

**ALASKA STATE LEGISLATURE**  
**SENATE SPECIAL COMMITTEE ON TAPS THROUGHPUT**

February 26, 2013

3:31 p.m.

**MEMBERS PRESENT**

Senator Mike Dunleavy, Co-Chair  
Senator Peter Micciche, Co-Chair  
Senator Anna Fairclough  
Senator Lesil McGuire  
Senator Berta Gardner

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Cathy Giessel

**COMMITTEE CALENDAR**

SENATE BILL NO. 59

"An Act relating to approval for oil and gas or gas only exploration and development in a geographical area; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 59

SHORT TITLE: OIL & GAS EXPLORATION/DEVELOPMENT AREAS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/19/13           (S)           READ THE FIRST TIME - REFERRALS

02/19/13           (S)           TTP, RES, FIN

**WITNESS REGISTER**

DAN SULLIVAN, Commissioner  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information related to SB 59.

WILLIAM C. BARRON, Director

Division of Oil and Gas (DOG)  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information related to SB 59.

WENDY WOOLF, Petroleum Land Manager  
Division of Oil and Gas  
Department of Natural Resources  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information related to SB 59.

#### **ACTION NARRATIVE**

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**CO-CHAIR PETER MICCICHE** called the Senate Special Committee on TAPS Throughput meeting to order at 3:31 p.m. Present at the call to order were Senators Gardner, Dunleavy, Fairclough, McGuire, and Chair McGuire.

#### **SB 59-OIL & GAS EXPLORATION/DEVELOPMENT AREAS**

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**CO-CHAIR MICCICHE** announced that the only order of business would be a presentation on SB 59 by the Department of Natural Resources (DNR). He noted that the committee would hear SB 59 again on March 5.

**DAN SULLIVAN**, Commissioner, Department of Natural Resources, began a presentation on Statewide Permitting Reform, which is part of the Governor's permitting reform efforts from last year and the current year. He said it was important to include SB 59 in the broader context of the administration's permitting reform efforts. He pointed out that SB 59 is the third bill the Governor has introduced during this legislative session that focuses on different elements of permitting reform modernization.

**COMMISSIONER SULLIVAN** discussed the importance of permitting reform for Alaska's competitiveness. It has bipartisan, national, and local recognition and support. Former presidents and magazines are focused on the need for permitting reform modernization. Politically diverse states are fully engaged in modernizing their permitting processes. He stressed that permitting reform relates to the idea that economic development can be strangled by over-regulation.

He stated that permitting reform is also a national issue that affects U.S. competitiveness.

COMMISSIONER SULLIVAN emphasized that permitting reform does not detract from the state's focus on high environmental standards. Jobs and the environment are undermined by permitting delays and overregulation.

He said that timely, predictable, and efficient permitting is critical to other statewide strategies. It is critical to turning around TAPS throughput in order to secure Alaska's future oil. Ensuring the permitting process is structured and efficient will increase production by making Alaska more competitive.

CO-CHAIR MICCICHE asked why the Senate Special Committee on TAPS Throughput was the first committee to hear SB 59.

COMMISSIONER SULLIVAN explained that the administration believes that the competitiveness of Alaska is critical for increasing investment and turning around throughput decline. He added that competitiveness comes in different forms: oil tax reform is the cornerstone, but all four strategies are important.

COMMISSIONER SULLIVAN said that significant progress has been made on permitting reform, including statutory changes made, budget increments received, and IT overhauls implemented. There was a focus over the last two years to reduce permitting backlog and to create a system that does not produce backlog.

He showed a graph on Division of Mining, Land & Water backlog authorizations and said the goal is to eliminate the backlog within three years. The impetus to do so began two years ago with the start of the administration's focus on permitting reform.

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SENATOR GARDNER asked if part of that effort was to develop an on-line permitting process.

COMMISSIONER SULLIVAN explained the addition to DNR of the Unified Permit Project and Document Management system funded from a capital budget request. He shared a goal to have the ability to track a permit in process. He stressed bi-partisan support for significant budget requests to update permitting abilities.

COMMISSISONER SULLIVAN referred to HB 361 which was introduced last year and passed with strong bi-partisan support. He said that this session the Governor will introduce SB 26, and SB 27 was heard by Senate Finance this morning. SB 59 is the third bill that relates to permitting reform and modernization.

COMMISSIONER SULLLIVAN stressed that within the focus of permitting reform on the North Slope and TAPS, is working with the various entities throughout the state and federal government. He spoke of signing a Memorandum of Understanding (MOU) with the North Slope Borough in order to brief them on the permitting process. He admitted that the administration should have approached the North Slope Borough sooner with a much more detailed "pre-brief" because, even though it will not affect their Title 19 responsibilities, they are an important partner.

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CO-CHAIR MICCICHE asked if there was an annual evaluation or survey of permittees, partners, and stakeholders in order to request ideas about streamlining the permitting process.

COMMISSIONER SULLIVAN referred to DNR's strategy to seek input from the public about the permitting process that includes input from municipalities, industry, and non-governmental organizations. He said DNR held public hearings all throughout the state. He agreed that permittees have some of the best ideas about permitting reform.

He noted that permitting reform is a multi-year process.

CO-CHAIR MICCICHE commended DNR for involving Alaskans in the process.

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SENATOR GARDNER asked about the process of assessing mineral or resource potential. She inquired who does the surveys and where the results are kept.

COMMISSIONER SULLIVAN referred to the strategic and critical minerals strategy that the Governor launched at DNR's Summit in Fairbanks in 2011. The first part of the strategy involves a three-year geological survey by DNR. It involves a statewide survey of Alaska's mineral potential. The department has been working with the federal government, Native corporations, local governments and potential new entrants to encourage domestic exploration and development by making mineral potential information public.

He said the Geological Minerals Center contains all core samples. He stressed that the legislature has been very supportive of the three-year, statewide geological assessment.

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WILLIAM C. BARRON, Director, Division of Oil and Gas (DOG), Department of Natural Resources, introduced Wendy Woolf, the Petroleum Land Manager for the Division of Oil and Gas in the Department of Natural Resources. He reported that Ms. Woolf did outreach to clients to seek information about permitting reform needs and ideas. He stated DOG's belief that companies and citizens are customers and are needed in the partnership to progress oil and gas development in a more progressive manner.

MR. BARRON said that Ms. Woolf worked on the project by dialoguing with companies and stakeholders in order to develop a better, more holistic approach toward what activities are going to take place in certain geographic areas. The goal was to dialogue up front, rather than piecemeal, as projects and programs come to the DOG table.

MR. BARRON explained that DOG took a hard look at how it handles area-wide leasing. The division has a very strong program of company and stakeholder involvement up front that establishes areas of activities for oil and gas exploration and disposal of properties, but also mitigation efforts associated with those. He said DOG is taking that same concept in establishing broad views in geographic areas for exploration and development, in order to identify areas so companies can plan, receive approval, and move through the plan of operation. It's not about what programs will take place, but how the programs will take place.

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WENDY WOOLF, Petroleum Land Manager, Division of Oil and Gas, Department of Natural Resources, related that SB 59 says that DNR can authorize oil and gas exploration and development activities within a geographical area. It preserves public notice and review at the beginning of an exploration or development phase. It ensures certainty when an approval has been granted for exploration or development activities. It clarifies that DNR can review each phase across a geographic area, rather than conducting finite reviews on each individual project, which the way it is currently done.

She noted that "project" is oil and gas development, in general. The phases are exploration, development, and pipeline

transportation. The initial leasing phase is when the department does the best interest sale, which is a separate public process. It is during the leasing phase that the department determines that oil and gas development will occur. The subsequent analyses are how that exploration will occur.

She continued to say that SB 59 allows DNR and the public to look across a broader geographical area when it's evaluating the "how" oil and gas development should occur on state land. SB 59 clarifies that DNR can review exploration development activities holistically in a geographic area and preserves public participation. This benefits the public because it allows them to look at exploration and development across a broader area and provide input about how particular areas are going to be developed before development occurs - a proactive stance.

MS. WOOLF stated that SB 59 benefits the industry because a company knows, going into a project, what parameters they need to design around and they can prepare their plans of operations according to stipulations and conditions that are the result of this planning process. It provides certainty that plans of operations can proceed and ensures predictable project approvals for subsequent exploration or development activity.

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MS. WOOLF showed a map of oil and gas lease sale areas on the North Slope and Cook Inlet. She said DNR offers five areas of oil and gas lease sales - area-wide lease sales. They consist of the North Slope, the Beaufort Sea, the North Slope Foothills, Cook Inlet, and the Alaska Peninsula.

MS. WOOLF described the oil and gas lease sale process. It begins with a preliminary decision to offer one of the lease sale areas. She used the North Slope as an example. There is an extensive public review process, which SB 59 does not affect. The lease sale culminates in a comprehensive, final best interest decision that is signed by the director and is called the Final Finding of the Director. She explained that the best interest finding is a comprehensive multi-year review process that includes broad public notice and extensive public and agency participation. There is a thorough evaluation of impact associated with oil and gas development based on statutory criteria which results in concrete mitigation measures that protect state lands and address environmental concerns. Leases that are issued subsequent to a lease sale decision are subject to all mitigation measures.

She added that during the leasing phase DNR has made the decision to allow oil and gas development on its land. It specifies the lease terms and mitigation measures and provides that public notice will be provided at the beginning of the exploration phase, the development phase, and the transportation phase.

MS. WOOLF described the life of an oil and gas lease. She gave an example of how the public notice process works. She listed the steps as the lessee develops exploration plans and a development plan. She concluded with the production phase. She described the process if there are additional discoveries.

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She showed a map of geographical areas for exploration activities. She described the steps taken for exploration, including public process, which would lead to a decision by DNR.

She turned to a map of geographical areas for development activities that listed current fields. She provided a variety of hypothetical examples.

She went through the steps of the life of an oil and gas lease on the North Slope. She described the exploration plans and the development plans, both of which have public notice and comment periods. She said there is no change to the way pipeline applications would be processed.

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MS. WOOLF summarized that SB 59 provides for comprehensive review before exploration or development. It preserves public participation in the process. It allows stipulations to be approved before a company develops site specific plans for exploration or development activities.

MR. BARRON commented that the approach included input from clients. He said DOG did a self-assessment in order to discover unnecessary repetition in the process of approving plans of operation and exploration. The goal was to mitigate the use of time without limiting access to the public and allowing for protection of state lands. The bill would provide the statutory authority to allow this to be done.

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SENATOR FAIRCLOUGH asked if designated areas have been defined or will be defined in the future.

MR. BARRON said they will be established at a later date.

SENATOR FAIRCLOUGH asked how large that area might be.

MS. WOOLF replied that the division is currently in the process of developing regulations. The area-wide lease sale areas would be the maximum size an exploration area could be. It is coupled with the lease sale decision.

SENATOR FAIRCLOUGH said once the area is defined, the allowable exploration activities are designated, taking public input into consideration. She asked if that was correct.

MR. BARRON said yes.

SENATOR MCGUIRE asked how much time will be saved in the average project. She also inquired about the "time value of money."

MR. BARRON replied that each step is a 60-to-90-day process. He said looking at exploration and development holistically within a broader area will save time.

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SENATOR MCGUIRE asked how many steps have been consolidated.

MR. BARRON said seven or eight steps have been consolidated over a period of time. Companies would know of the streamlined plan approval process.

SENATOR MCGUIRE asked if it would save a year and a half.

MR. BARRON said yes, in theory.

SENATOR MCGUIRE suggested using that fact as a talking point. She emphasized that saving time is saving money. She referred to Australia as an example.

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CO-CHAIR MICCICHE spoke of the reputation of Alaska's being difficult to work with. He suggested that reducing the marginal cost of a project, which is an ultimate goal towards becoming competitive with oil taxes, could change that.

MR. BARRON agreed.

CO-CHAIR MICCICHE pointed out that he looks at both sides of an issue. He asked, assuming that no license is awarded that

restricts environmental requirements, if a geographic area could be evaluated prematurely at an unnecessary cost to the state, if there is no activity within the lease area.

MR. BARRON used the Foothills and the Alaska Peninsula as examples that did fall into that category. He explained that the evaluation effort has been done the Foothills and it was discovered that the area is more gas-prone than oil-prone. He opined that the potential of the gas lease sales in Foothills will be robust in the future. Once the state is ready to go, all permitting will have been done. He suggested, from a project management and organizational standpoint, that is a good thing.

CO-CHAIR MICCICHE talked about the importance of timing in the lease process.

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SENATOR FAIRCLOUGH referred to page 1, line 11, which describes the method of notifying the public. She said it is found under AS 38.05.945(b) and (c). She related that one of the places information is posted is Alaska's on-line public notice system, and it would be posted for 30 days. She asked where public service announcements for remote areas are placed.

MS. WOOLF replied that the division puts notices in local post offices, newspapers, radio stations, and regional papers. The division also notifies the local government, village corporations and city corporations. She said it is an extensive outreach.

SENATOR FAIRCLOUGH clarified that the state would personally reach out to municipalities, councils, regional and village corporations, post masters, and non-profits, in this bill.

MR. BARRON said yes.

CO-CHAIR MICCICHE spoke of his experience as a small-town mayor and the numerous notifications he received from DNR. He said DNR does a good job with notifications.

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CO-CHAIR MICCICHE asked what would happen if DNR evaluates a geographic area for oil and gas potential and finds a mining activity. He asked if DNR would re-evaluate.

MR. BARRON said SB 59 does not address mining activity; it is exclusively for oil and gas.

CO-CHAIR MICCICHE asked what would happen.

MR. BARRON said it would be a re-look from a different agency and from a different perspective.

CO-CHAIR MICCICHE suggested that DNR review MOC software by a company named KMS for web-based permitting solutions. He spoke highly of its capabilities.

MR. BARRON thanked Co-Chair Micciche for the information.

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CO-CHAIR MICCICHE commended the testifiers for their presentation.

He opened public testimony.

CO-CHAIR MICCICHE said the next meeting would be on March 5.

CO-CHAIR MICCICHE held SB 59 in committee.

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Chair Micciche adjourned the Senate Special Committee on TAPS Throughput at 4:18 p.m. and then brought it back to order.

[LIO system was turned off]

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CO-CHAIR MICCICHE brought the meeting to order briefly and closed public testimony. He stated public testimony would be taken up on March 5.

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There being no further business to come before the committee, Chair Micciche adjourned the Senate Special Committee on TAPS Throughput at 4:19 p.m.