

HB

531

(File 1 of 3)

CBM:

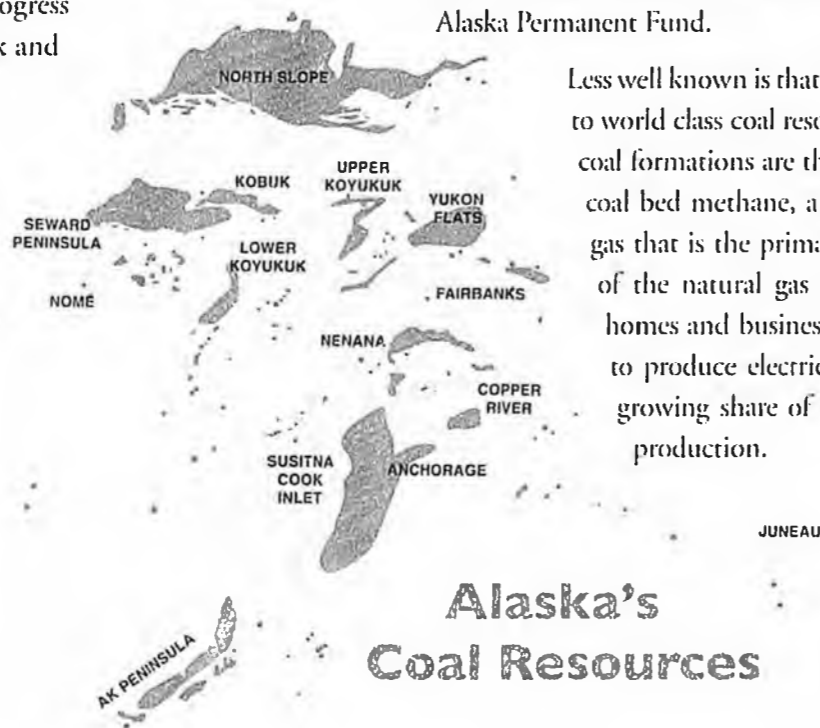
The Alaska Way

The last year has seen a growing public discussion about the potential for coal bed methane gas (CBM) in South Central Alaska. Public meetings, news reports, citizen groups and elected officials have examined the benefits and the costs of CBM exploration and production.

New development always raises questions among residents. Voicing these concerns and resolving differing viewpoints is part of Alaska's history of responsible resource development and will be vital to our future. Whether it's fishing, tourism, forestry, mining, wind power, conventional oil and gas, or coal bed methane, progress will only be achieved by straight talk and informed decision making.

This is the Alaska way.

Alaska's coal resources are immense. Our coal bed methane deposits are estimated to contain enough energy to supply the entire state's household gas needs for 50 years.



the basics:

Alaska was and still is a resource state.

Alaska's abundant natural resources have been a magnet drawing people to the state for hundreds of years. Starting with gold rushes of the last century, Alaska's resource wealth has meant jobs and new opportunities.

Over the last half century, the exploration for oil and natural gas on the North Slope and in Cook Inlet produced economic changes that transformed Alaska. These industries have fueled Alaska's prosperity, helping create good-paying jobs, an improved quality of life, and providing more resources for education, roads and public facilities. Today over eighty percent of Alaska's non-federal state government spending is funded by oil and gas revenues, and this wealth led to the creation of the Alaska Permanent Fund.

Less well known is that Alaska is home to world class coal resources. Alaska's coal formations are the repository of coal bed methane, a clear, colorless gas that is the primary component of the natural gas that heats our homes and businesses and is used to produce electricity. CBM is a growing share of overall US gas production.

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Coal Bed Methane



The Alaska way.

clean
affordable
available

CBM is here

the benefits to Alaska are real
Coal bed methane (CBM) is stored in Alaska's deep underground coal seams in deposits spread across the state. The potential for development is substantial and initial exploration efforts have begun in the Mar-Su Valley in South Central Alaska near existing pipelines that can deliver gas directly to residential and business customers.

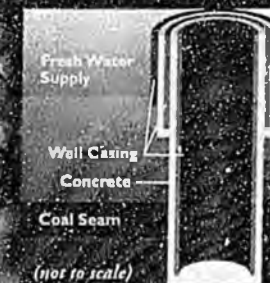
Alaska has the potential to reap the same benefits from CBM development that other areas Outside have, including:

- **hundreds of well-paying local jobs**
- **an available, affordable, long-term clean energy source**
- **millions of dollars in much-needed tax revenues for both local and state governments to help fund schools and government services**
- **economic growth and new business development as a result of an additional energy supply to replace the increasingly costly and declining supplies of Cook Inlet natural gas**

The presence of CBM in remote areas of Alaska potentially offers another crucial benefit: a lower cost, clean energy source to replace expensive fuel that now must be barged or flown in. Lower cost energy could help improve the quality of life and support jobs and business growth in rural areas where the cost of doing so now is prohibitive.



Under state law, CBM wells are engineered and built to protect all water. Up to three sets of steel well casing sealed with concrete from top to bottom ensure that water supplies are not contaminated, in accordance with state rules.



CBM can be done the right way... the Alaskan way

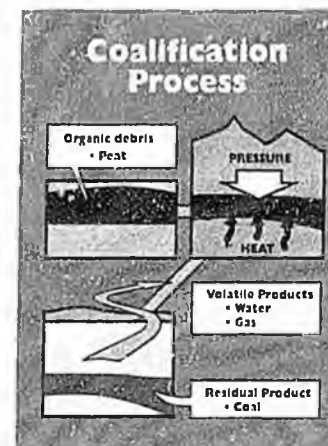
Alaska has decades of experience managing its resources for the best interest of its citizens. Governments and citizens at all levels have worked closely with oil and gas producers and their supporting companies to ensure that our resources are developed in a responsible and environmentally sound way. That approach has benefited Alaska economically through

jobs and incomes for Alaskan workers and their families, through more resources for education, through increased cultural and recreational opportunities, and through new careers for Alaskans.

Coal bed methane development holds similar potential for Alaska's communities. Working cooperatively, coal bed methane can be explored and produced the right way, the Alaskan way. And Alaska's people will share the benefits for years to come.

What is Coal Bed Methane?

Coal bed methane is a gas that is clear, clean and lighter than air. It is found in underground coal basins across the Western United States and in Alaska. In coal bed methane production, the methane gas is tapped from coal seams by specially adapted water well drilling units. Unlike conventional gas, CBM does not generally require additional treatment or processing before use. The gas is piped from the wellhead to a commercial gas line for direct distribution to homes and businesses.



What You Should Know

Property Rights

- Under the Alaska Constitution, the state owns subsurface mineral rights on state selected lands. The state sells "leases" to exploration companies and the money from these sales goes to the state to pay for government services and contributes to the Permanent Fund.
- On state leases, current Alaska law requires drillers to negotiate with private property owners to secure a land use agreement or post a bond before exploration can occur.

Water Quality Issues

- Alaska regulations do not allow CBM production in the same geologic zones used to provide drinking water. The coal seams in Alaska that would be tapped for methane gas are hundreds, even thousands, of feet below that level.
- Alaska state law strongly regulates what can and can't be done with water produced during drilling. Regulations require that this water be handled in such a way that it safeguards Alaska's water resources.

For more information visit:

www.dnr.state.ak.us/oil
www.cookinletollandgas.org

Energy Costs On the Rise

Starting in January 2004, over 112,000 residential and business, natural gas customers in South Central Alaska will pay about 12% more for their monthly gas bill.

Source: Enstar

Alaska State Legislature

Rep. Carl Gatto
Rep. David Guttenberg
Rep. Cheryl Heinze
Rep. Beth Kertula
Rep. Bob Lynn
Rep. Nick Stepovich
Rep. Kelly Wolf



State Capitol, Room 124
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Rep. Nancy Dahlstrom
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Rep. Beverly Masek
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House Resources Committee

MEMORANDUM

TO: Senator John Cowdery, Chair
Senate Rules Committee

FROM: Rep. Beverly Masek, Co-Chair
House Resources Committee

DATE: April 6, 2004

RE: Calendaring of HB 531

I would appreciate the Rules Committee scheduling HB 531 on the Senate Calendar at its earliest convenience.

I have attached a packet of information for inclusion in the bill packet. If you have any questions, please contact my aide, Eleanor Wolfe at 6585.

Thank you for your consideration of this request.

ALASKA STATE HOUSE OF REPRESENTATIVES

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Juneau, AK. 99801-1182
(907) 465-2679



Co-Chair
Representative Nancy A. Dahlstrom
State Capital, Rm. #126
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HOUSE COMMITTEE ON RESOURCES

SPONSOR STATEMENT

S CS CS HB 531 (RES) – Conventional / Non-Conventional Gas Leases

The intent of original shallow gas leasing legislation in 1995, HB 394, was to expand development of our state's marketable natural gas resources, as well as to promote private-sector employment, generate less expensive energy alternatives for rural Alaskan consumers, and enhance local tax bases for municipalities. Shallow gas legislation was inspired by the need to tailor the particular economies of this resource opportunity to available market opportunities. This type of gas extraction does not conform to the same economies of scale as conventional deep-hole oil and gas drilling.

Original legislation provided for leasing on a first-come, first-served basis so that development of the resource in areas away from the energy grid could take place. With a well-known shortage of natural gas development opportunities in South Central Alaska, prospects of leasing on-shore fields in the Cook Inlet Basin became very attractive. Two unintended consequences of this sudden interest materialized. One, it sparked leasing of the state-owned subsurface mineral estate in uneconomic areas, and two, it encouraged leasing in areas where divergent interests between gas development and established local residential and business activities came into conflict.

Without HB 531, a subsequent gas development entity could immediately lease land relinquished by the original lessee. In addition, land not currently leased remains subject to current over-the-counter standards. This bill initiates a permanent solution to these problems. It has been brought forward in response to strong citizen interest in the Mat-Su Valley and on the Kenai Peninsula, with input from several public meetings held at one time or another by the Alaska Department of Natural Resources (DNR), and the Senate Resources Committee.

Legislation Highlights

- ~ Eliminates over-the-counter, first-come, first-served shallow gas leases and replaces it with area-wide leasing or exploration licensing.
- ~ Requires a best-interest finding before any oil and gas leasing or exploration licensing. This will give DNR control of what land is leased, avoiding unnecessary surface-owner conflicts. Best-interest finds are a time-tested public process.
- ~ Creates a gas-only section of area-wide leasing and exploration licensing identified in a best-interest finding by DNR.

- ~ Differentiates conventional and non-conventional gas resources for the purposes of lease rentals.
- ~ Defines conventional and non-conventional gas development, and treats each distinctly. Recognizes that lease rights should not be determined by a depth criteria only. Enhances production opportunities.
- ~ Encourages exploration licenses with a best-interest finding as the method for non-conventional gas exploration outside of the area-wide leasing in rural Alaska.
- ~ Makes leasing and regulatory criteria fit the appropriate activity.
- ~ Ensures competitive processes, thereby maximizing the state's interests.

HB 531 / House Resources Committee / Rp. Beverly Masek / staff: Eleanor Wolfe / 465-6585

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB531CS(FIN)-DNR-O&G-0
() Publish Date: _____

Revision Date/Time (Note if correction): 4/29/2004 Dept. Affected: Natural Resources
Title Conventional & Non-conventional Gas RDU Resource Development
Leasing Component Oil and Gas Development
Sponsor House Resources
Requester: House Rules Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	80.0					
Travel	4.0					
Contractual	165.5					
Supplies	3.1					
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	252.6	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	**Indeterminate Amount**					
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	252.6					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	252.6	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary	1					

ANALYSIS: (Attach a separate page if necessary)

This bill would eliminate the current over-the-counter shallow natural gas program. HB 531 would create a new gas only option under the competitive leasing and exploration licensing programs.

****Indeterminate positive revenue:** Moving from an over-the-counter program to a competitive program will result in increased revenue to the state. The commissioner will be able to set minimum rentals and bonus bid amounts based on technical analysis of the potential resources and economics of the lease or license area. While a best interest finding process will cost more up front, that cost will be more than offset by the gains in going to a competitive process. Also, having a best interest finding process at the leasing and licensing stage will facilitate a more efficient progression to exploration and development and provide the state with royalties and other revenues from development sooner.

Prepared by: Mark D. Myers Phone 269-8800
Division: Oil and Gas Date/Time 4/29/04
Approved by: Thomas Irwin, Commissioner Date 4/29/04
Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. HB531CS(FIN)-DNR-O&G-0

ANALYSIS CONTINUATION

Section 60 would allow all pending shallow natural gas applicants a one-time opportunity to convert to a noncompetitive exploration license application upon payment of an application fee of \$1 per acre and with a 3-year work commitment equal to \$3 per acre. This section would also require DNR to conduct a best interest finding process prior to issuing the license.

In order to convert pending shallow natural gas applications to exploration licenses, DNR would need to simultaneously work on at least three additional best interest findings. In order to do so, it will be necessary to add one additional temporary best interest finding writer and contract out major portions of at least three findings. DNR anticipates after completing these findings that additional funding will not be needed.

DNR anticipates that there would be three separate best interest findings to cover conversion of the shallow natural gas applications to exploration licenses.

Expenditures:

Natural Resource Sp. III (\$80,000 Personal Services, \$4,300 Contractual, \$3,000 Supplies).

Travel for public hearings: \$4,000.

Outside Contracts for portions of three best interest findings: \$150,000

Expenses Associated with public notice and printing best interest findings:

Printing findings: \$1,400

Postage \$1,600

Envelopes: \$69

Public Notice (legal ads and display ads): \$8,231

(The Anchorage Daily News has general circulation in all areas of the state. The cost for a legal notice in the Anchorage Daily News is \$404 per day (weekday). $9 \times \$404 = \$3,636$. Publication cost in a local paper is estimated at \$225. $9 \times \$225 = \$2,025$. Display ad in the Anchorage Daily News = $\$614.70 \times 3 = \$1,844.10$. Display ad in a local paper = $\$242.00 \times 3 = \726)

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: CSHB 531 (FIN)
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title Shallow Natural Gas RDU Oil & Gas Conservation Commission
 Component Oil & Gas Conservation Commission
 Sponsor House Resources Committee
 Requester Sen. Resources Component No. 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual	20.0	5.0	5.0	5.0	5.0	5.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	20.0	5.0	5.0	5.0	5.0	5.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1162 AOGCC Receipts	20.0	5.0	5.0	5.0	5.0	5.0
TOTAL	20.0	5.0	5.0	5.0	5.0	5.0

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	0	0	0	0	0	0
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

\$20.0 for hydrology training and contractual costs.

Prepared by: John Norman, Chair Phone _____
 Division Alaska Oil & Gas Conservation Commission Date/Time 5/5/04 7:44 AM
 Approved by: Ray Maliashowski, Commissioner Date 5/5/2004
 Agency Department of Administration

HB 531

- Repeals existing over the counter shallow gas leasing program and replace it with current exploration licensing and conventional competitive leasing programs.
Both these programs require the Department of Natural Resources to do a Best Interest Finding (BIF) prior to leasing. The BIF process has extensive public noticing and public input and requires the Commissioner to balance interests prior to holding a lease sale or issuing a license.
- Includes additional ground water protections involving the production of non-conventional gas through requiring the AOGCC to regulate:
 - Hydraulic fracturing,
 - Disposal of wastes,
 - reinjection of produced water
 - prohibiting the production of gas from aquifers that serve as a source of water for human consumption or agricultural purposes unless it can be demonstrated that it will not adversely affect the aquifer
- Limits the discretion of DNR to extend the existing shallow gas leases
- Gives the Commissioner the discretion to issue either oil and gas or gas only leases
- On a gas-only-lease allows for the lessee to make a showing to DNR that can result in lower rentals and royalties if: The gas doesn't compete with other gas and the lease has only nonconventional gas potential.
- Repeals the HB 69 provisions allowing the Commissioner of DNR override authority over local zoning ordinances
- Gives a one-time opportunity for pending lease applicants to apply for a noncompetitive exploration license with a Best Interest Finding and a work commitment.
- As amended requires the DNR Commissioner to establish setbacks and noise mitigation measures for compressor stations prior to approving coalbed methane operations on any state leases.
- As amended requires the operator design and implement a water well testing program to provide baseline data on water quality and quantity as a condition for approval of a AOGCC permit to drill a coalbed methane well for production or production testing
- As amended specifies bonding requirements on gas-only-leases

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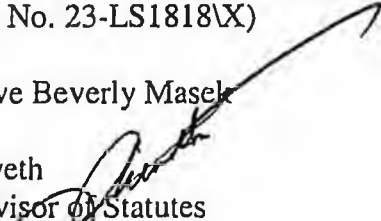
MEMORANDUM

April 28, 2004

SUBJECT: Committee Substitute for House Bill 531(FIN) -- sectional analysis
(Work Order No. 23-LS1818X)

TO: Representative Beverly Masek

FROM: Jack Chenoweth
Assistant Revisor of Statutes



Eleanor Wolfe has asked me to prepare a sectional analysis for the above-captioned bill.

This committee substitute treats comprehensively the exploration and development of natural gas. It draws a distinction between use of the existing shallow natural gas exploration and development statutes that rely on lease applications and conversion of the shallow natural gas leasing program set out in AS 38.05.177 to the system in place for exploration and development under conventional oil and gas leases. Development of shallow natural gas -- redesignated "nonconventional gas" in this version -- would take place under the conventional oil and gas leasing program of AS 38.05.180.

*

A key provision of this committee substitute is AS 38.05.180(ff), added by **bill section 41**. Subsection (ff) authorizes nonconventional gas leasing generally using the existing conventional oil and gas leasing procedures set out in AS 38.05.180. These nonconventional gas leases would be offered and operate as "gas only" leases (paragraph (1)) and are subject to regulation by the Alaska Oil and Gas Conservation Commission if a lessee operating under a "gas only" lease encounters oil (paragraph (2)).

Additional changes made in **bill section 41** that apply to nonconventional gas leasing include limitations on issuance of leases based on a demonstration that "the lessee has no other reasonable means of entry [to recover reserved minerals] than access and entry upon the land of the owner," with the burden of proof on the lessee" (paragraph (3)).

*

This committee substitute also contains a series of changes that

Representative Beverly Masek

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-- convert references and substantive provisions covering shallow natural gas leasing into a leasing policy covering "nonconventional gas" and that provide a definition of that term;

-- authorize the Department of Natural Resources to lease for "gas only" under the conventional oil and gas leasing procedures, with limited reservations governing activity involving nonconventional gas leases;

-- expand the use of exploration licensing and leasing set out in AS 38.05.131 - 38.05.134 to cover "gas only" licenses and leases; and

-- amend or repeal specific parts of AS 38.05.177, the section of the Alaska Land Act (AS 38.05) that currently authorizes and guides shallow natural gas leasing.

PROVISIONS ESTABLISHING A "NONCONVENTIONAL GAS" LEASING POLICY, SUPPLYING A DEFINITION FOR THAT TERM, AND MAKING CONFORMING CHANGES:

Bill section 45 supplies a definition of "nonconventional gas." The definition is added to the body of definitions that are generally applicable to the Alaska Land Act, AS 38.05. This definition replaces a pair of definitions for "shallow natural gas" and a working reference to shallow natural gas in the language of AS 38.05.177(a)(1), appearing at page 20, lines 29 - 31. The definition of "nonconventional gas" proposed in the measure is expanded to cover "coalbed methane, shales containing gas, or gas hydrates."

With the substitution of the new term and a definition for it, each of the following makes conforming changes:

-- **bill sections 5 and 6**, amending or adding to provisions in AS 31.05 (Alaska Oil and Gas Conservation Commission);

-- a reference in **bill section 26**, amending AS 38.05.177(a); and

-- **bill sections 52 - 55**, substituting "nonconventional gas" for "shallow natural gas" in various references in title 46; this title of the Alaska Statutes generally deals with environmental matters.

AUTHORIZING THE DEPARTMENT OF NATURAL RESOURCES TO LEASE FOR "GAS ONLY" UNDER THE CONVENTIONAL OIL AND GAS LEASING PROCEDURES, WITH LIMITED RESERVATIONS GOVERNING ACTIVITY INVOLVING NONCONVENTIONAL GAS LEASES, AND MAKING CONFORMING CHANGES:

AS 38.05.180(ff), added by **bill section 41** discussed earlier in this memo, explicitly authorizes the Department of Natural Resources to "issue leases for gas only" under the conventional oil and gas leasing program.

Representative Beverly Masek

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The following bill sections also revise or delete existing references to "oil and gas," "oil and gas lease," or substantially similar terms and references to acknowledge the alternative authorization of "gas only" leasing:

-- **bill sections 1, 3, 7 - 9, 10** (except the repeal of AS 38.05.035(e)(6)(G) [page 12, lines 23 - 25]), **11, 13, 14, 29 - 32, 33** (except the gas royalty rate adjustment authorized in AS 38.05.134(3)(B) [page 26, lines 20 - 24]), **34 - 38, 40, 42 - 44, 46 - 50, and 56.**

AUTHORIZING THE DEPARTMENT OF NATURAL RESOURCES TO USE EXPLORATION LICENSING AND LEASING FOR "GAS ONLY" UNDER AS 38.05.131 - 38.05.134, AND MAKING CONFORMING CHANGES:

In addition to conventional oil and gas leasing generally under AS 38.05.180, in 1994, the legislature authorized a separate program of oil and gas exploration licensing and leasing. **Bill section 14**, amending AS 38.05.131(a), explicitly authorizes the Department of Natural Resources to issue oil and gas exploration licenses and leases for "gas only." The following provisions make related conforming changes:

-- **bill sections 2, 12, 15 - 21, 22** (except the language of new subparagraph (B) [page 19, beginning at line 21]), **and 24.**

PROVISIONS ALTERING SPECIFIC PARTS OF AS 38.05.177, ADDRESSING SHALLOW NATURAL GAS LEASING:

These remarks principally address the content added by bill sections 26 - 28 to the existing shallow natural gas leasing section, AS 38.05.177:

-- AS 38.05.177(a) (**bill section 26**): The change limits application of the provisions that remain in this section, AS 38.05.177, to land to be leased for nonconventional gas;

-- AS 38.05.177(d) (**bill section 27**): The material added as (d)(2) sets constraints on extensions of existing shallow natural gas leases issued before January 1, 2004, for extensions permitted by former AS 38.05.177(c). Lease extensions must still be requested but, instead of allowing the director full discretion, the director's discretion is limited in that the director must first consider each of the factors enumerated in subparagraphs (A) - (C).

-- AS 38.05.177(l) (**bill section 28**): This subsection, as amended, maintains the protections for development of other mineral deposits on state land leased for recovery of nonconventional gas and the priority protection of the interests of the nonconventional gas lessee as against a subsequently acquiring coal lessee under a lease for coal issued under AS 38.05.150.

OTHER BILL SECTIONS THAT ARE NOT ADDRESSED OR DESCRIBED ABOVE:

Bill section 4: This amends the authority of the Alaska Oil and Gas Conservation Commission as that authority may be exercised with respect to nonconventional gas exploration and development. Paragraph (1) imposes a prohibition against the commission's issuing a permit to drill under AS 31.05 "if . . . operations . . . would involve producing gas from an aquifer that serves as a source of drinking water . . . or . . . for agricultural purposes" and a conditional prohibition against the reinjection of produced water. Paragraph (2) expands the authority of the commission to regulate hydraulic fracturing associated with exploration for and the disposal of wastes produced by those operations.

Bill section 10: The repeal of AS 38.05.035(e)(6)(G), page 12, lines 23 - 25, drops reference to shallow natural gas leases from the written best interest finding requirement of that subsection. The best interest finding, required generally for conventional oil and gas leasing under AS 38.05.180, is extended to nonconventional gas leasing.

Bill sections 22 (page 19, beginning at line 21) **and 33** (page 26, lines 20 - 24): Existing law provides for a reduced royalty authorized for certain shallow natural gas. See AS 38.05.177(g). These two amendments retain that reduction by adding, as to both nonconventional gas exploration licensing and leasing and nonconventional gas leasing under the general leasing program of AS 38.05.180, provisions for a reduced royalty for nonconventional gas if that gas is "not produced in direct competition with gas on which a royalty at a rate of at least 12.5 percent is payable."

Bill sections 23 and 25: The amendments set out make conforming changes to provisions addressing coal deposits and coal leases.

Bill section 39: Existing law sets a rental rate of \$1 per acre for shallow natural gas. See AS 38.05.177(f). The amendment made to AS 38.05.180(n) continues that special rental rate through the exploration and development phases but only if "the potential resources underlying the lease are reasonably estimated to be only nonconventional gas."

Bill section 51: This amendment drops an exemption for coalbed methane from waste material/water discharge permit requirements. The change conforms the text of AS 46.03.100(f) to House-passed HB 524 am.

Bill section 57: With the repeal of provisions in AS 31.05 and AS 38.05.177 under which the commissioner of natural resources may, if the department clearly demonstrates an overriding state interest, approve a waiver of local planning authority approval and requirements relating to compliance with local ordinances and regulations, the amendment made at page 47, lines 20 - 23 is a conforming change. The amendment that deletes paragraph (1) -- page 46, lines 21 and 22 -- eliminates a legislative "best interest" finding covering shallow natural gas development set out in the 2003 legislation.

Representative Beverly Masek

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Bill section 58: The section repeals the following:

-- all of AS 38.05.177 (shallow natural gas) that is not specifically retained as amended under bill sections 26 - 28 of this Act;

-- provisions in AS 31.05 and AS 38.05.177 under which the commissioner of natural resources may, if the department clearly demonstrates an overriding state interest, approve a waiver of local planning authority approval and requirements relating to compliance with local ordinances and regulations; and

-- paragraphs setting out definitions of "shallow natural gas" in AS 31.05 and AS 46.04.

Bill section 59: This transitional provision directs the Department of Natural Resources to deal with the shallow natural gas leases executed and lease applications received by December 31, 2003, under the provisions of AS 38.05.177, as that section read before its amendment by this Act.

Bill section 60: This provision, added by House Finance, allows a shallow natural gas lease applicant to convert the application to an application for an exploration license and lease. The applicant who wants to convert must comply with the requirements of (a)(1) - (4) and is subject to a best interest review and finding under AS 38.05.035(e), referenced in subsection (b). If the applicant converts, under subsection (c), the shallow natural gas application fee is to be refunded.

Bill section 61 gives the measure an immediate effective date.

JBC:mdr

04-201.mdr

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MEMORANDUM

April 16, 2004

SUBJECT: CSHB 395(), (Work Order No. 23-LS1314G) and
CSHB 531(Res), (Work Order No. 23-LS1818V)--
notes to accompany the bill drafts

TO: Representative Nancy Dahlstrom, Co-Chair
House Resources Committee

FROM: Jack Chenoweth
Assistant Revisor of Statutes

With this memo are two bill drafts based on my understanding of direction given yesterday afternoon by the working group considering differences between these two drafts.

CSHB 531(Resources), draft version "V":

This is the measure that proposes to scrap the separate leasing process for shallow natural gas leasing and to treat leasing of that commodity under the conventional oil and gas leasing provisions of AS 38.05.180 as "nonconventional gas." There are only four changes to the previous draft of this bill. Rather than amend AS 31.05.125 (waiver of local planning authority, amended by former bill section 6), I repealed the section. Also repealed, per working group direction, were AS 38.05.177(n) (same subject) and paragraphs 1 and 7(c) of sec. 1, ch. 45, SLA 2003. Finally, also per working group direction, I conformed the text of AS 46.03.100(f) to match House action in passing House Bill 524 amended. This Act is given an immediate effective date.

CSHB 395(), draft version "G":

This is the measure that makes more stringent the regulation of shallow natural gas under existing AS 38.05.177. The bill draft contains multiple changes, most of them concerned with the interrelationship between this version and the one described in the previous version. In your review of the text, you will see that a number of provisions are drafted in the alternative, with these alternative provisions given contingent effect.

The title of this bill is amended by adding a clause referring to "contingently redesignating shallow natural gas as nonconventional gas, and relating to the regulation of that gas".

Representative Nancy Dahlstrom,
Co-Chair, House Resources Committee
April 16, 2004
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Bill section 1 is unchanged from the previous draft. **Bill section 2** repeals and reenacts bill section 1 **only** to change reference from "shallow natural gas" to "nonconventional gas."

Bill section 3 is unchanged from the previous draft. **Bill section 4** repeals and reenacts bill section 3 also **only** to change reference from "shallow natural gas" to "nonconventional gas."

Bill section 5: Because this provision assumes that the provisions of bill sections 1 and 3 will operate if CSHB 531(RES) *does not* become law, this bill section retains the language of the previous draft.

Bill section 6: This supplies a definition for the text changes made in bill sections 2 and 4 in the event CSHB 531(RES) *does* become law.

Bill section 7: There is no change in the text of this bill section from the previous draft.

Bill sections 8 - 11: These provisions make changes to various subsections within AS 38.05.177 and operate on the assumption that CSHB 531(RES) *does not* become law. There is no change in the text of any of these bill sections from the previous version.

Bill section 12: If CSHB 531(RES) does become law, the various protections set out in the previous four bill sections would be repealed. In order to retain them, AS 38.05.180(ff), added by CSHB 531(RES), is reenacted. In that reenactment, the provisions of what is set out in bill sections 8 - 11 are reenacted as requirements in AS 38.05.180(ff) and appear here as parts of paragraphs (3), (4), and (5).

Bill sections 13 and 14: These amend the notice provisions, AS 38.05.945(a) and (b), generally applicable to oil and gas leasing to add provisions covering shallow natural gas leases. The text is unchanged from the last previous draft.

Bill section 15: If CSHB 531(RES) becomes law, this provision would operate to reenact AS 38.05.945(b) to undo what is done under bill section 14 immediately above. If CSHB 531(RES) becomes law, nonconventional gas leasing will proceed under the department-initiated/best interest finding process rather than on the basis of nomination and public comment specific to AS 38.05.177, so the changes made by bill section 14 would not be needed.

Bill section 16 conforms the text of AS 46.03.100(f)(3), per working group instruction.

Bill section 17 makes a conforming amendment to CSHB 46.04.030(b) in the event CSHB 531(RES) becomes law.

Representative Nancy Dahlstrom,
Co-Chair, House Resources Committee
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Bill section 18: Because this provision assumes that the current provisions of AS 46.04.030(b) will continue to operate if CSHB 531(RES) *does not* become law, this bill section retains the language of the previous draft.

Bill section 19: This supplies a definition for the text changes made in bill section 17 in the event CSHB 531(RES) *does* become law.

Bill sections 20 and 21: These two bill sections make repeals specifically directed by the working group.

Bill section 22: This set of repealers would delete material found earlier in bill sections 5, 13, and 18.

Bill section 23: This is the contingency provision. The contingency is the enactment of a version of House Bill 531, the companion measure. Only if CSHB 531(RES) becomes law do the amendments and repeals proposed in the bill sections identified take effect.

Bill section 24: This is the effective date provision for the contingency. The contingently effective provisions would take effect one day after the effective date of the companion measure.

Provisions not covered by the contingency are, under **bill section 25**, proposed to take effect July 1, 2004.

*

What, then, are the possible outcomes?

First, it is possible that both bills would not pass. I guess that means we start over in 2005.

Second: It is possible that CSHB 395() would not take effect and that CSHB 531(RES) would take effect. Nothing in CSHB 531(RES) is dependent on CSHB 395(), so CSHB 531(RES) would take effect on its own terms. Shallow natural gas leasing under AS 38.05.177 would end and leasing of nonconventional gas under the conventional oil and gas leasing procedures of AS 38.05.180 would begin.

Third: It is possible that CSHB 395() would take effect and CSHB 531(RES) would not take effect. In that event, only the provisions of CSHB 395() that are **not** covered by the contingency provision would take effect, while the contingent provisions in that bill would not take effect (because the contingency, the taking effect of the companion bill, does not occur). In effect, shallow natural gas would continue to be leased under provisions of AS 38.05.177, as amended by that Act.

Representative Nancy Dahlstrom,
Co-Chair, House Resources Committee
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Fourth: Both measures become law. By its terms, and assuming the necessary two-thirds vote in each house, CSHB 531(RES) would become immediately effective. The noncontingent provisions of CSHB 395() -- these are the provisions that are drafted on the assumption that shallow natural gas would continue to operate under AS 38.05.177 as amended -- would take effect, again assuming the necessary two-thirds vote in each house, July 1, 2004. The contingent provisions of CSHB 395() -- these are drafted as the superseding provisions -- would take effect one day after the later of the effective date of the companion measure or the noncontingent provisions of the Act.

It's not pretty -- but it should work!

JBC:mdr
04-159.mdr

Enclosure

cc: Eleanor Wolfe, for Representative Beverly Masek, Co-Chair
House Resources Committee

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

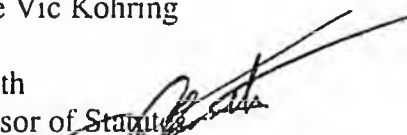
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 15, 2004

SUBJECT: House draft CS that duplicates version "S" of CSSB 312() --
notes to accompany the draft (Work Order No. 23-LS1818\D)

TO: Representative Vic Kohring

FROM: Jack Chenoweth
Assistant Revisor of Statutes 

The measure that is enclosed with this memo exactly duplicates the "S" version of CSSB 312() except that, at page 44, lines 29 and 31, following "effective date of amendments of" and "effective date of the repeal of" I have deleted "that section" and replaced those words with "those subsections". AS 38.05.177 is not entirely amended or repealed; only selected subsections of that section are amended or repealed. The change corrects our error.

JBC:med
04-292.med

Enclosure

ALASKA STATE HOUSE OF REPRESENTATIVES

Co-Chair
Representative Beverly L. Masek
State Capital, Rm. #403
Juneau, AK. 99801-1182
(907) 465-2679



Co-Chair
Representative Nancy A. Dahlstrom
State Capital, Rm. #126
Juneau, AK. 99801-1182
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HOUSE COMMITTEE ON RESOURCES

SPONSOR STATEMENT

HB 531 – Conventional / Non-Conventional Gas Leases

The intent of original shallow gas leasing legislation in 1995, HB 394, was to expand development of our state's marketable natural gas resources, as well as to promote private-sector employment, generate less expensive energy alternatives for rural Alaskan consumers, and enhance local tax bases for municipalities. Shallow gas legislation was inspired by the need to tailor the particular economies of this resource opportunity to available market opportunities. This type of gas extraction does not conform to the same economies of scale as conventional deep-hole oil and gas drilling.

Original legislation provided for leasing on a first-come, first-served basis so that development of the resource in areas away from the energy grid could take place. With a well-known shortage of natural gas development opportunities in South Central Alaska, prospects of leasing on-shore fields in the Cook Inlet Basin became very attractive. Two unintended consequences of this sudden interest materialized. One, it sparked leasing of the state-owned subsurface mineral estate in uneconomic areas, and two, it encouraged leasing in areas where divergent interests between gas development and established local residential and business activities came into conflict.

Without HB 531, a subsequent gas development entity could immediately lease land relinquished by the original lessee. In addition, land not currently leased remains subject to current over-the-counter standards. This bill initiates a permanent solution to these problems. It has been brought forward in response to strong citizen interest in the Mat-Su Valley and on the Kenai Peninsula, with input from several public meetings held at one time or another by the Alaska Department of Natural Resources (DNR), and the Senate Resources Committee.

Legislation Highlights

- ~ Eliminates over-the-counter, first-come, first-served shallow gas leases and replaces it with area-wide leasing or exploration licensing.
- ~ Requires a best-interest finding before any oil and gas leasing or exploration licensing. This will give DNR control of what land is leased, avoiding unnecessary surface-owner conflicts. Best-interest finds are a time-tested public process.
- ~ Creates a gas-only section of area-wide leasing and exploration licensing identified in a best-interest finding by DNR.

~

Differentiates conventional and non-conventional gas resources for the purposes of lease rentals.

~

Defines conventional and non-conventional gas development, and treats each distinctly. Recognizes that lease rights should not be determined by a depth criteria only. Enhances production opportunities.

~

Encourages exploration licenses with a best-interest finding as the method for non-conventional gas exploration outside of the area-wide leasing in rural Alaska.

~

Makes leasing and regulatory criteria fit the appropriate activity.

~

Ensures competitive processes, thereby maximizing the state's interests.

HB 531 / House Resources Committee / Rp. Beverly Masek / staff: Eleanor Wolfe / 465-6585

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB531-DNR-O&G-03-12-04
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Conventional & Non-conventional Gas Leasing RDU: Resource Development
Component: Oil and Gas Development
Sponsor: House Resources
Requester: House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES (1004 GF) + ****Indeterminate Positive Amount****

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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 (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
This bill would eliminate the current over-the-counter shallow natural gas program. HB 531 would create a new gas only option under the competitive leasing and exploration licensing programs.

**Indeterminate positive fiscal note: Moving from an over-the-counter program to a competitive program will result in increased revenue to the state. The commissioner will be able to set minimum rentals and bonus bid amounts based on technical analysis of the potential resources and economics of the lease or license area. While a best interest finding process will cost more up front, that cost will be more than offset by the gains in going to a competitive process. Also, having a best interest finding process at the leasing stage will facilitate a more efficient progression to exploration and development and provide the state with royalties and other revenues from development sooner.

Prepared by: Mark D. Myers Phone 269-8800
Division: Oil and Gas Date/Time 3/11/04
Approved by: Thomas Irwin, Commissioner Date 3/12/04
Agency: Natural Resources



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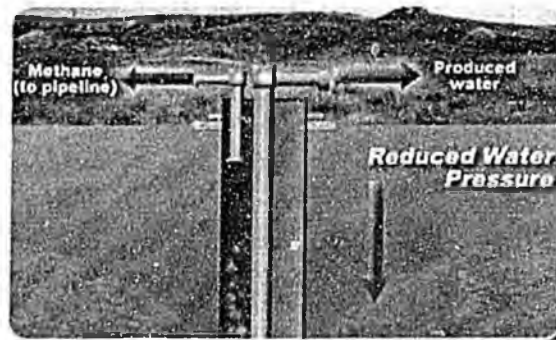
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- [CBM Basins](#)
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WHAT IS COALBED METHANE?



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Q: What is coal bed methane?

A: It has been known since the first coal miner went underground that coal releases a deadly gas known as methane. For over 100 years the solution was to vent the methane to the atmosphere. However, deaths and mine explosions still occurred. In the 1980s the US government passed a massive energy bill allowing for tax credits for removing gas from coal to encourage using this resource as consumable product and reduce mine hazards. Thus the coal bed methane industry was born. Initially, exploration was focused on the basins where the coals were already producing, such as the San Juan in New Mexico and Colorado or areas where gas was a problem in mines such as the Warrior Basin in Alabama.

Gas is held on the coal in very unique way, it is adsorbed onto the coal molecules itself. The gas is held in place by the water pressure on the coal. Some coals contain a lot of water and it takes time for gas to desorb from the coal and examples of this are coals that produce in Powder River and Black Warrior basins. Other coals in other basins have very little water and gas production begins from day of production, such as in Eastern Kansas and Appalachian Basin. Some coals in certain basins are over saturated with gas and despite high water contents produce gas immediately upon completion and examples of this are the San Juan and Raton basins. Each basin has unique coal reservoir and production characteristics.

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Q: Where are the coal basins in the United States?

A: There are a number of coal basins in the US that have produced large or minor amounts of coal. A number of these basins have gas whereas some do not. The largest gas producing basin to date is the San Juan Basin located in New Mexico and Colorado. Other basins that have been developed and are well into producing large volumes of gas are the Black Warrior, Powder River, Piceance, Uinta and Raton basins, Green River and Alaska. Historically, the Cherokee, the Forest City, the Arkoma, and the Appalachian basins have produced gas but until recently, only minor amounts. Other basins such Illinois, Williston and Denver basins all seemed not to be able to generate gas or have been degassed.

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Q: What is the critical element in coal bed methane?

A: The critical element in all coal bed methane plays is permeability. In its simplest form, permeability is the connection between the pores of the rock. The connection can be seen as a hallway between rooms. The width of the hallway is important in terms of allowing gases and fluids to move between rooms and eventually out the front door as represented by the well bore. Coal has very little porosity so inherently it is the extent of the permeability that allows it to produce. We can imagine further that the coal is like a series of sugar cubes, the gas is adsorbed onto the sugar cubes, and it is the width of the spaces or fractures between them that constitutes permeability. In coals, the permeability is represented by a fracture system called cleats. There is the face cleat which is the main fracture system and usually perpendicular to any structural grain. The secondary fracture system is called the butt cleats. The cleat system is generally fractural in nature and is repeated on a large and small scale.

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Q: What determines permeability in coal?

A: Permeability is modified by the rank of the coal. Rank being how cooked the coal has been. Coals are formed from peat swamps and as they are buried they are subject to increasing pressures and temperatures. Added to this is the value of time. The longer coals are cooked the higher the rank. During this modification or lithification process the coals change and how they change determines their characteristics both as a coal reservoir and its permeability. As coals are subject to pressures and temperatures through time volatile matter, water and ash are either changed or driven out. Coals that are lignite, the lowest rank just above peat, tend to have ash (greater than 20%) and water (greater than 20%) contents. These types of coals have tremendous permeability but their direction and width is not very well defined. Lignite tends to have very little gas associated with them. As a coal is thermally matured it coals from lignite to subbituminous to high volatile bituminous to medium volatile bituminous to low volatile bituminous to anthracite to semi-anthracite to graphite. With each step in the change in rank increases the coals ability to hold more and more gas but the permeability decreases. As we reach anthracite, which can hold tremendous amounts of gas but because it is almost all carbon has little if any cleat system and so the gas cannot move.

In addition cleat systems will be invaded over time by meteoric waters that can either enhance or destroy permeability. An example of this is calcite deposits found in the cleat system in coals in the Illinois, Arkoma and Appalachian Basins that literally heal the cleats shut.

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Q: What measurement is used for permeability?

A: Permeability is measured in units of darcy. Named after Darcy's Law which is how an engineer calculates permeability of rock. Coal typically has a wide range of permeabilities. Coals of the Powder River Basin have higher permeability, usually over 1 darcy whereas coals of the Arkoma basin have less than 0.01 darcy or a more common it is termed microdarcies. Consequently, Powder River Basin coals flow large volumes of water and eventually gas without stimulation. Coals of the Arkoma basin have to be either fractured enhance (stimulated) or horizontally drilled to be productive. San Juan Basin coals typically have 20 to 40 millidarcies, in Appalachian Basin they have 0.01 to 40 millidarcies and in Eastern Kansas (the Cherokee and Forest City basins) they range from 0.01 to in excess of 500 millidarcies.

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Q: How is the gas generated in coal?

A: There are two types of gas found in coals, thermogenic and biogenic. Coals that produce thermogenic gas tend to have higher reserves and longer life, case in point is the San Juan, Appalachian, Raton, Arkoma, Forest City and Cherokee basins. Coals that produce biogenic gas exclusively tend to be more limited in reserves but have higher permeability and drain large areas such as the Powder River Basin. Biogenic gas is the result of bacteria having migrated with meteoric waters into a coal seam and the bacteria eats the coal. In the process of digesting the coal the bacteria generates methane along with carbon dioxide. We see certain areas in the Powder River that produce lots of gas above 1,500 feet whereas we see deeper coals where the bacteria have not been able to migrate with no gas. Coals in the Warrior Basin developed under a similar scenario even though the coals are in the high volatile rank and are of Pennsylvanian Age.

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Q: How is gas measured?

A: Gas is measure in standard cubic feet per ton (SCF). A coal with 200 scf per ton is considered a productive coal. Coals in the San Juan and Arkoma basins have typically over 500 scf per ton. Coals in Eastern Kansas and Appalachian basins range from 100 to 350 scf per ton. Coals in the Powder River Basin typically have less than 60 scf per ton. What makes the Powder River Basin work is thick coal seams (greater than 40 feet per seam) and permeability of over a darcy.

Top

Q: How does thickness of coal affect the play?

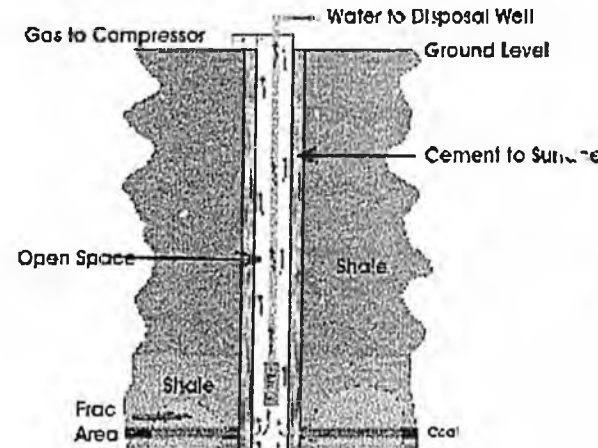
A: All things being equal the thicker the coals the better. However, thin coals (<4feet) are what most basins have. These coals can be laterally contiguous over hundreds of miles such as the Illinois, Forest City, Cherokee, Appalachian and Warrior basins. These coals represented a time of continental swamp development and a period when the earth was stable and warm Coals that are laterally limited and discontinuous but vary from thin to very thick tend to be of younger age and developed during a time of fluvial dominance. Coals in the San Juan, Piceance, Uinta, Raton and Powder River tend to be limited to two miles wide to 40 miles long. These coals represent warm climatic conditions but a time of massive mountain building and erosion in the Rocky Mountains. .

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Q: What about the adjacent shale, do they contribute gas?

A: In Cherokee and Forest City basins (Eastern Kansas) the adjacent shales are organic rich, thermally mature and generating gas. These shales seem to be contributing 50% or more of the gas in a coal bed methane well suggesting this area is more of a shale gas and coal gas play then strictly a coal bed methane one. Similar age shale in Illinois, Appalachian and Warrior basin do not seem to be similarly thermally mature and do not seem to be generating gas.

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Q: How do we complete coal bed methane wells?

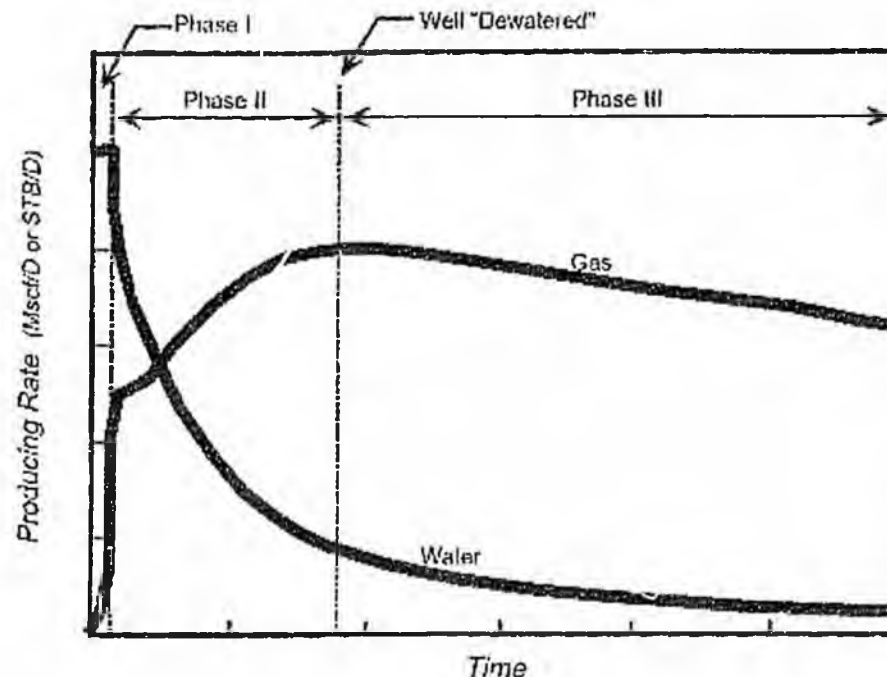
A: We drill to the top of or into the coal and either set pipe and drill in or we run pipe across the coal. In some cases we drill a vertical well and then horizontally drill out along the coal seam. We can horizontally drill several coal seams from the same well bore.

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Q: What can we expect in terms of production?

A: A typical coal bed methane well produces water for long periods of time before the gas is desorbed. If a coal can hold 200 scf per ton and the amount of gas present on the coal, as determined by testing, is 200 scf per ton, then it can essentially start making gas right away. An example of this is in Eastern Kansas and Pennsylvania. If a coal can hold 100 scf per ton but only has 60 scf per ton then the pressure in the reservoir has to be lowered to a certain point before the gas can desorb. Coals like this are found in the Powder River, Illinois and Warrior basins. Gas in a coal bed methane well starts migrating towards the well bore when pressure is essentially near below its saturation point. On top of that, coals that have low amounts of water or moisture (mining term) values, gas production typically begins right away. Coals such as these are found in the Cherokee, Forest City and Appalachian basins. Then there are coals that are over-saturated and produce gas regardless such as the San Juan, Piceance, and Arkoma basins.

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Q: How do we explore for coal bed methane?

A: Generally we know where the coal is located. The problem comes in assessing the resource and this is only done through the drill bit and collecting coal canisters for laboratory analysis.

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Q: Are there any conventional petroleum methods that will help?

A: While seismic methods have been used to define the geometry of coal seams they are not effective in determining the overall lateral continuity of the coals and cannot determine the gas contents of the coal. Coal bed methane is like a large low grade copper or gold porphyry, you have to drill a lot of wells and keep your costs down. Other methods such as aeromagnetics may see basement fracture systems, gravity may define large basement blocks, surface geochemistry cannot detect anything because of the way the gas is held on the coal but in the end you have to drill all your potential locations to make the play work. Coal bed methane plays or projects cover hundreds,

thousands if not millions of acres. Every location needs to be drilled, a certain percentage of wells will be subeconomic and a certain percentage will be exceptional. The majority of wells produce average rates with the goal of dewatering the entire reservoir. Therefore, any coal bed methane play is driven by keeping costs down and drilling as quickly as reasonable every location and getting it hooked to the pipeline.

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A M E N D M E N T

OFFERED IN THE HOUSE
OIL AND GAS COMMITTEE
TO: CSHB 531

BY REPRESENTATIVE CRAWFORD
AND KERTTULA

- 1 Page 6, Lines 24-26; after "purposes", delete all language
2
- 3 Page 25, Lines 25-27; after "payment", delete all language,
4 Insert:
5 at least \$300 a month for each wellhead that the lessee or the lessee's agent
6 locates on the owner's property and at least \$600 a month for a compressor
7 station that the lessee places in operation on the owner's property; and
8 (C) provide a signed agreement with the property owner
9 establishing reasonable times of operation, reasonable points to access the
10 property, and reasonable time frames in which the property may be
11 accessed.
12
- 13 Page 26, Lines 1-5; after "section.", delete all language
14 Insert:
15 [IF THE DEPARTMENT CLEARLY DEMONSTRATES AN OVERRIDING
16 STATE INTEREST, THE COMMISSIONER MAY APPROVE A WAIVER
17 OF LOCAL PLANNING AUTHORITY APPROVAL AND REQUIREMENTS
18 RELATING TO COMPLIANCE WITH LOCAL ORDINANCES AND
19 REGULATIONS. THE COMMISSIONER SHALL ISSUE SPECIFIC
20 FINDINGS GIVING REASONS FOR GRANTING A WAIVER UNDER
21 THIS SUBSECTION.]
22
- 23 Page 43, Line 29; insert a new section to read:
24 * Sec. 53. AS 38.05.945(b) is amended to read:
25 b) When notice is required to be given under this section,
26 (1) the notice must contain sufficient information in
27 commonly understood terms to inform the public of the nature of the action and
28 the opportunity of the public to comment on it;
29 (2) if the notice is of a preliminary written finding described
30 in (a)(3)(A) of this section, the department shall give notice at the beginning of
31 the public comment period for the preliminary written finding, notifying the
32 public of the right to submit comments; the department shall give notice by
33 (A) publication of a legal notice in newspapers of
34 statewide circulation and in newspapers of general circulation in the
35 vicinity of the proposed action at least once a week for two consecutive
36 weeks;
37 (B) publication of a notice in display advertising
38 form in the newspapers described in (A) of this paragraph at least once a
39 week for two consecutive weeks;
40 (C) public service announcements on the electronic
41 media serving the area to be affected by the proposed action; and

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(D) mail or electronic mail to residents in the vicinity of the proposed action;

(E) one or more of the following methods:

(i) posting in a conspicuous location in the vicinity of the action;

(ii) notification of parties known or likely to be affected by the action; or

(iii) another method calculated to reach affected parties;

(3) if the notice is of an action described in (a) of this section, other than notice of an action under (a)(3)(A) of this section, the department shall give notice at least 30 days before the action by publication in newspapers of statewide circulation and in newspapers of general circulation in the vicinity of the proposed action and one or more of the following methods:

(A) publication through public service announcements on the electronic media serving the area affected by the action;

(B) posting in a conspicuous location in the vicinity of the action;

(C) notification of parties known or likely to be affected by the action; or

(D) another method calculated to reach affected persons.



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BLM clears backlog of methane drilling applications

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Associated Press

BUFFALO, Wyo. – A backlog of 1,400 coal-bed methane drilling permits on federal lands in the Powder River Basin has been cleared, officials said.

The Buffalo Field Office of the BLM is now on track to maintain a steady flow of new permits, according to Richard Zander, assistant field manager.

“Things are progressing fairly well,” he said.

Dru Bower, vice president of the Petroleum Association of Wyoming, said methane producers seem pleased at the faster rate of permitting. However, they have yet to see the Buffalo office reach its goal of a 46-day turnaround, she said.

“But the good news is, we now finally know where our permits are,” she said. “And in working with the BLM, industry has a better understanding of what is required.”

When the methane boom began in 1998, the industry relied mainly on state and private mineral leases while the BLM scrambled to revise its mineral management plan for the basin, knowing demand would move westward where most of the minerals are federally owned.

Federal permitting slowed and even came to a halt this time last year as the BLM completed an environmental impact statement of the effect of methane development.

By the time the plan was finalized in April 2003, the staff had a backlog of 1,400 applications, Zander said.

The permits have been processed and the goal of a 46-day turnaround is close to target, he said.

Since October, the office has issued enough permits to allow 627 new wells, and staffers are working hard to reach a goal of issuing 3,000 permits per year, the rate at which BLM headquarters and the Bush administration has set for the office, he said.

About 1,000 applications are in various stages of completion.

“There are some kinks to workout, but we’re moving along,” Zander said.

Bower said one problem that producers are dealing with is that wildlife surveys often expire before a permit is completed. At the time a company files an application, it is required to conduct a wildlife survey of the area it proposes to develop.

A survey is valid for only one year.

“So if the permits are not issued, then the survey has to be redone.

That’s becoming a problem,” she said.

Sincerely,

Corri Feige
Manager, Governmental Affairs and Public Relations
Evergreen Resources (Alaska) Corporation

-----Original Message-----

From: haanfam [mailto:haanfam@mtaonline.net]

Sent: Wednesday, March 24, 2004 11:43 PM

To: Corri Feige

Cc: Governor Murkowski; Lt_Governor@gov.state.ak.us; Talis Colberg; jbbush@mtaonline.net; Betty Vehrs; Bill Allen; Jim Colver; Jody Simpson; Mary Kvalheim; Representative_Bill_Stoltze@legis.state.ak.us; representative_carl_gatto@legis.state.ak.us; Representative_Vic_Kohring@legis.state.ak.us; Senator_Lyda_Green@legis.state.ak.us; Senator_Scott_Ogan@legis.state.ak.us; Representative_Beverly_Masek@legis.state.ak.us; Alaska Senate; Representative_Nancy_Dahlstrom@legis.state.ak.us; Representative_Pete_Kott@legis.state.ak.us; Senator_Gene_Therriault@legis.state.ak.us; William Van Dyke; Jim_Hansen@dnr.state.ak.us; Dan Seamount; John Norman; Mark Myers; Mark Sprague; Matt Rader; Patrick Galvin; Steve & Joy Cypra; Clint & Rhonda Stark; Heather & Shane Barber; Jack&Becky Sherman; Kim Longo&Tom Green; Mike&Sheryll Carson; Robert&Jennifer Nash; Sharon & Howell Powder

Subject: Evergreen Resources / good neighbor

Corrie:

You indicated today in our phone conversation today that you responded to my previous e-mail inquiring about Evergreen Resources intentions on developing in the Fishhook Road / Hatcher Pass area. Unfortunately my family never received the e-mail response.

What is Evergreen Resources intentions for our area? It seems like your industrial development is better suited for the Susitna Flats. P.S. Would you and your husband come out armed with extreme prejudice if some beligerant cheechackos were blowing their car horns off at the end of your drive way in Chickaloon for two weeks straight / 24 hours a day? Not if they offered you the weekend at a hotel? My wife made me uplug my mom's hand me down upright freezer last fall because it vibrated too much. Thanks neighbor.

Respectfully,

Scott M Haan

Subject: RE: Evergreen Resources / good neighbor

Date: Thu, 25 Mar 2004 13:39:16 -0900

From: "Corri Feige" <CorriF@EvergreenGas.com>

To: "haanfam" <haanfam@mtaonline.net>

CC: "Governor Murkowski" <governor@gov.state.ak.us>, <Lt_Governor@gov.state.ak.us>, "Talis Colberg" <talisappleorchard@hotmail.com>, <jbbush@mtaonline.net>, "Betty Vehrs" <bvehrs@gci.net>, "Bill Allen" <sallen@mtaonline.net>, "Jim Colver" <surveyor@pobox.alaska.net>, "Jody Simpson" <jesimpson@gci.net>, "Mary Kvalheim" <marykv@mtaonline.net>, <Representative_Bill_Stoltze@legis.state.ak.us>, <representative_carl_gatto@legis.state.ak.us>, <Representative_Vic_Kohring@legis.state.ak.us>, <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Scott_Ogan@legis.state.ak.us>, <Representative_Beverly_Masek@legis.state.ak.us>, "Alaska Senate" <Senator_Thomas_Wagoner@legis.state.ak.us>, <Representative_Nancy_Dahlstrom@legis.state.ak.us>, <Representative_Pete_Kott@legis.state.ak.us>, <Senator_Gene_Therriault@legis.state.ak.us>, "William Van Dyke" <William_VanDyke@dnr.state.ak.us>, <Jim_Hansen@dnr.state.ak.us>, "Dan Seamount" <dan_seamount@admin.state.ak.us>, "John Norman" <john_norman@admin.state.ak.us>, "Mark Myers" <mark_myers@dnr.state.ak.us>, "Mark Sprague" <mark_sprague@dnr.state.ak.us>, "Matt Rader" <Matt_Rader@dnr.state.ak.us>, "Patrick Galvin" <Patrick_Galvin@dnr.state.ak.us>, "Steve & Joy Cypra" <scypra@hotmail.com>, "Clint & Rhonda Stark" <stark@mtaonline.net>, "Heather & Shane Barber" <snobound@mtaonline.net>, "Jack&Becky Sherman" <sherman@mtaonline.net>, "Kim Longo&Tom Green" <klongo_is@yahoo.com>, "Mike&Sheryll Carson" <Carsons@mtaonline.net>, "Robert&Jennifer Nash" <jmash@mtaonline.net>, "Sharon & Howell Powder" <powder80@gci.net>

Dear Mr. Haan,

Thanks again for your call yesterday, inquiring about our core drilling operations on the Rutherford property (Little Su #1). As I mentioned yesterday, the surface casing for the Little Su #1 was set in late December, and the actual core drilling is currently underway. We anticipate being on location for approximately 10 days to 2 weeks. After we complete the core drilling, the hole will be plugged and the site reclaimed. It will take several months to analyze all of the data gathered during the core drilling program, and it could be a year before we know where we will focus our next exploration efforts. That's the nature of resource exploration.

I have received inquiries from two landowners very near the core site (less than one-quarter mile), both wondering how long we will be active in the area. Neither individual indicated any disturbance due to our activities. As you yourself noted, we had been drilling for more than four days (since last Saturday) before you noticed our activities!

It is regrettable that you have a neighbor who is honking his horn at all hours of the day and night. I can check the daily logs at the core site and see if anyone has noted the disturbance or a vehicle coming and going at odd hours. Since your home is more than one-half mile from the core site, the incident may not have been noticed.

As always, Evergreen Resources (Alaska) is happy to answer questions and address concerns about our operations. Should you have questions in the future, please don't hesitate to call.

Subject: please contact Republican politicians

Date: Wed, 24 Mar 2004 23:07:43 -0900

From: "haanfam" <haanfam@mtaonline.net>

To: "Steve & Joy Cypra" <scypra@hotmail.com>, "Clint & Rhonda Stark" <stark@mtaonline.net>, "Heather & Shane Barber" <snobound@mtaonline.net>, "Jack&Becky Sherman" <sherman@mtaonline.net>, "Jim & Mary Louise Colver" <surveyor@pobox.alaska.net>, "Kim Longo&Tom Green" <klongo_is@yahoo.com>, "Mike&Sheryll Carson" <Carsons@mtaonline.net>, "Robert&Jennifer Nash" <jrnash@mtaonline.net>, "Sharon & Howell Powder" <powder80@gci.net>

CC: "Talis Colberg" <talisappleorchard@hotmail.com>, <jbbush@mtaonline.net>, "Betty Vehrs" <bvehrs@gci.net>, "Bill Allen" <sallen@mtaonline.net>, "Jody Simpson" <jesimpson@gci.net>, "Mary Kvalheim" <marykv@mtaonline.net>, <Representative_Bill_Stoltze@legis.state.ak.us>, <representative_carl_gatto@legis.state.ak.us>, <Representative_Vic_Kohring@legis.state.ak.us>, <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Scott_Ogan@legis.state.ak.us>, <Representative_Beverly_Masek@legis.state.ak.us>, "Alaska Senate" <Senator_Thomas_Wagoner@legis.state.ak.us>, <Representative_Nancy_Dahlstrom@legis.state.ak.us>, <Representative_Pete_Kott@legis.state.ak.us>, <Senator_Gene_Therriault@legis.state.ak.us>, "William Van Dyke" <William_VanDyke@dnr.state.ak.us>, <Jim_Hansen@dnr.state.ak.us>, "Dan Seamount" <dan_seamount@admin.state.ak.us>, "John Norman" <john_norman@admin.state.ak.us>, "Mark Myers" <mark_myers@dnr.state.ak.us>, "Mark Sprague" <mark_sprague@dnr.state.ak.us>, "Matt Rader" <Matt_Rader@dnr.state.ak.us>, "Patrick Galvin" <Patrick_Galvin@dnr.state.ak.us>

Everyone:

The Fishhook Community Council runoff election was a tie. I talked with Bob Wells and he said that he would talk with Byron Williams about the situation. It is looking like the decision will be determined with a coin toss. I prayed with my family, God's will be done. God is on our side.

It is my understanding that my competitor does not care if we get a noisy jet engine compressor station at the end of the road. Fast assured, Evergreen Resources is very interested in drilling for coalbed methane all around Sun Valley Subdivision. The mechanical drone sound that you will hear for the next two weeks is the drilling of an exploratory core hole on the powerline right of way at the end of Doro Drive. Evergreen Resources employees verbally assaulted and threatened my wife and two small children in December when we rode our snow machines down the unposted power line right of way at the end of Doro Drive and unexpectedly stumbled into their hazardous industrial work site - don't go there if you do not want to be sued.

Evergreen Resources will be pumping out 10000 gallons per day out of their CBM wells. Hard rock wells in our neighborhood are attached to the ground water that they have to deplete to extract CBM gas. When Evergreen Resources sticks a straw in the bottom of the cup with your straw at the top of the cup, as their deeper straw sucks out at a faster rate, your well is going dry. Call Representative Carl Gatto [1-800-565-3743], Senator Lyda Green [1-907-465-6600], Lt Governor Lauren Leman [1-907-465-3520] and Governor Murkowski [1-907-465-3500] and ask them why they leased your land without notifying you or giving you the opportunity to state your case and ask them why Mat-Su residents are being treated like second class citizens in regards to the CBM fiasco. Ask them if we are being treated like second class citizens because we do not live in a first class city. Remind them that the equal

protection clause of the 14th amendment says they cannot treat you like a hillbilly because you do not live in Anchorage. I received a brochure from a CBM advocacy group that shows CBM under Anchorage. The state is about to lease some sites in Anchorage. If Mat-Su residents are going to be forced to have our neighborhood invaded with industrial CBM development then the Tony Knowles Coastal Trail and Prominence Point Subdivision damn sure better be invaded with CBM compressor stations and gas wells.

I have said it numerous times – the MTF pot farmers have the common decency to turn off their generators at night. This being the case, it doesn't seem very neighborly for our Communist neighbor Rob Rutherford, that believes the government should control the natural resources [as Rick Riddel would say] and that lives in Anchorage, to allow these Cheechackos to keep us awake for a month while drilling through the glacial formations or subsequently to deplete our drinking water source or to park an extremely loud jet engine compressor station on his property next to Sun Valley Subdivision into perpetuity.

No big deal? Reminds me of the Clint Eastwood movie where the placer miners have their water supply cutoff by the greedy hydraulic miners. Why won't our elected officials stand up for our rights? We need to send a message to the Republicrats in Juneau that they are supposed to represent their constituents, not special interest campaign contributors. Who are they representing? Please call them and ask.

Respectfully,

Scott M Haan

P.S. Please call Scott Ogan [1-907-465-3878] and Vic Kohring [1-907-465-2186] and tell them thanks for the obnoxious noise. If you want to get together with me to invoke their comrade Rick Halford's law that allows rifle ranges into Mat-Su neighborhoods carte-blanche I have \$5000.00 that I will combine with your money to buy properties neighboring theirs to open 24 hour trap and skeet ranges and I would be happy to start a mid night league with you after they return home.

The Denver Post

Gas-drilling curbs gain key ally

Colorado Farm Bureau backs Udall bill boosting landowner protections

By Mike Saraghan
Denver Post Washington Bureau

Wednesday, March 24, 2004 -

WASHINGTON - The ranchers- vs.-roughnecks battle over gas drilling in the West heated up Tuesday when the state's largest agricultural group endorsed further restrictions on energy development.

The Colorado Farm Bureau, which usually teams up with Republicans against regulations, has endorsed a bill by Rep. Mark Udall, D-Colo., that would increase protections for landowners when gas companies drill on their property.

While the bill has made little progress in the Republican-controlled House, the farm bureau's endorsement of it increases pressure on Western Republicans, who have been taking the side of the petroleum industry to increase production and loosen restrictions.

Industry says more restrictions would needlessly crimp the nation's energy supply. But the farm bureau is concerned about how drilling will affect water.

"Now more than ever, it is vitally important that we in Colorado and the West take the necessary precautions to protect our water supplies," said Colorado Farm Bureau president Alan Foutz. "Water and private property rights are among farmers' and ranchers' top priorities, and Congressman Udall's bill address both."

Drilling for natural gas, especially a form called coal-bed methane, has raised concerns about water quality. It can involve injecting large quantities of water into underground sources of drinking water, or pumping millions of gallons of water out of the ground.

The injected water can include chemicals such as diesel fuel or guar gum. The water pumped out can be salty enough to damage crops and affect nearby wells.

The loudest objections from environmentalists, local officials and ranchers have come from the Four Corners region, Wyoming's Powder River Basin and the Roan Plateau near Rifle, Colo.

Udall said his bill, the Western Waters and Farm Lands Protection Act, would give landowners more leverage in dealing with drillers, regulate the water pumped out during production and require it to meet Clean Water Act standards. And it would require drillers to draft reclamation plans and post bonds to ensure cleanup.

"My bill is designed to address these conflicts in a way that gives farmers and ranchers equal footing with oil and gas developers," said Udall. "Drilling for oil shouldn't leave the soils depleted or waters unusable."

But industry figures say companies are trying to work with landowners. They say Udall's bill isn't needed because landowners already have many of the protections it purports to give.

"The bill is misinformed in its conception," said Ken Wonstolen of the Colorado Oil & Gas Association. "Everything that's in this bill is already covered by federal or state law."

The bill, introduced in December, has been referred to two committees but has not been scheduled for a hearing in either one.

LEGAL SERVICES

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

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Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 15, 2004

SUBJECT: Draft CSHB 531(), relating to natural gas exploration and development and to nonconventional gas, and amending the section under which shallow natural gas leases may be issued -- sectional analysis (Work Order No. 23-LS1818\D)

TO: Representative Vic Kohring

FROM: Jack Chenoweth
Assistant Revisor of Statutes

The draft committee substitute treats comprehensively with the exploration and development of natural gas. It contains changes that

-- convert references and substantive provisions covering shallow natural gas leasing into a leasing policy covering "nonconventional gas" and provide a definition of that term;

-- authorize the Department of Natural Resources to lease for "gas only" under the conventional oil and gas leasing procedures, with limited reservations governing activity involving nonconventional gas leases;

-- expand the use of exploration licensing and leasing under AS 38.05.131 - 38.05.134 to cover "gas only" licenses and leases; and

-- amend or repeal specific parts of AS 38.05.177, the section of the Alaska Land Act (AS 38.05) that currently authorizes and guides shallow natural gas leasing.

PROVISIONS ESTABLISHING A "NONCONVENTIONAL GAS" LEASING POLICY, SUPPLYING A DEFINITION FOR THAT TERM, AND MAKING CONFORMING CHANGES:

Bill section 44 supplies a definition of "nonconventional gas." The definition is added to the body of definitions that are generally applicable to the Alaska Land Act, AS 38.05. This definition replaces a pair of definitions for "shallow natural gas" and a working reference to shallow natural gas in the language of AS 38.05.177(a)(1), appearing at page 20, lines 10 - 13. Note that the definition of "nonconventional gas" proposed in the measure covers "coalbed methane, shales containing gas, or gas hydrates."

Representative Vic Kohring

March 15, 2004

Page 2

With the substitution of the new term and a definition for it, each of the following makes conforming changes:

-- **bill sections 4 - 6**, amending or adding to provisions in AS 31.05 (Alaska Oil and Gas Conservation Commission);

-- a reference in **bill section 26**, amending AS 38.05.177(a); and

-- **bill sections 50 - 54**, substituting "nonconventional gas" for "shallow natural gas" in various references in title 46; this title of the Alaska Statutes generally deals with environmental matters.

AUTHORIZING THE DEPARTMENT OF NATURAL RESOURCES TO LEASE FOR "GAS ONLY" UNDER THE CONVENTIONAL OIL AND GAS LEASING PROCEDURES, WITH LIMITED RESERVATIONS GOVERNING ACTIVITY INVOLVING NONCONVENTIONAL GAS LEASES, AND MAKING CONFORMING CHANGES:

AS 38.05.180(ff), added by **bill section 40**, explicitly authorizes the Department of Natural Resources to "issue leases for gas only" under the conventional oil and gas leasing program.

Out of an abundance of drafting caution, the following revise or delete existing references to "oil and gas," "oil and gas lease," or substantially similar terms and references to acknowledge the alternative authorization of "gas only" leasing:

-- **bill sections 1, 3, 7 - 9, 10** (except the repeal of AS 38.05.035(e)(6)(G) [page 12, lines 4 - 6]), **11, 13, 28 - 31, 32** (except the addition of AS 38.05.180(f)(3)(H) [page 25, lines 1 - 5]), **33 - 37, 39, 41 - 43, 45 - 49, and 55**.

AUTHORIZING THE DEPARTMENT OF NATURAL RESOURCES TO USE EXPLORATION LICENSING AND LEASING FOR "GAS ONLY" UNDER AS 38.05.131 - 38.05.134, AND MAKING CONFORMING CHANGES:

Bill section 14, amending AS 38.05.131(a), explicitly authorizes the Department of Natural Resources to issue exploration licenses and leases for "gas only." The following provisions make related conforming changes:

-- **bill sections 2, 12, 15 - 21, 22** (except the language of new subparagraph (B) [page 19, lines 2 - 7]), and **24**.

PROVISIONS ALTERING OR REPEALING SPECIFIC PARTS OF AS 38.05.177, ADDRESSING SHALLOW NATURAL GAS LEASING:

These remarks principally address the content added by bill sections 26 and 27 and the repeal of certain subsections of AS 38.05.177, the existing shallow natural gas leasing section.

Certain subsections are amended with the intent that their specific provisions override comparable provisions in the conventional oil and gas leasing section, AS 38.05.180. So,

-- AS 38.05.177(a) (**bill section 26**): The change substitutes reference to "nonconventional gas" and amends to delete the content of the balance of the subsection; and

-- AS 38.05.177(l) (**bill section 27**): The insertion in this subsection amends the existing protections for mineral deposits and coal in situations in which a lessee holds a lease that is a nonconventional gas lease.

As to other parts of AS 38.05.177, **bill section 56** repeals the following:

-- AS 38.05.177(b): This subsection currently sets maximum acreage limitations (paragraph (1)) and levies an application fee (paragraph (2)). If gas only leases are to be issued for unconventional gas under AS 38.05.180, then acreage limits of AS 38.05.180(m) should apply, and maximum holding provisions for oil or gas leases set out in AS 38.05.140(c) should also. In the main, oil and gas leases are offered as competitive leases, so there would not be an application process and, hence, a separate application fee for a noncompetitive lease would not be collected. Consequently, this subsection is to be repealed in its entirety.

-- AS 38.05.177(c): This subsection sets out the notice and public comment provisions. Conventional oil and gas leases have different notice provisions, AS 38.05.945(a)(3), and those should operate in lieu of the expedited notice/public comments of this subsection. Again, this subsection is to be repealed in its entirety.

-- AS 38.05.177(d) and (e): These subsections are the lease extension and lease boundary adjustment provisions. Comparable provisions for conventional oil and gas leases appear in AS 38.05.180(m) and should operate in lieu of sec. 177(d) and (e). These subsections are therefore to be repealed.

-- AS 38.05.177(f): This subsection establishes a flat rent at the rate of one dollar per year. The comparable provision appears in AS 38.05.180(n)(2), so this subsection is to be repealed.

-- AS 38.05.177(g): This subsection describes material relating to the royalty payable on shallow natural gas. The comparable provision is addressed in an amendment to AS 38.05.180(f)(3)(H) (page 24, beginning at line 31), so this subsection is to be repealed.

-- AS 38.05.177(h): This is the lease surrender or relinquishment provision. As leasing would occur under AS 38.05.180, provisions covering these subjects under authority of that section would apply, so this subsection may be repealed.

-- AS 38.05.177(j): This subsection lays out a contingency for oversight by the Alaska Oil and Gas Conservation Commission if a shallow natural gas well penetrates a formation capable of producing oil. The comparable provision appears in the concluding part of AS 38.05.177(ff), added by bill section 40 (page 37, beginning at line 29), so the language in this subsection is to be repealed.

-- AS 38.05.177(k): The current subsection establishes a bonding requirement for shallow natural gas leasing to secure the payment of damages, together with limitations on the bond requirement statewide. The comparable bonding requirement in the Alaska Land Act is the general bonding requirement of AS 38.05.130. For exploration licensing activities, there are special bond requirements in AS 38.05.132(c)(4) and (5) and 38.05.132(e). The bond requirements for shallow natural gas leasing are to be repealed. Also proposed for deletion by the repeal of this subsection is language speaking to standards for regulations applicable to the shallow natural gas leasing program.

-- AS 38.05.177(m): This is the lease extension provision. Again, because leasing would occur under the conventional oil and gas leasing procedures of AS 38.05.180, provisions covering these subjects under authority of that section would apply, so that this subsection is being repealed.

-- AS 38.05.177(o): Repeal of this subsection eliminates the definition of "lease" in the context of a "shallow gas lease."

OTHER BILL SECTIONS THAT ARE NOT ADDRESSED OR CONSIDERED ABOVE:

Bill section 10: The repeal of AS 38.05.035(e)(6)(G), page 12, lines 4 - 6, drops the exemption for shallow natural gas leasing from the written finding requirements of that subsection. Before nonconventional gas leasing may occur, proposed nonconventional leases would be required to be supported by a written best interest finding.¹

Bill sections 22 (page 19, lines 2 - 7) **and 32** (page 25, lines 1 - 5): For purposes of retention of the reduced royalty authorized for certain gas, these two amendments add, as to nonconventional gas exploration licensing and leasing and nonconventional gas leasing under the leasing program of AS 38.05.180, provisions for a reduced royalty for nonconventional gas "not produced in direct competition with gas on which a royalty at a rate of at least 12.5 percent is payable." Similar language in the existing provision, AS 38.05.177(g), is to be repealed.

¹ In the draft, the lead-in to AS 38.05.035(e)(6) setting out the required written best interest finding appears in the text of the bill at page 10, line 29 - page 11, line 6.

Representative Vic Kohring
March 15, 2004
Page 5

Bill sections 23 and 25: Both provisions are concerned with the relationship between coal and coal bed generated methane. The amendments delete references to shallow natural gas (coal bed methane) leasing under AS 38.05.177.

Bill section 38: AS 38.05.180(n) currently spells out the rent payable on oil and gas leases. Those rental rates are to be retained for conventional oil and gas leases, but the subsection is proposed to be amended to carry over from existing AS 38.05.177(f) authority for payment of a fixed rent of \$1.00 per acre per year if the lease is shown to contain only sources that are reasonably estimated to contain only nonconventional gas. The burden of making that demonstration is assigned to the lessee.

Bill section 56: In addition to the repeal of specific subsections of AS 38.05.177 described above, the section would repeal paragraphs setting out definitions of "shallow natural gas" in AS 31.05 and AS 46.04. Each repeal is matched (**bill sections 6 and 53**) with addition of definitions for the substituted term "nonconventional gas."

Bill section 57: This transitional provision directs the Department of Natural Resources to deal with shallow natural gas leases executed and lease applications received by December 31, 2003, under the provisions of AS 38.05.177 as it read before its amendment by this Act.

Bill section 58 gives the measure an immediate effective date.

JBC:med:lmb
04-067.lmb

Lesh, Melanie

From: Lesh, Melanie
Sent: Thursday, March 18, 2004 2:43 PM
To: 'Eleanor_Wolfe@legis.state.ak.us'
Cc: Ryan, Kristin J.; Lesh, Melanie
Subject: HB 531 Coal bed methane exemptino in AS 46.03.100 (Waste disposal permits DEC)

Eleanor,

Kristin Ryan is the Director for the Environmental Health Division at the Department of Environmental Conservation.

She worked with Sen. Ogan's office on this amendment to SB 312 (reformatted to the text of HB 531). She'll be there this afternoon

Kristin also worked with Mark Myers and Pat Galvin. Mark asked her to make sure Evergreen was comfortable with it all before proceeding which she did last week...

AMENDMENT

For the House Oil & Gas Committee on HB 531, please consider the following amendment

HB 531 23-LS1818\A

Sec. 52. AS 46.03.100(f) is amended to read:

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

- (1) mineral drilling, trenching, ditching, and similar activities;
- (2) landscaping;
- (3) water well drilling and geophysical drilling [OR COAL BED METHANE DRILLING OR OTHER NATURAL GAS DRILLING TO RECOVER GAS FROM A FIELD IF A PART OF THE FIELD IS WITHIN 3,000 FEET OF THE SURFACE]; or

Melanie G. Lesh
Legislative Liaison
Department of Environmental Conservation
410 Willoughby Avenue
Juneau, Alaska 99801
Phone: 465-5290 Fax: 465-5070

A M E N D M E N T

OFFERED IN THE HOUSE

BY *Seaton*

TO: CSHB 531(), Draft Version "D"

1 Page 21, following line 10:

2 Insert a new bill section to read:

3 **"* Sec. 27. AS 38.05.177(d) is amended to read:**

4 (d) A lease

5 (1) shall be automatically extended if and for so long thereafter as gas
6 is produced in paying quantities from the lease and the lessee continues to meet all
7 requirements of the lease; a [. A] lease issued under this section covering land on
8 which there is a well capable of producing gas in paying quantities does not expire
9 because the lessee fails to produce gas unless the lessee is allowed reasonable time to
10 place the well on a producing status; if [. IF] drilling has commenced on the
11 expiration date of the primary term of the lease and is continued with reasonable
12 diligence, including such operations as redrilling, sidetracking, or other means
13 necessary to reach the originally proposed bottom hole location, the lease is extended
14 for one year and for so long thereafter as gas is produced in paying quantities; a [. A]
15 gas lease issued under this section that is subject to termination by reason of cessation
16 of production does not terminate if, within 90 days after production ceases or a longer
17 period determined at the discretion of the director, reworking or drilling operations are
18 commenced on the land under lease and are thereafter conducted with reasonable
19 diligence during the period of nonproduction;

20 (2) issued under former (c) of this section before January 1, 2004,
21 may be extended at the discretion of the director; a lease may be extended under
22 this paragraph [. IN ADDITION,] upon application by the lessee; [,] the director
23 may once extend the [A] lease [ISSUED UNDER (c) OF THIS SECTION] for a

1 period of not more than three years; in exercising discretion to extend a lease under
 2 this paragraph, the director may not extend the lease unless the director
 3 considers

4 (A) the extent of the shallow natural gas exploration
 5 activity already conducted on the lease and on adjacent areas;

6 (B) the probability that further shallow natural gas
 7 exploration activity will occur on the lease and will lead to shallow natural
 8 gas development and production; and

9 (C) whether extension of the lease's primary term will
 10 accelerate the eventual production of shallow natural gas from the lease."

11
 12 Renumber the following bill sections accordingly.

13
 14 Page 44, line 21:

15 Delete "38.05.177(d),"

16
 17 Page 44, line 27, following "AS 38.05.177(a)":

18 Insert ", (d)(1),"

19
 20 Page 44, line 28:

21 Delete "secs. 26 and 27"

22 Insert "secs. 26 - 28"

23
 24 Page 44, lines 29 - 30:

25 Delete "AS 38.05.177(b) - (h)"

26 Insert "AS 38.05.177(b), (c), (e) - (h)"

27
 28 Page 44, line 30:

29 Delete "sec. 56"

30 Insert "sec. 57"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE KERTTULA

TO: CSHB 531(), Draft Version "D"

1 Page 21, following line 10:

2 Insert a new bill section to read:

3 **** Sec. 27.** AS 38.05.177(c) is amended to read:

4 (c) The director shall give notice under AS 38.05.945. In addition to the
5 notice requirements of that section, the director shall give written notice by mail
6 to each owner of land of an action to be taken under this section that may affect
7 the owner's land. The director shall mail the notice required by this subsection
8 at least 30 days before action is to be taken under this section [OF RECEIPT OF
9 THE LEASE APPLICATION AND CALL FOR COMMENTS FROM THE
10 PUBLIC. THE DIRECTOR'S CALL FOR PUBLIC COMMENTS MUST PROVIDE
11 OPPORTUNITY FOR PUBLIC COMMENT FOR A PERIOD OF NOT LESS THAN
12 60 DAYS. IF, AFTER REVIEW OF INFORMATION RECEIVED DURING THE
13 PUBLIC COMMENT PERIOD, THE DIRECTOR DETERMINES THAT THE
14 DISCOVERY OF A LOCAL SOURCE OF NATURAL GAS WOULD BENEFIT
15 THE RESIDENTS OF AN AREA, THE DIRECTOR SHALL EXECUTE A LEASE
16 FOR THE AREA DESCRIBED IN (b) OF THIS SECTION. THE DIRECTOR
17 SHALL EXECUTE THE LEASE AFTER COMPLETION OF A TITLE SEARCH,
18 THE CLOSE OF THE PUBLIC COMMENT PERIOD, AND, IF REVIEW IS
19 REQUIRED UNDER AS 46.40, AFTER THE FINAL CONSISTENCY
20 DETERMINATION IS MADE UNDER AS 46.40. A LEASE ENTERED INTO
21 UNDER THIS SUBSECTION GIVES THE LESSEE THE EXCLUSIVE RIGHT TO
22 EXPLORE FOR, DEVELOP, AND PRODUCE, FOR A TERM OF THREE YEARS,
23 NATURAL GAS ON THE STATE LAND DESCRIBED IN THE LEASE; THE

when the action involves
nonconventional gas,

1 RIGHT TO EXPLORE FOR, DEVELOP, AND PRODUCE IS LIMITED TO GAS
2 FROM A FIELD IF A PART OF THE FIELD IS WITHIN 3,000 FEET OF THE
3 SURFACE]."

4

5 Renumber the following bill sections accordingly.

6

7 Page 44, line 21:

8 Delete "38.05.177(c),"

9

10 Page 44, line 27, following "AS 38.05.177(a)":

11 Insert ", (c),"

12

13 Page 44, line 28:

14 Delete "secs. 26 and 27"

15 Insert "secs. 26 - 28"

16

17 Page 44, lines 29 and 30:

18 Delete "AS 38.05.177(b) - (h)"

19 Insert "AS 38.05.177(b), (d) - (h)"

20

21 Page 44, line 30:

22 Delete "sec. 56"

23 Insert "sec. 57"

Closing comments:

- * The time frame is of essences
- * Impact on other resource development projects statewide
- * Create a more sustainable atmosphere for businesses
- * 2 other committees of referral to clear -
- * DNR workshops conducted in Mat-Su
- * This bill highlights ~~50A~~ areas of concerns sparked by the public
- * Encouragement of hope must compromise with support from pro development and those that oppose the way development occurs.
- * Negative impact on property owners?
none to date

Setting Limits Saving Lives
Alaska Highway Safety Office
BAC Office Alaska State Troopers
08

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ALASKA MINERS ASSOCIATION, INC.

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March 13, 2004

Honorable Vic Kohring
Alaska State Legislature
Capitol Building
Juneau, AK 99801

RE: House Bill 531, Shallow Gas Leasing

Dear Representative Kohring,

Thank you for the opportunity to comment on this bill. We oppose House Bill 531. We believe there are other ways to address the concerns that have been raised and not "throw the baby out with the bath water".

This bill would effectively eliminate the shallow gas program. It would totally change the way shallow gas leases are obtained and administered. It would eliminate the "right of self initiation" that now exists and effectively lock out the individual prospector or gas developer from participating in this business.

The bill proposes replacing self initiation with an exploration license. Before issuance of the exploration license, an area have to go through a best interest finding. The best interest finding would be completed by the Department of Natural Resources as time and staff may become available. Even if this is begun immediately, the best interest finding is likely to require 18 months or more.

Under HB-531, once the best interest finding is completed, the next step is a competitive bid process for the leases. This will eliminate nearly all incentive for individual entrepreneurs to seek out and explore for shallow gas deposits in new areas around the state. The average citizen simply does not have sufficient financial resources to participate in such an extended process. Furthermore, exploration must move forward when the window of opportunity exists. Such an extended process will almost certainly guarantee that the window will have closed by the time a lease sale is held.

The intent of the shallow gas program has been to provide a simple, cost effective program based on self initiation, that will encourage discovery and development of the gas. It was specifically structured to not require the high costs and long time frames of the normal oil & gas leasing system. This was in part to encourage development of smaller fields that cannot withstand the costs of normal oil & gas leasing. It was also to encourage development of gas that could help reduce the cost of energy in rural communities and help provide for remote projects such as mines.

The approach proposed by HB-531 adds tremendous uncertainty for the prospector. The person wanting the license has no rights, or any priority to obtain rights to the area, until and unless he is the successful bidder.

HBK-13-04 01:00 PM BUREAU OF REVENUE 701 500 7220 1.02

We recommend that the existing leasing system be continued. Two changes that appear to have merit: 1) Limit use of the existing shallow gas leasing system to rural areas; 2) Provide a 10 year term for existing and new shallow gas leases, which should include a work commitment.

Thank you for the opportunity to comment on this bill.

Sincerely,



Steven C. Borell, P.E.
Executive Director

cc: Commissioner Tom Irwin

AMENDMENT 4

OFFERED IN THE HOUSE
TO: CSHB 531(RES)

1 Page 48, following line 12:

2 Insert a new bill section to read:

3 **** Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section
4 to read:

5 **CONVERSION OF EXISTING SHALLOW NATURAL GAS LEASE**
6 **APPLICATIONS.** (a) The applicant for a shallow natural gas lease under AS 38.05.177
7 whose application was received by the Department of Natural Resources before the effective
8 date of this section may, not later than August 31, 2004, or 60 days after the effective date of
9 this Act, whichever is later, convert the application to an exploration license and lease
10 application under AS 38.05.131(a), as amended by sec. 14 of this Act. An applicant
11 converting an application under this subsection

12 (1) may apply for as few as 3,000 acres, notwithstanding the minimum
13 limitation of acreage set out in AS 38.05.132(c)(2);

14 (2) shall pay the fee required by AS 38.05.132(c)(6);

15 (3) is subject to a three-year work commitment in lieu of a work commitment
16 of any other duration required by AS 38.05.132 and, notwithstanding AS 38.05.132(c)(3), is
17 under an obligation to perform a specified work commitment of \$1 per acre per year; and

18 (4) may, subject to (b) of this section, convert an exploration license to a lease
19 under AS 38.05.134, as amended by sec. 22 of this Act.

20 (b) The provisions of AS 38.05.035(e) apply to an application made under (a) of this
21 section.

22 (c) For an application made under (a) of this section, the director of the division of
23 lands shall remit to the applicant the application fee paid by the applicant under

- 1 AS 38.05.177(b)(2)."
- 2
- 3 Renumber the following bill section accordingly.

Exploration Licensing Public Process

- Company submits a proposal consisting of
 - Proposed license area (up to 500,000 acres)
 - Work commitment (\$\$ to be spent on exploration)
 - Term of license (up to 10 years)
- DO&G issues *Notice of Intent to Evaluate a License Proposal* and requests public comment
 - Public comment period must be for at least 30 days
 - Notice is:
 - placed in statewide and local newspapers
 - posted on state and division websites
 - mailed to addressees on division's mailing list
 - posted in local post offices
- DO&G issues *Request for Agency Information*
 - Sent to state and federal agencies, local governments and tribal organizations
 - Minimum of 60 days to submit information
- DO&G issues *Notice of Preliminary Best Interest Finding* and requests public comment; if within the coastal zone, DO&G also issues *ACMP Consistency Analysis*
 - 60-day public comment period
 - Notice is:
 - placed in statewide and local newspapers: 1-time posting
 - posted on state and division websites
 - mailed to addressees on division's mailing list
 - posted in local post offices
 - Display ads placed in statewide and local newspapers; 1 per week for 2 weeks
 - Division conducts public meetings to hear public testimony
- If within the coastal zone, DO&G issues *Proposed ACMP Consistency Determination*
 - 5 days to request elevation to resource commissioners (DNR, DEC, DF&G)
- DO&G issues *Notice of Final Finding, ACMP Consistency Determination*, and awards license
 - Those who participated in the public process have 20 days to request reconsideration by the commissioner

Contents of Best Interest Finding for Exploration Licenses and Areawide Lease Sales

1. Property descriptions and locations;
2. The petroleum potential of the license or sale area, in general terms;
3. Fish and wildlife species and their habitats in the area;
4. Current and projected uses in the area, including uses and value of fish and wildlife;
5. The governmental powers to regulate oil and gas exploration, development, production, and transportation;
6. Reasonably foreseeable cumulative effects of oil and gas exploration, development, production, and transportation on the license or sale area, including effects on subsistence uses, fish and wildlife habitat and populations and their uses, and historic and cultural resources;
7. Stipulations and mitigation measures, including any measures to prevent and mitigate releases of oil and hazardous substances, to be included in the license or leases, and a discussion of the protections offered by these measures;
8. Method or methods most likely to be used to transport oil or gas from the lease sale or license area, and the advantages and disadvantages, and relative risks of each;
9. Reasonably foreseeable fiscal effects of the exploration license or lease sale and the subsequent activity on the state and affected municipalities and communities, including the explicit and implicit subsidies associated with the exploration license or lease sale, if any;
10. Reasonably foreseeable effects of oil and gas exploration, development, production, and transportation on the municipalities and communities within or adjacent to the exploration license or lease sale area; and
11. For lease sales: the bidding method or methods adopted by the commissioner;

For exploration licenses:

- a. describe the limitations, stipulations, conditions or changes from the proposal that are required to make the issuance of the license conform to the best interests of the state; and
- b. if only one proposal was submitted, identify the prospective licensee.

Areawide Leasing Public Process

- Lease sale placed on 5-year leasing schedule
- DO&G issues *Request for Agency Information and Call for Public Comments*
 - Sent to state and federal agencies, local governments and tribal organizations
 - Minimum of 60 days to submit information
 - Notice is:
 - posted on state and division websites
 - mailed to addressees on division's mailing list
- DO&G issues *Notice of Preliminary Best Interest Finding* and requests public comment; if within the coastal zone, DO&G also issues *ACMP Consistency Analysis*
 - 60-day public comment period
 - Notice is:
 - placed in statewide and local newspapers: 1-time posting
 - posted on state and division websites
 - mailed to addressees on division's mailing list
 - posted in local post offices
 - Display ads placed in statewide and local newspapers; 1 per week for 2 weeks
 - Division conducts public meetings to hear public testimony
- If within the coastal zone, DO&G issues *Proposed ACMP Consistency Determination*
 - 5 days to request elevation to resource commissioners (DNR, DEC, DF&G)
- DO&G issues *Notice of Final Finding, ACMP Consistency Determination*, and decision to lease 90 days prior to lease sale
 - Those who participated in the public process have 20 days to request reconsideration by the commissioner

ALASKA PROPERTY OWNERS' BILL OF RIGHTS

WHEREAS, Alaskans cherish their private property rights;

WHEREAS, coalbed methane (shallow gas) development threatens the rights of private property owners to enjoy the fruits of their labors;

WHEREAS, state law currently fails to adequately protect private property owners from the threats of coalbed methane development;

WHEREAS, Alaskans rely on public lands and waters for subsistence, recreation, and the operation of businesses that depend on the health of those lands and waters; and

WHEREAS, many Alaskans live adjacent to public and private lands that have been leased for coalbed methane development;

NOW, THEREFORE, BE IT RESOLVED WE ALASKANS DEMAND THE ADOPTION OF AN ALASKA PROPERTY OWNERS' BILL OF RIGHTS TO PROTECT OUR CLEAN AIR, PURE WATER, PLENTIFUL FISH AND WILDLIFE RESOURCES, AND QUALITY OF LIFE FOR FUTURE GENERATIONS; AND

BE IT FURTHER RESOLVED THAT IN ORDER TO PRESERVE AND SUSTAIN THESE VALUES AND OUR PRIVATE PROPERTY RIGHTS THE LEGISLATURE MUST ADOPT STATEWIDE LEGISLATION THAT INCLUDES ALL OF THE FOLLOWING PROTECTIONS:

- 1) **PROPERTY OWNER CONSENT:** Property owners must have the legal right to say if, when, where and how anyone comes onto their private property to explore, develop and/or produce the subsurface mineral estate. The state must provide a legal fund which surface owners can access to hire legal counsel. Private property owners must also be protected from retaliatory lawsuits from developers.
- 2) **BUYBACK & MORATORIUM:** The state must buy back all coalbed methane leases already let, and halt all further coalbed methane leasing until all the provisions of this Property Owners' Bill of Rights are enacted.
- 3) **PROPER NOTICE:** The state must provide all landowners within five (5) miles of a proposed coalbed methane lease with ninety (90) days actual written notice before a best interest finding process begins. Notice by registered mail must also be provided to local, municipal, and tribal entities with jurisdiction within the proposed lease areas. Notice by publication must also be provided at local post offices, in a local newspaper and a newspaper of statewide circulation. All notices described above must include, among other things, a detailed map of the affected area proposed for lease.

- 4) **BEST INTEREST FINDING:** Prior to issuing any leases, the state must conduct a best interest finding process to analyze the economic, environmental, and social costs and benefits of potential coalbed methane operations, including but not limited to the potential diminution in value to private and public properties.
- 5) **BASLINE STUDIES & BURDEN OF PROOF:** The state must measure baseline water quality and quantity in all areas proposed for leasing prior to granting any lease application, including all surface and well waters that may be affected. Prior to granting any lease application, the state must also measure baseline conditions for methane seepage, as well as for hydrological and geological conditions in all areas proposed for leasing. Finally, the state must conduct baseline inventory studies of existing fish and wildlife populations to identify sensitive or critical wildlife areas to be excluded from coalbed methane leasing. If a property owner's water quality or quantity diminish during or within five (5) years after coalbed methane operations on or around his/her property, there shall be a presumption such operations caused such diminishment or pollution, and the coalbed methane operator shall carry the burden of proving otherwise.
- 6) **LOCAL CONTROL:** The state must ensure local governmental entities have maximum powers of self government that enable them to regulate coalbed methane development to protect the health, safety, general welfare, and quality of life for local residents.
- 7) **PROTECT CRITICAL HABITAT & RECREATIONAL LANDS:** The state must identify and implement "no drill" zones, and prohibit coalbed methane leasing and development in sensitive or critical wildlife areas, particularly those areas used for subsistence, hunting, fishing and recreational activities.
- 8) **WATER PROTECTION:** The state must prohibit coalbed methane water extraction in groundwater aquifers that are the source of existing or future water wells, and prohibit the use of toxic or hydraulic fracturing fluids. Furthermore, the state must require the deep-well underground reinjection of all liquids and wastes produced and used during coalbed methane development, and it must ensure there is no hydrological connection between the waste injection zones and present or future drinking water sources.
- 9) **PROPERTY OWNER SAFEGUARDS:** The state must promulgate by December 2004 enforceable minimum statewide regulations that require best available technology and practices to ensure the health and safety of citizens on the issues of noise, air and water quality, setbacks, use and disposal of any toxics, and surface restoration and reclamation. New standards must also be established that increase the statewide and per incident bond requirement for all coalbed methane operators and developers to ensure full restoration of the surface. These amounts must be sufficient to provide the full pre-leasing fair market value of any property or business damaged by coalbed methane development.
- 10) **COMPETITIVE BIDDING:** In order to maximize the benefit of our natural gas resources, the state must re-institute a competitive bidding process for all coalbed methane (shallow gas) leases.

Submitted this 18th day of March, 2004, to all Alaskans and the Alaska Legislature.

A FEW CBM FACTOIDS

CBM LEASED LANDS IN ALASKA

Mat-su :300,000 acres

Homer: 22,000 acres

Healy: 47,000 acres

Hoolitina: 20,000 acres

Red Dog: 20,000 acres

Applied for: 80,000 acres

None of the bills currently in the legislature apply to the lands already leased.

IN THE MAT-SU VALLEY

--There are 12,396 lots leased to Coal Bed Methane in the Valley

--96% of the lots are privately owned

--The assessed value of the lots is \$235,000,000

--The market value is approximately \$800,000,000

--The total price the CBM companies paid to lease the subsurface rights:\$60,000. 60 leases at \$500 per lease and 300,000 acres at \$1 per acre.

ROYALTIES

--The state gets 12.5%

Mark Meyer[Oil and Gas Commission head]has stated that approximately 1/2 will go to administering CBM, and at present there are not sufficient personnel to do the job

GAS CONSUMPTION IN SOUTHCENTRAL

--Southcentral Alaska uses about 200 billion s of cubic feet of natural gas per year

--37% goes to LGN plant, 25% to Agrium plant, 13% for gas utilities use, 16.5% for power generation, 8% for field operations, 2.5% unaccounted for.

--Evergreen states [in the most optimistic scenerio]they could provide 25-30 billions of cubic per year for maybe 20 years. This is only 1/6 the amount we need. This of course has not been balanced against all the other assets we have in the Valley.

AMOUNT EVERGREEN PAID LOBBYISTS IN 2003

--March: \$10,000 April: \$10,000 May: \$10,000 June: \$10,000 July: \$10,000
October 30: Another \$30,000 billed to Evergreen. This is \$80,000 total Evergreen paid lobbyists.

AMOUNT EVERGREEN PAID SCOTT OGAN

--Evergreen paid Sen. Ogan \$39,000 in 2003. That amounts to over \$100,000 over three years.

JOBS FOR ALASKANS

Evergreen has approximately 275 employees TOTAL. The Alaska operation, even performing at the top of their most optimistic projections, would only be a fraction of their total operations. How could they possibly provide "hundreds" of jobs to Alaskans?



Coastal Realty

Annie Whitney

Associate Broker

March 17, 2004

To Whom It May Concern:

I am writing this letter to express my recent professional experience in regards to the local Coal Bed Methane Lease issue. Because of the leases that were activated without public notice or input and the ensuing controversy, the market for raw land, in my opinion, has been compromised.

I have personally experienced a solid buyer (an investor who had purchased property through me in the past) who decided against several purchases when she found out they were in an area where the subsurface rights had been leased. I also have clients who purchased a property through me last summer call me and express grave concern and alarm because they had just found out that the property they had purchased off East End Road was part of the lease. They had anticipated moving their young family to this property to enjoy a quiet and rural lifestyle not available to them in southern Massachusetts. They are now discussing changing their plans and selling their property. However, the threat, now, of not being able to resell and recoup their losses is very real, since more and more buyers are refusing to purchase properties impacted by these leases.

In my opinion this was a VERY ill-advised decision made within the State of Alaska bureaucracy and it is impacting me personally and my personal ability to do business, as well as impacting property values and the ability of owners to sell their property.

Thank you for your attention to this matter.

Sincerely,

Anne C. Whitney
Associate Broker

anniew@xyz.net

www.anniesrealestate.com

203 W. Pioneer Avenue #1

(907) 235-7700

Homer, Alaska 99603

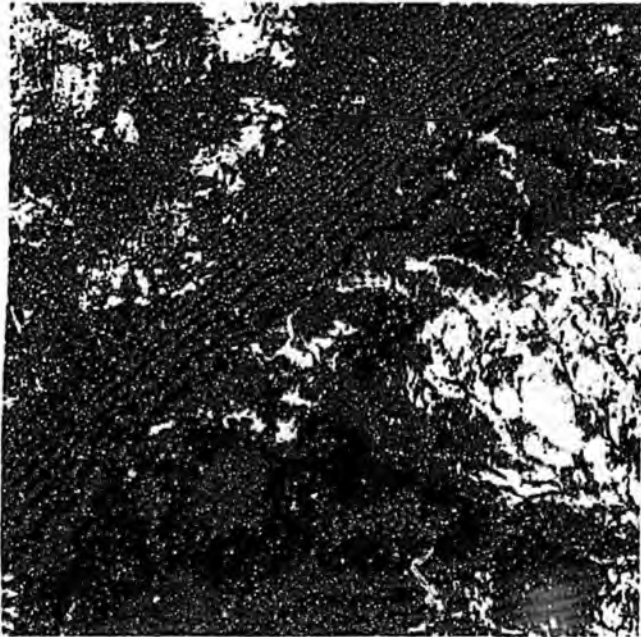
fax: (907) 235-1216

Rapid Gas Field Expansion

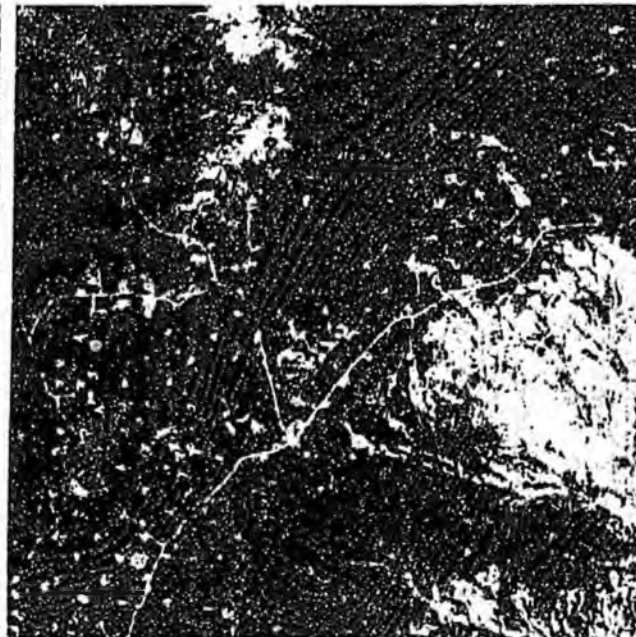
Jonah Field, WY

Images are of a **7 square mile** area, with **1 well per 40 acres**

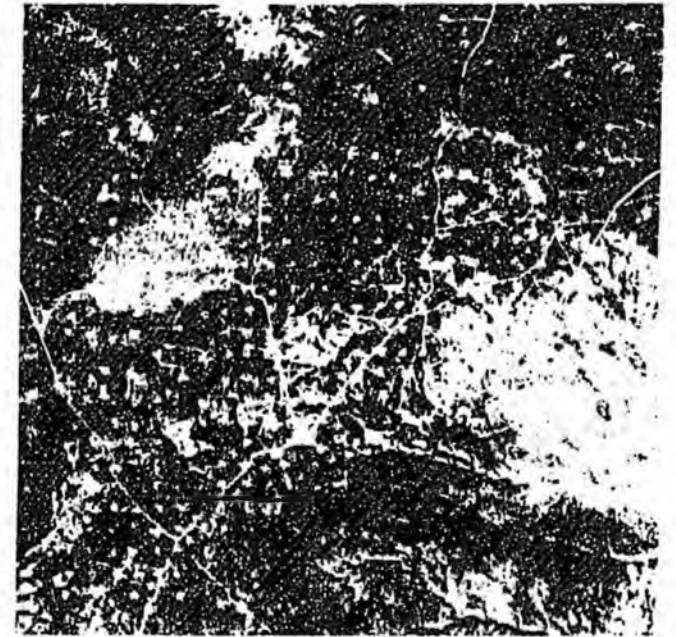
Encana, the operator, has applied to infill drill to **1 well per every 20 acres** – **adding another 1,250 wells**



1996



1999



2002

AMENDMENT

#1

OFFERED IN THE SENATE

TO: CSHB 531(FIN) am

1 Page 6, line 25:

2 Delete "finds"

3 Insert "determines"

4

5 Page 7, line 4, following "or the":

6 Insert "United States"

7

8 Page 7, line 5:

9 Delete "and"

10

11 Page 7, line 11, following "required":

12 Insert "; and

13

14 (D) as a condition of approval of a permit to drill a well for
15 production or production testing of coal bed methane, require the
16 operator to design and implement a water well testing program to provide
17 baseline data on water quality and quantity; the commission shall make
the results of the water well testing program available to the public"

AMENDMENT

#2

OFFERED IN THE SENATE

TO: CSHB 531(FIN) am

1 Page 19, line 10:

2 Delete "(A)"

3

4 Page 19, line 23:

5 Delete "and"

6

7 Page 19, lines 24 - 29:

8 Delete all material.

9

10 Page 23, line 7:

11 Delete "AS 38.05.180(n)(2)"

12 Insert "AS 38.05.180(n)(2)(A)"

13

14 Page 26, lines 26 through 30:

15 Delete all material.

16

17 Page 38, line 28, following "gas":

18 Insert "(A)"

19

20 Page 38, line 30, following "lease":

21 Insert "; and

22

23 (B) if the nonconventional gas produced will not be in

direct competition with gas on which a royalty at a rate of at least 12.5

1 percent is payable, then the royalty share payable to the state on all
2 production of gas from the pool attributable to that lease shall be 6.25
3 percent based upon production delivered in pipeline quality and free of all
4 lease expenses, including separation, cleaning, dehydration, gathering, salt
5 water disposal, and preparation for transportation off the lease"

AMENDMENT

#3

OFFERED IN THE SENATE

TO: CSHB 531(FIN) am

1 Page 20, line 13, following "AS 38.05.180(ff)(4)":

2 Insert "or 38.05.180(gg)"

3

4 Page 20, line 26, following "AS 38.05.180(ff)":

5 Insert ", 38.05.180(gg),"

6

7 Page 39, line 18:

8 Delete "a new subsection"

9 Insert "new subsections"

10

11 Page 40, following line 17:

12 Insert new subsections to read:

13 "(gg) Before approving operations for the development of coal bed methane
14 under AS 38.05.134, 38.05.177, or this section, the director shall ensure that the
15 approval is conditioned upon

16 (1) reasonable and appropriate setbacks governing the placement by
17 the operator of compressor stations; setbacks approved under this paragraph must be
18 determined with reference to the population density and general character of the
19 parcels surrounding the proposed compressor station site; and

20 (2) reasonable and appropriate measures to mitigate the noise of
21 compressors, engines, and other noise generating equipment operated by the operator
22 on the lease or license; measures approved under this paragraph must be determined
23 with reference to the population density and general character of the parcels
24 surrounding the proposed compressor, engine, or other noise generating equipment."

1 (3) the provisions of AS 38.05.130 apply to the extraction of coal bed
2 methane, except that the provisions of that section shall be implemented as follows:

3 (A) for an activity or operation for which the department, by
4 regulation, requires submission and approval of a plan of operations before
5 activities or operations may be undertaken, the director shall, as a condition for
6 issuing the bond, after notice and an opportunity to be heard, review the plan
7 of operations to determine if use of the surface is reasonably necessary to
8 extract coal bed methane; and

9 (B) the director may not require a bond posted under this
10 paragraph from a lessee or agent of a lessee if the lessee or agent has already
11 posted a bond covering the lessee's statewide oil and gas leasing activities.

amendment #

Page 41, lines 27 and 28

Delete "shales containing gas" and insert "gas
contained in shales".

SENATE COMMITTEE REPORT

DATE: 5/1/04

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 5-4-04

Resources Committee considered CS FOR HOUSE BILL NO. 531(FIN) am

HB 531 CONVENTIONAL & NONCONVENTIONAL GAS LEASES

"An Act relating to natural gas exploration and development and to nonconventional gas, and amending the section under which shallow natural gas leases may be issued; and providing for an effective date."

and recommends:

- be replaced with S CS HB 531 (RES)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

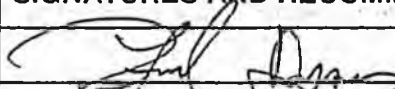
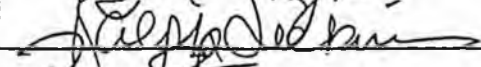
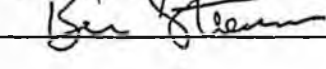
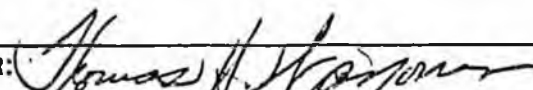
NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	4/29/04	✓			2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	NO REC	AMEND
	✓			
	✓			
	✓			
CHAIR: 	✓			

AMENDMENT

OFFERED IN THE SENATE
TO: CSHB 531(FIN) am

*JAC: For your
info they failed to
deal with this w/
Restores -*

1 Page 20, line 13, following "AS 38.05.180(ff)(4)":
2 Insert "or 38.05.180(gg)"

3
4 Page 20, line 26, following "AS 38.05.180(ff)":
5 Insert ", 38.05.180(gg),"

*prepare for
Finance*

6
7 Page 39, line 18:
8 Delete "a new subsection"
9 Insert "new subsections"

*Page 40, line 6, following "(3)" delete
all material through line 13 following
"(4)"*

10
11 Page 40, following line 17:
12 Insert new subsections to read:

13 "(gg) Before approving operations for the development of coal bed methane
14 under AS 38.05.134, 38.05.177, or this section, the director shall ensure that the
15 approval is conditioned upon

16 (1) reasonable and appropriate setbacks governing the placement by
17 the operator of compressor stations; setbacks approved under this paragraph must be
18 determined with reference to the population density and general character of the
19 parcels surrounding the proposed compressor station site; and

20 (2) reasonable and appropriate measures to mitigate the noise of
21 compressors, engines, and other noise generating equipment operated by the operator
22 on the lease or license; measures approved under this paragraph must be determined
23 with reference to the population density and general character of the parcels
24 surrounding the proposed compressor, engine, or other noise generating equipment."

AMENDMENT 2 #

OFFERED IN THE HOUSE
RESOURCES COMMITTEE
TO: HB 531

BY REPRESENTATIVE KERTTULA

1 Page 47, Line 31; after "AS 46.04.900(25)", insert, "AS 46.40.205"

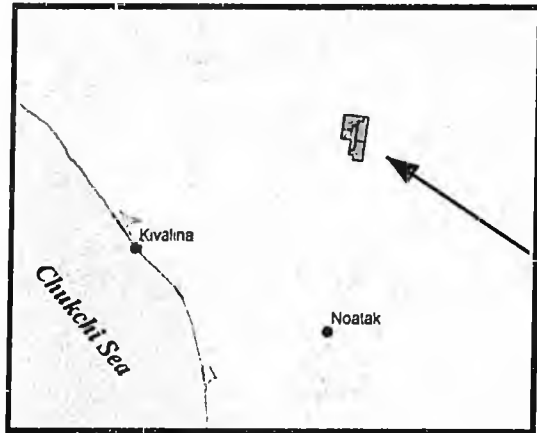
~~2~~

3 Page 48, Line 11- Line 12; delete all language

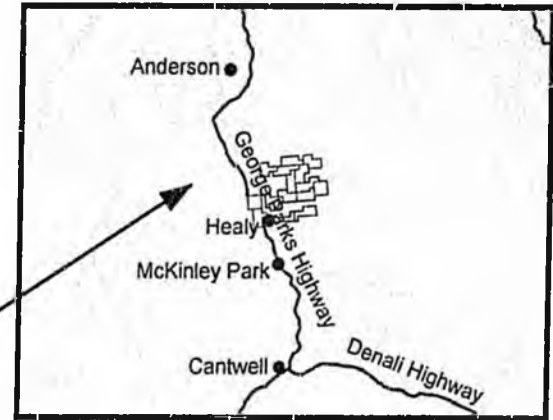
*This should
stay in the bill
- Mr. Crosley ←*

Shallow Natural Gas Leases

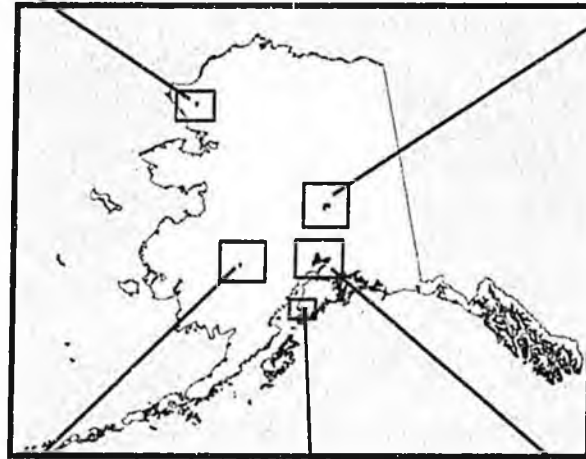
■ Issued Leases
□ Applications



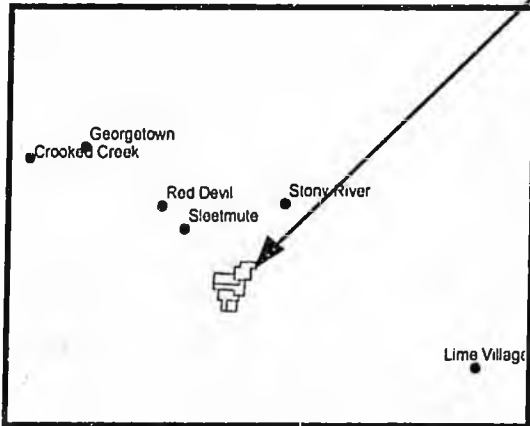
Red Dog



Healy



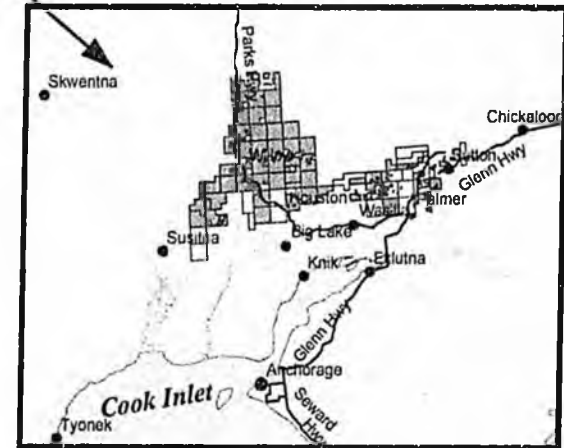
Holitna Basin



Kenai Peninsula



Mat-Su



A M E N D M E N T

OFFERED IN THE HOUSE

BY REPS. ROKEBERG AND JOULE

TO: CSHB 531 (FIN)

Page 15, line 14, following "of gas only."

Insert: "The commissioner may not issue an exploration license on land that is held under an existing coal lease entered into under AS 38.05.150 that has an active permit for exploration or mining unless the licensee under this subsection is also the lessee under AS 38.05.150 of that land."

Page 20, lines 9-10

Delete "[EXCEPT AS PROVIDED BY AS 38.05.177(a)(2)(C),j]"

Insert "except as provided by AS 38.05.180(ff)(4) [AS 38.05.177(a)(2)(C)],"

Page 20, line 23

Delete "A [NOTWITHSTANDING AS 38.05.177, A]"

Insert "Notwithstanding AS 38.05.180(ff) or AS 38.05.132(a) [AS 38.05.177], a"

Page 22, line 15, following "period of nonproduction;"

Insert "on application by the lessee, the director may extend the lease issued under this section for a period of not more than 10 years if the gas produced from the lease is to be used by the lessee solely for its mining operations;"

Page 40, line 6, following "paragraph":

Insert ";

(4) the provisions of this subsection do not apply to authorize a lease for the recovery of nonconventional gas on land that is held under an existing coal lease entered into under AS 38.05.150 that has an active permit for exploration or mining unless the lessee under this subsection is also the lessee under AS 38.05.150 of that land."

AMENDMENT

#2



OFFERED IN THE HOUSE
TO: CSHB 531 (FIN)

BY REPRESENTATIVES KERTTULA & CROFT

- 1 Page 48, Line 4; after "gas";
- 2 Insert:
- 3 "leases issued under AS 38.05.177 and in effect on December 31, 2003"
- 4
- 5 Page 48, Line 5; delete all language.
- 6
- 7 Page 48, Lines 6-7; delete all language.

AMENDMENT

1 #

failed
6-3

OFFERED IN THE HOUSE
RESOURCES COMMITTEE
TO: CSHB 531(RES), Draft Version "V"

BY REPRESENTATIVE KERTTULA

1 Page 39, Line 31-Page40, Line 11;

2 Delete all material and insert:

3 "(3) for a nonconventional gas lease, rights under the reservation as set out
4 in AS 38.05.125 may not be exercised under the lease unless

5 (A) the owner and the state and its lessees, successors, or
6 assigns reach a prior written agreement under which the state and its
7 lessees, successors, or assigns may enter upon the land in the exercise of
8 the reserved right; only one written agreement authorizing entry onto the
9 land may be required under this subparagraph to authorize activity by the
10 state and its lessees, successors, or assigns, or by their agents, attorneys,
11 and servants as allowed under this subsection; an agreement entered into
12 under this subparagraph is

13 (i) for the duration of the period of production or recovery
14 operations unless the parties agree to a different duration; and

15 (ii) a covenant running with the land;

16 (B) the director, after notice and an opportunity to be heard,
17 determines that, to exercise rights under the reservation and the lease, the
18 lessee has no other reasonable means of entry than access and entry upon
19 the land of the owner; the lessee has the burden of demonstrating
20 compliance with this subparagraph; and

21 (C) the state, its lessees, successors, or assigns make provisions to
22 pay the owner of the land full payment for all damages sustained by the
23 owner by reason of entering upon the land for the purpose of exercising
24 rights under the lease, by posting a surety bond determined by the owner
25 and by the state, its lessees, successors, or assigns to be sufficient as to
26 form, amount and security to secure to the owner payment for all damages,
27 subject to the following:

AMENDMENT

OFFERED IN THE HOUSE
RESOURCES COMMITTEE

BY REPRESENTATIVE KERTTULA

TO: CSHB 531(RES), Draft Version "V"

- 1 (i) if a provision of this subparagraph conflicts with a
2 requirement of AS 38.05.130, the provision of this subparagraph
3 prevails; and
4 (ii) in addition to the coverage for actual damages required
5 by AS 38.05.130 or this subparagraph, as appropriate, the parties
6 shall make provision for payment of reasonable compensation to
7 the owner for any loss by the owner of the owner's use and
8 enjoyment of the property."

AMENDMENT #1



OFFERED IN THE HOUSE
TO: CSHB 531(FIN), Draft Version "X"

BY REPRESENTATIVES CROFT
AND KERTTULA

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Page 39, Line 31-Page 40, Line 6;

Delete all material and insert:

"(3) for a nonconventional gas lease, rights under the reservation as set out in AS 38.05.125 may not be exercised under the lease unless

(A) the owner and the state and its lessees, successors, or assigns reach a prior written agreement under which the state and its lessees, successors, or assigns may enter upon the land in the exercise of the reserved right; only one written agreement authorizing entry onto the land may be required under this subparagraph to authorize activity by the state and its lessees, successors, or assigns, or by their agents, attorneys, and servants as allowed under this subsection; an agreement entered into under this subparagraph is

(i) for the duration of the period of production or recovery operations unless the parties agree to a different duration; and

(ii) a covenant running with the land;

(B) the director, after notice and an opportunity to be heard, determines that, to exercise rights under the reservation and the lease, the lessee has no other reasonable means of entry than access and entry upon the land of the owner; the lessee has the burden of demonstrating compliance with this subparagraph; and

(C) the state, its lessees, successors, or assigns make provisions to pay the owner of the land full payment for all damages sustained by the owner by reason of entering upon the land for the purpose of exercising rights under the lease, by posting a surety bond determined by the owner and by the state, its lessees, successors, or assigns to be sufficient as to form, amount and security to secure to the owner payment for all damages, subject to the following:

(i) if a provision of this subparagraph conflicts with a requirement of AS 38.05.130, the provision of this subparagraph prevails; and

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(ii) in addition to the coverage for actual damages required by AS 38.05.130 or this subparagraph, as appropriate, the parties shall make provision for payment of reasonable compensation to the owner for any loss by the owner of the owner's use and enjoyment of the property."



NEWS BULLETIN

May 04, 2004 --- Vol. 10, No. 44

Pioneer picks up Evergreen in \$2.1 billion deal

Dallas-based Pioneer Natural Resources and Denver-based Evergreen Resources announced a \$2.1 billion 'strategic merger' in which Evergreen will become a subsidiary of Pioneer. The deal gives Pioneer a foothold in the Rockies' uncor basins and a chance to reinvest excess cash flow in low-risk, onshore, North American gas plays.

The merger will add 2.4 trillion cubic feet of proved and probable reserves North America gas reserves to Pioneer's portfolio and enhance the independent's Canadian asset portfolio, the smallest of its asset bases.

Scott Sheffield, Pioneer's chairman and CEO and an Evergreen board member, said he and Mark Sexton, Evergreen's CEO, began discussing the possibilities of a merger in March.

Under the terms of the deal, holders of 44 million Evergreen common shares can receive a total of 25 million Pioneer common shares and a total of \$850 million in cash.

The offer carries a value of \$39.35 per Evergreen share, which was based on Pioneer's closing price on Monday. Investors receive 1.16135 Pioneer shares, \$39.35 in cash or a mix of cash (\$19.50) and stock (0.58175 Pioneer shares) for each Evergreen share held.

Denver-based Evergreen agreed to sell its assets in Kansas prior to closing the deal, expected to happen in the second half of the year.

Sheffield briefly mentioned Alaska in an audio web cast this morning, saying both he and Sexton are enthused by their firm's opportunities in the state.

Sexton, who is out of a job but will sit on Pioneer's board, said the merger will result in "more aggressive development" of Pioneer's properties.

Pioneer officials predicted Evergreen production will double between now and 2008 and Pioneer production will grow by 10 percent per year over next 10 years.

Enbridge files with state to take lead in natural gas pipeline

Calgary-based Enbridge Inc. says it has the capacity on its own to build and operate an Alaska North Slope natural gas pipeline in its application under Alaska's Stranded Gas Development Act it would prefer to lead a consortium with producers and other market participants to put together the deal.

Enbridge announced this morning it has filed its project application with the state.

"This application signals Enbridge's intent to take a lead role in the creation of a consortium that will pursue these opportunities," the company says in its application. "The project will require producer and market support and a strong alignment of key stakeholders to mitigate and share the significant risk that a project of this size and scope will present."

The company proposes in its application to build a 36-inch-diameter pipe, capable of carrying 2.6 billion cubic feet of gas per day with the option of perhaps adding a second line to boost the project to more than 5 bcf per day — if gas supply and market demand expand.

North Slope producers and other project hopefuls have proposed a line moving 4.5 bcf per day as the most economic option. A larger gas supply reducing unit costs for construction and the subsequent tariff. But Enbridge said it believes a smaller line would reduce risks of cost overruns and flooding the market with too much gas at once, while also allowing it to buy conventional gas from North America mills at competitive prices.

Enbridge says gas could start flowing through the line nine years after "project kick-off." The Stranded Gas Act allows the company to negotiate a long-term fiscal contract with the state for payments in lieu of state and municipal taxes on the line.

The company estimates the smaller line would cost about \$3 billion from the North Slope to the Alaska/Yukon border. A processing plant on the slope would be additional, as would a new pipeline from the Alaska border into Alberta to connect with existing pipelines that carry the gas across North America.

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Borough Mayor

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Celebrating **40** *Years!*

— 1964-2004 —

May 4, 2004

Senator Scott Ogan and the Senate Resource Committee
Juneau, Alaska

Mr. Chair and Committee Members:

Please consider this as written testimony to your Committee as the Boroughs official position on the coal bed methane issue here in our Borough. The Borough assembly unanimously passed resolutions 04-035 and 04-036 stating our positions on some of the issues surrounding CBM. It is my understanding that copies of these resolutions have been provided to you in your committee packet.

When the assembly discussed these issues and passed the resolutions they also recognized that DNR was taking considerable public comment in the Mat-Su and would be hearing the residents concerns and that those concerns would be made available to the legislature and included in the process.

We have not taken a direct position on any bill currently under consideration. We have specified positions in our resolutions. Any support or opposition to a particular bill will require an assembly meeting, which we can call with required public notice.

Sincerely,

Tim Anderson
Borough Mayor

Ray Gillespie
Gillespie & Associates
Lobbying and Governmental Affairs

SESSION (Jan. - May)
130 Seward Street #201
Juneau, Alaska 99801
Telephone: 907.463.3375
Fax: 907.463.5522
Cell: 907.230.8843

INTERIM (June - Dec.)
1241 W. 27th Ave. #456
Anchorage, Alaska 99503
Telephone: 907.243.3125
Fax: 907.243.3125

MAR - 9 2004

Members of the Valley Caucus;

Enclosed are two resolutions regarding coal bed methane that were passed by the Mat-Su Borough last night.

If you have any questions please call our office at: 463-3375

Sponsors: Colver and Kvalheim

Adopted: 03/02/04

Motion to Reconsider Failed: 03/02/04

MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 04-036

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY MAKING
RECOMMENDATIONS TO THE GOVERNOR AND LEGISLATURE CONCERNING REFORM
OF SHALLOW GAS LEASING FOR COAL BED METHANE.

WHEREAS, various bills have been introduced in the Alaska
Legislature addressing shallow gas issues in the state of Alaska;
and

WHEREAS, the state of Alaska's shallow gas leasing program
does not require a "Best Interest Finding," which is required
before competitive oil and gas leases are offered; and

WHEREAS, the Matanuska-Susitna Borough Assembly supports
reform of the way in which state-owned subsurface estates are
leased for shallow gas coal bed methane exploration and production;
and


WHEREAS, the Matanuska-Susitna Borough supports public
involvement, adequate notice, and incorporation of public comments
into a decision whether to offer leases and identifying the
location of areas for leasing for shallow gas.

NOW, THEREFORE, BE IT RESOLVED, that the Matanuska-Susitna
Borough Assembly supports the reform of the leasing process for
shallow gas and supports legislation which:

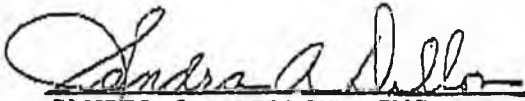
- requires a competitive lease process for shallow gas;

- requires a "Best Interest Finding" prior to offering leases;
- provides for adequately published public notice and notification to individual property owners within proposed lease areas and hold public hearings;
- provides for public hearings; and
- incorporates public comments received and local government concerns before offering any leases for shallow gas.

ADOPTED by the Matanuska-Susitna Borough Assembly this 2 day of March, 2004.


TIMOTHY L. ANDERSON, Borough Mayor

ATTEST:


SANDRA A. DILLON, CMC, Borough Clerk

(SEAL)

PASSED UNANIMOUSLY: Bush, Allen, Colberg, Kvalheim, Simpson, Colver, and Vehrs

Sponsors: Colver and Kvalheim
Amended by Substitution: 03/02/04
Amended: 03/02/04
Adopted: 03/02/04
Motion to Reconsider Failed: 03/02/04

MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 04-035 (SUB) (AM)

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY MAKING
RECOMMENDATIONS TO THE GOVERNOR AND LEGISLATURE CONCERNING COAL BED
METHANE LEGISLATION AND REGULATIONS.

WHEREAS, various bills have been introduced in the Alaska
Legislature addressing shallow gas issues in the state of Alaska;
and

WHEREAS, the public is concerned about surface impacts from
coal bed methane activity on privately owned properties; and

WHEREAS, the Alaska State Department of Natural Resources is
holding coal bed methane workshops to involve the public in making
recommendations to state and local governments for the adoption of
regulations; and

WHEREAS, the Matanuska-Susitna Borough Assembly supports best
practices for coal bed methane exploration, drilling, and
production operations.

NOW, THEREFORE, BE IT RESOLVED, that the Matanuska-Susitna
Borough Assembly respectfully requests that the Governor and
Legislature consider coal bed methane legislation that includes the
following surface protections:

- noise mitigation requirements for compressor stations;

- minimum setbacks from residences and property lines for wellheads and compressor stations;
- require lessees to submit a master plan locating all facilities and improvements to afford the opportunity for comments by the public; and
- require safety buffers.

BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly respectfully requests that coal bed methane legislation include the following surface landowner protections:

- surface owners should have the ability to negotiate fair and equitable terms for surface use of their property;
- require an Alaska State Department of Natural Resources and Alaska State Oil and Gas Conservation Commission permit before entry or construction upon on a privately owned parcel; the permit shall provide for negotiation and location of any improvements; and
- adequate bonding to make the surface landowner whole if water resources or other impacts to the property affects the use, enjoyment, and value of their property.

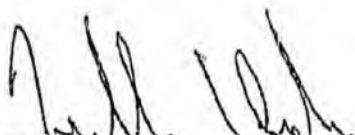
BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly will support legislation that accomplishes the intent of this resolution.

BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly respectfully requests that coal bed methane legislation include the following subsurface and water quality protections:

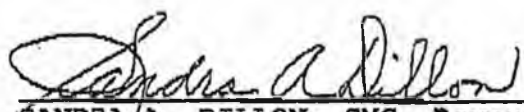
- require regulations to be adopted by the Alaska State Oil and Gas Conservation Commission requiring:
 - o re-injection of produced water well below known drinking and agricultural water aquifers; and
 - o neutral party testing and monitoring at the expense of the state or developer of all re-injected fluids and drinking water before, during, and after drilling activity.

BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly respectfully requests that the Alaska State Legislature amend State statutes to repeal the authority of the Commissioner of Natural Resources to override local government regulations.

ADOPTED by the Matanuska-Susitna Borough Assembly this 2 day of March, 2004.


TIMOTHY L. ANDERSON, Borough Mayor

ATTEST:


SANDRA A. DILLON, CMC, Borough Clerk

(SEAL)

PASSED UNANIMOUSLY: Bush, Allen, Colberg, Kvalheim, Simpson,
Colver, and Vehrs