

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 25, 2019
1:01 p.m.

MEMBERS PRESENT

Representative John Lincoln, Co-Chair
Representative Geran Tarr, Co-Chair
Representative Chris Tuck, Vice Chair
Representative Sara Hannan
Representative Grier Hopkins
Representative Ivy Spohnholz
Representative David Talerico
Representative George Rauscher

MEMBERS ABSENT

Representative Sara Rasmussen

COMMITTEE CALENDAR

PRESENTATION(S): ALASKA OIL AND GAS CONSERVATION COMMISSION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

DAN SEAMOUNT, Geologic Commissioner
Alaska Oil and Gas Conservation Commission
Department of Administration
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation by the Alaska Oil and Gas Conservation Commission and answered questions.

CATHY FOERSTER, Petroleum Engineering Commissioner
Alaska Oil and Gas Conservation Commission
Department of Administration
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation by the Alaska Oil and Gas Conservation Commission and answered questions.

ACTION NARRATIVE

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CO-CHAIR JOHN LINCOLN called the House Resources Standing Committee meeting to order at 1:01 p.m. Representatives Hannan, Rauscher, Spohnholz, Talerico, Tuck, Hopkins, Tarr, and Lincoln were present at the call to order.

REPRESENTATIVE SPOHNHOLZ described District 16 and expressed her interest in the House Resources Standing Committee because of the role resources serve as an economic engine for the state.

REPRESENTATIVE RAUSCHER reviewed his previous experience serving on the House Resources Standing Committee and discussed at length various aspects of District 9.

REPRESENTATIVE TUCK described the facets of District 23 and his interest in the House Resources Standing Committee.

REPRESENTATIVE HANNAN noted mining and other important resource development activities that take place in District 33.

REPRESENTATIVE TALERICO described District 6 and noted the mining and timber interests and other resource activities, such as farming and energy production, within his district. He stated his concern related to reduced king salmon runs in District 6.

REPRESENTATIVE HOPKINS related various mining operations within District 4 and pointed out the University of Alaska Fairbanks studies all types of resource extraction and development.

CO-CHAIR TARR recalled her previous work on the House Resources Standing Committee and reminded members the committee would explore topics related to the Department of Natural Resources (DNR), the Department of Environmental Conservation, the Division of Agriculture, DNR, public lands, and non-extractive resource activities such as recreation and adventure tourism.

CO-CHAIR LINCOLN said District 40 is known for its oil, gas, and mining activities in addition to its subsistence harvest, which he characterized as a healthy mix of development and the environment. He reviewed his responsibilities as co-chair of the House Resources Standing Committee.

CO-CHAIR LINCOLN discussed the following memorandums provided in the committee packet: Amendments to Legislation before the House Resources Committee, dated 2/25/19; House Resources Bill Hearing Request Requirements, dated 2/25/19.

PRESENTATION(S): Alaska Oil and Gas Conservation Commission

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CO-CHAIR LINCOLN announced that the only order of business would be a presentation by the Alaska Oil and Gas Conservation Commission. Prior to the presentation, Co-Chair Lincoln invited the committee to make introductory statements.

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DAN SEAMOUNT, Geologic Commissioner, Alaska Oil and Gas Conservation Commission (AOGCC), Department of Administration (DOA), said slides 1 and 2 which illustrate the locations of the AOGCC home office in Anchorage, the North Slope (NS) field office in Deadhorse, AOGCC offices in Anchorage and NS, and in-home offices on the Kenai Peninsula. He said AOGCC's three main areas of focus are: NS; Prudhoe Bay and Kuparuk River Unit and satellite oil fields; Cook Inlet. Mr. Seamont directed attention to slide 3 and informed the committee AOGCC is a quasi-judicial state regulatory agency working mainly on subsurface issues such as drilling, development, and exploration for oil and gas and geothermal resources. He paraphrased from AOGCC's mission statement as follows:

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. Exception to subsurface oversight is the proving of metering so allocation of production is fairly distributed.

MR. SEAMOUNT added once production is distributed, ownership of hydrocarbons becomes a private property issue no longer within the purview of AOGCC. In fiscal year 2019 (FY 19), AOGCC will submit a budget request for "funded industry" receipts of \$7,468,600, and an additional amount for \$119,000 from the U.S. Environmental Protection Agency for managing the Underground

Injection Control (UIC) program; although UIC costs are greater than those budgeted, AOGCC is mandated to manage the program. He further explained AOGCC is an extremely technical organization limited by [AS 31.05] and Alaska Administrative Code Title 20, Chapter 25 regulations, which make arbitrary or capricious interpretations of the law difficult.

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MR. SEAMOUNT continued, noting AOGCC has jurisdiction over private and public lands, and adjudicates disputes between resource owners. Staffing includes positions for three commissioners, two geologists, six engineers, nine field inspectors, two statisticians, two information technology managers, and eight administrators. Slide 4 illustrated AOGCC subsurface jurisdictions: protect human safety on drilling rigs; protect freshwater through UIC; prevent physical waste of energy; promote greater ultimate recovery of resources; protect correlative rights; intense inspection and enforcement program.

REPRESENTATIVE TUCK asked how AOGCC's protection of human safety differs from that of the Occupational Safety and Health Administration (OSHA), U.S. Department of Labor, and Occupational Safety and Health, Division of Labor Standards and Safety, Department of Labor & Workforce Development.

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CATHY FOERSTER, Petroleum Engineering Commissioner, AOGCC, clarified AOGCC's role in protecting public safety is by preventing injuries and deaths related to accidents occurring on oil wells and drilling rigs.

REPRESENTATIVE TUCK surmised AOGCC is concerned about the "design end of things."

MS. FOERSTER said AOGCC reviews the design of wells, how drilling operations are conducted, and the equipment used in drilling operations.

REPRESENTATIVE TUCK questioned whether AOGCC investigates incidents.

MS. FOERSTER said AOGCC would investigate an incident related to a violation of a matter within its jurisdiction, and would assist other agencies to do so.

REPRESENTATIVE SPOHNHOLZ asked how frequently AOGCC inspects wells.

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MS. FOERSTER explained of its eight inspectors, AOGCC always has three working on NS, two or three working in Cook Inlet, and two off-duty. Thus, inspections and the witnessing of tests are ongoing twenty hours per day by four to seven staff members; although AOGCC does not observe every test, blowout preventers on drilling rigs in a known field must be tested every two weeks, and every week on rigs drilling an exploratory well and on workovers. In fact, AOGCC reviews previous tests to ensure each is covered every month or two, especially if there have been safety valve test failures.

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REPRESENTATIVE HANNAN asked for AOGCC's jurisdiction and inspection authority on new developments on federal lands such as the National Petroleum Reserve-Alaska (NPR-A), the Arctic National Wildlife Refuge (ANWR), and offshore.

MS. FOERSTER said AOGCC has jurisdiction on all land and state waters throughout the state except Denali National Park and Preserve. Although jurisdiction does not begin until the onset of work, operators present plans to AOGCC far in advance to get drilling permits, to ensure the use of acceptable engineering practices, and that AOGCC regulations are followed.

REPRESENTATIVE RAUSCHER asked whether there is a duplicity of AOGCC regulatory inspections and oversight.

MS. FOERSTER related on federal land the federal government also has oversight; however, AOGCC is always present for inspections.

MR. SEAMOUNT recalled AOGCC has had a difficult relationship with the federal government; however, the agencies are now working well together.

REPRESENTATIVE HOPKINS inquired as to whether AOGCC has oversight of the feeder lines and the "pipeline system."

MS. FOERSTER said no, AOGCC jurisdiction stops at the wellhead; however, AOGCC inspectors will report any violations observed. Further, if failure to maintain infield pipelines results in a

spill or a release before transfer metering has occurred, AOGCC would assess penalties for waste of the resource.

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MR. SEAMOUNT added other oversight is provided by the Department of Environmental Conservation (DEC), the U.S. Environmental Protection Agency (EPA), the U.S. Coast Guard, and the Alaska Department of Fish & Game (ADFG) to address environmental problems associated with a spill. He directed attention to slide 5, which listed AOGCC primary services. Slide 6 provided the following historical table of permits, decisions, and orders from 2009-2018: over 1,600 permits to drill were issued, over 1,600 wells were completed; over 8,000 well work activities were reported; 717 orders and decisions were issued; there were many hearings of special development considerations.

CO-CHAIR LINCOLN asked for a description of a permit application.

MR. SEAMOUNT said applications for Prudhoe Bay and Kuparuk River Unit are often a few pages, but exploration permits can consist of over 100 pages.

MS. FOERSTER added every application for a permit to drill is highly detailed and technical, contains a complete description of procedures, equipment, and materials, and is scrutinized by a geologist, engineers, and the commissioners.

REPRESENTATIVE RAUSCHER observed an operator may need to make changes to a permit and asked at what point a new permit is required.

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MS. FOERSTER acknowledged changes arise and - depending on the nature of the change - a verbal approval could be issued; however, an entirely new permit may be required thus AOGCC works closely with operators so they may continue to work if possible. Ms. Foerster directed attention to slide 7, which listed major issues of 2018, and stated there are several concerns facing AOGCC related to a growing inventory of old and idle wells in the state. Firstly, the mechanical integrity of old wells must be maintained and AOGCC inspectors observe mechanical integrity tests; secondly, to prevent idle wells from becoming future orphan wells, three years ago AOGCC began to inventory idle wells that have no future utility so operators can place said

wells on a plug and abandonment schedule. She cautioned selecting wells to be plugged must exclude any that may have future use, and she provided an example. A third issue with idle wells is that operator bankruptcies create orphan wells because a bankrupt operator does not have the financial resources to fulfil its responsibility to plug and properly abandon idle wells. She stressed AOGCC seeks to ensure that all operators plug idle wells. An additional issue is that for all operators the state's bonding practices are inadequate to cover the expenses of abandonment, and she gave an example. To address this issue, over the last two years AOGCC has written improved bonding regulations which are waiting for approval by the lieutenant governor. She pointed out the burden of responsibility for wells not plugged by an insolvent operator falls to the landowner, which is most likely to be the state. Other states, such as California, have passed and utilized legislation which allows state government to turn to prior operators in the case of bankruptcy; examples of the aforementioned legislation have been provided to the Senate Resources Standing Committee for evaluation, and she urged for similar action by the Alaska State Legislature.

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CO-CHAIR LINCOLN requested copies of the suggested legislation.

REPRESENTATIVE HOPKINS asked for details of the proposed [increased] bonding level and questioned whether industry has been receptive.

MS. FOERSTER advised AOGCC determined the average cost of plugging and abandonment for each operator ranges from \$400,000 to \$500,000 per well; therefore, AOGCC created a graduated bonding scale which is closer to the true costs and serves to encourage operators to plug idle wells; however, costs vary widely and "bonding still leaves some liability to the landowner, which legislation could address." In response to Representative Hopkins' question about cooperation, she said larger companies are receptive but smaller companies are not because their bond costs are higher.

REPRESENTATIVE TUCK restated legislation is needed before the state can ascribe responsibility to a prior operator.

MS. FOERSTER said yes, furthermore, the legislation would not be retroactive beyond its effective date.

CO-CHAIR TARR recalled previous AOGCC testimony that the proposed amended regulations "were on the lieutenant governor's desk awaiting approval"

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MS. FOERSTER corrected her earlier statement and said, "We have approved those as an agency, but they haven't been signed into effect by the lieutenant governor ... there's one last Juneau legal review ... and I think they're still in that legal process." In further response to Co-Chair Tarr, she confirmed additional legislation, not just new regulation, is needed for the state to place responsibility on a prior operator.

REPRESENTATIVE HANNAN expressed her understanding new regulations, if signed, would require each well to obtain additional bonding to the new limits.

MS. FOERSTER said, "As soon as those regulations go into effect, we will be requiring larger bonds from every operator in the state."

REPRESENTATIVE HANNAN asked how many orphan wells are in the state.

MS. FOERSTER reported there are fewer than 20 orphan wells that have "nobody" to plug them due to bankruptcy or unknown ownership; there are 136 wells on NS with responsibility assessed to the federal government, and after 10 years of negotiations with the federal government, about 45 of those still have some work incomplete.

REPRESENTATIVE TUCK questioned whether any of the orphan wells are dangerous.

MS. FOERSTER responded none of the orphan wells are an environmental or safety hazard.

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REPRESENTATIVE RAUSCHER asked for clarification on the retroactivity of the aforementioned proposed legislation.

MS. FOERSTER explained the suggested legislation would allow the state to assign responsibility to previous operators on all wells transferred after the effective date of the legislation;

for example, legislation passed in 2019 would affect property sold during 2019 and afterward.

MS. FOERSTER, in response to Representative Spohnholz, provided a brief history of the Legacy Wells Program, Bureau of Land Management (BLM), U.S. Department of the Interior. In 2005, following years of refusal by BLM to clean up and plug 136 [test wells sponsored by the U.S. Government and drilled prior to 1982 in and near NPR-A], AOGCC enlisted the assistance of U.S. Senator Lisa Murkowski and the U.S. Senate Committee on Energy and Natural Resources; subsequently, Congress appropriated \$50 million to BLM to plug the wells. Although progress has been made, two wells of high priority have not been plugged to comply with AOGCC standards. Apart from the aforementioned two wells, AOGCC is satisfied with the progress made by BLM, but more money will be required to complete the program.

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REPRESENTATIVE SPOHNHOLZ inquired as to the state's recourse to ensure the two problem wells are closed properly.

MS. FOERSTER assured the committee AOGCC is demanding BLM complete its plan to properly clean up the wells. In response to Co-Chair Lincoln, she said she was unsure about BLM's request to Congress for additional funds in this regard. Returning attention to slide 7, she explained AOGCC works extensively with operators new to the state to familiarize them with regulations, and to review their plans in order to avoid problems later; new operators brought opportunities to the state and created a large amount of work for AOGCC in 2018. Slide 8 listed additional issues that are expected to arise in 2019 due to an aggressive exploration season including 18 new wells, development work at Willow and Greater Moose's Tooth, and unknown challenges. Slide 9 reviewed the offtake allowables issued by AOGCC for NS major gas sales. She reminded the committee AOGCC granted offtake allowables for Prudhoe Bay and Point Thomson as follows:

- Prudhoe Bay offtake allowable: 3.6 billion cubic feet per day (BCF/D) including fuel usage; required are a CO2 utilization study to determine potential use for the CO2 resource produced with the gas, and an oil acceleration study to determine the potential loss of oil after taking the gas out of the ground
- Point Thomson offtake allowable: 1.1 BCF/D including fuel usage; required are five years of a pilot performance study demonstrating full scale cycling is

not viable, however, Point Thomson is a gas condensate reservoir and removal of the gas must be cycled to prevent loss.

MS. FOERSTER further explained ExxonMobil Corporation (ExxonMobil) stated cycling is not feasible at Point Thomson, but the state will still require the cycling pilot demonstration, although ExxonMobil is having substantial problems with its cycling pilot equipment that have delayed the study. She pointed out both offtakes were granted after AOGCC was told there was a defined window of opportunity to sell NS gas, and thus the hydrocarbon losses associated with stranded gas would be higher than the losses of oil; however, AOGCC may reevaluate the appropriateness of a gas offtake allowable for the year 2025.

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CO-CHAIR TARR recalled the aforementioned situation is the first time a gas offtake decision was made for a gas pipeline export project such as the Alaska LNG project (AKLNG). She expressed her understanding most of the work in advance of the AKLNG gas pipeline project was premature and noted the project would be further discussed in the House Resources Standing Committee.

MS. FOERSTER advised if the gas cap at Prudhoe Bay had been sold off in the '70s or '80s, much of the oil now available would have been "stuck in the ground and Prudhoe Bay would currently be a marginal field at best, if it were still operating ... and Kuparuk would be in the same shape"

CO-CHAIR TARR asked for the timeline for reconsideration of the decision.

MS. FOERSTER said any time AOGCC receives information questioning the current offtake allowables, it can call a hearing within one month; in fact, it would be appropriate for AOGCC to hold a hearing on the topic.

REPRESENTATIVE SPOHNHOLZ has heard AOGCC held hearings related to [BP Exploration (Alaska) Inc. (BP)] wells and permafrost.

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MS. FOERSTER said AOGCC held hearings and the matter is under adjudication, thus she could only speak to the facts on record. There was a well failure related to permafrost thawing in the

nearby wellbore area. BP modeled the problem, identified other similar wells, and shut-in the similar wells; however, last year a well that had been shut-in for over 12 years failed, which indicated there is a problem with the modeling. She said AOGCC is in the process of evaluating information garnered in the hearings.

REPRESENTATIVE SPOHNHOLZ inquired as to the amount of gas vented [by the second well].

MS. FOERSTER said there was a small gas release from the shut-in well and she was unsure of the volume. In further response to Representative Spohnholz, she said the gas release was an abrupt release of short duration.

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MR. SEAMOUNT informed the committee one of AOGCC's duties is to provide information to the public, investors, and operators. Slide 11 was a chart of production from 1960-2018 beginning with 250,000 barrels per day from Cook Inlet. Increases of production were shown at the discovery of Prudhoe Bay in 1968 and at the opening of the Trans-Alaska Pipeline System (TAPS). Highest production was approximately 2,200,000 barrels per day, declining to approximately 500,000 barrels per day. He said AOGCC anticipates an increase in oil production within the next 10 years. Slide 12 listed the following statistics:

- 9,302 permits to drill since 1901
- 8,600 wells completed
- 2,200 hydraulically fractured wells - 23.5 percent of producing wells since the '60s
- Over 500,000 barrels of oil and natural gas liquids (NGLs) per day produced in November 2018, which is an increase
- 18.6 billion barrels of oil and 776 million barrels of NGLs in cumulative production totals since 1901

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MR. SEAMOUNT opined new discoveries and developments may result in doubling the previous cumulative total. The cumulative total for gas is 111 trillion cubic feet produced, although this figure includes gas that has been reinjected. Slide 13 provided statistics on Alaska oil and NGL production from 11/16 to 11/18 and illustrated an average 12-month production of just under

550,000 barrels per day - without further decline - which he attributed to horizontal drilling and other new technology. Slide 14 illustrated most of oil and gas activity is on the Arctic Slope; in 2018, 148 of 175 wells were drilled on the Arctic Slope. Slide 15 illustrated exploratory wells and well branches. Mr. Seamount observed 27 exploratory wells were drilled in [the winter of 2018-2019], which he described as a really active season; in addition, the potential for the wells is high because they are being drilled on proven geologic trends. Slide 16 showed a plot between development and service wells within oil fields [2003-2017]. Mr. Seamount pointed out the dominate activities are by ConocoPhillips Alaska, Inc. (ConocoPhillips) and BP. Oil price was shown on the background of the slide, and he opined there is little relationship between oil price and the number of wells drilled for exploration or development. Slide 17 illustrated workover activities between 2003 and 2017; the most important activities are repairs and enhancements to existing wells; however, these activities could be affected by NS gas offtake.

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REPRESENTATIVE HANNAN surmised a workover activity applies to a well that is not new or abandoned but "just needs tweaking."

MR. SEAMOUNT said exactly right. Slide 18 was a graph of Alaska oil and gas activity during the period of AOGCC oversight from 1985 to 2018. Increases in the number of permits issued occurred at the discoveries of oil at Swanson River, Cook Inlet, Prudhoe Bay and Kuparuk; since construction of TAPS the level of permitting has been about 200 wells per year statewide. Approximately 3,000 oil and gas pools have been approved by AOGCC, and the number of active wells is approximately 5,500.

REPRESENTATIVE SPOHNHOLZ asked for a definition of "pool."

MR. SEAMOUNT explained pools are rocks that hold the hydrocarbons.

MS. FOERSTER added a pool is a separate and isolated reservoir containing hydrocarbons that behave in a certain way.

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REPRESENTATIVE RAUSCHER asked for a prediction as to whether the number of pools and the number of active wells would increase.

MR. SEAMOUNT opined activity would increase.

CO-CHAIR TARR returned attention to slide 17. She pointed out [workover] activities during 2014 to 2016 were leading to increased production in a time of low oil prices; furthermore, disruptions in production were related to a lack of work or upkeep on wells.

MR. SEAMOUNT expressed his confusion [about the data on slide 17] because the price of oil does not have a correlation with the amount of work operators completed; however, AOGCC seeks to ensure that operators maintain higher levels of production.

CO-CHAIR TARR suggested in 2014-2016 - because there were no new projects - increased production can be attributed to well workovers.

MR. SEAMOUNT agreed. He added independent operators and largely new technology led to the recovery of more oil.

MS. FOERSTER, in response to Co-Chair Tarr, said new technology is reflected in the enhancements sections of slide 17; both enhancements and repairs to shut-in wells by BP, ConocoPhillips, and Hilcorp Energy Company resulted in renewed production.

REPRESENTATIVE SPOHNHOLZ returned attention to slide 11 and observed increased production also correlated with new fields in Oooguruk, Nikaitchuq, and Point Thomson.

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MS. FOERSTER advised "flat" production from Prudhoe Bay and Kuparuk is effectively an increase because for years those fields were averaging a 67 percent decline.

REPRESENTATIVE HOPKINS returned attention to slide 18 and surmised the large yellow arrows represent the location and timeline of discoveries.

MR. SEAMOUNT agreed. Slide 19 was a map of NS illustrating new areas of discovery including Smith Bay, Pikka, Moose's Tooth, and Willow. Slide 20 provided additional data on Smith Bay, Willow, and Pikka/Horseshoe, which indicated the Division of Oil and Gas, DNR, expects increased production of 500,000 barrels of oil per day; further, the operators of Willow and Smith Bay estimate production would begin in 2025. Slide 21 was a chart showing the average timeline for recent fields is 11 years from

discovery to development. He concluded [production] by 2025 is a reasonable timeline for the development of the new discoveries, with the exception of Smith Bay due to its remote location. Mr. Seamount turned attention to the potential of Cook Inlet and characterized the exploration of Cook Inlet as immature because almost all of its oil has come from the pre-[Tertiary period of time]; in fact, the U.S. Geological Survey, U.S. Department of the Interior, estimates only 2 percent to 4 percent of the oil in Cook Inlet has been identified and thus there could be 140 billion barrels of oil below the Tertiary. He opined the state and industry have not sufficiently explored for oil and gas in Cook Inlet; for example, only 400 exploration wells have been drilled - 1,400 total wells - and only 52 wells have been drilled below the Tertiary, as compared to over 28,000 wells drilled in the San Juan Basin, which is a basin of similar size located in Colorado and New Mexico (slide 22).

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REPRESENTATIVE TUCK asked whether slide 22 indicates a potential for oil and gas in Cook Inlet.

MR. SEAMOUNT said there is potential for both oil and gas.

CO-CHAIR TARR returned attention to slide 4 and asked for clarification of AOGCC's jurisdiction over deeper exploration in Cook Inlet; also, have habitat protections for the beluga whale and difficult conditions limited exploration in the inlet.

MR. SEAMOUNT said he was unsure about the effect of beluga whales; however, AOGCC's jurisdiction over deeper pools is the same as over any exploration well. In further response to Co-Chair Tarr, he said "depth doesn't count when it comes to exploration, it's just that the companies haven't drilled out that far they've drilled up to seven miles" He further explained Prudhoe Bay was developed on fifty-three pads with 1973 technology; present technology allows for drilling five to seven miles - which means Prudhoe Bay could have been developed on five pads - thus modern technology has big implications for exploration in environmentally sensitive areas such as ANWR and NPR-A.

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REPRESENTATIVE HANNAN questioned whether AOGCC staff are subject to the state classification system or "if the variety of your

employees report to you through commissioners for hiring and firing and classification."

MR. SEAMOUNT said AOGCC is an independent agency, however, hiring an engineer or geologist requires approval from the governor. Technically, AOGCC staff are state employees who are funded through industry receipts, not through the general fund (GF); in fact, the AOGCC budget has no impact on GF.

REPRESENTATIVE HANNAN further asked whether all AOGCC employees are exempt employees.

MS. FOERSTER said AOGCC has some union and some exempt employees; engineers and geologists and two administrative positions are exempt.

REPRESENTATIVE HOPKINS pointed out Cook Inlet has been explored since the mid-'50s and questioned why tax exploration credits and opportunities have not successfully encouraged development in Cook Inlet.

MR. SEAMOUNT opined [Cook Inlet] needs a good discovery in the pre-Tertiary; he acknowledged operators have not acted upon \$20 million in drilling credits offered by the state. The rocks with the most potential are in the Jurassic [period], which has generated two producers at McArthur River and three encouraging tests indicating the presence of oil, permeability, or "tremendous oil shows." He said big fields are there, but operators don't accept the risk to drill.

MS. FOERSTER agreed and stated an increase in oil price would also encourage activity as drilling in Cook Inlet carries a high risk.

MR. SEAMOUNT, speaking from his personal experience, said he identified 92 drillable known prospects in Cook Inlet.

REPRESENTATIVE TALERICO inquired as to the basis of disputes between resource owners.

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MR. SEAMOUNT related disputes are typically related to correlative rights; for example, accusations of stealing resources by crossing lease lines. According to AOGCC regulations, lease lines have a 500-foot setback for oil and a

1,500-foot setback for gas and therefore, many of the disputes are without merit.

CO-CHAIR TARR observed the state is "more involved" on NS through the credit program and by publishing geologic data. She asked whether further geologic assessments of Cook Inlet by former operators, or by the state, would lead to more exploration.

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MR. SEAMOUNT was unsure; he recalled his previous experience 10 years ago with the state's Cook Inlet credit program that has not been utilized by industry. He suggested the state could provide 3D seismic data on Cook Inlet, albeit at an unknown cost.

REPRESENTATIVE TALERICO stated his appreciation for Ms. Foerster's service as an AOGCC commissioner.

CO-CHAIR LINCOLN agreed.

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ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:03 p.m.