

**SB**

**176**

**SB 176**  
**Exempt Natural Gas**  
**Facilities from Bond & Plans**

**Sectional Analysis**

Section 1 of the bill amends AS 31.05.030 by adding a new subsection (i) granting authority to the Alaska Oil & Gas Conservation Commission (AOGCC) to determine whether there is a likelihood that an exploration well will encounter oil when requested by a permit applicant to do so. If the commission determines there is reasonable certainty that the activity will not encounter oil, the commission must so certify.

Section 2 of the bill amends AS 46.04.030(b) to conform to the new exemption provided in AS 46.04.050(c), added by Section 6 of the bill.

Section 3 of the bill adds a new subsection (s) to AS 46.04.030 requiring an operator of a facility exempted under AS 31.05.030(i) who encounters oil to notify the AOGCC and all other appropriate state agencies, and to develop an oil spill response plan before proceeding with further exploration activities.

Section 4 of the bill amends AS 46.04.040(b) to exempt exploration activities from the oil spill financial responsibility requirements if the activity has been exempted under AS 46.04.050(c) added by Section 6 of the bill, provided the activity does not encounter oil.

Section 5 of the bill amends AS 46.04.040 by adding a new subsection (n) requiring the operator of an activity exempt under AS 31.05.030(i) to comply with the financial responsibility requirements of AS 46.04.040(b) if the operator encounters oil.

Section 6 of the bill amends AS 46.04.050 by adding a new subsection (c) creating a general exemption for facilities certified under AS 31.05.030(i). The exemption applies to financial responsibility requirements and oil spill contingency plan responsibilities except as provided in Sections 3 and 5 of the bill.

Section 7 of the bill provides for an immediate effective date under AS 01.10.070(c).

# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. SB 176

Revision Date: \_\_\_\_\_  
 Title: An Act relating to regulation of certain  
natural gas exploration. . .  
 Sponsor: (S) Resources  
 Requestor: Senator Lehman

Department Affected: Environmental  
Conservation  
 BRU: Spill Prevention & Response  
 Component: Spill Prevention & Response  
Director's Office  
 COMPONENT SERIAL NO. 1392

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
<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						
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CHANGE IN REVENUES ( )						
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**FUND SOURCE**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other						
<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 (FY95) cost: \$ 0.0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

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

Phone: 465-5010  
 Date: 5/8/95

Approved by Commissioner: *[Signature]*  
 Agency: Department of Environmental Conservation

Date: 5/8/95

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# FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. CSSB 176 (RES)

Revision Date: \_\_\_\_\_  
 Title: "An Act relating to regulation of certain natural gas..."  
 Sponsor: Resource Committee  
 Requestor: \_\_\_\_\_

Department Affected: Administration  
 BRU: Alaska Oil and Gas Conservation Commission  
 Component: Alaska Oil and Gas Conservation Commission  
 COMPONENT SERIAL NO. 2010

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES ( )</b>	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						
1005 GF/Program Receipts						
1006 GF/MHTIA						
OTHER						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 95) cost: \$ 0.0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.)

See attached.

Prepared by: David Johnston, Chair  
 Division: Alaska Oil and Gas Conservation Commission

Phone: 279-1433  
 Date: \_\_\_\_\_

Approved by Commissioner: Mark Boyer  
 Agency: Department of Administration

Date: 6/2/95

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FISCAL NOTE

STATE OF ALASKA  
1995 LEGISLATIVE SESSION

BILL NO. CSSB 176 (RES)

**ANALYSIS:** (continued)

Assumptions--None.

Program summary

- a) Position--Program will be implemented with existing staff.
- b) Other expenses--None.
- c) Funding--General Funds.

Computation: Not applicable.

Economic Impact: Bill should have a positive effect on Alaska's economy and energy security. More gas wells will be drilled by independent producers meaning additional employment and investment in Alaska. Bill should contribute to coalbed methane development of Alaska, with significant benefit to bush communities if local sources are found.

Impact on Local Government: Principle beneficiary of the bill is the Kenai Peninsula, Mat-Su Borough and local bush communities. Bill will contribute to local employment and tax base. Significant additional benefits could be realized if new production from coalbed methane is developed. Bush energy costs could be reduced significantly if local sources are found.



## E. A. OPSTAD & ASSOCIATES

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Annette Kreitzer, Aide  
Senate Resource Committee  
718 West 4<sup>th</sup> Avenue, Suite 540  
Anchorage, Alaska 99501

October 14, 1995

**SUBJECT: Senate Resource Committee Work Session - Follow-up**

Dear Annette:

Thank you for inviting us to participate in the work sessions held under the auspices of the Senate Resource Committee this summer. Having considered the discussions which transpired during those sessions, I would like to reiterate what I heard as being some of the important points raised during the two sessions, and make a few short comments relative to each issue.

- ***Bonding reform is needed to lower the financial hurdles faced by smaller operators.*** I think that the participants generally concur with a point we made which noted that the major environmental threats brought by the oil and gas industry arise from oil transportation and refining systems, not from exploratory drilling activities, and certainly not from gas well drilling operations of any kind. Large bonding requirements for drilling operations generally are not only inconsistent with historical experience both in Alaska and worldwide, but act to significantly restrict the activity upon which much of Alaska's future vitality is dependent. During the coming session, the Legislature should move aggressively to enact bonding reform like that offered by SB 176 and implement other programs designed to assist smaller operators in the state. The legislature should not be swayed from this course by collateral issues raised by certain large companies who seem principally motivated by competitive matters.
- ***Access to state land should be significantly improved.*** Access to land is the life-blood of exploration and development! There appeared to be general agreement among the participants that the state's current leasing cycle is too long, which often causes exploration opportunities to be missed when company funds are available, but the mineral estate is not. Alaska's small companies, who typically can not afford to wait 3 to 5 years simply to acquire a lease, favor the establishment of an "over-the-counter" sales program for short term leases on exempt acreage and the implementation of frequent "area wide" leasing programs modeled after those conducted in the Gulf of Mexico.

- **Reform and streamline the permitting process.** Private industry and future state revenues are being suffocated by the current permitting process, even when no permits are required as pointed to by the experience of Lapp Resources. Some ideas for reform included the use of a single "master" document that would essentially integrate the requirements of all state agencies and the establishment of "accepted practice" guidelines that would eliminate repeated review of "cookie cutter" or routine operations.
  
- **Establish "Royalty Holidays" for certain domestic projects or low grade accumulations.** A royalty holiday would eliminate the state's royalty on all, or a portion, of production generated by projects which fell into one of several "special classes." Examples of these special classes might include oil and gas produced solely for domestic consumption in bush communities, that produced for private domestic use (individual homesteaders and other remote parcel owners), the first 500 BOPD per well produced by heavy oil projects, or any first-of-kind pilot projects primarily intended as technical feasibility investigations.
  
- **Attempt to address the numerous gripes and difficulties inherent to the current state-industry relationship.** Some of the issues I heard raised either directly or on sidebar were:
  1. The oil and gas industry is often afraid to challenge regulators or an agency for fear of becoming a reprisal target.
  2. State oil and gas regulations are designed around "Big" Oil, "Big" Government and "Big" Dollars. Small operators have been given little or no consideration.
  3. Agencies spend too much time requesting information or clarifications by formal letter, rather than operating by telephone, fax, or e-mail like everyone else.
  4. The "service fees" charged by some agencies have been greatly disproportional to the work done, particularly on carbon copy wells which are virtual duplicates wells submitted previously. *[This system is ripe for abuse and should be eliminated -EAO]*
  5. The industry is concerned about certain interagency squabbles and the apparent effort by some department heads to politicize necessarily independent boards and commissions such as the AOGCC. In particular, the AOGCC should remain a completely independent body, untainted by bureaucratic and political ambitions, and immune from undo operator influence.

There is one final matter that I would like to follow-up on. During the last work session I expressed my concern over the difficulty in accessing the state's oil and gas related data (lease information, well locations, field production, and so forth), in an era when nearly everyone from the Library of Congress, to the local pizza shop are online. As most people recognize geologic, engineering, and land data are the key technical ingredients required to initiate exploration and development projects. While the State of Alaska collects enormous volumes of oil and gas data, this data can not be readily accessed by private parties in any sort of expeditious fashion. This situation forces each operator to maintain a separate data base, while making prospect research for independents who can not afford to maintain their own data base extremely tedious and expensive.

Attached is a recent article from the ODESSA AMERICAN that describes the Texas Railroad Commission's efforts to deal with this issue after recognizing that it was in the best interest of the state to reduce exploration and production costs by improving access to the state's oil and gas data. It seems reasonable to assume that the same would hold true for Alaska!

Naturally, cost was brought up as one reason why Alaska can't get its data online rapidly and if one considers the cost of revamping the state's fairly arcane systems in each individual agency or department, cost certainly would be an issue. However, the cost of simply downloading and maintaining most of the state's existing digital oil & gas data on a single interactive Internet page or similar DBMS server where it could be easily accessed by anyone with a PC, is relatively trivial!

I'm certain that I have not mentioned a number of other issues which were raised over the summer, but these are the items that were highlighted in my notes and they certainly represent enough work to keep us all busy. Once again, I want to thank you and Senator Leman for the opportunity to participate in the Senate Resource Committee's summer work sessions and I trust that we will be able to address many of the issues raised over the summer during the coming legislative session.

Respectfully yours,



Erik A. Opstad

CC Paul Craig, President, Trading Bay Energy  
Dave Lappi, President, Lapp Resources Inc

## Commission researching accessibility

Odessa American

The Texas Railroad Commission is launching a project with the Gas Research Institute to evaluate the feasibility of making millions of documents more easily accessible to the Texas oil and natural gas industry through advanced technology, according to a release from the commission.

Since 1919, the commission has collected about 122 million records in its role as the primary regulator of the state's energy industry, said Commissioner Charles R. Matthews. The problem is most of the information exists on microfilm, making timely and cost-effective access difficult.

Of the records on file at the commission, about 28.3 million are paper documents, 90.8 million are on microfilm and 2.6 million are on micromedia.

"While microfilm is a good method of storing information, optical disk and compact disk technology have many advantages," Matthews said. "The improvements in hardware technology and imaging software in recent years make computerized imaging of our records a cost-effective option worth pursuing."

The project is designed to establish the feasibility of reducing exploration and production costs by providing producers with rapid and cost-effective access to valuable decision-making information contained in the commission's extensive records. GRI, a Chicago-based, not-for-profit research and development organization for the natural gas industry, is funding the study and has retained the Radian Corp. of Austin to conduct it. A report is expected in January.

The new information management system will eventually be integrated into the commission's existing personal computer networks, including the local area networks and wide area networks at the commission's nine district field offices.

The commission is scheduled to begin its LAN/WAN project this year, with completion expected in mid-1996. When completed, the commission's field offices will be linked to the commission's central office computer systems in Austin.

\* The Gas Research Institute may be reached via the Internet!





# Alaska State Legislature

Session:  
State Capitol  
Juneau AK 99801-1182

Interim:  
716 W 4th Avenue  
Anchorage AK 99501-2133

## SPONSOR STATEMENT

SB 176

In 1992, the Alaska Legislature passed amendments exempting gas production facilities and gas terminal facilities from the requirements to post a \$1 million bond and develop an approved oil spill contingency plan. Gas exploration activities, however, are not exempt from these requirements. This acts as a deterrent for small operators who may want to develop potential gas fields in areas where there is small likelihood of striking oil. The bonding requirement is particularly daunting, since a \$1 million bond could cost a small operator more than \$70,000 to post. This is cost prohibitive in many cases.

Senate Bill 176 addresses this problem by making provisions for an exemption under controlled circumstances. The bill provides that the Alaska Oil & Gas Conservation Commission (AOGCC) must determine that there is a reasonable certainty the exploration activity will not penetrate a formation containing oil before the exemption is allowed.

Senate Bill 176 requires an operator drilling under the new exemption to fulfill the financial responsibility requirements if, during the course of his exploration, the operator encounters oil. Senate Bill 176 also requires an operator to develop and adopt an oil spill response plan if the operator encounters oil. Under provisions of the bill, the operator must notify the AOGCC and all other appropriate state agencies if such a circumstance arises. The operator may continue to operate under the response plan pending its approval.

This bill will help remove an economic barrier to development of Alaska's natural gas resources, while continuing to protect the environment. It is good public policy. I urge its speedy passage.

**BRIEFING PAPER ON THE NEED TO AMEND AS 46.04.050 TO  
INCLUDE GAS EXPLORATION WELLS  
IN THE EXISTING GAS FACILITIES EXEMPTION  
FROM OIL SPILL CONTINGENCY PLANNING AND  
FINANCIAL RESPONSIBILITY REQUIREMENTS**

Under existing state law, oil and gas-related facilities, including oil and gas exploration facilities, are generally subject to the requirement to prepare an oil spill contingency plan (AS 46.04.030) and prove financial responsibility in the event of an oil spill by posting a bond or other means (AS 46.04.040). This requirement applies to all exploratory wells, without any consideration of whether the well is expected to encounter oil or gas.

An exemption for natural gas production and terminal facilities from oil spill contingency planning and financial responsibility requirements is set forth in AS 46.04.050(b). The exemption was adopted, with no opposition, because an accidental discharge of natural gas does not pose any environmental risk. Natural gas, unlike oil, dissipates harmlessly into the atmosphere at normal temperatures and pressures.

Some exploration wells are true wildcat wells and are drilled with no definitive knowledge of whether the well will encounter oil or gas. Because such a well may encounter oil, the imposition of the contingency planning and financial responsibility requirements is appropriate. Other exploration wells, which are essentially offset or delineation wells and not true wildcat exploration wells, may be targeted specifically at natural gas deposits or formations in areas with no known oil deposits, with the intention of extending the boundaries of existing fields or developing new fields in areas that previously have experienced exploration and/or development drilling providing information on potential deposits.

To date, the Alaska Dept. of Environmental Conservation has interpreted the exemption in AS 46.04.050(b) in a manner that excludes gas extension, offset or delineation wells, even though such wells have no reasonable likelihood of encountering oil and instead ultimately are intended to produce only gas. Exploratory wells that are targeted solely at natural gas, and have no reasonable likelihood of encountering oil, should not be subject to the expensive, burdensome contingency planning and financial responsibility requirements. Stratigraphic wells or other drilling not intended to drill to a producing formation already are exempted from the contingency plan and financial responsibility requirements under the definition of exploration facility in AS 46.04.900(8).

An exemption for gas exploratory facilities in AS 46.04.050 is necessary to allow smaller, independent oil and gas operators to economically explore and develop smaller properties in existing natural gas provinces such as those in the Cook Inlet Basin. Imposing the very expensive and burdensome contingency planning and financial responsibility requirements on wells that have no reasonable expectation of encountering oil stifles exploration for gas by smaller companies without providing any additional environmental protection.

Without an exemption for gas exploratory wells, the application of AS 46.04.030 and 46.04.040 results in absurd situations. Under the contingency plan requirement to plan for the "realistic maximum oil discharge," for example, the estimate of such a discharge would have to be zero, because there would be no reasonable expectation, based on well logs or other geologic analyses, of encountering oil when drilling such a well. In the case of the financial responsibility requirements, the "per incident" language in AS 46.04.040(b) essentially means that the financial responsibility requirement has no effect when applied to its proposed well, because no oil-related incident could occur from the drilling of the well. These absurdities illustrate why the exemption for gas facilities in AS 46.04.050(b) should include gas exploratory facilities.

To the extent that any question exists as to the likelihood of encountering oil, the State of Alaska Oil and Gas Conservation Commission has the technical expertise to answer the question as part of its drilling permit review process. All oil or gas wells (whether classified as exploratory, development, service or stratigraphic) require a drilling permit from the Alaska Oil and Gas Conservation Commission, and include the requirement to post a \$100,000 bond with the Commission for any liabilities resulting from drilling activities.

# Z-ENERGY INC.

April 9, 1995

Senator Loren Leman  
State Capital  
Juneau, AK 99801

Dear Senator Leman:

Thank you for discussing the Independent Oil & Gas Industry with me during our Juneau - Anchorage flight on Friday. As I promised, please find attached a proposed amendment that would solve the bonding problem for gas exploration wells. A briefing paper is attached for your review.

The proposed amendments to 46.04.050 would resolve a major barrier preventing Dave Lappi of Lapp Resources Inc. and myself from drilling natural gas wells. As I mentioned, there are many other hurdles that should either be removed or streamlined. However, Rome was not built in a day and the problems facing the Independents will not be resolved in one session. If we can resolve the issue of oil spill contingency bonding for natural gas wells this session, we will have accomplished a lot.

I do not think there will be any environmental opposition to this amendment. Natural gas represents an environmentally friendly fuel. If this amendment is passed, Independents could approach small villages regarding use of locally produced coalbed methane to generate electricity and fuel. It is conceivable that some vehicles in the villages could be converted to natural gas. The outcome would be less hazard of spillage associated with the transport of fuel oil, diesel, and gasoline to bush communities. Also, the villages would enjoy improved air quality by burning natural gas rather than the heavier hydrocarbons.

Exemption of natural gas production and transportation facilities from the oil spill contingency bonding requirements was easily adopted by the Alaska Legislature when it was discovered that these facilities had been inappropriately subsumed under oil spill legislation. The proposed amendment is a logical extension of the exemption of natural gas facilities.

If this amendment is not passed, Independents will be left in the untenable position of buying a one million dollar oil spill contingency bond and hiring a consultant to write an oil spill contingency plan to meet DEC requirements. Writing such a plan becomes an exercise in absurdity. For example, under the section specifying expected quantities of oil to be encountered, the logical answer would be "none." Writing an oil spill contingency plan costs about \$100,000. Buying the bond is expected to cost about \$70,000 to \$100,000 -- assuming a vendor can be found. This type of bonding is not required for land based operations anywhere else in the United States. There is no protocol for how

Z-ENERGY INC.

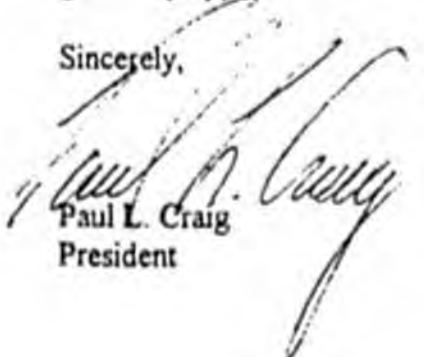
Page 2

to handle this type of bonding within the insurance industry. Hence, simply finding a vendor of this type of insurance product becomes a challenging task.

If this amendment is enacted, the AOGCC could be called upon to identify whether a given well has any chance of encountering liquid hydrocarbons. If not, then the Independent Exploration & Production Company could sensibly develop the prospect without fulfilling absurd oil spill contingency planning and bonding requirements. If the oil spill contingency requirements remain in place relative to natural gas wells, the Independents would make better use of their precious capital by drilling in the Sacramento Valley where an entire well can be drilled for the combined cost of writing an oil spill contingency plan and purchasing an oil spill contingency bond.

Thank you for your interest in the plight of the Independents in Alaska. I hope we are able to resolve this issue during the current session. Between sessions, we could discuss other pressing issues that are inhibiting the growth of the Independent industry in Alaska. Again, it was a pleasure speaking with you during the flight. Your concern for the needs of Alaskans attempting to build the Independent Exploration & Production industry is genuinely appreciated.

Sincerely,



Paul L. Craig  
President

Enclosure: Proposed Amendment  
Briefing Paper

cc: Dave Lappi  
Lapp Resources, Inc.



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Telephone/Fax : (907) 345-6346

Senator Loren Leman  
State Capitol  
Juneau, Alaska 99801

April 9, 1995

Subject: Amendment to AS 46.04.050

APR 13 1995

Dear Senator Leman:

This letter lends my support to efforts being made by Z-Energy and Lapp Resources to amend AS 46.04.050 by eliminating current bonding and oil spill contingency plan requirements for gas wells in the State of Alaska.

As currently enacted AS 46.04.050 requires a One Million dollar bond and *exhaustive* contingency planning to cover *crude oil* spill response procedures...for gas wells? Never mind that gas pipelines, gas processing facilities, gas export terminals, and all other related portions of the State's natural gas system have been appropriately exempted from these same bonding and spill contingency planning requirements! Not only is this regulatory framework illogical, it provides absolutely no incremental protection for the environment. When was the last time a crew was mobilized to environmentally remediate crude oil contamination resulting from a gas leak or incident? What current regulations do very well is erect tremendous financial hurdles for villages and small energy companies who wish to develop local natural gas resources for the benefit of their citizenry and owners.

I suspect that the current regulatory situation is a consequence of legislative oversight, or of being generally uninformed relative to the risks associated with natural gas resource exploration and development operations, rather than purposeful intent, but in any event, the current regulatory implementation has effectively stymied the emergence of an independent gas industry in Alaska.

As a licensed Professional Geologist speaking with 18 years of experience in the State I can tell you that Alaska imposes the most restrictive environment for gas operators among all 50 states. This burden is so great that most independent operators don't even bother to consider Alaska as a potential operations area. When enormous bonding and contingency planning requirements are coupled with the State's restrictive land leasing policy (no over-the-counter sales of exempt acreage) and high operating costs, most oil and gas companies simply elect to invest their time and money elsewhere. By way of an example, my company and its partners drilled 6 wells during 1994 in California with a total budget of approximately \$3.5MM (including pipeline and facility construction). This activity (funded largely with Alaska based money) created nearly 50 temporary California jobs associated with exploration drilling activities, and roughly a half a dozen new long term production jobs. The benefits of this work and associated tax revenues are being realized by California, not Alaska, because as Alaskans we find the regulatory environment in our own state too hostile for a small scale operations.

With its inherently high operating costs and remote location, Alaska may never become a major play for independent operators, but by removing some of the barriers that now exist we may at least unlock the door. Alaska needs a viable independent oil and gas industry to undertake projects which are too small to interest the large multinational companies that currently dominate Alaska's oil and gas scene. For example:

- Would any of the North Slope Operators consider a 2 or 3 well coal gas development program for heating and cooking fuel in one or more of the villages?
- Would any of the Cook Inlet Operators have developed the small West McAurther River Unit discovered by Stewart Petroleum?
- Have the major companies either dropped leases on "uneconomic" fields or farm-out the acreage, so that they could be developed immediately by independent operators?
- Have any of the majors helped private property owners in the Cook Inlet realize the oil and gas potential of their property (excluding the big CIRI - UTP deal)?

The answer to all of these questions, with a very few exceptions, is of course, NO! Only with the emergence of a viable independent oil and gas industry will small Alaskan communities and private individuals be afforded the opportunity to develop their own energy resources. Only with the emergence of a viable independent oil and gas industry will the many small oil and gas pools throughout the State get developed in a timely fashion, and only a viable independent oil and gas industry can support Alaska when the majors move on to greener international pastures.

The road to developing a healthy independent oil and gas industry in Alaska will be long and arduous, because we have constructed so much of the State's regulatory framework around "big oil" situations. However, we can begin to correct this situation simply by eliminating the oil spill bonding and contingency planning requirements for exploration and development gas wells. This minor adjustment to current statute will open the door to energy independence for many villages and individuals throughout the State, and perhaps, lay the first course of block in the foundation of a new Alaskan industry.

Thank you for taking an interest in this issue, and please feel free to call on me for any support or assistance you might need relative to oil and gas matters.

Respectfully yours,



Erik A. Opstad, BS, MS, PG  
President

EAO tm

**SENATE COMMITTEE REI RT  
First Committee of Referral**

DATE: 5/6/95

FURTHER:

Date of 5-Day Notice: 24-Hour  
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 5-7-95

Resources Committee considered

SB 176

Regulation of certain natural gas exploration facilities; Oil and Gas Conservation Commission; efd.

and recommends:

- be replaced with CS SB 176 (RES)
- adopt previous CS (    )
- attached amendment(s)
- adopt Letter of Intent by                      Committee
- further referral to the                      Committee

- Senate Bill:
  - same title
  - new title
- House Bill:
  - same title
  - technical title
  - new: SCR#

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	<input checked="" type="checkbox"/>	<del><i>[Signature]</i></del>			
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<i>[Signature]</i>	<input checked="" type="checkbox"/>				
<b>CHAIR:</b> <i>[Signature]</i>	<input checked="" type="checkbox"/>				

**NEW FISCAL NOTE(S):**

Department                      Date    Zero    Fiscal

ACGCC - Adm. N		<input checked="" type="checkbox"/>	
DEC		<input checked="" type="checkbox"/>	

*for hearing*

**PREVIOUS FISCAL NOTE(S):\***

Department                      Date    Zero    Fiscal


APPROPRIATION -- no fiscal note

\*Include fiscal notes accompanying Governor's bill

# Z-ENERGY INC.

May 4, 1995

Representative Norm Rokeberg  
Chairman, Oil & Gas Committee  
Alaska State Legislature  
Juneau, AK 99801

VIA FAX: 907-465-2040

Re: CS HB 334

Dear Representative Rokeberg:

As President of a nascent oil and gas exploration and production (E&P) company with 27 square miles of hydrocarbon properties in the Cook Inlet Basin held by the company and its principals, I am writing this letter in support of CS HB 334 entitled "Exempt Natural Gas Facilities from Oil Spill Bond and Plans "

I will provide oral testimony at the May 5, 1995 hearing before the Oil & Gas Committee and the Resources Committee. Briefly, CS HB 334 is critical to the survival of small Independent E&P companies. Also, CS HB 334 is a rational response to the illogical problem of requiring oil spill bonding and contingency planning in the context of a natural gas well. Because deep stratigraphic wells are not expected to encounter oil, they are already exempt from oil spill contingency planning and bonding. The Alaska Oil and Gas Conservation Commission has the necessary technical expertise and geophysical knowledge to draw reasonable conclusions about the probability of encountering oil in a well being drilled on a previously delineated geologic structure. In this context, if the AOGCC concludes that it is improbable for a proposed well to encounter oil, imposing oil spill contingency bonding and planning upon the operators creates a useless economic burden that does nothing to protect the environment.

From an economic perspective, passage of CS HB 334 will allow Independents to develop and produce reserves that may not be evaluated as economically viable by the Majors. Similarly, development of coalbed methane for Bush villages would become more economically feasible with passage of CS HB 334. This resource could provide village residents with an inexpensive and clean fuel for heat and electricity. Furthermore, the environmental risks associated with transporting fuel oil in the bush could be reduced through development of this local environmentally friendly resource.

There are many reasons why there are 8000 Independents doing business in the Lower-48 and only a couple of Independents (Stewart Petroleum & CIRI) producing in Alaska. One of these reasons is the onerous oil spill bonding requirement on natural gas exploration projects. Passage of CS HB 334 could help remove a major hurdle standing

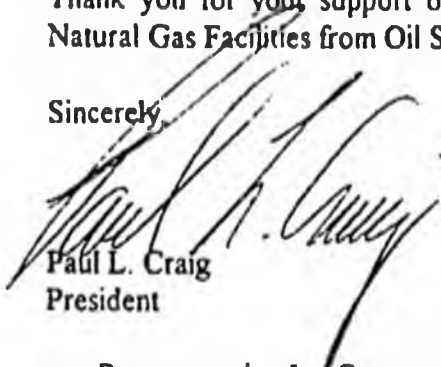
2900 BONIFACE PARKWAY, #610  
ANCHORAGE, ALASKA 99504-3132

TELEPHONE: 907-563-5686  
FAX: 907-562-7489

in the way of development of Alaskan owned and operated Independent oil and gas exploration and production companies.

Thank you for your support of Committee Substitute for HB 334 entitled, "Exempt Natural Gas Facilities from Oil Spill Bond and Plans."

Sincerely,

A handwritten signature in black ink, appearing to read "Paul L. Craig", is written over the typed name and title.

Paul L. Craig  
President

cc: Representative Joe Green  
Representative Bill Williams

**LAPP Resources Inc.**

4900 Sportsman Drive  
Anchorage, Alaska U.S.A.  
99502-4189

Telephone +1 (907) 248-7188

Facsimile +1 (907) 248-7278

May 4, 1995

Representative N. Rokeberg  
State Capitol  
Juneau, AK 99811

Attn: House Oil and Gas Committee  
Re: Committee Substitute HB 334

Dear Representative Rokeberg:

I look forward to the joint Resources and Oil and Gas hearing tomorrow morning at 8:00am. I believe that it is extremely important to pass this bill for the following reasons.

Alaska's bonding requirements are extremely onerous for all but major companies. This is one reason that independents do not operate in Alaska, and small developments serving local Alaskan markets are not feasible.

Alaska has multiple layers of protection in current statutes and regulations:

\$1,000,000 bond for exploration wells with the DEC,

\$10,000 to \$500,000 lease bond with the DNR, and

\$100,000 single well or \$200,000 statewide bond with the AOGCC.

This is potentially \$1.7 million in bonds for even the smallest exploration well. If the well encounters oil, and production ensues, even larger bonds are required by DEC.

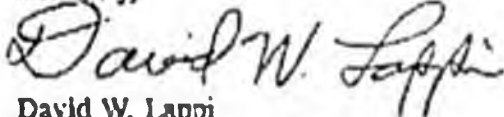
Alaska also has the 470 Fund, a \$50 million emergency kitty for use during oil or other hazardous spill emergencies. This kitty was funded and is maintained by a two cent per barrel tax on oil production.

In light of continuing State budget shortfalls, the State can no longer afford to be an obstacle to private development.

LAPP Resources is currently pursuing small natural gas projects which could supply some areas of rural Alaska with locally-produced gas as a lower cost, more environmentally-friendly fuel than the currently imported diesel fuel. The wells could be drilled for under \$100,000 in some areas. If bonding costs are not reduced, these projects will not be economic, as the bonds will cost more than the drilling. With reduced bonding, independent private gas exploration companies, Native Regional Corporations, or in some cases Village Corporations or rural utilities may be able to participate in the development of their own local energy resources.

Although incentives for the industry are nice, dismantling the disincentives to business will be more effective in the long run and will maintain the State's royalty stream for a longer period.

Sincerely,



David W. Lappi  
President

cc Representative Joe Green - Resources Committee Co-Chair  
Representative Bill Williams - Resources Committee Co-Chair

**AOGA POSITION  
ON CSSB 176/CSHB 334,  
RELATING TO REGULATION OF CERTAIN NATURAL GAS  
EXPLORATION FACILITIES FOR PURPOSES OF PREPARATION OF  
DISCHARGE PREVENTION AND CONTINGENCY PLANS AND  
COMPLIANCE WITH FINANCIAL RESPONSIBILITY REQUIREMENTS**

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.

The Association has reviewed CSSB 176 and its companion CSHB 334 and is concerned about the legislation for the following reasons:

- AOGA believes that state law requiring preparation and implementation of discharge prevention and contingency plans and that the law requiring compliance with financial responsibility requirements for oil and natural gas exploration facilities should be consistent.
- The Association believes 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. The Association is aware of the state's interest to provide opportunities for smaller, independent oil and gas operators, however, the Association believes it is not in the state's best interest to assume financial liability for any operator.

## Alaska Oil and Gas Association

---



121 W. Fireweed Lane, Suite 207  
Anchorage, Alaska 99503-2035  
Phone: (907)272-1481 Fax: (907)276-8114  
L. A. (Ardie) Gray, Public Affairs Manager

May 10, 1995

The Honorable Loren Leman, Chairman  
Resources Committee  
Alaska State Senate  
Capitol Building  
Juneau, Alaska

Dear Senator Leman:

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

For your immediate reference, we are sending, via facsimile, the Association's position statement on CSSB 176/CSHB 334, relating to regulation of certain natural gas exploration facilities for purposes of preparation of discharge prevention and contingency plans and compliance with financial responsibility requirements.

If you have any questions or would like additional information regarding AOGA's position on this legislation, please call me at 272-1481.

Sincerely,

A handwritten signature in cursive script, reading 'Leigh (Ardie) Gray', is written in black ink. The signature is fluid and stylized, with the first and last names being more prominent.

LEIGH (ARDIE) GRAY  
Public Affairs Manager

Attachment

**Memorandum                      State of Alaska**  
**Oil and Gas Conservation Commission**

To:     Jack Phelps  
         c/o Rep. Rokeburg

Date: May 4, 1995

Telephone: 279-1433  
Fax number: 276-7542

From:   David W. Johnston  
         Chairman

Subject: HB 334

The Commission proposes the following changes in HB334.

In Section 1, we propose the following language:

"(i) When requested by a person proposing to explore for gas by means of drilling a well, the commission may determine the likelihood that the drilling activity will penetrate a formation containing oil. If the Commission concludes with reasonable certainty that the drilling activity will not penetrate a formation containing oil, the commission shall so certify as to the natural gas exploration facility used in that drilling. For purposes of this subsection, the term natural gas exploration facility has the same meaning as in AS 46.04.900." [Note--Need a definition for natural gas exploration facility in AS 46.04.900 (i.e., natural gas exploration facility shall mean an exploration facility used only for natural gas exploration.)]

In Section 3, we recommend deleting the phrase after AS 31.05.030(i). The section should read:

"If the operator of a natural gas exploration facility, for which the Alaska Oil and Gas Conservation Commission has certified under AS 31.05.030(i), encounters oil, the operator shall...."

We then recommend changing item (1) to read:

"notify the Alaska Oil and Gas Conservation Commission and all other appropriate state agencies."

In Section 5, we recommend the following language:

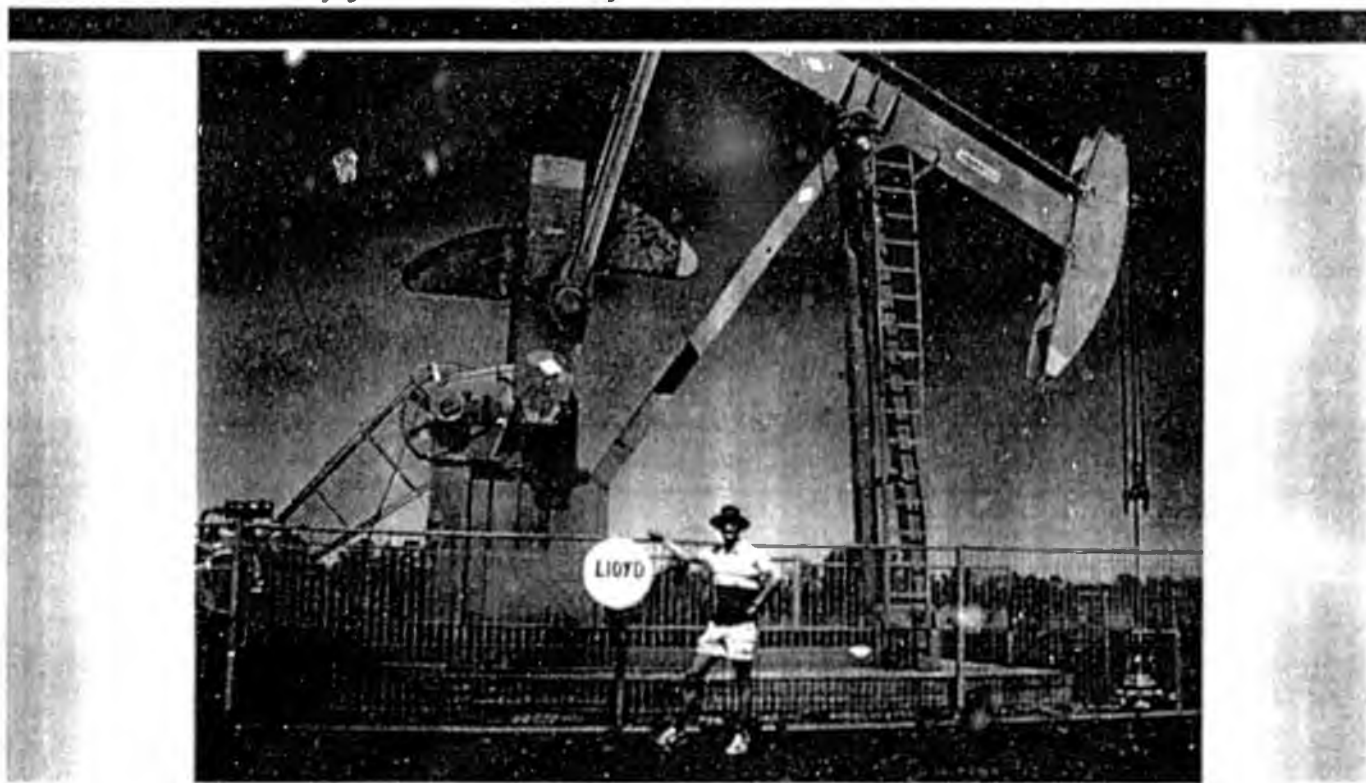
"If the operator of a natural gas exploration facility for which the Alaska Oil and Gas Conservation Commission certifies under AS 31.05.030(i) encounters oil, the operator must cease all activity until the bonding requirements of (b) of this section are met."

The commission lacks expertise for determining the appropriate bonding amounts to assure surface clean up spilled oil. The commission would likely need to add staff to accomplish this task.

Finally, in section 6, we recommend ending the subsection after AS 31.05.030(i).

# Cutting Costs with Coalbed Gas

*With half of the country's known coal, Alaska owns immense wealth in coalbed methane reserves. The resource could dramatically cut heating costs in rural Alaska. The only catch: Can anyone bring this natural gas to market? Here's one independent Alaska operator who wants to try, hoping he can pave the way for other small producers to work in the state.*



*Dave Lappi, president of Lapp Resources, stands in front of the Lloyd Oil Production Facility, a company in western Australia where he served as founding director.*

By Ray Tyson

**A**fter four years of hard work, Dave Lappi is on the brink of becoming Alaska's first commercial producer of coalbed methane, an abundant but unproven natural gas resource that could be a practical solution to the state's rural energy needs.

"Alaska contains about half of the known U.S. coal reserves, so we have a huge potential here for producing gas from coal," notes Lappi, presi-

dent of Lapp Resources, one of Alaska's few independent exploration and production companies.

Lappi was planning to drill three coalbed methane wells this summer to serve residents of Houston, a small community located in the Matanuska-Susitna Valley about 60 miles north of Anchorage.

And if the Houston project is successful, Lappi says he intends to launch similar ventures in more remote Alaska communities, many of which depend on expensive imported diesel

for their energy requirements.

"The Houston project is really designed to work the bugs out of the technology, to see if we can actually produce at commercial rates," Lappi adds.

After the Alaska Oil & Gas Conservation Commission (AOGCC) granted Lapp Resources the go ahead for the project in July, AOGCC chairman Dave Johnston complimented Lappi on his efforts, noting the obvious lack of independents in Alaska's high cost drilling environment.

"Not only could this be a viable source of energy for small communities," Johnston says, "but it also could attract independents here to carve out a niche in the Alaska (gas) market. If it (Houston) proves up, other people like Lappi might gain some confidence. He's a very serious businessman and has lots of experience."

### Experience Counts

Lappi also is no newcomer to Alaska or the Mat Su Valley. He was six years old when he and his family moved here in 1959. His father was project superintendent at the Eklutna Power Plant. Lappi attended elementary school in Palmer and junior and senior high schools in Anchorage before moving on to the University of Alaska Fairbanks, where he earned a bachelor's degree in geology.

From 1974 to 1977, Lappi worked on the trans-Alaska oil pipeline as a field engineer and geologist for R&M Consultants. He then headed to Sidney, Australia, where he completed a year of post graduate studies in mineral exploration at MacQuarie University, returning to Alaska to work in that field on behalf of Native corporations and mineral exploration companies.

Lappi headed back to Australia in 1981 to begin a 10-year career in oil and gas exploration and production. He initially worked for Australian independents and later formed his own company, Lapp Resource Consultants Propriety Ltd., generating new play concepts and forming joint ventures with Australian companies.

One of Lappi's Australian ventures involved resource evaluation for a coalbed methane project in Queensland, an experience which would lead him back to Alaska in 1991 to form a new company, Lapp Resources. For the past four years, Lappi's main goal has been to produce commercial gas from coal.

"Since Alaska has half of the nation's coal reserves, it made sense," Lappi explains.

### Digging Deep

The existence of coalbed methane has been known for years. In fact, early miners considered it a nuisance and a safety hazard

as the volatile substance began to leak from exposed coal seams into mine shafts.

It wasn't until the 1980s that industry actually began to experiment with producing methane from coal. Most of today's U.S. commercial coalbed production comes from the Black Warrior Basin of Alabama and the San Juan Basin of New Mexico and Colorado.

Geologists believe Alaska's coal reserves could hold a staggering 1,000 trillion cubic feet of methane

gas, 30 times the volume contained in Prudhoe Bay, North America's largest oil and gas reservoir. And for years, the state has wanted to begin testing Alaska's potential for coalbed methane production.

The Alaska Department of Natural Resources (DNR) got its chance to dull last summer, using a U.S. Geological Survey (USGS) rig to sink a test well to the 1,215-foot level just off Church Road, north of Wasilla.

The state's results were impressive,

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## COALBED GAS

indicating gas contents at 1,240 feet of 245 cubic feet of gas per ton of coal. The upper end of commercial coal gas contents in the Lower 48 is 250 cubic feet of gas per ton.

DNR's core sample results, along with limited geological data from oil wells drilled in the Houston vicinity during the 1950s and 1980s, led Lappi to choose Houston for his first coalbed methane project, on a 2,700-acre state oil and gas lease he acquired from Unocal and Marathon last spring.

Lappi planned to begin drilling in August, pending resolution of bonding issues and other details. He was to drill all three wells on 40-acre spacing to the 2,100-foot level, using a relatively inexpensive coiled tubing rig.

Cook Inlet produces about 200 billion cubic feet of natural gas a year from conventional sandstone reservoirs. The gas is transported to the region's more populated areas via pipeline, stopping just three miles short of Houston, located just off the well-traveled Parks High-

way. Lappi believes it's an ideal location for a first project.

### Hot on Houston

"Houston's got a lot of things going for it," Lappi says. "It's on the road, it's on the railroad, and it's near a pipeline. There are about a thousand people who live there. There's a market for this gas."

Lappi is hoping for at least 200,000 cubic feet of gas a day from each of his coalbed methane wells, the minimum requirement for commercial production. At that rate, each well would meet the winter heating needs for 200 homes. Lappi says he's investing about \$200,000 per well, a cost he eventually wants to reduce to under \$100,000 per well.

He's also hoping that any commercial potential at Houston would entice Enstar Natural Gas Co. to extend its common carrier pipeline to Houston. Lappi also says he has a five-year contract with Unocal to provide a minimum of 1 million cubic feet of gas per day.

"Provided we can prove this

approach to energy production is going to work in Houston, we're going to be able to export that same technology to areas out in rural Alaska that have potential," Lappi says.

There are numerous candidates for coalbed methane production in Alaska's vast Interior region, although most of the basins have not been explored adequately. However, Lappi believes a good target could be the Yukon Flats Basin, where a USGS drilling rig testing for pollen deposits last summer encountered so much gas in a well that the crew had to abandon the project.

"I think the Yukon Flats is going to have higher ranked coals at deeper depths," Lappi says. "Fort Yukon is good because it has 700 to 800 people living there and is sort of a hub for villages in the area. And there are other villages up and down the Yukon River that are near coal."

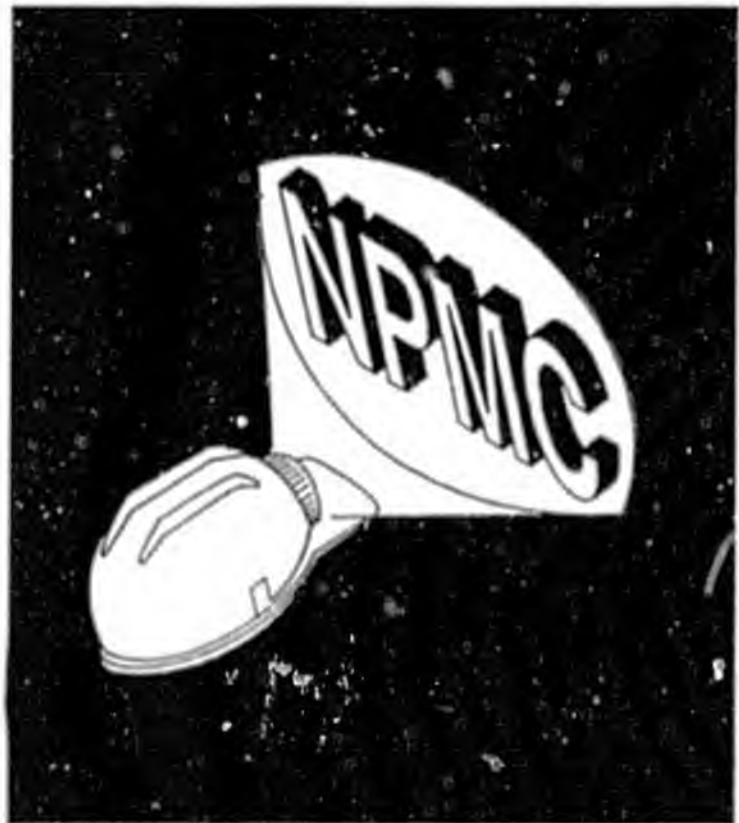
### Independent Opportunity

While working on the details for his coalbed methane project, Lappi also has been active on the political

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front, working on removing government regulatory barriers that tend to discourage small independents from operating in Alaska.

In his own case, Lappi adds, "It's unfortunate in this state that it takes so long to get a project to this stage. It's taken us from 1991 to 1995 to get the leases and project to this stage."

He points out that expensive bonding and insurance requirements for drilling, the long and complicated permitting process, and the difficulty in acquiring oil and gas permits are major problems for the small independent producers in Alaska. In the Lower 48, he adds, the same things can be accomplished in a matter of weeks at a fraction of the cost.

"It's a long, slow process," Lappi says. "The rules didn't get the way they are overnight. And it's not going to be an overnight project to get them changed into something Alaskans can live with."

But, as Lappi points out, there should be numerous opportunities for independents down the road, if Alaska's oil and gas laws can be altered. For example, he notes, the small producer could make a living off of fields no longer considered to be profitable by the major companies.

Lappi also says there are a lot of Alaskans who still own the mineral rights on federal homesteads they acquired prior to 1958.

"So far, most Alaskans have not been involved in the industry except as employees or contractors to other companies," he observes. "I think the more Alaskans we actually can get involved as owners and operators of projects, the better off we will be as a state."

As for Lappi, he will have to test flow his Houston wells before determining whether his first-called methane project is a go. However, after years of research, he appears confident.

"The perception, when talking to people in the Lower 48, is that Alaska is the land of multimillion dollar wells," Lappi says. "But I think this will open a few eyes—maybe even in the Lower 48—that Alaska may not necessarily be such a high cost place to operate."

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