

**ALASKA STATE LEGISLATURE**  
**SENATE RESOURCES STANDING COMMITTEE**

March 26, 2012

3:33 p.m.

**MEMBERS PRESENT**

Senator Joe Paskvan, Co-Chair  
Senator Thomas Wagoner, Co-Chair  
Senator Bill Wielechowski, Vice Chair  
Senator Bert Stedman  
Senator Hollis French

**MEMBERS ABSENT**

Senator Lesil McGuire  
Senator Gary Stevens

**OTHER LEGISLATORS PRESENT**

Senator Cathy Giessel  
Senator Joe Thomas

**COMMITTEE CALENDAR**

PRESENTATION: By Chrystia Chudczak, Assistant Commissioner,  
Canadian Federal Northern Pipeline Agency on the Alaska Highway  
Gas Pipeline Project

- HEARD

SENATE BILL NO. 215

"An Act requiring the Alaska Gasline Development Corporation to construct a natural gas pipeline to deliver Cook Inlet natural gas to Fairbanks and other communities between Cook Inlet and Fairbanks that do not have access to a natural gas pipeline."

- HEARD & HELD

SENATE BILL NO. 209

"An Act relating to oil and gas or gas only leasing; requiring that a minimum work commitment be included in each oil and gas and gas only lease and that a proposed plan of development be included in an application for an oil and gas or gas only lease; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 215

SHORT TITLE: GASLINE DEV. CORP: IN-STATE GAS PIPELINE

SPONSOR(s): SENATOR(s) THOMAS

02/21/12	(S)	READ THE FIRST TIME - REFERRALS
02/21/12	(S)	RES, FIN
03/19/12	(S)	RES AT 3:30 PM BUTROVICH 205
03/19/12	(S)	Heard & Held
03/19/12	(S)	MINUTE(RES)
03/23/12	(S)	RES AT 3:30 PM BUTROVICH 205
03/23/12	(S)	Heard & Held
03/23/12	(S)	MINUTE(RES)
03/26/12	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 209

SHORT TITLE: DEVELOPMENT PLANS FOR OIL & GAS LEASES

SPONSOR(s): SENATOR(s) WIELECHOWSKI

02/21/12	(S)	READ THE FIRST TIME - REFERRALS
02/21/12	(S)	RES, FIN
03/23/12	(S)	RES AT 3:30 PM BUTROVICH 205
03/23/12	(S)	Heard & Held
03/23/12	(S)	MINUTE(RES)
03/26/12	(S)	RES AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

CHRYSTIA CHUDCZAK, Assistant Commissioner  
Northern Pipeline Agency  
Canada

**POSITION STATEMENT:** Presented overview of Canadian portion of the Alaska Highway Gas Pipeline Project.

FRANK RICHARDS, Deputy Coordinator  
Office of the Federal Coordinator for the Natural Gas  
Transportation Projects  
Canada

**POSITION STATEMENT:** Commented on Alaska Highway Gas pipeline Project issues.

PETER TAYLOR  
Counselor of Canada  
Anchorage, AK

**POSITION STATEMENT:** Commented on Canada's shale gas developments and oil and gas export issues.

SCOTT HEYWORTH, Chairman  
Alaska Natural Gas Development Authority (ANGDA)  
Anchorage, AK

**POSITION STATEMENT:** Delivered an overview of what ANGDA had done with the Beluga to Fairbanks (B2F) project.

RICHARD "O.D." ODSATHER  
Odsather International Marketing  
ANGDA contractor  
Fairbanks, AK

**POSITION STATEMENT:** Answered questions on pipeline routing related to SB 209.

SENATOR JOE THOMAS  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Co-sponsor of SB 215.

KARA MORIARTY, Executive Director  
Alaska Oil and Gas Association (AOGA)  
Anchorage, AK

**POSITION STATEMENT:** Did not support SB 209.

DAVID STONE  
Mayor of Yakutat  
Yakutat, AK

**POSITION STATEMENT:** Supported SB 209.

#### **ACTION NARRATIVE**

[3:33:45 PM](#)

**CO-CHAIR JOE PASKVAN** called the Senate Resources Standing Committee meeting to order at 3:33 p.m. Present at the call to order were Senators Stedman, French, Co-Chair Wagoner and Co-Chair Paskvan. Senator Wielechowski joined the meeting shortly after.

**Presentation by Chrystia Chudczak, Assistant Commissioner,  
Canadian Federal Northern Pipeline Agency on the Alaska Highway  
Gas Pipeline Project**

[3:35:19 PM](#)

**CO-CHAIR PASKVAN** welcomed Assistant Commissioner Chudczak of Canada's Federal Northern Pipeline Agency.

CHRYSTIA CHUDCZAK, Assistant Commissioner, Northern Pipeline Agency, Canada, introduced herself.

FRANK RICHARDS, Deputy Coordinator, Office of the Federal Coordinator for the Natural Gas Transportation Projects, Canada, introduced himself.

PETER TAYLOR, Counselor of Canada, Anchorage, AK, introduced himself.

CO-CHAIR PASKVAN asked them to comment on what Canada is doing with respect to the large diameter pipe.

MS. CHUDCZAK said she would talk about how Canada is preparing for the Alaska Gas Highway Pipeline Project should it go ahead. The biggest question on the table for all parties is the commercial uncertainty around the project. The project will go ahead only if they are commercially viable, if the markets want it, and if the producers seek and find successfully securing customers for it.

Within this rubric, they view the project as being the same; its purpose continues to be to ship natural gas from the North Slope through Alaska, the Yukon, Northeastern B.C. and into the Lower 48. Its footprint is essentially the same: the same route and scope. But the context against which decisions are being taken has changed in the last 35 years. Technology advances have enabled pipeline technology to become more sophisticated pumping more gas through more safe materials - through smaller pipe at a higher pressure, for example. New environmental laws have come into play in Canada and elsewhere; for example, the Canadian Environmental Assessment Act exists now, but didn't 35 years ago. This impacts how they regulate and make decisions around large-scale resource projects and other projects.

Society's values have also shifted, she said. For example, now value is placed on traditional knowledge that is gleaned from Aboriginal people from First Nations that is used in the process of regulatory decision making in Canada.

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MS. CHUDCZAK said that clearly new market pressures are at play: "shale, shale and shale; Asia, Asia and Asia; and liquefied natural gas or LNG and LNG." She assured them that Canada is ready to proceed should this project become commercially viable.

The three "buckets of assets" they bring to the table are first their existing legal instruments that have been granted throughout the last 35 years on this project. These are, first, the international treaty with the government of the United State (US). This is important because it is the only pipeline project that is the subject of an international treaty. With that, comes special obligations and responsibilities on both sides to fulfill.

Secondly, as a consequence of that treaty, they have the Northern Pipeline Act, a piece of legislation that actually creates the Northern Pipeline Agency, which gathers all the authorities from various different departments in the government of Canada and centralizes them in a single place.

Third, in 1978, the government of Canada issued certificates of public convenience to this project, so it has been approved unlike the US version of it, in which companies are not certain they will go ahead.

MS. CHUDCZAK said also in terms of existing instruments, the company has in its possession an easement with the government of the Yukon for the corridor through the Yukon, an important asset moving forward.

She said the second bucket of assets is the fact that Canada is an experienced regulator in this project having regulated stage 1 in the late 70s and 80s; they also have experience in the environmental assessment process. As part of that they have attached 750 terms and conditions to the certificates that are extensively prescribed.

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Finally, they have an efficient regulatory framework. This single-window model that consolidates all federal authorities under one roof is unique in Canada and is looked upon to a certain extent as being a model for the future. This agency has the responsibility government-wide for consulting with First Nations.

MS. CHUDCZAK said this law hints about how the regulatory framework was set up using the existing Northern Pipeline Act as a legal model. But the biggest challenge has been how to update information over the last 30 years related to the economy, to the environment and to society, because things have changed. So, they are using the Act and invoking the process of striking advisory councils in the Yukon and Northeastern B.C. that will

conduct public review processes that will speak to and enable the public to contribute their ideas as to what needs to be updated. In the end a report will be put forward to the minister who will act on it. She said this doesn't happen unless relationships have been built and individuals including the governments have been engaged and Canada has been doing that since 1978 even as the project has grown and gotten smaller.

[3:42:29 PM](#)

She emphasized the importance of their fiduciary obligation to the approximately 30-plus First Nations along the pipeline corridor route in the Yukon and B.C. on behalf of the crown to consult with them when a project impacts their rights. Some have settled land claims and others don't, but the law requires taking their interests into account when a project has a material impact on them. She related that Canada has decided to fund certain First Nation groups through grants and contributions that will allow them to build the human capacity to deal with others.

In fulfilling their treaty obligations they have revitalized their engagement with is the State of Alaska and the government of the US and she stated that building strong relationships between both jurisdictions allows them to understand each other's regulatory perspectives and processes more clearly and be able to advance the project should it proceed more quickly on both sides of the border.

MS. CHUDCZAK summarized that they are streamlining pipeline regulations and invoking modern business practices in their own agency to ensure they modernize and are technologically up-to-date and can collaborate in a timely way. They are moving toward securing six tangible outcomes that are key to meeting the following treaty and project goals:

1. Meet and exceed environmental standards and social economic standards through a smart process that is collaborative
2. Respect existing federal approvals
3. Ensure safe pipeline design/construction through regulatory transparency
4. Secure maximum socio-economic benefits by encouraging business relationships between proponents, First Nations and local communities
5. Meet their duty to consult Aboriginal peoples by strengthening how they consult and how frequently they do it
6. Engage the public and industry through a timely predictable process.

Looking ahead, Ms. Chudczak said, they couldn't predict the commercial direction of this project clearly, but they are preparing for the future. That was why she was there describing what they are doing. They believe this is what it takes to support long term growth and job creation in both Canada and in North America. They ultimately believe that this is the type of activity that will unleash North America's natural resource advantage.

3:45:23 PM

SENATOR STEDMAN said it was nice to have Canadian neighbors come down and give them an update. He asked for an update of the MacKenzie line, since Exxon was involved with it. He also said that the Energy Council had watched escalation of the oil sands development and the proposal to export gas, and potentially oil, through the West Coast B.C.

3:48:06 PM

MR. TAYLOR responded that the MacKenzie line got its regulatory approval last year, but in terms of something happening they are laboring under the same considerations Alaska is, which is the market in the Lower 48. He said that Canada is already exporting gas to the Lower 48 mostly from Alberta and a couple of major shale gas plays in Northeastern B.C. are now online and starting to feed into the system. So there is a surplus of gas. He understood that the MacKenzie line has regulatory approval but no precedent agreements with producers that would allow them to build a very expensive line in the north - same as Alaska. He said last year Premier McCloud talked about the MacKenzie Valley line and he thought perhaps he was trying to talk it up because there is no indication of commercial contracts.

On the broader question about exports from Canada to the US and elsewhere, obviously they are the largest foreign supplier of natural gas to the US along with 2.5 million barrels of oil (an increasing proportion of it from oil sands). He said there is talk of an pipeline to Kitimat to export oil to Asia and he stated that this is something his Prime Minister and his Energy Minister have mentioned a number of times as a question of diversification from almost total dependence on the US market. However, consultations with First Nations and others haven't taken place about it and the regulatory process is not there.

He noted that US Senator Murkowski said if oil is going to be exported from Kitimat, the tanker traffic would be awfully close to Alaskan waters in terms of single hull ships. He talked to a friend in Transport Canada about this who said that technically

that is correct at the moment, but since Canada will have a double hull requirement by 2015, there is no prospect that any oil if shipped from Kitimat would be shipped in single hull tankers.

SENATOR STEDMAN said Southeast is always struggling to increase trade traffic with Prince Rupert, because it is so close to us; with the new port and rail line there, the state was hoping to take advantage of some synergies. And he was confident that B.C. and Southeast Alaska would be working in conjunction with some form of spill response for Dixon Entrance.

[3:54:09 PM](#)

MR. TAYLOR stated that the Coast Guard has already raised the issue of tanker traffic and relevant authorities are already aware of it and won't let the rest forget. He asked if anyone had statistics about the times when the Alaska refineries or Southeast buys fuel products from sources other than Canada.

SENATOR STEDMAN responded that more comes into Anchorage, dealing with the Anchorage airport and other areas. Southeast gets most of its fuel products from Cherry Point in Washington State. He explained that Alaskan oil goes to Cherry Point to be refined and shipped back because Alaska doesn't have the mass of population to warrant construction of refineries. He didn't know if Canada was considering refineries in B.C., but Prince Rupert and Kitimat are substantially closer to Alaska than Cherry Point.

[3:56:32 PM](#)

SENATOR FRENCH said shale gas in the Lower 48 has had a big impact on our pipeline and asked how much more or less gas Alberta is exporting to the US.

MR. TAYLOR replied that honestly he didn't know, but it's fairly clear that B.C. is producing shale gas into the system that supplies large chunks of gas to urban Canada as well as large chunks of gas to the urban US and Midwest.

CO-CHAIR PASKVAN said when it comes specifically to the 1,700 mile pipeline from the North Slope into Canada, the US Coordinator's Office budget was significantly cut and asked what the status of Canada's budget was.

MS. CHUDCZAK replied that currently their budget is \$1.3 million annually. On top of that they have approximately \$1.2 million in a grants contributions fund for First Nations communities for

capacity building. A federal budget will be talked about in Parliament this Thursday by the Minister of Finance and they will have to see what he does.

CO-CHAIR WAGONER asked for more information about the single-window model.

MS. CHUDCZAK responded that the agency is a single-window model that was created in 1978 through an act of Parliament that gave effect to the treaty as well. Basically, it takes various federal departments that have pieces of legislation that impact on the regulatory process - the Fisheries Act and the Permitting Transport Act, for example - and delegates them to the proper minister. At this point, it is the Minister of Natural Resources. In doing that delegation, her agency would be making decisions on the regulatory side through that window; the authority to make decision on transport would come to them through the Minister of Transport. So, instead of having four ministers out there making separate decisions that are coordinated but not integrated, a single minister does it for all.

CO-CHAIR WAGONER asked if the minister could be different for different projects.

MS. CHUDCZAK replied that this model only exists for this specific project.

MR. RICHARDS remarked that in 1976, Congress created the Alaska Natural Gas Transportation Act and it gave what was called the Office of the Federal Inspector that same single window authority. That office then had various other federal regulatory agencies working under it on the regulatory permits. That law was changed in the Alaska Natural Gas Pipeline Act in 2004 when the office was stripped of its single-window authority.

CO-CHAIR WAGONER said this was a good model for an all-encompassing program and asked where he could find an organizational lay out.

MS. CHUDCZAK replied the Canadian law would lay that out.

[4:01:28 PM](#)

CO-CHAIR PASKVAN said that in general he was intrigued by the portion of her presentation and asked what she meant by "shale - shale - shale - Asia - Asia - Asia."

MS. CHUDCZAK replied that with respect to this agency and project, they are hearing the same thing he is about the potential of an LNG option in Alaska as one of the various competing proposals. Ultimately, it's a commercial decision and Canada is prepared to move forward if that decision is taken.

CO-CHAIR PASKVAN asked for concluding remarks.

MS. CHUDCZAK thanked the legislature for allowing them this opportunity to address them.

[4:03:30 PM](#)

At ease from 4:03 to 4:05 p.m.

**SB 215-GASLINE DEV. CORP: IN-STATE GAS PIPELINE**

[4:05:16 PM](#)

CO-CHAIR PASKVAN announced consideration of SB 215 and a continuation of the Monday, March 26, presentation.

SCOTT HEYWORTH, Chair, Alaska Natural Gas Development Authority (ANGDA), Anchorage, AK, said he had two contractors with him to give an overview of what ANGDA had done with the Beluga to Fairbanks (B2F) project.

[4:07:05 PM](#)

He said about four years ago, Governor Palin called a press conference and asked ANGDA and Enstar to run a "project," which was a gasline from Cook Inlet to Fairbanks. ANGDA had one meeting with Enstar who pulled away, but ANGDA continued and started looking at the Ft. Richardson/Glenn/TAPS corridor route. They felt that it had the most population with three military bases, Golden Valley Electric and the Flint Hills Refinery. They already had a state unconditional right-of-way lease from Glennallen to Palmer and it would be very easy to work in the existing TAPS corridor, recently valued at \$12 million by Legislative Budget and Audit (LB&A). ANGDA ran out of funding, but completed 80 to 90 percent of the route.

[4:08:47 PM](#)

CO-CHAIR PASKVAN wanted to know if the following statement in a December 2009 report was still true:

There are sufficient additional natural gas reserves in the Cook Inlet region for development and delivery to Fairbanks via the B2F Pipeline. Therefore, the

supply of gas to existing consumers of Cook Inlet Natural Gas would not be adversely impacted.

MR. HEYWORTH responded that he didn't know how much faith he had in that statement even four years ago, but today he believed there was plenty of gas in Cook Inlet, 3.5 tcf or 10-15 years of gas according to Furie. Cook Inlet is supposed to have three jack-up rigs working in it this summer, and there is a good chance a lot more gas will be found if they get lucky like Furie did in striking a big find on the very first well.

[4:10:46 PM](#)

CO-CHAIR WAGONER related that Furie said on Wednesday that their estimate was down to 750 bcf/d and they still hadn't flow tested the well or done a lot of logs on it. And only two jack-up rigs will be in Cook Inlet this summer, the Endeavor and Spartan 151; there never was a third.

MR. HEYWORTH remarked that he was disappointed about going down to 750 bcf.

CO-CHAIR PASKVAN asked him to elaborate a little more on why the B2F project was not completed.

MR. HEYWORTH replied that a couple of things coincided. As ANGDA got started on Governor Palin's B2F project, a parallel instate gasline committee was started in HB 269; its first chairman was Harry Noah who passed it off to Bob Swenson, who passed it off to Dan Fauske. The other group was strongly for the Parks Highway; but ANGDA ran out of funds and support and started receiving a lot of resistance from the Army Corps of Engineers and the Bureau of Land Management (BLM). The state decided to get behind Mr. Fauske and HB 9.

[4:14:17 PM](#)

SENATOR FRENCH asked how much longer the Glenn/Richardson route is than the Parks Highway route.

MR. HEYWORTH answered that he wanted help in answering that from Mr. Odsather.

[4:14:55 PM](#)

RICHARD "O.D." ODSATHER, Odsather International Marketing, ANGDA contractor, Fairbanks, AK, answered that one line, Glennallen to Delta to North Pole, is 30 miles shorter than the other. The distance for the Glenn Highway/Tok/North Pole route was about

437 miles and the distance for the Milepost 39/Dunbar/Fort Greely route was 467 miles; three military bases were involved.

SENATOR FRENCH said he wanted to compare a line from Big Lake to Fairbanks versus a line from Fairbanks to the nearest pipeline coming down the Richardson and the Glenn Highways.

MR. ODSATHER responded to subtract 25 miles from the 467 miles for going up through Dunbar, because it's 25 miles from Big Lake to Milepost 38 on the Enstar line.

SENATOR FRENCH asked him how many pipeline miles it was from Big Lake to Fairbanks up the Parks Highway saying he came up with 271 miles. Mr. Odsather agreed.

SENATOR FRENCH asked how many miles it was from the nearest pipeline touching the grid that connects Anchorage to Fairbanks through the Glenn/Richardson route if its 271 miles from Big Lake to Fairbanks.

MR. ODSATHER responded that they had to back up a bit, because to make them equal, you have to go from Fairbanks up to Fort Greely to pick up the three military bases.

SENATOR FRENCH asked why the three military bases have to be included.

MR. ODSATHER explained that the B2F line includes Fort Wainwright, Eielson Air Force Base and Fort Greely as anchor tenants.

SENATOR FRENCH asked Mr. Odsather if he was saying that he had added enough pipe to the 271 miles from Big Lake to Fairbanks to touch the three bases (if they all agreed that is something that has to be done).

MR. ODSATHER replied "Yes, sir...if you want to make them equal, you have to do that."

[4:20:25 PM](#)

CO-CHAIR WAGONER said Mr. Odsather was saying you have to add the distance from Fairbanks back down to the bases using the Parks Highway route, but you don't have to add the bases. First, they need to figure out what it takes to get to Fairbanks and then if the bases want the gas they can build a supply line from wherever the hub is established.

SENATOR FRENCH asked how big the pipe would be.

MR. ODSATHER replied 24 inches from Palmer to Delta and 10 inches from Delta to North Pole.

[4:24:02 PM](#)

CO-CHAIR PASKVAN asked if the 24 inch pipe from Delta into Palmer was for the lateral from the anticipated 48 inch line going to Canada.

MR. ODSATHER answered yes and he added that it's a totally reversible pipeline.

CO-CHAIR PASKVAN asked if building a gasline next to a railroad (the Parks route) would save any money.

MR. ODSATHER answered if you can get the permits from the highway or the railroad, fine, but it may be difficult going through Denali State Park where the highway goes through an "omnibus road" and its subsurface is owned by the federal government. So, you might have to negotiate with the federal government.

CO-CHAIR PASKVAN asked if it was good or bad to have a railroad close by.

[4:25:40 PM](#)

MR. ODSATHER replied that personally he would move it off to the edge of the road, because that is the greatest thaw area and therefore the least stable.

[4:26:06 PM](#)

SENATOR JOE THOMAS, Alaska State Legislature, Juneau, AK, co-sponsor of SB 215, observed that the B2F line was considered important at one time and a reduced-size plastic pipe was going to go from Delta into Fairbanks, because they were anticipating that a line would come down through Fairbanks anyhow. So, you put in the plastic line and when the big line was built you could remove the plastic one.

The Parks Highway is 365 miles from Anchorage to Fairbanks and you're roughly 30 some miles north of that. So if you run right into Fairbanks, you subtract 30 miles off of that and come up with a 335 mile pipeline.

SENATOR FRENCH said he was a big supporter of this project and gas pipelines in general, but the North Slope gas project is so

big that it's hard to pinpoint when it will actually happen, and that was why they were considering taking existing gas production to where was needed in the Interior. He asked if they were thinking about using plastic pipe as a short-term fix.

MR. HEYWORTH replied that ANGDA had researched PVC pipe and it could be used if it was going down the Glenn/Richardson/TAPS corridor where it's very close to either base. But to be fair, an existing Enstar line goes to Big Lake and it has an 18 inch tap at the end of it. You could come off of that and proceed north on the Parks Highway and come into Dunbar and Nenana and get into Fairbanks and North Pole. But what he really wanted to convey to the committee was the idea that if the ASAP pipeline comes off the North Slope from Livengood down through Minto to Dunbar and then cuts over to the UAA campus with the 39-mile lateral, then 20-mile increments gets you to Fairbanks, North Pole and Eielson. The lateral could be a smaller 10 inch pipeline coming all the way down to and through Delta Junction. He asked why you would come down just to Dunbar if you start with the lateral going all the up to North Pole and not just continue down the Glenn/Richardson at that point and hit all the military bases: Livengood to Dunbar, east to Golden Valley and North Pole and then pick up the ANGDA route to Palmer. It's a much cheaper pipeline that catches everybody.

SENATOR FRENCH said he appreciated his answer and that he was just trying to get up to speed by thinking of the quickest, cheapest solution.

SENATOR THOMAS said realistically the only base you would leave out if you came from mile 39 and went up the Parks Highway by building a 340 mile pipeline would be Fort Greely. A plastic pipe would probably last long enough if an instate line of some type would be installed at a later date.

SENATOR FRENCH said it would be interesting to know how much gas can move through 12 inch plastic pipe, because he didn't how long Fairbanks was going to wait to get a steel pipeline from the North Slope - and he didn't think they could wait that long.

SENATOR THOMAS replied that someone probably has the calculation for a temporary fix to Fairbanks, but he thought a 10 or 12 inch pipe would be more than enough.

[4:33:57 PM](#)

SENATOR FRENCH said every single house in Fairbanks would have to convert and distribution lines would have to be laid and

wondered how long that would take no matter how the gas gets there.

SENATOR THOMAS agreed.

CO-CHAIR WAGONER said they should establish a location for a hub. Pipelines don't put all the supply lines out there; they let whoever has the certificate of public convenience do it. The main thing is to get the gas to that area and let everyone else worry about the distribution.

CO-CHAIR PASKVAN agreed and said the line between Fairbanks and Big Lake does not need to be 24 inches. That's only if you want to pre construct the lateral to hook up with a future large diameter line going to Valdez or through Canada.

CO-CHAIR WAGONER said there should be just one line to take care of all the needs.

[SB 215 was held in committee.]

**SB 209-DEVELOPMENT PLANS FOR OIL & GAS LEASES**

[4:37:32 PM](#)

CO-CHAIR PASKVAN announced the consideration of SB 209. He asked Senator Wielechowski if he had any comments before the committee heard the invited testimony.

SENATOR WIELECHOWSKI said he did not have additional comments but he had received a lot of favorable feedback on the bill.

[4:38:37 PM](#)

ARA MORIARTY, Executive Director, Alaska Oil and Gas Association (AOGA), is a business trade association to foster long-term viability of oil and gas industry. AOGA hold active leases for more than 1.2 million acres of state land. They do not support SB 209. She gave the following comments:

COMMENTS OF THE ALASKA OIL & GAS ASSOCIATION  
ON SB 209  
SENATE RESOURCES COMMITTEE  
MARCH 26, 2012

Co-Chairmen Paskvan and Wagoner, Members of the Committee: good afternoon. For the record, my name is Kara Moriarty and I'm the Executive Director of the Alaska Oil and Gas Association (AOGA). Thank you for

the invitation and opportunity to testify on Senate Bill 209.

AOGA is a business trade association whose mission is to foster the long-term viability of the oil and gas industry for the benefit of all Alaskans. Our 16 member companies represent the breadth and scope of the industry in Alaska, and have interests all across Alaska, both onshore and offshore.

As I've mentioned in previous testimony, AOGA's members hold active leases for more than 1.2 million acres of state land.

AOGA does not support Senate Bill 209. This bill was described as being a "pro-development bill that simply seeks to get more oil in the pipeline." We respectfully and emphatically disagree. We think this bill would do the exact opposite and kill development before it even has a chance of happening because it will have a chilling effect on the very first step in the development process, the leasing program.

4:40:26 PM

The current leasing system in Alaska is an "auction" system that is used on State land and is also used on federal lands in the Gulf of Mexico, offshore Alaska, and the National Petroleum Reserve. For state leases, the areas offered are quite small. By law, a lease cannot be more than 5,760 acres, or 9 square miles. The bid variable for the "auction" is almost always a cash bonus. The bonus is calculated by multiplying the number of dollars per acre bid by the number of acres contained in the lease. Whoever bids the most for each lease wins the exclusive rights to explore on that lease for the term of the lease. Every activity that is carried out on the lease requires permits. No permits are granted, or lately even guaranteed, as a result of the bidding process.

This bill seems to shift the current leasing program into a licensing program. Licensing is used around the world and comes in many different variations. Typically VERY large areas of land are made available to be licensed by competing companies. The licenses Senate Resources Committee Page 2 SB 209 March 26, 2012 are often awarded based on the work commitment

made. Typically there is no cash bonus. The winner is determined by how much work, and often the kind of work, the potential licensee is willing to do. Licenses are awarded for only very large tracts of land, and the jurisdiction usually provides seismic information and awards permits in a much more expedient manner versus Alaska where state and federal permits take years, not months.

4:42:30 PM

Alaska has had a licensing program for frontier exploration areas for almost 20 years. Licenses are available for up to 500,000 acres of land and are based on a work commitment and there is no bonus bid. It is important to note, that the current state licensing program is and was created for the exploration basins, not the producing provinces, so it is current statute that licensing cannot be used in the Cook Inlet or on most areas of the North Slope. When the current area-wide leasing program was established, it was clear the administration and legislature at the time saw the need for both systems, and the legislature did not want to give up the bonus bids in those areas. In fact, the state's area-wide leasing program is one of the few bright spots of doing business in Alaska from an oil and gas company's perspective, because our current area-wide leasing program is very consistent. SB 209 would create administrative burdens that will likely alter the certainty for timing and awarding of bids. Additionally, a number of licenses have been awarded and wells have been drilled in these exploration frontier basins, but it is crucial to point out that no production has yet resulted from a license.

As I mentioned, licensing involves very large swathes of land. In doing some research, we evaluated an upcoming licensing round in Greenland, the entire licensing area is about 50,000 square kilometers. The individual licenses will be available within that area range from 420,000 acres to 940,000 acres. By comparison, the entire Prudhoe Bay field is about 215,000 acres. So, the smallest license available is about twice the size of the entire Prudhoe Bay oilfield. Additionally, the smallest license available would contain about 72 state leases.

If the state wants to turn our current area-wide leasing program into a licensing program, then the state should evaluate all facets of a licensing program, such as providing much more seismic information up front and expediting the permitting process.

4:45:01 PM

In evaluating this last lease sale on December 7, 2011, the state received over \$14 million in high bonus bids and leased almost 335,000 acres in 178 different tracts of land. Two currently producing companies participated in this sale; long-time Alaska company ConocoPhillips won 34 tracts and one of the state's smallest producers, Pioneer Natural Resources, submitted one bid, which it obtained for one tract. The other companies that participated were Royale Energy, Great Bear Petroleum, Repsol, 70th & 148 (a division of Armstrong Oil and Gas), Woodstone Resources, Savant Alaska, Alaska LLC and individuals such as Dan Donkel, Samuel Cade, Paul Gavora, Andrew Bachner and Keith Forsgren.

I think it is important to note, that the two most recent producing fields, Oooguruk and Nikaitchuq, were leases originally obtained by one of these smaller companies and were eventually sold and/or partnered with a producing company to explore and produce these leases.

Following the lease sale in December, the commissioner of Natural Resources, Dan Sullivan stated, 'It was quite a respectable showing.' He went onto say, 'I would say that there were some companies that I thought would show up who didn't. It's always hard to know why...' Sullivan said further, 'These (lease sales) are just the first inning of a long term strategy... Here is the issue: We recognize the status quo is not working. A critical part of our five-point plan is tax reform.'

4:47:23 PM

Even though the state received 219 bids for the North Slope area-wide lease sale, no bids were submitted for the same lease sale in the Foothills area.

Senate Bill 209 says that for each lease a company wants to submit a bid for, the bidder must submit a plan of development for that lease. So, for this last North Slope Area-wide lease sale, 219 individual bids were received and as I mentioned 178 tracks were sold. Under this legislation, the above bidders would have had to submit 219 individual plans of development for evaluation. Royale Energy would have had to submit 87 different plans of development, Great Bear 32 and Repsol 26. AOGA finds it hard to believe that especially these smaller companies or any companies would have the ability and resources to submit detailed plans of development prior to submitting a bid for lease. The same concern rings true not only for the North Slope, but for Cook Inlet as well. Cook Inlet is experiencing a resurgence of interest and requiring a plan of development prior to a lease sale is impractical and unnecessary.

In addition, this bill would require companies to provide their own interpretation of each lease prior to bidding and determine how they will develop each lease without having the opportunity to evaluate each lease. A company may have limited seismic and may not have access to all the current well data. The bidder may be working from a geologic concept that can't be tested until they actually have the lease and are able to evaluate it. That's what exploration is for, to test what is actually there, much in the same way Repsol is doing with their leases on state land and what Shell is trying to do in the offshore. A company should not be forced into making unnecessary commitments before it has a robust opportunity to evaluate and understand what the potential of the lease might be.

Not one of my member companies believes this bill will result in more development or put more oil in the pipeline. On the contrary, we believe that forcing companies to perform this intrusive exercise will do nothing more than drive out the very explorers Alaska is trying to attract.

Thank you for the opportunity to testify and I'm happy to take any questions the committee may have.

SENATOR WIELECHOWSKI commented that maybe he could work with AOGA to craft better language, because it was not his intent to require plans of development like the ones a company must have in getting a unit approved, but rather for a company to come forward with some minimum work commitments and a timeframe. So, you don't get speculators coming in and acquiring leases to just hold on to them with no intention of developing.

CO-CHAIR PASKVAN asked her to submit written testimony. He also noted that the DNR Division of Oil and Gas and Department of Law were invited to testify.

[4:52:53 PM](#)

DAVID STONE, Mayor of Yakutat, Yakutat, AK, thanked the committee for inviting him to testify on SB 209. He agreed with developing our resources for the benefit of Alaskans, but he said the state leases are not designed to be a stored value. They are designed to be developed. Norway's model is you develop in a reasonable time or the leases are null and void. There should never be another Pt. Thomson - four decades and now the state is spending a fortune on lawsuits trying to get the land developed. Many small developers want to get on that land and it's being tied up by the big three.

CO-CHAIR WAGONER thanked Mayor Stone for testifying.

CO-CHAIR PASKVAN said that concluded today's hearing on SB 209. [SB 209 was held in committee.]

[4:55:18 PM](#)

CO-CHAIR PASKVAN adjourned the Senate Resources Standing Committee meeting at 4:55 p.m.