bureau of Land Management (BLM) to take responsibility and continue with mitigation of the wells.

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REPRESENTATIVE MILLETT said she introduced HJR 29 because the squeaky wheel gets the grease. There is disagreement between BLM and AOGCC regarding how many wells have been capped, but she said she thinks there are about 110 wells that are worrisome, 42

that are very worrisome, and she would like to see some movement. She conveyed that according to the BLM, getting money for this type of thing is difficult to do, especially without the earmark process. However, Alaskans and the legislature can take a lead in encouraging Congress to clean up these wells. Creative solutions have been proposed to the BLM, such as giving the land to the State of Alaska and then the state would clean up the wells. She related that some producers have said they would take over the mitigation costs if they could lease the land for exploration.

REPRESENTATIVE MILLETT reiterated that the resolution would start a dialogue amongst Alaskans, Congress, and BLM. She would like to see the wells capped, mitigated, and [the land put] back in the pristine condition that the state relies on its producers to do. If any private producer left wells like these anywhere in Alaska, the environmental groups would be screaming. She said she has reached out to 24 environmental groups urging them to get behind this cause, but has had little feedback. When a "thimble of oil" is dropped on the North Slope it becomes a front page story, but the NPR-A wells have yet to be a front page story and only two articles have been written about the issue. Raising awareness of these wells that have not been remediated over the past 60 years is a long time in coming, and it is sickening the way the lands have been left.

CO-CHAIR SEATON concurred that this is an important topic for everyone.

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REPRESENTATIVE P. WILSON remarked how dare [the federal government] request Alaska to do things when it does not do those things itself.

REPRESENTATIVE MILLETT responded that this is in Alaska's backyard. The federal government controls and restricts Alaska on every aspect of development in the state, yet this is the legacy that the federal government has left Alaska.

[1:10:35 PM](#)

REPRESENTATIVE KAWASAKI thanked the sponsor for bringing forward the resolution. In regard to the third [whereas] on page 2, he inquired whether any of the unplugged legacy wells have damaged the surface vegetation, groundwater, fish, land mammals, and sea mammals.

REPRESENTATIVE MILLETT replied that it is hard to equate because not a lot of travel is done on the NPR-A. The North Slope Borough has taken over some of the wells, she said, so the borough could be contacted about the wells, the land transfer, and the responsibility that now lies with the borough. However, right now it is out in the wilderness. There is open diesel, but no one is studying water contamination, so the effects on wildlife will not be known until there is someone monitoring it.

[1:11:47 PM](#)

REPRESENTATIVE GARDNER thanked the sponsor for raising this issue and writing the resolution. She shared that this issue has been raised by many legislators when meeting with federal officials in Washington, DC, but the officials have always pleaded poverty and no money for amelioration. Noting the various people to whom the resolution would be sent, she asked whether there are others who should receive the resolution given that funding is what is needed.

REPRESENTATIVE MILLETT agreed HJR 29 should go to everyone that can be thought of, including every member of Congress and every environmental organization. She said she would be accepting of any suggestions from Representative Gardner regarding who the resolution should be sent to.

[1:13:04 PM](#)

REPRESENTATIVE KAWASAKI asked whether well reclamation efforts between the years 1944 and 1981 were not properly understood and the requirements under law at that time were done, but now the wells are out of compliance because the laws have changed since then.

REPRESENTATIVE MILLETT concurred, but said that just as there are legacy wells in other areas of the state that have been drilled since 1959, the owner/operator of that well is still required to make the well right to standards of today. It is a case of what is good for one group of people should be good for all groups of people. Anyone drilling in Alaska should be responsible for the legacy that it leaves.

[1:14:05 PM](#)

CO-CHAIR FEIGE, observing that reporters were in the committee room, said that maybe the press would pick up the story. He

requested the sponsor to review who she talked to regarding the aforementioned land swap, and presumed that such a land swap would include the subsurface as well as the surface.

REPRESENTATIVE MILLETT deferred to AOGCC commissioner Cathy Foerster to provide the specific details because it was AOGCC that was involved in these talks.

[1:14:48 PM](#)

REPRESENTATIVE HERRON suggested that the resolution be sent to the boards of the Sierra Club, World Wildlife Fund, and all other non-governmental organizations (NGOs) so that the boards of the organizations could decide, not the executive director.

REPRESENTATIVE MILLETT replied that the resolution has been sent, but sending the actual resolution, if it passes, is a great idea. The more that awareness can be raised about this issue, the more likely it will become a front page story.

REPRESENTATIVE HERRON suggested the committee work with the sponsor to add all of those NGOs to the mailing list.

CO-CHAIR SEATON said that could come forward as an amendment when the committee is considering amendments.

[1:16:36 PM](#)

REPRESENTATIVE P. WILSON commented that a way to get front page news is for the State of Alaska to tell the federal government that it will not pay any more money until something is done. She inquired whether the sponsor has spoken to the governor about how far he is willing to go regarding this issue.

REPRESENTATIVE MILLETT responded that the Department of Environmental Conservation (DEC) is aware of this issue. She allowed she probably has not given enough credit to the Alaska contingent of the BLM, which has made this issue its number one priority. She acknowledged that the Alaska BLM's hands are tied through the federal appropriations process and said the wells in Alaska are competing with many other sites around the U.S. from the 1940s. Unfortunately, the State of Alaska cannot force the federal government to abide by state law or pay fines. She pointed out that offshore NPR-A lease sales have brought the federal government \$9 billion, but not a cent of that has been re-appropriated back to this area.

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REPRESENTATIVE DICK commented that if environmental groups really are concerned about cleaning up the environment this should be a number one priority. But, if environmental groups are only concerned about locking up land, then he can see where the land is already locked up and there really is not a motive to do anything further here. He said it seems to him that if environmental groups really do get on board with the sponsor that is proof that they really do care about cleaning up the environment; if they do not, then maybe their motives should be questioned.

CO-CHAIR SEATON reminded members that the resolution is a communication from the legislature and the governor, if it passes and the governor signs it. He said he agrees it should be sent to parties that should be interested, but questions their named involvement in a resolution from the legislature.

REPRESENTATIVE MILLETT offered her appreciation for the committee's consideration of HJR 29 and said that as awareness is raised it ensures that folks doing business in Alaska will be expected to do it right and within the letter of the law. The legacy wells on the NPR-A send a mixed message to people about how pristine Alaska's environment is. Maybe the squeaky well will get the cap.

[1:21:10 PM](#)

REPRESENTATIVE FOSTER inquired about the estimated cost for plugging an open well.

REPRESENTATIVE MILLETT answered that the BLM has provided two numbers - one for complete remediation and one for plugging. These two different things can be done separately or at the same time, she explained, but she does not have a total number. The most concern is just plugging the open wells. The last well cost around \$16 million for that one well one time. Ideas have been floated that a group of wells could be plugged at the same time which would lower the cost [per well]. However, there is no real handle on the total package of what it would cost to do remediation.

CO-CHAIR SEATON moved to testimony from representatives of AOGCC and BLM.

[1:22:59 PM](#)

CATHERINE FOERSTER, Engineering Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), thanked the committee for allowing her to testify in support of HJR 29. She said this subject has been dear to her since becoming a commissioner in 2005. Responding to Representative Kawasaki's earlier question, she said some of these wells were drilled after 1959, which was when the AOGCC came into being and established proper requirements for plugging and abandonment (P&A); therefore, the wells drilled after that were out of compliance with AOGCC regulations. In response to Representative Foster's earlier question, she said that so far the cost per well for the BLM's "attempts" to P&A and remediate has averaged \$4.6 million per site. She noted that she is saying "attempts" because BLM claims to have plugged and abandoned and remediated more wells than AOGCC acknowledges as having been done properly, so there is a dispute in this regard. Responding to Representative Gardner's earlier question, Ms. Foerster said that her sister-in-law has suggested that today's PowerPoint presentation be put on YouTube as a way to reach more people. Addressing Co-Chair Feige's earlier question, she offered her understanding that the land swap was grassroots to granite, so the mineral and surface rights were swapped as was the remediation obligation. Thus, the North Slope Borough now has responsibility for 33 of the 136 wells.

[1:25:29 PM](#)

REPRESENTATIVE GARDNER, in regard to the [state] leasing this land for development, inquired what confidence could be had that the state would not face a similar situation for any new wells that are drilled, given the previous defiance of AOGCC's regulations.

MS. FOERSTER replied that AOGCC has not had any problems with any operators in the state of Alaska other than the federal government. She added that the federal government is not taking out any leases from AOGCC and has not come to AOGCC in the last year and a half for a permit to drill.

[1:26:36 PM](#)

MS. FOERSTER began reviewing the photographs in her PowerPoint presentation, explaining that between the mid-1940s and the early 1980s the federal government drilled numerous wells in northern Alaska to test the viability of oil and gas development in the arctic environment. She said these legacy wells are all

in the western North Slope, an area with geography and biology like that of the Arctic National Wildlife Refuge (ANWR). While the area the wells are in is called a national petroleum reserve rather than a national wildlife refuge, that does not make what has happened there okay.

MS. FOERSTER related that the U.S. Bureau of Land Management (BLM), within the U.S. Department of Interior, is the agency that operates these wells. While the BLM is not the operator that drilled the wells, it has been assigned responsibility by the federal government to manage these wells. Essentially every one of the 136 wells has been out of compliance with Alaska regulations at one time or another and most of them still are. Given the condition of these wells, review of the applicable federal regulations would likely reveal that they are not even in compliance with the regulations of the entity that owns and manages them.

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MS. FOERSTER prefaced that she will be covering only the most troubling issues, not every issue, that AOGCC has with these wells. Displaying the photo labeled "Solid waste primarily in the form of empty drums litter the area around Skull Cliff Core Test," she pointed out that the objects in the picture are not caribou or musk ox, but rusting barrels and drums. While the BLM says there is insufficient budget to clean up these hundreds of rusting drums, it has a big enough budget to rent a helicopter to fly out and take pictures of the drums. She suggested that the next time the BLM is out taking pictures it should bring along a big net, gather up the drums, and carry them out. Additionally, she continued, while the BLM does not have enough money to clean up its mess, it has enough money to write a report about it; this picture and the others she will be showing are taken from a BLM report that used to be on the agency's web site.

MS. FOERSTER urged that as members view these pictures, they consider the hypocrisy of the federal government in wanting to protect the Arctic National Wildlife Refuge from the very sort of mess that the federal government has caused, and is allowing to continue, elsewhere in Alaska.

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MS. FOERSTER allowed that to be fair to the federal government and current administration, the legacy wells have been a problem

since the middle of the last century and are not solely the fault of the current administration. However, because this administration is the only one in place now, it is the only one that the state can hold accountable. Also, to be fair to the Alaska BLM folks who are Alaskans too, she said she thinks that they would like to clean up the mess as well, but their hands are tied by their meager annual budget of about \$1 million, which enables them to write a report and take pictures and not much else. However, she stressed, she is not going to cut the federal government any slack because it takes in billions of dollars from Alaska lease sales and some of that money should come back to Alaska to fix this mess. She shared that when making this presentation to the Ground Water Protection Council, a group of state and federal regulators from across the U.S., she asked that people in the audience stand up if the picture depicted a proper P&A and remediate; no one, including representatives of the BLM, stood up for any of the pictures.

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MS. FOERSTER, moving to the photo labeled "North Simpson #1 is partially submerged in the summer," stated that in Alaska the proper plugging and abandonment of wells is governed by Article 2 of AOGCC regulations. The purpose of properly plugging and abandoning wells includes public safety, protection of the environment, and protection of sources of drinking water. She asked, rhetorically, whether anyone would want to take a drink from the lake in the photo.

MS. FOERSTER stated that proper plugging and abandonment of a well includes sufficient downhole cement and plugs to ensure that underground fluids cannot migrate. With few exceptions, none of the [136] legacy wells complies with this requirement. Turning to the photo labeled "Simpson Core #29," she noted that the well is open to the surface with no downhole plugs at all and with no wellhead. The mud or diesel that was probably in the well at one time has likely gone into the environment. The earlier question about whether there has been damage to the environment can be answered by looking at the pictures of these wells. Several of the wells were left filled with diesel, she said, and she thinks this is one of them, although she is not sure.

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MS. FOERSTER, displaying the photo labeled "Light trash is present in the seep between Cores #30 and #30A," explained that

the well was drilled in a seep, so the oil on the surface is a naturally occurring seep. Proper plugging and abandonment of a well requires that all underground pipe be cut off five feet below ground level so that it cannot create an excavation hazard or become a problem during subsidence or other normal earth movement. With few exceptions, she said, none of the legacy wells complies with this requirement.

MS. FOERSTER, moving to the photo labeled "Awuna wellhead with exposed wooden pilings and Styrofoam," stated that this picture has been used in mailers and fundraisers opposing development of the Arctic National Wildlife Refuge. She said the oil industry was probably blamed for this well and this is another part of the legacy that these wells are leaving for Alaska. Properly plugging and abandonment of a well requires sufficient surface remediation that the site blends in with the natural vegetation, and within a few seasons there should be no surface indication of a well's location. Many of the legacy well sites are permanent eyesores littered with rotting wood, rusting metal, and other debris. However, because the legacy wells have not been properly plugged, those wells that are re-vegetated are potentially more serious downhole mechanical integrity issues because they are out of site and out of mind but not secured. She said the helicopter shown in this picture re-emphasizes that the BLM has enough money to rent helicopters.

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MS. FOERSTER pointed out that the delay in plugging and abandonment has caused at least three of the wells to be lost due to subsidence and other normal earth movement. The BLM has taken these wells off its concern list because it can no longer find them, she said. Two of the wells are at the bottom of what subsidence and snowmelt have turned into lakes and the third has been buried by a landslide. Additionally, wells can simply be no longer found and there is no explanation for why. Postponing the abandonment of these wells simply puts the remainder of them at risk of also becoming lost. Losing a well does not mean that it is no longer a mechanical integrity or environmental concern; it is just one that cannot be seen. She explained that the [Awuna well] is on its way to being lost as the subsidence lake develops. How long before it is lost, she asked, and how much will it cost to find and fix it after that happens.

MS. FOERSTER, turning to the photo labeled "East Simpson #2 is partially submerged during the spring thaw," noted that the question with this legacy well is how long will it take for

natural subsidence to submerge this site completely and what will be the cost to find it and fix it in the middle of a lake.

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MS. FOERSTER, displaying the photo labeled "Kaolak #1 with cabin on the drill pad," asserted that allowing these unsafe and unsightly wells to litter Alaska's wilderness while threatening both human safety and the environment is unacceptable. Nonetheless, BLM has properly plugged and abandoned fewer than 10 of the 136 wells. If these wells were operated by an oil company the AOGCC would force compliance with its regulations and impose fines for non-compliance, she said. Unfortunately, while BLM can be found in violation of AOGCC regulations, AOGCC has no legal authority to force the U.S. Department of Interior into compliance. Additionally, she continued, AOGCC should not have to. Showing the photo labeled "Umiat #1 is located about 5 miles from the Umiat airstrip," she said the federal government should provide adequate funding specifically designated for the purpose of bringing its own wells into regulatory compliance with its and AOGCC's regulations. This funding could come from the billions of dollars collected in lease sales or from stimulus efforts. For example, jobs could have been given to displaced Gulf of Mexico workers after the Macondo disaster to come to Alaska and plug and abandon these wells.

MS. FOERSTER reiterated Representative Millett's earlier statement that oil companies are interested in leasing these lands and to have the remediation be part of their leasing. There are opportunities to make these problems go away, she said, and making this happen is a part of her job. She vowed that as long as she is with AOGCC she will be haranguing to make it happen. She cannot force the BLM into compliance, but she can embarrass them in the court of public opinion and find and work with the reasonable people to try to move this forward.

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REPRESENTATIVE GARDNER inquired whether the information gained when these wells were drilled is in the public domain or available to potential lessors.

MS. FOERSTER responded that AOGCC has scant records on these wells and she does not know how much information the BLM has; however, anything that AOGCC has is available to the public.

REPRESENTATIVE P. WILSON suggested that the resolution could be amended with a whereas clause asking the BLM to provide the state with the information that the agency has on these wells. She inquired about the cabin depicted in the photo labeled "Kaolak#1 with cabin on the drill pad."

MS. FOERSTER answered that as far as she knows the cabin was part of the activity around that well. She expressed her optimism that the Alaska BLM representatives and the AOGCC will collaborate moving forward with the legacy wells and that BLM will provide AOGCC with whatever information it has. She said she is therefore unsure that such a whereas clause is necessary.

[1:39:22 PM](#)

REPRESENTATIVE KAWASAKI asked how many of the approximately 2,200 legacy wells on the North Slope are not currently in compliance with AOGCC's regulations for capping.

MS. FOERSTER replied that the BLM is by far the biggest violator of AOGCC's regulations. Many, many wells on the North Slope are long-term shut-in wells on active pads, she continued, and these are looked at every day by operators. A handful of wells needing cleanup are located in exploratory sites and AOGCC has given notice to those operators and the operators are proceeding. Two or three wells between Anchorage and Fairbanks, the Rosetta wells, are true orphan wells for which AOGCC cannot find the owners. Other than the Rosetta wells, the only ones that have not been remediated are a few Point Thomsen exploratory wells that ExxonMobil and BP admit they own and admit they owe remediation. However, due to high pressure in the Thomsen reservoir and the way that those wells were left because it was thought at the time that they would be re-entered soon, re-entering the wells for plugging and abandonment poses severe dangers that the companies do not know how to get around. The wells are partially plugged and abandoned, so they are not an immediate environmental risk. It would be a far greater risk to go in without a thoroughly prepared plan, which the companies and AOGCC are working on.

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REPRESENTATIVE KAWASAKI, in regard to AOGCC rules about whether a gravel pad is still active, inquired whether AOGCC actually looks to see if a pad qualifies as active. He said it seems to him that a company not wanting to do remediation could just keep

leasing the ground and say that it is actively monitoring that site.

MS. FOERSTER clarified that an active pad is producing, so oil and gas production is coming from that pad.

MS. FOERSTER, responding to Co-Chair Feige, said she joined AOGCC nearly seven years ago at the end of March 2005.

CO-CHAIR FEIGE asked how many wells the BLM has drilled in Alaska over the past seven years.

MS. FOERSTER responded she does not have an exact count for the last seven years, but a handful of coalbed methane test wells have been drilled in or near the city of Wainwright since her arrival at AOGCC. One well was drilled before she arrived and a few more were drilled after she arrived.

CO-CHAIR FEIGE inquired whether BLM followed all of the AOGCC regulations that it was supposed to follow.

MS. FOERSTER answered no, it did not.

[1:44:11 PM](#)

REPRESENTATIVE MUNOZ offered her appreciation for Ms. Foerster's work to raise awareness of this issue. She asked what the [federal] government's original purpose was for drilling these wells.

MS. FOERSTER replied that the original purpose was to find out whether oil and gas drilling was viable in an arctic environment. Geologists had long recognized the North Slope as an oil-rich area and after World War II the U.S. wanted to ensure its own energy security. So, it was exploration, but as seen by the surface oil seeps in her presentation it was not hard to imagine that the area was oil rich. She added that the exploration was very shallow.

REPRESENTATIVE MUNOZ inquired whether the [federal] government has ever used any of the resources there for military activity or other purposes.

MS. FOERSTER responded she does not know and deferred to the BLM to answer the question.

REPRESENTATIVE MUNOZ asked whether the U.S. Environmental Protection Agency (EPA) has been involved or notified.

MS. FOERSTER answered that the Alaska EPA has been informed of this and has offered its moral support to AOGCC. When she made her presentation at the Ground Water Protection Council, several federal EPA people in attendance were aghast and offered suggestions to her that AOGCC has already tried. Thus, EPA is aware of the issue, but has not made the issue its mission.

REPRESENTATIVE GARDNER inquired about the current condition of the BLM's coalbed methane wells.

MS. FOERSTER replied that those wells have been abandoned. In further response, she said the wells are plugged and abandoned, and that it was not AOGCC's abandonment regulations that the BLM did not follow.

[1:47:31 PM](#)

TED MURPHY, Deputy State Director of Resources, Division of Resources, Alaska State Office, U.S. Bureau of Land Management, stated that he is before the committee to answer questions on the legacy well program within Alaska. He said he thinks the BLM is on track to continue working closely with the state to reach resolution, a common understanding of where the wells are at, the condition the wells are in, and how to remediate and plug those wells into the future. Collaboration is the component that everyone needs to do to get this done.

CO-CHAIR SEATON asked whether Mr. Murphy disagrees with the facts as they have been presented or that the pictures do not truly represent the situation around the wells.

MR. MURPHY responded that the pictures are an accurate reflection of the condition of the wells. He said the federal government does not control 136 wells in the NPR-A. Some of those were conveyed in the Barrow Gas Field Transfer Act [of 1984] and some of those wells, while called wells, are actually cores or shallow wells that were never cased. They were used to determine the thickness of the permafrost and maybe some geologic structures. They may have ranged anywhere from a couple hundred feet to nearly a thousand feet.

CO-CHAIR SEATON requested Mr. Murphy to provide the committee with a written commentary about the number of wells and the type of wells.

1:50:13 PM

REPRESENTATIVE HERRON requested Mr. Murphy to say "mia culpa" on behalf of the BLM and the federal government.

MR. MURPHY stated "mia culpa."

REPRESENTATIVE GARDNER, in regard to Mr. Murphy's statement that BLM is working closely with the state to reach common understanding, inquired what the active parts are of working closely.

MR. MURPHY answered that it begins with the 2004 report on the legacy wells that he put back on the BLM's web site yesterday. He said BLM is making an amendment to that report. He explained that some of the pictures shown earlier are a re-visitation of those wells and it is important to understand that the BLM has chosen to address those wells being impacted by coastal erosion and that would have been overrun by the ocean in the near future. Those wells were plugged and the mud pits remediated.

REPRESENTATIVE GARDNER understood Mr. Murphy to be saying that the wells likely to be impacted by coastal erosion or that have been impacted by coastal erosion have been plugged and remediated.

MR. MURPHY said yes, within the next five years. The BLM does not have an accurate representation of what the coastal erosion impacts will be into the future, but the BLM has addressed the ones that will be overrun or have been overrun by the ocean.

1:52:19 PM

REPRESENTATIVE KAWASAKI offered his understanding that 12 wells have been plugged since the 2004 inventory, one in 2010 at the cost of \$17 million and Umiat #9 that was plugged in 2011 at a cost of \$2.5 million. In regard to reassessment of the 2004 inventory, he asked what the process will be for determining which wells should be first. He further asked when the BLM will get done.

MR. MURPHY replied he does not know when BLM will be done as it is contingent on a number of factors, but he is committed to BLM continuing to address the problem. He outlined the screening process that will occur: condition of the existing pad and pits; visible solid waste, such as equipment, piping, and

barrels; whether the bore hole penetrated known oil and gas stratigraphy; whether the well had an oil or gas show and, if so, is the well capable of flowing; whether the well is near human activity and, if so, whether it is a risk to the people near the well; the condition of the wellhead and whether there has been previous problems or repair work on that wellhead; and whether the presence of the unplugged well has the potential to negatively impact anticipated development.

[1:54:11 PM](#)

CO-CHAIR FEIGE allowed that much of this happened before Mr. Murphy came onboard the BLM and that Mr. Murphy is working towards a solution. As far as the solutions of removing pits and reclaiming the wells being impacted by coastal erosion, he said the BLM is keeping pilots like him employed. He said he is disturbed by the BLM's failure to follow existing AOGCC regulations for the wells drilled near Wainwright. While he did not know whether that was a willful disregard of the regulations or simply a lack of knowledge or expertise on the part of the people that were doing those wells, he asked that Mr. Murphy pass on to the federal government that the state does not take kindly to the violation of its laws.

REPRESENTATIVE MUNOZ inquired what the top federal agency funding priorities are for Alaska and where this remediation effort fits into those priorities.

MR. MURPHY explained that the Alaska BLM budget is based upon the conveyance program, which is the largest funded program within BLM Alaska, followed by the oil and gas "1310 program" and then the recreational components. As far as priorities, the annual budget for the legacy well program is a base of \$1 million and supplementals are addressed thereafter.

CO-CHAIR SEATON requested the committee members to submit any other questions they may have and that BLM provide in writing any disputes it has with HJR 29 so the committee may address them.

CO-CHAIR SEATON held over HJR 29.

HB 9-IN-STATE GASLINE DEVELOPMENT CORP

[1:56:49 PM](#)

CO-CHAIR SEATON announced that the next order of business would be HOUSE BILL NO. 9, "An Act requiring the Joint In-State Gasline Development Team to report to the legislature recommended changes to state law that are required to enable or facilitate the design, financing, and construction of an in-state natural gas pipeline so that the in-state natural gas pipeline is operational before 2016; and providing for an effective date." [Before the committee was Version U, labeled 27-LS0075\U, Bullock, 1/19/12, adopted as the working document on 2/6/12.]

The committee took an at-ease from 1:57 p.m. to 1:58 p.m.

[1:58:44 PM](#)

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, on behalf of Representative Hawker, sponsor, noted that committee members posed a number of questions about HB 9 at the committee hearing on 2/6/12. She directed attention to these questions and the answers provided in a [2/8/12] memorandum [from Representative Chenault, prime sponsor,] included in the committee packet. She addressed the first question, paraphrasing from the memorandum, written as follows [original punctuation provided]:

- 1. Provide a comparison of the authorities granted to the Alaska Gasline Development Corporation (AGDC) in HB 9 with those granted under the Alaska Gasline Inducement Act (AGIA), and note which, if any, are authorities unique to the AGDC and AGIA projects.**

MS. DELBRIDGE prefaced that the memorandum's answer is a very cursory comparison and should not be construed as a comprehensive legal analysis of AGIA and HB 9. She related that should the committee want such an analysis, the sponsor suggests a review from parties that are expert in AGIA and applicable laws. She paraphrased the memorandum's answer, written as follows [original punctuation provided]:

In a broad sense, AGIA and AGDC are similar in that both projects may exercise eminent domain; AGDC acts as a coordinator of an instate project much as the State Pipeline Coordinator's Office serves as such for an AGIA project; both projects enjoy expedited permitting processes; both provide confidentiality protecting commercial negotiations or proprietary work products; and both limit judicial review claims in an

attempt to prevent unwarranted delays in state-sanctioned projects.

2:00:18 PM

REPRESENTATIVE KAWASAKI inquired whether Representative Hawker, as co-sponsor of the bill, has ever requested a specific legal analysis of whether HB 9 and AGIA are compatible and, if not, is that something the co-sponsor or the committee would do.

MS. DELBRIDGE offered her belief that the question posed on 2/6/12 was not compatibility but what HB 9 offers in comparison to what AGIA offers. Compatibility, such as concerns about violating the half a billion cubic feet a day limit under AGIA with an in-state line, is already addressed in House Bill 369 that prohibits AGDC from pursuing any project that is in violation of AGIA.

2:01:11 PM

MS. DELBRIDGE moved to the second question and answer, paraphrasing from the memorandum, written as follows [original punctuation provided]:

2. Does HB 9 contain a date or similar benchmark requiring AGDC to return to the Legislature with its findings on planning and developing an instate gasline?

HB 9 does not specifically include a date certain by which AGDC must return to the Legislature. However, AGDC is subject to the Executive Budget Act; as a public corporation, AGDC is unable to spend funds without an appropriation. Without a significant appropriation, AGDC would lack the means to sanction a project and proceed with construction.

MS. DELBRIDGE said there is every expectation that at the point of sanctioning AGDC would return to the legislature with that funding request because it would be hundreds of millions, if not over a billion, dollars.

2:02:08 PM

CO-CHAIR SEATON understood that AGDC could not sign contracts that obligate the state without the appropriation from, and the approval of, the legislature.

MS. DELBRIDGE deferred to Mr. Dubler.

JOE DUBLER, Vice President, Alaska Gasline Development Corporation (AGDC), Director of Finance, Alaska Housing Finance Corporation, Department of Revenue (DOR), explained that all the contracts that AGDC enters into, similar to other state agencies, are subject to appropriation. To the extent there is no appropriation, the contract expires.

MS. DELBRIDGE pointed out that House Bill 369, passed in 2010, had a date certain at which AGDC was to deliver a project plan to the legislature and that was done on schedule on July 1, 2011. Additionally, AGDC has been providing monthly status reports to the legislature so there is a continuing process of keeping tabs on that work and the status of that work.

[2:03:07 PM](#)

MS. DELBRIDGE continued paraphrasing from the memorandum, turning to question and answer 3, written as follows [original punctuation provided]:

**3. HB 9 grants AGDC the ability to use eminent domain.
What does this authority do in practical terms?**

Eminent domain is a power granted under 09.55.240 (see attached), allowing eminent domain to be exercised for most public uses, including uses authorized by governments and, per 09.55.240(a)(13), "for the location of pipelines for gathering, transmitting, transporting, storing, or delivering natural or artificial gas or oil or any liquid or gaseous hydrocarbons, including, but not limited to, pumping stations, terminals, storage tanks, or reservoirs, and related installations."

HB 9, in Section 1, Lines 15-16, explicitly ensures AGDC will be able to exercise this power as provided in 09.55.240-460. This legislation does not expand eminent domain.

REPRESENTATIVE GARDNER asked why it is necessary to explicitly ensure.

MS. DELBRIDGE understood there are occasional legal questions brought as to what entity specifically in a given circumstance can exercise eminent domain.

[2:04:50 PM](#)

MS. DELBRIDGE commenced paraphrasing from the memorandum, citing questions and answers 4 and 5, written as follows [original punctuation provided]:

4. **Section 4, lines 24-25 of HB 9 address duplication of state efforts. Has duplication of efforts, such as ownership of studies, been an issue, or is it anticipated to be an issue?**

AGDC is working diligently to avoid duplicating work funded by other state money. The sponsors believe efficiency with state resources is important, and will offer an amendment to this paragraph retracting the deletion, but keeping the change replacing the "Joint In-State Gasline Development Team" with "Alaska Gasline development Corporation."

5. **Would waiving costs or rental fees for a lease or right-of-way provided by the Department of Natural Resources require a fiscal note? If not, how would the costs incurred by the agency be covered?**

Generally, the sponsors suggest that a fiscal note should come from the department affected. However, AGDC is now paying the state Department of Natural Resources \$189,000 per year for a right-of-way lease; Section 6 would eliminate or reduce that charge. Additionally, as discussed in committee on Feb. 6, the sponsors are developing an amendment to Section 6(g).

[2:06:40 PM](#)

CO-CHAIR SEATON said the question on 2/6/12 was whether AGDC could obligate DNR and other departments to prioritize their budgets without going through a budgetary process and have to absorb the costs out of their existing programs. He requested further clarification.

MR. DUBLER responded that the forthcoming amendment will modify this so it is not gratis and will be at usual and customary charges. Regarding expediency, he related that the sponsors are

standing by the expediency issue whereby the individual departments will prioritize this project ahead of other projects to the extent it is necessary to complete it on a timely basis [see 2:27:09 timestamp for a correction by Mr. Dubler]. In further response to the co-chair, Mr. Dubler said the forthcoming amendment will modify the part about it being at the department's cost to being that AGDC will pay usual and customary charges for the services and/or products that it receives.

[2:08:26 PM](#)

MS. DELBRIDGE returned to the memorandum, paraphrasing question and answer 6, written as follows [original punctuation provided]:

- 6. Section 6 (e) of HB 9 allows AGDC to enter into confidentiality agreements as needed to acquire or provide information. Information that falls under such an agreement is not subject to disclosure under AS 40.25.110. Is this confidentiality provision also contained in AGIA?**

While AGIA has some confidentiality provisions, the primary function is to protect proprietary information of private interests, provided to the state for informational and not decision-making purposes. Under AGDC, the protection primarily becomes one of protecting AGDC and private parties it engages with in commercial negotiations and other matters. The role of the state is different under AGIA than under AGDC.

[2:09:57 PM](#)

CO-CHAIR SEATON recalled that this became a huge issue during the Alaska Stranded Gas Development Act when the legislature was unable to find out any of the operating provisions with the operating company. He asked whether this same problem would occur under HB 9, whereby the legislature would be asked to sanction something that it is unable to find out about.

MR. DUBLER replied that the confidentiality discussion talked about here is imperative. For example, AGDC is currently attempting to work with some producer companies on alignment on issues of gas composition. However, the companies will not share any information with AGDC because they are concerned that that information will become public; so right now AGDC is

shooting in the dark. Referencing question 4 about sharing of information and duplicating efforts, he said that for this summer's field work AGDC is focusing its efforts from Fairbanks down so that if there is an alignment with the AGIA and AGDC projects, AGDC will not be duplicating any efforts above Fairbanks where the AGIA efforts are focused. The proposed confidentiality would prevent people from being able to request information provided by companies to AGDC for the project that the companies would not otherwise be obligated to provide to the public.

[2:12:01 PM](#)

CO-CHAIR SEATON said he appreciates and does not have a problem with that. However, he is asking whether this provision is structured so broadly that it would allow the confidentiality agreements of an operating entity to be withheld from the legislature, although AGDC would know. For example, the legislature would be unable to find out the operating conditions and veto rights of the operating entity. He cautioned that if HB 9 sets up the same controversial structure as was in the Alaska Stranded Gas Development Act it will be problematic for moving the bill through the system.

MR. DUBLER answered that he is unfamiliar with the Alaska Stranded Gas Development Act and its confidentiality provisions, so he cannot compare what AGDC is asking for here with what was in that bill. What AGDC is asking for here is similar to what exists under AGIA. In AGIA the state is the licensor and TransCanada the licensee, and he offered his belief that the agreements between the two parties are subject to confidentiality agreements.

CO-CHAIR SEATON stated that this question will need resolution from Legislative Legal and Research Services or the sponsor.

MR. DUBLER agreed to get an answer to the committee.

[2:14:17 PM](#)

MS. DELBRIDGE continued her review of the memorandum, paraphrasing question and answer 7, written as follows [original punctuation provided]:

- 7. Is there a provision, similar to one in AGIA, that requires a body of work developed under AGDC be remanded to the state in the event a project is not**

sanctioned or is unable to attract sufficient customers?

As a state corporation, all work product and assets developed by AGDC belong to the state. Depending on the circumstances, AGIA provides for the transfer of work by the private-sector licensee to the state either at no cost to the state, or at some level of cost, per AS 43.90.200: ...

CO-CHAIR SEATON surmised that the state would have the product and if the project did not go forward the confidentiality agreements would not prevent the state or the legislature from having that information.

MS. DELBRIDGE agreed to check on that in conjunction with the co-chair's previous question.

[2:15:26 PM](#)

MS. DELBRIDGE paraphrased question and answer 8, written in the memorandum as follows [original punctuation provided]:

- 8. The Alaska Natural Gas Development Authority has engaged in work related to a right-of-way between Glennallen and Palmer. Is there an asset, such as a right-of-way lease, and if so, will that lease be transferred to AGDC upon passage of HB 9?**

Alaska Natural Gas Development Authority assets remain with the Authority. However, under HB 9, the AHFC Board, as directors of ANGDA and AGDC, would have the ability to transfer assets from one subsidiary to another.

MS. DELBRIDGE offered her belief that the conditional lease held by Alaska Natural Gas Development Authority (ANGDA) requires commissioner approval in order to transfer. She continued paraphrasing the rest of the memorandum's answer, written as follows [original punctuation provided]:

The right-of-way lease ANGDA secured is conditional, and as such, may require significant additional time and investment to upgrade to an unconditional lease. Consultation with the State Pipeline Coordinator's Office (SPCO) clarified that a conditional lease does not grant an interest in state land, but is a

'reservation' allowing 10 years to convert to a non-conditional lease. A conditional lease cannot be renewed. In further clarification, ANGDA's conditional lease does not technically follow the Richardson Highway, but begins in Palmer and terminates in Glennallen. ANGDA began work on a further segment between Glennallen and Delta Junction, but to the SPCO's knowledge, never acquired the right to state land for that segment.

[2:17:30 PM](#)

CO-CHAIR SEATON noted that ANGDA is online and will respond to the question of whether there is or is not a right-of-way.

REPRESENTATIVE HERRON inquired how many of the conditions of the conditional lease have been met and satisfied. In response to Co-Chair Seaton, he agreed to pose this question to ANGDA.

[2:18:18 PM](#)

CO-CHAIR FEIGE, in regard to ANGDA's work on the conditional right-of-way lease between Palmer and Glennallen, asked what would be the value of letting that work be abandoned. He said that if a bullet line to Anchorage went in, it seems that a right-of-way to connect the electrical grid to a source of cheaper electrical generating energy would be a reasonable benefit to the people of that region. Glennallen, Copper Center, Kenny Lake, Chitina, and Valdez are all on the same electrical grid, he continued, and they pay a significant premium to what is paid by the folks in the Anchorage Bowl.

MS. DELBRIDGE replied that she does not believe there is any intent to abandon the right-of-way that ANGDA has acquired. She said she believes that it is seen as an asset that AGDC and ANGDA together under the AHFC board can further build on and make use of.

MR. DUBLER added that there are at least 25 conditions that have to be met and those are project plans that have to be submitted for review and approval to the Department of Natural Resources (DNR). A significant amount of work needs to be done to get this to a lease that would actually be useful in terms of putting in a pipeline, but some work has been done and that would not be abandoned. He offered his belief that this conditional lease is in effect until July 2016, so four years are left to complete

all of the requirements that DNR has put on ANGDA to complete this lease.

[2:20:08 PM](#)

CO-CHAIR FEIGE noted that AGDC could be fully engaged in developing and building a pipeline to the Anchorage Bowl in 2016 when this conditional right-of-way expires. Assuming HB 9 becomes law, he asked whether it would be prudent and whether AGDC would pursue extension of that conditional right-of-way to preserve it for future use, given a significant amount of work has been done.

MR. DUBLER said he is not sure he would describe the work as a significant amount. While he does not know how much work has been done, he can see how much has not been done by what is in the conditions in the lease. He said his recollection of reading the lease is that it is not subject to extension, but to the extent that there is a lease in place now he would hope that the commissioner of DNR would be able to issue a new one that replicates what is existing. In further response to Co-Chair Feige, Mr. Dubler agreed that AGDC would consult the legislature if it is found that the conditional lease needs to be extended.

[2:21:23 PM](#)

MS. DELBRIDGE moved to question and answer 9, written in the memorandum as follows [original punctuation provided]:

- 9. What are the potential impacts to the state and local governments if state resources, such as land, water and gravel as specified in Section 6, of HB 9, are provided to an AGDC project at no cost and the gasline includes commercial gas exports?**

The sponsors expect an amendment under development to Section 6, (g), of HB 9 to address this concern.

MS. DELBRIDGE recalled the committee's concern that the state could end up subsidizing commercial gas exports, and assured members that it is not the intent of the sponsors to create that sort of subsidy.

[2:22:07 PM](#)

MS. DELBRIDGE addressed question and answer 10, written in the memorandum as follows [original punctuation provided]:

10. Regarding HB9 Section 12, what are the existing timelines for judicial review?

Judicial review of decisions by commissioners on right-of-way leases is already limited in statute: ...

MS. DELBRIDGE noted that this limited judicial review is in AS 38.35.200, included in the memorandum. She paraphrased the rest of the answer in the memorandum, written as follows [original punctuation provided]:

Sections 12 and 13 in HB 9 work together to add a new subsection (c) incorporating the judicial review process created for the Trans-Alaska Pipeline System. Judicial review is already statutorily limited to 60 days per the Right-of-Way Leasing Act (AS 38.35.200); the new Section 13 (c) defines the jurisdiction for a claim and prohibits a court from issuing injunctive relief that would delay project progress while a claim is heard. Section 13 (c) also specifies a 60-day window for claims to be filed alleging denial of rights under the state Constitution.

MR. DUBLER added that this provision is not intended to take away the rights of citizens to object to this project. It is meant to push the objection to the beginning of the project rather than when a billion dollars' worth of pipe is ready to go into the ground and a claim is suddenly filed that stops all work for a year and a half while the issue is resolved. The intent is to resolve those issues up front and not wait until it is time to dig the ditch.

CO-CHAIR SEATON said the committee appreciates that.

[2:23:56 PM](#)

MS. DELBRIDGE paraphrased questions and answers 11-12, written in the memorandum as follows [original punctuation provided]:

11. What is the anticipated impact to municipalities associated with Section 6, HB 9, exempting an AGDC project from state and municipal property taxes during construction? What are the anticipated impacts to municipalities during a pipeline construction phase?

At this point, without final project engineering and costs, it is difficult to determine the potential

impacts. Additionally, municipal taxes could change between now and a taxable period. The sponsors have requested a legal opinion on what pipeline project assets and activities are taxable, and will provide additional information to the committee as it becomes available.

- 12. Provide an AGDC analysis of international fiscal systems consultant Pedro [van Meurs'] assessment of an Alaska gas export project, as presented in a seminar to legislators in December 2011.**

This request will take additional time, as AGDC was not present at [van Meurs'] presentation and has no access to the assumptions that went into the original analysis.

[2:25:28 PM](#)

MS. DELBRIDGE paraphrased question and answer 13, written in the memorandum as follows [original punctuation provided]:

- 13. Be prepared to discuss Section 25 of HB 9, exempting from Regulatory Commission of Alaska review any agreement or amendment to an agreement entered into by AGDC with a public utility, for as long as debt is outstanding on an AGDC pipeline.**

AGDC has indicated it is prepared to discuss this at the committee's pleasure.

CO-CHAIR SEATON said the committee will leave that at this time because there are no commissioners available and no one from the Regulatory Commission of Alaska (RCA) available. He offered his appreciation for the answers provided.

[2:27:09 PM](#)

MR. DUBLER corrected his earlier statement that under HB 9 AGDC would have the highest priority in obtaining permits from the state's agencies; rather, AGDC would be second to AGIA.

CO-CHAIR SEATON inquired whether Mr. Dubler is representing the administration's or AGDC's position on HB 9.

MR. DUBLER replied he is just answering questions on the bill and said the governor is not sponsoring HB 9. He offered his

belief that the governor's position is to let the legislative process work and if HB 9 passes the governor will consider the bill at that time.

CO-CHAIR SEATON opened public testimony on HB 9.

2:29:27 PM

KIRSTEN SIKORA, Acting CEO, Alaska Natural Gas Development Authority (ANGDA), Office of the Commissioner, Department of Revenue (DOR), testified as follows:

For the past eight and a half years ANGDA has focused on its mission to bring the most affordable energy to Alaskan consumers. ANGDA has been flexible and transparent in all of our undertakings. Over the years ANGDA has participated in several projects that are noteworthy.

ANGDA has secured a conditional right-of-way between Palmer and Glennallen. ANGDA completed the required wetlands study, conceptual design, and the route delineation to the draft EIS [environmental impact statement] stage on a bi-directional pipeline between the Beluga Field and Fairbanks. ANGDA secured status as a shipper in TransCanada's Alaska Pipeline Project [APP], which will provide the lowest gas pipeline tariff rates possible to the Alaskan consumers. ANGDA's participation in the APP open season has effectively secured a 30 percent discount over other entrants that may come into the project at a future date. ANGDA worked with private sector companies, Native corporations, and rural communities on the Alaska propane project. This project is an excellent example of how government and the private sector can work together to provide energy solutions and local economic impacts. As part of our statewide view, ANGDA has provided delivery options and other logistical considerations to deliver the clean-burning alternative fuels to those residents in Alaska that will not benefit from an in-state gasline.

In closing, ANGDA's body of work is good and valuable and can benefit the State of Alaska and its consumers. Governor Parnell has stated that projects will align. ANGDA's spur line right-of-way and our status in the open season will greatly complement AGIA. Again, I

thank you for the opportunity to share just a snippet of what ANGDA has accomplished over the years. And, as a mother of three, I truly appreciate the opportunity to be a part of this monumental decision for our future generations.

2:32:05 PM

CO-CHAIR FEIGE inquired about the approximate value on the work for the conditional right-of-way between Palmer and Glennallen.

MS. SIKORA replied that she does not have an exact value on the segment from Glennallen to Palmer, but said she will provide that information by tomorrow. In further response, she said it would be roughly \$6 million.

2:32:41 PM

REPRESENTATIVE KAWASAKI said he is not yet sure what he thinks of HB 9. He related that a 1/30/12 letter from Representatives Chenault and Hawker to the ANGDA Board of Directors states the sponsors' belief that ANGDA's statutory language is overly prescriptive and limits the scope of mission that is critical to adapt to changing markets. He requested Ms. Sikora to address this.

MS. SIKORA deferred to ANGDA's chairman [Mr. Scott Heyworth], saying that it is a policy issue the board can speak to.

CO-CHAIR SEATON requested Mr. Heyworth to present his testimony first and then answer Representative Kawasaki's question.

2:33:50 PM

SCOTT HEYWORTH, Chairman, Board of Directors, Alaska Natural Gas Development Authority (ANGDA), Office of the Commissioner, Department of Revenue (DOR), cautioned that the committee is being asked to take a very risky political action that could close the door on more economically viable gas projects in the state. He said HB 9 would abolish a citizens' initiative that passed with over 63 percent approval 10 years ago. He assured the committee that ANGDA has always kept the interest of Alaskan consumers at the forefront.

MR. HEYWORTH said several aspects of the bill cause him specific concern. Regarding the provision that would eliminate RCA oversight, he asked who would protect the consumers' interest in

a tariff that may prove highly inefficient to consumers. Regarding Section 18 that would repeal and re-enact AS 41.41.020 dealing with the authority's governing body, he said the Alaska Housing Finance Corporation (AHFC) is not the appropriate agency to oversee ANGDA because it is an inherent conflict of interest between shipper and pipeline builder. Both the Alaska Pipeline Project and Denali-The Alaska Gas Pipeline project went to great extents to keep a distance between the commercial team, the pipeline builders, and the potential shippers. While the AHFC board has experience in financial transactions and housing expertise, it has none in energy or gaslines. He stressed that ANGDA has participated in the Alaska Pipeline Project as a shipper, and therefore cannot turn over its confidential agreements to AGDC unless the parties it is working with agree.

[2:36:14 PM](#)

MR. HEYWORTH, continuing with his specific concerns, stated that Section 27, which proposes to add a new subsection to the exemptions in AS 42.05.711, would leave no check and balance in the mega-project development to protect the public interest. It would give carte blanche to the AGDC, with AGDC becoming the self-regulator, developer, and shipper of a pipeline in Alaska and an unregulated State of Alaska monopoly. He said ANGDA would never have looked for these types of changes in its mission, statutes, or exemptions from regulatory oversight. Regarding Section 31, [which would repeal Section 1 of Ballot Measure No. 3], he strongly suggested that HB 9 receive a great deal of scrutiny during the legislative session, given that ANGDA was created by the will of the people. The people of Alaska are counting on legislators to question whether HB 9 is in the best interests of all Alaskans.

MR. HEYWORTH urged committee members to consider whether the needs of the consumers are being placed first, whether it is a viable project without complete state subsidies, and whether the project is the right size and going to the right location, all of which has yet to be determined. He asked where the industrial anchor tenants have weighed in; where do the producers and industrial users want to go - Valdez or Cook Inlet; and whether this project is the right size.

[2:38:06 PM](#)

REPRESENTATIVE KAWASAKI reiterated his question regarding the 1/30/12 letter from Representatives Chenault and Hawker.

MR. HEYWORTH deferred to Ms. Sikora.

MS. SIKORA replied that in the past ANGDA has demonstrated it is always flexible and open to changes. She said she does not believe that at the time this authority was given to ANGDA under AS 41.41 it was overly prescriptive. She added that ANGDA looks forward to working with the legislature and the administration on the best way forward to provide Alaska's consumers with the lowest cost energy.

REPRESENTATIVE HERRON reiterated his earlier question about whether all of the conditions in the conditional lease have been met and satisfied.

MS. SIKORA referenced Co-Chair Feige's statement that the conditional right-of-way could be of value and would be of value to the people of Southcentral. Saying she did not have a line-item description of the work that has been completed, she deferred to ANGDA's permitting coordinator, Ms. Kaye Laughlin, to provide further information.

[2:40:15 PM](#)

KAYE LAUGHLIN, Permitting Coordinator, Alaska Natural Gas Development Authority (ANGDA), Office of the Commissioner, Department of Revenue (DOR), explained that she has been involved in the spur line, which is the conditional right-of-way pipeline lease referenced earlier. She clarified that the conditional spur line lease is actually part of the overall Beluga to Fairbanks pipeline right-of-way lease application. She noted that the state pipeline coordinator was not involved in the federal EIS review that got to the draft EIS stage for the Beluga to Fairbanks pipeline project. She said there are no conditions yet because ANGDA does not have any permits that would carry conditions.

MS. LAUGHLIN stated that a great deal of work has been done by ANGDA and outlined the work that has already been done by ANGDA: completion of conceptual pipeline system design; completion of land ownership surveys; completion of wetlands delineation; cultural resources clearances; 360 degree immersive video; earthquake studies; the project plans required for the EIS and future permits; access roads; materials sites; cultural review by the State Historic Preservation Officer (SHPO); government-to-government involvement meetings; the numbers of culverts and power lines along the route; assessments of wildlife, flora, fauna, threatened and endangered species, invasive weeds,

migratory waterfowl, and air quality; and seismic activity analysis.

MS. LAUGHLIN specified that this work was done for ANGDA's preferred pipeline route, as well as for the five alternative routes, and this work is in ANGDA's custody. Over 90 percent of the existing route is within existing rights-of-way, she said. Additionally, ANGDA has done traffic counts, anadromous streams, and distance and compatibility with the Trans-Alaska Pipeline System (TAPS).

[2:42:53 PM](#)

REPRESENTATIVE HERRON requested that an explanation of the value of the conditional right-of way be compiled and given to the committee co-chairs. He further requested that someone from the administration explain conditional and non-conditional leases.

CO-CHAIR SEATON directed attention to the 2/7/12, 4:19 p.m., e-mail from Ms. Sikora in the committee packet, which states that the right-of-way valuation for the full pipeline length from Palmer to Delta Junction is valued at \$12,522,943 in 2011 dollars. He said that Co-Chair Feige's question was about the value of a segment of that right-of-way and when that breakdown is received from ANGDA the co-chairs will forward it to committee members.

CO-CHAIR SEATON posed the question as to whether there is a conflict if ANGDA is a shipper and requested that a detailed answer be provided to the committee.

[2:46:04 PM](#)

CORRIE YOUNG, reminded committee members that ANGDA was established by an overwhelming vote of confidence by the people of Alaska. [The initiative] passed in every district in the state, she said. Therefore, HB 9 would be abolishing something that was created by the will of the people who spoke overwhelmingly that an entity is needed solely for Alaskans to produce North Slope natural gas and propane for the citizens of today and of the future.

CO-CHAIR SEATON clarified that HB 9 would not abolish ANGDA, but would roll together the structures to create a pipeline and to move that forward. He said he is not commenting on the bill one way or another, just explaining that the bill changes the format

somewhat while keeping the goal of an in-state gas project and trying to move that project forward.

[2:48:38 PM](#)

JAMES FIELDS stated that he is the school board president for the Copper River School District as well as a business owner and parent. He stressed that gas is needed in his area now; the area's residents cannot wait for something to get from Palmer to Glennallen and then on over to the Copper River Basin. Despite the government, highway, and other infrastructure in his area, he continued, school enrollment has declined 36 percent over the last nine years, which is huge and shows what the population is doing in the region. People moved to the region when fuel oil was 50 cents a gallon, not when it was \$4 per gallon. He postulated that Anchorage has not seen as big a price increase due to its larger population, but said the residents of his community are citizens like the people in Anchorage are.

MR. FIELDS related that ANGDA knocked on his door five years ago and he and others were excited when that happened; however, since then it has been a complete roller coaster of whether a pipeline is happening. He said he is opposed to HB 9 and has not met anyone in the Copper River Basin who is for the bill. He urged the committee to do what is the best long-term solution for the whole state, not a short-term solution for the biggest population area. A long-term solution will count in matters of tourism, he said; if the Interior goes away, then only the coast will have tourism. He said people of the Copper River Basin are listening and aware of this issue, but they are busy trying to make ends meet when it is 50 below and there is no fuel subsidy.

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CO-CHAIR SEATON presumed that Mr. Fields is in favor of an in-state gasline and in-state gas supplies to communities, but that Mr. Fields is fearful of the proposed route that would go down the Parks Highway.

MR. FIELDS responded that that was the case originally. However, after listening to the other testimony he is now fearful of the whole idea because it takes away the mandate of the people and takes away certain rights. He said he is therefore fearful of both and he thinks that ANGDA should stay in place and go forward as the people wanted it to.

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MERRICK PEIRCE testified that he has spent the last half decade working to see the voter-mandated All-Alaska Gasline built. He noted that he is a board member and CFO of Alaska Gasline Port Authority (AGPA), but that his comments today are his own. He said something very important is missing from the presentations he has heard today as well as on 2/6/12. To explain, he presented a scenario in which he brings forth a piece of legislation that would do everything HB 9 proposes, but instead of building a gas pipeline his legislation would build a multi-billion dollar water pipeline to transport ocean water from the Arctic Ocean to Cook Inlet. He predicted that committee members would respond to his proposed legislation by saying that there is plenty of water in Cook Inlet and a water pipeline is a pointless costly boondoggle. He said this absurd scenario helps illustrate the most fundamental of the many problems with HB 9, which is: Why would Alaska spend billions to take gas from Prudhoe Bay to Cook Inlet when there are trillions of cubic feet of Cook Inlet gas that can be delivered to customers at a fraction of the cost of the bullet line?

MR. PEIRCE maintained that to take HB 9 seriously, committee members would have to believe that the U.S. Geological Survey (USGS), other agencies, and various gas companies are all wrong in their belief that there are trillions of cubic feet of gas in Cook Inlet. He respectfully suggested that the committee invite these experts to explain why they believe there are trillions of cubic feet of gas under Cook Inlet and to explain their concerns about marketing that gas.

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MR. PEIRCE said the real question is what to do with all the gas in Cook Inlet. He related that the USGS believes 19 trillion cubic feet of gas are under Cook Inlet, in 2004 the U.S. Department of Energy estimated 21-25 trillion cubic feet, Buccaneer Energy has told him it thinks 16 trillion cubic feet are likely, and Escopeta recently found 3.5 trillion cubic feet in its first well in the Kitchen Lights Unit. Therefore, he asserted, this question is so fundamental that it must be addressed for the evaluation of HB 9 to have any credibility. He pointed out that one trillion cubic feet of gas would be an 11-year supply for the Railbelt at its current usage of 240 million cubic feet per day. Ten trillion cubic feet, about half of what USGS believes exists, would be a supply of 111 years. The 3.5 trillion cubic feet in the Kitchen Lights Unit could be as much as a 40-year supply for the Railbelt.

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MR. PEIRCE argued that the bullet line, also known as the pipeline to poverty, is not what Alaska voters asked for because it follows the wrong route and bypasses Fairbanks, North Pole, the state's critical military bases, and the vast mineral resource potential along the Richardson Highway corridor. It only offers two gas take-off points for the entire state and has no economy of scale, so it will not deliver affordable energy to Alaskans. He said it is known that the cost of gas - based upon current usage and no Cook Inlet supply - would be over \$20 freight on board (FOB) Anchorage, and offers no new substantial revenue to Alaska. This AGDC project is a disaster, he charged, which is why so many entities that have carefully looked at this project are opposed to it, among them the City of Valdez, City of North Pole, Fairbanks North Star Borough Assembly, and the Alaska Municipal League. He added that the league voted nearly unanimously in favor of building the All-Alaska Gasline and that vote was after hearing from AGDC, AGPA, and ANGDA. He said he is really disappointed that the legislators sponsoring HB 9 took office by the will of the people, but once elected worked to subvert the will of the people that was expressed in the 2002 voter mandate. He urged defeat of HB 9.

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CO-CHAIR SEATON closed public testimony after ascertaining no one else wished to testify. He noted there would be invited testimony from the RCA and possibly others at a later date.

[HB 9 was held over.]

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:58 p.m.