

**HB**

**394**

TCN: 60498 DATE & TIME: 03/11/96 08:00 TO 10:00 STATUS:7 STATS. IN

\*\*\*\* ORDER SUMMARY \*\*\*\*

SPONSOR: HRES HOUSE RESOURCES CHAIRS: GREEN  
PURPOSE: PUB PUBLIC HEARING LEGISLATIVE WILLIAMS  
CONTACT: JEFF OR GARY TEL#: (907)465-6547  
CHAIRING SITE: JUNEAU CAPITOL CAP124  
TOLL FREE: DIAL-UP: LIO: (800)478-9908

SPONSOR REMARKS(PUB): TESTIMONY:Y ALLOWED 3 MINUTE LIMIT  
TESTIMONY WILL BE TAKEN WITH A 3 MINUTE LIMIT.  
SEE COMMITTEE SCHEDULE IN BASIS

SPONSOR REMARKS(LIO): BACKUP MATERIAL:N MEETING IN PROGRESS:N MAX. SITES:10  
OTHER SITES MAY ADD THRU THE JNU LIO.  
BACK-UP = DJT  
TCN REQUESTED ON 03/11/96 AND HAS 5 UPDATES

\*\*\*\* AGENDA \*\*\*\*

- 1 HB 511 DEPOSITS INTO FISH AND GAME FUND
- 2 HB 447 CAN'T CLOSE LAND TO TRADITIONAL REC. USES
- 3 BILLS PREVIOUSLY HEARD

\*\*\*\* PARTICIPATING LIOS \*\*\*\*

ANC ANCHORAGE 716 W 4TH, #200 LOCATION STAFF  
DJT DELTA JCT. JARVIS CTR. #210 LOCATION STAFF  
FBX FAIRBANKS 119 N CUSHMAN ST LOCATION STAFF  
\* JNU JUNEAU CAPITOL CAP124 LOCATION STAFF  
MAT MATSU 600 E RAILROAD LOCATION STAFF

\*\*\*\* VOLUNTEER & OFFNET SITES \*\*\*\*

ZZZ OF1 OFFNET 1 LONDON DAVID LAPPI (999)999-9999

PARTICIPANTS IN:ANCHORAGE ANC

1 RICHARD GRAHAM FISH & WILDLIFE UNABL HB 511  
ANCHORAGE AK (907)269-5589  
2 JAMES HANSON DNR HB 394 TSFY. ALL ITEMS  
3601 C ST, STE 1380 ANCHORAGE AK 99503 (907)269-8804  
3 LANCE NELSON D.O.L. UNABL HB 511  
1031 W 4TH, STE 200 ANCHORAGE AK 99501 (907)264-5240  
4 GEORGE PIASKOWSKI AK BOATING ASSOC UNABL HB 447  
1836 SEENIC WAY #2 ANCHORAGE AK 99501 (907)229-6069  
5 TUCKERMAN BABCOCK HB 394 TSFY. ALL ITEMS  
3001 PORCUPINE ANCHORAGE AK 99501 (907)279-1433  
6 BOB CRANDALL HB 394 TSFY. ALL ITEMS  
3001 PORCUPINE ANCHORAGE AK 99501 (907)279-1433  
7 CLIFF EAMES OBSV. ALL ITEMS  
AK (907)000-0000

PARTICIPANTS IN:DELTA JCT. DJT

1 MR. ROY BOWDRE OBSV. HB 447  
PO BOX 2 DELTA JUNCTION AK 99737 (907)895-4448

PARTICIPANTS IN:FAIRBANKS FBX

1 MR. MICK MANNS UNABL HB 447  
PARADISE VALLEY BETTLES AK 99726 (907)479-5704

*Recs. LAPPI RCS Inc  
2900 Sportsman J*

*298-7188*

03/13/96

14:12:45

TCN: 60498

DATE & TIME: 03/11/96 08:00 TO 10:00 STATUS:7 STATS. IN

PARTICIPANTS IN:JUNEAU

JNU

1	TO	OBSERVE	OBSV. ALL ITEMS
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32	TO	TESTIFY	TSFY. ALL ITEMS

PARTICIPANTS IN:MATSU

MAT

1 MR	LEONARD	HAIRE	UNABL HB 447
	BOX 877030	WASILLA	AK 99687 (907)376-6183

PARTICIPANTS IN:OFFNET 1

ZZZ OF1

1	DAVID	LAPPI	TSFY. BILLS PREVIOU
		LONDON	NN (999)999-9999

\*\*\*\* UPDATES \*\*\*\*

01	03/08/96	08:01:54	ANNOUNCING TELECONFERENCE
02	03/08/96	11:44:45	FAIRBANKS ADDED ON
03	03/08/96	15:11:13	DELTA JCT. ADDED ON
04	03/11/96	07:56:03	OFFNET 1 ADDED ON
05	03/11/96	08:13:26	MATSU ADDED ON

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LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

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FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 400  
Juneau, Alaska 99801-2105

Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

House Resources  
3-13-96 8:10am  
HB 394





AU D K L O W 9

3/11/96  
Version M

**AMENDMENT**

**OFFERED IN HOUSE RESOURCES**

**BY REPRESENTATIVE JOHN DAVIES**

**TO: CSHB 394 (O&Q)**

**Page 10, line 15-18:**

**Delete all material**

453H

AMENDMENT # ~~3~~ 3

OFFERED IN HOUSE RESOURCES COMMITTEE

BY REP ROKEBERG

TO: CSHB 394(RES) version\K dated 4/18/96

Page 2, Line 9, after "criteria":

INSERT: "or regulations"

Page 2, Line 7, after (b):

DELETE: "(4)"

INSERT: "(3)"

Page 3, Line 23, after (b):

DELETE: "(4)"

INSERT: "(3)"

Page 3, Line 24, after (b):

DELETE: "(4)"

INSERT: "(3)"

ADK KNOWG  
Roket

A D K L N O W G

AMENDMENT # 2

OFFERED IN HOUSE RESOURCES COMMITTEE BY DEC & AOGA

TO: CSHB 394(RES) version\K dated 4/18/96

PAGE 2, Line 2, after "regulations.":

DELETE: "Promptly, but no later than 12 months, after the effective date of"

INSERT: "Within 90 days, or by another date mutually agreed upon by the applicant and the department, of receipt of a request to amend the state's water quality standards to incorporate"

Page 2, Line 7, after (b):

DELETE: "(4)"

INSERT: "(3)"

*adopted*

Page 3, Lines 1-2:

DELETE ALL MATERIAL

Page 3, Line 3:

INSERT: "(1)"

Renumber subsection paragraphs accordingly

ABDKL NOWG

3/12/96  
Version M

NEW AMENDMENT 1

Offered in House Resources

By: Rep. Scott Ogan

TO: CSHB 394

Page 2, line 24: Delete "at the drill site"

Page 3, line 27: Delete "at the drill site"

Page 5, line 26: Delete "at the drilling site"

*Deleted*

3/12/96  
Version M

NEW

AMENDMENT 2

Offered in House Resources

By: Rep. Scott Ogan

TO: CSHB 394

Page 9, line 5&6: Delete "of the facility"  
line 5: Insert "owner or" following "the"

Page 9, line 11: Delete "of the facility"  
line 11: Insert "ow. er or" following "the"

Page 10, line 7: Delete "of the facility"  
line 7: Insert "owner or" following "the"

3/12/96  
Version M

NEW

AMENDMENT 3

Offered in House Resources

By Rep. Scott Ogan

TO: CSHB 394

Page 3, line 19: Substitute "more" for "less"

A D K L

3/12/96  
Version M

NEW AMENDMENT 4

Offered in House Resources

BY: Rep. Scott Ogan

TO: CSHB 394

Page 5, Lines 26-29:

Delete: "If the lessee's operation under the lease results in the production of oil or of gas in violation of this subsection, the director shall immediately suspend the lessee's operation under the lease and may terminate the lease."

Insert: following "surface" ". If an onshore well drilling for natural gas under a lease authorized by AS38.05.177 penetrates a formation capable of producing gas below 3,000 feet of the surface, the owner or operator

(1) shall notify the department and the Alaska Oil and Gas Conservation Commission; and

(2) may not conduct further operations in the drilled well until the facility complies with all applicable laws and regulations relating to oil and gas production; however, this paragraph does not prevent the owner or operator from conducting activities that may be required by the Alaska Oil and Gas Conservation Commission to plug or abandon a well."

A D K L O W 9

NEW AMENDMENT 5

OFFERED IN THE HOUSE

TO: CSHB 394( ) "M" version

- 1 Page 4, line 20, after "lease;":
- 2       Insert "if the commissioner determines that the lessee has not diligently developed or
- 3 continued to operate under the lease, the commissioner, after giving notice and opportunity
- 4 for hearing to the lessee, may terminate the lease;"

## CHANGES IN NEW CS DRAFT (MARCH 7, 1996)

Refer to CS dated 2/26/96 to see where changes occur.

1. The word "Bed" is deleted throughout.
2. p.2, line 4: Change to read "the methane derived from these coals or other sources and which is found in reservoirs at depths less than 3,000 feet could be tapped to serve..."
3. p.2, line 7: Change to read "the methane derived from these coals and other shallow gas reservoirs could be developed..."
4. p.2, line 12: Delete "commercial quality" and add to the end of line 13 ",especially when this natural gas can be delivered to consumers at less cost than alternative energy sources."
5. p.2, line 21: Delete "without" and replace with "with minimal"
6. p.2, line 23: Delete all of (2)
7. p.3, line 14: Add "reservoirs" after "natural Gas"
8. p.3, line 15: Substitute "for which the state owns the subsurface rights" in place of "of the state"
9. p.3, line 17: Remove provision for minimum size. There will be no minimum size requirements. The maximum size of a lease will fall in line with current statutes for Oil and Gas Leases, 5,760 acres. 23,040 will remain as the maximum number of acres a lessee can have throughout the state under the shallow gas legislation.
10. p.3, line 19: Substitute "shall" for "may"
11. p.3, line 24: Substitute "may" for "shall"
12. p.4, line 21: put in 60 day public comment period. Once the comment period has ended the division will have up to 90 days in which to issue the lease.
13. p.3, line 25: Delete "initial"

14. p.3, line 28: Length of the lease is reverted to five years as it exists under AS38.05.180(m).
15. p.4, subsection (e): This section is deleted
16. p.4, line 32: All rent, from the time the lease is entered into, is 50 cents
17. p.5, line 23: (i) now reads "The applicant for a shallow gas lease shall be responsible for conducting the title search"
18. p.5, line 32: Subsection (1) is deleted
19. p.8, line 9: Delete all of section 5
20. p.11, line 13: Delete section 14

3/8/96

**AMENDMENT**

**Offered in House Resources            By Rep. Scott Ogan**

**To: CSHB 394 (3/7/96 version)**

**Page 3, line 19:    Substitute "not more than" for "not less  
   than"**

3/11/96  
Version M

AMENDMENT 1

Offered in House Resources

BY: Rep. Scott Ogan

TO: CSHB 394

Page 5, Line 26:

Delete: "If the lessee's operation under the lease results in the production of oil or of gas in violation of this subsection, the director shall immediately suspend the lessee's operation under the lease and may terminate the lease."

Insert: following "surface." "If an onshore well drilling for natural gas under a lease authorized by AS38.05.177 penetrates a formation capable of producing gas below 3,000 feet of the surface, the owner or operator

(1) shall notify the department and the Alaska Oil and Gas Conservation Commission; and

(2) may not conduct further operations in the drilled well until the facility complies with all applicable laws and regulations relating to oil and gas production; however, this paragraph does not prevent the owner or operator from conducting activities that may be required by the Alaska Oil and Gas Conservation Commission to plug or abandon a well."

3/11/96  
Version M

**AMENDMENT 2**

Offered in House Resources

BY: Rep. Scott Ogan

TO: CSHB 394

Page 9, Line 11:

Delete: "of the facility"

Following "the"

Insert: "owner or"

3/11/96  
Version M

**Amendment 3**

Offered in House Resources

By: Rep. Scott Ogan

TO: CSHB 394

Page 9, line 5 & 6: Delete "of the facility"

Following "the"

Insert: "owner or"

3/11/96  
Version M

**AMENDMENT 4**

Offered In House Resources

By: Rep. Scott Ogan

TO: CSHB 394

Page 5, line 26: Delete "at the drilling site"

3/11/96  
Version M

**AMENDMENT 5**

Offered in House Resources

BY: Rep. Scott Ogan

TO: CSHB 394

Page 3, Line 27: Delete "at the drill site"

3/11/96  
Version M

**AMENDMENT 6**

Offered in House Resources

By: Rep. Scott Ogan

To: CSHB 394

Page 2, Line 24: Delete "at the drill site"

3/11/96  
Version M

AMENDMENT 7

Offered in House Resources

By: Rep. Scott Ogan

Page 10, Line 7:

Delete: "of the facility"

following "the"

Insert: "owner or"

9-LS1463M  
Chenoweth  
3/7/96

CS FOR HOUSE BILL NO. 394( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES OGAN AND ROKEBERG, James, Kohring

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing shallow natural gas leasing from sources within 3,000 feet  
2 of the surface; relating to regulation of natural gas exploration facilities for  
3 purposes of preparation of discharge prevention and contingency plans and  
4 compliance with financial responsibility requirements; exempting response and  
5 prevention activities associated with shallow natural gas leasing as a use for which  
6 money in the oil and hazardous substance release prevention and response fund  
7 is authorized; and adding, in the exemption from obtaining a waste disposal  
8 permit for disposal of waste produced from drilling, a reference to shallow natural  
9 gas."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

11 \* Section 1. LEGISLATIVE FINDINGS, PURPOSE, AND EXPRESSION OF INTENT.

12 (a) The legislature finds that

1 (1) there exist throughout the state sizeable reserves of coal and small but  
2 commercially significant amounts of natural gas located close to the earth's surface that are  
3 usually, though not always, associated with and emitted from coal reserves;

4 (2) the methane derived from this coal and other sources and that is found in  
5 reservoirs at depths of less than 3,000 feet could be tapped to serve as a principal or a chief  
6 supplemental energy source of benefit to residents of areas in which they are found;

7 (3) the methane derived from this coal and other shallow gas reservoirs could  
8 be developed without interfering with the development and transportation of the state's vast gas  
9 reserves available for interstate and foreign markets; and

10 (4) it is in the best interests of the state and its people that this natural gas should  
11 be identified and developed, especially to serve as a source of natural gas for use in rural  
12 communities and remote locations within the state, especially when the natural gas can be  
13 delivered to consumers at less cost than alternative energy sources.

14 (b) In authorizing a program of leasing shallow natural gas from state land, it is the  
15 legislature's purpose to provide both a means and an incentive by which that gas may be  
16 identified and developed at low cost for the direct benefit of residents of remote or sparsely  
17 populated areas for which connection to the in-place gas pipeline transmission and distribution  
18 system serving population centers in Southcentral Alaska is not economically feasible.

19 \* Sec. 2. AS 38.05 is amended by adding a new section to read:

20 Sec. 38.05.177. SHALLOW NATURAL GAS LEASES. (a) The provisions of  
21 this section

22 (1) apply to gas, whether methane associated with and derived from coal  
23 reserves or otherwise, developed from a source that is within 3,000 feet of the surface  
24 at the drill site; and

25 (2) do not apply to authorize lease of

26 (A) land described in AS 38.05.131(b) in which oil and gas  
27 exploration licenses and leases may not be issued;

28 (B) the land

29 (i) that is or becomes subject to an oil and gas exploration  
30 license or lease issued under AS 38.05.131 - 38.05.134;

31 (ii) that is leased under AS 38.05.180; or

32 (iii) that is described in and is part of the proposed oil

1 and gas leasing program prepared under AS 38.05.180(b), but the  
2 commissioner may waive this limitation; or

3 (C) the land that, on the effective date of this Act, is held under  
4 a coal lease entered into under AS 38.05.150.

5 (b) For the purpose of exploring for and developing shallow natural gas  
6 reservoirs, upon application, the director may lease to a person land for which the state  
7 owns the subsurface rights. A person applying for a lease under this subsection

8 (1) shall specify the area to be leased; the area to be leased may not  
9 exceed 5,760 acres; a lessee may not hold more than 23,040 acres of land under leases  
10 entered into under this section;

11 (2) may not be required to pay an application fee or any other form of  
12 payment as a condition of submitting or processing the lease application or obtaining the  
13 lease.

14 (c) Unless the lease application is for land described in (a)(2) of this section that  
15 may not be leased or unless otherwise prevented by law from entering into a lease for  
16 land described in the lease application, promptly after receipt of a lease application, the  
17 director shall give notice of receipt of the lease application and call for comments from  
18 the public. The director's call for public comments must provide opportunity for public  
19 comment for a period of not less than 60 days. If, on the basis of public comments  
20 received, the director determines to enter into a lease for the area described in (b) of this  
21 section, the director shall execute the lease within 90 days after the close of the public  
22 comment period. ~~review~~ review is required under AS 46.40, within 30 days after the final  
23 consistency determination is made under AS 46.40. A lease entered into under this  
24 subsection gives the lessee the exclusive right to explore for, develop, and produce, for  
25 a term not to exceed five years, natural gas on the state land described in the lease; the  
26 right to explore for, develop, and produce is limited to gas derived from natural gas  
27 within 3,000 feet of the surface at the drill site.

28 (d) A lease shall be automatically extended if and for so long thereafter as gas  
29 is produced in paying quantities from the lease. A lease issued under this section  
30 covering land on which there is a well capable of producing gas in paying quantities  
31 does not expire because the lessee fails to produce gas unless the lessee is allowed  
32 reasonable time to place the well on a producing status. If drilling has commenced on

1 the expiration date of the primary term of the lease and is continued with reasonable  
2 diligence, including such operations as redrilling, sidetracking, or other means  
3 necessary to reach the originally proposed bottom hole location, the lease continues in  
4 effect until 90 days after drilling has ceased and for so long thereafter as gas is  
5 produced in paying quantities. A gas lease issued under this section that is subject to  
6 termination by reason of cessation of production does not terminate if, within 60 days  
7 after production ceases, reworking or drilling operations are commenced on the land  
8 under lease and are thereafter conducted with reasonable diligence during the period  
9 of nonproduction. In addition, upon application by the lessee, the director may once  
10 extend a lease issued under (c) of this section for a period of not more than five years  
11 if the director determines that during the period described in (c) of this section, the lessee

12 (1) has conducted reasonably diligent exploration activities in the area  
13 covered by the lease;

14 (2) has not been able to determine the commercial productivity of the  
15 natural gas occurring on the lease; and

16 (3) wishes to continue to conduct exploration activities in the area  
17 described in the lease.

18 (e) The director

19 (1) shall annually make a determination under this subsection that the  
20 lessee has diligently developed and continued to operate under the lease;

21 (2) may adjust the boundaries of a lease entered into under this section  
22 as may be necessary to ensure development of natural gas within a reasonably compact  
23 area; a lease as adjusted under this paragraph remains subject to the acreage limitations  
24 set out in (b)(1) of this section.

25 (f) For the privilege of exploring for and producing gas from a lease, the lessee  
26 shall pay rent to the state in the amount of 50 cents per acre. The rent is due and  
27 payable on the dates determined in the lease. If rent is not paid when due, the director  
28 shall mail the lessee written notice of nonpayment at the end of each month, while the  
29 rent remains unpaid, for a period of two months. The lessee may cure the failure to pay  
30 rent when due within 90 days after the rent payment becomes due and payable by paying  
31 to the director the amount of rent due together with a penalty of the greater of \$50 or  
32 five percent of the amount of rent in default. If the lessee fails to remedy the lessee's

1 failure to pay rent, the director shall terminate the lease.

2 (g) The royalty payable on natural gas produced from a lease is 6.25 percent of  
3 the value of the production removed or sold from the lease.

4 (h) A lease issued under this section is subject to the following terms and  
5 conditions and may be terminated by the director in the event of a breach of a term or  
6 condition:

7 (1) the lessee may surrender or relinquish the lease at any time;

8 (2) the lease may not be transferred or assigned until after the date of  
9 initial commercial production of gas from the area within the lease; however, this  
10 paragraph does not prohibit the lessee from entering into a farm out agreement or similar  
11 arrangement with a third party under which the third party assists in exploration and  
12 development of production from the lease if the agreement or arrangement does not  
13 require a payment of consideration by the third party to the lessee, except that the lessee  
14 may retain an overriding royalty interest in the lease or may retain a net profit or other  
15 production payment;

16 (3) gas produced from the lease may not be sold or otherwise made  
17 available for insertion into the in-place gas pipeline transmission or distribution system  
18 serving population centers in Southcentral Alaska, except that the director may waive this  
19 limitation to permit the exchange of the gas produced for other gas that may be  
20 distributed in rural communities and remote locations within the state.

21 (i) The applicant for a lease shall conduct a title search for the area described  
22 in the lease application.

23 (j) The acreage limitations of AS 38.05.140(c) and 38.05.180(m) do not apply  
24 to a lease.

25 (k) A lease does not give the lessee the right to produce oil or to produce gas  
26 from sources that are not within 3,000 feet of the surface at the drilling site. If the  
27 lessee's operation under the lease results in the production of oil or of gas in violation  
28 of this subsection, the director shall immediately suspend the lessee's operation under the  
29 lease and may terminate the lease.

30 (l) The commissioner of natural resources may adopt only the regulations that  
31 are reasonable and that are necessary to implement, interpret, or make specific the  
32 provisions of this section or to establish procedures to govern application of the

1 provisions of this section.

2 (m) In this section. "lease" means a shallow gas lease authorized by this section.

3 \* Sec. 3. AS 38.05.035(e)(6) is amended to read:

4 (6) before a public hearing, if held, or in any case not less than 21 days  
5 before the sale, lease, or other disposal of available land, property, resources, or  
6 interests in them other than a sale, lease, or other disposal of available land or an  
7 interest in land for oil and gas under (5) of this subsection, the director shall make  
8 available to the public a written finding that, in accordance with (1) of this subsection,  
9 sets out the material facts and applicable statutes and regulations and any other  
10 information required by statute or regulation to be considered upon which the  
11 determination that the sale, lease, or other disposal will best serve the interests of the  
12 state was based; however, a written finding is not required before the approval of

13 (A) a contract for a negotiated sale authorized under  
14 AS 38.05.115;

15 (B) a lease of land for a shore fishery site under AS 38.05.082;

16 (C) a permit or other authorization revocable by the  
17 commissioner;

18 (D) a mineral claim located under AS 38.05.195;

19 (E) a mineral lease issued under AS 38.05.205;

20 (F) a production license issued under AS 38.05.207;

21 (G) an exempt oil and gas sale under AS 38.05.180(d) of  
22 acreage offered in a sale that was held within the previous five years if the sale  
23 was subject to a written best interest finding, unless the commissioner  
24 determines that new information has become available that justifies a revision  
25 of the best interest finding; [OR]

26 (H) a lease sale under AS 38.05.180(w) of acreage offered in  
27 a sale that was held within the previous five years if the sale was subject to a  
28 best interest finding, unless the commissioner determines that new information  
29 has become available that justifies a revision of the best interest finding; or

30 (I) a shallow gas lease authorized under AS 38.05.177 in an  
31 area for which leasing is authorized under AS 38.05.177;

1 \* Sec. 4. AS 38.05.180(f) is amended to read:

2 (f) Except as provided by AS 38.05.131 - 38.05.134 and 38.05.177, the  
3 commissioner may issue oil and gas leases on state land to the highest responsible  
4 qualified bidder determined by competitive bidding under regulations adopted by the  
5 commissioner. Bidding may be by sealed bid or according to any other bidding  
6 procedure the commissioner determines is in the best interests of the state. Whenever,  
7 under any of the leasing methods listed in this subsection, a royalty share is reserved  
8 to the state, it shall be delivered in pipeline quality and free of all lease or unit  
9 expenses, including but not limited to separation, cleaning, dehydration, gathering, salt  
10 water disposal, and preparation for transportation off the lease or unit area. Following  
11 a pre-sale analysis, the commissioner may choose at least one of the following leasing  
12 methods:

13 (1) a cash bonus bid with a fixed royalty share reserved to the state of  
14 not less than 12.5 percent in amount or value of the production removed or sold from  
15 the lease;

16 (2) a cash bonus bid with a fixed royalty share reserved to the state of  
17 not less than 12.5 percent in amount or value of the production removed or sold from  
18 the lease and a fixed share of the net profit derived from the lease of not less than 30  
19 percent reserved to the state;

20 (3) a fixed cash bonus with a royalty share reserved to the state as the  
21 bid variable but no less than 12.5 percent in amount or value of the production  
22 removed or sold from the lease;

23 (4) a fixed cash bonus with the share of the net profit derived from the  
24 lease reserved to the state as the bid variable;

25 (5) a fixed cash bonus with a fixed royalty share reserved to the state  
26 of not less than 12.5 percent in amount or value of the production removed or sold  
27 from the lease with the share of the net profit derived from the lease reserved to the  
28 state as the bid variable;

29 (6) a cash bonus bid with a fixed royalty share reserved to the state  
30 based on a sliding scale according to the volume of production or other factor but in  
31 no event less than 12.5 percent in amount or value of the production removed or sold

1 from the lease;

2 (7) a fixed cash bonus with a royalty share reserved to the state based  
3 on a sliding scale according to the volume of production or other factor as the bid  
4 variable but not less than 12.5 percent in amount or value of the production removed  
5 or sold from the lease.

6 \* Sec. 5. AS 46.03.100(f) is amended to read:

7 (f) This section does not apply to discharges of solid or liquid waste material  
8 or water discharges from the following activities if the discharge is incidental to the  
9 activity and the activity does not produce a discharge from a point source, as that term  
10 is defined in regulations adopted under this chapter, directly into any surface water of  
11 the state:

12 (1) mineral drilling, trenching, ditching, and similar activities;

13 (2) landscaping;

14 (3) water well drilling, geophysical drilling, or coal bed methane  
15 drilling or other natural gas drilling to recover gas from a reservoir at a depth of  
16 less than 3,000 feet; or

17 (4) drilling, ditching, trenching, and similar activities associated with  
18 facility construction and maintenance or with road or other transportation facility  
19 construction and maintenance; however, the exemption provided by this paragraph does  
20 not relieve a person from obtaining a permit under (a) of this section if

21 (A) the drilling, ditching, trenching, or similar activity will  
22 involve the removal of the groundwater, stormwater, or wastewater runoff that  
23 has accumulated and is present at an excavation site for facility, road, or other  
24 transportation construction or maintenance; and

25 (B) a permit is otherwise required by (a) of this section.

26 \* Sec. 6. AS 46.04.030(b) is amended to read:

27 (b) A person may not cause or permit the operation of a pipeline or [AN  
28 EXPLORATION OR] production facility in the state or, except as provided in  
29 AS 46.04.050(c) for a well that has not penetrated a formation capable of  
30 producing oil, may not cause or permit the operation of an exploration facility in  
31 the state unless an oil discharge prevention and contingency plan for the pipeline or

1 facility has been approved by the department and the person is in compliance with the  
2 plan.

3 \* Sec. 7. AS 46.04.030 is amended by adding a new subsection to read:

4 (s) If an onshore well drilling for gas under a lease authorized by  
5 AS 38.05.177 penetrates a formation capable of producing oil, the operator of the  
6 facility

7 (1) shall notify the department and the Alaska Oil and Gas  
8 Conservation Commission; and

9 (2) may not conduct further operations in the drilled well until the  
10 facility complies with all applicable laws and regulations relating to oil and gas  
11 production; however, this paragraph does not prevent the operator of the facility from  
12 conducting activities that may be required by the Alaska Oil and Gas Conservation  
13 Commission to plug and abandon a well.

14 \* Sec. 8. AS 46.04.040(b) is amended to read:

15 (b) A person may not cause or permit the operation of a pipeline or an  
16 exploration or production facility in the state unless the person has furnished to the  
17 department, and the department has approved, proof of financial ability to respond in  
18 damages. Proof of financial responsibility required for

19 (1) a pipeline or an offshore exploration or production facility is  
20 \$50,000,000 per incident;

21 (2) an onshore production facility is

22 (A) \$20,000,000 per incident if the facility produces over  
23 10,000 barrels per day of oil;

24 (B) \$10,000,000 per incident if the facility produces over 5,000  
25 barrels per day but not more than 10,000 barrels per day of oil;

26 (C) \$5,000,000 per incident if the facility produces over 2,500  
27 barrels per day but not more than 5,000 barrels per day of oil;

28 (D) \$1,000,000 per incident if the facility produces 2,500 barrels  
29 per day or less of oil;

30 (3) an onshore exploration facility is

31 (A) \$25,000 per incident for a facility used solely to explore

1           for shallow natural gas by means of drilling a well when authorized by  
2           AS 38.05.177; and

3                   (B) except as provided by (A) of this paragraph. \$1,000,000  
4           per incident.

5   \* Sec. 9. AS 46.04.040 is amended by adding a new subsection to read:

6           (n) If an onshore well authorized under AS 38.05.177 to recover shallow  
7           natural gas penetrates a formation capable of producing oil, the operator of the facility  
8           may not conduct further exploration activity. However, this subsection does not  
9           prevent the operator of the facility from conducting activities that may be required by  
10          the Alaska Oil and Gas Conservation Commission to plug and abandon a well.

11   \* Sec. 10. AS 46.04.050 is amended by adding a new subsection to read:

12           (c) Except as provided in AS 46.04.030(s), the provisions of AS 46.04.030(b)  
13           do not apply to an onshore exploration facility used solely to explore for natural gas  
14           by means of drilling a well when authorized under AS 38.05.177.

15   \* Sec. 11. AS 46.08.040 is amended by adding a new subsection to read:

16           (e) Money from the fund may not be used to take action under (a) of this  
17           section as to the release or threatened release of oil or a hazardous substance from a  
18           shallow natural gas development well authorized under AS 38.05.177.

19   \* Sec. 12. RELATION TO RIGHTS GRANTED UNDER EXISTING COAL LEASES.

20   The provisions of AS 38.05.177, added by sec. 2 of this Act, may not apply to impair or  
21   infringe upon the rights of a lessee of a coal lease entered into under AS 38.05.150 on or  
22   before the effective date of this Act and that is in effect on the effective date of this Act to  
23   recover the coal bed methane and other gas held in association with the coal under the lease  
24   unless recovery by the lessee of coal bed methane and other gas in association with the coal  
25   is prohibited by the coal lease.

3/7/96  
Version K

**AMENDMENT**

OFFERED IN HOUSE RESOURCES

BY REPRESENTATIVE JOHN DAVIES

TO: CSHB 394 (O&Q)

Page 11, line 3-6:

Delete all material

3/7/96  
Version K

**AMENDMENT**

**OFFERED IN HOUSE RESOURCES**

**BY REPRESENTATIVE JOHN DAVIES**

**TO: CSHB 394 (O&G)**

**Page 4, line 1:**

Following 'lease of'

Delete: 'unlimited duration'

Insert: 'twenty year duration, and may be renewed'

**Page 4, line 16-17:**

Following 'shall be'

Delete: 'for an indeterminate period upon condition of'

Insert: 'conditioned on'

**Page 4, line 20:**

Following 'the lease'

Insert: ', and shall terminate the lease if this condition is not met'

3/7/96  
Version K

**AMENDMENT**

**OFFERED IN HOUSE RESOURCES**

**BY REPRESENTATIVE JOHN DAVIES**

**TO: CSHB 394 (O&O)**

**Page 6, line 6-31**

**Delete all material**

**Page 7, line 1-4**

**Delete all material**

3/7/06  
Version K

**AMENDMENT**

OFFERED IN HOUSE RESOURCES

BY REPRESENTATIVE JOHN DAVIES

TO: CSHB 394 (O&G)

Page 4, line 21-30:

Following '(f)'

Delete all material

Insert: 'The lessee shall pay rent to the state in the amounts below:'<sup>1</sup>

3/7/96  
Version K

**AMENDMENT**

**OFFERED IN HOUSE RESOURCES**

**BY REPRESENTATIVE JOHN DAVIES**

**TO: CSHB 394 (O&O)**

**Page 2, line 19-28:**

**Delete all material**

**Page 5-6, line 32, 1,2, and 3**

**Delete all material**

**Page 11, lines 14-20**

**Delete all material**

3/7/96  
Version K

**AMENDMENT**

**OFFERED IN HOUSE RESOURCES**

**BY REPRESENTATIVE JOHN DAVIES**

**TO: CSHB 394 (O&Q)**

**Page 3, line 3:**

**Delete: 'do not apply'**

**Insert: 'may not be used'**

3/7/96  
Version K

**AMENDMENT**

OFFERED IN HOUSE RESOURCES

BY REPRESENTATIVE JOHN DAVIES

TO: CSHB 394 (O&G)

Page 3, line 19:

Following (2):

Delete: 'may not'

Insert: 'shall'

3/7/96  
Version K

**AMENDMENT**

OFFERED IN HOUSE RESOURCES

BY REPRESENTATIVE JOHN DAVIES

TO: CSHB 394 (O&G)

Page 3, line 17:

Following 'area'

Insert: 'proposed'

Following '; the area to be leased'

Delete: 'may not exceed 23,400 acres and may not be less than 640 acres;'

Insert: 'must be reasonably related to the proposed development'

# Alaska State Legislature

Resources, Vice Chair  
State Affairs, Vice Chair  
House Special Committee on Oil & Gas, Vice Chair  
House Special Committee on Fisheries



State Capitol  
Room 409  
Juneau, Alaska 99801-1182  
(907) 465-3878  
Fax (907) 465-3265

Representative Scott Ogan  
House District 27

## Sponsor Statement HB 394

The purpose of this bill is to encourage shallow gas development for use within the state. HB 394 succeeds in this task by relieving the tremendous monetary and regulatory burdens that currently plague independent gas developers in Alaska.

HB 394 specifically addresses such issues as high bond requirements, lease issuance, application and processing fees, and royalties. It creates an economic environment where small independent gas companies can thrive, and be allowed to develop a resource that is truly important to the state.

Why is this bill so important to the state? In order to grasp the answer to this question, one must first look at our current situation. In June of 1995, the Department of Community and Regional Affairs presented an initiative known as the *Alaska Rural Energy Initiative* in which they report on the existing energy problems in the rural communities of Alaska.

The *Alaska Rural Energy Initiative* reports that it will cost \$200 million, excluding future inflation, to repair and renovate the fuel storage facilities of rural Alaska. In a report done by the *Rural Bulk Fuel Task Force* (1993), the cost of remediation of contaminated soil and ground water adds another \$200 million. The *Alaska Rural Energy Initiative* also states that another \$25 million will be needed for upgrading single-village electric utilities. An allowance of \$25 million more is needed for additional electric utility upgrades and for

inflation. Also, the state currently spends \$20 million annually on the power cost equalization program, a program that has cost the state \$200 million since its creation. All of these numbers point to one thing, and that is that Alaska has a serious energy problem in its rural communities, and it is going to cost a lot of money to fix.

In these days of budget cuts and reduced oil revenue, it is not reasonable to think that remediation, renovation, and power cost equalization will be easy to pay for in the future. This is why HB 394 is so important.

HB 394 would allow independent gas companies to explore for and develop shallow bed gas without being hindered by unreasonable regulations and requirements. With reasonable regulatory oversight, independent gas companies would be able to develop gas for use in rural communities. Communities with deposits of gas nearby would be able to pipe the gas directly to their converted generators, and they could use it to heat their homes.

Natural gas is a low-cost and environmentally safe form of energy that, in all likelihood, exists in many parts of the state. It could serve as an independent fuel source for many communities, but because of existing stringent regulations and bonding requirements, it is not economically feasible for independents to attempt to develop this valuable resource.

The merits of HB 394 are evident, and the benefits are far reaching. I ask for your support as we attempt to allow shallow natural gas to be used as an economically and environmentally sound alternative fuel source.

3/11/96

SECTIONAL ANALYSIS CSHB 394  
VERSION M

Bill Section 1 sets out legislative findings, a statement of purpose, and a statement of intent for the measure.

Bill Section 2 authorizes a shallow natural gas leasing program. Its key components are:

- The program is made applicable to recovery of natural gas, from any source, located within 3000 feet of the surface, but is inapplicable to (1) areas that cannot be leased under the oil and gas exploration licensing and leasing program (i.e. North Slope and Cook Inlet), (2) land under an exploration license or lease, or already leased under AS38.05.180, or part of the state's five year proposed oil and gas lease program, and (3) land under coal lease under the effective date of the Act
- The leases have no minimum size requirement. A maximum lease size of 5,760 acres is established, and total land leased cannot be more than 23,040 acres
- A public comment period is established
- A lease will be automatically extended if production of gas at paying quantities continues
- Rent and royalty rates are set out in AS38.05.177(f) and (G)
- There are several conditions and restrictions on the shallow gas lease, including limitations on lease assignment and on insertion of the gas into the in-place transmission system generally serving the population centers of southcentral Alaska; the rights of the state and of the lessee to terminate or surrender the lease are spelled out
- The commissioner of natural resources is given the ability to adopt only those regulations that are absolutely necessary to these operations

Bill Section 3 exempts the requirement of a best interest finding

**Bill Section 4** exempts shallow gas leases from competitive bidding requirements based on the choice of leasing methods specified in that section for oil and gas leases

**Bill Section 5** includes natural gas drilling of depths less than 3,000 feet as an activity.

**Bill Section 6:** There is a general requirement in law that pipelines and exploration and production facilities may not be operated unless an oil discharge prevention and contingency plan has been developed and is in place for the pipeline and for the exploration and production facility. The amendment made by this section establishes an exception from that requirement for an onshore well drilling for shallow natural gas so long as that facility does not encounter a formation capable of producing oil.

**Bill Section 7** sets out the steps that the owner or operator of a shallow natural gas well must take if the operation encounters a formation capable of producing oil.

**Bill Section 8** sets the financial responsibility requirement applicable to an onshore exploration facility exploring for shallow natural gas at \$25,000.

**Bill Section 9** requires the operator or owner to stop operating, with exceptions, when a formation capable of producing oil is encountered.

**Bill Section 10** sets out exemptions from the laws establishing oil discharge prevention and contingency plans and financial responsibility requirements. This bill section notes the additional exemption from these provisions for shallow natural gas exploration facilities except as may be required when that well penetrates a formation capable of producing oil.

**Bill Section 11** prohibits use of the oil and hazardous substance release prevention and response fund ("470 fund") as a source of money to clean up a release attributable to a shallow natural gas well.

**Bill Section 12** affirms that persons holding coal leases in effect on the effective date of this Act have the right to develop coal bed methane and related gas held in association with the coal.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

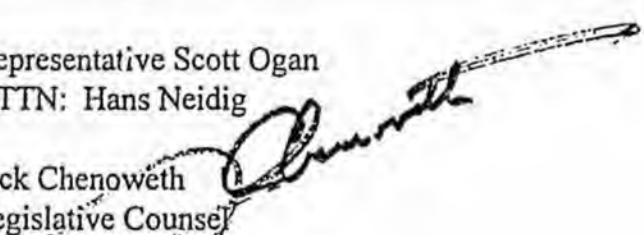
## MEMORANDUM

February 26, 1996

**SUBJECT:** Draft CSHB 394 ( ), relating to shallow bed natural gas leasing -- sectional analysis (Work Order No. 9-LS1463\M)

**TO:** Representative Scott Ogan  
ATTN: Hans Neidig

**FROM:** Jack Chenoweth  
Legislative Counsel



This is a substantial revision of the bill as originally introduced.

The heart of the bill is its section 2, authorizing a shallow bed natural gas leasing program. Among the key features of the leasing program:

-- The program is made applicable to recovery of natural gas, from any source, located within 3000 feet of the surface at the drill site, but is inapplicable to (1) areas that cannot be leased under the oil and gas exploration licensing and leasing program (i.e. North Slope and Cook Inlet), (2) land under an exploration license or lease, or already leased under AS 38.05.180, or part of the state's five-year proposed oil and gas lease program, and (3) land under coal lease under the effective date of the Act;

-- The leases may be awarded to cover areas not less than 640 acres nor more than 23,040 acres, and lease applicants may not be required to pay a fee for the application or its processing;

-- The director is authorized to provide the lease applicant an initial shallow bed gas development lease giving the exclusive right, for a period of not more than two years, to explore for and develop shallow bed natural gas; that right may be extended for one additional two year period on a showing of diligent, albeit unsuccessful effort;

-- The holder of an initial shallow bed gas development lease may convert the lease to one for an indeterminate period upon showing of an ability to produce shallow bed natural gas from the lease in commercial quantity;

-- The shallow bed natural gas lessee is required to pay rent and royalty at the rates set out in AS 38.05.177(f) and (g);

-- There are several conditions and restrictions on the shallow bed gas development lease, including limitations on lease assignment and on insertion of the gas into the in-place transmission system generally serving the population centers of southcentral Alaska; the rights of the state and of the lessee to terminate or surrender the lease are spelled out;

-- The commissioner of natural resources is precluded from adopting regulations to interpret or make specific the provisions of the shallow bed natural gas leasing program.

**Bill section 3** exempts from the requirement of a written best interest finding shallow bed gas development leases under AS 38.05.177.

**Bill section 4** exempts shallow bed gas development leases from competitive bidding requirements based on the choice of leasing methods specified in that section for oil and gas leases.

**Bill section 5** exempts shallow bed gas development leases from minimum work commitments otherwise imposable on oil and gas leases.

**Bill section 6** substitutes, in the exemption from obtaining a waste disposal permit for disposal of waste produced from drilling, reference to shallow bed natural gas in place of an existing reference to coal bed methane.

**Bill section 7:** There is a general requirement in law that pipelines and exploration and production facilities may not be operated unless an oil discharge prevention and contingency plan has been developed and is in place for the pipeline and for the exploration and production facility. The amendment made by this section establishes an exception from that requirement for an onshore well drilling for shallow bed natural gas so long as that facility does not encounter a formation capable for producing oil.

**Bill section 8** sets out the steps that the operator of a shallow bed natural gas operator must take if the operation encounters a formation capable of producing oil.

**Bill section 9** sets the financial responsibility requirement applicable to an onshore exploration facility exploring for shallow bed natural gas at \$25,000.

**Bill section 10** requires the operator of a shallow bed natural gas operator to cease operating, with exceptions, when the operator penetrates a formation capable of producing oil while exploring for gas.

**Bill section 11:** AS 46.04.050 sets out exemptions from the laws establishing oil discharge prevention and contingency plans and financial responsibility requirements. This bill section notes the additional exemption from these provisions for shallow bed natural gas exploration

Representative Scott Ogan  
February 26, 1996  
Page 3

facilities except as may be required when that well penetrates a formation capable of producing oil.

**Bill section 12** prohibits use of the oil and hazardous substance release prevention and response fund ("470 fund") as a source of money to clean up a release attributable to a shallow bed natural gas development well.

\*

There are three additional uncodified provisions:

**Bill section 1** sets out legislative findings, a statement of purpose, and a statement of legislative intent for the measure.

**Bill section 13** affirms that persons holding coal leases in effect on the effective date of this Act have the right to develop coal bed methane and related gas held in association with the coal.

**Bill section 14** invites the commissioner of natural resources to suggest further legislation to implement the provisions of AS 38.05.177, the shallow bed gas development leasing provision.

JBC:klb  
96-129.klb

# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HB 394

Revision Date: \_\_\_\_\_  
Title: An Act authorizing a program of natural gas and coal bed methane development...  
Sponsor: Reps. Ogan and Rokeberg  
Requestor: \_\_\_\_\_

Department Affected: Environmental Conservation  
BRU: Air and Water Quality  
Component: Water Quality

COMPONENT SERIAL NO. 2062

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND&STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS,CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipt	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)

This bill exempts from permitting under AS 43.03.100 solid and liquid wastes incidental to activities associated with coal bed methane exploration drilling. This is similar to an exemption in the existing statute. If permits are not required, there is no cost to the department.

Prepared by: Larry Jones  
Division: Director, Division of Administrative Services

Phone: 465-5010  
Date: 1/18/96

Approved by Commissioner: Lawrence Jones  
Agency: Department of Environmental Conservation

Date: 1/18/96

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# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HB 394

Revision Date: \_\_\_\_\_  
Title: An Act authorizing a program of natural gas and coal bed methane development...  
Sponsor: Reps. Ogan and Rokeberg  
Requestor: \_\_\_\_\_

Department Affected: Environmental Conservation  
BRU: Environmental Health  
Component: Solid Waste

COMPONENT SERIAL NO. 2067

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND&STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS,CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipt	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)

The proposed change to AS 46.03.100(f) will not require a change in solid waste program activities, as permits are not now issued for on-site discharge or disposal of waste material from activities associated with coal bed methane exploration drilling.

Prepared by: Larry Jones *Lawrence Jones*  
Division: Director, Division of Administrative Services

Phone: 465-5010  
Date: 1/18/96

Approved by Commissioner: *Lawrence Jones*  
Agency: Department of Environmental Conservation

Date: 1/18/96

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# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HB 394

Revision Date: Original Dept Affected Natural Resources  
 Title: An Act authorizing a program of natural gas BRU: Resource Development  
and coal bed methane development licensing and leasing... Component: Oil & Gas Development  
 Sponsor: Representative(s) Ogan, Rokeberg  
 Requestor: House Oil & Gas Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES	312.0	312.0	312.0	312.0	312.0	312.0
TRAVEL	11.0	11.0	11.0	11.0	11.0	11.0
CONTRACTUAL	15.0	15.0	15.0	15.0	15.0	15.0
SUPPLIES	8.0	8.0	8.0	8.0	8.0	8.0
EQUIPMENT	40.0	6.0	6.0	6.0	6.0	6.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	386.0	352.0	352.0	352.0	352.0	352.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
----------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	386.0	352.0	352.0	352.0	352.0	352.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	386.0	352.0	352.0	352.0	352.0	352.0

Estimate of any current year (FY96) cost: \$ \_\_\_\_\_

POSITIONS

FULL-TIME	6	6	6	6	6	6
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Six new positions within DO&G will be required to implement the gas and coal bed methane licensing and leasing program.

One Geologist II to determine areas for gas/coal bed leasing and licensing, evaluate licensing proposals and the geologic justification for conversions of licenses to leases. Represent DNR before AOGCC in determinations of oil potential for lease/licensing areas.

One Petroleum Economist I to perform the economic analysis required under AS 38.05.180 and AS 38.05.035 for gas/coal bed methane licensing and leasing.

Prepared by: Ken Boyd, Director Phone: 269-8800  
 Division: Oil & Gas Date: 6-Feb-96  
 Approved by Commissioner: [Signature] Date: 6-Feb-96  
 Agency: Natural Resources

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**Analysis continued**

HB394

One Cartographer II to prepare maps and graphics for the best interest findings and ACMP analyses, as well as for license offerings.

One Natural Resource Officer II to research, write and regularly revise best interest findings and Alaska Coastal Management Program (ACMP) analyses.

One Natural Resource Officer II to perform the land title and status reviews, assist in determining land ownership boundaries, determine tract acreage.

One Natural Resource Officer II to administer leases and licenses including the awarding and issuing of leases and licenses, adjudicating assignment of ownership, and the enforcement of lease and license terms.

Travel costs include costs for staff to attend public hearings, and public meetings concerning the issuing of leases and licenses.

Contractual costs include office space, printing and publishing of public notices and display ads.

Supplies costs include costs for paper, pens, computer disks and other misc. supplies.

Equipment costs include phones, desks, computers, and other misc. equipment.

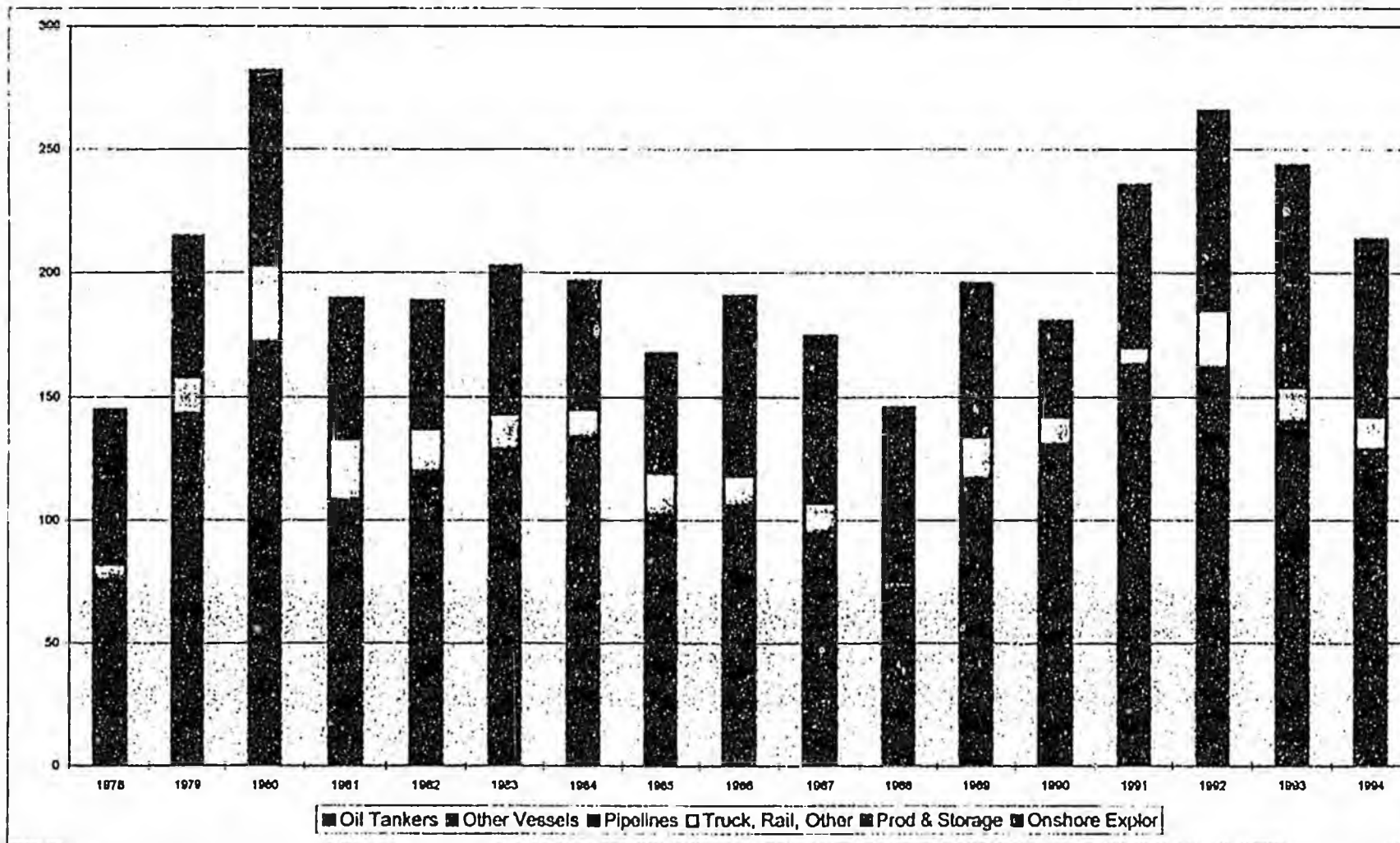
\*\* There are uncertainties in the bill which may change the fiscal impact, once clarified with the sponsor.

# Worldwide Numbers of Oil Spills

Greater than 10,000 gallons

Source: Cutter Information Corp's annual "Oil Spill Intelligence Report"

Year	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Oil Tankers	20	51	43	32	24	25	27	28	53	44	18	41	33	20	19	23	24
Other Vessels	33	47	44	36	50	53	37	22	27	32	27	45	45	36	22	21	28
Pipelines	22	45	85	40	48	51	70	52	26	19	26	31	53	107	121	98	77
Truck, Rail, Other	7	15	31	25	17	14	11	17	12	12	4	17	11	7	23	14	13
Prod & Storage	62	57	78	57	51	58	52	48	73	68	71	62	39	66	81	90	72
Onshore Explor	1	0	1	N/A	1	2	0	1	0	0	0	0	0	0	0	0	0
<b>Totals:</b>	<b>145</b>	<b>215</b>	<b>282</b>	<b>190</b>	<b>189</b>	<b>203</b>	<b>197</b>	<b>168</b>	<b>191</b>	<b>175</b>	<b>146</b>	<b>196</b>	<b>181</b>	<b>236</b>	<b>266</b>	<b>244</b>	<b>214</b>



# Calista Corporation

801 W. 5th Avenue, Suite 200 • Anchorage, AK 99501-2225 • (907) 279-5516 Facsimile (907) 272-5060

Norman Rokeberg  
State Representative  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

February 26, 1996

Dear Representative Rokeberg,

Calista Corporation is writing this letter in support of CS for House Bill No. 394 which you and Representative Ogan have sponsored. We think it is a necessary measure to assist the development of cheap local energy sources for rural Alaska. Since over 20,000 of those rural residents live in the Calista Region we wholeheartedly support this concept.

We like it so much, we wish you would also make portions of the bill apply to more than just state land. Virtually all of the land surrounding our 50 villages is either private ANCSA land or Federal land.

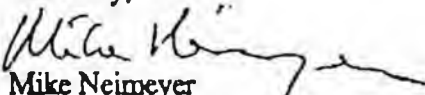
In Section 4 of your bill you have added a new subsection (5) to AS 46.03.100(f) and have removed the language OR COAL BED METHANE DRILLING from subsection (3). The new language would remove any protection that a private landowner would otherwise enjoy under the old version. We would suggest the following language which we think would provide this protection, that you are seeking on state leases, to activities on private and Federal land.

A new Subsection (5) would read:

(5) the discharge or disposal of waste material or water from activities associated with natural gas exploration drilling from shallow bed gas deposits as defined in AS 38.05.177  
(a)(1) [UNDER A LEASE AUTHORIZED BY AS 38.05.177].

While this language may not be the most artful drafting, I do believe it would at least serve both of our purposes. We would be happy to work with you or a member of your staff to address this issue.

Sincerely,

  
Mike Neimeyer  
VP Land and Natural Resources

c.c. Ivan M. Ivan

# ALASKA RURAL ENERGY INITIATIVE



Division of Energy  
Department of Community and Regional Affairs  
State of Alaska

June 1995

## EXECUTIVE SUMMARY

There are over 150 small villages in rural Alaska that are not accessible by road, that are characterized by severe climate and widespread poverty, and that are heavily dependent on fuel oil for power generation and heat. The average population per village is about 250 residents, mostly Alaska Natives.

### Bulk Fuel Storage

In most cases, the village fuel supply must be delivered by barge during a brief ice-free shipping season and stored throughout the year. Every village relies on above-ground tank farms for essential fuel storage though few of these facilities presently meet minimum standards of safety or environmental protection. Most lack adequate foundations, dikes, and piping systems as well as basic security fences. Many are rusted, improperly sited, and violate electrical codes.

An increasing number of villages now face the possibility that fuel will not be delivered because of these deficiencies. Fuel carriers are threatened with liability for environmental damage if they fill village tanks that subsequently leak. Most recently, the U.S. Coast Guard, with regulatory jurisdiction over fuel transfer facilities between the delivery barge and the storage tank, has sent letters to the owners of nearly 80 fuel storage facilities threatening to deny fuel deliveries unless deficiencies are corrected.

The estimated cost for repair and renovation of fuel storage facilities in rural Alaska is \$200 million, excluding future inflation. This does not include remediation of contaminated soil and groundwater.

### Electric Utilities

Approximately 80 communities in rural Alaska are served by small, single-village electric utilities; roughly the same number are served by larger, multi-village utilities. Most of these communities have no transmission link to any other community and are entirely dependent on local diesel generators for their power supply. The cost of power in rural Alaska is high, roughly 4 to 5 times the average elsewhere in the United States.

Particularly in the single-village utilities, power plant and distribution systems often do not meet accepted utility standards for safety, efficiency, reliability, and environmental protection. These villages require adequate electric service, however, for economic advancement and for support of other community facilities. Upgrading the physical plant of the electric utility to meet minimum standards is a pre-condition for utility self-reliance, as well as community self-reliance, in the future.

The estimated cost to upgrade the single-village utilities is \$25 million, excluding future inflation. Upgrade costs for the multi-village utilities have not been systematically estimated.

### Proposal for Funding

Policies, programs, and expenditures of both the State and Federal governments have contributed over the years to the relative permanence of remote Native villages in Alaska. Resolving the problem of deteriorating fuel tanks and substandard electric utility systems

is beyond the means of village residents. A joint State/Federal effort is needed to bring these facilities to the point where they no longer represent a safety or environmental hazard, and can be maintained and replaced as necessary without further long-term government support. To this end, the following is proposed:

1. The State and Federal governments will together make available for expenditure \$25 million per year -- \$12.5 million each -- until, in combination with local match contributions, a total investment of \$250 million is reached. While the number of years required to reach this investment total will not exceed 10, the actual number of years may be less depending on the size of the local match contributions. The \$250 million total includes the estimate of \$200 million for bulk fuel storage, \$25 million for upgrading single-village electric utilities, and an allowance of \$25 million for additional electric utility upgrades and for inflation.

It is proposed that the Federal contribution be appropriated to the Rural Utilities Service in the U. S. Department of Agriculture and, from there, channeled to the Division of Energy in the Alaska Department of Community and Regional Affairs, which will administer the program.

2. The funds will be expended as grants. Cash or in-kind match from participants will be required. The Division of Energy will retain authority to approve project design.
3. For bulk fuel storage facilities, a key objective will be to consolidate existing tank farms into a smaller number of code-compliant fuel storage facilities. The Division of Energy will meet with tank farm owners to develop consolidation agreements which will identify, for each consolidated facility, a single entity to assume ownership and operating responsibility, and which will set out each participant's rights and obligations. Each participant will be assured the right to solicit competitive bids for fuel delivery in the future.

Grant agreements with the designated facility owners will incorporate the consolidation agreements, will provide assurances with regard to long-term operation and maintenance of the facilities, and will establish requirements for periodic facility inspection and reporting.

4. For electric utility upgrades, project approval will be contingent on local commitment to professional utility management in the future. The Division of Energy will meet with utility boards and managers to define the upgrade projects and to negotiate utility management agreements. In these agreements, utilities may commit to joining a consolidated utility organization or to other arrangements that will ensure capable utility management.

Grant agreements will incorporate the utility management agreements and will include a utility pledge not to seek additional State or Federal grants for ordinary capital improvements such as normal renewal and replacement of diesel generating plant.

5. For the first year of this initiative, the State is seeking \$16 million in federal funds to match a prior commitment of \$16 million in State funds: \$10 million for bulk fuel storage and \$6 million for electric utility upgrades.

### 3. REMOTE VILLAGE ELECTRIC UTILITIES

#### 3.1 Electric Utilities in Rural Alaska

There are over 150 small communities in rural Alaska with electric utility service provided mostly by local diesel generators, and without any electrical interconnection outside the community. These communities are served by roughly 100 separate electric utility organizations. Some of these utilities have developed sufficient scale economies and expertise to operate with reasonable efficiency, to maintain accepted utility standards, and to be capable of financing their own plant requirements. These utilities typically serve a regional center or serve a number of small communities. In most rural Alaska communities, however, the electric utility operates generation and distribution plant that does not comply with accepted utility standards, and government assistance is required to finance capital improvements as well as on-going operations.

The cost of power provided by these village utilities is exceptionally high: median residential rates are in the range of 40-45 cents per kWh, 4 to 5 times the average elsewhere in the United States. For this reason, since 1981 the State has funded a power cost equalization program under which the State pays a portion of the monthly electric bill for customers of rural electric utilities, and has spent about \$200 million on the program to date. While this has enabled residents of remote villages to afford basic electrical service, the current annual program cost of \$20 million cannot be sustained by the State indefinitely as oil production from Prudhoe Bay and associated State revenues continue to decline.

Most of these isolated village utilities provide their own management, administrative services, maintenance and operations, constituting a very high burden of fixed costs per unit of electricity sold. Because competent mechanical and electrical expertise is often difficult to maintain in these organizations, generator maintenance is often sporadic and unorganized -- a situation which leads directly to catastrophic and expensive breakdowns. Merger with a larger utility organization offers the opportunity to benefit from sufficient scale economies to overcome some of these disadvantages. However, before such consolidation can be considered, the physical plant of the village utility must be improved to the point that it meets accepted industry standards.

Reliable electric service is needed in the villages not only as a prerequisite for economic advancement but also to support other necessary community infrastructure, including water and sewer systems. For the continuation of electrical service over the long-term in these isolated communities, electric utility plant and operations must be upgraded to the point that government support is no longer needed. Ideally, by bringing the physical plant up to standards either of the Rural Utilities Service (RUS, formerly the Rural Electrification Administration), or of the National Electrical Safety Code (NESC) and the National Electrical Code (NEC), the isolated village utilities can be merged into new or established regional utilities that are self-reliant with respect to operations and capital financing. These regional organizations may be cooperatives, investor-owned utilities, or regional governmental entities.

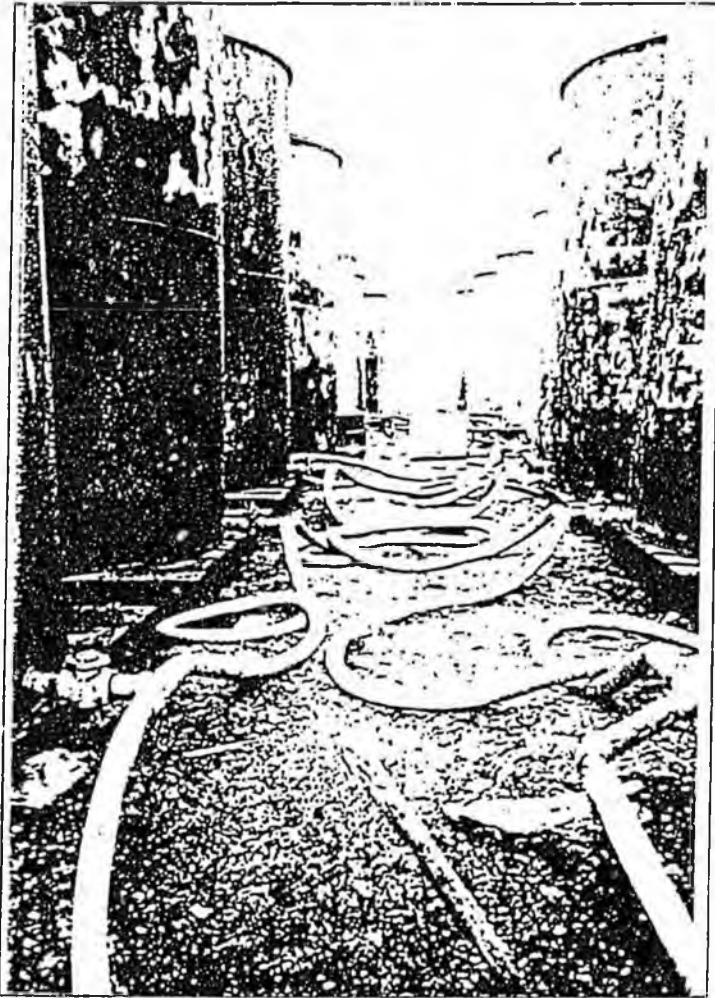
### 3.2 State Effort to Upgrade Rural Utilities

Since 1990, the State has expended over \$10 million for upgrade of electric utility systems in rural communities receiving power cost equalization payments, excluding expenditures for evaluation and construction of alternatives such as rural hydroelectric projects. Included in Attachment 3 is appropriation and expenditure detail for \$6 million committed by the State for this purpose in fiscal years 91-93.

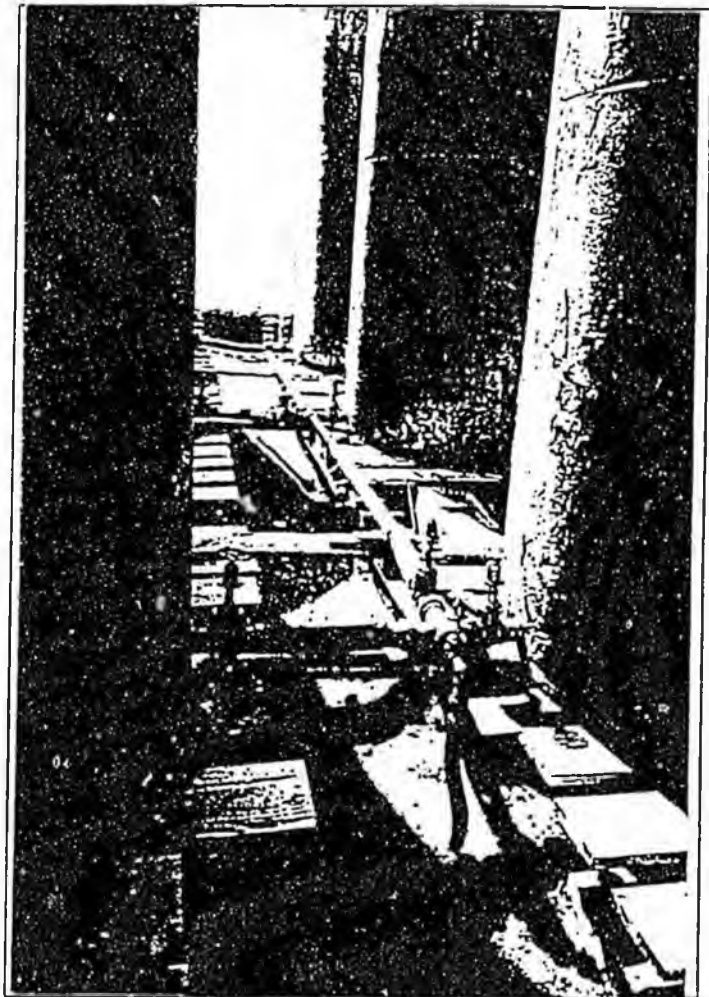
### 3.3 Estimated Cost to Upgrade Rural Utility Systems to Industry Standards

Approximately 80 rural villages are each served by their own electric utility organization. For 52 of these villages, cost estimates totaling \$16.2 million have recently been prepared to upgrade generation and distribution systems in accordance with minimum accepted utility standards. Appendix B includes the system evaluation and cost estimate summaries for each of these 52 village electric utilities. Based on these results, the estimated upgrade cost for the 80 independent, single-village utility systems is approximately \$25 million, excluding any adjustment for future inflation. Detailed estimates of required upgrade costs have not been systematically prepared for the additional communities that are served by regional utility organizations, or for the larger communities that serve as regional centers.

The estimates presented for the 52 single-village utilities in Appendix B provide only for code compliance of diesel dependent remote utilities, and do not include any additional amount for funding alternatives to local diesel generation such as small hydro or wind generation where appropriate resources are available, or transmission lines linking villages where feasible. Implementing these alternatives throughout rural Alaska is estimated to require considerably more capital resources. The State will continue to support such alternatives over the long term, but is seeking in this proposal the more limited objective of meeting basic utility standards as a prerequisite for energy self-reliance.

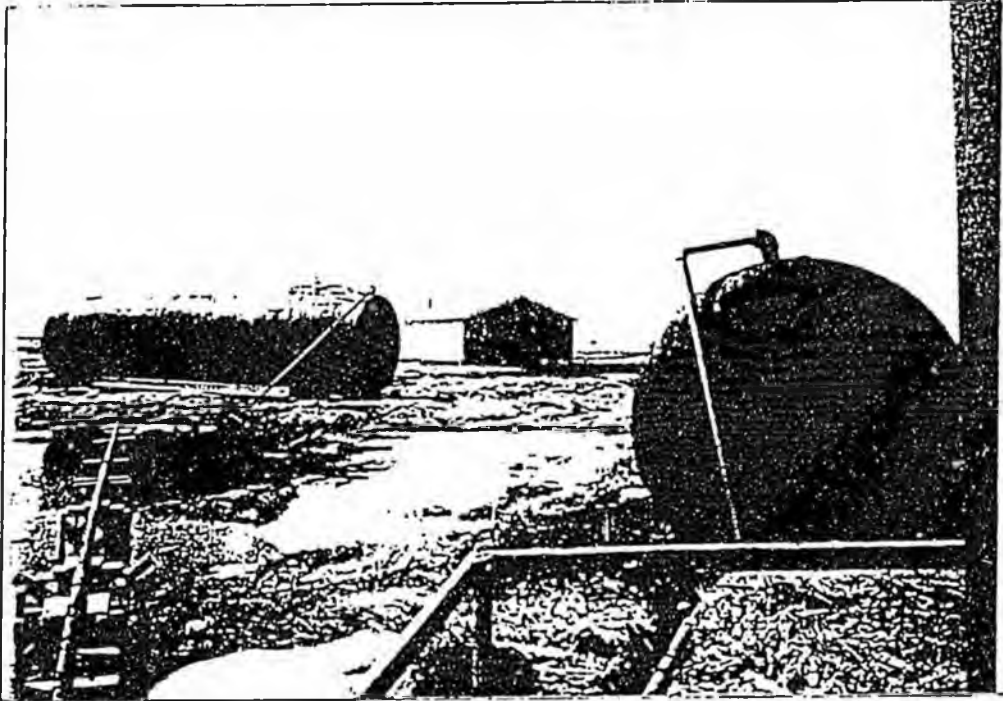


**Photograph A.1**  
Severely corroded tanks connected by rubber hose. Evidence of fuel spillage throughout area.

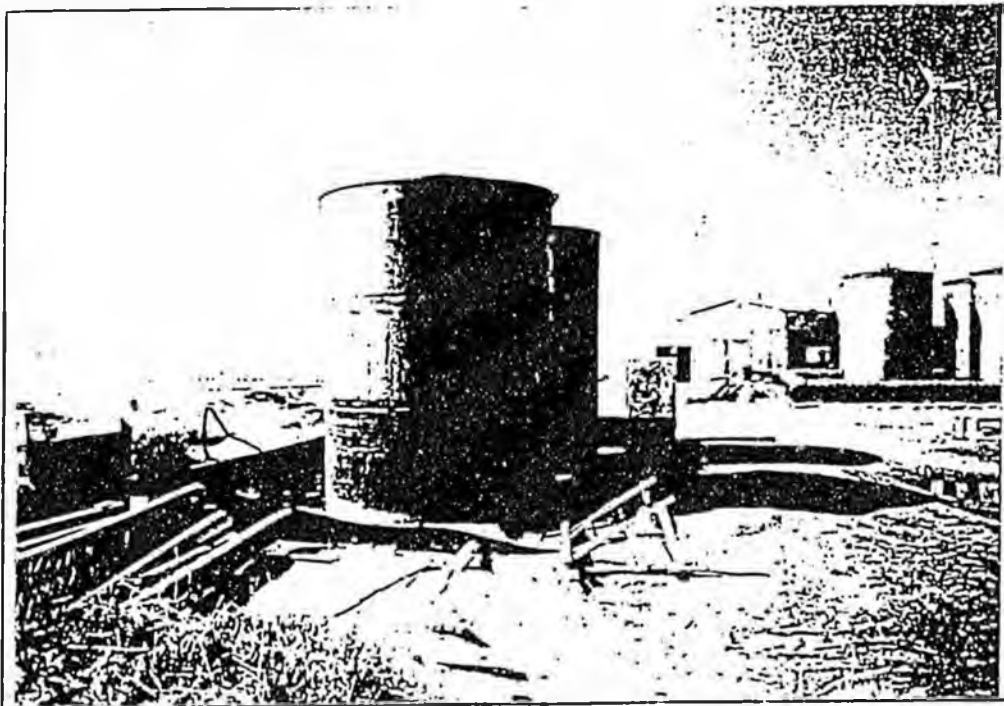


**Photograph A.2**  
Severely corroded tanks on improper foundations (small dimension wood cribbing).

ALASKA ENERGY AUTHORITY  
RURAL ALASKA BULK FUEL ASSESSMENT  
SUMMARY REPORT AND RECOMMENDATIONS



**Photograph A.3**  
Tanks on improper foundations with no means of secondary containment. Facility located in close proximity to a river.

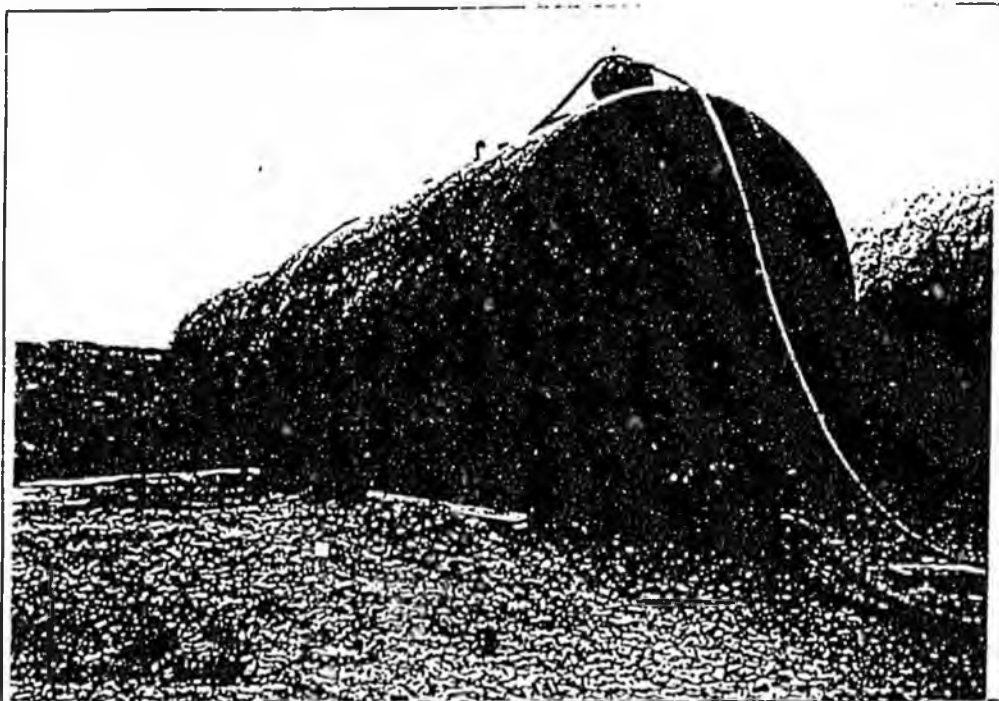


**Photograph A.4**  
Corroded tanks located immediately adjacent to ocean. Steel dike completely rusted out and useless as secondary containment.

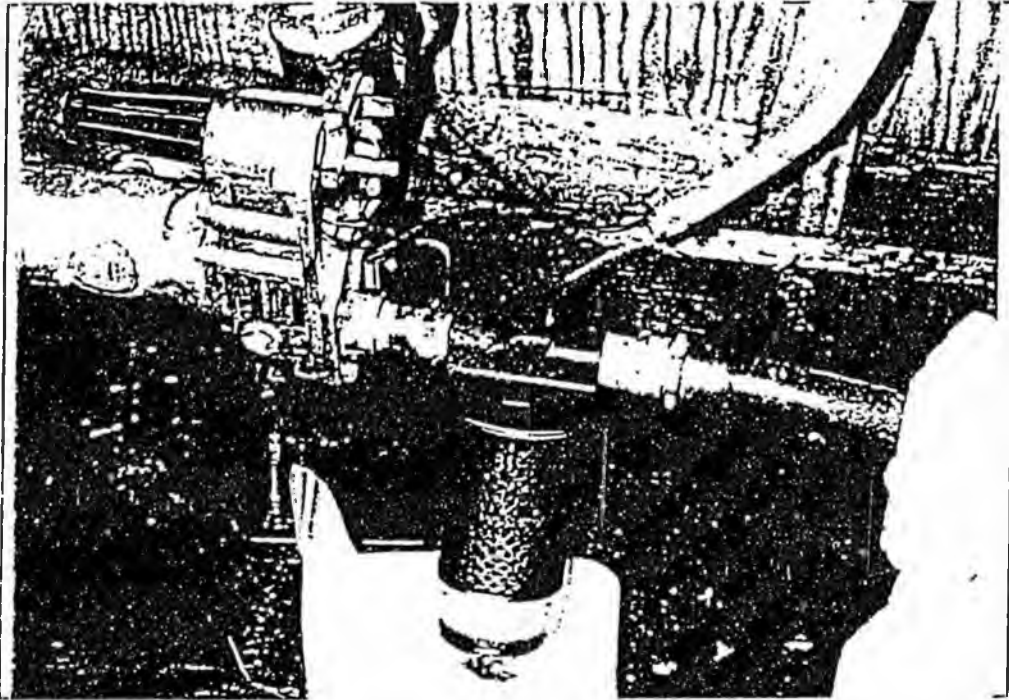
ALASKA ENERGY AUTHORITY  
RURAL ALASKA BULK FUEL ASSESSMENT  
SUMMARY REPORT AND RECOMMENDATIONS



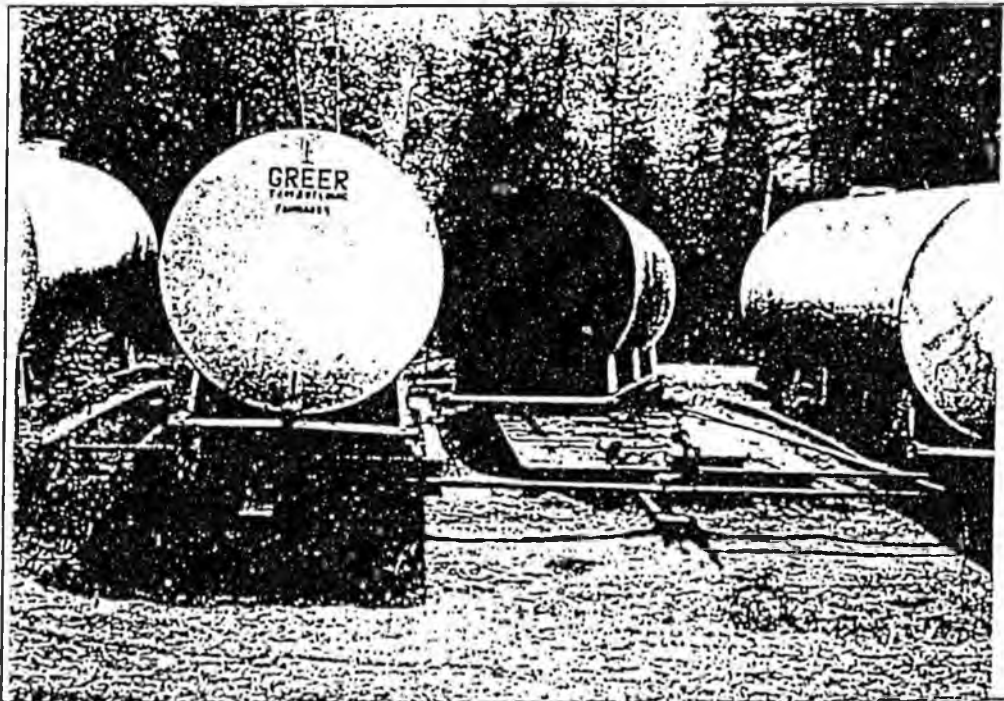
**Photograph A.5**  
Tanks scattered along  
river bank with no dikes,  
no security, and improper  
foundations.



**Photograph A.6**  
Severely dented tank with  
no foundation. Placed at  
edge of beach with no  
dike. Gravity dispensing  
of fuel. No security.

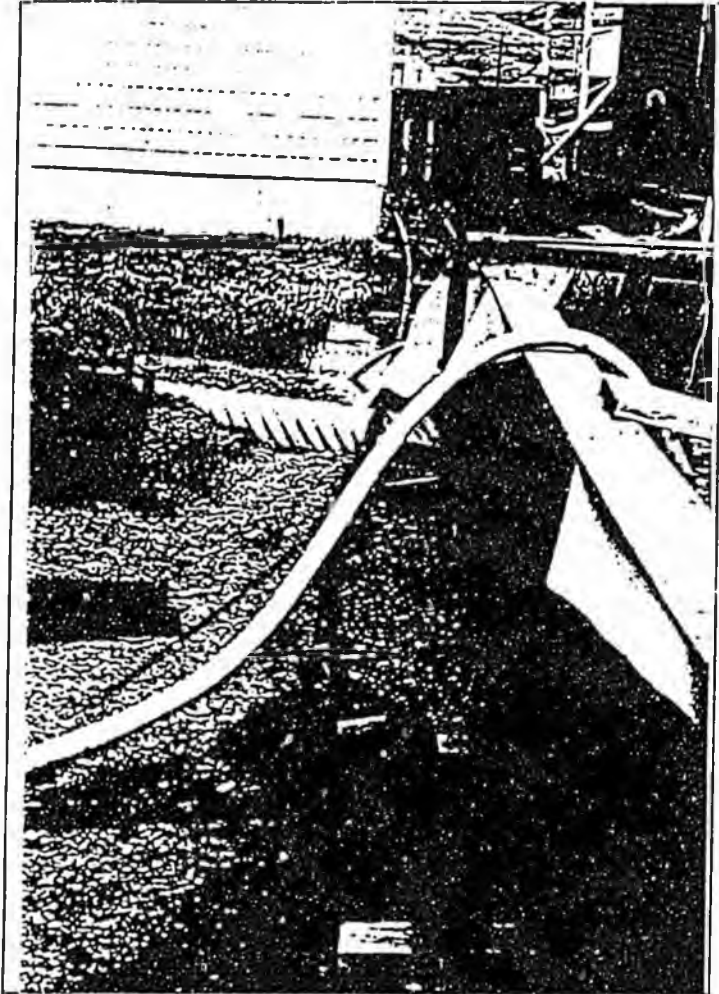


Photograph A.7  
Improper wiring adjacent  
to leaking gasoline piping.



Photograph A.8  
Improper piping system  
and poor operational  
procedures resulted in  
explosion of tank.

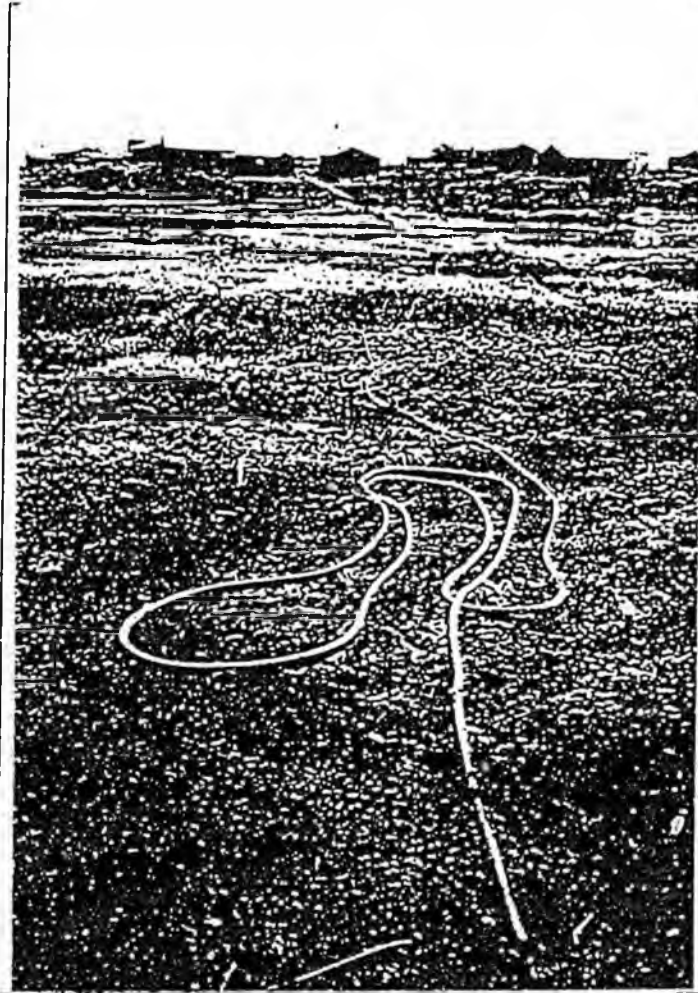
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Photograph A.9  
Fuel stain on ground caused by leaking  
piping joints.

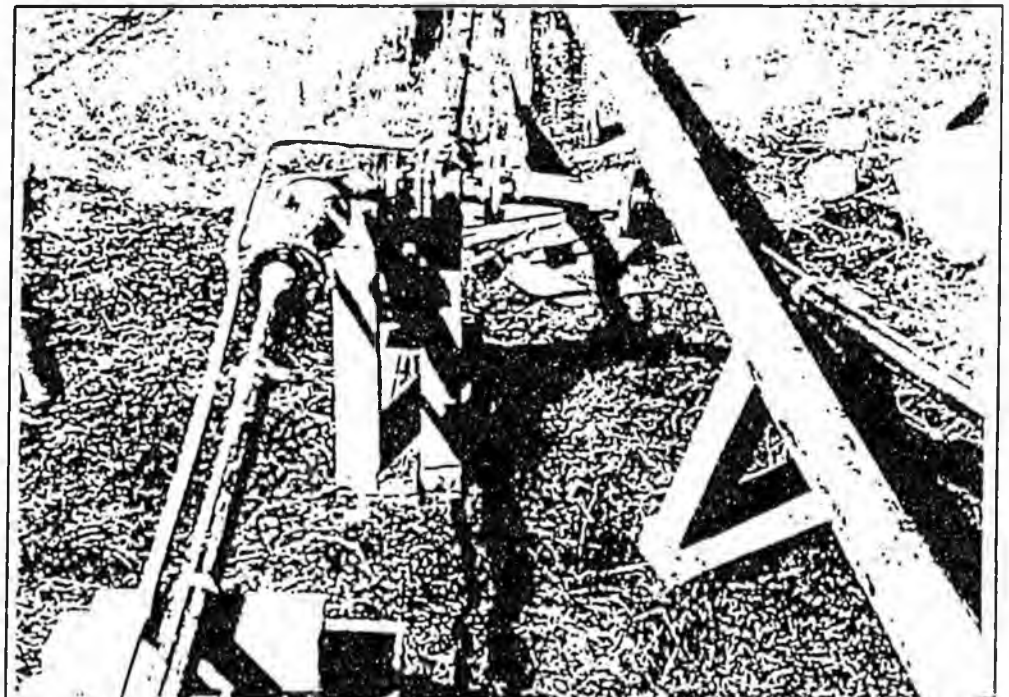


Photograph A.10  
Faulty piping system  
reportedly broke during  
winter, spilling an  
estimated 50 gallons of  
fuel.



**Photograph A.11**  
1200' long hose used to transfer diesel fuel from storage tanks to power plant on a weekly basis.

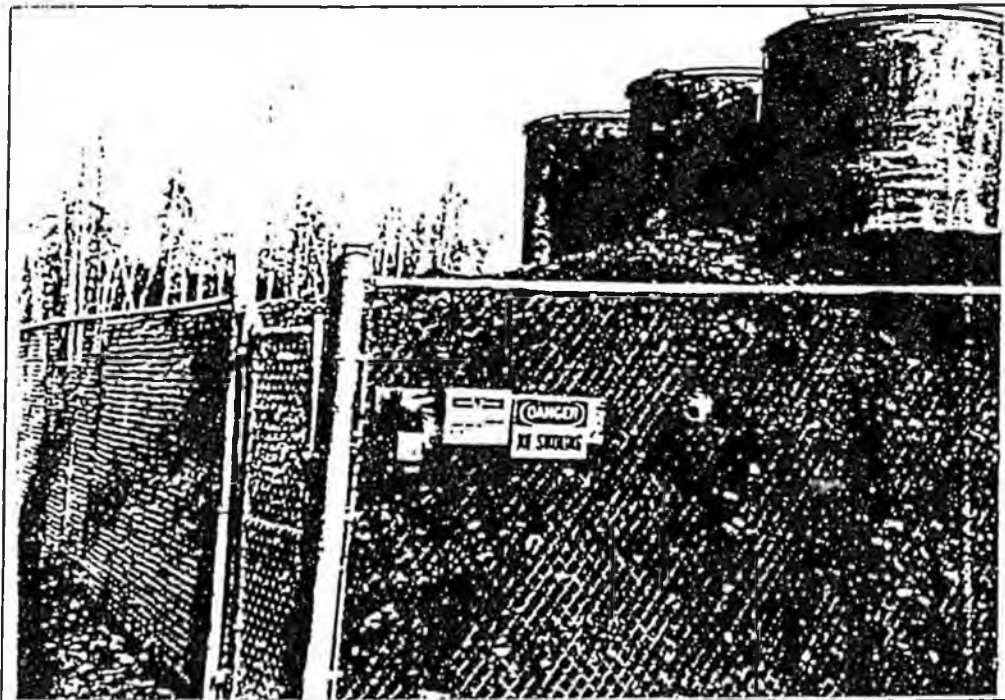
**Photograph A.12**  
Hose replaced with proper welded steel pipeline by AEA with Bulk Fuel Emergency Repair program funds.



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SUMMARY REPORT AND RECOMMENDATIONS

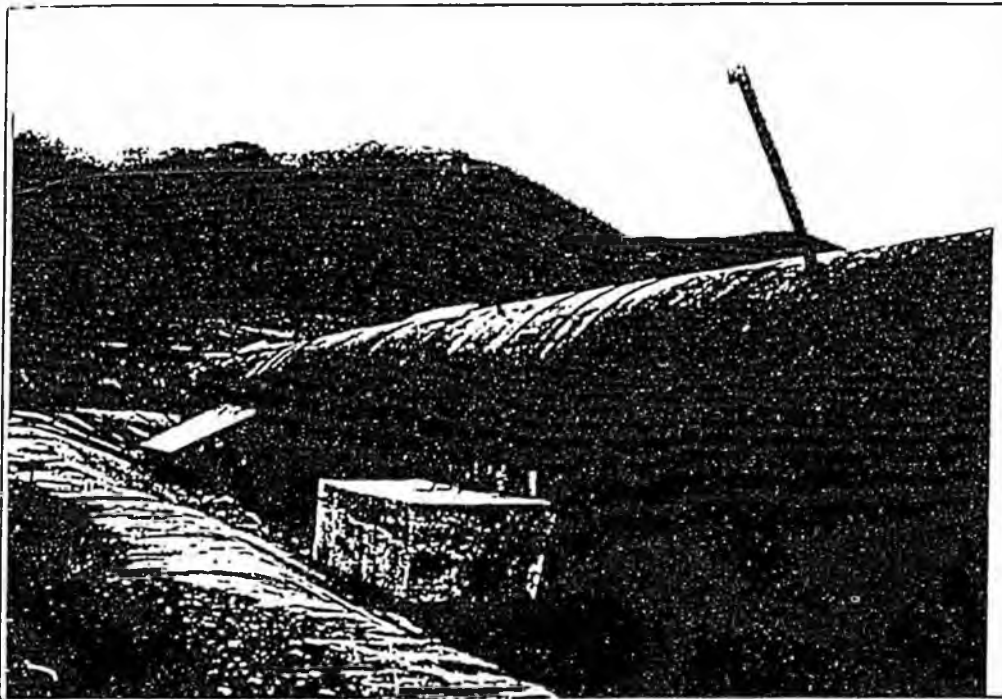


**Photograph A.13**  
Tank farm located within a flood plain. Tanks tipped over and facility severely damaged by flood.

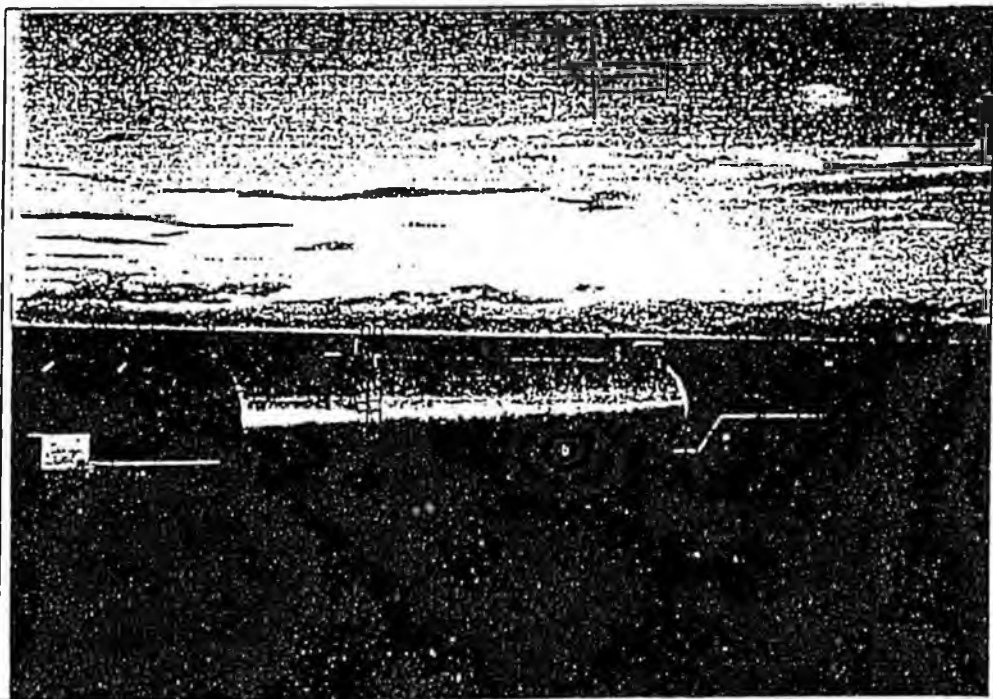


**Photograph A.14**  
Tanks placed in new lined dike on gravel pad above flood stage. Facility repaired to meet applicable code and regulation requirements. Construction administered by AEA, supported by State and Federal disaster relief funds.

ALASKA ENERGY AUTHORITY  
RURAL ALASKA BULK FUEL ASSESSMENT  
SUMMARY REPORT AND RECOMMENDATIONS



**Photograph A.15**  
Tank installed in improper  
dike with no foundation.  
Due to poor installation,  
facility was never used.



**Photograph A.16**  
Tank refurbished and  
installed on proper  
foundations in new dike.  
Construction administered  
by AEA using capital  
appropriation funds.

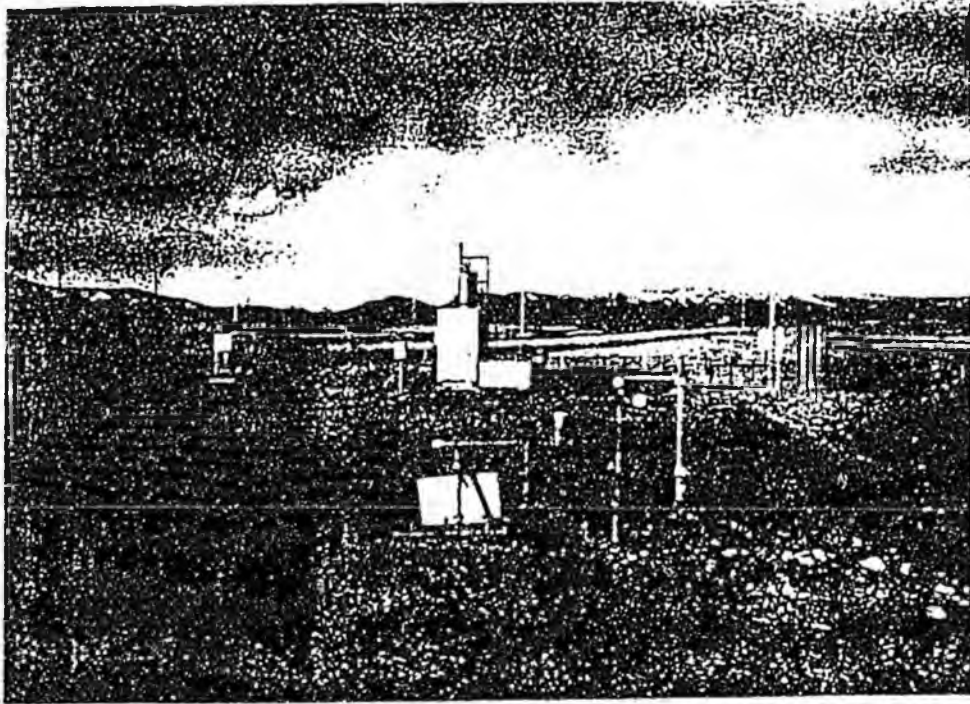


PHOTO #4

-At Left: Solar powered communications to report status  
-At Center: Water Gas separator with filters.  
-At Right: Metering system with separate communications system  
-Well head in the foreground.  
Near Farmington, New Mexico

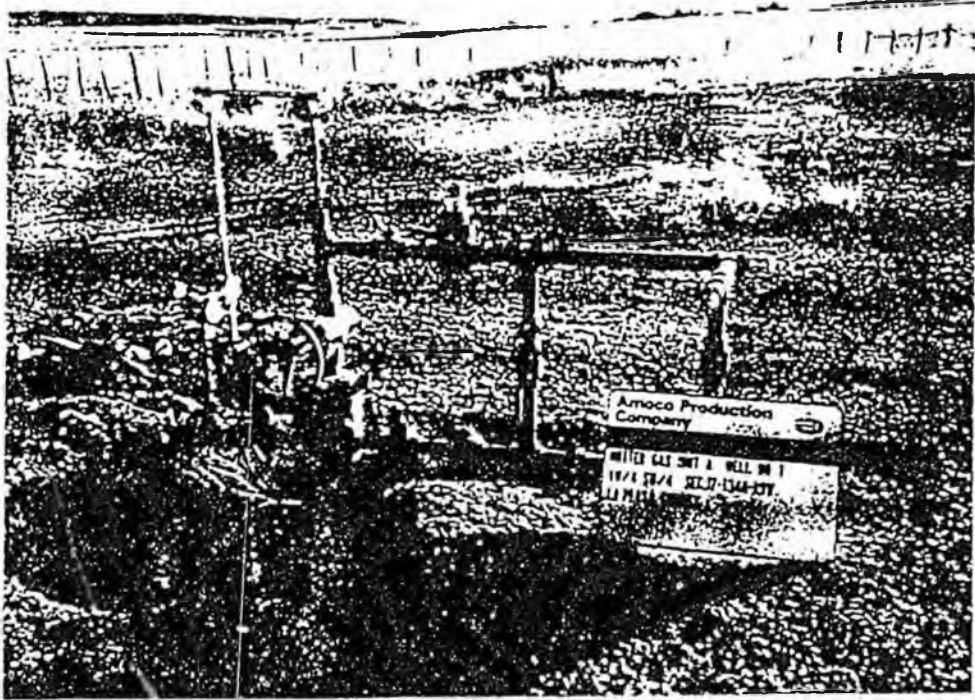


PHOTO #5

Coal Bed Methane well head  
Near Farmington, New Mexico

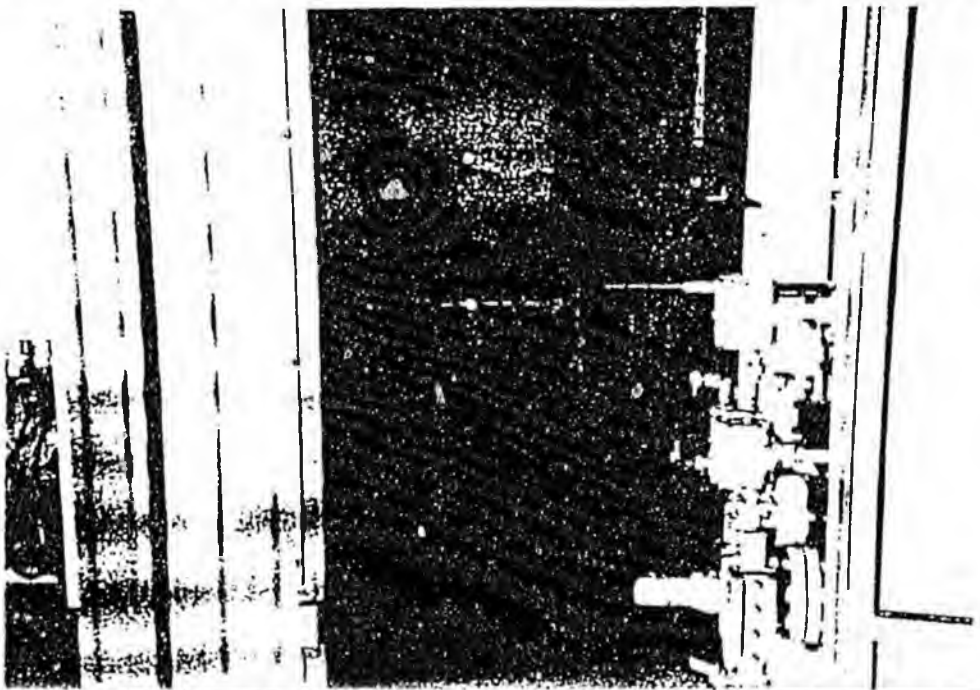


PHOTO #6

Meter Skid; Note the chart in the upper-center of photo important for well operations  
All equipment is gas or solar powered.  
Near Farmington, New Mexico

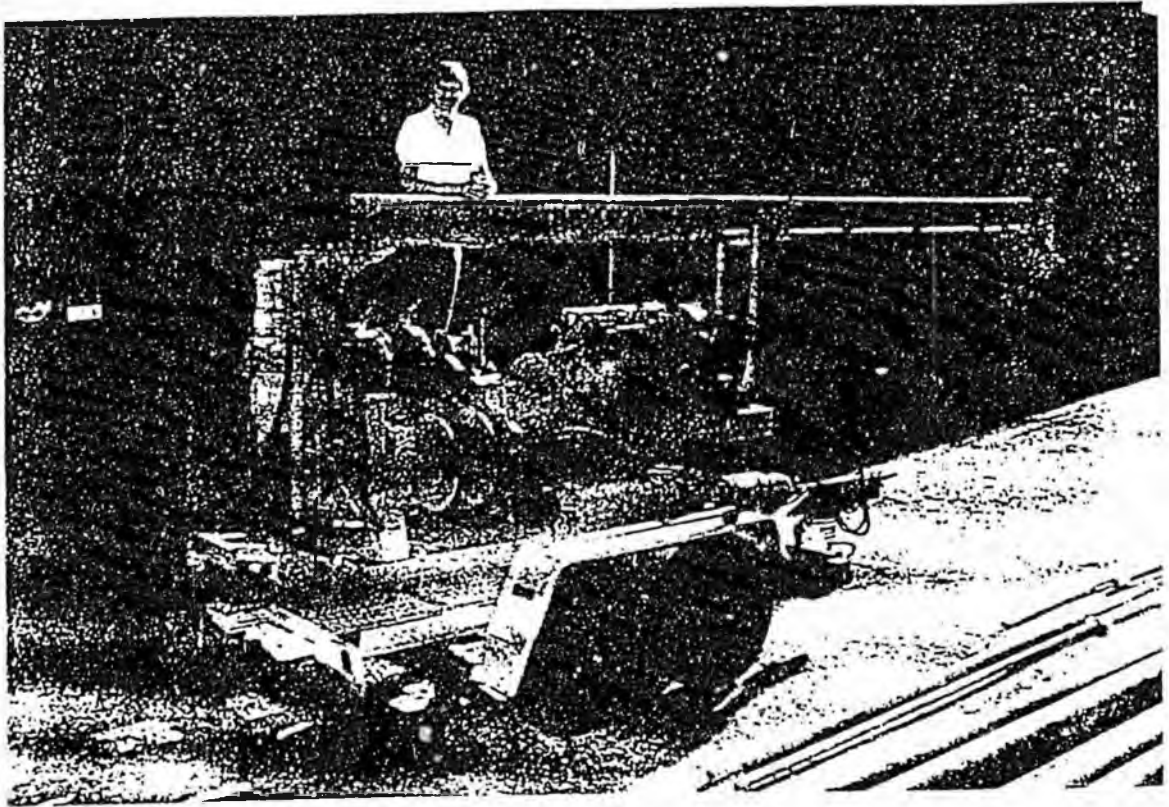


PHOTO #12

*Lapp Resources' portable drill rig, used for exploratory drilling for coal bed methane.  
courtesy, Lapp Resources, Inc., 1995*

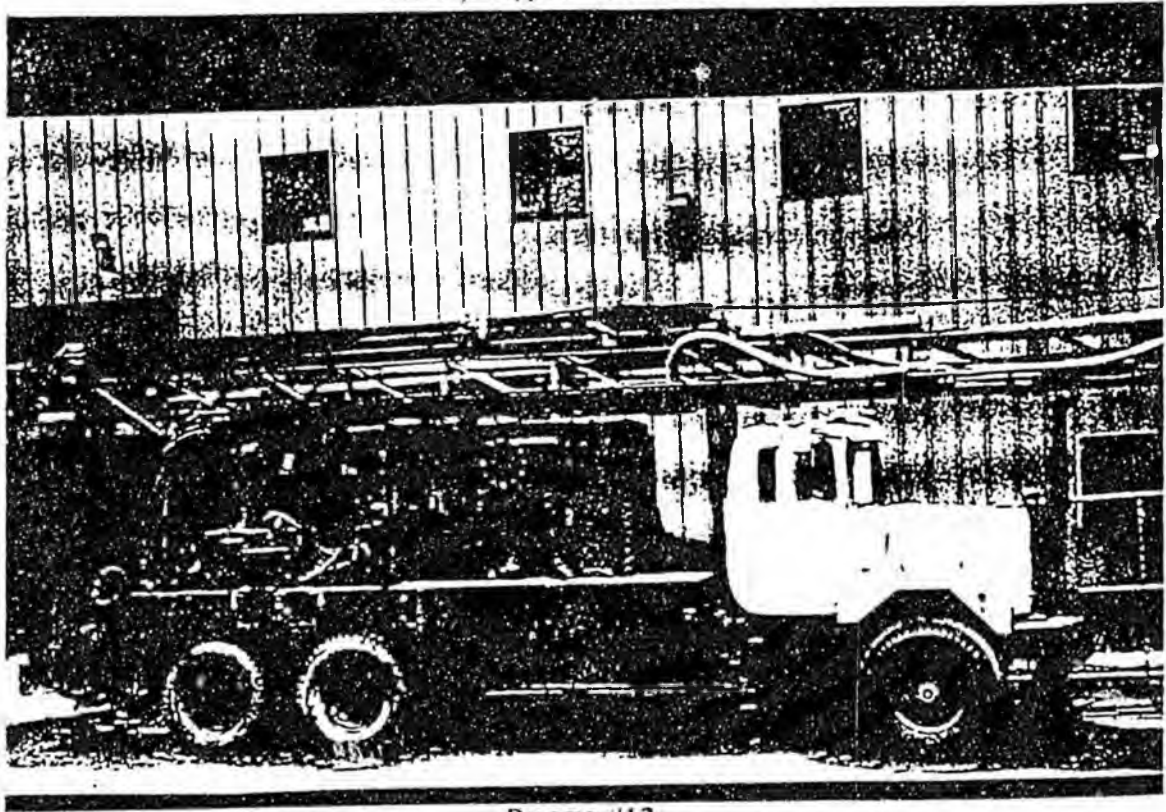


PHOTO #13

*Ambler Drilling's rotary-hammer drill rig.  
courtesy, Ambler Drilling, 1995*

JAN 7 1993

# ***RURAL BULK FUEL TASK FORCE***

Preliminary  
Report to the Governor



*Policy Recommendations*

November 25, 1993

# FINANCE

## *Issues:*

- *The Rural Alaska Bulk Fuel Assessment Program, Summary Report and Recommendations, March 1992, prepared by the Alaska Energy Authority, the Noncrude Facility Survey, January 1992, and the Small Noncrude Oil Terminal Report, Task One: Facility Identification and Inventory, November 1992, prepared for the State of Alaska, Department of Environmental Conservation, are testimony to the extreme costs related to repairs, improvements, new construction and remediation for Alaska's many rural bulk fuel storage facilities. Preliminary estimates range from between \$155.0 M to \$200.0 M for facility improvements and another \$200.0 M for remediation!*
- Access to funding for communities is extremely limited and practically non-existent for small "for-profit" private sector operators.
- Funding that is available has few conditions attached for ensuring long range commitment by grantee or borrower for proper construction or continued facility maintenance or operator training programs.
- Remediation costs are often extraordinary. Existing funding programs require neither planning nor commitment to necessary facility clean up. Consequently, public health and safety are under continual threat.
- There is little access to federal funding, even when federal agencies acknowledge previous ownership of non-compliant facilities. The state receives no direct federal funding at this time for coordinated resolution of fuel storage problems.

# Alaska Oil and Gas Association

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121 West Fireweed Lane, Suite 207  
Anchorage, Alaska 99503-2035  
Phone: (907) 272-1481 Fax: (907) 279-8114

March 6, 1996

The Honorable Scott Ogan  
Alaska State House of Representatives  
State Capitol  
Juneau, Alaska

## HB 394, Gas and Coal Methane Licenses & Leases

Dear Representative Ogan:

The Alaska Oil and Gas Association (AOGA) is a trade association whose 19 member companies account for the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

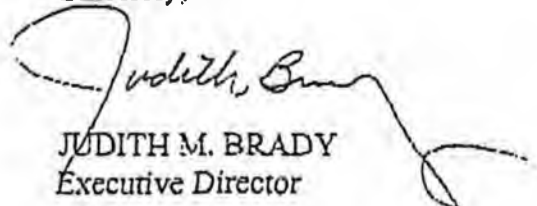
On February 7, 1996, the Association expressed its concern about provisions in HB 394, which also were embodied in CSSB 176, exempting natural gas exploration facilities from compliance with financial responsibility requirements.

The Association has reviewed the Oil and Gas Committee Substitute for HB 394 and believes Section 9 of CSHB 394 which establishes financial responsibility requirements for onshore shallow bed natural gas exploration facilities addresses its concern. AOGA strongly supports retention of adequate financial responsibility requirements in subsequent versions of the bill.

AOGA supports Section 12 of CSHB 394, which prohibits use of the '470 Fund' for clean up of releases attributable to shallow bed natural gas operations, and prefers that it be retained if possible.

The Association continues to believe that it is in the state's best interest to require that consistent, equitable and adequate financial responsibility requirements be met by all persons/companies conducting oil and gas exploration operations in Alaska.

Sincerely,



JUDITH M. BRADY  
Executive Director