

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

November 3, 2015

8:02 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Mike Hawker, Vice Chair

OTHER LEGISLATORS PRESENT

Representative Chenault
Senator Stoltz

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 301

Opposing the recent decisions to cancel future lease sales in the Chukchi and Beaufort Seas and to deny the suspension of Shell and Statoil's leases; urging the United States Department of the Interior to continue to promote oil exploration in the Chukchi and Beaufort Seas; urging the United States Bureau of Safety and Environmental Enforcement to reconsider and approve requests from Shell and Statoil for lease suspensions in the Chukchi Sea Planning Area and Beaufort Sea Planning Area; and urging the ongoing efforts to develop offshore oil and gas in the Arctic Outer Continental Shelf.

- MOVED OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HJR301

SHORT TITLE: SUPPORT O&G LEASES ON ARCTIC OCS

SPONSOR(S): REPRESENTATIVE(S) GATTIS

11/02/15 (H) READ THE FIRST TIME - REFERRALS
11/02/15 (H) RES
11/02/15 (H) READ THE FIRST TIME - RULED IN ORDER
11/02/15 (H) SUSTAINED RULING OF CHAIR Y26 N12 E2
11/03/15 (H) RES AT 8:00 AM CAPITOL 106

WITNESS REGISTER

REPRESENTATIVE LYNN GATTIS
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HJR 301 as prime sponsor.

BARBARA HUFF-TUCKNESS, Director
Governmental and Legislative Affairs
Alaska Teamsters Local 959
Juneau, Alaska

POSITION STATEMENT: During the hearing on HJR 301, testified in support.

KARA MORIARTY, President and CEO
Alaska Oil and Gas Association
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HJR 301, testified in support.

ACTION NARRATIVE

[8:02:11 AM](#)

CO-CHAIR BENJAMIN NAGEAK called the House Resources Standing Committee meeting to order at 8:02 a.m. Representatives Johnson, Seaton, Josephson, Tarr, Herron, Talerico, and Nageak were present at the call to order. Representative Olson arrived as the meeting was in progress. Representative Chenault and Senator Stoltz were also in attendance.

HJR301-SUPPORT O&G LEASES ON ARCTIC OCS

[8:03:23 AM](#)

CO-CHAIR NAGEAK announced that the only order of business would be HOUSE JOINT RESOLUTION NO. 301, Opposing the recent decisions to cancel future lease sales in the Chukchi and Beaufort Seas and to deny the suspension of Shell and Statoil's leases; urging the United States Department of the Interior to continue to promote oil exploration in the Chukchi and Beaufort Seas; urging

the United States Bureau of Safety and Environmental Enforcement to reconsider and approve requests from Shell and Statoil for lease suspensions in the Chukchi Sea Planning Area and Beaufort Sea Planning Area; and urging the ongoing efforts to develop offshore oil and gas in the Arctic Outer Continental Shelf.

[8:04:27 AM](#)

CO-CHAIR NAGEAK offered the following statement [original punctuation provided]:

1. In total, Shell Oil has invested approx. \$7 billion to purchase and prosecute its Alaska leases.

External factors have delayed this project, including new requirements that have restricted the season length, multiple federal court and administrative challenges, appeals, and remands that have impacted the federal government's ability to permit Shell's exploration activities.

Since 2007, Shell has missed out on six drilling seasons due to delays associated with legal challenges and permit delays.

Since July of 2014, Shell has had a request pending with the DOI for a five-year lease extension.

2. Challenging and unpredictable federal regulatory environment for Alaska Arctic offshore exploration.

Ever-changing regulatory framework that would not allow for both rigs to drill at the same time; it only allowed 1 well in 7 year. The 2015 season only allowed one well that cost \$1.4 Billion to complete.

The Federal Governments reduction of the 2015 program to one well was devastating to Shell and the Federal Government rejection of modifying that restriction for 2016 gave Shell little choice but to cancel future exploration.

[8:05:13 AM](#)

CO-CHAIR NAGEAK pointed out that the area he represents has, over the years enjoyed its resources with regard to taxation, revenues for governing, and employment, not only for the North

Slope Borough but also the State of Alaska. He expressed frustration in that the North Slope's people are restricted from exploring and drilling on their own lands, and he questioned what is left for their grandchildren.

8:07:59 AM

REPRESENTATIVE LYNN GATTIS, Alaska State Legislature, offered the following sponsor statement [original punctuation provided]:

Mere months after approval of a single exploratory well on the Arctic outer-continental shelf, and days after Shell announced it was no longer exploring for oil and gas in the Arctic; the Obama administration and the Department of the Interior cancelled previously scheduled future lease sales in the Chukchi and Beaufort Seas. At the same time, the United States Bureau of Safety and Environmental Enforcement denied Shell and Statoil requests for lease suspensions in the same areas.

REPRESENTATIVE GATTIS related that once again, the federal government is stifling Alaska's economy and way of life by a decision to cancel future lease sales and deny lease extensions, thereby crippling the Alaska Outer Continental Shelf (OCS). She said the administration's decision is likely setting the program back 20-years in that companies are forced to go through the entire permitting process of years of bureaucracy and almost certain litigation just to get back to the point [exploration] was at. Allowing only one well, after seven-years and \$7 billion invested by Shell Oil, she stressed, is unacceptable. She recalled that dozens of wells were drilled in the Prudhoe Bay area and all were deemed "disappointing," even though the geology suggested it was a great spot for oil, the wells were not hitting. Even so, she said, the state continued leasing and with nearly every company leaving, ARCO went "all in" and drilled one more well that hit. She pointed out that it changed everything for everyone, and the Arctic OCS is one of the last "elephants out there." Representative Gattis expressed that Alaska is at risk of losing all Arctic lease investments and; therefore, needs lease extensions and improved regulatory rules and process. She said, [HJR 301] recommends the federal government reconsider its recent decisions and not stand in the way of Alaskan's vital economic activity in the state. She pointed out that Alaskans have safely developed all types of oil, gas, minerals, timber, and fisheries since statehood by developing regulatory practices that work for all stakeholders.

She remarked that HJR 301 asks the federal government to basically stand down, re-extend those leases, and let the state do what it does best - resource development.

[8:11:53 AM](#)

REPRESENTATIVE HERRON commented that he supports HJR 301, and pointed to the National Strategy for the Arctic Region, released in May, 2013 by President Barack Obama's administration. In January, 2014, the administration released the Implementation [for the National Strategy for the Arctic Region]. Remarkably, he noted, the number one effort stated is to advance the United States' security interests within the National Strategy of the Arctic Region, entitled "To Provide for Future United States' Energy Security." He described the content as reading that President Obama's administration and the United States is committed to working with stakeholders, industry, and other Arctic [countries] to explore the energy resource base, develop and implement best practices, and share experiences to enable the environmentally responsible production of oil and natural gas, as well as renewable energy. He pointed to the implementation plan and read: "We wish to ensure the safe and responsible [indisc.] of non-renewable energy resources ... to ensure safe and responsible exploration development onshore and offshore Arctic non-renewable energies in an environmentally sound manner." So, he surmised, this strategy was recently released and they are "talking out both sides of their mouths," in saying this is what they want to do, especially for the Arctic Region, and then it take steps to counter the implementation plan within the National Strategy for the Arctic Region.

[8:14:21 AM](#)

CO-CHAIR NAGEAK offered that over the years he has spoken with Alaskans, legislators, and Congressional aides, to educate them regarding [Alaska's oil and gas]. He offered an antidote that when he returned from the United States Army, his home had changed in that it had become a borough sanctioned by the State of Alaska, and there were Native Corporations. He pointed out that "we had our own destiny in our own hands and oil was discovered." He reminded the committee that corporations make money from their assets, and that land was the biggest asset the federal government gave to the corporations. As it turned out, under the land was oil and gas and other riches, yet the federal government locked up the land even though the tribes were to work hand-in-hand with the federal government. The people

living in that area, he stated, are disheartened because they are continually blocked, and those are the people who depended on Alaska's resources from the very beginning. He said that in his earlier days there were "oil seeps" all over the north, and yet the people can't do anything due to the restrictions placed on what they do on their own lands. One day, he recalled driving across a river because he believed it was hard snow and fell in, only to discover it was a "gas pot." The people living off the land see "these all the time," as there is so much oil and gas there but, he reiterated, there is nothing they can do with it due to the restrictions.

[8:19:42 AM](#)

REPRESENTATIVE TARR offered that an issue of concern is the lack of revenue sharing with OCS development not being mentioned in HJR 301, and questioned whether that was intentional as it appeared to be a missed opportunity for jobs. According to the U.S. Department of Interior, she pointed out, the lease sales are not happening due to the requirement that they be competitive lease sales. She explained that when the [U.S. Department of Interior] issued a nomination opportunity in 2013 and 2014, no companies were interested in one of the leases and only one company in the other, which did not meet the requirement of a competitive lease sale. To the extent that regulatory reform would change that, she hoped the committee would take its time to consider concrete actions to be taken, and speak to the companies themselves as she was unsure of the value of [HJR 301] other than to say the legislature is disappointed. Certainly low oil prices are influencing a lot of this behavior and, she opined, it would benefit the committee to understand those dynamics. In terms of the lease extension, a couple of pieces of [HJR 301] have merit, but other pieces do not get "at the real things that need to be changed" when considering regulatory reform. She pointed out that the current administration allowed OCS development to go forward during this past year and expressed that the administration could not be blamed for the failures of the Kulluk, the unpreparedness of the company for the Arctic waters, the damage that occurred, and delaying them by a year.

[8:22:17 AM](#)

REPRESENTATIVE JOSEPHSON offered that he shares his colleagues concerns and feels very differently about the Liberty Development, which may be facing other contests, mainly because the Liberty Development is closer to shore, and safer to

develop. When reviewing the current administration and its willingness to look at oil development on the East Coast from Virginia down to South Carolina. He suggested considering that President George W. Bush's administration hadn't made that allowance, "what's going on here is much more nuanced and complicated." He referred to an article from "Fuel Fix," a Ramco sponsored website, and noted when the United States Department of Interior asked oil companies to highlight areas of interest for future Arctic sales, only one unidentified company spoke up. He advised that federal law does not give the United States Department of Interior the authority to issue blanket extensions, rather it requires companies to lay out specific development plans for drilling and developing. He said his statement is corroborated by Eric Melito, Director of the American Petroleum Institute, who said "it is not surprising that Interior cancelled the remaining lease sales because there was an absence of nominations," and Mr. Melito surely wants development. While there is no doubt there is a strict regulatory environment, he opined, it is not believable that Shell Oil would invest \$7 billion, not have a productive find, and determine it doesn't want to participate for the indefinite future. He deduced it cannot be a response to sudden regulatory change in that it is more causally a response to a failure to have a productive find. He echoed Representative Tarr in that [HJR 301] would be more enticing if the state had more revenue sharing. He stressed he is a believer and booster of onshore oil and gas development as it would go a long way to curing the state's current financial ills. Representative Josephson said he is a "big" backer of AKLNG, but objects to HJR 301 for the above reasons.

[8:25:45 AM](#)

CO-CHAIR TALERICO advised that he supports HJR 301, and paraphrased from his press release of October 16, 2015, as follows [original punctuation provided]:

These are heavy-handed and ill-reasoned policies fit for the Big Environmental lobby, and that's sad. I'm greatly concerned with their pattern of careless disregard for the people of Alaska. One short-sighted, anti-Alaska decision after another. We have decades of experience carefully and respectfully developing our resources in Alaska. We're seeing a scary and concerning shift, policy and process-wise, from our federal overlords: instead of merely making our regulatory and permitting system a labyrinth, they're

now also making decisions for the market. That should give us all cause for alarm. I feel for the people in my co-chair's region and all the contractors who did and stood to benefit from exploration, research and development.

CO-CHAIR TALERICO pointed out that with regard to a competitive bid, one bidder qualifies as a legitimate competitive bidder. He opined that the State of Alaska has the area of 3-nautical miles straight out from low tide, and has the opportunity to develop. The state has held off in some development due to concern with local villages "up there" and have listened to their responses when whaling, et cetra. Even though the committee may have questions about its take off of this, he said, the state is in the throes of attempting to build an 814-mile piece of infrastructure that will produce a transportation system for gas about as close to the Beaufort Sea as "we're probably going to get in a long time." Geologically, in the Beaufort Sea which is close to where the line is going in, there have been different estimations as to how much gas there may be there - anywhere from 1.9 trillion cubic feet up to 15.8 trillion cubic feet. He opined that HJR 301 is appropriate and he appreciates the sponsor bringing it forward as the time is now to get clearly get the message to the people in Washington, D.C.

[8:28:39 AM](#)

CO-CHAIR NAGEAK advised there are three agencies involved when dealing with land use and oceans: the United States Fish and Wildlife Service, the Bureau of Land Management, and the United States Army Corps of Engineers. He pointed out that each agency deals differently with the people living in those areas, and the people who make it known they are interested in an area for exploration and/or development. He offered that earlier on he worked for BLM, went to land school, knows how these agencies work, knows their laws about land use - especially with BLM land. He offered that, to Alaska's benefit, the director at the Bureau of Land Management works closely with the villages and communities, and the Army Corps of Engineers works diligently with the people of the area; as opposed to getting anything through the United States Fish and Wildlife Service.

[8:30:36 AM](#)

REPRESENTATIVE SEATON said it is appropriate that the legislature is sending a message to the administration that it wants to see offshore development. Although, many of the

"WHEREAS" are not talking about the offshore, he related, but instead the state's development or its procedures on Alaska lands. He noted that rather than getting into the nuances of the interaction of the agencies, the statement that the legislature wants to make sure it has development in a very proactive and safe manner is appropriate. The overall message and intent of urging the federal government to approve economic development for the State of Alaska is a good message although, he reiterated, he does not particularly agree with every statement contained within the "WHEREAS" sections.

[8:32:35 AM](#)

CO-CHAIR NAGEAK opened public testimony.

[8:33:11 AM](#)

BARBARA HUFF-TUCKNESS, Director, Governmental and Legislative Affairs, Alaska Teamsters Local 959, said on behalf of the Alaska Teamster Local 959 members, especially those working in the oil and gas industry, who strongly support HJR 301. She pointed out that at least one economic study estimates that the development of the Arctic Outer Continental Shelf (OCS) oil and gas resources could produce at least 54 thousand jobs from a national perspective, and an estimated annual payroll for those jobs of approximately \$72 billion. She provided that any of these projects put more oil or gas in the state's pipeline, and will provide a huge economic opportunity for many Alaskans living and working in the northern village regions. The Alaska Teamsters, she explained has been training in some of the villages and, hopefully, offering an opportunity for more Rural Alaskans to work in the oil and gas industry. She said the union strongly supports the environmental safe oil and gas development as the hydrocarbon potential in the Chukchi Sea and Beaufort Sea represents one-third of the world's, and United States in particular, oil and gas resources. It also represents Alaska's future children and grandchildren job opportunities within Alaska for all Alaskans. She pointed out that as the Arctic evolves and the economic opportunities are developed in Alaska and abroad, the Teamsters welcome those new Alaskan jobs and opportunities within those particular regions and also opening up some of the local port areas in Alaska's northern communities. For these reasons, she offered, the Alaska Teamsters Union supports HJR 301. She referred to a November 2, 2015 article within the Alaska Dispatch News, entitled "Shell leaves door open for future exploration in Alaska's Arctic," regarding the number of leases, and said:

Currently Shell has 275 leases in the Chukchi Sea - even though the Interior Department has rejected Shell's bid to extend the duration of its Beaufort and Chukchi Sea leases, which otherwise expire between 2017 and 2020.

MS. HUFF-TUCKNESS opined that the state has many economic opportunities with a bright future.

8:37:46 AM

KARA MORIARTY, President and CEO, Alaska Oil and Gas Association, said that as a professional trade association for the industry in Alaska, it supports the resolution for many of the reasons previously mentioned. She pointed out that the Arctic has major resources and just because Shell Oil decided not to proceed in 2016 with their investment, it is not giving up those leases as there is still interest in the Arctic. She opined that "this" highlights the strength of the state's areawide leasing program in that it is predictable, reliable, and consistent; sometimes the state will only have one bidder, and recently there was a "whopping" lease sale on the North Slope. She reiterated that the lease sale process in the state is consistent, reliable, and predictable which is something the industry needs because "when you start and stop lease sales it sends a message that maybe the government is not that interested in truly developing the Arctic." She advised that the Alaska Oil and Gas Association was very discouraged when the U.S. Department of Interior decided to cancel the scheduled lease sales for 2016 and 2017. She added that with regard to oil price, Shell Oil has been very clear that oil price did not play into their decision, if it had proceeded Alaska wouldn't have seen production for 12-15 years, and "we" cannot even accurately predict oil prices for 12-15 months. This is a long term and necessary prospect for Alaska when looking at Alaska and the country's energy security. The Alaska Oil and Gas Association is hopeful the federal government will reconsider that decision, she offered.

8:40:21 AM

REPRESENTATIVE TARR commented that because federal law prohibits the lease sales because its definition of "competitive sales" requires that there be more than one interested party, questioned whether Ms. Moriarty is working with Alaska's

Congressional Delegation to change that requirement, and opportunities to address that issue.

MS. MORIARTY replied the Alaska's Congressional Delegation is working on a host of changes to make this process stronger, including revenue sharing. She advised that since Shell Oil's announcement it is not returning in 2016, Senator Lisa Murkowski has continued to advocate for revenue sharing as the [senior Republican on the Senate Energy and Natural Resources Committee]. She offered that "it just sends a message that when you cancel lease sales like this it sends a message that you really are not interested because some of those things, I think, could have proceeded without that." She appreciates that the legislature, and many others, go on record that Alaskans do support gas development.

[8:41:43 AM](#)

REPRESENTATIVE TARR opined that this is something the Republican leadership in Congress would be interested in, and asked whether she has any idea why this issue wouldn't move forward.

MS. MORIARTY responded she cannot speak to that directly as it is a question she would need to ask [Alaska's Senators].

[8:42:42 AM](#)

CO-CHAIR NAGEAK closed public testimony on HJR 301.

[8:43:01 AM](#)

CO-CHAIR TALERICO moved to report HJR 301, labeled 29-LS1169\W, out of committee with individual recommendations and the accompanying fiscal note. There being no objection, HJR 301 passed out of the House Resources Standing Committee.

[8:44:33 AM](#)

The committee took an at-ease from 8:44 to 8:47 a.m.

[8:47:23 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 8:47 a.m.