

**ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE**

March 10, 2017

3:30 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator John Coghill, Vice Chair
Senator Natasha von Imhof
Senator Shelley Hughes
Senator Kevin Meyer

MEMBERS ABSENT

Senator Bert Stedman
Senator Bill Wielechowski

COMMITTEE CALENDAR

CONFIRMATION HEARINGS

ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC)

Hollis French
Dan Seamount

- CONFIRMATIONS ADVANCED

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

HOLLIS FRENCH, appointee
Anchorage, Alaska

POSITION STATEMENT: Appointee to the Alaska Oil and Gas
Conservation Commission (AOGCC).

DAN SEAMOUNT, re-appointee
Alaska Oil and Gas Conservation Commission (AOGCC)
Anchorage, Alaska

POSITION STATEMENT: Re-appointee to the Alaska Oil and Gas
Conservation Commission (AOGCC).

DAVE HANSON, representing himself

Anchorage, Alaska

POSITION STATEMENT: Supported both appointments of Dan Seamount and Hollis French to the Alaska Oil and Gas Conservation Commission (AOGCC).

ACTION NARRATIVE

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CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Coghill, Hughes, von Imhof, and Chair Giessel.

Confirmation Hearings:

Alaska Oil and Gas Conservation Commission (AOGCC)

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CHAIR GIESSEL announced the confirmation hearings for the appointment to the Alaska Oil and Gas Conservation Commission (AOGCC) of former State Senator Hollis French and the reappointment of Dan Seamount. She said the (AOGCC) is Alaska's gatekeeper and chief regulator of Alaska's hydrocarbon resources. They have a constitutional mandate to maximize the state's resources for the maximum benefit of its people. It is part of the hammers the state has in its tool box to insure compliance with that mandate.

SENATOR MEYER joined the committee.

CHAIR GIESSEL continued that AOGCC has three members: one seat for a petroleum engineer, one seat for a petroleum geologist, and one seat for a public member that preferably has some background knowledge of the regulated industry. She invited former Senator French to come forward saying he was well known to this committee. He would be filling the public member seat, which until he was appointed on July 20, 2016, was vacant for over a year. That vacant seat lead to some serious quorum issues, which this committee heard about during the last year.

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HOLLIS FRENCH, Appointee, Alaska Oil and Gas Conservation Commission, Anchorage, Alaska, said he would take a couple of minutes to tell them about his oil field background before the committee discusses his appointment. He moved to Alaska in 1978 and was hired in 1979 as a bull cook on an oil rig, Shell Platform A, in Cook Inlet. He worked there for the next five

years. After eight months of washing pots and pans he was promoted to a roustabout. That is pretty unusual, as most people start as roustabout, but he had to actually work his way up from below that. As a roustabout you chip paint, mop floors, work on the business end of the crane; you strap loads, load the boat, and unload the boat; you swing a sledge hammer; you crawl in the vessels and do whatever you are told to do. He did that for eight months.

In 1980, Shell Oil Company decided to hire and train him to be a utility man, which is essentially an operator in training, and eventually he became a production operator. Operators are responsible for the flow of oil and gas out of the well, for separating that oil and gas, and the water, as well, ship the clean oil to shore, reinject the gas for gas lift, and reinject the water for water flood.

He worked there until 1984 when he was hired by ARCO at Kuparuk when it was still a new field. SPF-2 had not started up yet and SPF-1 was in motion. He was hired for SPF-2, but put to work on SPF-1 and after that SPF-3. It was the second largest oil field in North American at the time. ARCO was a great company to work for; they had a very aggressive training program in place and he was moved through all the positions of the plant from gas handling to oil separation. They had a water flood system and power generation. They had a topping plant where they made diesel, a waste injection plant, and drill sites where the wells were located. That is probably the first time he encountered an Alaska Oil and Gas Conservation Commission (AOGCC) employee, the inspectors who came out to make sure that their surface and subsurface safety valves would actuate when they were required to do so.

Eventually he landed in the board room, which is the control room, when CPF-1 was the oil movements coordinator for the Kuparuk field. So, he was constantly in contact with CPF-2 and CPF-3, as well as the TransAlaska Pipeline System (TAPS). When TAPS had a slowdown he would slow down their production. Then they built two enormous so-called divert tanks, so they could keep their flow going 100 percent to those divert tanks when TAPS had a slowdown and then once TAPS was back up to speed they could slip that oil back into the line and keep their numbers up as high as possible.

MR. FRENCH said the sole function of a production operator is to maximize production. When the bosses would walk in they would look at the board and the lights and want to see everything at

105 percent. That was their goal and they did a pretty good job in producing over 300,000 barrels of oil a day in the Kuparuk field.

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Eventually, he decided to take oil field earnings and go to law school, then went into public service by becoming a prosecuting attorney. Then he was elected to the legislature. He closed by saying that both of those jobs made him realize that he enjoys public service. This position on the AOGCC is another aspect of that and it feels like a good fit in combination with his earlier oil field experience. He likes the job; it's a small agency, but for three members they do a lot of important work.

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CHAIR GIESSEL drew members' attention to the fact sheet about the Alaska Oil and Gas Conservation Commission (AOGCC). The last sentence after the last semicolon says, "and one member who shall have training or experience that gives the person a fundamental understanding of the oil and gas industry in the state." The final caveat was added to statute in 2004 or so when the public member had no experience in the industry. That proved to be a concern to legislators. She appreciated Senator French elaborating on his experience in the oil industry. She noted he had already been serving on the commission for six or seven months.

SENATOR COGHILL thanked Mr. French for serving and added that is a good fit for him. He asked how he sees the advocacy he had in the legislature fit into his role as a commissioner.

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MR. FRENCH answered that one of the benefits of the job is that it is strictly bound by statute: the black and white laws passed by this legislature. The regulations that have been promulgated by the agency define his job, and he spends a lot of time reading them. Some of them are specific and some are more broadly philosophical, but those are his "commandments." His job through the agency is to protect the public interest in the exploration and development of Alaska's valuable oil, gas, and geothermal resources through the application of conservation practices that are designed to ensure the greater ultimate recovery of the resource and to protect health, safety, fresh ground waters, and the rights of every owner to extract their share of the resource.

One of the things commissioners have to keep in mind, Mr. French said, is that they can from time-to-time adjudicate disputes between two oil companies who have leases butting up against one another. One of the more interesting words he has come across in the oil and gas industry is that oil and gas are "fugacious," which means they move around underground unpredictably. It was first used in the 20s and 30s to describe oil and gas helping regulators get a handle on this unusual property of this material. If you think of a lease being a square, it has happened in the past that owners of this lease would drill right along the edge, so they would be able to extract not only their oil and gas, but the oil and gas of the guy next to them. For that reason most oil leases come with spacing requirements of 500 feet. The real point is that they are bound by statute that confine them to their mission. There is no room outside of that.

SENATOR COGHILL said because of the work he has done with Senator French he has the greatest confidence that is exactly where he will go. Water management is of growing concern in Alaska, especially with more lateral drilling and fracking and he asked how the AOGCC looks at that element as a management issue.

MR. FRENCH replied that the AOGCC has a small but incredibly talented engineering staff that makes sure every well bore is well engineered, constructed, and tested for mechanical integrity. He said part of Senator Coghill's concern probably arises from the fracking controversy. They take place miles underground and in a safe formation, but all that fluid comes back to the surface and must be disposed of in a separate well. Disposal has been a problem in other states, because of their high-volume wells with enormous amounts of water being injected in single places. It can cause some small slippages. Alaska doesn't have that problem; we don't have the same geology here and we don't have the same number of wells to handle the water from. He said Alaska probably issues fracking permits "in the dozens" every year, whereas in North Dakota and Texas it can be in the hundreds or thousands of wells. Alaska just hasn't had that enormous volume of water disposal to cause a problem. Our disposal wells are well engineered, tested for mechanical integrity, and are putting the water so deep in the earth that it's never going to flow back up to a fresh water source.

SENATOR COGHILL said he appreciated that and that he wants to stay ahead of any disinformation that might come through Alaska. He asked how many staff the AOGCC has.

MR. FRENCH answered that the agency has about 30 employees total: three commissioners, about six engineers and geologists, eight field inspectors who work North Slope-type shifts to look at the wells and valves, a couple of IT people, and support staff.

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SENATOR COGHILL asked how information flows between staff and the commissioners.

MR. FRENCH answered that Commissioner Seamount has worked many years with the agency and has seen many ups and downs in its functioning, but he credits Commissioner Foerster with establishing a "highly efficient and low drama" work environment that is extremely collaborative. And then there are sort of senior engineers and inspectors who can provide historical perspective for guidance. Sometimes the conversations are extremely technical and way over his head and he listens, and gets the picture. But he relies on his co-commissioners and staff to help guide him. Sometimes it's more of a policy question.

For example, they have out for notice and comment a regulation that would help publicize and make available to the public fracking permits when they come to the agency 10 days before they issue the permit. This week they were inundated with people who think it should be a 30-day notice and comment period. And that is a policy call they will reach at some point. He wasn't sure what the right answer is between 10 and 30, but they are conscious of not holding up industry. The reason for picking 10 days is that is about how long it takes to process a permit, and they don't want to be in the position of saying oh, you've got to wait another 10 days while a few more comments come in on your permit.

MR. FRENCH explained that he reviewed a fracking permit earlier in the week that took about an hour. It might take someone else two hours to review it, but after that, you're going to know where it is and have an idea of what is happening. If you are for it, you say so. Probably most of the comments would be against it, and that kind of policy call has no exact right answer, but you can see how they are thinking.

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CHAIR GIESSEL commented that his colleagues, the other two commissioners, speak very highly of Mr. French's work with them over the past few months that he has been a very quick study and

they really enjoy working with him. That gives her a lot of comfort and gives him a lot of credibility in her eyes.

MR. FRENCH said he appreciated that. He wanted to close by making a couple of points. A question came up earlier in a House Resources Committee that it shed light on how commission works. Before he came down he got a list of all the permits the Alaska Oil and Gas Conservation Commission (AOGCC) had granted since he came to work. It was about 100 well permits and about 300 workover permits. One of the committee members said, "Aha, but how many have you denied?" The answer is none, and that is because the companies that work in Alaska know what their business is about. When they fill all the boxes in the Alaska Oil and Gas Conservation Commission (AOGCC) checklist, they are issued a permit. It's not up to his discretion. The statute says they "shall" issue a permit if all those steps are done. They would be in Superior Court getting their hands slapped by a judge very soon after acting arbitrarily or capriciously.

Lastly, Mr. French said that he met with an executive from Hilcorp on Wednesday who said he could tell the committee they are supporting his confirmation.

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CHAIR GIESSEL asked him to stay and said that she would take public testimony after they hear from Commissioner Seamount. Commissioner Seamount had been serving since 2000 when he was first appointed by Governor Tony Knowles. He holds the geologist seat on the commission. He is a professional geologist under AS 08.02.011 and has a minimum of 10 years of professional experience in the field of petroleum geology. She invited him forward.

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DAN SEAMOUNT, re-appointee, Alaska Oil and Gas Conservation Commission (AOGCC), Anchorage, Alaska, said he would respond to any questions or concerns they had about his confirmation for the third time to the Alaska Oil and Gas Conservation Commission (AOGCC). He noted his resume in their packets. First, he had been commissioner for the Alaska Oil and Gas Conservation Commission (AOGCC) for the past 17 years, which is more than 30 percent of the time the agency has been in existence; it beats Tom Marshall's record. He explained that Tom Marshall is why Alaskans all get PFD checks and why it has Prudhoe Bay and Kuparuk. He is the one who picked the land for state selection; it was called Marshall's Folly at the time. That is why Alaska has been rich and will be rich in the future.

MR. SEAMOUNT said the normal time that a commissioner is commissioner at Alaska Oil and Gas Conservation Commission (AOGCC) is 2-4 years and he has been there 17 years. He has worked with 10 other AOGCC commissioners and represented five governors with the Interstate Oil and Gas Compact Commission.

He said he found this job is very exciting, challenging and fulfilling. And he would like to continue that for another six years with the best staff he has ever worked with. Every single one of the 30-plus staff is doing his job.

When Commissioner French started, it was his job to bring him along, and after a few days he found out that he gets it. He doesn't have to train him anymore. The commission is running smoothly right now with a full commission. He has been involved in more than 124 public hearings, issues over 3,500 drilling permits, 17,000 well work over operations, and hundreds of major decisions. Before he showed up, the commission had done maybe five penalties, but since he has been there they have done 27 civil penalties and 137 enforcement actions. The reason there are more penalties and enforcement actions now are because Alaska has a lot of new operators. They come from other areas and Alaska has stringent regulations and they need to be educated. The most important part of educating them is when they do violate a regulation or statute, they tell them what they did wrong and you write out a plan on how it's not going to happen again. That is more important than the dollar amount of the fines.

MR. SEAMOUNT said he is surprised that he is still with the commission, but new challenges come along all the time and he can never predict what they are going to be. It keeps his brain from atrophying. While he has been in the industry he has interacted with government agencies in five states on similar issues the AOGCC addresses. He has 25 years of Alaska experience directly related to the oil and gas industry. He worked underground operations with production, drilling, reservoir engineers, for most of his career, and these will all contribute to helping do a good job of promoting conservation and efficient production of Alaska's oil and natural gas. He also has 20 years of outside experience in the Rocky Mountains, Texas, Mid-continent, California, Kazakhstan, and Alaska.

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He said Alaska has 20-plus basins, which have oil and gas potential, and only two basins are producing now. Twenty more

are left that haven't even been touched. A tremendous amount of oil is left and announcements of three major discoveries; two are discoveries and a third needs to be tested, but it looks pretty good, too. It makes him think that Alaska has a great future. He said it takes 11.5 years to get a new field going.

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SENATOR COGHILL asked what surprises he saw coming in exploration other than explaining the challenges of Alaska to the new players.

MR. SEAMOUNT answered that the explorers coming into the state are spending a lot of money and hiring good staff. AOGCC is not a consulting agency - they don't tell them how to drill or set pipe - and very rarely denies a permit, because when a permit is submitted and Alaska Oil and Gas Conservation Commission (AOGCC) staff sees it's not compliant they tell the company to go back home and make it compliant. They go back and forth so that by the time it gets to the commissioners it's almost always compliant.

One new discovery in the Pikka Unit has been sitting between the two biggest oil fields in the country for 60 years; no one found it. Alaska Oil and Gas Conservation Commission (AOGCC)'s own geologists have mapped it and think it's bigger than announced.

SENATOR COGHILL asked what some of the new wrinkles are coming in terms of new technologies' compatibility with existing regulations.

MR. SEAMOUNT said technology is moving so fast these days that it's hard to predict and their regulations are being modified just to keep up with it. A lot of new people are coming into the state and stirring up the locals especially with the fracking issue, which incidentally has been around since 1947. He has had hundreds of wells fracked and never had a problem except one time when a high-pressure hose got away from them and started whipping around the location. His assistant just happened to be a semi-professional tennis player and was playing jump rope with it.

Some people come into the state saying that fracking is going to kill local kids and all kinds of bad outcomes, but he responds that it's his job to make sure that what they do is safe. He has asked for any information they may have, but he hasn't seen any yet.

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SENATOR COGHILL commented that the depth and coldness of the ground up there probably is helpful for fracking.

MR. SEAMONT said that was correct and added that the North Slope has no real fresh water either, because it's all frozen. Fracking up there is not the issue it is down south and not the issue that the outsiders have stirred it up to be.

CHAIR GIESSEL remarked that last year or so the commission rewrote the fracking regulations.

MR. SEAMOUNT said that happened in 2014 and now some new regulations are coming up to make the process more transparent.

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CHAIR GIESSEL asked him if the leaking gas pipeline in Cook Inlet falls under AOGCC jurisdiction.

MR. SEAMOUNT said the quorum says it does not, because mainly the gas has already been bought and paid for, and it is now in the hands of the Department of Environmental Conservation (DEC) and the Coast Guard. That said, the discussion was one of the questions with differences among the staff in his memory, and there was discussion of bringing in the attorney from the Department of Law (DOL).

CHAIR GIESSEL thanked him for his service and finding no further questions, opened public comment.

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DAVE HANSON, representing himself, Anchorage, Alaska, said he worked under Governor Hammond in charge of land selections and completed selections of 40 million acres of state land. Later he was the state's lobbyist in Washington, D.C., on the Alaska National Interest Lands Conservation Act (ANILCA). Some of the many public positions he has held are serving for four years as vice chair of the Alaska Local Boundary Commission, another quasi-judicial body, such as the Oil and Gas Commission, and for the past 20 years he has had his own business providing neutral public hearing officer facilitation services to controversial projects such as the Juneau road, the bridge to nowhere, the Anchorage Coastal Trail, and the Cooper Landing Road. He shared the following three points:

1. In reference to comments from Senator Coghill and Commissioner Seamont, he has several friends who have

been in the industry as drillers and welders and worked both in the Dakotas and Alaska, and they have uniformly said they cannot believe how much better quality control Alaska has and how much more serious the industry is about doing things right here. And he thinks that is partially a compliment to this commission.

2. The AOGCC has a great reputation and integrity. This is a tribute to Commissioners Foerster and Seamount. Commissioner Seamount should, of course, be reconfirmed.

3. He supports the confirmation of Mr. French. Though he doesn't know him personally, his background of 12 years of working in the oil industry, being a trained attorney, working through the attorney general's office, and 12 years in the legislature definitely qualify him to meet a fundamental understanding of the oil and gas industry in the state. He also has a public reputation for a high level of integrity. It is fortunate that a person with his skills background and interest and concern for Alaska is willing to serve in this position.

CHAIR GIESSEL, finding no further comments, closed public testimony. Finding no further questions, she read the committee report as follows:

In accordance with AS 39.05.080, the Resources Committee reviewed the following and recommends the appointments be forwarded to a joint session for consideration: Oil and Gas Conservation Commission: Hollis French and Dan Seamount.

This does not reflect an intent by any of the members to vote for or against the confirmation of the individuals during any further sessions. The committee signed the committee report document.

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CHAIR GIESSEL, finding no further business, adjourned the Senate Resources Committee meeting at 4:11 p.m.