

SB

319

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 319
(S) Publish Date: 3/1/02

Revision Date/Time (Note if correction): _____ Dept. Affected: DNR
Title Shallow Natural Gas Leasing BRU Oil and Gas Development
Component Oil and Gas Development
Sponsor Sen. Torgerson
Requester Senate Resources Component No. 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008

CHANGE IN REVENUES ()	275.0*	250.0**	250.0**	250.0**	250.0**	250.0**
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FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
*Positive revenue flow anticipated in FY 03 from the conversion of approximately 50 shallow gas leases. Lessees would have a one-time chance to convert the lease to the specifications allowed under the new amendments if they pay the difference in the application fee (estimated at \$4,500 if fees are set at \$5,000 in the regulation process), bonding requirement, and rental fees. Under this example the state could receive \$225,000 additional application fees, plus an additional \$0.50 per each acre converted under the proposed amendments. DNR also assumes that it will receive 10 new applications (\$50,000) during FY03.
** In the ensuing years, activity in shallow gas leasing is expected to increase leading to additional revenues to the state. These figures assume that DNR receives 50 new applications each year. This amount does not include additional rental income nor royalties from production.

Prepared by: Mark Myers Phone 269-8800
Division Oil and Gas Date/Time 2/25/2002
Approved by: Pat Pourchot Date 2/25/2002
Agency Natural Resources



ALASKA STATE LEGISLATURE

SENATOR JOHN TORGERSON

CHAIR, SENATE RESOURCES COMMITTEE

CHAIR, SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

CHAIR, JOINT COMMITTEE ON NATURAL GAS PIPELINES

Session:

State Capitol, Room 427, Juneau, AK 99801
Telephone 907/465-2828 Fax 907/465-4779

District:

45457 Kenai Spur Hwy. Suite 101B,
Soldotna, AK 99669
Telephone 907/260-3042 Fax 907/260-3044

Sponsor Statement

SB 319 - "An act relating to shallow natural gas leasing; and providing for an effective date."

Shallow gas leasing was originally proposed as a program that would enable exploration and production of shallow natural gas deposits. One of the features of the program was to encourage a new energy supply to villages, mines, and other rural users. The program is fully operational with over 100 leases processed and nearly 200 more pending. The program has become a vehicle for commercial gas development in Fairbanks, Big Delta, Matsu Valley, and the lower Kenai Peninsula. SB 319 is intended to advance the program into a more robust and viable commercial program that should benefit all parties.

Because the program has become more commercial in nature, increasing revenues from application fees and annual rental fees is appropriate. The program will still neither involve competitive bidding nor require bonus bids. However, application fees for shallow gas leases have been increased from \$500 to \$5,000 and annual rental fees have been increased from \$0.50 to \$1 per acre. The increased fees are designed to increase revenue and pay for the program costs, while not discouraging parties of genuine interest and ability from developing shallow natural gas resources.

The requirement that DNR annually notify a lessee by certified mail of rental due has been deleted. Rent would automatically be due on the date determined in the lease. Deadlines have proven to be unworkable and do not recognize the work required by DNR to prepare leases in areas that are populated and may have complex land ownership patterns.

REPRESENTING THE KENAI PENINSULA

*Anchor Point Bear Creek Clam Gulch Cooper Landing Crown Point Fritz Creek Happy
Valley Halibut Cove Homer Hope Kachemak City Kachemak Selo Kaslof Lowell Point
Moose Pass Nanwalek Nikolaevs Ninilchik Port Graham Razdolna Seward Seldovia
Soldotna Stariski Sterling Voznesenka*

SPONSOR

The limitation on depth to 3,000 feet has been replaced with the requirement that some portion of the field must be within 3,000 feet of the surface. The total amount of acreage that may be held by shallow natural gas lessees has been increased from 46,080 acres to an aggregate of 100,000 acres. The acreage increase reflects the fact that large acreage may be necessary to a shallow gas program.

The requirement that the applicant conduct a title search will be removed. DNR routinely conducts a title search for land before leases are issued. Additionally, there are no title companies who will conduct a thorough title search of the subsurface estate and warranty title. These changes will improve reservoir management and increase the value to the lessee and the state.

New bonding provisions would demonstrate lessees are fiscally responsible and would help protect surface owners. The lessee must secure the bond as a precondition to obtaining the lease. In the event that the surface estate is owned by a private party, an additional bond may be required if the lessee and the private party cannot reach an agreement.

Lessees will have from July 1, 2002 through September 30, 2002 (roughly 90 days) to convert leases from the existing program to the new program, if they so choose.



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SECTIONAL ANALYSIS

SB 319

"An Act relating to shallow natural gas leasing"

Sec. 1 Page 1, lines 6-7.

- Amends the 3,000 foot depth to "a field, if a part of the field is within 3,000 feet of the surface."

Sec. 2 Page 2, Lines 14-22

- Amends the application fee to "up to \$5,000."
- Amends the total acreage from 46,080 acres to 100,000 acres.

Sec. 3 Page 2, Lines 23-7

- Removes the timing requirements for DO&G: Notice 20 days after receipt of application; Execute lease within 90 days after close of public comment period or 30 days after final consistency determination.

Sec. 4 Page 3, Lines 8-14

- Increases rental from .50 per acre to \$1 per acre.
- Removes requirement that DO&G send written notice by certified mail of rent due.

Sec. 5 Page 3, Lines 15-29

- Amends depth in AS 38.05.177(j) Lessee has the right to produce gas only if it is from a field if a part of the field is within 3000 feet of the surface.

Sec. 6 Page 3, Lines 30-16

- Adds new section requiring an additional bond (in addition to the bond required under AS 38.05.130). Establish by regulation form and amount for statewide, areawide, unit-wide, or per-lease bonds.

REPRESENTING THE KENAI PENINSULA

*Anchor Point Bear Creek Clam Gulch Cooper Landing Crown Point Fritz Creek Happy Valley Halibut Cove
Homer Hope Kachemak City Kachemak Selo Kaslof Lowell Point Moose Pass Nanwalek Nikolaevsk
Ninilchik Port Graham Razdolna Seward Seldovia Soldotna Stariski Sterling Voznesenka*

SECTIONAL

- The bond must be posted as a condition of issuing the lease.
- An additional bond is not required if the person already has a bond covering the person's statewide oil and gas leasing activities in an amount of at least \$500,000.

Sec. 7 Page 4, Lines 17-5

- Amends the depth with respect to Waste Disposal Permits under Title 46(DEC). The permit requirements do not apply for "water well drilling, geophysical drilling, or coalbed methane drilling or other natural gas from a field subject to lease under AS38.05.177.

Sec. 8 Page 5, Lines 6-29

- Changes depth for proof of financial responsibility to respond to damages in the case of pipelines or exploration/production facilities Title 46 (DEC).

Sec. 9 Page 5, Line 30

- Repeals the requirement for the applicant to conduct the title search.

Sec. 10 Page 5, Lines 31-5

- DNR may proceed with adopting regulations necessary to implement these amendments.

Sec. 11, Page 6, Lines 6-12

- Adds a new section to the uncodified that allows lessees to convert leases to consistency with the amendments between July 1, 2002 and October 1, 2002.

Sec. 12 Page 6, Line 13

- Section 10, above, takes effect immediately

Sec. 13 Page 6, Line 14

- The remainder of the amendments take effect July 1, 2002

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Alaska Reserves and Production

- **36% of total U.S. oil reserves.**
- 8.0 billion barrels of oil
- **17% of total U.S. gas reserves**
- 35 trillion cubic feet of gas
- **20% of total U.S. oil production**
- 1.04 million barrels of oil per day

Sources: Alaska data are from Department of Natural Resources, Division of Oil and Gas, 2001 Annual Report
U.S. data are from U.S. Crude Oil, Natural Gas, and NGL Reserves, 2000 Annual Report, U.S.D.O.E.-E.I.A.

2001 REPORT

The State Revenue Pie

Petroleum Revenue Sources, (FY 2001)

Total Royalties, Bonuses, Rents & Settlements:

\$1,145.9 Million

General Fund Royalties, Bonuses & Rents^{1,2}:

\$798.8 Million

Royalties to Permanent Fund &
School Fund⁴:

\$337.1 Million

Settlements to CBRF⁴:

\$10.0 Million

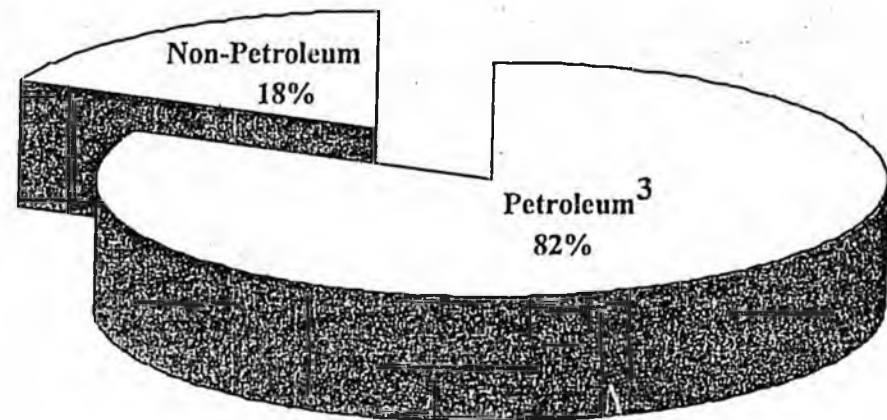
(Includes Royalties & Taxes)

Taxes:

\$1,125.4 Million²

(Oil & Gas Property Tax + Tax Settlements +
Income Tax + Severance Tax)

FY 2001 Unrestricted Revenue



1 Includes Federally shared rentals

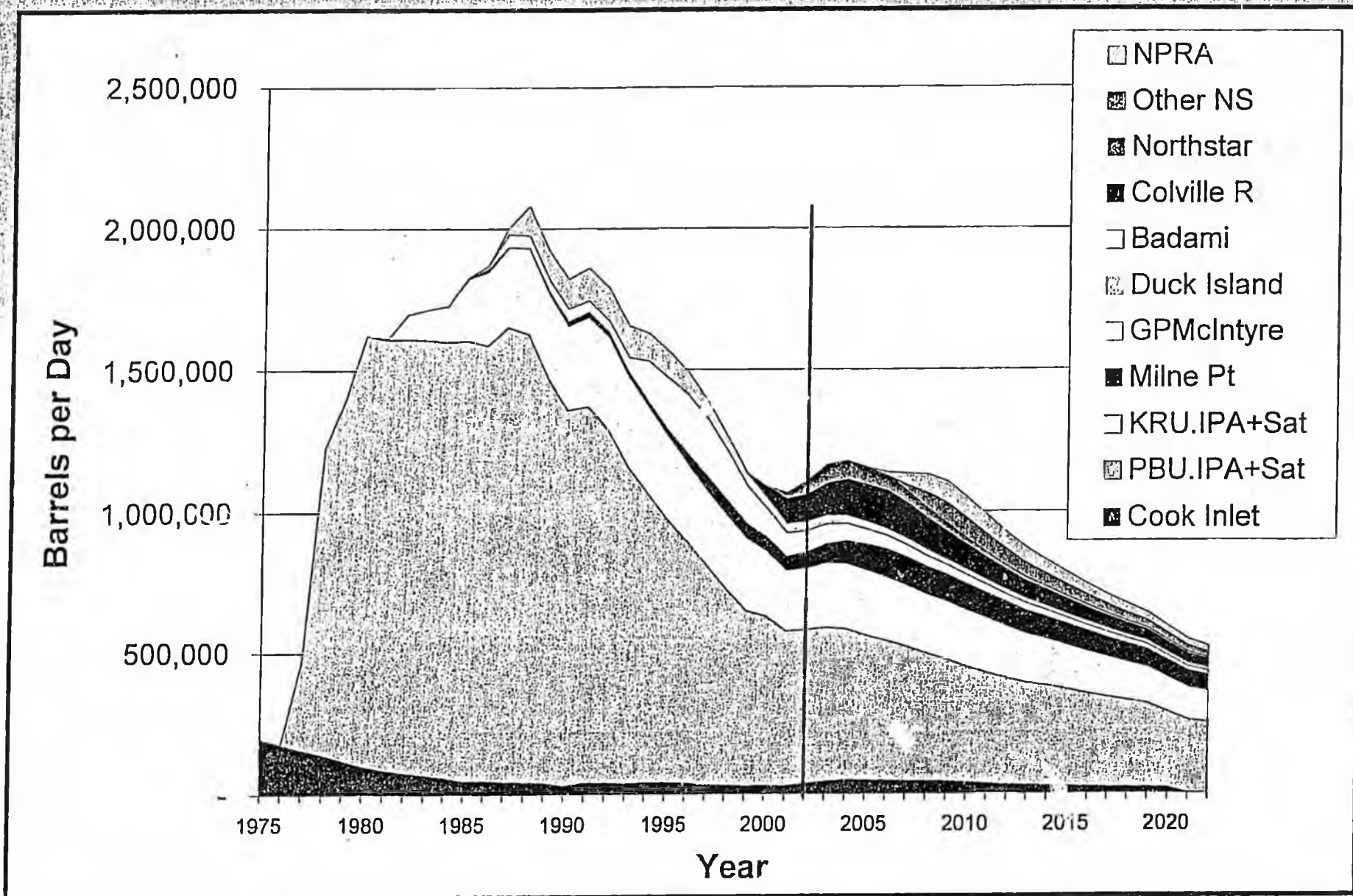
2 Source: pg. 23, DOR Fall 2001 Revenue Sources Book

3 Source: pg. 22, DOR Fall 2001 Revenue Sources Book

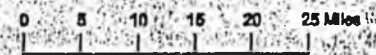
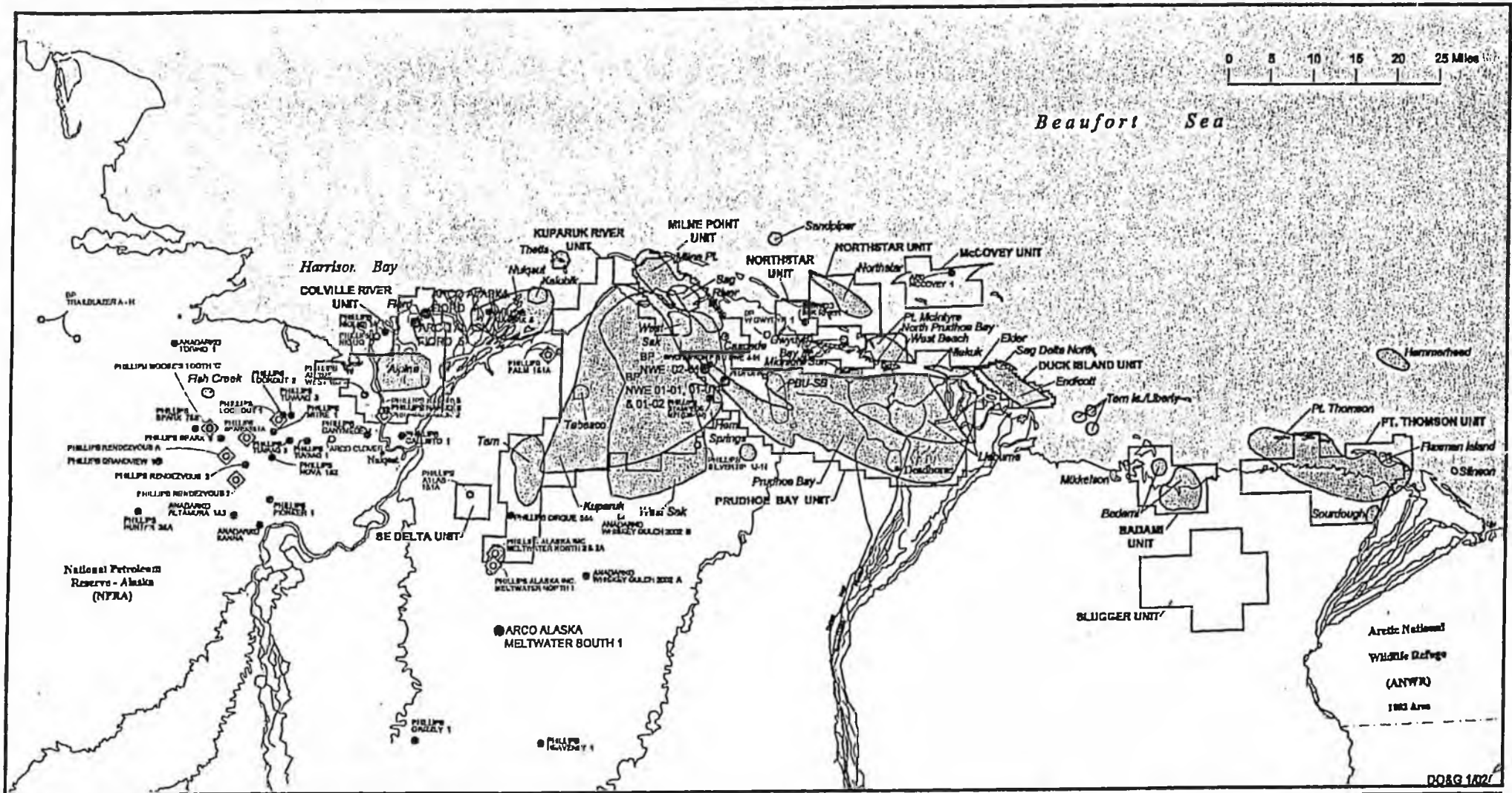
4 Source: pg. 19, DOR Fall 2001 Revenue Sources Book

Historic and Projected Alaska Oil Production

1975 - 2022



North Slope Oil & Gas Activity and Discoveries 2002











Beaufort Sea


Map Legend

	Units		Road
	Oil Field / Accumulation		Trans-Alaska Pipeline
	2000 Exploration Wells		
	2001 Exploration Wells		
	2002 Proposed Wells		
	Active Wells		
	Recent Discoveries		

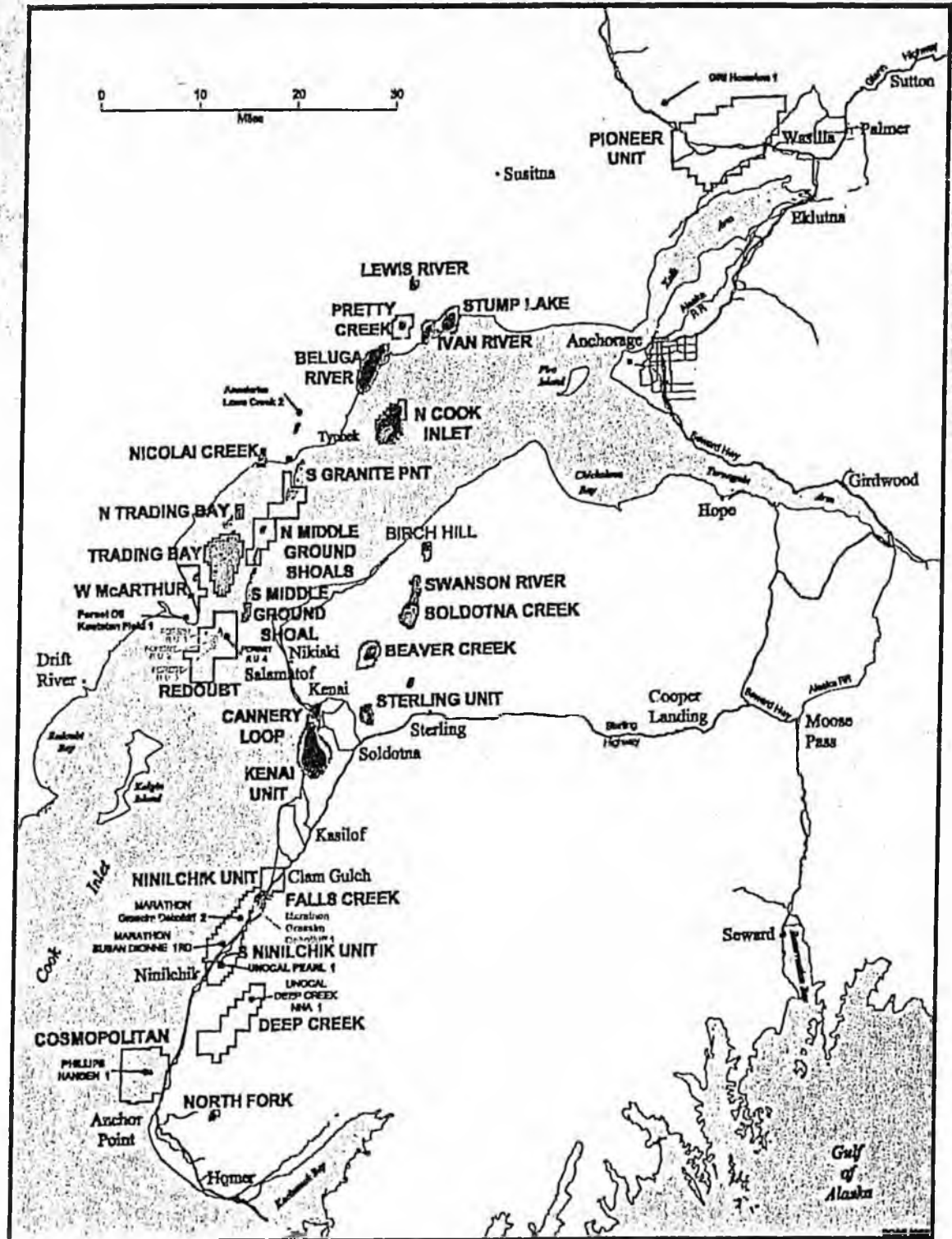
Cook Inlet Oil & Gas Activity January 2002

Map Legend

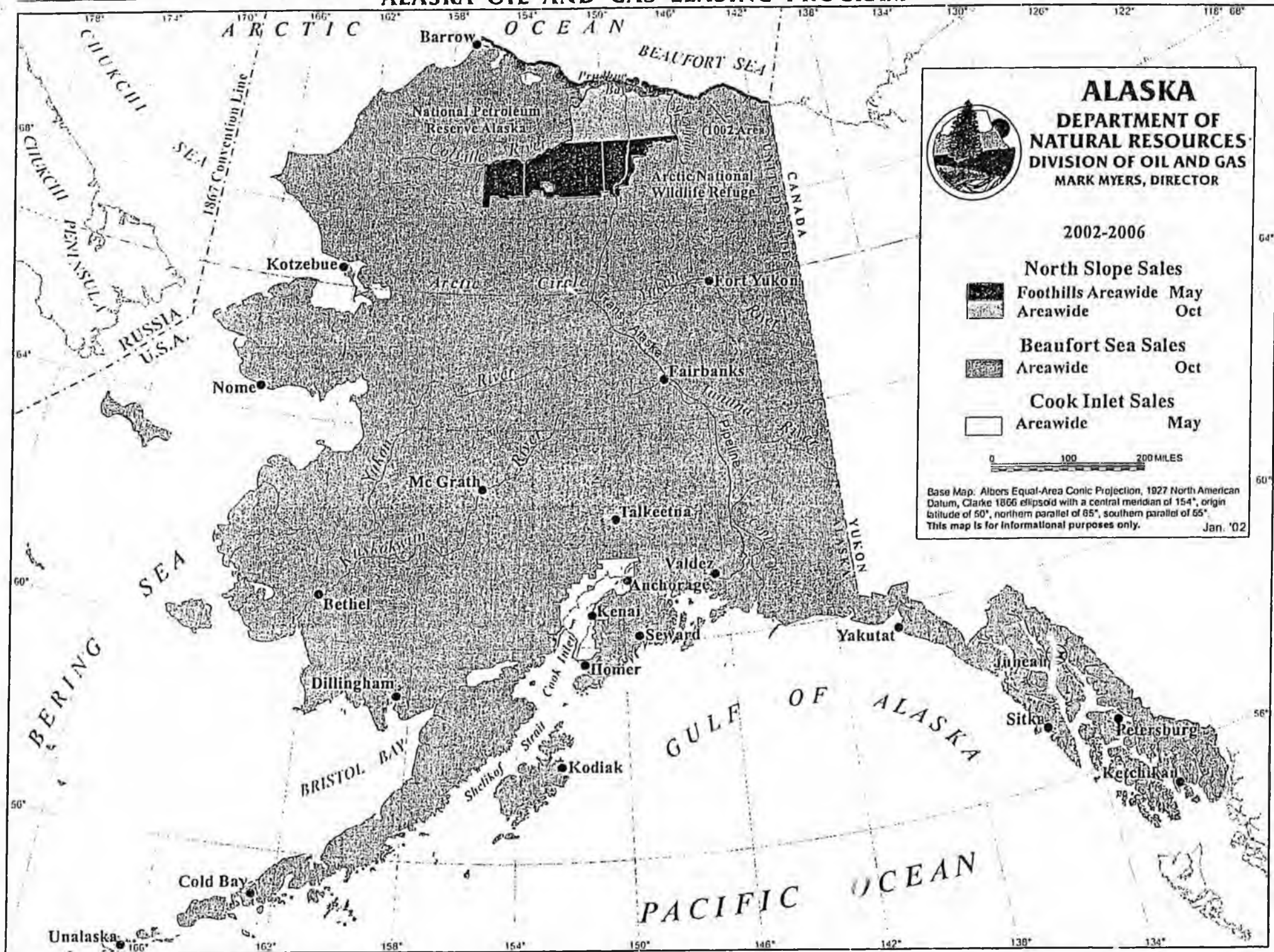
-  Units
-  Oil Field / Accumulation
-  Gas Field / Accumulation
-  2001 Exploration Wells
-  Proposed Wells
-  Platforms
-  Road
-  Alaska Rail Road




Map Location



ALASKA OIL AND GAS LEASING PROGRAM












ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

MARK MYERS, DIRECTOR

2002-2006

	North Slope Sales
	Foothills Arcawide May
	Arcawide Oct
	Beaufort Sea Sales
	Arcawide Oct
	Cook Inlet Sales
	Arcawide May

0 100 200 MILES

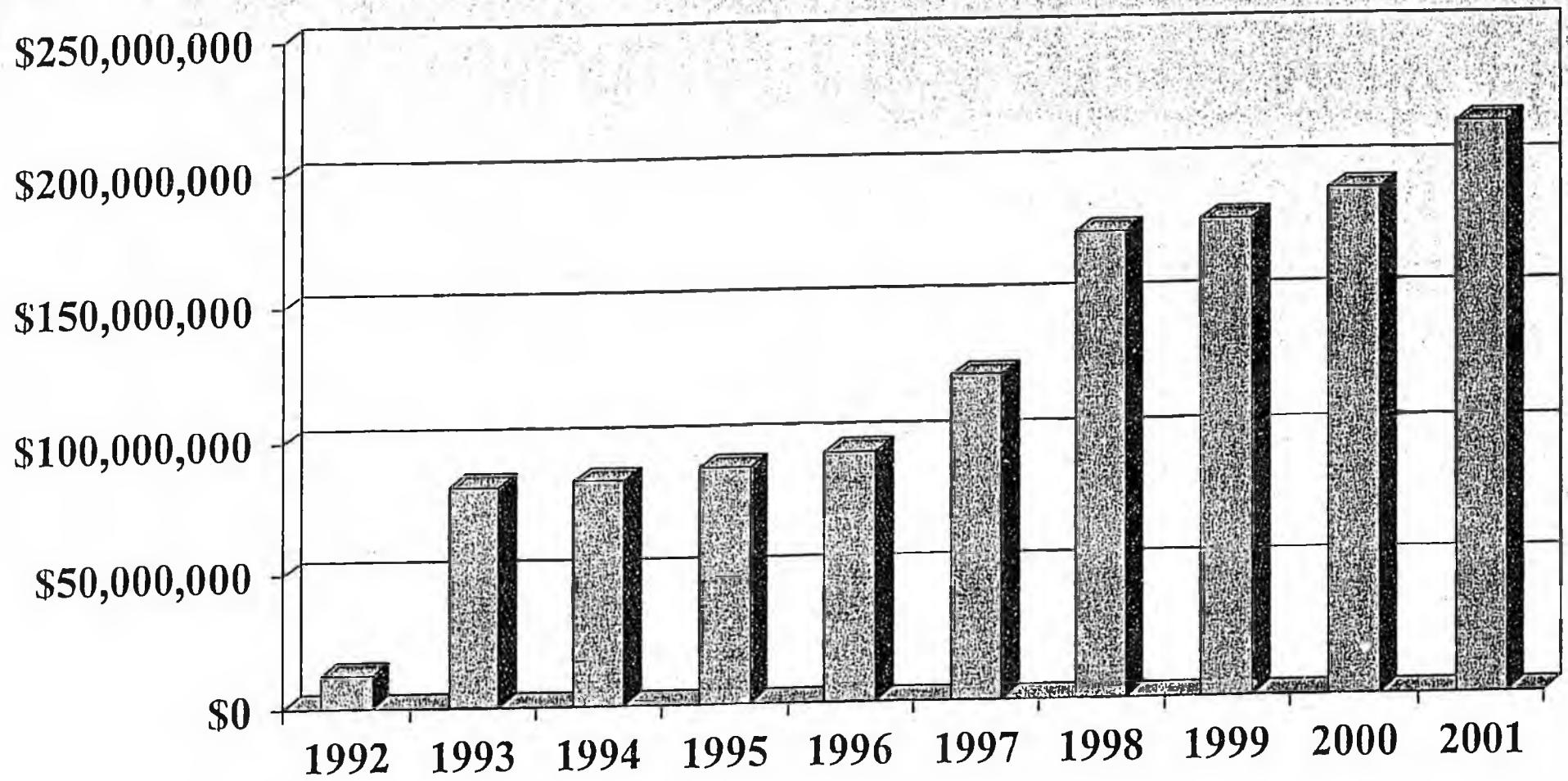
Base Map: Albers Equal-Area Conic Projection, 1927 North American Datum, Clarke 1866 ellipsoid with a central meridian of 154°, origin latitude of 50°, northern parallel of 65°, southern parallel of 65°. This map is for informational purposes only. Jan. '02

64°

60°

56°

Cumulative Bonus Bids



2001 Areawide Lease Sales

Total Acres Leased = 1.6 Million

Total Bonus Bids = \$24.5 Million

North Slope Foothills

- Area's First Lease Sale
- Largest State Sale Ever
- 8 Bidding Groups
- 978,560 Acres Leased
- \$10.7 Million in Bonus Bids

North Slope

- 16 Bidding Groups (Shell returns after 13 yrs)
- 469,760 Acres Leased
- \$7.4 Million in Bonus Bids

Cook Inlet*

- 6 Bidding Groups
- 102,523 Acres Leased
- \$928,085 in Bonus Bids

(* Final Results)

Beaufort Sea

- 7 Bidding Groups
- 60,800 Acres Leased
- \$5.4 Million in Bonus Bids

Exploration Licensing

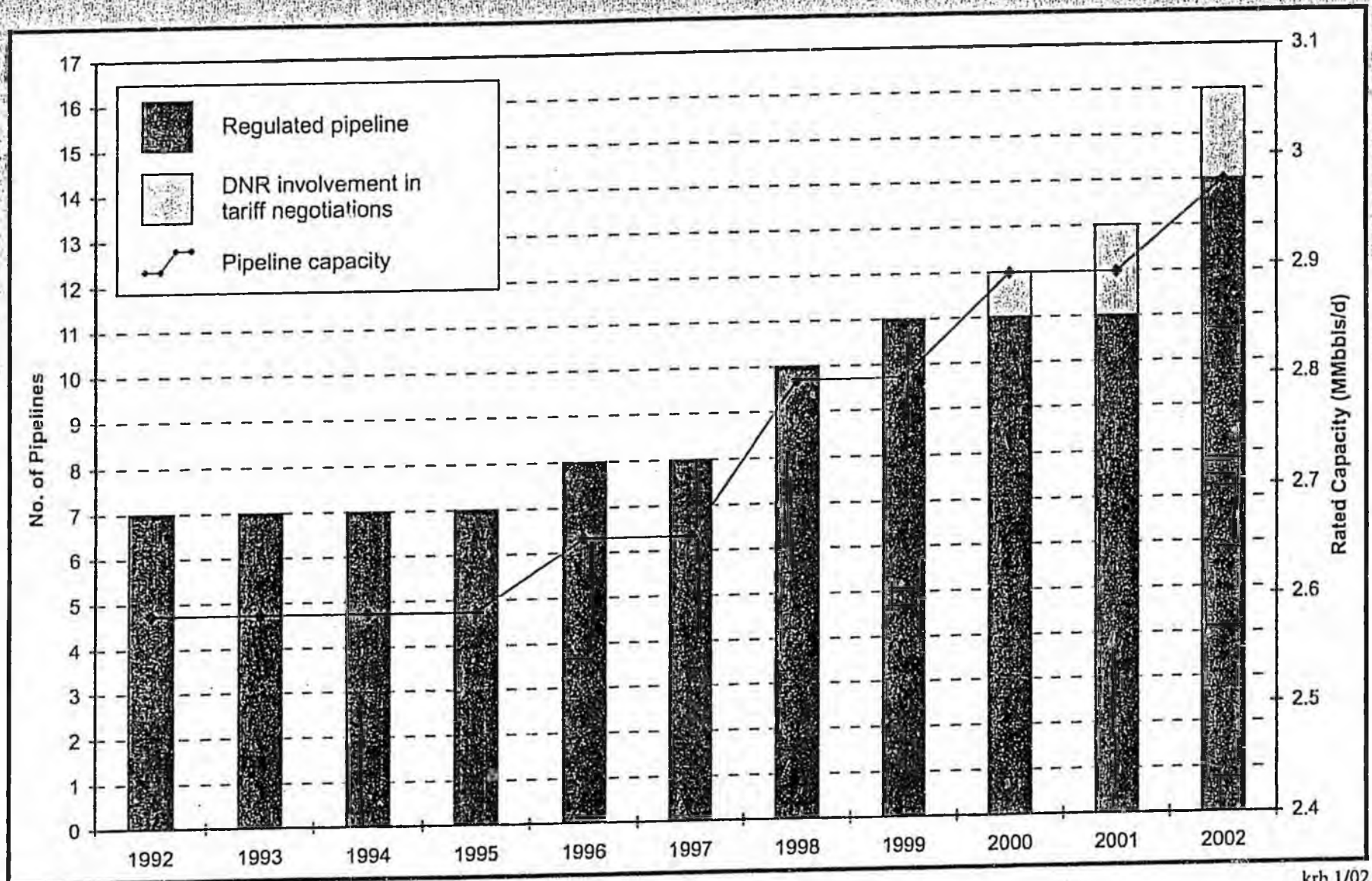
Proposed – Susitna Valley

- Forest Oil Corp. submitted two proposals
- 873,600 Total Acres, located west of Susitna R.
- Total Exploration Commitment over \$5 Million
- Final Finding and Decision – February 2002

Proposed – Nenana Basin

- Andex Resources submitted only proposal
- 499,800 Acres, located north and west of Nenana
- Exploration Commitment = \$2.5 Million
- Preliminary Finding – February 2002
- Final Finding and Decision – Late Summer 2002

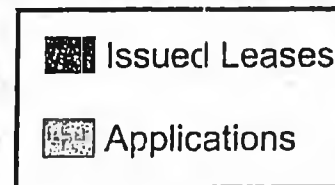
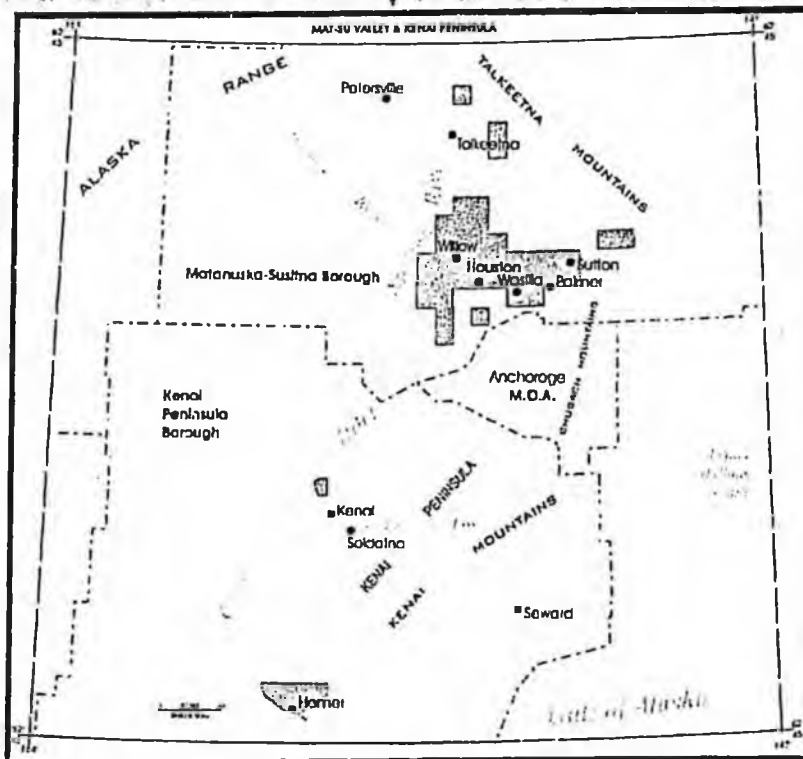
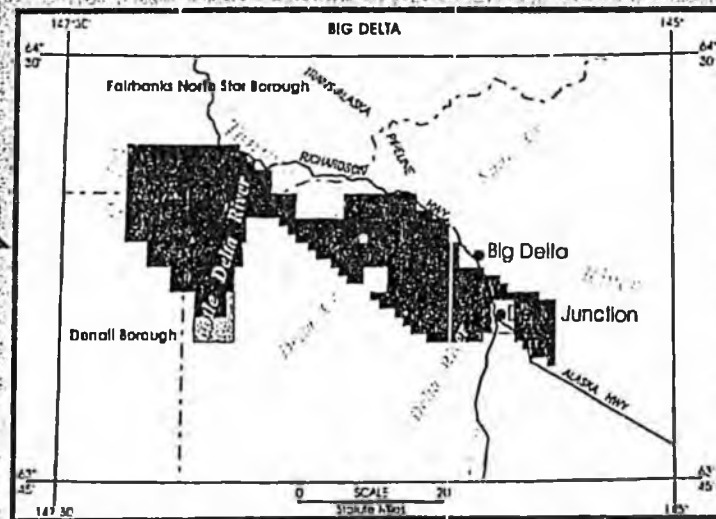
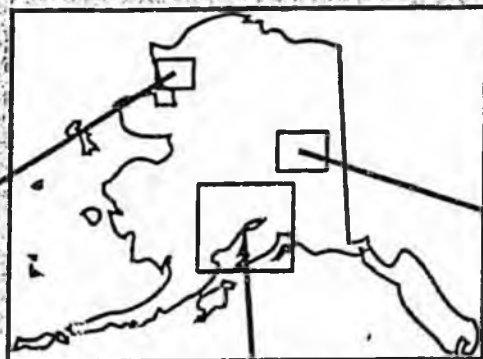
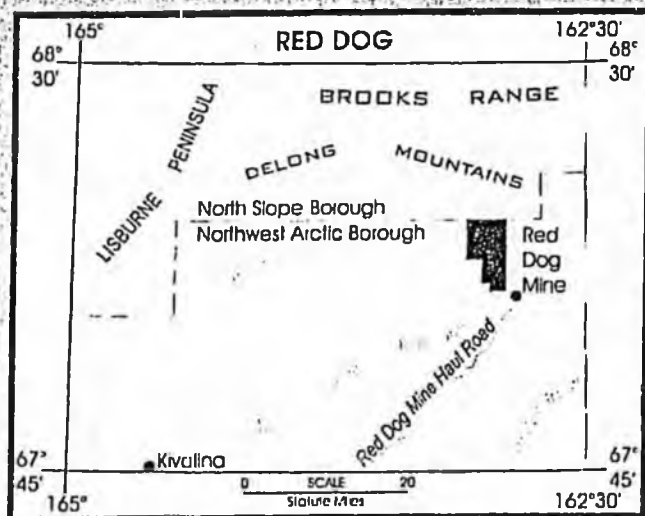
Alaska Regulated Pipelines



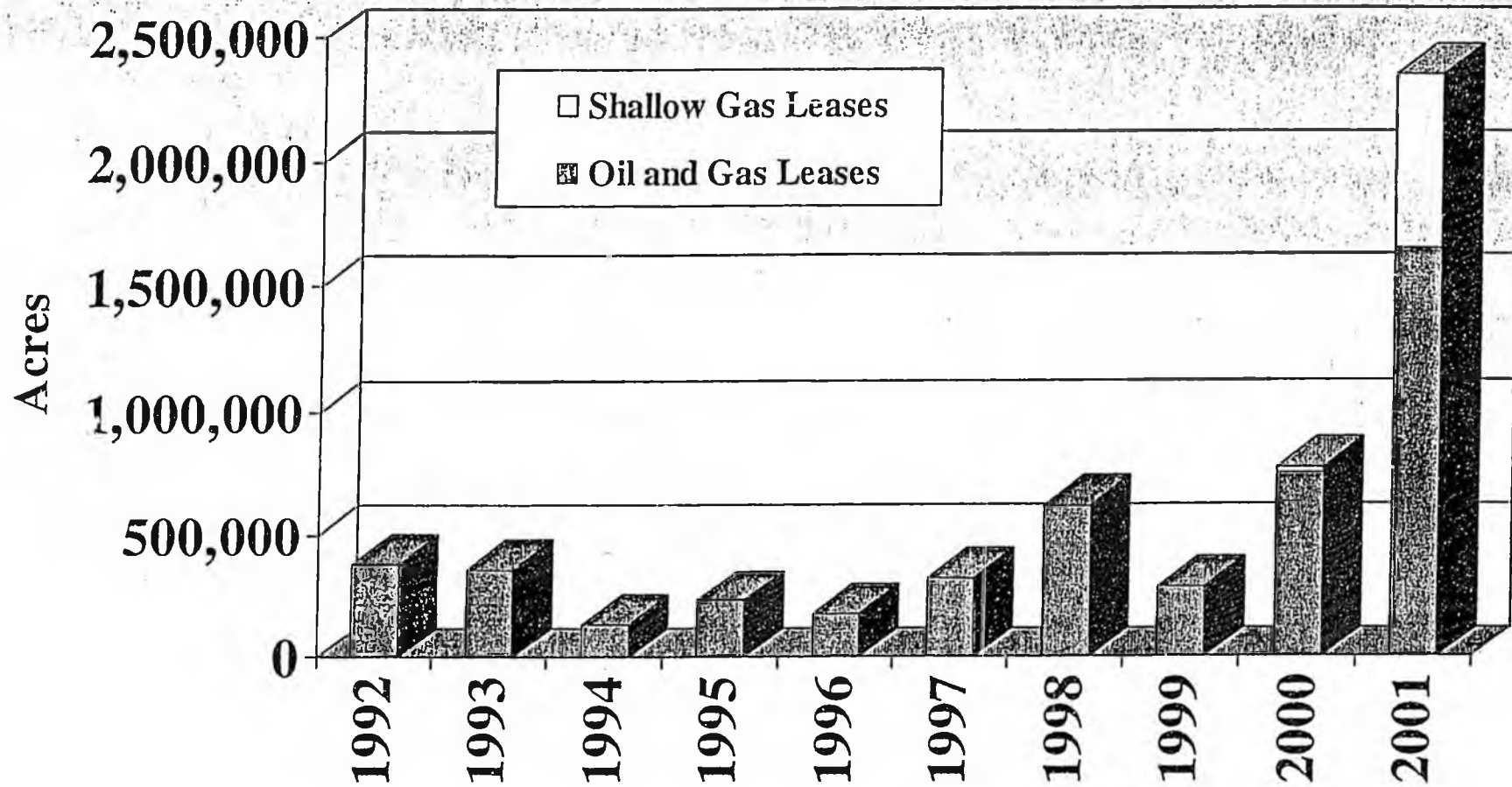
Source: Division of Oil and Gas, January 2002

krb 1/02

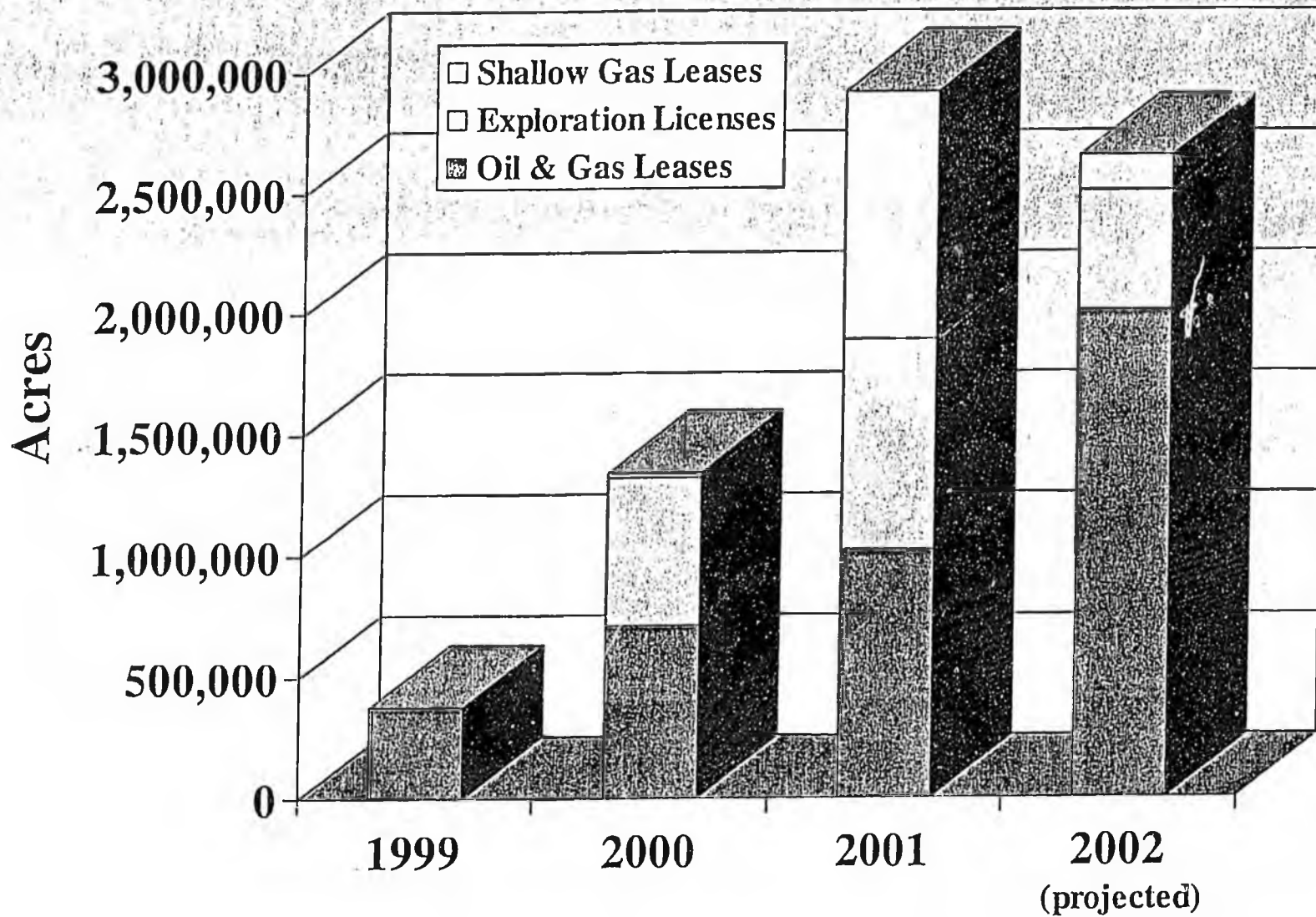
Shallow Natural Gas Leasing Program



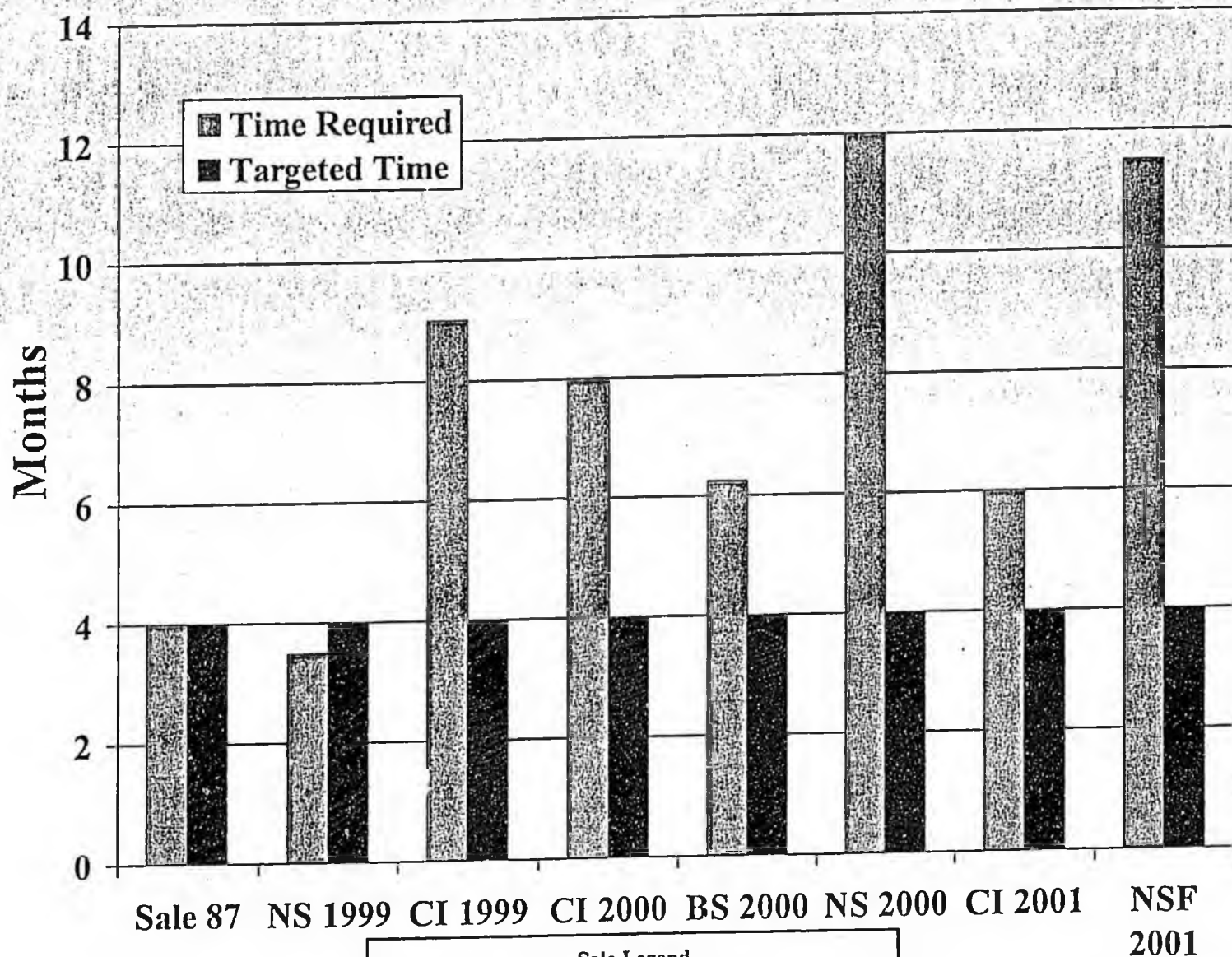
Acreage Leased



Title Work



Time Required to Issue a Lease



Sale Legend
 BS - Beaufort Sea CI - Cook Inlet
 NS - North Slope NSF - North Slope Foothills

(Projected)

Delays in Title = Delays in \$\$

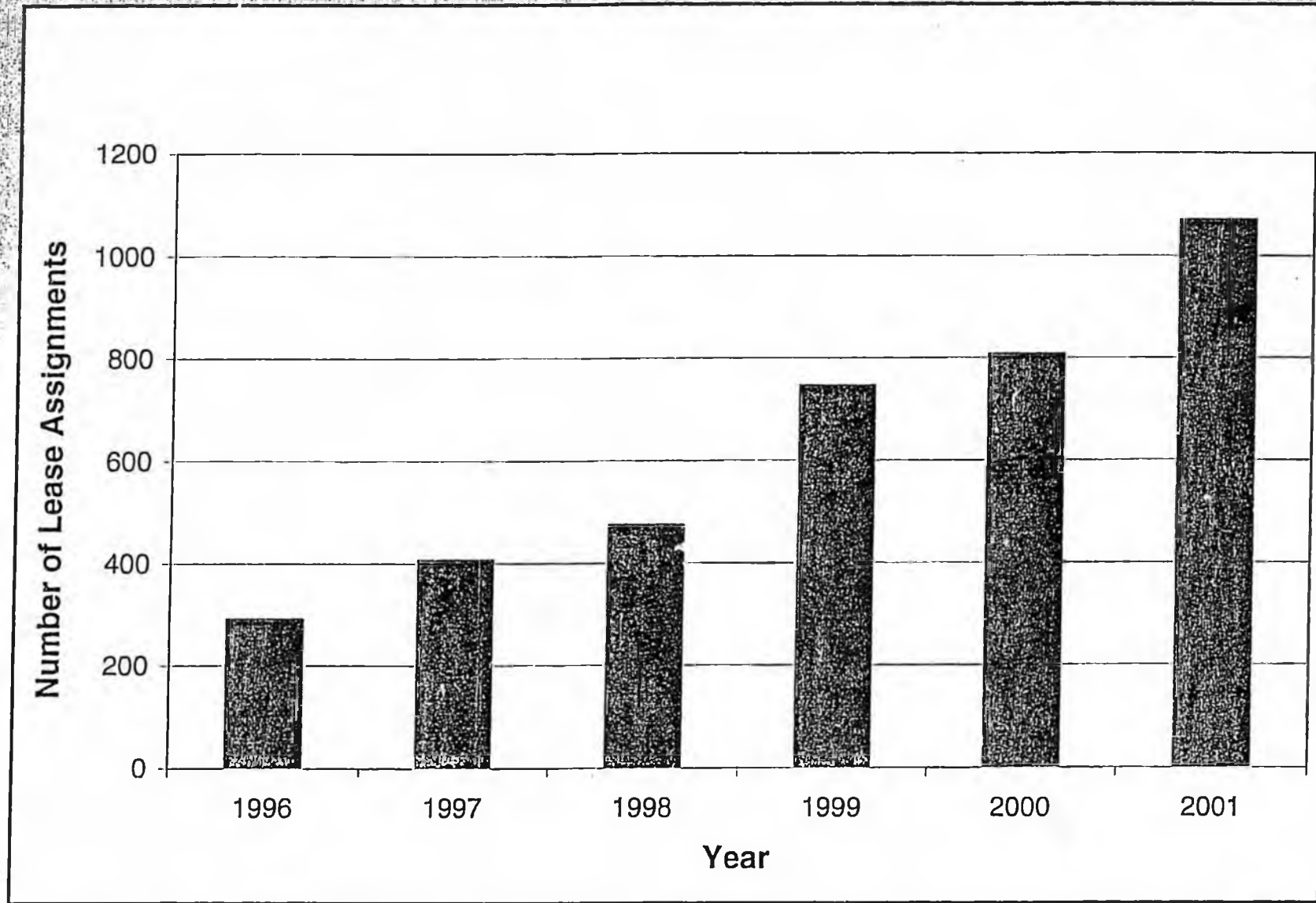
- It Takes up to 1 Year to Issue Leases

- FY 01 Revenue Delayed to FY 02

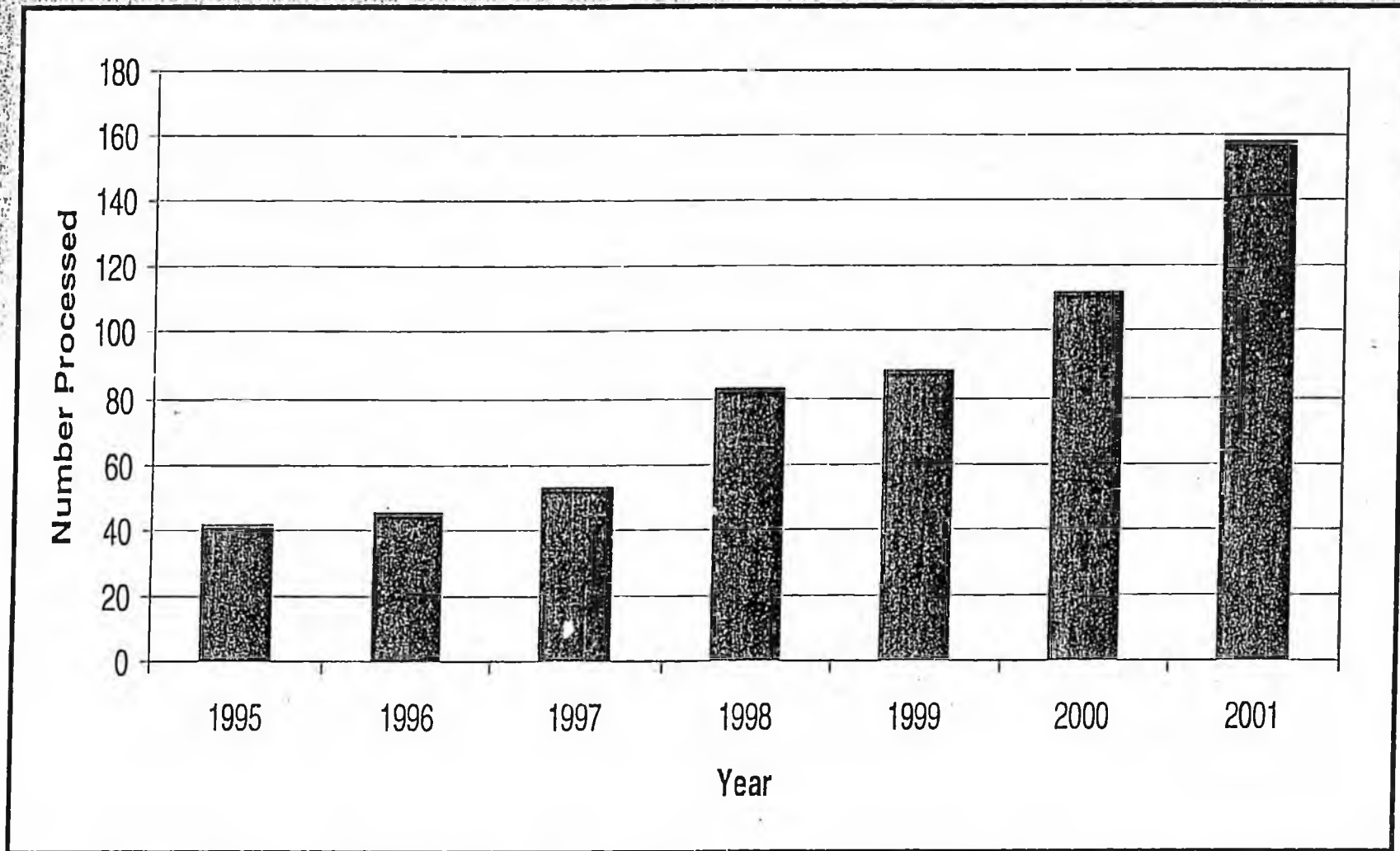
Balance on Bonus Bids = \$8.9 Million

1st Yr Lease Rentals = \$1.3 Million

Lease Assignments in Alaska



Unit Actions

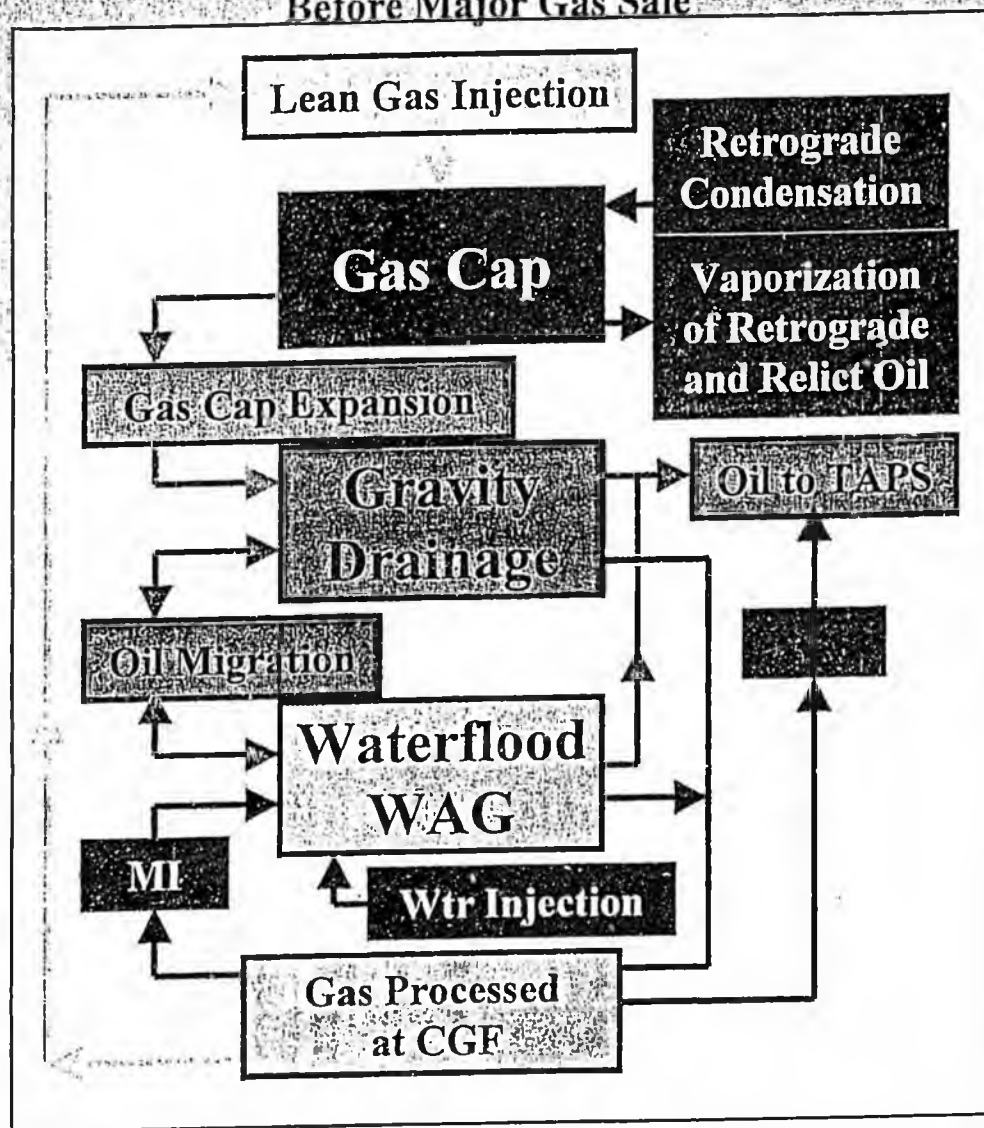


Actions include Units and Participating Areas formed, expanded, contracted, and terminated; Unit decisions appealed; Unit Plans of Exploration and Development reviewed and approved.

cdl 01/02

PBU Mechanisms

Before Major Gas Sale



During Major Gas Sale

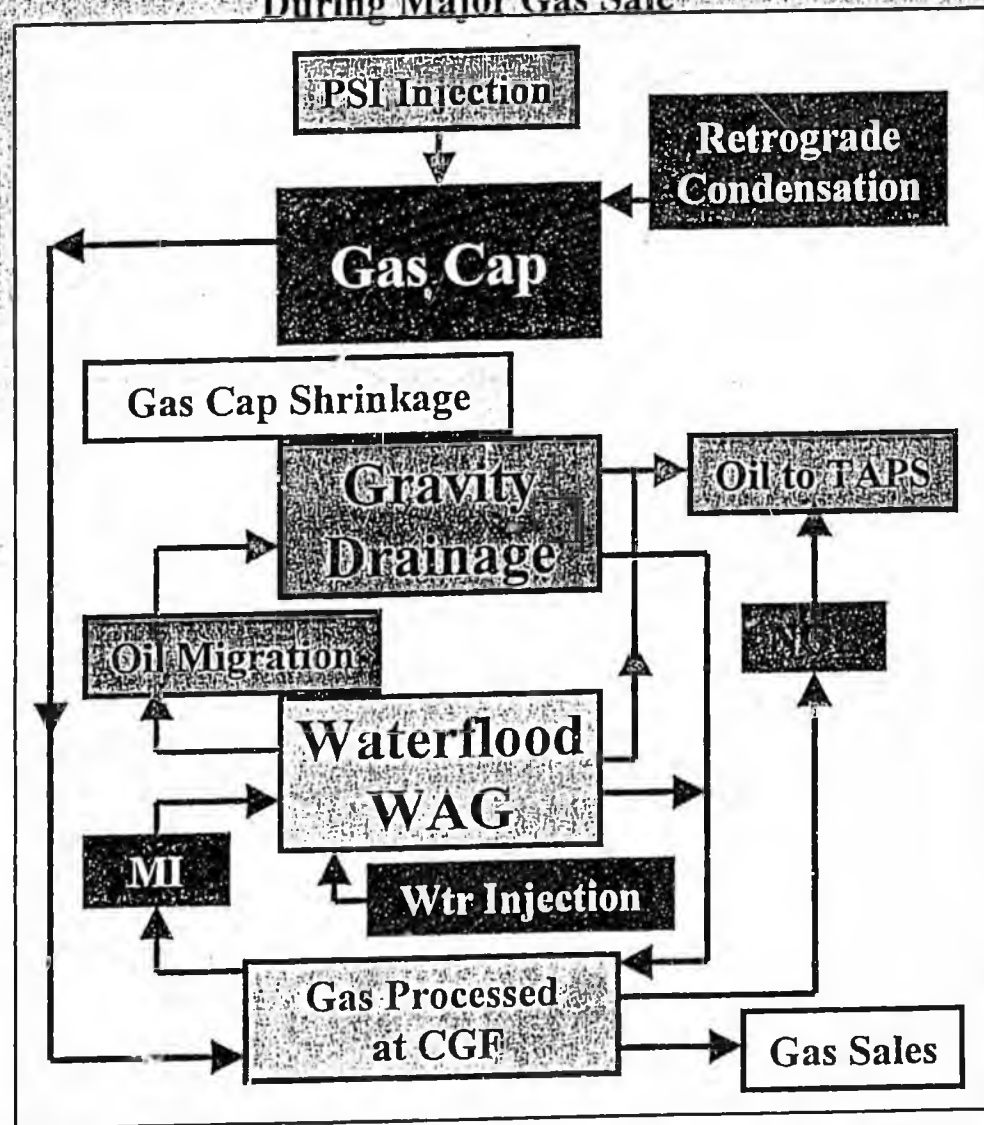
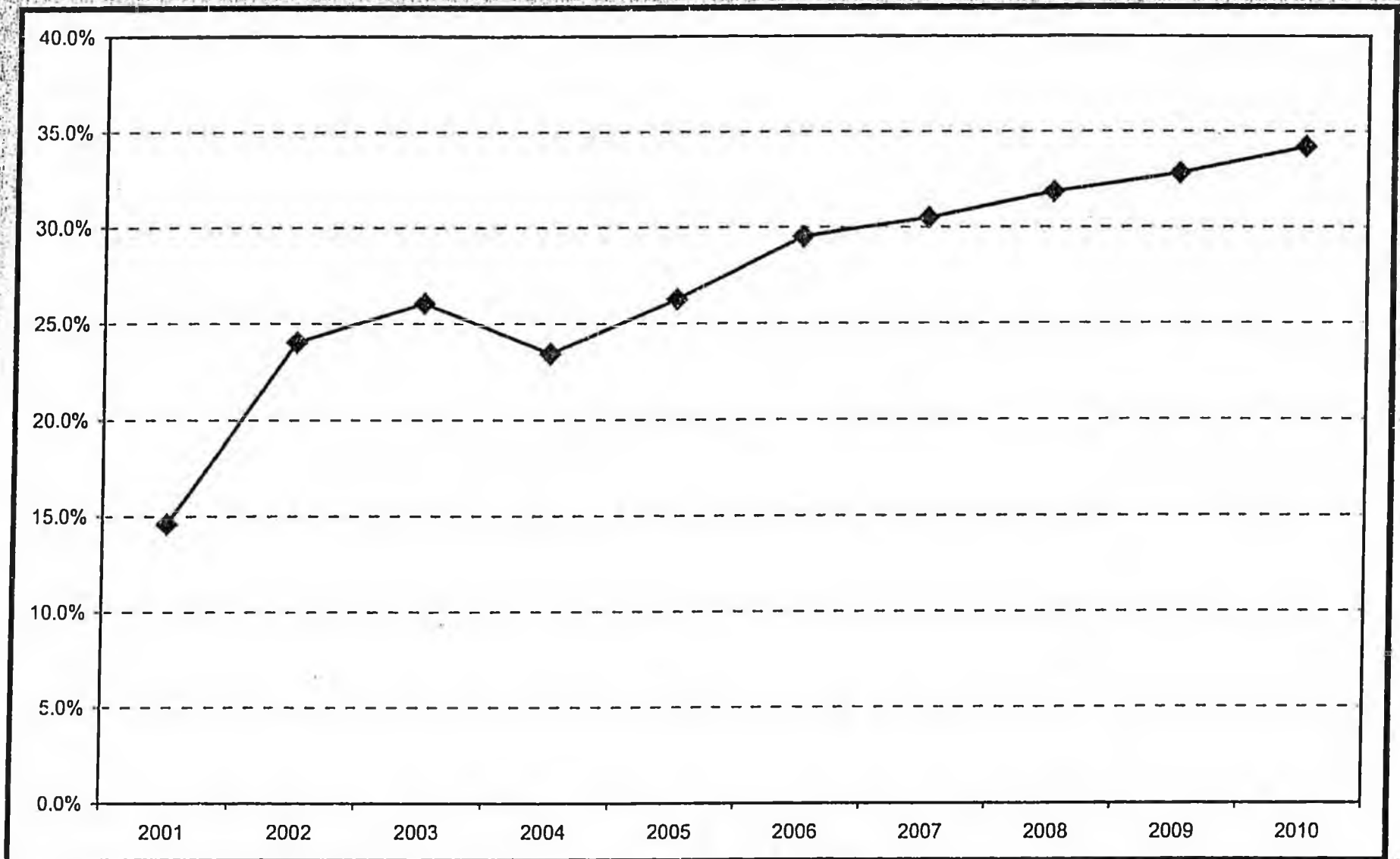


Figure 10

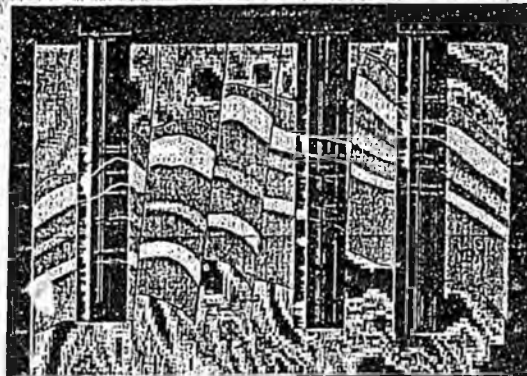
Projected Pipeline Tariffs as a Percent of ANS Wellhead Price



Source: DOR, Revenue Sources Book, Fall 2001

krb 1/02

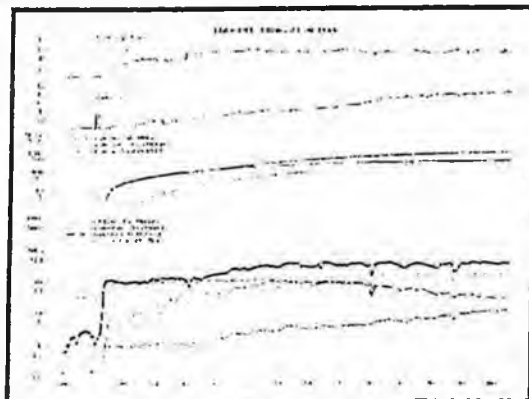
Different databases and data managed and merged to create 3-D pictures of oil fields and royalty share



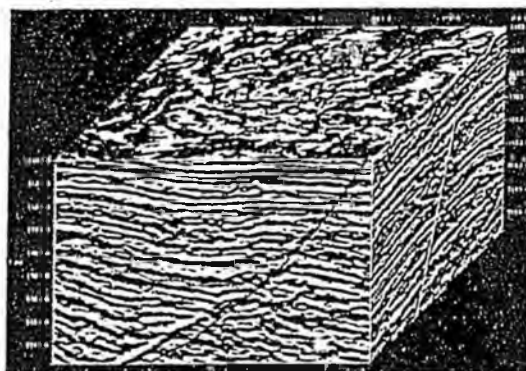
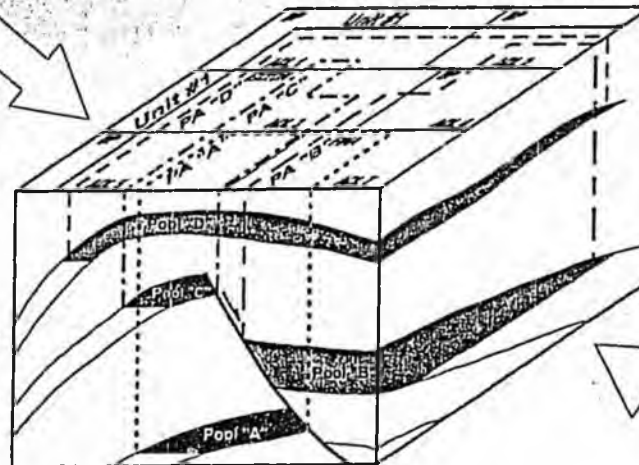
Geologic Data
(Well logs, Directional Surveys, Geochemistry, Paleontology, & Formation data)

Ninkuk Western PA		Ninkuk Eastern PA		
34826 ARCO, BISON 12.5% 12.5% 1987		34825 OPX 12.5% 12.5% 1987		317827 OPX, AMERADA 30%, 74.5% NPX 81.25% 1988
34129 ARCO, BISON 12.5% 12.5% 1987		34830 OPX 12.5% 12.5% 1987		34635 OPX 12.5% (NPX) 84.75% 1987
				34634 12.5% 12.5% 1987

Royalty, Lease, Unit/Participating Area, Ownership & Economic Data

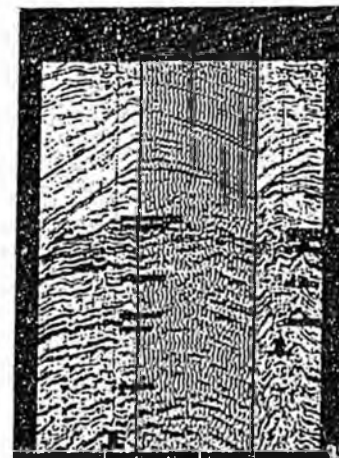


Engineering & Production Data



3-D Seismic

Geophysical Data
(Seismic, Gravity, Magnetic, Velocity, & Shothole data)



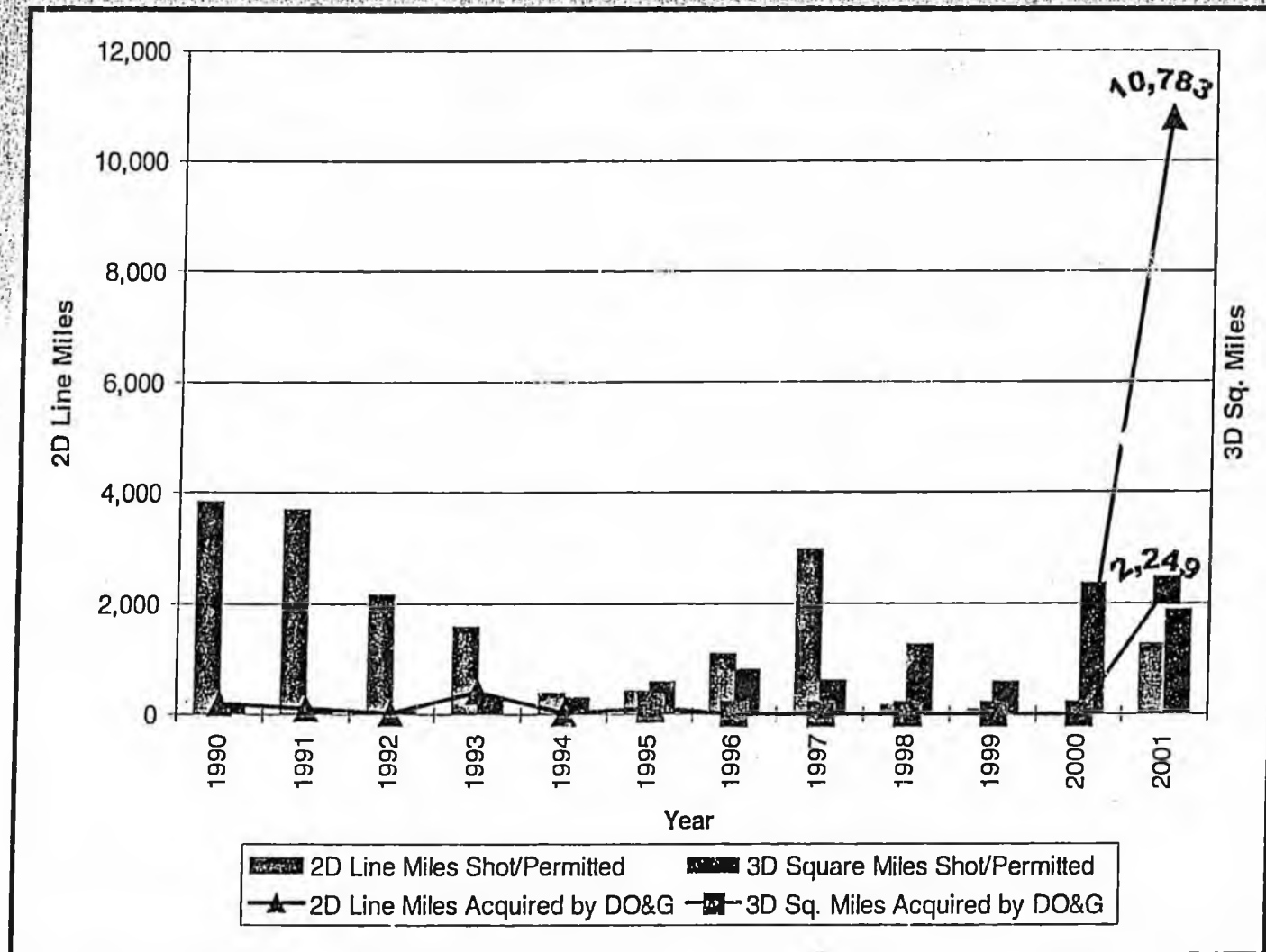
2-D Seismic



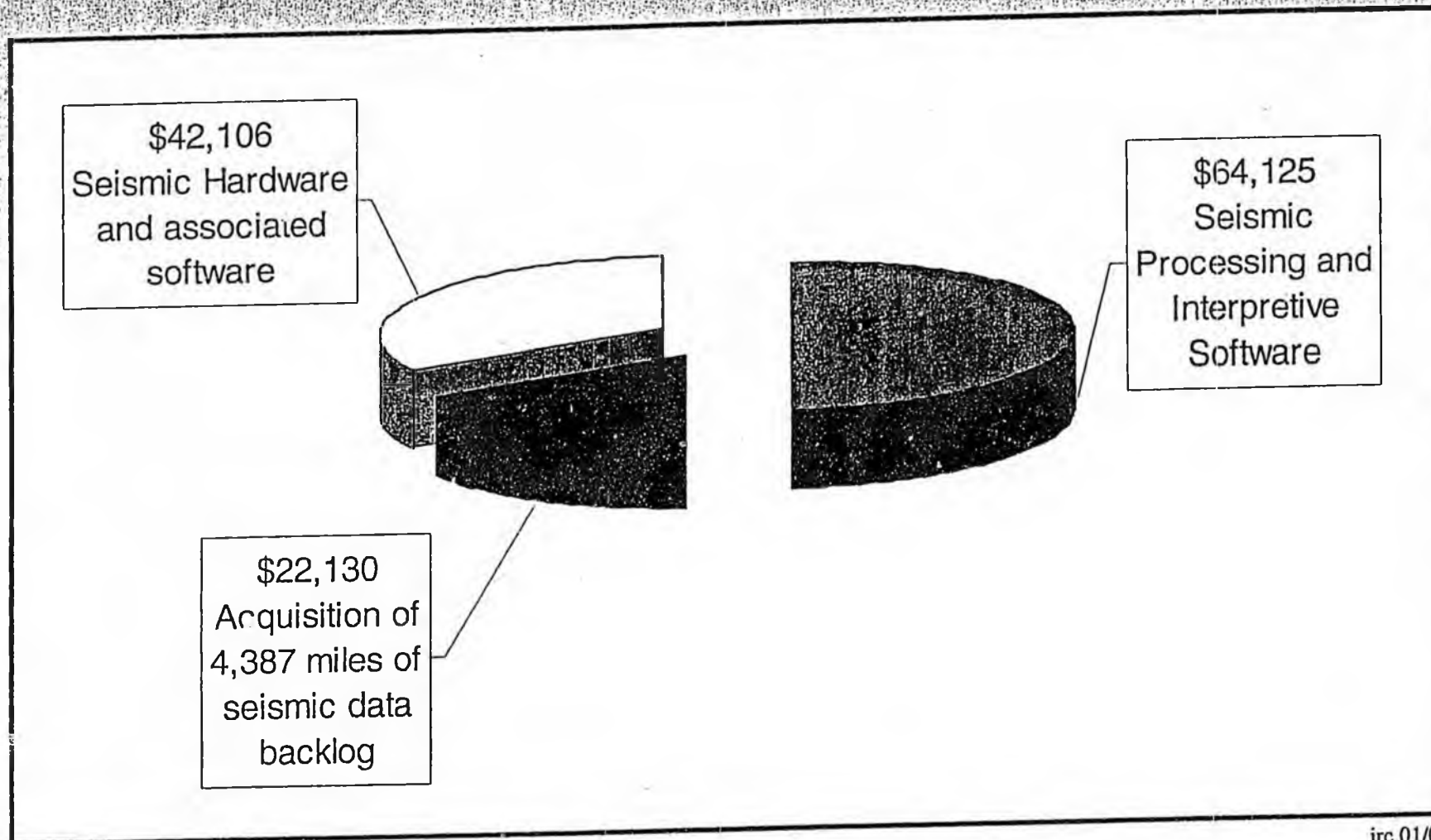
**Geographic Information;
Cultural & Physical Data
Aerial & Satellite Imagery**

Seismic Data Status

1990 - 2001



FY02 Seismic Increment Expenditures



Subject: SB 319

Date: Mon, 15 Apr 2002 09:44:47 -0600

From: "John Tanigawa" <JohnT@EvergreenGas.com>

To: <Jennifer_Yuhas@legis.state.ak.us>

CC: "Jack Ekstrom \ (E-mail)" <JackE@EvergreenGas.com>

Jennifer,

Thanks for the help. I would appreciate it if you could draft up an amendment.

Here is the change that we'd like to see. Again, I have confirmed that Kevin Tabler with Unocal, Mark Myers with the Division of Oil and Gas, and Jerry Booth of Teck-Cominco have no problem with this. I have calls in with Darwin of Sen Torgerson's office regarding this change.

We propose changing the maximum allowable acreage from 100,000 acres to 138,240 acres. An amendment would change one word in the current version of the bill. The significance of the 138,240 acres is exactly 6 townships. Making shallow gas economic through economies of scale in arctic environments is the reason for this request. Exactly 6 townships is because one applies for acreage in 1/4 township increments, so it seems reasonable that the maximum would be a township.

Location of change: Section 2 AS 38.05.177(b), (1)
Page 2, Line 19 of SB 319 C (Senate Finance)

What it says right now:

(1) ... a lessee may not hold more than an aggregate of 100,000 [46,080] acres of land...

What we propose:

(1) ... a lessee may not hold more than an aggregate of 138,240 [46,080] acres of land...

Thanks again Jenn.

John T.

Subject: SB 319

Date: Mon, 15 Apr 2002 09:44:47 -0600

From: "John Tanigawa" <JohnT@EvergreenGas.com>

To: <Jennifer_Yuhas@legis.state.ak.us>

CC: "Jack Ekstrom \ (E-mail)" <JackE@EvergreenGas.com>

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What we propose:

(1) ... a leasee may not hold more than an aggregate of 138,240 [46,080] acres of land...

Thanks again Jenn.

John T.

*Amend to
Foot*

DANA L. OLSON
HC-30 Box 5438
WASILLA, AK 99654
April 15, 2002

To: House Resources

Re: CoAS ^{Shallow} Program

Request For Bill to Remain in Committee

AND For A Complete AND Thorough Review

I Am requesting this become part
OF the Legislative history of this bill.

I Am Very concerned about the impacts
of this program, its activities on my
well being, my communities well being
AS well AS effects to Sustained yield ^{with consistency}
AND ^{to} environmental Assessment
Capabilities.

^{Proposed}
Tillage permits will not be capable
of an adequate risk Assessment.
This program is ill-defined, AND needs
clarification, in order to constitute
due process requirement of sufficiency
of notice. This program was not
intended to be A research project.
Either its provided now, or delays
may result. I demand a right to
know now! It never been determined.

-1-

(He called me) (Evergreen official)
I'm concerned with a meeting I had
with Evergreen. I met with Evergreen^{official}
to find out factually what activities
will occur, and what risks can be
presumed to occur, so that I
might meaningful comment. I still don't know.
My Legislator Representative Massek's
newsletter concerning her work with
Evergreen prompted my inquiry.

But Evergreen said, they don't
even know if they are economically
viable, at ^(not on record) prior teleconference on this bill
at ~~Mass~~ Ms Legislative Office, when I
asked him to support a requirement
the gas extracted be utilized in the
(Knik Arm Power Plant) proposed
project or within the State of Alaska.

If DNR can't assess my Hinstead
Agricultural project for \$500⁰⁰ or even ^{since 1984}
5,000 dollars (its organic using rock
powders) then 5,000 is absurd
AND NOT FACTUAL evaluation of the
cost of assessment, leuromental,
social and economic.

official
Evergreen SAID he was there to
Address me, but I met with him to
discuss the operation AND its effects
(Not provided). ~~I~~ I came under
A FALSE pretense. I'm disputing
his credibility. His name is on
testimony he gave, ^{prior} AND on the written
testimony he sent. When I asked him
if he believed in equal protection
under the laws, he said "No, because
theres equal opportunity".

I Allege insufficiency of notice,
provides for NO opportunity.

I ALSO am disputing DNR
Authority to do AN ENVIRONMENTAL
ASSESSMENT SOLELY AS DEC HAS
NOT COMPLIED WITH AS 46.03.040 (JOINT)
AND LNPS responsibility
FEDERAL CONFORMITY IN FEDERAL
REGULATIONS HAVE NOT CONSIDERED
ITS EFFECT / IMPACT EITHER.

Evergreen ^(AND POTENTIALS) MUST provide A LEGAL ^{AND}
FACTUAL BASIS before program change/
Implementation, in order for ^{consideration} ~~provision~~
Program Changes / Implementation
NOT Publically provided (OR ANY OTHER FIRM.)

I ALLEGE, THE APPEARANCE OF LEGISLATING
AND ACTING EXECUTIVE FOR EVERGREEN
AND OTHERS IS MERELY THE LEGISLATURE
ATTEMPT TO CIRCUMVENT MY DUE
PROCESS, SUFFICIENCY OF NOTICE, AND
FAIR COMPENSATION FOR TAKING. I ALLEGE
A UNCONSTITUTIONALITY CLAIM. NOT TO (P.K.)
MENTION VIII SEC 17 VIOLATION / CLAIM

EVERGREEN DISPUTES THEIR INTEREST
IS AROUND MY PROPERTY, ^{OR COMMUNITY} BUT MY SOURCES
PROVIDE^{ME} A DIFFERENT STORY. MAYBE NOT
IMMEDIATE, BUT THE POTENTIAL IS THERE. OR
FOR SOMEONE ELSE.

THERE IS NO FISCAL NOTE FOR
AS 46.03.040, NOR ~~AS 46.03.040~~ TITLE 38
REVISE WHEN NECESSARY. I CLAIM
SECONDARY EFFECTS ALONE REQUIRE
REVISION. THE SUSITNA AREA PLAN IS
OUT OF DATE. THE WILLOW SUBBASIN PLAN ALSO.
AND MAKES NO DISTINCTION OF TIME

A INDUSTRIAL SITE IS OCCURRING. IT MUST
BE SPECIFICALLY PLANNED FOR. (NOT DONE).

DNR CAN NOT GRANT CONSTRUCTION
PERMITS UNDER FEDERAL REGULATION
WITHOUT A BASIS AS 46.03.040. AND
TITLE 38 REVISE WHEN NECESSARY.



ALASKA MINERS ASSOCIATION, INC.

3305 Arctic #202, Anchorage, Alaska 99503 • (907) 563-9279 • FAX (907) 563-9225 • www.alaskaminers.org

April 15, 2002

Honorable John Torgerson
Alaska State Senate
State Capitol
Juneau, AK 99801

RE: Senate Bill 319, Regarding Shallow Gas Leasing

APR 15 2002

Dear Senator Torgerson,

Thank you for the opportunity to comment on this bill regarding shallow gas leasing which in many instances will be coalbed methane. The Alaska Miners Association was heavily involved in the bill that first established shallow gas leasing and we remain very interested in the topic.

There remains an item in CSSB-319(FIN) version J that we feel should be changed. In AS 38.05.177(f) we support increasing the annual lease rate from \$0.50/acre to \$1.00/acre but not removal of all requirements for DNR to send out lease payment notices. We appreciate that current statute requires that a written notice be sent by certified mail to all lessees and that this adds workload. However, to not provide a notice and to not allow any grace period after the due date is punitive and will place some leases in jeopardy. Such a requirement is very burdensome for industry and will result in significant conflicts and problems for the Department. We therefore suggest that the Department send out a notice for only those leases for which the payment is not received by the due date and give the lessee 30 days to pay, after which time the leases would be terminated. This subsection (f) would then read:

(f) A shallow gas lease must provide for payment to the state of an annual rent in the amount of \$1 [50 CENTS] per acre. The rent is due and payable on the date [DATES] determined in the lease. If the lease payment is not received by the due date, [T]he director shall mail the lessee one written notice, certified return receipt requested[, THREE WEEKS BEFORE THE DUE DATE OF THE RENT]. If the lessee fails to pay the rent within 30 days of receipt of the notice, the director shall terminate the lease

Thank you for the opportunity to comment on this bill.

Sincerely,

Steven C. Borell, P.E.
Executive Director

cc: Representative Beverly Masek
Representative Drew Sculzi
Director Mark Myers

Subject: JJT Testimony for House Resources 4 14 2002

Date: Mon, 15 Apr 2002 10:00:18 -0600

From: "John Tanigawa" <JohnT@EvergreenGas.com>

To: <Jennifer_Yuhas@legis.state.ak.us>

Testimony of John Tanigawa (from Mat-Su LIO)

Evergreen Resources (Alaska) Corporation

House Resources Committee

Monday, April 14, 2002, 1:00 PM

RE: SUPPORT OF SENATE BILL 319

Thank you Mr. Chairman. My name is John Tanigawa. I am the Special Projects Manager for Evergreen Resources Alaska Corporation, a wholly owned subsidiary of Evergreen Resources, Inc. Last December, I moved to Wasilla to oversee our operations. Currently, we have 46,080 acres of Shallow Gas Lease Applications located near Willow. Today, I testify in support of Senate Bill 319.

SB 319 removes obstacles to our ability to explore for and to develop shallow natural gas. Evergreen Resources Alaska's specialties extend to Alaska the main focus of Evergreen Resources which is coal bed methane, unconventional gas and shallow natural gas development. These activities require at least 100,000 acres or roughly 4 townships to establish the necessary economies of scale for initial development. Due to the challenges of operating in an arctic environment however, increasing that acreage limitation to 138,240 acres or 6 townships, increases economic viability of shallow natural gas. We strongly support increasing the depth limitation to one that relies on science and geology for the specific play. We are certain that we can drill, complete and produce natural gas wells below 3,000 feet in a safe and environmentally responsible manner using already existing technologies that we employ.

Finally Mr. Chairman, the Shallow Natural Gas Program is the primary reason Evergreen is in Alaska. We are grateful that the legislature is making this program possible and for improving it. Changes proposed in this bill provide us the necessary latitude to operate in an economically sound and environmentally safe manner. We acknowledge the Division of Oil and Gas for collaborating with us and other stakeholders and is an excellent example of how state agencies and industry can work together to the benefit not just government and industry, but particularly the public.

Thank you for allowing me to testify.

I would be pleased to answer any questions that you may have.

Please draft
the following
change to SB 319

- 2 pages to follow

THIS Bill has passed

(H) RES as Amended

Jennifer
X 3715



ALASKA MINERS ASSOCIATION, INC.

3305 Arctic #202, Anchorage, Alaska 99503 • (907) 563-9279 • FAX: (907) 563-9225 • www.alaskaminers.org

April 15, 2002

Honorable John Torgerson
Alaska State Senate
State Capitol
Juneau, AK 99801

RE: Senate Bill 319, Regarding Shallow Gas Leasing

APR 15 2002

Dear Senator Torgerson,

Thank you for the opportunity to comment on this bill regarding shallow gas leasing which in many instances will be coalbed methane. The Alaska Miners Association was heavily involved in the bill that first established shallow gas leasing and we remain very interested in the topic.

There remains an item in CSSB-319(FIN) version J that we feel should be changed. In AS 38.05.177(f) we support increasing the annual lease rate from \$0.50/acre to \$1.00/acre but not removal of all requirements for DNR to send out lease payment notices. We appreciate that current statute requires that a written notice be sent by certified mail to all lessees and that this adds workload. However, to not provide a notice and to not allow any grace period after the due date is punitive and will place some leases in jeopardy. Such a requirement is very burdensome for industry and will result in significant conflicts and problems for the Department. We therefore suggest that the Department send out a notice for only those leases for which the payment is not received by the due date and give the lessee 30 days to pay, after which time the leases would be terminated. This subsection (f) would then read:

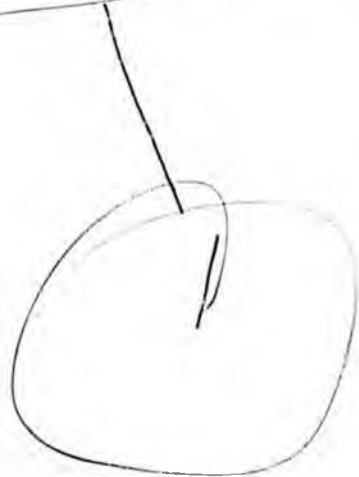
(f) A shallow gas lease must provide for payment to the state of an annual rent in the amount of \$1 [50 CENTS] per acre. The rent is due and payable on the date [DATES] determined in the lease. If the lease payment is not received by the due date, [T]he director shall mail the lessee one written notice, certified return receipt requested, THREE WEEKS BEFORE THE DUE DATE OF THE RENT. If the lessee fails to pay the rent within 30 days of receipt of the notice, the director shall terminate the lease

Thank you for the opportunity to comment on this bill.

Sincerely,

Steven C. Borell, P.E.
Executive Director

cc: Representative Beverly Masek
Representative Drew Sculzi
Director Mark Myers



Subject: SB 319

Date: Mon, 15 Apr 2002 09:44:47 -0600

From: "John Tanigawa" <JohnT@EvergreenGas.com>

To: <Jennifer_Yuhas@legis.state.ak.us>

CC: "Jack Ekstrom (E-mail)" <JackE@EvergreenGas.com>

Jennifer,

Thanks for the help. I would appreciate it if you could draft up an amendment.

Here is the change that we'd like to see. Again, I have confirmed that Kevin Tabler with Unocal, Mark Myers with the Division of Oil and Gas, and Jerry Booth of Teck-Cominco have no problem with this. I have calls in with Darwin of Sen Torgerson's office regarding this change.

We propose changing the maximum allowable acreage from 100,000 acres to 138,240 acres. An amendment would change one word in the current version of the bill. The significance of the 138,240 acres is exactly 6 townships. Making shallow gas economic through economies of scale in arctic environments is the reason for this request. Exactly 6 townships is because one applies for acreage in 1/4 township increments, so it seems reasonable that the maximum would be a township.

Location of change: Section 2 AS 38.05.177(b), (1)
Page 2, Line 19 of SB 319 C (Senate Finance)

What it says right now:

(1) ... a lessee may not hold more than an aggregate of 100,000 [46,080] acres of land...

What we propose:

(1) ... a leasee may not hold more than an aggregate of 138,240 [46,080] acres of land...

Thanks again Jenn.

John T.

