

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 20, 2015

1:05 p.m.

MEMBERS PRESENT

Representative David Talerico, Co-Chair
Representative Bob Herron
Representative Kurt Olson
Representative Paul Seaton
Representative Andy Josephson
Representative Geran Tarr

MEMBERS ABSENT

Representative Benjamin Nageak, Co-Chair
Representative Mike Hawker, Vice Chair
Representative Craig Johnson

COMMITTEE CALENDAR

OVERVIEW(S): ALASKA OIL AND GAS CONSERVATION COMMISSION

- HEARD

CONFIRMATION HEARING(S):

Alaska Oil And Gas Conservation Commission

Michael Gallagher - Anchorage

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DANIEL SEAMOUNT, Jr., Geologist Commissioner
Alaska Oil and Gas Conservation Commission (AOGCC)
Anchorage, Alaska

POSITION STATEMENT: Provided a PowerPoint overview regarding the Alaska Oil and Gas Conservation Commission.

MICHAEL GALLAGHER, Appointee

Alaska Oil and Gas Conservation Commission (AOGCC)
Anchorage, Alaska

POSITION STATEMENT: Testified as appointee to the Alaska Oil and Gas Conservation Commission.

ACTION NARRATIVE

1:05:50 PM

CO-CHAIR DAVID TALERICO called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Olson, Seaton, Josephson, Tarr, and Talerico were present at the call to order. Representative Herron arrived as the meeting was in progress.

OVERVIEW(S): Alaska Oil and Gas Conservation Commission

1:07:09 PM

CO-CHAIR TALERICO announced that the first order of business is an overview provided by the Alaska Oil and Gas Conservation Commission (AOGCC).

1:07:38 PM

DANIEL SEAMOUNT, Jr., Geologist Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), noted he is one of the three commissioners for the Alaska Oil and Gas Conservation Commission (AOGCC). He drew attention to the papers in the committee packet, saying the paper entitled, "AOGCC Agency Description," discusses how the commission interacts with the administration and how it gets funded, which is not from the general fund at this time. The paper entitled, "Role of the Alaska Oil and Gas Conservation Commission in North Slope Gas Sales," discusses gas in general on the North Slope, not just on the two big fields, and alludes to looking at gas offtake in a holistic way. Another paper is entitled, "Role of the Alaska Oil and Gas Conservation Commission in Establishing Allowable Gas Offtake Rate for Prudhoe Bay," and another [is entitled, "Role of the Alaska Oil and Gas Conservation Commission in Approving Pool Rules for the Point Thomson Field." Regarding the paper entitled, "Hydraulic Fracturing in Alaska," he explained that the commission has been regulating hydraulic fracturing in Alaska for 60 years without any problems; however, this last year AOGCC came up with hydraulic fracturing regulations to make it easier for the public to see what they are. Mr. Seamount

also drew attention to the copy of a Wall Street Journal article entitled, "The Facts About Fracking," and to the 2009 response, "AOGCC Statement to Governor," written after a derogatory newspaper article appeared about the AOGCC. Lastly, he pointed out the paper entitled, "BLM Legacy Wells Safety and Environmental Compliance Issues."

[1:10:07 PM](#)

MR. SEAMOUNT began his PowerPoint presentation by noting slides 21-35 are backup slides that he will not be discussing but that show the new technology in drilling. He said the picture on slide 1 is AOGCC's office [in downtown Anchorage]. The myriad of things AOGCC is required to do includes holding hearings, making rulings on spacing and other exceptions, pool rules, gas offtake allowables, and granting or denying permits on such things as drilling permits and performing sundry well work. The commission's statutes are found in Title 31, Chapter 5, and the commission's regulations are found in Title 20, Chapter 25, of the Alaska Administrative Code. By statute AOGCC has three commissioners. The petroleum [engineering] commissioner must have 10 years of experience in the oil business; the current petroleum commissioner, Cathy Foerster, has close to 40 years of experience. The geology commissioner, the position he holds, also must have 10 years of experience and he has more than 40 years. The public commissioner must have a fundamental understanding of the oil and gas industry. He pointed out that AOGCC's web site contains lots of information and data, which is used by potential and present investors in Alaska.

[1:13:07 PM](#)

MR. SEAMOUNT turned to slide 2, explaining that AOGCC is an independent quasi-judicial state regulatory agency. Over 90 percent of AOGCC's work is sub-surface, and the only surface work done is that occasionally an inspector will go out for a site clearance after a well is abandoned to make sure everything is cleaned up. The other surface work done by AOGCC is ensuring that meters are accurate when measuring oil and gas so everyone gets their fair share. He read the mission of AOGCC, which is: "To protect the public interest in exploration and development of Alaska's valuable oil, gas, and geothermal resources through the application of conservation practices designed to ensure greater ultimate recovery and the protection of health, safety, fresh ground waters and the rights of all owners to recover their share of the resource." Mr. Seamount reported that AOGCC's annual budget of \$7.4 million for this year is funded by

industry receipts from a regulatory cost charge that came about in 1999. A small amount, \$128,000, comes from the Environmental Protection Agency (EPA) for managing the Underground Injection Control (UIC) Program, which protects underground sources of drinking water. He said AOGCC is an extremely technical science and engineering oriented agency, and its regulations and statute are very tight, and this limits extreme interpretations when AOGCC makes decisions. Thus, arbitrary interpretation of law regarding AOGCC decisions is virtually impossible and it is very rare that all three commissioners don't agree on a decision. Sometimes there might be disagreement on the amount of a penalty, but when it comes to pool rules or other things the commissioners are just about 100 percent [in agreement]. The commission's 32 staff members include 3 commissioners, 2 geologists, 6 engineers, 7 field inspectors, 2 statisticians, 3 information technologists, and 8 administrative people.

[1:17:14 PM](#)

MR. SEAMOUNT moved to slide 3 and noted AOGCC's jurisdiction covers all lands - public, private, and non-federal onshore - in the state of Alaska. At this time, most of AOGCC's oversight is concentrated in Cook Inlet and the North Slope. However, 21 basins in Alaska have hydrocarbon potential; so, a tremendous amount of potential is left and all that is needed to get to them is money.

MR. SEAMOUNT addressed slide 4, reiterating that AOGCC is a quasi-judicial state agency, mainly sub-surface, with mandates to protect human safety in drilling and production operations and to protect fresh water. The deepest fresh water he has seen in the state is about one-quarter mile down in the Matanuska-Susitna Valley. Most of what AOGCC does occurs from one-half to three miles deep: the shallowest gas wells in the state are about half a mile deep and the deepest oil wells are three miles deep. Another important AOGCC mandate is to prevent physical waste of the energy resources, meaning to prevent blowouts both above and below ground. If a well is not constructed right oil or gas can flow from one zone into another, which loses and wastes the resource forever. Also, AOGCC is mandated to promote greater ultimate recovery of the resource. To do that the operators or companies come in after making a discovery, drilling a few wells, and doing some science, and give AOGCC their plan on how they are going to operate this oil field; for example, the kind of enhanced oil recovery techniques, water or gas injection, or whatever looks best to recover the most hydrocarbon. Then AOGCC will make a decision to approve,

disapprove, or tell the operator/company to do more study. The AOGCC protects correlative rights, which is the right of adjacent landowners to recover their fair share of the resource. Lately, new operators are coming into the state and AOGCC has been intensely inspecting their operations and in some cases AOGCC has performed enforcement actions when they don't comply with the regulations. The AOGCC has increased its number of inspectors, but it is difficult to find them because of the discrepancy in compensation between industry and this agency.

[1:20:59 PM](#)

MR. SEAMOUNT said AOGCC also functions as a repository for most of the oil and gas data in the state. This well data is important to potential investors because they can pull logs, test data, and so forth, and subsequently generate new plays and new prospects. He then addressed the historical production in Alaska, drawing attention to slide 5, "Alaska's Average Daily Oil & [Natural Gas Liquids (NGL)] Production Rate 1960-2014." He pointed out that the lowest curve depicts Cook Inlet production, the biggest curve depicts the North Slope, the next biggest curve depicts Kuparuk and Milne Point, and the rest depict newer production. From 2000-2003, he said, there was no decline in production because of the Alpine Field.

MR. SEAMOUNT explained the graph on slide 6 entitled, "Alaska Oil and Gas Activity AOGCC Oversight (1959-2014)," is historical data from the start of production in Alaska. He said the dotted curve depicts the number of well permits that AOGCC has approved through the years, with the first big bump being the Swanson River Field, which is the reason Alaska became a state. The next bump is Cook Inlet offshore where five discoveries were made in one year. The next really big bump is Kuparuk and Prudhoe Bay. Then there was a lull and since the late 1990s there has been quite a bit of activity on some of the satellite fields on the North Slope, as well as some in Cook Inlet. Recent AOGCC data shows about 200 wells drilled. The green curve depicts the number of active wells. Those are wells that AOGCC has to deal with in one way or the other, meaning they haven't yet been plugged and abandoned. There are over 5,000 active wells and this number increases every year, which is another reason why AOGCC needs more inspectors. The purple curve depicts the number of reservoirs regulated by AOGCC, which is close to 150.

[1:24:11 PM](#)

MR. SEAMOUNT moved to the bar graph on slide 8, noting it shows total Alaska [oil and NGL] production by month for the years 2013 and 2014. Rather than the bars, he said, the important curve to look at is the red line depicting the 12-month moving average of production. For the first time since the early 2000s there was basically no decline for a while, but suddenly a decline is being seen again. He then drew attention to the chart on slide 9, showing the latest 12-month moving average decline for all of the oil fields in Alaska. He noted that the bottom right of the chart shows a decline of 4 percent, which is better than the normal decline in the past of 5-8 percent. However, 4 percent may be too high, he said, because the top right of the chart shows a decline at Prudhoe Bay of 9 percent, and he has never seen Prudhoe Bay have a 9 percent decline. He said he doesn't know why that is happening, but he will try to figure it out when he gets back to Anchorage because the decline at Prudhoe Bay was at 1 percent a few months ago.

MR. SEAMOUNT turned to the pie chart on slide 10 entitled, "Alaska 2014: Permits to Drill Approved by AOGCC." He noted the green and blue wedges depict the North Slope, which has always had the highest amount of activity. However, he said, if this was compared to 10 years ago it would be a much higher percent because there are new producers in Cook Inlet. For example, Cook Inlet Energy and Hilcorp are going crazy with drilling and making discoveries, and production in Cook Inlet has doubled over the last year and half.

[1:27:33 PM](#)

MR. SEAMOUNT discussed the bar chart on slide 11, explaining it shows exploration drilling between the years 2000 and 2014. The light green background in the chart depicts the oil price and the dates the different taxes were enacted; he said he sees virtually no correlation there. He pointed out that before 2004, and especially in the 1990s, the big guys - the BPs and the ARCOs - were the big explorers. However, over the last three years most of the exploration is being done by the new guys, companies like ENI, Repsol, Hilcorp, Cook Inlet Energy, and it is nice to see this increased activity. He advised that the only correlation he can see on this chart is that there was a big spike in oil price followed by a big drop in price and at the same time there was a big drop in exploration. It takes a few years to get wells planned, he explained, so after the price of oil went back up the exploration started back up, but most of that was the independents.

MR. SEAMOUNT said slide 12 shows development activity in proved fields with oil price and the tax legislation. Basically, he continued, slide 12 shows that most of the activity is done by BP, depicted in green, and BP's activity has gone down. The activity of ConocoPhillips, depicted in red, has stayed the same. The activity that has occurred has been recent and has been with the independents. An increase in development work is seen in 2014.

MR. SEAMOUNT addressed slide 13 entitled, "Workover Activities (2003-2014)." He explained that many drilling rigs can also act as workover rigs to repair wells. A drilling rig that is working over a well obviously cannot be used at the same time to drill a well. Workover is mainly fixing wells that are broken, so workovers are quick payout projects, unlike exploration wells which are long payout projects. A big uptick in workover activity was seen after the big price increase, then there is a price decrease and it went down. Then when things came back up there was a pretty high level of workover activity [in 2014] and that may explain why there wasn't much of a jump in the drilling by the big guys, they were fixing their wells.

[1:31:10 PM](#)

REPRESENTATIVE SEATON asked how the coiled tubing rigs are classified [drilling or workover] that are being used on the North Slope for re-drilling in the oil wells but that are drilling to new prospects, especially in Kuparuk.

MR. SEAMOUNT replied that it would be considered a rig. A lot of drilling is done with coiled tubing, he said, and it may be one of the most common types of drilling now at Kuparuk and Prudhoe Bay. Part of a well is plugged deep down, a window is milled, and then drilling out is done with coiled tubing. He quipped that in the oil patches of 1975 all of the workers were covered with oil and grease, while a coiled tubing rig is pristine white and clean, and the workers wear white suits and look like computer technicians.

REPRESENTATIVE SEATON observed on slide 12 that ConocoPhillips has been consistent across all of these years with a scheduled build out of drilling so many wells a year. He inquired whether the coiled tubing drills in those wells are considered development and service wells or workover activity wells.

MR. SEAMOUNT responded he is unsure, but he thinks most of it is drilling. He said he will get an answer to the committee.

REPRESENTATIVE SEATON requested the committee be provided this information, saying that if these are workovers being shown on slide 12, then that means the number of new wells has gone down significantly as coiled tubing has come up.

MR. SEAMOUNT answered he will provide the committee with the number of coiled tubing workovers versus coiled tubing drilling.

[1:34:40 PM](#)

MR. SEAMOUNT moved to slide 14, noting the slide provides a list of AOGCC's primary services. He said he tried to prioritize these services but then realized that all of them are important. Because the regulations require AOGCC to do these services, the commission is kept very busy.

REPRESENTATIVE SEATON asked what is meant on slide 14 by "enforce well spacing rules."

MR. SEAMOUNT replied Alaska has well spacing rules. For gas wells the spacing is a certain number of feet between wells, but basically it is 640 acres. Plus, a certain number of feet [is required] from lease lines where the lease ownership changes. He believed that for oil wells the spacing is 40 acres, but AOGCC can do an exception to those rules if there is a good reason, such as geology changes or a fault. Because it is put out for public comment the public can tell AOGCC why a spacing exception should not be done and there have been some pretty contentious hearings in this regard.

REPRESENTATIVE OLSON recalled that eight or nine years ago there were feeder lines on the North Slope that were not being pigged on a regular basis or at all, resulting in a series of leaks. He inquired how that was overlooked and where it would fit within AOGCC's primary services.

MR. SEAMOUNT responded AOGCC doesn't regulate any pipelines. The only thing AOGCC does with pipelines is to prove that the hydrocarbons going through them are measured accurately. He said the question should go to the Department of Environmental Conservation (DEC). But, he added, that may have fallen through the cracks because it may be that no one regulates in-field pipelines; however, he continued, he thinks there is a group that is now working on filling that hole.

REPRESENTATIVE JOSEPHSON inquired further about the group that is working on filling the aforementioned hole.

MR. SEAMOUNT answered it is the Petroleum Systems Integrity Office, although it may have a different name now.

[1:38:26 PM](#)

MR. SEAMOUNT turned to slide 15 to highlight the major issues of 2014. Cook Inlet exploration and development is going crazy and a new platform is coming in, he reported. Years ago gas was falling off the cliff and it was predicted there'd be no gas by 2014 or 2015, but now there is a bunch of gas. As a former Cook Inlet geologist, he said he thinks there is a lot more gas to be found there, especially below where the gas has been produced, which is into the Jurassic, the Pre-Tertiary, which is where the oil is coming from and with oil comes gas. Another issue is a manpower shortage at AOGCC. Finding another engineer and a couple of inspectors has been difficult because AOGCC competes with industry and industry pays sometimes double what AOGCC pays, even though AOGCC's wages are good. A third issue is hydraulic fracturing regulations, which AOGCC just did. There is a lot of hysteria about hydraulic fracturing (fracking), he said, but this has been occurring in Alaska for 60 years without a problem.

[1:41:24 PM](#)

REPRESENTATIVE TARR understood that fracking is happening on the North Slope.

MR. SEAMOUNT replied huge fracks are occurring on the North Slope, 3 million pounds. Additionally, fracking has been occurring in Cook Inlet for a long time. In the early 2000s fracking was being done with diesel [in Cook Inlet]. He related that he urged the companies to stop using diesel because of safety issues, but he doesn't think diesel is being used anymore. He said 25 percent of the wells in Alaska are fracked.

REPRESENTATIVE JOSEPHSON asked whether industry shares with AOGCC what chemicals are being used for fracking.

MR. SEAMOUNT responded that was a very contentious issue. He believed that industry shares the types of ingredients but not the percentages in all cases. Some of that information is proprietary and protected by federal law, so there is nothing that AOGCC can do about it.

REPRESENTATIVE OLSON inquired whether fracking in Cook Inlet includes Swanson River and onshore.

MR. SEAMOUNT answered it is mostly onshore. Fracking was tried offshore in the 1990s and it didn't work. He related that he worked for Unocal then and it didn't work one time so Unocal didn't try it again. But lately Hilcorp is getting back into fracking offshore, he said, and he thinks it will work.

1:43:16 PM

MR. SEAMOUNT resumed his presentation (slide 16), saying the likely issues for 2015 include all of the 2014 issues. Another issue is shale oil delineation and development, something that he is personally excited about. One county in Texas is making more oil from shale than oil produced in the entire state of Alaska, he reported. Another issue is new North Slope operators. Cook Inlet Energy and Hilcorp have gone to the North Slope and based on what they've done in Cook Inlet there should be a pretty good increase in production on the North Slope.

MR. SEAMOUNT moved to slide 17 to discuss major gas sales. He explained that before major gas sales can occur, the operator must submit an application to AOGCC to make a decision on the gas sales. The operator must state when it wants to start gas production, how much the operator wants to produce, how much oil is left, what is going to be done to prevent oil losses, and what other uses are for the gas. Right now it looks like [the state] is on a pretty decisive course, but the question is whether there is something else that can be done with that gas besides turning it to liquefied natural gas (LNG) and sending it to Asia or elsewhere. It could be that AOGCC is the skunk at the garden party, he said. But, he continued, intuitively he doesn't think AOGCC is going to be. If it shows waste or if it shows that hydrocarbons are not being conserved, then AOGCC can put a stop to it and say to come up with a different plan. It is not just how much oil is going to be lost or how much gas will be made, it is the total hydrocarbon - oil plus gas. If [the state] goes along with the present plan some oil will be lost, but maybe more will be made up than that by producing the gas when it is produced. It is really complicated, one example being how long is the infrastructure going to last and if the infrastructure doesn't last that long then that gas better be gotten out of there. But, if the infrastructure holds up, there is the possibility of wanting to hold off on gas sales.

1:46:37 PM

REPRESENTATIVE JOSEPHSON, relative to the concept of skunk at the garden party, asked what AOGCC's greatest power is.

MR. SEAMOUNT replied AOGCC's power and everything it does comes from the Title 31 statute. It is very similar to other states; that power is accepted in every single oil producing state. If AOGCC ruled that a gasline couldn't be done, the legislature could change the law. But that wouldn't be right, he opined, because getting out as much hydrocarbon [as possible] is wanted, as well as to conserve it for future generations. However, he qualified, he doesn't think AOGCC would make that ruling.

MR. SEAMOUNT turned to slide 18 to further expand upon the aforementioned. In regard to major gas sales, he said the plan right now is for direct gas sales. If no sales occur, then another two billion barrels of oil could probably be recovered from Prudhoe Bay. If direct gas sales do occur, it is unknown how much would be lost but it would be less than two billion. Because of Lower 48 shale gas, "my way is the highway" has gone away and now LNG from the Kenai is being talked about, as he understands it. The idea of LNG from Valdez has gone away. Another plan, however, is modified gas sales - taking a holistic approach by looking at the entire North Slope. Although [AOGCC] has thought about this for years, not much work has been done on it; and, while the operators may be thinking about it, there may be better uses for the gas. One use is to take the Point Thomson Unit, which is a very high pressure field at 10,000 pounds per square inch (PSI), and run that into the Prudhoe Bay Unit to re-pressure Prudhoe Bay back to its original pressure of 4,500 PSI. He related that according to a reservoir engineer's "cocktail napkin" calculations, it may be possible to get another billion barrels out of Prudhoe Bay. So, by holding off on the gas sales, two billion barrels are left plus another billion barrels coming out of Prudhoe Bay via Point Thomson; that totals three billion barrels, which is a giant oil field.

1:50:32 PM

MR. SEAMOUNT continued addressing modified gas sales, pointing out that a gas cycling pilot project is currently being done at the Point Thomson Unit. Gas is pulled out of the ground, the condensate pulled off, and the gas put back down. This is done over and over again until there is 400 million barrels of condensate, which is another Alpine field. If this pilot project works, he said, then that is probably what [AOGCC] will

do. He further pointed out that by definition in the regulations, Point Thomson is an oil field, not a gas field. Another thing that could be done, he added, is to delay the gas sales because oil is much more valuable than gas. For example, over 20 billion barrels of viscous oil are within reach of infrastructure on the North Slope and a study could be done to see if gas would work for getting out that viscous oil. Mr. Seamount recalled his work with heavy oil in California in which gas was used to create steam for steaming the heavy oil to make oil. This was done because the oil was more valuable than the gas, which remains true today. He allowed, however, that talking about modified gas sales is like changing a horse in the middle of the stream. He concluded his presentation by turning to slide 19 and inviting members to ask questions.

[1:52:51 PM](#)

REPRESENTATIVE TARR surmised there is not total agreement on whether the concept of modified gas sales is allowable or should be managed unit-by-unit or could be done as a wetland mitigation model. She inquired how that will be resolved.

MR. SEAMOUNT responded it will take a lot of study to answer this very good question. The holistic idea is to look at all of these different fields put together, not just Prudhoe Bay and not just Kuparuk. He said even he doesn't know whether that is within AOGCC's authority; AOGCC's authority might be just on a field-by-field basis and AOGCC may not have any kind of say. However, he advised, it would be smart to look at the holistic modified gas sales idea. He added he would be surprised if this hasn't already been looked at, but surmised it has been looked at in an economic way, not in a conservation way.

[1:53:58 PM](#)

REPRESENTATIVE JOSEPHSON asked whether AOGCC currently has the statutory authority to move Point Thomson gas to re-pressurize Prudhoe Bay.

MR. SEAMOUNT answered he thinks AOGCC probably has authority for the re-pressurizing. But, he continued, he is unsure whether AOGCC has the authority to say that the gas cannot be sold and must instead be brought over to produce that viscous oil first. He qualified he doesn't know whether that would be the best way to produce the viscous oil, so it would warrant more study and the operators should be consulted since they have been studying the viscous oil.

1:54:55 PM

REPRESENTATIVE SEATON, regarding the recovery of another billion barrels of oil at Prudhoe Bay by re-pressurizing, asked whether this runs into conflict due to one company having a much higher ownership of the Point Thomson Unit than the Prudhoe Bay Unit, so one company would be restricted economically in recovering oil from another unit even though it makes more total sense.

MR. SEAMOUNT replied AOGCC does not deal in economics, it would be the Department of Natural Resources and the Department of Revenue. He agreed that that would have to be resolved. He related that Unocal went through this same issue when it owned part of Kuparuk and part of Endicott and it is complicated.

REPRESENTATIVE SEATON understood that AOGCC is looking at this from a total recovery standpoint, which the state would be very interested in given that the state's royalty percentage is on the total value or total volumes of hydrocarbons. Therefore, he surmised, [the state] might need to look at it from a conservation and total value recovery standpoint.

MR. SEAMOUNT responded that is correct.

1:56:42 PM

REPRESENTATIVE TARR, in regard to how the Alaska LNG Project is envisioned today, noted that at some point AOGCC will consider the disposition agreements. She inquired as to what the public process will be in this regard given there is concern about whether there will be enough gas for in-state use. She further inquired what the steps will be if there is a denial of an original application.

MR. SEAMOUNT replied the operator would come to AOGCC with an application that answers the questions shown on slide [17]. Next AOGCC would put out public notice and if someone requests a hearing then AOGCC must hold a hearing at which any interested party is welcome to testify. If AOGCC puts out a decision that someone doesn't like, the decision can be appealed and AOGCC would consider the arguments. In its consideration AOGCC could either have a hearing or reject the appeal outright. From there it would go to superior court and then supreme court.

1:58:36 PM

REPRESENTATIVE OLSON asked whether AOGCC has the ability to oversee the production of gas hydrates at this point in time.

MR. SEAMOUNT answered he is sure AOGCC would because it would be the production of hydrocarbons and AOGCC even has authority over coal gasification. He added that coal gasification has been tried and has some potential in Cook Inlet.

[1:59:14 PM](#)

REPRESENTATIVE SEATON, in regard to the modified gas sale concept, inquired whether Mr. Seamount is aware of any studies that have been done other than on the back of a napkin.

MR. SEAMOUNT responded he is not aware of any, but offered to get back to the committee with an answer.

REPRESENTATIVE SEATON recalled the earlier discussion of viscous gas and noted that Kuparuk is short on gas and is already importing gas from Prudhoe Bay to operate. He said he does not remember any kind of information being presented to the committee for re-pressurization of Prudhoe Bay and dramatically increasing the recovery of oil from that field. He suggested this information be requested from the legislative consultants so committee members can consider it.

CO-CHAIR TALERICO said he will make note of the request.

MR. SEAMOUNT believed that if Prudhoe Bay were re-pressurized the 400 million barrels of condensate would be lost, but there would still be a net gain by doing the re-pressurization.

[2:01:20 PM](#)

REPRESENTATIVE JOSEPHSON said he has read that fracking is a safe procedure, but that the cement casing has to be done properly or the aquifer can be contaminated. He asked whether that is the kind of thing AOGCC monitors.

MR. SEAMOUNT answered yes, that is one of the most important things AOGCC does. He said AOGCC makes sure the well bore has integrity, makes sure there are two barriers to the environment, which would be two sets of casing that are cemented so there cannot be any escape, and makes sure there is a third barrier up high that goes across the fresh water aquifers to protect them. He said one of AOGCC's performance measures is how many fresh

water aquifers have been polluted in the 60-70 years of production in Alaska, and the answer is zero.

2:02:34 PM

REPRESENTATIVE TARR understood the Alaska Industrial Development and Export Authority's proposal for Fairbanks natural gas may be favorable because of Hilcorp's increased activity in Cook Inlet and not wanting to have the Cook Inlet supply dominated by one company which could create too much consolidation in terms of the gas supply for consumers. She inquired whether AOGCC, in looking at the hydrocarbon resource, considers who the leaseholder or developer is so that if there is concern about consolidation it can be addressed.

MR. SEAMOUNT replied AOGCC treats everybody the same; so as long as the regulations are being obeyed it does not matter to AOGCC who is doing the operating.

2:03:48 PM

REPRESENTATIVE SEATON asked whether AOGCC is free to release to the committee the number of exploration wells for shale gas in Alaska. He further asked whether shale gas development is occurring across the state or only in the one section along the Dalton Highway.

MR. SEAMOUNT believed that has been published and Great Bear Petroleum is going to build some ice roads that go about two miles from the highway. There are a couple of other companies, he said, but he is unsure whether they will be doing anything this year. He believed he has seen two permits to drill for shale oil exploration that are also looking at conventional oil at the same time in order to pay for the shale oil experiment. He submitted that Alaska has more shale that contains oil than does anywhere else.

REPRESENTATIVE SEATON asked whether there is any shale work or exploration going on in other basins.

MR. SEAMOUNT responded there is not. He said he would love to see some of that activity in Cook Inlet in the Jurassic, Pre-Tertiary, rocks because there is oil there and they are tight rocks and he thinks that that technology could work in Cook Inlet and Cook Inlet could become a giant producing area.

CONFIRMATION(S): Alaska Oil and Gas Conservation Commission

2:06:38 PM

CO-CHAIR TALERICO announced that the final order of business is the confirmation hearing for Michael Gallagher, Appointee to the Alaska Oil and Gas Conservation Commission (AOGCC).

MICHAEL GALLAGHER, Appointee, Alaska Oil and Gas Conservation Commission (AOGCC), testified as appointee to the Alaska Oil and Gas Conservation Commission. He spoke as follows:

The reason I'm interested in this position is to give back to the state. I feel I can contribute with my knowledge and experience in the industry. I know the importance of this commission and, if confirmed, I look forward to continuing to protect the public interest in exploration and development of Alaska's valuable oil, gas, and geothermal resources through the application of practices designed to ensure greater ultimate recovery and the protection of health, safety, fresh ground waters, and the rights of all owners to recover their share of the resource. Alaska has given me so much, and to my family, that I am grateful to have this chance now to give back to the great state of Alaska. I am grateful that my wife and I were able to raise our family in Alaska. Our two children were raised in Alaska, and after attending college both live and work in Alaska. I have over 38 years' experience in the oil and gas, civil, and vertical construction industries. I have spent over 19 years with the Laborers International Union of North America, Local 341, as a business agent, vice president, president, and business manager. In this position I negotiated bargaining agreements with other employers and managed the day to day operations of the local union. One of the duties with my local union, I was a trustee of a \$560 million pension plan and \$14 million health and welfare plan. In that position I was involved in many judicial hearings. The board of trustees was responsible for conducting appeal hearings for the trust. While hearing the appeals we were to look at the facts and the evidence that was presented to us and make decisions based on the facts, the evidence, and according to the plan document. Throughout my career I have been fortunate in wonderful opportunities to learn and contribute and I see this appointment as

another such opportunity. I am especially pleased and honored to have the opportunity to serve the people of Alaska as part of such a well-respected commission and in consort with such intelligent, honest, ethical, and hard-working colleagues as Commissioner Foerster and Commissioner Seamont and the staff.

2:10:28 PM

REPRESENTATIVE HERRON complimented Mr. Gallagher on his resume, noting he has held many positions of responsibility during his career and in community service. He asked what Mr. Gallagher does for fun.

MR. GALLAGHER replied he and his wife have a cabin in Willow. He said he retired several years ago and has just taken on some projects, so he has had plenty of time playing at the cabin, hunting and fishing, backcountry skiing, snowmobiling, and sitting around the bonfire.

REPRESENTATIVE HERRON observed from Mr. Gallagher's resume that his knowledge is above-ground construction and labor practices for the oil and gas industry. He noted, however, that AOGCC does not regulate any of those aspects. He requested Mr. Gallagher to explain his skill set to what AOGCC does regulate.

MR. GALLAGHER acknowledged his experience is more on the transportation side. As a representative of the local union he represented several hundred people that worked for a drilling company, so he did gain knowledge about downhole things, but that is definitely not his strong point. He said he has been working very hard at trying to understand and look at the piping system that goes into the downhole system and he feels very comfortable. He stated that under the Alaska statute he definitely qualifies. Responding further to Representative Herron, he agreed to provide the committee co-chairs with his references.

REPRESENTATIVE HERRON requested Mr. Gallagher to define wasting of a resource as it applies to AOGCC, how it can occur, and what the ramifications are for the state.

MR. GALLAGHER responded the waste of any hydrocarbons in the ground will cost the state financially. One of AOGCC's missions under the Alaska statute is to recover as many hydrocarbons as possible and prevent hydrocarbon waste.

[2:14:38 PM](#)

REPRESENTATIVE SEATON, regarding the issue of oil versus gas hydrocarbon recovery, inquired how Mr. Gallagher sees the balance between oil recovery and gas recovery as far as wastage.

MR. GALLAGHER said oil is definitely more profitable than gas, so as much oil must be gotten from the ground before the gas.

REPRESENTATIVE SEATON surmised Mr. Gallagher would look at wastage as being economic recovery of the more valuable commodity and that would be the job that Mr. Gallagher would be balancing.

MR. GALLAGHER answered he believes that under the statute AOGCC is not supposed to look at the economics, but rather at preventing hydrocarbon waste. There are advanced technologies for trying to recoup different things, he said, and the gas is very valuable for getting the oil out of the reservoir, so the different technologies would have to be studied to see which one would be the best.

REPRESENTATIVE SEATON noted that most of the wells in Alaska's fields have both gas and oil. He asked how Mr. Gallagher, as a commissioner, would evaluate oil and gas wastage comparatively.

MR. GALLAGHER replied he would need to think that through since he is new to the commission, but his understanding of the statute is that oil is the hydrocarbon that needs to be taken out and the gas is used to pressurize it, along with water injection. He believed it must be ensured that as much of the oil is taken out of the reservoir first.

[2:18:44 PM](#)

CO-CHAIR TALERICO noted an important task of AOGCC is ensuring that the operators follow good oil field practices. Included in AOGCC's services are inspection of drill rigs and the wells to ensure they are compliant with AOGCC regulations and this would include blowout prevention equipment. He inquired whether Mr. Gallagher has any experience on a drill rig.

MR. GALLAGHER responded he has not worked on a rig, but he has represented drill rig workers in which multiple safety issues were dealt with. He said he is scheduled next week to go on a drill rig to get familiar with it. Within his career, he added,

he would take information from both sides of the issue and make a decision and that is what he would do with the AOGCC.

CO-CHAIR TALERICO asked whether Mr. Gallagher has experience with metering devices related to the monitoring, calibrating, and quality testing that AOGCC does.

MR. GALLAGHER answered when he worked in the field he worked with the Alyeska metering systems at the terminal. Additionally he did repair work on meters brought in from up north.

CO-CHAIR TALERICO inquired whether Mr. Gallagher is familiar with fracking.

MR. GALLAGHER replied only what he has read and what he has learned over the last five weeks at the commission.

[2:21:58 PM](#)

REPRESENTATIVE JOSEPHSON understood Mr. Gallagher is applying for the subsection 3 seat, which is the at-large person who has training or experience that gives a fundamental understanding of the oil and gas industry. He asked whether that is also Mr. Gallagher's understanding [of this seat].

MR. GALLAGHER responded yes, under the Alaska statute it is being familiar with oil and gas industry.

REPRESENTATIVE JOSEPHSON observed from Mr. Gallagher's resume that he has 38 years of experience in the oil and gas and construction industry, including work at the Alyeska marine terminal and the Trans-Alaska Pipeline System. He inquired whether this is correct.

MR. GALLAGHER answered yes, and noted that before he went to work for the local he spent about 14 years in the field. Then, as a representative, he represented workers from the Valdez marine terminal and the oil response teams all the way up to Prudhoe Bay on the pipeline.

[2:23:31 PM](#)

CO-CHAIR TALERICO noted AOGCC is a regulatory board and its decisions could be considered as quasi-judicial decisions. He asked whether Mr. Gallagher has any experience working on a board or commission that makes this type of decision, particularly a decision that might impact private enterprise.

MR. GALLAGHER replied as a trustee on a pension plan and on a health and welfare plan, the trustees acted in a judiciary position. When a person had an appeal the trustees would listen to the case and would make decisions similar to the process at AOGCC. He participated in a tremendous amount of appeal hearings acting in a judiciary capacity. The trustees were charged to keep their personal opinions out of it - to look at the facts and the evidence and make decisions based on the plan documents. He said he would look at that as similar to AOGCC.

[2:25:27 PM](#)

CO-CHAIR TALERICO opened public testimony on the appointment of Mr. Gallagher. There being no one wishing to testify and there being three committee members absent, Co-Chair Talerico held over the advancement of Mr. Gallagher's name.

[2:26:34 PM](#)

REPRESENTATIVE TARR inquired whether Mr. Gallagher will have an opportunity to again be before the committee next week to answer questions from the other members.

CO-CHAIR TALERICO responded only if the members absent today have questions after being provided the information. Responding to Representative Olson, he confirmed that Mr. Gallagher will be given a couple days of notice if the committee wants him to be present next week.

REPRESENTATIVE TARR noted she may have some questions for Mr. Gallagher after she reviews the information provided by Mr. Seamount.

CO-CHAIR TALERICO agreed to accommodate Representative Tarr if she needs to ask further questions of Mr. Gallagher.

[2:27:43 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 2:28 p.m.