

SB

59

<TARGET><BILL>SB 59</BILL><SUBJECT>SB
59</SUBJECT><COMM>SF IN28</COMM></TARGET>

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: SB 59
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB059-DNR-DOG-3-25-13
Title: OIL & GAS EXPLORATION/DEVELOPMENT
AREAS
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Finance

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

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

(Thousands of Dollars)

	FY2014 Appropriation Requested	Included in Governor's FY2014 Request	Out-Year Cost Estimates				
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Personal Services	80.0						
Travel	3.0						
Services	48.8						
Commodities	2.2						
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	134.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	134.0						
Total	134.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary	1.0						

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 06/30/14

Why this fiscal note differs from previous version:

While the bill does not require regulations, after discussion and review in the House/Senate Resources Committees, the Department determined that regulations would be a useful tool in managing the decision-making process.

Prepared By: <u>William C. Barron</u>	Phone: <u>(907)269-8800</u>
Division: <u>Oil and Gas</u>	Date: <u>03/25/2013 11:00 AM</u>
Approved By: <u>Daniel S. Sullivan, Commissioner</u>	Date: <u>03/25/13</u>
<u>Department of Natural Resources</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. SB 59

Analysis

This bill will allow the Department of Natural Resources to approve oil and gas exploration and development for a geographic area, without regard to individual lease boundaries.

To implement this bill would require one non-permanent position (Natural Resource Specialist III) to draft regulations and prepare exploration approvals for existing oil and gas lease sale areas. Contractual services would be for legal support, public outreach and notice, and travel for public meetings. On-going exploration and development approvals would be accomplished using existing staff as a result of efficiencies gained through implementing this bill.

The department plans to adopt regulations to facilitate implementation of this statute by June 30, 2014.

SB59: OIL & GAS EXPLORATION/DEVELOPMENT AREAS

BRIEFING PAPER

FOR THE SENATE FINANCE COMMITTEE • MARCH 26, 2013

SB59 will consolidate the Department of Natural Resources' exploration and development approvals, while still protecting the environment and providing for public participation. The right to explore and develop oil and gas is granted through a lease that has been through an extensive public disposal process. A lease is subject to mitigation measures, multiple agency permits, and plans of operations approval. Exploration and development approvals are made in conjunction with individual plans of operations for a lease or project and include a separate public notice for each approval. Many approvals are repetitive, subject to the same mitigation measures, and within the same geographical area.

SB59 will allow the department to comprehensively evaluate oil and gas exploration and development in a geographical area, without regard to lease boundaries, and define the criteria by which specific projects are evaluated and approved. The initial comprehensive review of a geographical area gives the public, government agencies and industry an opportunity to participate and identify exploration and development considerations for all subsequent projects. Projects may then move forward within the defined parameters and subject to the lease mitigation measures without additional public review following the geographical area approval process, saving time and resources for both the state and lessee when approving subsequent plans of operations.

Approvals covering a broader area would both create efficiencies in the exploration and development review process and provide for the department to look at the overall effects of exploration and development across multiple leases. This bill will still protect the public interest by requiring public notice and an opportunity to comment under AS 38.05.945. Further, it provides certainty to the oil and gas industry that exploration and development projects may proceed within defined parameters.

This bill will:

- Create efficiencies by streamlining the oil and gas exploration and development approval processes;
- Protect the public interests by requiring public notice and the opportunity to comment during the approval process for a geographical area;
- Enable a review of the effects of exploration and development across multiple leases;
- Allow exploration or development approvals to be consolidated into a comprehensive decision at the beginning of the process; and,
- Provide certainty to oil and gas operators, industry and the public when approval is granted.

SB 59: OIL AND GAS EXPLORATION/DEVELOPMENT AREAS

SECTIONAL ANALYSIS

FOR THE SENATE FINANCE COMMITTEE • MARCH 26, 2013

Section 1 of SB59 adds a new subsection (o) to AS 38.05.035 that allows the director to approve exploration or development for all or part of an area previously approved for oil and gas or gas only leasing under best interest findings as required under AS 38.05.035(e).

This section preserves the right for the public to comment by requiring the Department of Natural Resources to provide public notice.

If the approval is granted, exploration and development activities would be valid for a period of up to 10 years as specified by the director and the lessee can begin exploration or development only after it receives other authorizations as required by state or federal law. After exploration or development has begun on a lease, the approval for exploration or development under this subsection remains valid for the term of the lease.

This approval process would apply only to lands DNR previously described as areawide lease sales in its five-year program of proposed oil and gas or gas only lease sales.

Section 2 of SB59 establishes an immediate effective date.



Brooks Range Petroleum

March 1, 2013

Commissioner Dan Sullivan
Department of Natural Resources
550 W. 7th Ave, Suite 1260
Anchorage, AK 99501-3557

Dear Commissioner Sullivan:

Brooks Range Petroleum Company (BRPC) is a strong supporter of the Parnell Administration's efforts to streamline and improve the permitting process while maintaining high environmental standards. Permitting reform is, after all, critical to turn around the TAPS throughput decline. Indeed, a permitting process with unnecessary layers that do nothing to safeguard the environment only undermines the ability of companies to move projects forward in a timely and cost effective manner.

BRPC believes SB 59 provides a substantial improvement to the DNR permitting process. The current permitting process around Plans of Operation, Exploration, and Development is inefficient and cumbersome. SB 59 will remedy these shortcomings because it will consolidate the Department of Natural Resources' exploration and development approvals and streamline its approval process, while still protecting the environment and providing for public participation. SB 59's changes will reduce the permitting process by months, which is especially critical because exploration companies only have a few short months to operate during the North Slope exploration season.

Thank you again for your leadership on this issue and your efforts to make Alaska more competitive.

Sincerely,

Barton J. Armfield
Chief Operating Officer
Brooks Range Petroleum Corporation

Cc: Joe Balash



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Division of Oil & Gas
Anchorage Office

550 W. 7th Avenue Suite 1100
Anchorage, Alaska 99501-3560
Main: 907.269.8800
Fax: 907.269.8939

March 19, 2013

The Honorable Cathy Giessel, Chair
Chair, Senate Resources Committee
State Capitol Room 427
Juneau, AK 99801

Dear Senator Giessel:

I wanted to thank you for inviting Wendy Woolf and me to testify before the Senate Resources Committee on March 15, 2013 on SB-59, Oil and Gas Exploration/Development Areas. This correspondence allows me to reiterate a few of the points from the testimony and answer specific questions raised during the committee meeting.

The Division manages its oil and gas leasing program through areawide lease sales conducted each year. The decision to lease is made in a "Best Interest Finding" issued after an extensive public process and evaluation of criteria under AS 38.05.035(g).

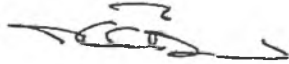
SB-59 will simply allow "geographical areas" to be reviewed holistically through a public process prior to an exploration or development phase as required by AS 38.05.035(e)(1)(C)(ii).

Reviewing exploration or development activities across geographical areas is a discretionary tool that will add efficiency to the process for approving subsequent plans of operations. The process outlined in this bill is optional, not mandatory, pursuant to the bill language. Further, the process outlined in the bill does not change the existing regulatory obligation for the Division to approve lease or unit specific operations for individual projects. After an area has been approved for exploration or development, it provides certainty to the public and industry that future activities will be conducted within those approved parameters.

The bill language contemplates that an area of approval (or "geographical area" as referenced in the bill title) could include all or part of an area previously approved for oil and gas or gas only leasing under (e) of this subsection. The reason that geographical areas are not further defined in this bill is to maintain flexibility as circumstances change. Whether to assess exploration for an area as broad as an areawide sale area or a narrower subset of that area will largely depend on degree of existing development in the area. Because levels of development will change over time, it is important to maintain flexibility to adjust geographical areas for considering exploration. For development, we have stated that the geographical area will likely be much smaller, such as a unit. But to limit the development areas to units would limit our ability to consider joint development across multiple leases that have not unitized. If SB-59 passes, we anticipate adopting regulations to implement this statute. The public would have input into this process.

I want to thank the Committee members for their time and questions. If you require more information, I and my Division are happy to provide it. Again, thank you for the opportunity, and I look forward to future discussions.

Sincerely,



W. C. Barron
Director

Cc: Daniel Sullivan, Commissioner Department of Natural Resources
Joseph Balash, Deputy Commissioner, Department of Natural Resources
Senator Fred Dyson
Senator Peter Micciche
Senator Click Bishop
Senator Lesil McGuire
Senator Anna Fairclough
Senator Hollis French



4 March 13

ELECTRONIC TRANSMISSION

Commissioner Daniel Sullivan
Alaska Department of Natural Resources
550 West 7th Avenue; Suite 1400
Anchorage, AK 99501-3554

Dear Commissioner Sullivan:

Linc Energy Operations, Inc. (Linc) is actively working to progress its oil and gas development projects in the Cook Inlet and on the North Slope. For this reason, Linc supports the Parnell Administration's efforts to improve the permitting process while at the same time, maintaining the state's high environmental standards. A more efficient permitting process will play a critical role in lowering costs, attracting investment and, ultimately, increasing oil and gas production in the Cook Inlet and on the North Slope.

Currently, projects are often delayed while waiting to receive authorizations from DNR on their Plans of Operations, Exploration or Development. Linc was pleased to see that the Parnell Administration introduced SB 59, which will improve the DNR permitting process by consolidating DNR's exploration and development approvals. Our assessment of the bill is that SB 59's changes will likely reduce the permitting process timeline by months; and, over the life of a project, this could help move projects more quickly from exploration and into development and production. In the end, this type of efficient and well organized approach benefits all Alaskans, as more production will be brought on line without reducing environmental standards or saddling projects with unnecessary and costly delays.

Linc appreciates your willingness to identify ways to improve the permitting process and believes SB 59's changes could have a material impact on Linc's ability to timely develop its Alaska assets.

Sincerely,

A handwritten signature in cursive script that reads "Corri A. Feige".

Corri A. Feige
General Manager – Alaska

Cc:/ Deputy Commissioner Joe Balash, ADNR

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North Slope Borough

OFFICE OF THE MAYOR



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Phone: 907 852-2611 or 0200
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Email: charlotte.brower@north-slope.org

Charlotte E. Brower, Mayor

March 15, 2013

The Honorable Sean Parnell
Governor of Alaska
State Capitol Building
Juneau, Alaska

Subject: Senate Bill 59, Approvals for Oil and Gas Exploration in a Geographic Area

Dear Governor Parnell:

On behalf of the North Slope Borough, thank you for this opportunity to offer some comments in regards to Senate Bill 59, an Act relating to approval for oil and gas or gas only exploration and development in a geographical area.

Since petroleum was first discovered on the North Slope and the formation of the North Slope Borough, there has been an ongoing effort to work with the State of Alaska towards responsible development. Both the State of Alaska and the North Slope Borough have benefited tremendously from this development. And we have both sought to varying degrees to protect the land and subsistence resources from any potential negative impacts resulting from this development.

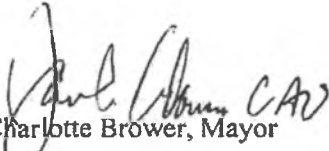
Senate Bill 59 will consolidate the Department of Natural Resources' (DNR) exploration and development approvals. The right to explore and develop oil and gas is granted through a lease that has been through the public disposal process. An initial comprehensive review of a geographical area provides an opportunity for participation by the public, government agencies, and industry.

When DNR authorizes exploration or development phases of oil and gas projects in a geographic area without regard to individual lease boundaries, public notice and the opportunity to comment will be required under AS 38.05.945. There is a question whether DNR approvals for a plan of operations that provide comprehensive details on the entire project and its effects are subject to public notice and comment.

Currently SB59 is being considered in the Legislature, and it is our desire to work cooperatively with your administration toward your goal of creating economic opportunity through a permitting process that helps to continue responsible development. We would respectfully request consideration for moving this

legislation forward in order to achieve its goal, but to also insure that adequate opportunities are left in place for notice and opportunity to comment by communities located near projects that are developed.

Sincerely,



Charlotte Brower, Mayor
North Slope Borough

SB 59: OIL & GAS EXPLORATION AND DEVELOPMENT APPROVAL BY GEOGRAPHICAL AREA

Senate Finance

April 1, 2013

Department of Natural Resources

- William C. Barron, Director, DO&G
- Wendy Woolf, DO&G



Areawide Oil and Gas Lease Sales

Alaska Five-Year Oil & Gas Leasing Program

Areawide Sales 2013-2017

- Beaufort Sea
- North Slope
- North Slope Foothills
- Cook Inlet
- Alaska Peninsula

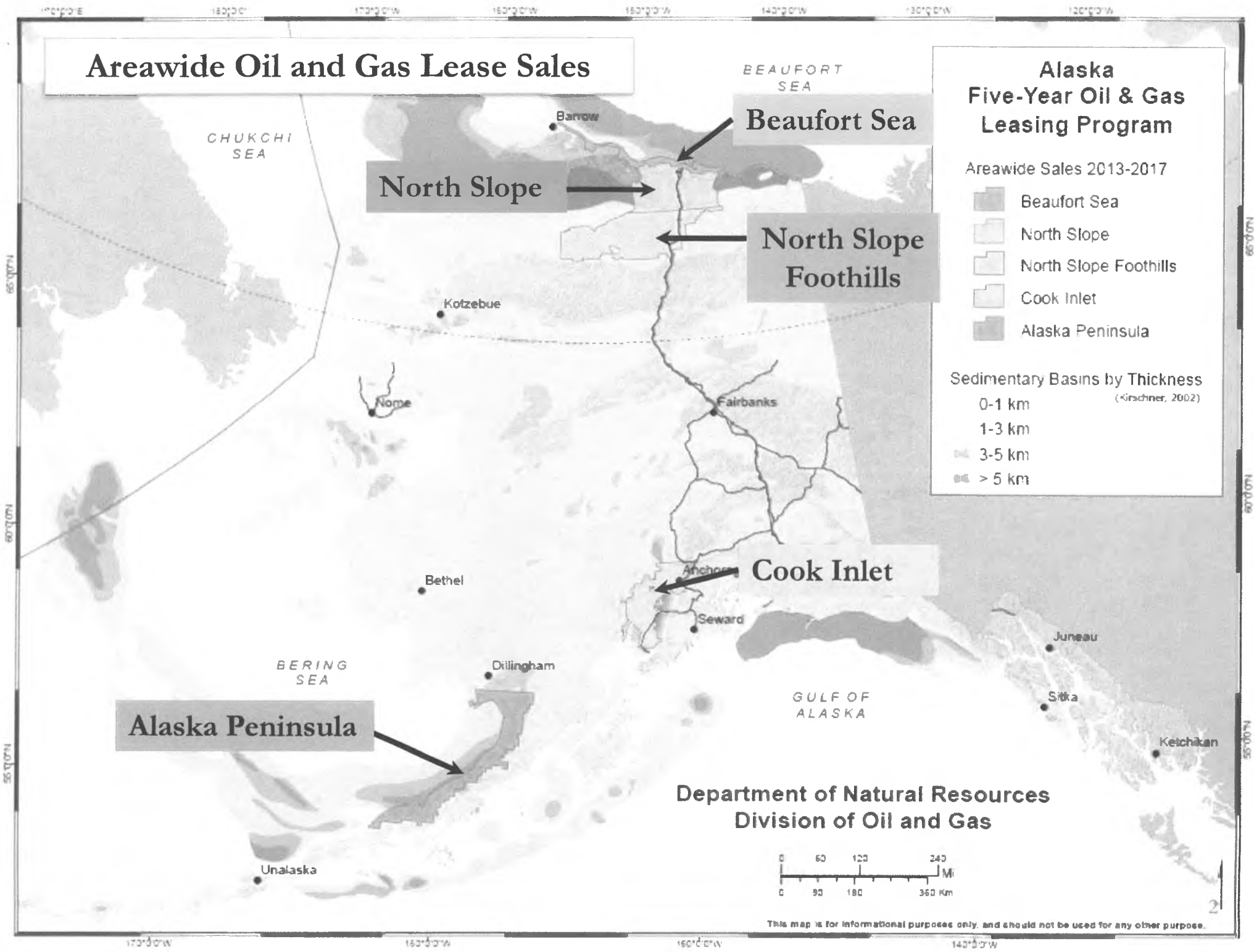
Sedimentary Basins by Thickness
(Ginschner, 2002)

0-1 km

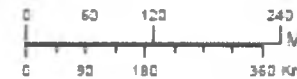
1-3 km

3-5 km

> 5 km



Department of Natural Resources
Division of Oil and Gas



This map is for informational purposes only, and should not be used for any other purpose.

SB 59 – “An Act relating to approval for oil and gas or gas only exploration and development in a geographical area; and providing for an effective date.”



What does SB 59 do?

- It clarifies the Department of Natural Resources can authorize oil and gas exploration and development activities within a geographical area.
- It preserves public notice and review at the beginning of an exploration or development phase.
- It ensures certainty when an approval has been granted for exploration or development activities.

How does this benefit the public?

- It allows the public to comprehensively evaluate oil and gas activities within a geographical area.
- It provides an opportunity for input at the beginning of an exploration or development phase.
- It safeguards environmental concerns through special stipulations and conditions.

How does this benefit industry?

- It allows a project to be planned within approved parameters and conditions.
- It provides certainty that plans of operations meeting those defined criteria can proceed.
- It ensures predictable project approvals for subsequent exploration or development activity.

Oil and Gas Lease Sale Process

- **Proposed Areawide Oil and Gas Lease Sale**
 - Public Notice and Opportunity to Comment
 - Evaluate Statutory Criteria
 - Develop Mitigation Measures
- **Final Finding of the Director to Lease Oil and Gas**
 - **Exploration Phase**
 - Public Notice and Opportunity to Comment
 - **Development Phase**
 - Public Notice and Opportunity to Comment
 - **Transportation (Pipelines)**
 - Public Notice and Opportunity to Comment

Life of an Oil and Gas Lease

Year 0

- Final Finding of the Director – Areawide Oil and Gas Lease Sale
- Lease Issued (10-Year Term)

Lessee develops exploration plans

Year 3

- Initial Exploration – Seismic Program (multiple leases)
- Public Notice and Comment Period (30 day public notice)

Year 5

- Lease Plan of Operations – Exploration Well
- Public Notice and Comment Period (30 day public notice)

Year 6

- Lease Plan of Operations – Exploration Well
- Public Notice and Comment Period (30 day public notice)

Discovery – Lessee formulates development plan

Year 7

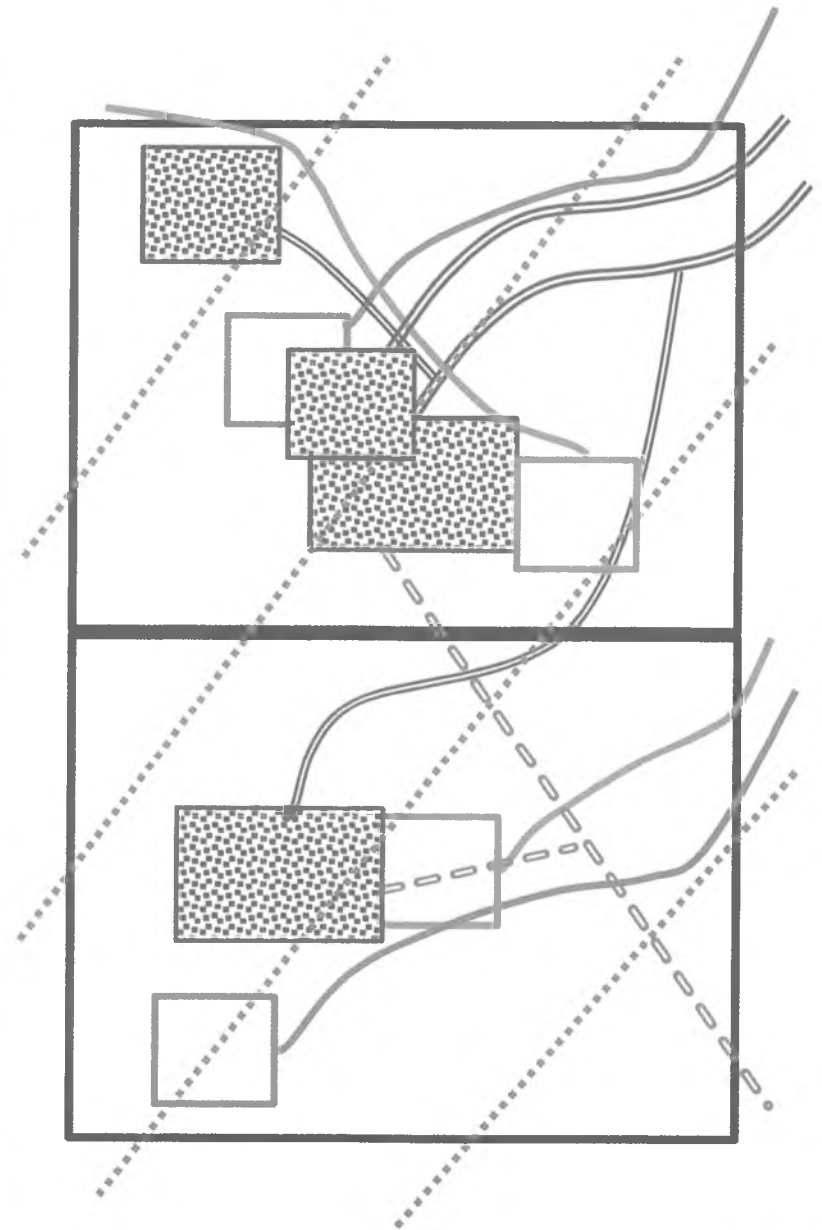
- Lease Plan of Development – Conceptual Development Plan

Year 8

- Lease Plan of Operations – Initial Development Plans
- Public Notice and Comment Period (30 day public notice)
- Lease Plan of Operations – Modified Development Plans
- Public Notice and Comment Period (30 day public notice)
- Pipeline Application (AS 38.05.850 or AS 38.35)
- Public Notice and Comment Period (30 day public notice)

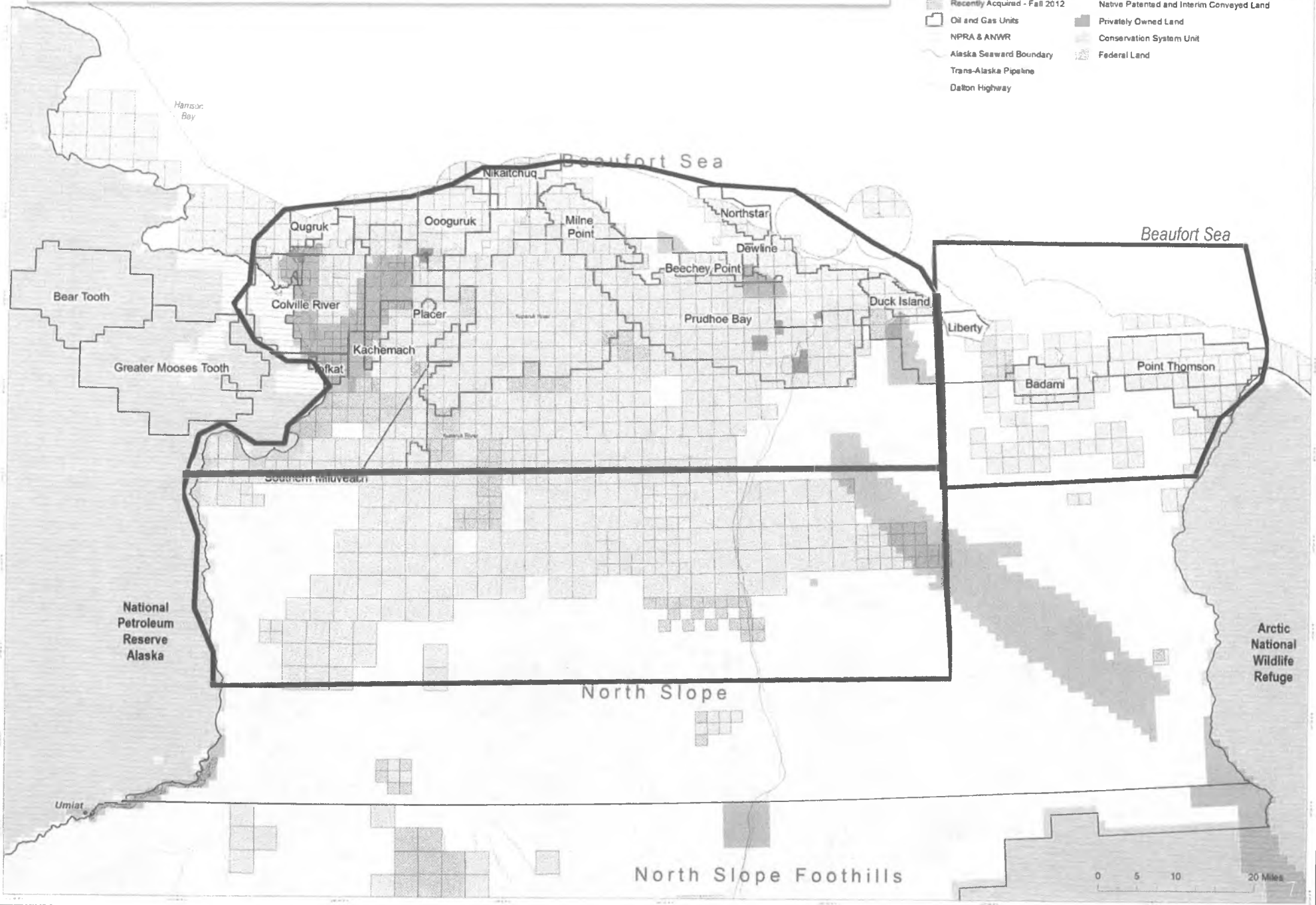
Year 10

- Production
- Lease Plan of Operations – Additional Development Plans
- Public Notice and Comment Period (30 day public notice)



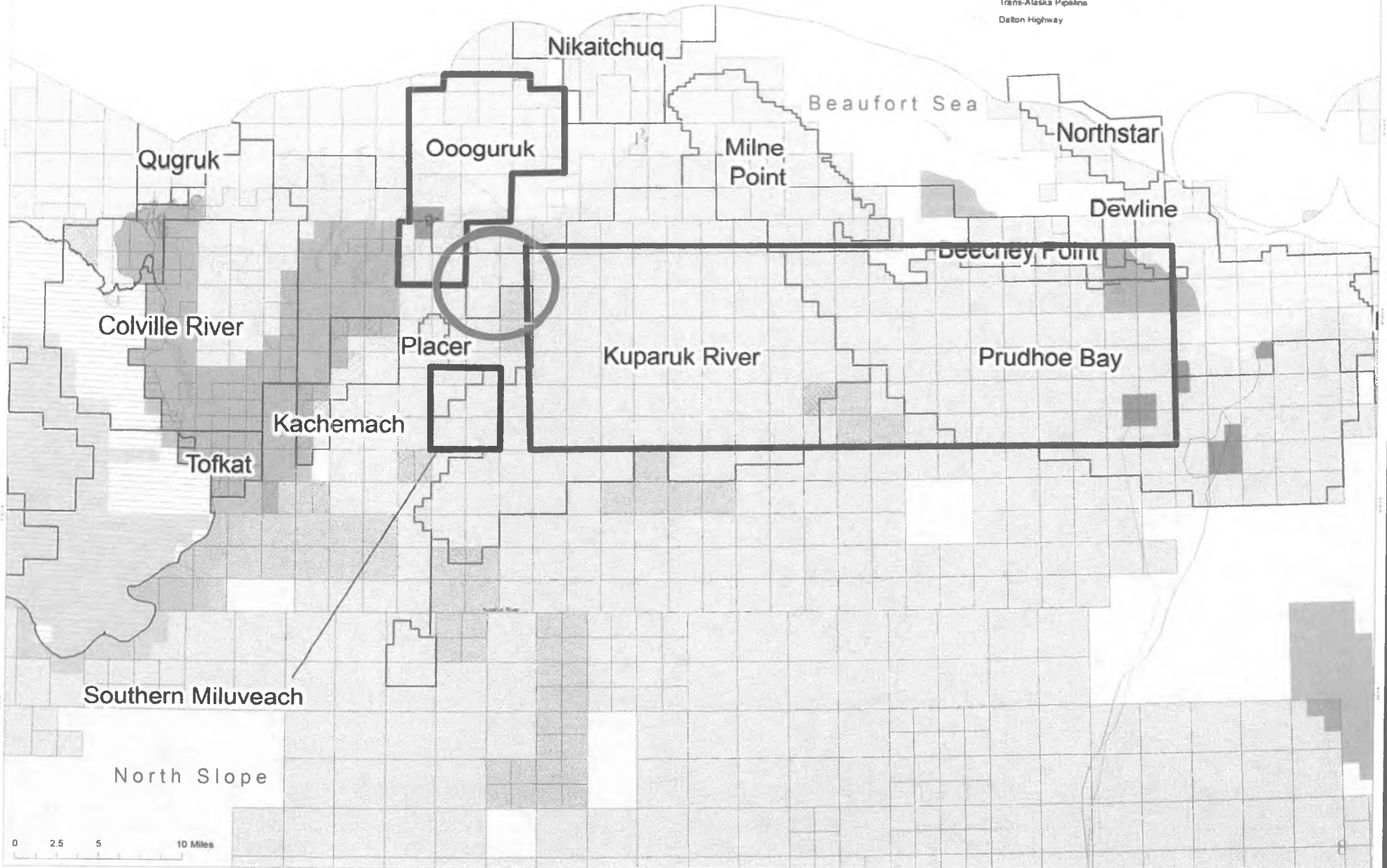
Example Geographical Areas for Exploration Activities

-  Sale Area Boundary
-  Active Leases
-  Recently Acquired - Fall 2012
-  Oil and Gas Units
-  NPRA & ANWR
-  Alaska Seaward Boundary
-  Trans-Alaska Pipeline
-  Dalton Highway
-  State Owned Land
-  State and Native Owned Land
-  Native Patented and Interim Conveyed Land
-  Privately Owned Land
-  Conservation System Unit
-  Federal Land



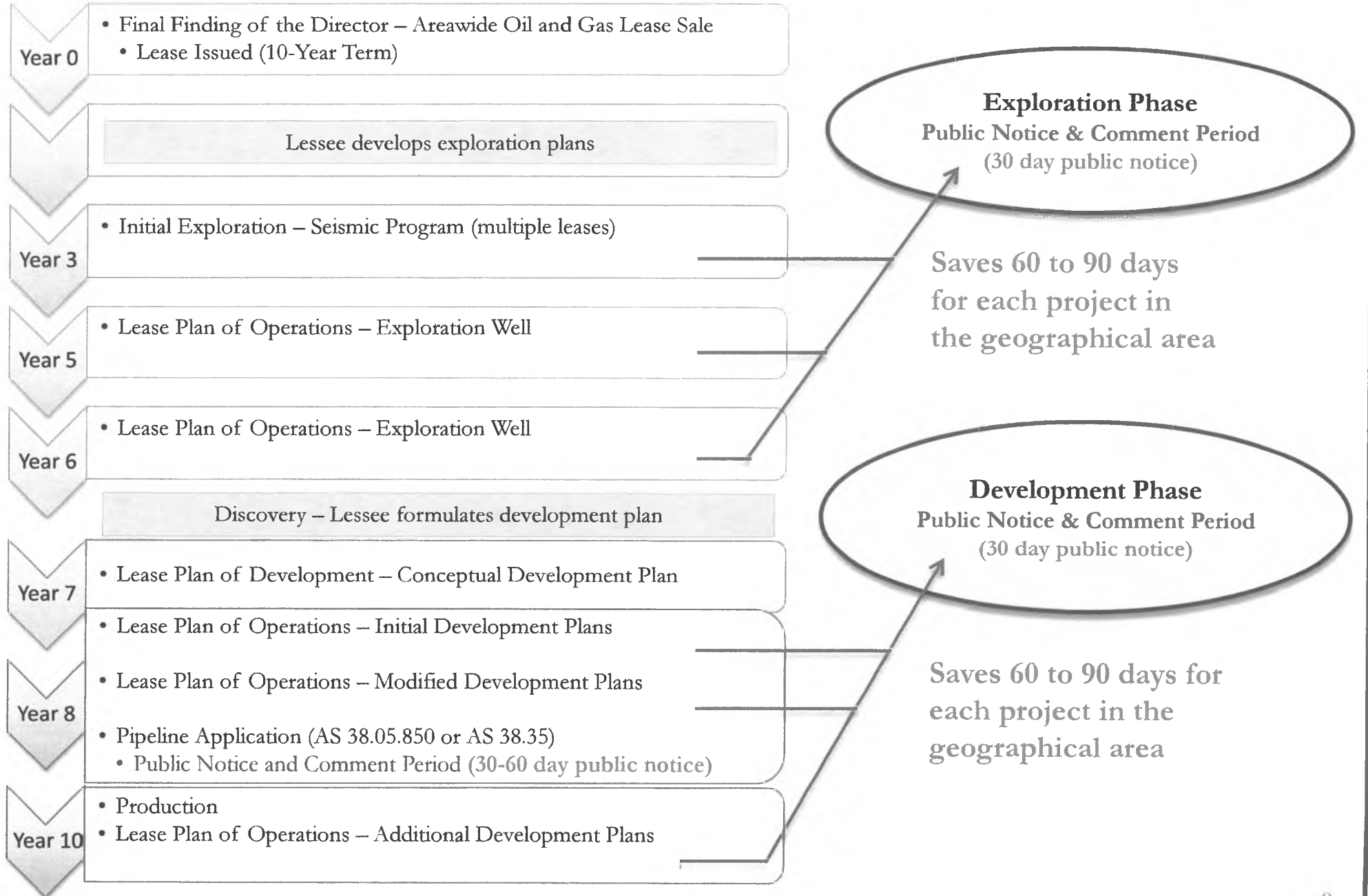
Example Geographical Areas for Development Activities

-  Sale Area Boundary
-  Active Leases
-  Recently Acquired - Fall 2012
-  Oil and Gas Units
-  NPRA & ANWR
-  Alaska Seaward Boundary
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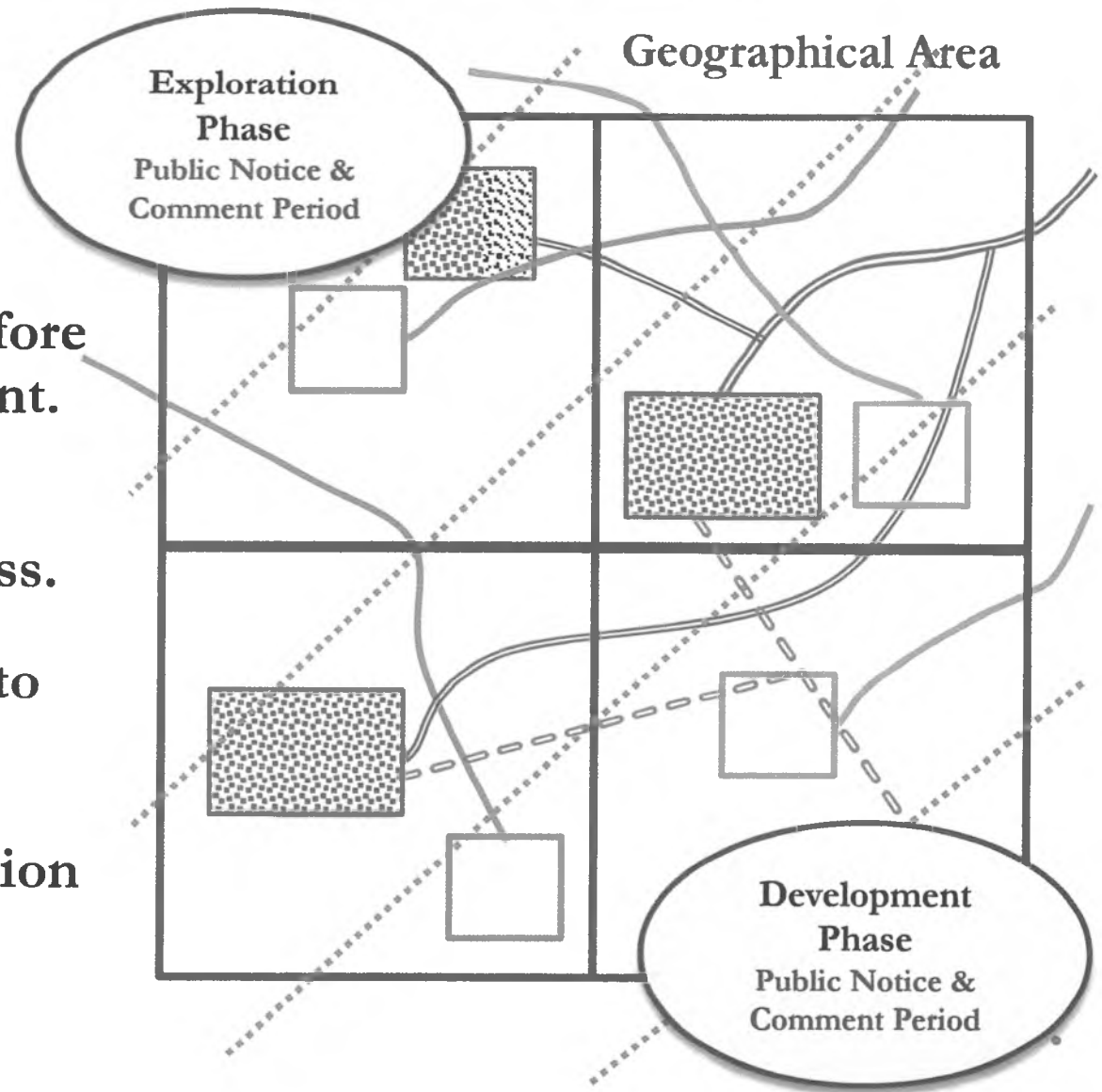
0 2.5 5 10 Miles

Life of an Oil and Gas Lease under SB 59



Results

- SB 59 provides for a comprehensive review before exploration or development.
- SB 59 preserves public participation in the process.
- SB 59 allows stipulations to be approved before a company develops site specific plans for exploration or development activities.





Questions?

