

ALASKA LEGISLATURE

1157

HOUSE and SENATE FINANCE COMMITTEE FILES,

1993-1994

231

CURRENT BONDING REQUIREMENTS

April 16, 1993

AOGCC BONDING AUTHORITY: 20 AAC 25.030

- *exploratory,
- *development,
- *service, or
- *stratigraphic test wells

Bond from operator for each well \$100,000 or a blanket bond of not less than \$200,000

- 1) Bond can be corporate surety or certificate of deposit;
- 2) remains in effect until abandonment; final clearance of well sites approved by the commission;
- 3) bond released upon written request of operator.

DEPARTMENT OF NATURAL RESOURCES BONDING AUTHORITY 11 AAC 93.160

- 1) Before operations begin, at least \$10,000 bond to department, practice has been \$100,000 bond.
- 2) Commissioner's discretion, after notice and appeal, to require a bond in a reasonable amount greater than \$10,000. Can require supplemental bond amount even with statewide bond.
- 3) Statewide bond of \$500,000.
- 4) 11 AAC 82.600 defines bond.

DEPARTMENT OF ENVIRONMENTAL CONSERVATION PROOF OF FINANCIAL RESPONSIBILITY: 46.04.040

- 1) \$50 million for a pipeline or offshore exploration OR production facility;
- 2) \$20 million for an onshore production facility
- 3) \$5 million for an onshore exploration facility

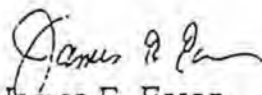
(CSSB 150(O&G) has been amended to affect this statute)

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES

State of Alaska
DIVISION OF OIL AND GAS

To: Annette Kreitzer
Committee Aide for Oil & Gas

Date: April 16, 1993

From: 
James E. Eason
Director

Phone: 762-2547

Subject: Amendment

As we discussed this morning, there is one amendment which, if possible, it would be nice to try to achieve through passage of the exploration licensing bill. The text of the proposed amendment to AS 38.05.180(c) is outlined below:

(c) Except as provided in (d) and (w) of this section, an oil and gas lease sale may not be held unless it was included in the proposed leasing programs submitted to the legislature during the two calendar years preceding the year in which the sale is held. [A LEASE SALE SHALL BE HELD DURING THE CALENDAR QUARTER FOR WHICH IT WAS SCHEDULED IN THE PROPOSED OIL AND GAS LEASING PROGRAM BUT MAY BE DELAYED BY THE COMMISSIONER FOR NOT MORE THAN 90 DAYS AFTER THE LAST DAY OF THE CALENDAR QUARTER FOR WHICH IT WAS SCHEDULED IF THE COMMISSIONER DETERMINES THAT A DELAY IS IN THE BEST INTEREST OF THE STATE. A LEASE SALE WHICH IS NOT HELD DURING THE CALENDAR QUARTER FOR WHICH IT WAS SCHEDULED IN THE OIL AND GAS LEASING PROGRAM, OR IN THE FOLLOWING 90 DAY PERIOD AUTHORIZED BY THIS SUBSECTION, MAY BE HELD ONLY IF RESCHEDULED AS PROVIDED IN (b) OF THIS SECTION.] A lease sale may not be held before the date in which it is scheduled in the proposed oil and gas leasing program.

Ironically, the prohibition against delaying a sale more than 90 days beyond its originally scheduled quarter was incorporated originally at the recommendation of representatives of the oil and gas industry. In 1978, it was feared that the commissioner might delay lease sales gratuitously, and the prohibition was viewed as a method of pressuring the department to maintain course or risk the political embarrassment of having potentially valuable sales fall off the end of the schedule. However, it has always represented a potentially powerful tool for opponents of leasing. Procedural delays for appeals or other purposes can be used to cancel sales with no recourse for the department but to restart the pre-sale activities, requiring a minimum of two additional years. In light of the Supreme Court's decision last month on the second remand of the Camden Bay litigation (Sale 50), I do not believe that we can afford to leave this provision in the statutes. It has long since outlived its original purpose--if it ever had one--and it now presents one of the most effective ways to delay or cancel sales. It is simply a matter of time until someone succeeds in putting us in this procedural box.

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

P.O. BOX 107034
ANCHORAGE, ALASKA 995 0-7034
PHONE: (907) 762-2553

(907)762-2547

April 14, 1993

The Honorable Loren Leman
Chairman, Senate Special Committee
on Oil and Gas
Alaska State Legislature
State Capitol, Room 113
Juneau, Alaska 99801-1182

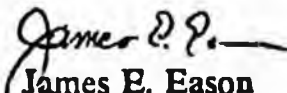
Dear Senator Leman:

I wanted to thank you and members of the Committee once again for the opportunity to participate in your review of SB 150 yesterday evening. As I said in my testimony last night, I believe the committee has worked very hard to produce a committee substitute for SB 150 which, on balance, is a much better product than the draft legislation we originally presented the legislature.

Although the committee's adoption of the substitute bonding language proposed by Harold Heinze resolved the concerns expressed in my written testimony last evening, I presume that the committee would still like to have copies of that testimony for the record. Accordingly, as I promised last evening, enclosed is the text of my prepared remarks.

If you or members of the committee or staff have any further questions, please feel free to call.

Sincerely,


James E. Eason
Director

Enclosure

04149314

Alaska Oil and Gas Association

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

April 1, 1993

The Honorable Loren Leman
Chairman
Senate Special Committee on Oil and Gas
Alaska State Senate
Room 113
State Capitol
Juneau, Alaska 99801-1182

Dear Chairman Leman:

The Alaska Oil and Gas Association (AOGA) is a trade association whose member companies conduct the majority of oil and gas exploration, production and transportation in Alaska. AOGA would like to offer the following comments on SB 150, large block exploration licensing legislation.

- * Large block licensing is an attractive addition to the State's leasing program to accelerate exploration and potential development of Alaska's frontier areas.
- * State land that has insufficient or undocumented geologic and geophysical information or state land that has not been or currently is not subject to an oil and gas lease sale program should be eligible for licensing. All lands north of 68 degrees, 30 minutes North Latitude should be excluded.
- * A license should be conditioned upon the annual posting of work commitment performance bonds or other security in favor of the state in an amount not less than the amount of the work commitment for each year.
- * The commissioner should adopt regulations to evaluate competing proposals. All licenses should be awarded on the basis of written sealed bids.
- * Conversion from license to lease should be under existing state leasing statutes AS 38.05.180 (i)-(u) and (x)-(z), and should be subject to the acreage chargeability of AS 38.05.140 (c).

The Honorable Loren Leman
April 1, 1993
Page 2

AOGA appreciates the opportunity to provide written comments on this legislation.

If I can be of further assistance on this issue, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "William W. Hopkins". The signature is written in a cursive style with a prominent loop at the end.

WILLIAM W. HOPKINS
Executive Director

B:WWH.199.4193

ENSR CONSULTING AND ENGINEERING
STATEMENT TO THE SENATE SPECIAL OIL AND GAS COMMITTEE
REGARDING SENATE BILL NO. 150 (EXPLORATION LICENSING)

APRIL 1, 1993

Mr. Chairman, Members of the Senate Oil and Gas Committee; my name is Robert Gardner. I am the Regional Program Manager for Oil and Gas Services for ENSR Consulting and Engineering. Thank you for the opportunity to present our comments on Senate Bill 150, the exploration licensing bill which is before you. My comments will be from the perspective of the service and support sides of the petroleum industry.

We believe that exploration licensing is a concept that can stimulate exploratory activities and accelerate development in the frontier basins of our state. These basins are mainly in interior Alaska and are currently unexplored or only marginally explored. Properly implemented, exploration licensing would attract new operators to Alaska, in addition to being attractive to oil and gas operators already here. From the service and support perspective we encourage the state to adopt programs, such as exploration licensing, which will broaden the base of clients and customers we serve. Unfortunately, with the single exception of reducing the time required to explore for and develop oil and gas deposits, Senate Bill 150 in its present form does little to achieve this goal. Specifically, our objections are as follows:

1. The dollar for dollar bond required to insure that the work commitment is discharged is a disincentive to all independent operators, and I imagine to many major companies as well. Since the only variable in the exploration license bidding process is the work commitment, and this work commitment is to be considered mainly in light of dollars obligated, it follows that the deepest pocket wins. The required dollar for dollar bond simply ups the ante. Incidentally, bonds in the size we are anticipating are nearly

impossible to obtain except by the largest of companies. In addition, as the bill now stands, if an operator secures a license and performs the work commitment in its entirety, but doesn't spend all of the obligated dollars in doing so (in other words he does an excellent job of managing his operations), the difference is subject to forfeit. In our opinion the scope of work and not dollars obligated should be the variable here. We agree that some form of bond should be required to ensure that the work gets done. In our opinion that bond should be limited to the amount of work scheduled to be performed in each year or one million dollars, which ever is less. Proponents of the legislation in its present form say the dollar for dollar bond is necessary to keep "speculators" out of the exploration licensing program. I submit that there may be some confusion here between independent operators and speculators. We believe a one million dollar bond will easily flush out the speculators and not prove a major disincentive to independent operator participation in the program.

2. As it is presently drafted, Senate Bill 150 would allow for the "warehousing" or "banking" of large tracts of land up to 500,000 acres under a 10 year exploration license, provided the work commitment was discharged as planned and the dollar for dollar bond maintained. We believe some shrinking of the license area triggered by work commitment milestones would be appropriate. In other words, as the exploration license moves through the exploratory process and toward the possible eventual conversion of parts of the license area to a lease, there is some specific percentage of the acreage in the original license area relinquished annually. This would encourage further industry interest in the surrendered areas and prevent the amassing of huge tracts of land by the licensee with the greatest financial resources.

3. Senate Bill 150 in the present form gives extraordinary discretionary powers to the Commissioner of the Department of Natural Resources. As you know, this is an appointed position, and the possibility therefore exists that the way in which the exploration licensing program is administered can be subject to political pressures. We encourage your committee to consider the establishment of an independent board made up of knowledgeable Department of Natural Resources and private sector participants to administer the program.

4. As I remember, the exploration licensing concept developed from a desire to stimulate activity in the unexplored basins of Alaska. The Department of Natural Resources currently has an active and effective 5 year oil and gas leasing program. Obviously the exploration licensing program and the five year leasing program have to interface in some manner. As presently drafted, Senate Bill 150 essentially opens all areas of the state to exploration license applications. While a strong case can be made that both Cook Inlet and the North Slope are inadequately explored, we believe these areas should not be subject to exploration licensing. The possible exception might be those areas of the North Slope lying south of the presently producing areas and encompassing the Arctic foothills belt. Activities in Cook Inlet Basin and on the North Slope north of the 8N Township are best left to the existing state leasing program. Since the existing bill does not specifically define the term "insufficient or undocumented geologic and geophysical information", the potential is there for the deepest pocket to tie up most of the unleased land in areas that already have some proven production. We believe this is not an appropriate role for exploration licensing and it will lead to fewer, rather than more operators being involved in the state.

In summary, we support exploration licensing as a vehicle to encourage and stimulate exploratory activity in frontier areas of Alaska. We believe exploration licensing will improve the health of oil field service and support companies by providing expanded work opportunities. We encourage your committee to consider a committee substitute for Senate Bill 150 which would address the inequities in the current bill which I have described, and basically level the playing field. I would be honored to work with your staff to develop the language of these changes, if you feel these concerns have merit.

Thank you again for the opportunity to make this presentation.

TO:

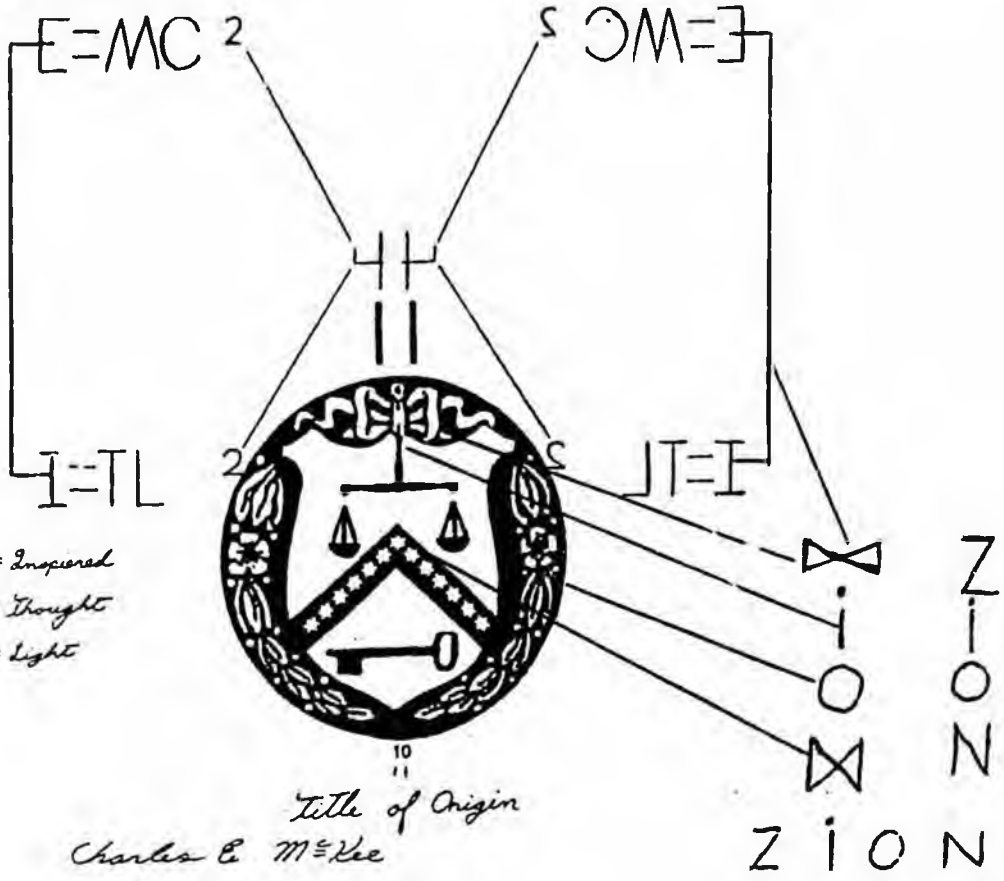
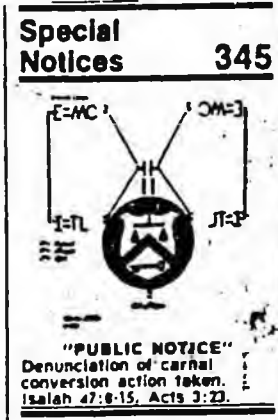
Municipality of Anchorage

Notices of Bonded Indebtedness

From: Charles E. McKee
7800 DeBarr Rd E #63
Anch, AK 99504

Daily News Anch
2-27-93

Charles E. McKee



My help comes from the Lord the Maker of heaven and earth. "ZION" means heaven and earth, my copy right gives me the right to amplify ZION not to seperate the too.

Title of the work: Millennium

This the year of the Lords Favor Isaiiah 60: The Spirit of the Mighty One of Jacob is on me, The Glory of Zion is the everlasting light that shines on me.
Our Redeemer the Mighty One of Jacob will Redeem us swiftly. The corpi's delicti(s) will swiftly end against me using attrition as one of the many!
You will as a public body atest "to my right to amplify the treasury of the United States Charles E. McKee in "wrihting"!
4-13-93

Stewart Petroleum Company

Denali Towers North, Suite 1300
2550 Denali Street, Anchorage, Alaska 99503
(907) 277-4004 • FAX (907) 274-0424

TESTIMONY ON SB 150

SENATE SPECIAL COMMITTEE ON OIL & GAS

April 1, 1993

Mr. Chairman and members of the Oil & Gas Committee, my name is Bill Stewart, President of Stewart Petroleum Company. We are a small independent oil and gas exploration and production company based in Alaska. We are active in Alaska and seven other states. Our current area of interest within Alaska is Cook Inlet Basin. We have been fortunate in discovering an oil field of significant size on the west side of Cook Inlet and are in the early stages of development of that field (named West McArthur River Oil Field) at the present time. Production of the discovery well is about to commence and, according to available information, we are the first independent company to establish commercial oil production in Alaska in modern times.

We are familiar with Senate Bill 150 which provides for oil and gas exploration licensing. There is nothing wrong with the concept of exploration licensing and it has been used successfully in various places around the world. There are

variations on the theme and such licenses are sometimes referred to as "concessions" or "work concessions". I am familiar with the program as it exists in Canada on federal or "Queen's" lands and, to a lesser degree, I am familiar with the programs in Australia and in the North Sea.

With respect to Alaska, any licensing program should not include the mature areas which are the North Slope and Cook Inlet Basin. Such a program is appropriate for and should be utilized in frontier areas. Alaska has in the order of 20 sedimentary basins. Only half a dozen have been explored and only two have been extensively explored.

While the concept of exploration licensing has merit for the State of Alaska, certain provisions of Senate Bill 150 will preclude participation in the arrangement by independent producers and probably by the smaller of the major oil companies, as follows:

1. The bill as drafted allows for licenses covering as much as 500,000 acres. With the contemplated license fee in the amount of \$1.00 per acre, many independents will not pursue the arrangement further. The entire Prudhoe Bay Field, the largest oil field on the North American continent, covers less than half of the 500,000 acre maximum, and the likelihood of discovering another Prudhoe Bay is highly unlikely. A license limit of 100,000 acres is more appropriate and will allow competition by smaller companies. Also, reduction of the license area over time as the exploration process defines specific prospects is in order. In addition, total

land under license to any single licensee should be limited to, say, 500,000 acres to prevent "warehousing" of acreage.

2. The bill as drafted provides for an obligation to perform a specified minimum work commitment, expressed in dollars. We submit that the work commitment should be expressed in terms of activity (ie, 35 miles of seismic work plus one exploratory well to be drilled to a depth of 10,000 feet). Independents can operate cheaper than major companies. The bill as drafted punishes efficiency. If we were to bid in terms of dollars for the work program just cited, we might bid \$1.5 million for the seismic and \$10 million for drilling, for a total of \$11.5 million. If we were able, through efficiency, innovation, or luck to perform the entire program for \$9.5 million, the \$2 million "savings" would be forfeited to the State of Alaska under terms of the bill.
3. The required "performance bond or other security in favor of the State in an amount not less than the amount of work to be performed" will, of course, preclude participation by smaller companies. Bonds of that nature are simply not available in today's market. We are a small but successful company with a good financial statement, but we were unable to obtain, at least initially, a \$100,000.00 drilling bond, which is currently required as a condition of the drilling permit. We satisfied the obligation by pledging a certificate of deposit to the State of Alaska. We could not possibly pledge the \$11.5 million utilized in our example and

allow those funds to be tied up for long periods of time plus do the actual work. That arrangement amounts to paying double for the activity. We suggest a performance bond posted annually in the amount of 10% of estimated expenditures for the ensuing year.

Setting aside our "example" for the moment and looking at reality, our company has expended or caused to be expended close to \$20 million in connection with the West McArthur River project. If we had been required to post a bond in that amount, the project would never have happened. During periods of drilling, approximately 40 full time on-site jobs are created together with approximately 20 support jobs in Anchorage or Kenai. Pipeline construction involves approximately 25 full time on-site jobs and 15 support jobs. After full development of the field, about 15 permanent on-site and support jobs will be involved in producing operations. Upon full development of this field, we estimate taxes and royalties to the State of Alaska will exceed \$1 million per month. Total revenues to the state are estimated at \$250 million over field life.

4. Finally, the oral outcry arrangement provided in SB 150 will, again, preclude real competition by the independent sector. We submit that the sealed bid arrangement presently utilized in the state's competitive oil & gas leasing program is more appropriate.

As an independent producer, we are in touch with many other independent

producers. There are roughly 10,000 members in IPAA, the Independent Petroleum Association of America. Most of the IPAA members will never venture to Alaska, but in the wake in our success, we are beginning to hear expressions of interest from quite a few who have the financial capability of operating or investing here. Exploration licensing with the modifications we have suggested will attract those independents. Exploration licensing as currently set forth in Senate Bill 150 will discourage them.

Thank you for hearing us. We look forward to continued work with the committee in this matter and are prepared to assist with specific language to accomplish these suggested changes.

ARCO Alaska, Inc.

Exploration Licensing Testimony

Mr. Chairman, members of the Senate Oil and Gas Committee, my name is Jim Davis: I am Senior Vice President of Exploration and Land for ARCO Alaska, Inc.

I am pleased to testify in support of SB 150, Exploration Licensing. We believe that this supplement to the state's leasing program can invigorate exploration for oil and gas. It can do this by substantially reducing the time required to acquire secure title to enough land to justify exploration activities while meeting all environmental laws and regulations.

I would like to pick up on Mr. Eason's review and analysis of the legislation. First, I would like to review the development of this bill. I think that this will help us see the policy choices facing the state. I would then like to address the main objections that I have been hearing and explain why they don't change our support for this bill.

Development of the Exploration Licensing Bill

A little over a year ago, I sat in joint hearings before this body and introduced the concept of exploration licensing.

Many of you may recall that there was general concern then that exploration in Alaska was declining and that oil companies were scaling back or ending their operations; presumably in favor of more attractive overseas prospects. I must admit that I was also feeling a sense of loneliness as I tried to interest prospective partners to join with ARCO in drilling Kuvlum in the Beaufort Sea; we now see that it turned out to be a discovery.

At that time, the legislature asked us to talk about ways in which exploration in Alaska could be stimulated. As we developed ideas, we considered various options. Standing back and looking at exploration in Alaska, we recognized that it is a very costly and high risk venture. We thought about ways the state could reduce our direct exploration investment. It was tempting to think of tax credits, because they have proven in other countries, such as Canada, to be very effective in stimulating drilling. However, we concluded that the state would not be able to bear these upfront costs, especially in light of the fiscal gap crisis it is facing.

The other alternative that we examined was reducing the time required to find and develop oil. We focused on the state leasing program. Here we found real possibilities to shorten exploration time. For example, under the present leasing system, it can take five to ten years to accumulate

enough of a land position to justify the high expense of an exploratory well. This puts Alaska at a competitive disadvantage with foreign countries, and this is one reason we see other oil companies leaving Alaska and investing abroad. Two activities which take time are waiting first for a prospect to move through the five year leasing schedule, and then developing a consolidated position out of the patchwork of individual lease ownerships covering the prospect. Even more uncertain, is consolidation of ownership on adjacent leases after a discovery. So we believe that speeding up the process of securing title would help the state's goal of invigorating exploration.

We found some interesting ideas in methods used by many foreign countries. In these countries, development rights are given after government chooses the specific work proposal that will most likely yield discovery and development.

The basic concept for exploration licensing in Alaska came from this approach. We felt that the existing lease process could be supplemented with licensing based upon work commitments, public disclosure, and competition. By the way, this approach has also been used in the U.S. as well as other countries, so this is not an untested concept.

[Optional]

Key Aspects of the Bill

[Let me next supplement Mr. Eason's testimony by highlighting the major aspects of the bill.

An exploration license is applicable to unleased land. A prospective licensee (or the state) identifies an area not to exceed 500,000 acres and proposes a work program, expressed in dollars, to be conducted over a time period of not more than 10 years. If the state does not reject the proposal, it then solicits competitive proposals. Since the original proposal is a matter of public record, and in order to not put the original proposer at a disadvantage, an oral auction is held to determine the prospective licensee that is willing to make the greatest work commitment, again, expressed as total dollars. During this process, the state makes a best interest finding before awarding the license. At the time that the license is awarded, the terms of the subsequent leases are established. In addition, the licensee posts a performance bond that reverts to the state for all committed work not completed by the end of the license term. The bond is critical in that it provides the incentive to do real work.

After getting all of the normal environmental and other permits, the new licensee conducts the work. Upon completion of the work, the licensee, at its option,

converts all or part of the license area to appropriate sized leases.

This conversion to smaller leases is critical to keeping licensing from becoming a vehicle for land speculation. It allows the state to take back leases after the primary term expires, where no development potential is shown. Therefore, the leases would be administered just as they are today. The bill provides for leases acquired through licensing to not be subject to the current 500,000 acre chargeability limits.]

To summarize, the bill is really quite simple in its concept. Its main purpose is to shorten the time required to explore. It gives a secure land position in return for a bonded work commitment. It relies on market competition to prevent abuse or giveaways. And it provides protections to the state by allowing the Commissioner to reject any proposal and revert to the existing leasing program.

Beginning in 1991 ARCO was asked by a number of legislators to come up with a concept that would attract industry back to Alaska. Last summer we began working with DNR to help craft the Exploration Licensing legislation. We made suggestions that advance the goals of getting exploration moving and of helping the state to realize tax and royalty revenues from new sources as soon as possible. We have resisted endorsing concepts that

dilute this bill just for the sake of compromise or getting a bill passed that "everyone agrees with." We believe that the State's interest of getting exploration accelerated should be kept foremost in any modifications.

Major Objections to the Bill

Let me now respond to the major arguments that I have heard against this bill. Foremost, I'm surprised that others do not see that it's in the State's interest to get exploration moving: to find and develop oil and gas as quickly as possible. Maybe it would be clearer if this bill were titled the Exploration Work Commitment Bill. That title captures for me the fact that while land is being acquired, the real effect of licensing is to get exploration work done. All of the criticisms or amendments that I have heard, serve to weaken or dilute the goal of speeding up exploration. Unfortunately, some even seem to be self serving at the expense of the State's interest. Let me illustrate by looking at these objections one at a time.

I hear some say that the leasing system is working fine and that no license bill is needed. Yes, leasing does happen and clearly the state and the industry have benefited. But I would rather say that benefits have come in spite of leasing, not because of leasing: discovering and developing Prudhoe, for example, had much more to do

with the quality of the reservoir than the effectiveness of the leasing system. Further, revenues to the state from bonuses and rental have amounted to less than 1% of total revenues from 1981 through 1992. Clearly the state benefits most from discovery and development. To me, a way to supplement the lease system with a faster process such as licensing is needed.

A more specific complaint is that the bill should exclude broad portions of the North Slope and Cook Inlet from licensing. The reason, I hear, is that licensing is only needed in "frontier" areas, not mature areas. Let me offer a few thoughts on this. First, I would like to debunk the idea that the North Slope and Cook Inlet are mature areas. They are producing areas, that's true. But they have been anything but thoroughly explored. For example, the North Slope bounded by the Beaufort Sea on the north, the Brooks Range on the south, the Canning River on the east, and the Colville River on the west contains 12 million acres and there have only been 40 exploration wells drilled, an average of 1 per 300,000 acres. For comparison, Texas has had an average of 1 well per 950 acres. We agree that this should be a frontier area bill: but we think that licensing should be available for both intellectual as well as geographic frontiers. Our Cook Inlet discovery, the first in 25 years, is a good example of this. Most basins go through cycles of discoveries. Cook

Inlet is now in its second cycle. We rethought the geologic concepts in Cook Inlet and by applying them found oil in an area that industry had all but abandoned. There is land in both the Cook Inlet and on the North Slope that has been leased and returned to the state, or offered for sale and not bought. These areas are intellectual frontiers and as new concepts are developed, these areas should be available for licensing.

The second thought is that the Arctic North Slope is a particularly poor choice for blanket exclusion. This is because new sources of oil are needed to keep TAPS running as long as possible. Crude rate through TAPS will be declining significantly over the next ten years and modifications such as shutting down pump stations will be needed. Over time, it will be more and more expensive to bring TAPS capacity back up. New discoveries will have to bear those costs. As time proceeds, discoveries will have to be larger and larger to justify TAPS investments. I just don't think that we can expect to find larger and larger fields. We must try to find as many smaller sized fields as soon as possible to maximize the economic efficiency of TAPS and to keep rate from declining as quickly. There is an added benefit that the longer TAPS operations continue, more oil will be produced from existing fields like Prudhoe and Kuparuk. Exploration Licensing is especially applicable on the North Slope because we have only a

limited window of opportunity. I have heard no one argue that licensing will slow down the pace of exploration. Therefore, I am forced to conclude that suggestions for exclusion from licensing are really suggestions to purposefully slow down exploration. Industry opposition to licensing in some areas is proof that they believe their competitors are willing to make work commitments to explore in Alaska. This is the last area the state should exclude. It's too critical. To summarize, we think that no additional exclusionary language is needed in this bill: the commissioner has more than enough discretion to protect the state's interest.

You may hear from other companies who support such exclusions. Usually these are companies which have focused what little exploration activity they have into a single geographic area. They say they favor licensing except where they are currently working. I ask you as legislators to judge whether such restrictions serve the interests of the state or the self-interest of those seeking exclusions to the licensing bill. Do they fear that licensing would bring increased competition to their areas of interest?

The performance bond has also been criticized as being too onerous. But it would be a mistake to provide relief from bonding. The reality is that Alaskan exploration is high

risk and high cost. Nothing has changed for players without the financial ability or interest in licensing. They can continue to participate through existing leasing. Or they can form joint ventures with others and seek licenses. Dropping the bond requirement encourages speculation, not exploration. And holding land without exploring is of no benefit to the state.

The oral outcry form of bidding has been criticized as not being viable. We see oral auctions as protection for the person who submits the initial proposal, which may be subject to partial disclosure. The originator may be disadvantaged during bidding by competitors having that information. The argument against oral auction is that it will be too complex. But it is really fairly simple. After the state has solicited and evaluated proposals, it develops a common basis for the bidding and the competitors bid a work commitment in terms of dollar amount. There really is not anything unworkable here. Also, this concept is not new, its been utilized in numerous countries for many years.

As I mentioned earlier, one of the fundamental protections for the state and the industry is the existence of market competition. One of the most disturbing arguments I've heard against this is that some companies will not use licensing because they have only limited funds for Alaska.

In essence, these people are saying that the state should not speed up the pace of exploring for and discovering oil until they are prepared to reinvest in Alaska. This is probably because they have better foreign opportunities. This demonstrates that Alaska is at a competitive disadvantage as I mentioned earlier. Exploration Licensing will help level the playing field by making Alaska more attractive for exploration.

Critics of this legislation are quick to point out that ARCO has committed nearly 1 billion dollars to an active, ongoing 5-year exploration program and that exploration licensing is not fair to other companies who have not made such commitments. But we should remember that the goal of this legislation is to have a process which speeds up exploration and which creates competition for making work commitments. Just the introduction of this bill has created a climate of competition within the industry. And that's good for the state. I presume that other companies will seek and win licenses. I hope that ARCO can also benefit from licensing. But I also hope that the state benefits from licensing, because that will mean that exploration in Alaska has been reinvigorated.

I would be happy to respond to any questions that you might have.

STATEMENT OF BP EXPLORATION (ALASKA) INC.

TO THE

SENATE SPECIAL OIL & GAS COMMITTEE

REGARDING

SENATE BILL NO. 150

March 23, 1993

Mr. Chairman, Members of the Committee. Good afternoon. My name is John Ringstad, and I am Associate Director, Government Affairs for BP Exploration (Alaska) Inc. Thank you for this opportunity to appear before you today to present BP's views on SB 150, the Governor's large-block licensing bill.

SB 150 would make state lands available for oil and gas exploration and development under a very different approach from the system of competitive oil and gas lease sales that Alaska has used since 1959. Under the leasing system, state land is made available in relatively small parcels of not more than 5,760 acres. In contrast, the licensing system proposed in SB 150 would make land available for exploration in blocks of up to 500,000 acres apiece. Instead of bonus bidding, the new licenses would be awarded competitively on the basis of how much exploration work a would-be licensee promises to do. The bidder promising the most work in a license area would win the license for that area. If the licensee makes a discovery, he would have the right to lease the portion of the license area encompassing the discovery. In its basic approach, this new licensing program is very much like the oil and gas "concessions" that most nations around the world employ to get oil and gas exploration and development.

BP supports the idea of large-block licensing for the relatively unexplored areas of Alaska. While BP's exploration focus is on the North Slope and will remain there, we believe that the licensing approach could facilitate the exploration of the so-called "interior basins" in Alaska - basically, all of the state outside of the Cook Inlet basin and the North Slope. We applaud the Governor and those in his Administration who worked to develop this bill, for breaking out of the "traditional" mindset that 30 years of using the same

practice can cause, and for having the willingness to propose a new system that they think will work better than leasing.

However, despite our support for the general idea of large-block licensing for the relatively unexplored areas of Alaska, we *oppose* SB 150 as currently written. We have three specific matters of concern: 1) its application to the North Slope, 2) the oral outcry auction provision and 3) the exemption which allows the warehousing of acreage.

Our first concern is that SB 150 would allow licensing on the North Slope, particularly in the planning areas for the remaining state lease sales scheduled for the Slope. We believe the State's interests would be harmed, not helped, by allowing the currently planned lease sales to be cast aside in favor of a licensing program. Lease sales bring in cash bonuses; the licensing program would not. Unlike lease sales in unexplored areas, which bring in minimum bonuses, the recent state lease sales on the Slope show there is enough interest to make the bonuses there substantial. Thus, to stop using lease sales on the Slope would represent a significant cash cost to the State. For licensing to be justified, therefore, it has to be great enough to offset this cost.

The chief advantages that licensing offers are the possibility of more exploration and earlier exploration, but we doubt that licensing would deliver very much of either advantage on the Slope. There is already more exploration interest on the Slope than anywhere else in the state, and the Slope is likely to end up being just as thoroughly explored under conventional leasing as it would with large-block licensing. Moreover, it is not clear that licensing would bring about exploration on the Slope any faster than conventional leasing would. It is expected that exploration drilling under a licensing program would begin as early as two years after a license is issued. But our Cascade well that we are drilling this year is on land we leased only two years ago – in 1991. We also plan to drill our Yukon Gold well later this year, and it, too, is on a lease issued in 1991. ARCO's Cave Bear well, scheduled to be drilled next year, is on land they leased just last year. So, even though it is sometimes true that exploratory drilling doesn't begin until eight or nine years after a lease is issued, it is also true that much of the current exploratory

drilling on the Slope is occurring as soon after a lease sale as it would under a large-block licensing program.

There is one more thing you should consider before letting the Slope be opened up to large-block licensing. Conventional leasing allows companies to come in and bid for leases even though they do not plan to operate the lease: they may acquire. They are, in effect, investors rather than operators. The licensing program, in contrast, gives a tremendous advantage to any companies who are already operators in the vicinity of a license, because they already have a base of operations there and have working knowledge and experience with the area. On the Slope, there are two dominant operators. Is it good state policy to let one, or both, "lock up" the rest of the Slope under a licensing program? Or would it be better to continue letting other companies have a chance for a piece of the action, as they do with conventional lease sales? For BP's part, we are not afraid of having more competition, but welcome it.

I said earlier that BP has three concerns about SB 150, and so far I've only talked about one.

The second concern is about the nature of the auction for a large-block license. SB 150 calls for an "oral outcry" auction – that is, the bidders are all in a room together and each one keeps bidding higher and higher about how much exploratory work it will do, until finally no one is willing to bid any higher and the license goes to the last, and highest, bidder. This is a singular departure from the way similar "concessions" are offered elsewhere around the world. The usual method is with sealed written bids that are submitted in advance, much the same way bonus bids are submitted to Alaska in its competitive oil and gas lease sales. The system of sealed bids in advance makes everyone bid on the basis of their best view of the prospect, and it is likely to attract more participants in the auction than the "oral outcry." BP prefers sealed bids.

Our third concern is about whether a lease being carved out of a license area counts against the State's limits on how much acreage a company may have under lease at one time. SB 150, at lines 8 and 9 on page 5, specifically

exempts such a lease from the acreage limits. We see no reason for the State to give such an exemption.

The acreage limits were enacted as part of the original state Land Act in 1959 in order to prevent companies from "warehousing" large numbers of leases. The State wanted companies to either explore and develop the leases they got, or else surrender them back to the State. This is shown by the fact that leases in an exploration unit or a development unit are not counted against the acreage limit. With a unit, the State knows there is a plan, and has to approve that plan, either to explore the leases or to develop and produce the leases, depending on the type of unit.

If you think about it for a moment, there is no reason for such an exemption even from a license-holder's point of view. Why would a license-holder be trying to get a lease for part of his license area in the first place? Because he either has found something there or has good reason for believing something is there. But in either case, there is no reason why he cannot put the lease into a unit if he doesn't want it to count against his acreage limits. And if he does unitize the lease, then the State will continue to have assurance that there are real plans for further exploration and/or development for that lease. BP believes a lease being carved out of a license area should count against the acreage limits.

In summary, then, BP supports the general idea of large-block licensing for the relatively unexplored areas of Alaska. But we oppose SB 150 in its present form because it does not deal adequately with the issue of licensing on the North Slope. We are also seriously concerned about the provisions in SB 150 to use an "oral outcry" auction instead of sealed bids, and about its exemption from the anti-warehousing acreage limits for leases carved out of a license area. With corrections in these areas, we would welcome SB 150 as a progressive new approach for encouraging oil and gas exploration in Alaska.

Thank you, Mr. Chairman, for this opportunity to present this statement to the Committee today.

LAPP RESOURCES INC.

TESTIMONY TO THE SENATE OIL AND GAS COMMITTEE
ON EXPLORATION LICENSING

March 23, 1993

THANK YOU MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE.

I'M DAVID LAPPI, PRESIDENT OF LAPP RESOURCES INC., AN INDEPENDENT PETROLEUM EXPLORATION COMPANY BASED IN ANCHORAGE.

I AM A 1974 GRADUATE OF THE UNIVERSITY OF ALASKA IN FAIRBANKS, AND I GAINED MY EXPLORATION EXPERIENCE IN BOTH ALASKA AND AUSTRALIA. IN AUSTRALIA BETWEEN 1981 AND 1991, I EXPLORED UNDER EXPLORATION LICENSING LEGISLATION. I ALREADY HAVE 10 YEARS OF PRACTICAL EXPERIENCE USING THE CONCEPT BEING DISCUSSED HERE.

MY OVERSEAS EXPERIENCE HAS CONVINCED ME THAT ALASKA NEEDS TO ADOPT EXPLORATION LICENSE LEGISLATION TO ENSURE THAT ALASKA'S FAVORABLE GEOLOGY ATTRACTS ITS FAIR SHARE OF THE INTERNATIONAL EXPLORATION DOLLAR, AND, GIVEN THE HIGHER COST OF OPERATING IN THIS STATE, THE EXPLORATION LICENSE TERMS NEED TO BE AT LEAST AS FAVORABLE AS TERMS GIVEN BY OTHER COUNTRIES WHO OFFER EXPLORATION LICENSES.

THE BILL CURRENTLY PROPOSED GOES SOME WAY TOWARD FILLING THIS NEED, HOWEVER, THERE ARE FIVE ITEMS WHICH WE WOULD LIKE TO SEE INCLUDED IN THE CURRENT BILL AND TWO ITEMS WHICH WE WOULD ASK YOU TO ELIMINATE.

THE FIRST ITEM WE SEEK TO INCLUDE RELATES TO THE BIDDING PROCESS: UNDER THE CURRENT BILL, COMPANIES BID DOLLAR AMOUNTS, NOT WORK PROGRAMS. WE WOULD PREFER TO SEE ACTUAL WORK PROGRAMS BID, THAT IS, MILES OF SEISMIC SHOT, EXPLORATION WELL FOOTAGE DRILLED, AND SO ON. THIS WILL HELP LEVEL THE PLAYING FIELD BETWEEN LARGE COMPANIES AND SMALL ONES, THE LARGE COMPANIES OFFER LARGE BUDGETS, THE SMALL COMPANIES OFFER INNOVATIVE EXPLORATION CONCEPTS AND EXPLORATION EFFICIENCY.

THE SECOND ITEM TO INCLUDE ALSO RELATES TO BIDDING: WORK PROGRAMS BID BY COMPANIES SHOULD BE TIED TO A TIME LINE THAT ENCOURAGES EARLY EXPLORATION AND DEVELOPMENT. THE CURRENT BILL DOES NOT REQUIRE EXPLORATION TO COMMENCE UNTIL THE LAST YEAR OF THE LICENSE; UP TO 10 YEARS OF THE STATE'S VALUABLE TIME CAN BE LOST WAITING FOR COMPANIES TO PERFORM THEIR WORK. WORK PROGRAMS FOR THE LIFE OF THE LICENSE SHOULD BE BID ON AN ANNUALIZED BASIS TO ENCOURAGE WORK EARLY IN THE LIFE OF THE LICENSE. COMPANIES NOT PERFORMING THEIR WORK ^{on an annual basis} WITHOUT VALID OVERRIDING REASONS SHOULD LOSE THEIR LICENSE.

THE THIRD ITEM IS A REQUIREMENT FOR COMPANIES WHO OWN EXPLORATION LICENSES TO RELINQUISH 25% OF THE REMAINING LICENSE AREA EVERY TWO YEARS. THIS WILL PREVENT "BANKING" LARGE PARCELS OF ACREAGE, CREATE TURNOVER IN THE ACREAGE HOLDINGS, AND STIMULATE INDUSTRY INTEREST. THE STATE COULD EVEN OFFER RELINQUISHED AREAS AS CONVEN-

TIONAL CASH BONUS BID LEASES IN AREAS ^{shown to have} HIGH EXPLORATION POTENTIAL.

THE FOURTH ITEM IS ALSO RELATED TO THE "BANKING" OF EXPLORATION AREAS. THE CURRENT BILL EXEMPTS AREAS ACQUIRED AS EXPLORATION LICENSES FROM ACREAGE HOLDING LIMITATIONS. IF ITEMS ONE AND TWO ^(requiring early work) JUST MENTIONED ARE ADOPTED, I SEE NO REASON TO LIMIT ACREAGE HOLDINGS BY A GROUP OF RELATED COMPANIES. HOWEVER IF COMPANIES ARE NOT REQUIRED TO PERFORM WORK ON THEIR LICENSES, I BELIEVE THAT EACH GROUP OF RELATED COMPANIES SHOULD BE LIMITED IN THE ACREAGE THEY HOLD TO THE CURRENT LEVELS. RELATED COMPANIES ARE EITHER PARENT OR SUBSIDIARY COMPANIES, OR COMPANIES THAT ARE CONTROLLED BY COMMON OWNERS.

THE FIFTH ITEM TO INCLUDE IS A REQUIREMENT TO SUBMIT ALL EXPLORATION DATA ACQUIRED TO THE STATE, WHICH WOULD BE OPEN FILE DATA, AVAILABLE TO THE PUBLIC FOR THE COST OF COPYING, UPON SURRENDER OF THAT PART OF THE LICENSE, OR TWO YEARS, WHICHEVER IS LATER. THIS PROMOTES THE EFFICIENT USE OF EXPLORATION DATA ALREADY ACQUIRED, AND SPEEDS THE EXPLORATION PROCESS.

THE FIRST ITEM WE SEEK TO ELIMINATE IN THE CURRENT BILL IS THE ORAL OUTCRY AUCTION. WE BELIEVE THAT THE BEST INTERESTS OF THE STATE WOULD BE SERVED BY OFFERING THOSE AREAS COVERED BY COMPETING APPLICATIONS BY EITHER A SEALED-BID WORK PROGRAM BASIS BETWEEN THE INITIAL APPLIC-

ANTS, OR VIA CONVENTIONAL CASH BONUS BIDDING.

THE SECOND ITEM TO ELIMINATE IS THE "PERFORMANCE BOND". OTHER LIMITED ENTRY USERS OF THE STATES RESOURCES DO NOT POST PERFORMANCE BONDS, AND I THINK THAT IT SETS A DANGEROUS PRECEDENT. THE MINING, FISHING, TIMBER AND TOURISM INDUSTRIES SHOULD TAKE NOTE IF THIS BECOMES LAW; THEY WILL PROBABLY BE NEXT. WHEN A MINER STAKES A CLAIM, HE IS SAYING THAT HE HAS DISCOVERED AN ECONOMIC MINERAL DEPOSIT. SHOULD THE STATE REQUIRE HIM TO POST A BOND IN THE EVENT THAT HE DOES NOT PROCEED WITH HIS PLANS TO MINE? SHOULD THE FISHERMAN WHO OWNS LIMITED ENTRY PERMIT POST A BOND BECAUSE HE MAY NOT FISH THIS YEAR? I HOPE THE ANSWER IS NO.

THE PERFORMANCE BOND CONCEPT IS AN EXCELLENT WAY TO KILL ENTREPENURIAL ACTIVITY IN THE OIL AND GAS SECTOR IN ALASKA, AND GUARANTEE THAT ONLY A HANDFUL OF ~~MAJORS~~ *Companies* WILL EVER EXPLORE EXPLORATION LICENSES HERE. THERE IS NO REASON EXCLUDE SMALLER COMPANIES AND INDEPENDENTS BY REQUIRING PERFORMANCE BONDS, ESPECIALLY IF THEY ARE REQUIRED TO PERFORM THEIR WORK ANNUALLY, OR LOSE THE LICENSE.

We support the application of ELs over the entire state including CE & NS.

I THANK YOU FOR YOUR TIME AND LOOK FORWARD A MORE ACTIVE EXPLORATION INDUSTRY UNDER THIS MODIFIED BIDDING SYSTEM. IT DESERVES THE SUPPORT OF EVERY ALASKAN.

Alaska Region
Domestic Production



**Marathon
Oil Company**

P.O. Box 190168
Anchorage, Alaska 99519
Telephone 907/561-5311

FAX # 564-6489

DATE: 3/24 / 93

TIME: 1 PM

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Sen. Loren Leman

COMPANY/FIRM: Chairman Senate Special Oil & Comm.

FAX NUMBER: 465 - 4455

465 - 3810

FROM:

NAME: Bradley Penn

EXTENSION: _____

WE ARE TRANSMITTING _____ PAGES Including this Cover Page.

If Transmission is not complete, please call: (907) 561-5311.

NOTE: Please distribute to the
members of the committee

and into the record.

Thank you

Special Committee on Oil and Gas

Dear Member,

Marathon Oil Company would like you to consider our comments on aspects of HB 199 and SB 150. Marathon is encouraged by the work done by the Department of Natural Resources, The Special Committee and others, in developing avenues to encourage exploration in areas in addition to those currently offered for lease under the states Five-Year Leasing Program.

* Marathon believes the original intent of the legislation was to promote exploration in Frontier areas. The certainty of the 5 year leasing program provides for planning of upcoming lease sales in conjunction with an exploration program.

* Exploration Licensing should be a supplement to the current competitive 5 year leasing program. The competitive nature of the lease sales would be lost if licensing applied to all areas of the state. Those areas with no geologic or geophysical data and those areas which have not been included in the 5 year leasing program should be available for licensing.

* The total number of acres under license should be set at 500,000 acres, allowing flexibility in the number of licenses one may hold yet providing protection from stockpiling licenses.

* The entire bond commitment payment is too restrictive given the dynamic nature of exploration activities. An annual bonding mechanism is suggested as an alternative. If annual bonding and commitments are not satisfied the license is terminated, no further rights would exist and all data would be surrendered.

* The conversion of a license to a lease should come under existing legislation so that new regulations need not be adopted unnecessarily.

Thank you for your time and considering these issues.

If you should have any questions or would like further clarification on the issues please contact Bradley Penn at 564-6428.

LAPP Resources Inc.

4900 Sportsman Drive
Anchorage, Alaska U.S.A.
99502-4169

Telephone: +1 (907) 248-7188

Facsimile: +1 (907) 248-7278

March 17, 1993

MAR 19 1993

Senator Loren Leman
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

Telephone: 465-3805
Facsimile: 465-2095

Dear Senator Leman:

Re: House Bill 199 and 200
Exploration Licensing and Exploration Incentive Credits

The State of Alaska gets 85% of its money from oil and gas royalties and taxes on the petroleum industry. Cash bonus bids the State receives from oil and gas lease sales are insignificant in comparison. To increase the State's income significantly, new discoveries must be made, and the best way to do this is to attract new exploration companies to explore Alaska.

The exploration industry in Alaska does not need special incentives, but it does need to be freed of the disincentives, in the form of high up-front costs and charges. Cash bonus bids, "performance" and other bonds are examples of charges which must be borne by explorers even before they make a discovery and have an income. This serves as a powerful disincentive to explore in Alaska.

In recent years, oil majors have decided to explore less in the USA and more in overseas developing countries. This slowed the pace of exploration in Alaska, and caused hard times for many Alaskan-owned businesses who earn their incomes supporting oil and gas exploration and development. If the State can attract greater numbers of companies to explore in Alaska, it will diversify our industry so the actions of one company does not jeopardize the local economy.

It is also time for Alaskans to become actively involved in their own petroleum industry as owners and operators of their own petroleum exploration and development programs. Local control of a portion of the exploration and development activity in Alaska means that we may be able to better survive adverse business decisions made by non-Alaskan companies in head offices far from Alaska.

Alaskans can be successful in discovering and producing petroleum, jobs will be generated for Alaskans, and company profits will remain in Alaska, strengthening our economy. The oil and gas sector is the one single industry which has the potential to fill a significant portion of Alaska's current economic "gap". The State legislature can assist in the development of a locally-controlled industry.

To this end, I request your support for the concept of "Exploration Licensing" which is being considered in Juneau now. Exploration Licensing can be structured to allow Alaskans to participate in the State's economic development and speed the exploration of Alaska's oil and gas lands in a way that is not possible under the present leasing system. The bill should be written so that no company is excluded from exploring, and should contain the following points:

- a) Apply Exploration Licensing to all areas of the State more than 10 miles from producing fields or units.
- b) Award licenses on a proposed work program (not \$\$ spent) basis. The smaller companies are generally more innovative and perform up to three times more work per dollar spent than the majors.
- c) Eliminate the "performance bonding" in the current bill. DEC already requires large bonds prior to any fieldwork. Performance bonding would eliminate 98% of the oil companies in the world from participating in exploration in Alaska. They would explore in more favorable business climates elsewhere.
- d) Work programs in progress should be reviewed by the DNR every two years. Companies failing to carry out their program automatically lose their license. The current bill has no penalty for failing to carry out work in the first **nine years** of the license.
- e) Require relinquishment of 25% of the area every two years. This frees land for further competitive license or lease bidding, at better terms for the State.
- f) All exploration data acquired on licenses must be submitted to the State and available to the public for the cost of reproduction on relinquishment of the area, or after two years, whichever is first. This is part of the payoff the State gets for the granting of larger licenses, and increases exploration efficiency by those companies who will follow.

The above proposed legislation would bring Alaska into today's international competition for the exploration dollar. Other countries have similar legislation in place and successfully operating. Most of the majors operating in Alaska also have operations in countries with this type of exploration licensing program, so they have demonstrated their willingness to work within this system.

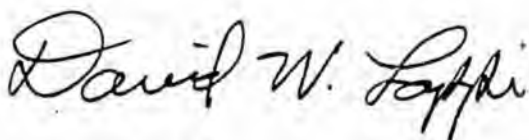
The system will also make it possible for independents to successfully operate in Alaska. There are 8,000 independent oil and gas companies in the "Lower 48" and they (not the majors) have discovered the majority of the fields in the USA.

House Bill 200 - Exploration Incentive Credits is not needed to attract explorers to Alaska, just remove the disincentives in the form of over-regulation and excessive bonding requirements. Properly executed, the exploration license concept could do this and provide the format for new exploration activity here.

Alaska also needs to diversify its economy in other areas - tourism, fishing, logging, mining, services... We need major efforts in all areas to provide jobs and grow our Alaskan economy into a healthy condition.

I would be pleased to supply you with further information on any of the above points. Please contact me.

Sincerely,



David W. Lappi
President

COOK INLET REGION, INC.

March 23, 1993

Senator Loren Leman
State Senate
Chairman, Senate Oil & Gas Committee
State Capitol
Juneau, Alaska 99801

Dear Senator Leman:

I appreciate the opportunity to present written testimony regarding SB 150 on behalf of Cook Inlet Region, Inc. (CIRI), the Alaska Native regional corporation for the Cook Inlet area. CIRI is owned by approximately 6,500 Athabascan, Eskimo and Aleut shareholders. CIRI's principal lines of business are natural resource development (oil and gas, minerals, coal and timber), real estate, oilfield services, and broadcast radio and television. Today I would like to focus on the area of oil and gas.

CIRI owns and manages 924,000 acres of surface estate and 1.6 million acres of subsurface estate in Alaska, and has been active in Alaska's oil and gas industry for over fifteen years. CIRI and its wholly-owned subsidiary, CIRI Production Company, hold various royalty and working interests in several producing and prospective oil and gas fields on the Kenai Peninsula and Alaska's North Slope. A primary emphasis of CIRI's strategy for economic growth is the continued development of its natural resource holdings. Such development benefits CIRI and businesses throughout the state. As one example, under the sharing provisions of Section 7(i) of the Alaska Native Claims Settlement Act, CIRI has distributed over \$120 million to other Native corporations across Alaska. Millions more dollars have been injected into the economy in the form of shareholder dividends. Most of these distributions resulted from the production of oil and gas. However, just like the state, CIRI's oil and gas reserves are declining. And like the state, we must find new sources of production if we are to continue our significant economic role.

In light of the changing realities in the oil and gas industry, and world economics, we believe it is both appropriate and advisable for the legislature to consider certain new and innovative approaches to oil and gas leasing and development. Last year, the state took a historic step when lands in the Nuiqsut area of the North Slope were leased under joint agreement between the State of Alaska and Arctic Slope Regional Corporation. We believe there may be other situations in which cross-assignment of interests between the state and Native landowners could substantially enhance the chances for successful leasing and development of both the state and private lands. Because of CIRI's land pattern on the Kenai Peninsula, we would be particularly interested in pursuing such a concept with the state. CIRI has also worked closely with other private landowners and

Statement of Gerald Booth
March 23, 1993

Page 2

the state of Alaska in the effort to extend the state's Exploration Incentive Credit program to all lands in Alaska. CIRI supports the comments of the Alaska Federation of Natives regarding SB 151.

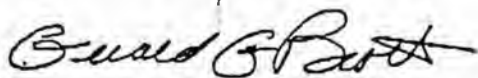
In addition, you have before you today SB 150 which would allow companies to explore large, untested blocks of land through an exploration license issued by the state. This is a departure from the traditional competitive leasing approach for state lands, but it is not an unfamiliar concept to Native corporations. For years on our own lands, we have worked with companies under exploration agreements whereby prospective areas could be later converted to lease.

Fundamentally, this concept is market driven, whereby industry would advise the state which lands are of interest, thus potentially reducing the time in which to acquire lands for exploration when capitol and expertise is available and focused on a particular area. The concept is designed to supplement, not replace, the state's current competitive leasing program. CIRI supports the basic concept of large block exploration and exploration licensing, and we will be pleased to work with the legislature as you consider and refine the present legislation with respect to areas to be included or excluded, time periods for licensing and leasing, relationship of the program to adjacent landowners, etc.

In closing, I appreciate the opportunity to provide our comments to the Senate Oil and Gas Committee. Carefully crafted, the legislation currently being considered by the committee can help stimulate additional exploration of Alaska's future potential oil and gas resources. As an Alaska Native corporation, CIRI has a special relationship to Alaska's future. Even in today's highly mobile society, fifty years from now, the majority of our shareholders will still call Alaska home. This is where our economic future must be secured. Thank you.

Sincerely,

COOK INLET REGION, INC.



Gerald G. Booth
Vice President
Energy and Minerals

Texaco Inc.

Testimony on HB 199 & SB 150
March 22, 1993

My name is E. H. Pete Nelson, and I am the Land Manager for Texaco's Alaska Regional office. I appreciate the opportunity to share Texaco's views with you regarding the proposed legislation which provides for large block licensing.

First, let me say that the bills present an interesting and, we think, workable concept of a licensing program which will encourage accelerated exploration and hopefully, development of the State's frontier areas which have not, to date, been sufficiently evaluated. The Department of Natural Resources should be commended for its effort to enhance the current leasing program. We understand the Department's intended purpose of the bills and its intended implementation, but we believe that the intent should be reflected in the legislation as follows:

1. To include mature areas such as the North Slope and Cook Inlet, in the large block licensing and leasing program is inappropriate; and we suggest that language be drafted to eliminate these types of areas from applicability. Unproductive acreage in these areas previously leased or offered for lease can be made available for exploration and development under the existing "exempt sale" provisions.
2. The issuance of a license should be conditioned upon the annual posting of work commitment performance bonds or other security in favor of the state in an amount of not less than the amount of the work commitment for each year. This will eliminate the useless expenditure of funds over several years in areas where initial exploration data dictates that no further exploration is warranted. The licensee must choose to bond for the upcoming year or release the license.
3. The commissioner should adopt regulations to evaluate competing proposals. For a healthy competitive situation, the evaluation process must be based on only the original proposals submitted by the prospective licensees and on a common set of specifications.
4. Conversion from a license to a lease or leases should be accomplished under existing state leasing regulations AS 38.05.180 (i) - (u) and (x) - (z), and should be subject to the acreage chargeability of AS 38.05.140 (c). This will discourage the warehousing of acreage and truly encourage acceleration of exploration even on lands held as the result of other leasing programs.

- 2 -

Texaco supports the licensing concept and requests the Committee consider amendments to SB150 and HB199 which will address these concerns.

Again, thank you for this opportunity to express Texaco's views on these bills. I will be happy to work with members of the Committee or staff to enhance the language of this legislation.

Thank you.

A-P342

UNION OIL COMPANY OF CALIFORNIA
TESTIMONY ON SB 150
SENATE SPECIAL COMMITTEE ON OIL AND GAS
MARCH 23, 1993

Mr. Chairman and members of the Oil and Gas Committee -- My name is Kevin A. Tabler, and I am the Land Manager for Union Oil Company of California (Unocal) here in Alaska. I appreciate this opportunity to be heard today and present Unocal's comments on the proposed draft exploration licensing legislation.

Unocal has conducted business in the State of Alaska since the early 1900's. Initially we sold and distributed petroleum products, and in the thirties followed with the beginnings of an exploration strategy and surficial geological programs. Our exploration efforts resulted in significant major oil and gas discoveries in the Cook Inlet Basin. We, along with our partners and other exploration companies, have actively produced hydrocarbons from the Cook Inlet Basin for over thirty-five years. On the North Slope of Alaska, Unocal has ownership in two of the three currently producing oil fields and has participated in numerous exploration wells throughout this region. In the 1993-1994 drilling season alone, Unocal has already announced plans to participate in two rank wildcat exploration wells on the North Slope. Since the beginning of oil and gas exploration activities in the state, hundreds if not thousands of miles of seismic survey were conducted and untold manhours expended interpreting the information collected from these two mature exploration areas.

The state's oil and gas leasing program is clearly defined, well understood, and designed to make available for competitive sale, the state's oil and gas natural resources pursuant to an analytical evaluation and best interest finding. Unocal believes in the current competitive lease sale process, and feels it is the best way to achieve evaluation of the state's oil and gas resource potential. Industry input, through expressions of interest under the Five Year Leasing Program and Call for Comment process, have provided the Department of Natural Resources with guidance in the offering of available state lands. This process has provided the oil and gas industry with a stable and predictable competitive lease sale schedule in mature exploration areas where planning for large capital expenditures are necessary. Unocal believes that exploration licensing in mature exploration areas, such as the North Slope and Cook Inlet Basin, is inappropriate and will not lead to an earlier evaluation of the state's oil and gas resource potential. Therefore, exploration licensing should not apply in these areas.

We do believe exploration licensing could encourage oil and gas exploration activity in frontier areas, such as interior Alaska, and become a very effective means to augment the state's leasing program in areas for which insufficient or undocumented geologic and geophysical information exists concerning the oil and gas potential of that land, or for state land which has not or is not currently subject to an oil and gas lease sale.

The concept of exploration licensing, introduced some time ago to industry, was specific in its design and was presented as having application in frontier areas where little or no scientific information and/or industry activity occurred. Industry, in general, supported this concept, subject to review of its utilization and administration. Since introduction of this bill on March 12, 1993, Unocal evaluated its specific provisions, its intended purpose, and its objective. We feel the bill, as currently written, needs modification to clearly reflect the intended purpose expressed by the Division of Oil and Gas at the joint House and Senate Oil and Gas Committee hearing March 16, 1993.

To this end, Unocal would like to make the following specific comments about the proposed bill:

Large block licensing is an attractive addition to the state's leasing program to accelerate exploration and potential development of Alaska's frontier areas.

Lands which should be excluded from licensing, should include state lands which have been or are currently subject to an oil and gas lease sale program. Language could be developed to more specifically identify these areas.

Total lands under license to any one licensee should not exceed 500,000 acres and conform to existing leasing statutes and regulations to assure compliance therein and prevent the warehousing of leases.

Licensing should be conditioned upon the annual posting of work commitment performance bonds or other security in favor of the state in amounts not less than the equivalent work commitment for that year.

The commissioner should adopt regulations to evaluate competing proposals. The evaluation process should be based only on the original written proposals submitted by the prospective licensees. This process should employ a sealed bidding method only.

Conversion from license to lease should fall under existing state leasing regulations AS 38.05.130 (i) - (u) and (x) - (z), and subject to the acreage chargeability qualifications of AS 38.05.140 (c).

In closing, Unocal discussed the merits of the foregoing comments with a large number of companies who hold working interest ownership in state of Alaska oil and gas leases and actively participate in exploration operations, and has identified overwhelming support for some form of modification to the proposed legislation in the areas addressed above.

We, at Unocal, look forward to working with the committee and the Division of Oil and Gas as the development and enhancement of this bill progresses.

**Comments of James E. Eason, Director, Division of Oil and Gas
Before the Senate Special Committee on Oil and Gas
April 13, 1993**

As members of the committee probably already know from discussions with committee staff, I have expressed extreme reservations regarding the proposed amendment regarding bonding. In order to properly frame the basis for my concern and opposition to this provision, I think it is important to take a few moments to reflect on the administration's original intent in submitting its exploration licensing proposal for consideration by the legislature.

In preparing for tonight's hearing, I reviewed all the material which the division's staff and I had prepared as background materials for the administration's review of the proposed legislation. In those materials I ran across a one page "fact sheet" which we had prepared to explain Governor Hickel's legislation. I would like to read just briefly from that sheet its description of the intent of SB 150: "...Its main purpose is to get companies working in areas of the state that have drawn little (or no) attention under the current leasing program." Further, "...The Governor's goal is to get more money into the ground." And, finally, "...This bill is intended to expedite the exploration process which, hopefully, will lead to new commercial discoveries of oil and gas."

In reviewing all the amendments that have been suggested prior to this evening's hearing, I have compared their anticipated effects with these original goals. As the committee knows, there have been many differences of opinion expressed by industry representatives on the effects of the various amendments which have been adopted to date in the committee's CS. I believe, on balance, that the committee's effort to date has resulted in a better bill than the one we originally presented to you. At the same time, with the exception of the proposed bonding amendment, you have left us with an effective tool which could be administered objectively and fairly, and one which I believe would produce the results which we had identified.

However, I believe the proposed bonding amendment will subvert the original intent of the administration. Instead of encouraging responsible development of underexplored areas, the amended bill likely will result in delays and uncertainty in the evaluation and development of the state's resources. While retaining the appearance of competition in evaluating and awarding licenses, the amendment would remove the only valid criterion for discriminating fairly between competing proposals. Potential licensees who are technically and financially responsible will find themselves competing inevitably with others who are neither. With nothing at risk, i.e., without the need to put one's money where one's mouth is in support of competitive bids, the department must assume that all prospective licensees are equally honest, capable and committed. I do not want to appear too cynical, but, with all due respect to the committee, I am old enough to understand that human nature is not necessarily comfortable with these universal ideals.

The amendments do nothing to encourage or assure performance; they simply put everyone on an equal footing in the eyes of the department. As a result, more money is likely to go into promotion and speculation than into exploration and development. There can be no certainty that tracts which are licensed will be evaluated or developed. Licenses will be awarded to the licensee who is willing to offer the greater commitment, even if the licensee cannot perform as a result of the financial or technical inadequacies. The incentive to perform as promised is inconsequential with the penalty for noncompliance so minimal. The financial risk, as well as the risk that no exploration and development will occur, has been transferred disproportionately to the state while, at the same time, the potential rewards have been relegated almost entirely to the licensee.

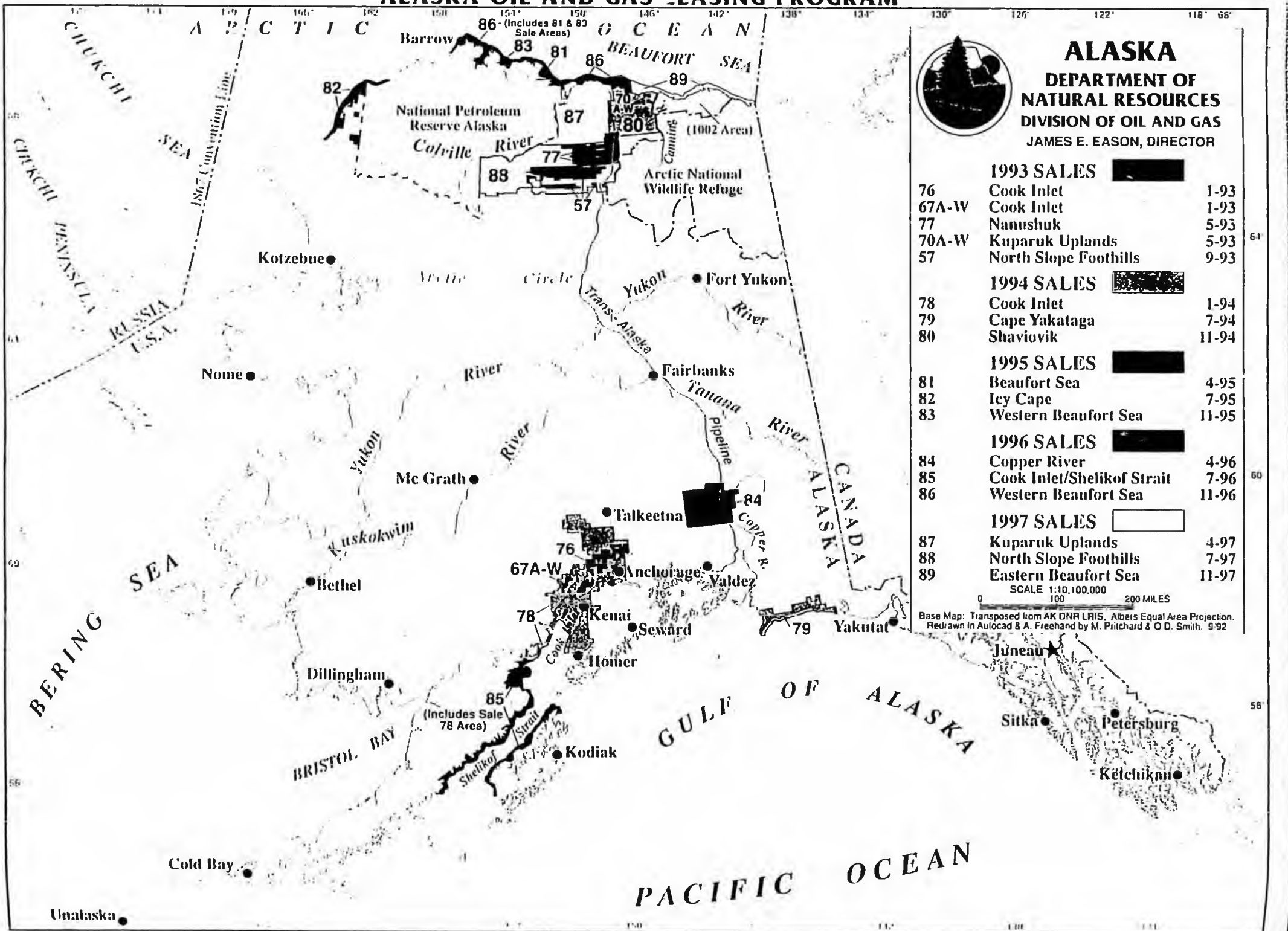
In summary, the competitive balance has been skewed in administering the award of licenses, the benefits balance has been skewed, and those of us who would have to administer the program are left without an effective means of re-establishing either so the state's interest can be protected.

SBL90/041393

ALASKA OIL AND GAS LEASING PROGRAM



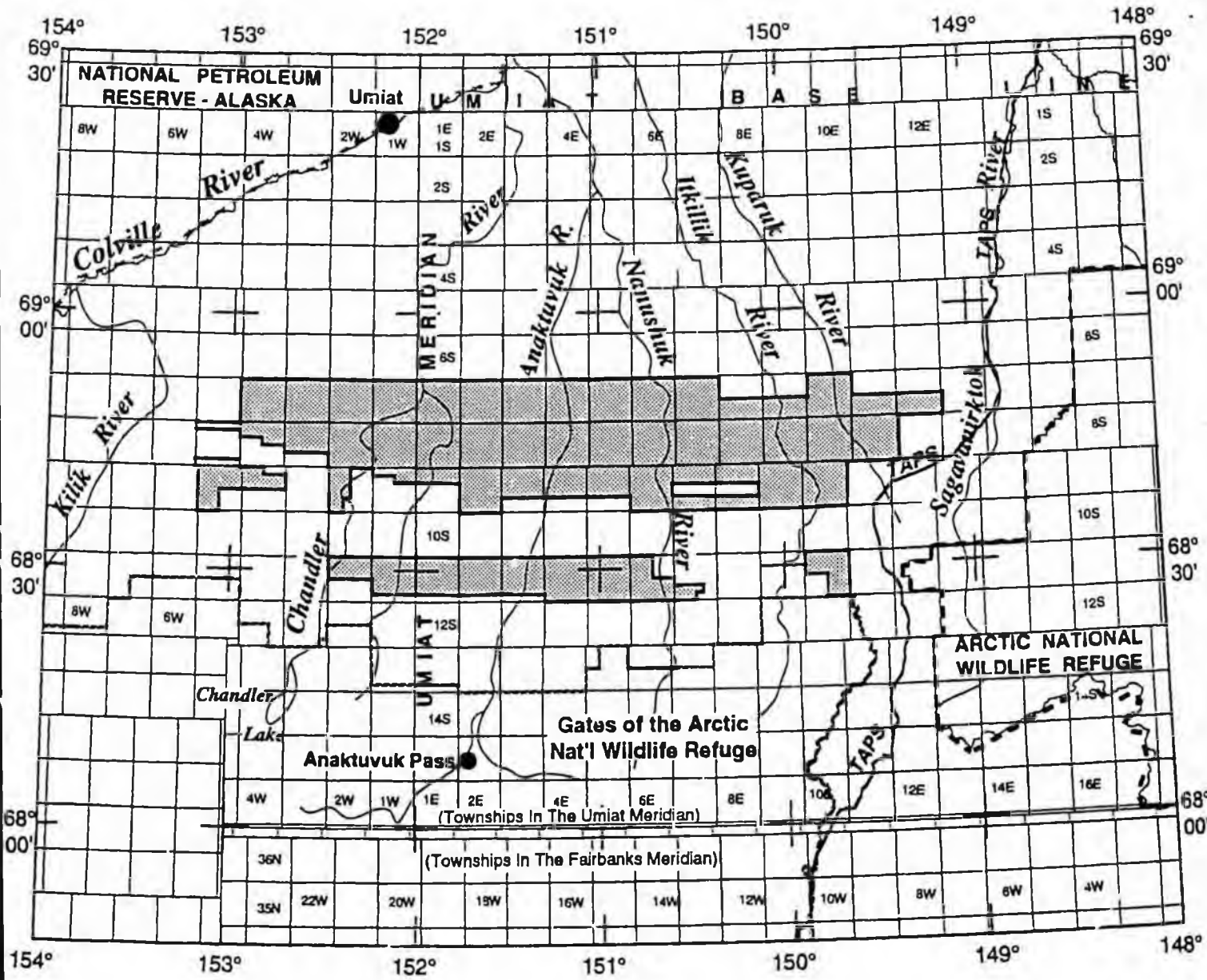
ALASKA
DEPARTMENT OF
NATURAL RESOURCES
DIVISION OF OIL AND GAS
 JAMES E. EASON, DIRECTOR



1993 SALES		
76	Cook Inlet	1-93
67A-W	Cook Inlet	1-93
77	Nanushuk	5-93
70A-W	Kuparuk Uplands	5-93
57	North Slope Foothills	9-93
1994 SALES		
78	Cook Inlet	1-94
79	Cape Yakataga	7-94
80	Shaviovik	11-94
1995 SALES		
81	Beaufort Sea	4-95
82	Icy Cape	7-95
83	Western Beaufort Sea	11-95
1996 SALES		
84	Copper River	4-96
85	Cook Inlet/Shelikof Strait	7-96
86	Western Beaufort Sea	11-96
1997 SALES		
87	Kuparuk Uplands	4-97
88	North Slope Foothills	7-97
89	Eastern Beaufort Sea	11-97

SCALE 1:10,100,000
 0 100 200 MILES

Base Map: Transposed from AK DNR LRIS. Albers Equal Area Projection.
 Redrawn in AutoCAD & A. Freehand by M. Pritchard & O.D. Smith. 9-92



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

**PROPOSED OIL AND GAS LEASE SALE 57
NORTH SLOPE FOOTHILLS**

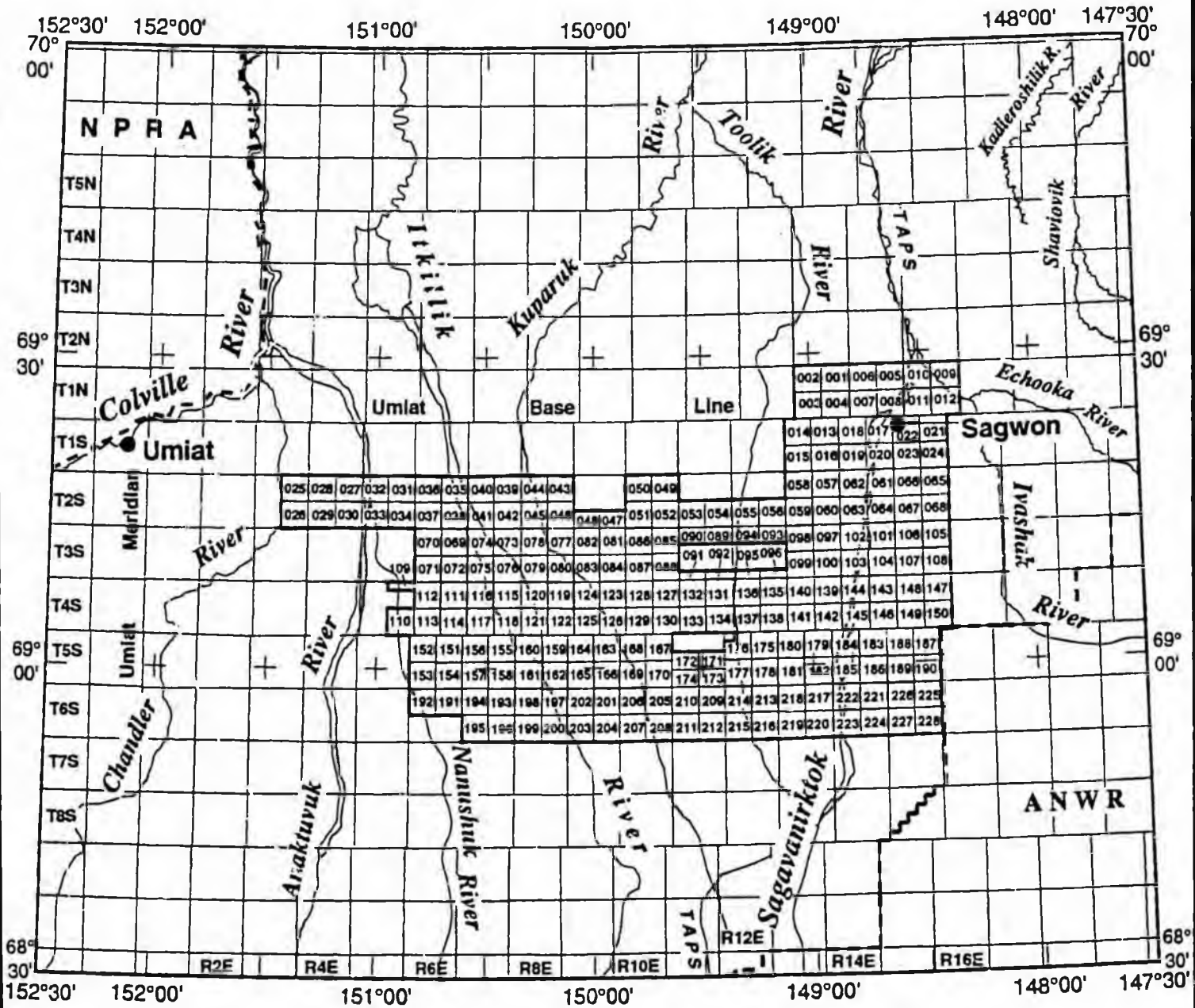
SCALE 1:1,400,000 ONE INCH = 22 MILES approx.

0 10 20 30 40 50 Miles

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i>	DRAWN BY: M.P. & O.D.S. DATE APPROVED 12-23-92
PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i>	CHECKED BY: <i>[Signature]</i> BASE MAP: TRANSPosed FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.



NOTE : NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

PROPOSED OIL AND GAS LEASE SALE 77 NANUSHUK PRELIMINARY TRACT MAP

SCALE 1:1,100,000 ONE INCH = 17.5 MILES approx.

10 0 10 20 30 40 50 MILES

DIRECTOR, DIVISION OF OIL AND GAS
JAMES E. EASON

PETRO. GEOPHYSICIST,
JAMES HANSEN

DRAWN
BY: M.P. &
O.D.S.

CHECKED
BY:

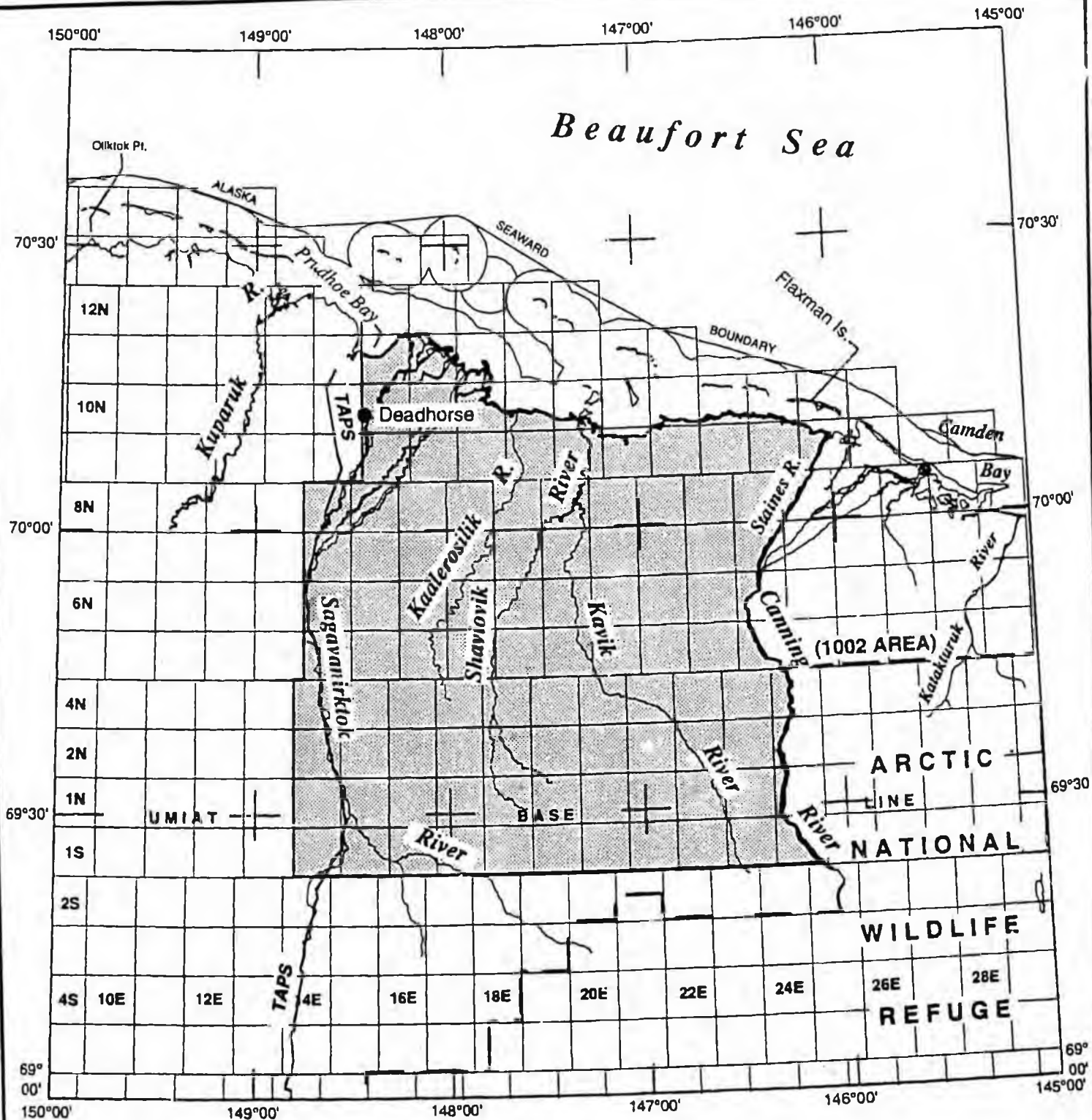
DATE APPROVED 12-23-92

BASE MAP: TRANPOSED FROM
U.T.M. PROJECTIONS BY U.S.G.S.
REDRAWN IN AUTOCAD AND
CLARIS CAD.

NOTE : NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.

NOTE : THIS MAP IS NOT THE OFFICIAL TRACT MAP. A SET OF OFFICIAL TRACT MAPS ARE AVAILABLE AT THE DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL AND GAS, 3601 C ST., SUITE 1308, P.O. BOX 107034, ANCHORAGE, ALASKA 99510-7034. PHONE (907) 762-2587





PROPOSED SALE AREA



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

**PROPOSED OIL AND GAS LEASE SALE 80
SHAVIOVIK**

SCALE 1:1,100,000 ONE INCH = 18 MILES approx.
0 10 20 30 40 50 Miles

DIRECTOR, DIVISION OF OIL AND GAS
JAMES E. EASON *James E. Eason*

PETRO. GEOPHYSICIST,
JAMES HANSEN *James Hansen*

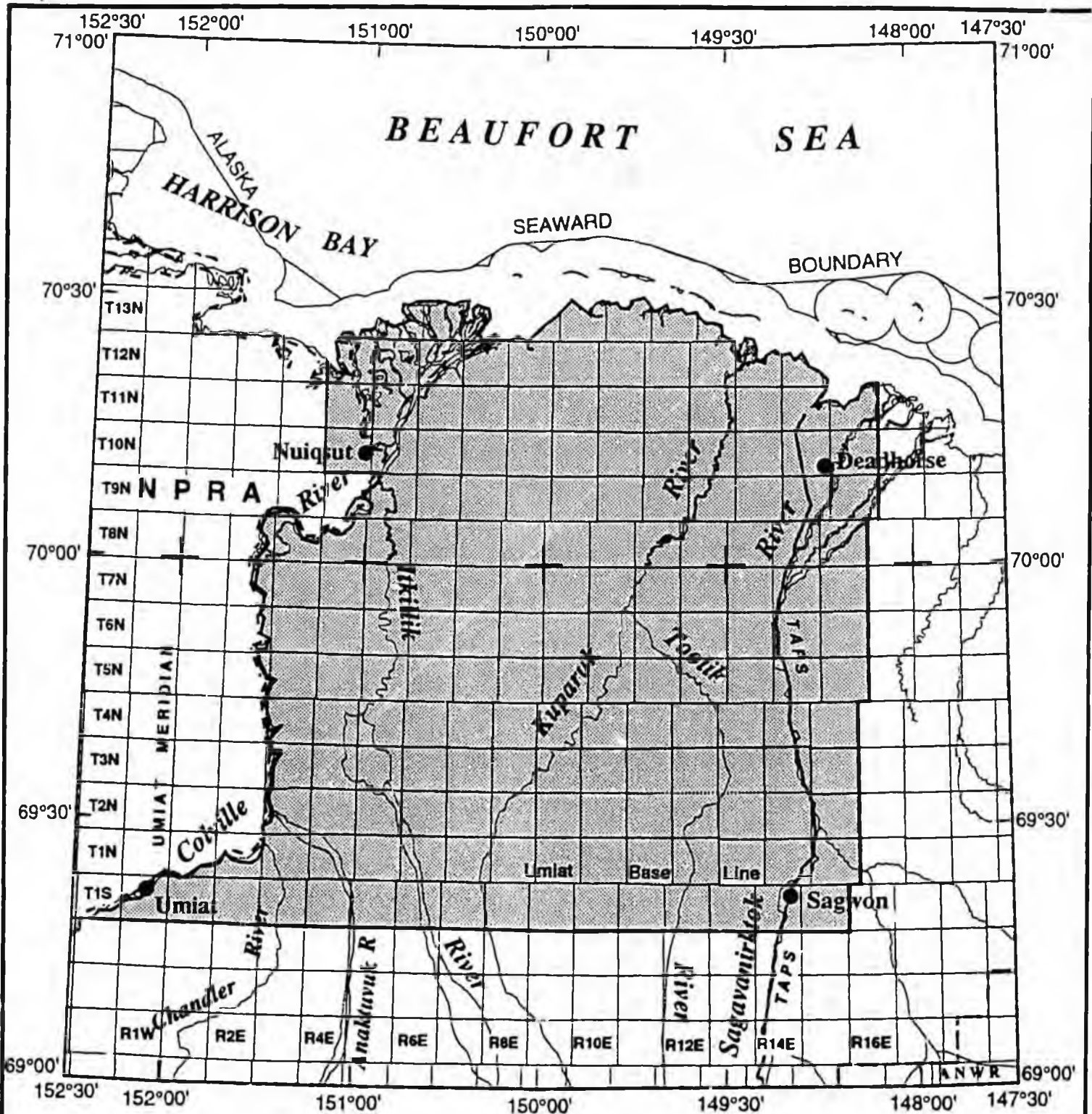
DRAWN
BY: M.P. &
O.D.S.

CHECKED
BY: *[Signature]*

DATE APPROVED 12-07-92

BASE MAP: TRANSDPOSED FROM
U.T.M. PROJECTIONS BY U.S.G.S.
REDRAWN IN AUTOCAD AND
CLARIS CAD.

NOTE: NO DECISION HAS YET
BEEN MADE ON WHETHER THE
STATE WILL HOLD THIS LEASE
SALE. THE STATE IS GATHERING
SOCIAL ENVIRONMENTAL &
ECONOMIC INFORMATION ON
WHICH TO BASE A DECISION.



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

PROPOSED OIL AND GAS LEASE SALE 87 KUPARUK UPLANDS

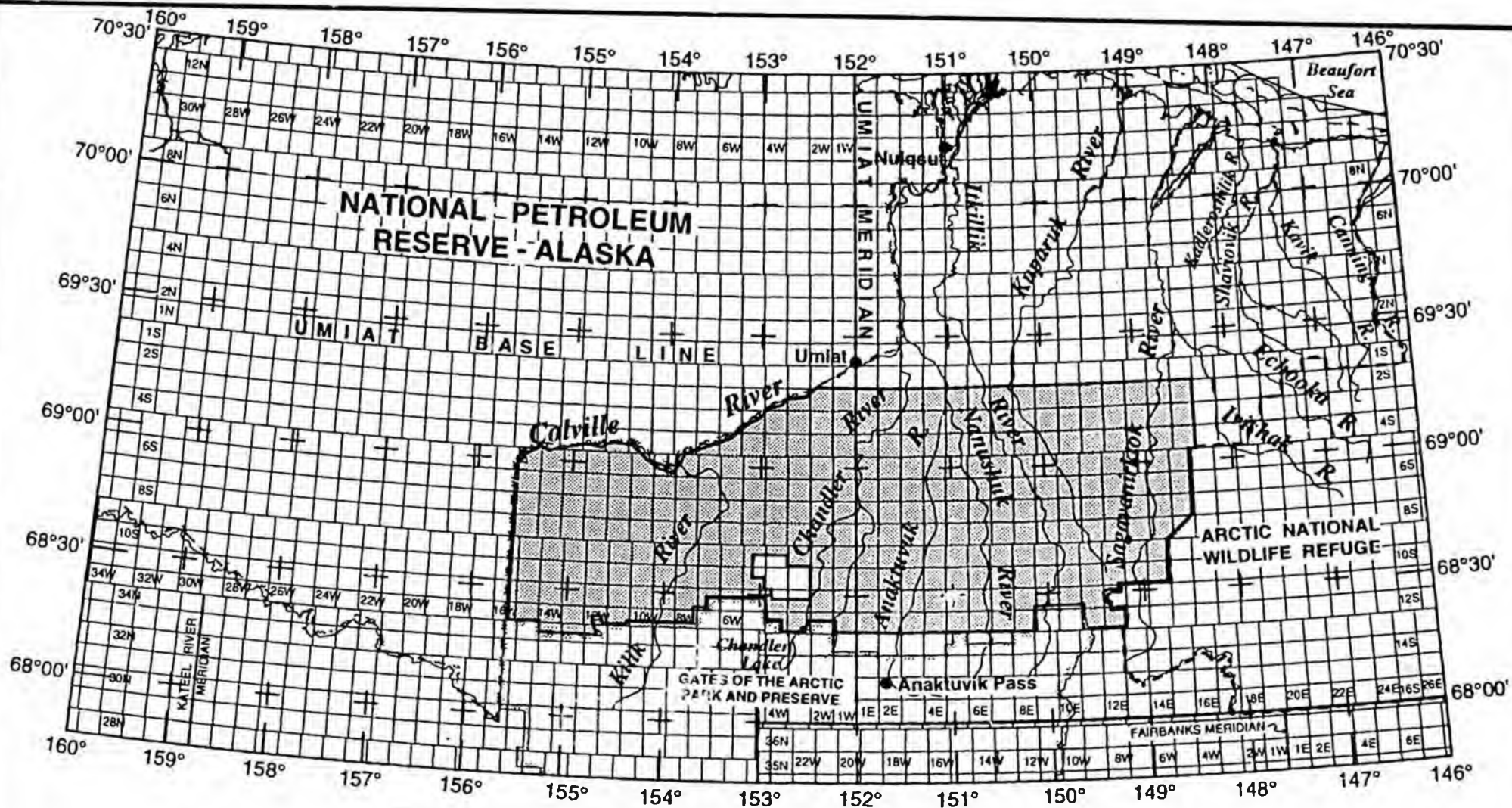
SCALE 1:1,140,000 ONE INCH = 18 MILES approx.

10
0
10
30
30
40
50
MILES

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>James E. Eason</i>	DRAWN BY: M.P. A O.D.S.	DATE APPROVED 12-23-92
PETRO. GEOPHYSICIST, JAMES HANSEN <i>James Hansen</i>	CHECKED BY: <i>[Signature]</i>	BASE MAP: TRANSPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.

NOTE: NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.





52



PROPOSED SALE AREA

STATE OF ALASKA
 DEPARTMENT OF NATURAL RESOURCES
 DIVISION OF OIL AND GAS

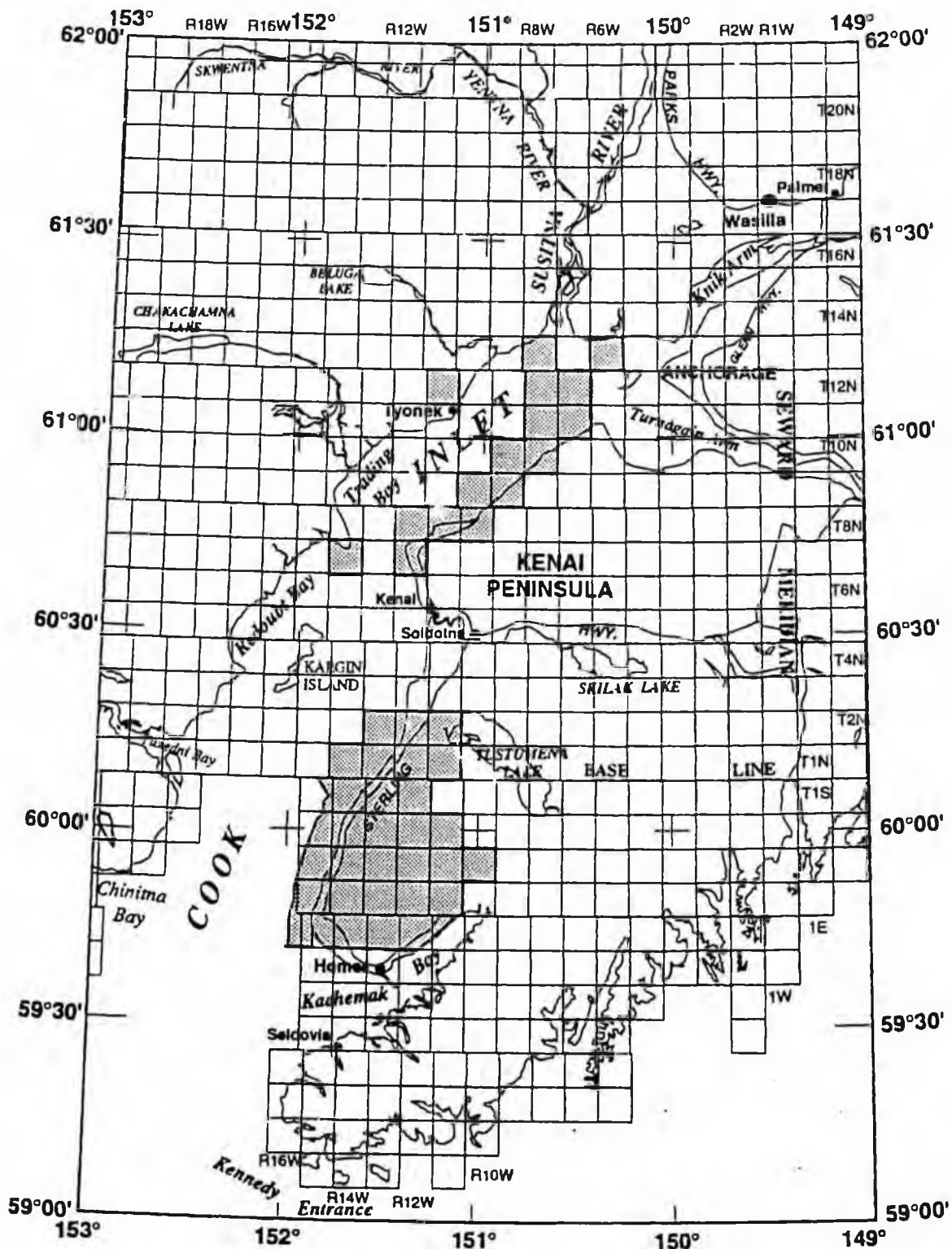
**PROPOSED OIL AND GAS LEASE SALE 88
 NORTH SLOPE FOOTHILLS**

SCALE 1:2,500,000 ONE INCH = 40 MILES approx.

0 10 20 30 40 50 100 MILES

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>James E. Eason</i>	DRAWN BY: M.P. & O.D.S.	DATE APPROVED 12-23-92
PETRO. GEOPHYSICIST, JAMES HANSEN <i>James Hansen</i>	CHECKED BY: <i>[Signature]</i>	BASE MAP: TRANPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.

NOTE : NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

PROPOSED OIL AND GAS LEASE SALE 78 COOK INLET

SCALE 1: 1,800,000 ONE INCH = 29 MILES approx.

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i> PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i>	DRAWN BY: M.P. & O.D.S. DATE APPROVED: 12-23-92 CHECKED BY: <i>[Signature]</i> BASE MAP: TRANSPROSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.
---	--

NOTE: NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.



Proposed Sale Area

Provision	SB150	CSSB150 (O&G)
Restriction	None, all state lands available.	Umiat Baseline North, pending lease sales: 57, 77,
		80, 87 & 88, and portions of Cook Inlet excluded.
Relinquishment	Keep licensed land entire term of license.	Relinquish 25% of total license by 4th year; 10%
		of remaining land each year thereafter.
Bonding	Total amount of work commitment up front; forfeit	Annual bond, 10% of that year's work commitment.
	difference between work done and work bid.	Bonds overlap in regulation.
Competitive Bids	Oral outcry auction; highest work commitment	Sealed competitive bids. Define direct exploration
	dollar amount.	expenditures allowed.
Acreage Chargeability	Up to 30,000 acre leases; 5,760 acres current max.	Leases are applied against 1 million aggregate acre
	lease; more than 1 million aggregate acres presently	limit; no larger than 5,760 acres/lease; no limit on
	allowed in statute; royalty 12.5%; annual rental	number of leases; royalty 12.5%; annual rental
	\$3/acre.	\$3/acre.
License Rental Fee	\$1/acre.	Up to \$1/acre.
Proof of Financial Responsibility	Not addressed.	Breaks out production requirements by amount of
		production; lowers onshore exploration to \$1,000,000
		per incident.
	Prepared by Senate Special Committee on Oil and Gas	
	Committee Staff	



SENATOR LOREN LEMAN

Northwest Anchorage

111 "G" Street Anchorage, AK 99503 581-7614 During Session: State Capitol Juneau, AK 99801 465-2095

ANALYSIS OF CHANGES FROM INITIAL SB 150 TO CS SB150

By: A. Kreitzer, Staff

With the exception of an amendment offered by Senator Sharp (Section 6, Page 9-10), all of the changes to the bill are the result of conversations with ARCO, BP, Texaco, Urocal, Stewart Petroleum, Amoco, Division of Oil and Gas and public testimony.

TITLE CHANGE

Title was changed to reflect Section 6 amendment - proof of financial responsibility. Adopted by the Committee 4/1/93.

GEOGRAPHIC DESCRIPTION

In the original bill, there was NO limitation of lands available to license.

CSSB 150: Lands north of the Umiat baseline and portions of Cook Inlet are unavailable for licensing. (Sec. 38.05.131 (b)) Also, because of these defined boundaries pending lease sales in the 5-year oil and gas leasing plan have been specifically excluded. (Section 7, Page 10). Sales 57, 77, 80, 87 and 88.

RELINQUISHMENT LANGUAGE

Concern about "warehousing of land" prompted the inclusion of language to prompt companies to adhere to the intent of the legislation which is incentive to explore.

CSSB 150: Sec. 38.05.132(a)(1)(2) and Sec. 38.05.134, reference this and the authority is in Sec. 38.05.132(d). This requires the licensee to relinquish 25% of land issued under the exploration license after the 4th year, and 10% each year thereafter.

BONDING

Sec. 38.05.132(5) No one appears happy with the bonding language in SB 150. Proposals from zero bonding to the SB 150 language were considered. AS OF 4/13/93: Remove language and table and replace with language which allows bonding on 10% of the amount of the work to be done in that year. Still renewable annually.

COMPETITIVE BIDS

Sec. 38.05.133(h) originally called for an oral outcry auction. The committee amended this 4/1/93 to issue requests for competitive sealed bids.

The smaller companies didn't like the last line of this section which says: "The successful bidder is the prospective licensee who submits the highest bid in terms of the minimum work commitment DOLLAR AMOUNT." They felt they were disadvantaged because bigger companies can add in overhead (e.g., 10% admin costs for out of state offices).

CSSB 150: Inserted in SEC 38.05.132(c)(3) the word "direct" in front of exploration expenditures and added a definition of DIRECT EXPLORATION EXPENDITURES: "the cash expenses necessarily incurred by the licensee in the permitting, mobilization, conducting, demobilization and evaluation of geophysical and geological surveys, including seismic, magnetic and gravity surveys or the drilling, logging, coring, testing and evaluation of oil and gas wells, undertaken in performance of a specified work commitment under the provisions of AS 38.05.131-AS 38.05.134. These expenses include direct labor costs, including the cost of benefits, for employees directly associated with the work commitment programs, the cost of renting or leasing equipment from parties not affiliated with the licensee, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the licensee, and costs of materials and supplies. These expenses do not include non-cash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the licensee is not compelled to incur to satisfy his work commitment."

ACREAGE CHARGEABILITY

SB 150 made restricted leases to 30,000 acres; not subject to the acreage chargeability of AS 38.05.140(c) (1 million aggregate acres); or to AS 38.05.180(m) (5,760 acres).

CSSB 150: after conversion to lease, the leases ARE subject to the 1 million aggregate acreage limitation; the leases ARE subject to the 5,760 acre limitation per lease. And the leases are subject to the provisions of AS 38.05.180(j) - (m), (o) - (u), and (x) - (z).

CS FOR SENATE BILL NO. 150(O&G)
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE SPECIAL COMMITTEE ON OIL AND GAS

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to oil and gas exploration licenses and to oil and gas leases
2 in certain areas of the state, and to the proof of financial responsibility required
3 for operation of onshore facilities for the production of crude oil and associated
4 hydrocarbons and for exploration for oil and gas and related hydrocarbons; and
5 providing for an effective date."

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

7 * Section 1. AS 38 is amended by adding new sections to read:

8 ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.

9 Sec. 38.05.131. APPLICABILITY; DETERMINATION; REGULATIONS. (a)

10 Unless specifically provided otherwise in AS 38.05.132 - 38.05.134, the provisions of
11 AS 38.05.005 - 38.05.040, 38.05.180, 38.05.182 - 38.05.184, and 38.05.920 -
12 38.05.990 apply to the issuance of oil and gas exploration licenses and leases under
13 AS 38.05.132 - 38.05.134.

1 (b) The provisions of AS 38.05.131 - 38.05.134 do not apply to land

2 (1) north of the Umiat baseline; and

3 (2) in the vicinity of Cook Inlet that is within the area bounded by

4 (A) the north boundary of Township 17 North, Seward
5 Meridian;

6 (B) the Seward Meridian;

7 (C) the south boundary of Township 7 South, Seward Meridian;

8 and

9 (D) the west boundary of Range 19 West, Seward Meridian.

10 (c) The commissioner shall make preliminary written determinations of the
11 state land that may be subject to the provisions of AS 38.05.132. The determinations
12 shall be given public notice using the methods described in AS 38.05.945(b). After
13 completion of the comment period and evaluation of the comments received, the
14 commissioner shall issue a written determination of the state land that is subject to the
15 provisions of AS 38.05.132.

16 (d) The commissioner may adopt regulations necessary to implement
17 AS 38.05.131 - 38.05.134.

18 Sec. 38.05.132. OIL AND GAS EXPLORATION LICENSE. (a) To
19 encourage exploration for oil and gas on state land, the commissioner may issue oil
20 and gas exploration licenses

21 (1) for unleased state land for which insufficient or undocumented
22 geological and geophysical information exists concerning the oil and gas potential of
23 that land; or

24 (2) for state land that was subject to a competitive lease sale under
25 AS 38.05.180 but for which an oil and gas lease has not been issued.

26 (b) An oil and gas exploration license issued under this section gives the
27 licensee

28 (1) the exclusive right to explore, for a term not to exceed 10 years, for
29 deposits of oil and gas on unleased state land described in the exploration license
30 unless the land is earlier relinquished, removed, or deleted under (d) of this section;
31 and

1 (2) the option to convert the exploration license for all or part of the
2 state land, except the land that is deleted or removed from the land described in the
3 exploration license under (d) of this section, into an oil and gas lease upon fulfillment
4 of the work commitments contained in the exploration license.

5 (c) An exploration license awarded under this section

6 (1) is not subject to the acreage limitations imposed by AS 38.05.140(c)
7 or 38.05.180(m);

8 (2) may cover an area of not more than 500,000 acres, that must be
9 reasonably compact and contiguous;

10 (3) must be conditioned upon an obligation to perform a specified work
11 commitment, ^{in total and for each year of the license.} expressed in dollars of direct exploration expenditures; for purposes of
12 this paragraph,

13 (A) "direct exploration expenditure" means cash expenses
14 undertaken in performance of a specified work commitment under the
15 provisions of AS 38.05.131 - 38.05.134 and necessarily incurred by the licensee
16 in the permitting, mobilization, conducting, demobilization, and evaluation of
17 geophysical and geological surveys, including seismic, magnetic, and gravity
18 surveys or the drilling, logging, coring, testing, and evaluation of oil and gas
19 wells; the term

20 (i) includes direct labor costs, including the cost of
21 benefits, for employees directly associated with the work commitment
22 programs, the cost of renting or leasing equipment from parties not
23 affiliated with the licensee, the reasonable costs of maintaining and
24 operating equipment, payments to consultants and independent
25 contractors not affiliated with the licensee, and costs of materials and
26 supplies;

27 (ii) does not include noncash expenses such as
28 depreciation and reserves, interest or other costs of borrowed funds,
29 return on investment, overhead, insurance or bond premiums, or any
30 other expense that is unreasonable or that the licensee has not incurred
31 to satisfy the licensee's work commitment;

1 (B) "work commitment" includes the drilling of one or more
2 exploration wells or the gathering of geophysical data, or both;

3 (4) must be conditioned upon an obligation to perform an annual work
4 commitment;

5 (5) is subject to an annual review and revocation if the commissioner
6 determines that the licensee has failed to

7 (A) perform the previous year's annual work commitment; or

8 (B) provide or maintain in effect the bond or other security
9 required by (6) of this subsection;

10 (6) must be conditioned upon the posting of a bond or other security
11 acceptable to the commissioner in favor of the state and subject to the following
12 requirements:

13 (A) the bond or other security must be renewed annually;

14 (B) the bond or other security must be in the amount of 10
15 percent of the licensee's annual work commitment;

16 (7) must be conditioned upon payment to the commissioner of a
17 nonrefundable oil and gas exploration license fee of not more than \$1 for each acre of
18 land that is subject to the exploration license; and

19 (8) must be conditioned upon an agreement that exploration
20 expenditures are subject to audit by the commissioner.

21 (d) The area within an exploration license awarded under this section may be
22 relinquished, removed, or deleted from the license. Relinquishment, removal, or
23 deletion of an area from the state land described in the exploration license terminates
24 the licensee's rights under AS 38.05.131 - 38.05.134 in the area that is relinquished,
25 removed, or deleted. A relinquishment, removal, or deletion of a portion of the area
26 described in the exploration license must be in areas that are reasonably compact and
27 contiguous. The areas relinquished from the state land described in the exploration
28 license shall be areas identified by the licensee but, if the licensee fails to identify
29 sufficient area, the commissioner may identify any additional acreage required to be
30 removed or deleted from the area under license to meet the requirements of this
31 subsection. Within the area described in the exploration license issued under (a) - (c)

1 of this section,

2 (1) 25 percent must be relinquished, removed, or deleted not later than
3 the fourth anniversary of the effective date of the issuance of the exploration license;

4 (2) an additional 10 percent of the remaining land must be removed or
5 deleted on each of the succeeding anniversaries of the effective date of the issuance
6 of the exploration license.

7 (e) If, immediately before the beginning of the period for annual renewal of
8 the bond or other security under (c)(5)(A) of this section, the licensee fails to provide
9 or maintain in effect the bond or other security required by (c) of this section for the
10 period covered by the annual renewal and the commissioner revokes the exploration
11 license, the bond or other security then in effect for the licensee's obligations under
12 the exploration license is forfeited to the state.

13 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures in this section
14 apply to the issuance of an oil and gas exploration license under AS 38.05.132.

15 (b) The licensing process is initiated by the commissioner preparing, or a
16 prospective licensee submitting to the commissioner, a proposal that identifies a
17 specific area to be subject to the exploration license, proposes specific minimum work
18 commitments, and states the minimum qualifications for a licensee as established by
19 regulations adopted by the commissioner. A prospective licensee may initiate a
20 proposal only in response to a call for proposals by the commissioner or during a
21 period specified in regulations adopted by the commissioner. The regulations must
22 provide for at least one period for that purpose during each calendar year.

23 (c) If the commissioner initiates the licensing process under (b) of this section,
24 the commissioner shall publish notice of the commissioner's proposal in order to solicit
25 comments and competing proposals.

26 (d) Within 30 days after receipt of a proposal from a prospective licensee
27 under (b) of this section, the commissioner shall either reject it in a written decision
28 or give public notice of the intent to evaluate the acceptability of the proposal. The
29 commissioner shall solicit comments on a proposal for which public notice is given
30 under this subsection, and shall request competing proposals.

31 (e) The commissioner may make a written request to a prospective licensee for

1 additional information on the prospective licensee's proposal. The commissioner shall
2 keep confidential information described in AS 38.05.035(a)(9) that is voluntarily
3 provided.

4 (f) After considering proposals not rejected under (d) of this section and public
5 comment on those proposals, the commissioner shall issue a written finding addressing
6 all matters set out in AS 38.05.035(e) and (g), except for AS 38.05.035(g)(1)(K). If
7 the finding concludes that the state's best interests would be served by issuing an oil
8 and gas exploration license, the finding must (1) describe the limitations, stipulations,
9 conditions, or changes from the initiating proposal or competing proposals that are
10 required to make the issuance of the exploration license conform to the best interests
11 of the state, and (2) if only one proposal was submitted, identify the prospective
12 licensee whom the commissioner finds should be issued the exploration license. The
13 commissioner shall attach to the finding a copy of the exploration license to be issued
14 and the form of lease that will be used for any portion of the exploration license area
15 subsequently converted to an oil and gas lease under AS 38.05.134. The commissioner
16 shall promptly provide a copy of the finding and required attachments to all
17 prospective licensees whose proposals were considered before the commissioner's
18 issuance of the finding.

19 (g) If only one prospective licensee submits a proposal and the finding under
20 (f) of this section concludes that an exploration license should be issued to that
21 prospective licensee, the prospective licensee has 30 days after issuance of the finding
22 within which to accept or reject the issuance of the exploration license, as limited or
23 conditioned by the terms contained in the finding. The exploration license to be issued
24 and the form of lease that will be used must be attached to that finding. The
25 prospective licensee must accept or reject the issuance of the exploration license in
26 writing.

27 (h) If competing proposals are submitted, and the commissioner's finding
28 under (f) of this section concludes that an oil and gas exploration license should be
29 issued, the commissioner shall issue a request for competitive sealed bids, under
30 procedures adopted by the commissioner by regulation, to determine which prospective
31 licensee should be issued the exploration license. The finding provided to the

1 prospective licensees under (f) of this section must contain notice that (1) the
2 commissioner intends to request competitive sealed bids, (2) a prospective licensee
3 who intends to participate in the bidding must notify the commissioner in writing by
4 the date specified in the notice, and (3) a prospective licensee's notice of intent to
5 participate in the bidding constitutes acceptance of issuance of the exploration license,
6 as limited or conditioned by the terms contained in the finding and by the exploration
7 license to be issued and the form of lease to be used that have been attached to that
8 finding, if the prospective licensee is the successful bidder. The successful bidder is
9 the prospective licensee who submits the highest bid in terms of the minimum work
10 commitment dollar amount.

11 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the
12 commissioner determines that the minimum work commitment obligation set out in an
13 oil and gas exploration license issued under AS 38.05.132 has been met, the
14 commissioner shall convert to one or more oil and gas leases all or part, as the
15 licensee may indicate, of the area described in the exploration license that remains
16 after the relinquishments, removals, or deletions required by AS 38.05.132(d). A lease
17 issued under this section

18 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

19 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

20 (3) must be conditioned upon a royalty in amount or value of not less
21 than 12.5 percent of production;

22 (4) must include an annual rent of \$3 per acre or fraction of an acre
23 initially paid to the state at inception of the lease and payable annually after that until
24 the income to the state from royalty under that lease exceeds the rental income to the
25 state under that lease for that year; and

26 (5) is subject to other conditions and obligations that are specified in
27 the lease.

28 * Sec. 2. AS 38.05.135(a) is amended to read:

29 (a) Except as otherwise provided, valuable mineral deposits in land belonging
30 to the state shall be open to exploration, development, and the extraction of minerals.
31 All land, together with tide, submerged, or shoreland, to which the state holds title to

1 or to which the state may become entitled, may be obtained by permit or lease for the
2 purpose of exploration, development, and the extraction of minerals. Except as
3 specifically limited by AS 38.05.131 - 38.05.181 [AS 38.05.135 - 38.05.181], land may
4 be withheld from lease application on a first-come, first-served basis, and offered only
5 on a competitive bid basis when determined by the commissioner to be in the best
6 interests of the state. In unproven areas the commissioner may offer additional
7 incentives, including a reduction of royalty to a minimum of five percent in the case
8 of oil and gas, and other terms in and granting permit or lease for exploration and
9 development whenever it appears to be in the best interests of the state to do so.

10 * Sec. 3. AS 38.05.180(d) is amended to read:

11 (d) The commissioner may issue oil and gas leases in an area that has not been
12 included in a leasing program submitted, in accordance with (b) of this section, to the
13 legislature if the land to be leased

14 (1) [THE LAND TO BE LEASED] was previously subject to a valid
15 state or federal oil and gas lease; [OR]

16 (2) [THE LAND TO BE LEASED] is contiguous to land already under
17 state, federal or private lease and the commissioner makes a written finding, after
18 hearing, that leasing of the land would result in a substantial probability of early
19 evaluation and development of the land to be leased; [OR]

20 (3) [THE LAND TO BE LEASED] is adjacent to land owned or
21 controlled by another party on which a discovery of commercial quantities of oil or
22 gas has been made, and the commissioner finds, after hearing, that there is a
23 reasonable probability that the land to be leased contains oil or gas in communication
24 with the oil or gas discovered on the land of the other party; [OR]

25 (4) [THE LAND TO BE LEASED] is adjacent to land included in the
26 federal five-year Outer Continental Shelf leasing program under 43 U.S.C. 1344, and
27 the commissioner makes a written finding, after hearing, that coordinated or
28 simultaneous leasing with the federal government is in the public interest; or

29 (5) is the subject of an oil and gas exploration license issued under
30 AS 38.05.131 - 38.05.134.

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

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

12 (1) a cash bonus bid with a fixed royalty share reserved to the state of
13 not less than 12.5 [12 1/2] percent in amount or value of the production removed or
14 sold from the lease;

15 (2) a cash bonus bid with a fixed royalty share reserved to the state of
16 not less than 12.5 [12 1/2] percent in amount or value of the production removed or
17 sold from the lease and a fixed share of the net profit derived from the lease of not
18 less than 30 percent reserved to the state;

19 (3) a fixed cash bonus with a royalty share reserved to the state as the
20 bid variable but no less than 12.5 [12 1/2] percent in amount or value of the
21 production removed or sold from the lease;

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

24 (5) a fixed cash bonus with a fixed royalty share reserved to the state
25 of not less than 12.5 [12 1/2] percent in amount or value of the production removed
26 or sold from the lease with the share of the net profit derived from the lease reserved
27 to the state as the bid variable;

28 (6) a cash bonus bid with a fixed royalty share reserved to the state
29 based on a sliding scale according to the volume of production or other factor but in
30 no event less than 12.5 [12 1/2] percent in amount or value of the production removed
31 or sold from the lease;

1 (7) a fixed cash bonus with a royalty share reserved to the state based
2 on a sliding scale according to the volume of production or other factor as the bid
3 variable but not less than 12.5 [12 1/2] percent in amount or value of the production
4 removed or sold from the lease.

5 * Sec. 5. AS 38.05.945(a) is amended to read:

6 (a) This section establishes the requirements for notice given by the department
7 for the following actions:

8 (1) classification or reclassification of state land under AS 38.05.300
9 and the closing of land to mineral leasing or entry under AS 38.05.185;

10 (2) zoning of land under applicable law;

11 (3) a decision under AS 38.05.035(e) or 38.05.132 - 38.05.134
12 regarding the sale, lease, or disposal of an interest in state land or resources;

13 (4) a competitive disposal of an interest in state land or resources after
14 final decision under AS 38.05.035(e);

15 (5) a public hearing under AS 38.05.856(b);

16 (6) a preliminary finding under AS 38.05.035(e) and 38.05.855(c)
17 concerning sites for aquatic farms and related hatcheries.

18 * Sec. 6. AS 46.04.040(b) is amended to read:

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

23 (1) for a pipeline or an offshore exploration or production facility is
24 \$50,000,000 per incident;

25 (2) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for
26 an onshore production facility is

27 (A) \$1,000,000 per incident for a facility that produces not
28 more than 2,500 barrels of crude oil per day;

29 (B) \$5,000,000 per incident for a facility that produces more
30 than 2,500 barrels of crude oil but not more than 5,000 barrels of crude
31 oil per day;

1 (C) \$10,000,000 per incident for a facility that produces
2 more than 5,000 barrels of crude oil but not more than 10,000 barrels of
3 crude oil per day; and

4 (D) \$20,000,000 per incident for a facility that produces more
5 than 10,000 barrels of crude oil per day; and

6 (3) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for
7 an onshore exploration facility is \$1,000,000 [\$5,000,000] per incident.

8 * Sec. 7. ADDITIONAL EXCLUDED AREA. In addition to the area designated in
9 AS 38.05.131(b), added by sec. 1 of this Act, the provisions of AS 38.05.131 - 38.05.134,
10 added by sec. 1 of this Act, do not apply to land within proposed Competitive Oil and Gas
11 Lease Sales 57, 77, 80, 87, and 88, as the area to be offered in each of those proposed
12 competitive oil and gas lease sales was delineated in the Five-Year Oil and Gas Leasing
13 Program prepared by the Department of Natural Resources and dated January 1993. However,
14 the exclusion of the land in any one of those lease sales that is required by this section ceases
15 on the date the land described in the lease sale is first offered for competitive oil and gas
16 leasing under AS 38.05.180, and that land is thereafter subject to the provisions of
17 AS 38.05.131 - 38.05.134, added by sec. 1 of this Act.

18 * Sec. 8. REGULATIONS. The commissioner of natural resources may proceed to adopt
19 regulations necessary to implement AS 38.05.131 - 38.05.134, added by sec. 1 of this Act.
20 The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the
21 effective date of secs. 1 - 7 of this Act.

22 * Sec. 9. Section 8 of this Act takes effect immediately under AS 01.10.070(c).

AMENDMENT #5

relays 2008

OFFERED IN THE SENATE:
FOR: CSSB150(O&G)

BY: LEMAN

Page 3, Line 11:

after commitment INSERT: "in total and for each year of the
license".

✓ Page 4, Line 5:

after subject to INSERT: "annual review and" (2008-2010)

Page 4, Line 7:

after perform INSERT:
DELETE "the"

"that year's" (the previous year)

Adopted

8-GS1012\R

A M E N D M E N T *SH*

OFFERED IN THE SENATE

BY SENATOR SHARP

TO: CSSB 150(O&G)

Page 11, line 6:

Delete "\$5,000,000"

Insert "\$1,000,000 [\$5,000,000]"

SB 150

By: Senator Bert Sharp

State Comparisons of Financial Responsibility for Onshore Exploration:

CALIFORNIA

\$1 million dollar minimum requirement only within 30 miles of coastline. No requirement beyond 30 miles of coastline.

WASHINGTON

The state does not currently require onshore financial responsibility.

TEXAS

There is no financial responsibility required in Texas.

LOUISIANA

Louisiana is currently withholding oil spill regulations.

FLORIDA

No state drilling is allowed on state onshore lands in Florida.

WYOMING

There are no requirements beyond P & A (Plugging and Abandonment).

MONTANA

Montana has P & A (Plugging & Abandonment) requirements only.

Summary of Key State Financial Responsibility Requirements
for Well Plugging And Abandonment (P & A) Costs

<u>State</u>	<u>Amount/Well</u>	<u>Multiple Wells</u>
Alaska	\$100,000	\$200,000
California		
Onshore by Depth:		Onshore: \$100,000
To 5,000 ft.	\$ 10,000	Offshore: \$250,000
5,000 - 10,000	15,000	
> 10,000	25,000	
Louisiana -- as determined by Office of Conservation		
Montana	\$ 5,000	\$ 10,000
can be increased to:	10,000	20,000
Oklahoma	Bond	\$ 25,000
	Financial Statement	\$ 50,000
Texas		
By # of active Wells:		
1 - 5		\$ 10,000
6 - 10		20,000
11 - 20		30,000
21 - 50		50,000
51 - 100		100,000
> 100		200,000
Wyoming		
By Depth:		
To 2,000 ft.	\$ 5,000	\$ 25,000
> 2,000	10,000	25,000
Federal (USGS)		
By Federal Lease:	\$10,000 per lease	\$ 25,000 per state \$150,000 nationwide
Indian Lease:		\$ 75,000 nationwide

Sources:

Interstate Oil and Gas Compact Commission, Jerry Simmons, Telephone: (405) 525-3556

Alaska Oil and Gas Conservation Commission, Blair Wonzell, Telephone: (907) 279-1433

SENATE BILL NO. 150

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 3/5/93
 Referred: O&G, JUD, FIN

A BILL

FOR AN ACT ENTITLED

1 "An Act providing for oil and gas exploration licenses, and oil and gas leases,
 2 in certain areas of the state; and providing for an effective date."

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

4 * Section 1. AS 38 is amended by adding new sections to read:

5 ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.

6 Sec. 38.05.131. APPLICABILITY; DETERMINATION; REGULATIONS. (a)
 7 Unless specifically provided otherwise in AS 38.05.132 - 38.05.134, the provisions of
 8 AS 38.05.005 - 38.05.040; AS 38.05.180; AS 38.05.182 - 38.05.184; and AS 38.05.920
 9 - 38.05.990 apply to the issuance of licenses and leases under AS 38.05.132 -
 10 38.05.134.

11 (b) The commissioner shall make a preliminary written determination of the
 12 state land that will be subject to the provisions of AS 38.05.132. The determination
 13 shall be given public notice using the methods described in AS 38.05.945(b). After
 14 completion of the comment period and evaluation of the comments received, the

1 between the dollar amount of the minimum work commitment specified in the license
2 and the dollar amount of the minimum work commitment that was fulfilled to the
3 satisfaction of the commissioner as of the date of the revocation of the license;

4 (6) must be conditioned upon payment to the commissioner of a non-
5 refundable oil and gas exploration license fee of \$1 for each acre of land that is subject
6 to the license; and

7 (7) must be conditioned upon an agreement that exploration
8 expenditures are subject to audit by the commissioner.

9 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures in this section
10 apply to the issuance of a license under AS 38.05.132.

11 (b) The licensing process is initiated by the commissioner preparing, or a
12 prospective licensee submitting to the commissioner, a proposal that identifies a
13 specific area to be subject to the license, proposes specific minimum work
14 commitments, and states the minimum qualifications for a licensee as established by
15 regulations adopted by the commissioner. A prospective licensee may initiate a
16 proposal only in response to a call for proposals by the commissioner or during a
17 period specified in regulations adopted by the commissioner. The regulations shall
18 provide for at least one [such] period each calendar year.

19 (c) If the commissioner initiates the licensing process under (b) of this section,
20 the commissioner shall publish notice of the commissioner's proposal in order to solicit
21 comments and competing proposals.

22 (d) Within 30 days after receipt of a proposal from a prospective licensee
23 under (b) of this section, the commissioner shall either reject it in a written decision
24 or give public notice of the intent to evaluate the acceptability of the proposal. The
25 commissioner shall solicit comments on a proposal for which public notice is given
26 under this subsection, and shall request competing proposals.

27 (e) The commissioner may make a written request to a prospective licensee for
28 additional information on the prospective licensee's proposal. The commissioner shall
29 keep confidential information described in AS 38.05.035(a)(9) that is voluntarily
30 provided.

31 (f) After considering proposals not rejected under (d) of this section, and

1 minimum work commitment dollar amount.

2 Sec. 38.05.134. CONVERSION TO LEASE. If the commissioner determines
3 that the minimum work commitment obligation set out in a license issued under
4 AS 38.05.132 has been met, the commissioner will convert, at the licensee's option,
5 all or part of the license area to one or more oil and gas leases. A lease issued under
6 this section

7 (1) may not exceed 30,000 acres;

8 (2) is not subject to the acreage limitations imposed by AS 38.05.140(c)
9 or AS 38.05.180(m);

10 (3) must be conditioned upon a royalty in amount or value of not less
11 than 12 1/2 percent of production;

12 (4) must include an annual rent of \$3 per acre or fraction of an acre
13 initially paid to the state at inception of the lease and payable annually after that until
14 the income to the state from royalty under that lease exceeds the rental income to the
15 state under that lease for that year; and

16 (5) is subject to other conditions and obligations that are specified in
17 the lease.

18 * Sec. 2. AS 38.05.135(a) is amended to read:

19 (a) Except as otherwise provided, valuable mineral deposits in land belonging
20 to the state shall be open to exploration, development, and the extraction of minerals.
21 All land, together with tide, submerged, or shoreland, to which the state holds title to
22 or to which the state may become entitled, may be obtained by permit or lease for the
23 purpose of exploration, development, and the extraction of minerals. Except as
24 specifically limited by AS 38.05.131 [AS 38.05.135] - 38.05.181, land may be
25 withheld from lease application on a first-come, first-served basis, and offered only on
26 a competitive bid basis when determined by the commissioner to be in the best
27 interests of the state. In unproven areas the commissioner may offer additional
28 incentives, including a reduction of royalty to a minimum of five percent in the case
29 of oil and gas, and other terms in and granting permit or lease for exploration and
30 development whenever it appears to be in the best interests of the state to do so.

31 [* Sec. 3. AS 38.05.140(c) is amended to read:]

1 leasing with the federal government is in the public interest; or

2 (5) the land to be leased is the subject of an oil and gas exploration
3 license issued under AS 38.05.131 - 38.05.134.

4 [* Sec. 5. AS 38.05.180(m) is amended to read:

5 (m) An oil and gas lease must cover a reasonably compact area that may not
6 exceed [EXCEEDING] 5,760 acres unless entered into under AS 38.05.131 -
7 38.05.134, and may be for a maximum period of 10 years, except that the
8 commissioner may issue a lease for a period of not less than five years upon a finding
9 that it is in the best interests of the state. An oil and gas lease shall be automatically
10 extended if and for so long thereafter as oil or gas is produced in paying quantities
11 from the lease or if the lease is committed to a unit approved by the commissioner.
12 A lease issued under this section covering land on which there is a well capable of
13 producing oil or gas in paying quantities does not expire because the lessee fails to
14 produce oil or gas unless the lessee is allowed reasonable time to place the well on a
15 producing status. Upon extension, the commissioner may increase lease rentals so long
16 as the increased rental rate does not exceed 150 percent of the rate for the preceding
17 year. If drilling has commenced on the expiration date of the primary term of the
18 lease and is continued with reasonable diligence, including such operations as
19 redrilling, sidetracking, or other means necessary to reach the originally proposed
20 bottom hole location, the lease continues in effect until 90 days after drilling has
21 ceased and for so long thereafter as oil or gas is produced in paying quantities. An
22 oil and gas lease issued under this section that [WHICH] is subject to termination by
23 reason of cessation of production does not terminate if, within 60 days after production
24 ceases, reworking or drilling operations are commenced on the land under lease and
25 are thereafter conducted with reasonable diligence during the period of nonproduction.]

26 * Sec. 6. AS 38.05.945(a) is amended to read:

27 (a) This section establishes the requirements for notice given by the department
28 for the following actions:

29 (1) classification or reclassification of state land under AS 38.05.300
30 and the closing of land to mineral leasing or entry under AS 38.05.185;

31 (2) zoning of land under applicable law;

excerpt from 4-21-93 minutes of Senate Finance Committee
ROUGH DRAFT

CS FOR SENATE BILL NO. 150(O&G):

An Act relating to oil and gas exploration licenses and to oil and gas leases in certain areas of the state, and to the proof of financial responsibility required for operation of on-shore facilities for the production of crude oil and associated hydrocarbons and for exploration for oil and gas and related hydrocarbons; and providing for an effective date.

Co-chair Peace announced that CSSB 150(O&G) work draft "D" was adopted in the morning portion of the meeting and was before the committee again.

Senator Rieger MOVED for adoption of amendment #7 dated April 21, 1993 (copy on file). Senator Sharp OBJECTED. Co-chair Pearce asked for a show of hands. The motion FAILED on a vote of 3 to 4. (Senators Frank, Pearce, Jacko, and Sharp were opposed. Senators Rieger, Kerttula and Kelly were in support.)

Co-chair Pearce spoke to Senator Kerttula's concern about the definition of on-shore. She said that there seemed to be a disagreement between the Dept. of Natural Resources and the Dept. of Law regarding interpretation. She said that she would support an amendment on the floor to address this concern. Senator Kerttula said that was satisfactory.

Co-chair Pearce MOVED for adoption of amendment #6 by Senator Sharp pending from a prior meeting (copy on file). No objections being raised, it was ADOPTED.

Senator Sharp MOVED that CSSB 150(FIN) as amended pass from committee with accompanying fiscal notes. Senator Kelly OBJECTED. Senator Kelly stated that he was in support of the concept of the bill but felt the bill had no real substance. Co-chair Pearce asked Senator Kelly if he wanted the bill in a subcommittee. Senator Kelly agreed.

Co-chair Pearce announced that CSSB 150(FIN) as amended would be held in committee.

DRAFT

DRAFT

Judy - SB 150
was heard earlier in
the day - let me know
if you need more - Kathy
took that meeting.

Post-It™ brand fax transmittal memo 7671		# of pages + 1
To: Judy	From: Marie	
Co: Senate Finance	Co: Senate Finance	
Dept.	Phone # 465-4935	
Fax # 586-1987 fax	Fax # 465-187	

WALTER J. HICKEL
GOVERNOR



18150
P. O. Box 110301
Juneau, Alaska 99811-0301
(907) 465-3500

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 5, 1993

*The Honorable Rick Halford
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1102*

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.

The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.

Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the

The Honorable Rick Halford

March 5, 1993

Page 2

acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaska's remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,

A handwritten signature in cursive script, appearing to read "Walter J. Mickel".

Walter J. Mickel
Governor

SENATE COMMITTEE REPORT

DATE: 4/14/93

FURTHER: FINANCE

DATE TURNED INTO OFFICE: _____

JUDICIARY Committee considered SENATE BILL NO. 150

"An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date."

and recommends:

- replace with _____ CS _____
- or adopt previous _____ CS _____
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
DNR-resource	2-MAR-93	✓	
DNR-revenue	2-MAR-93	✓	

Appropriation No Fiscal Note

DO PASS:

OTHER RECOMMENDATIONS:

Chair: Signature and Recommendation

SENATE COMMITTEE REPORT
FIRST COMMITTEE OF REFERRAL

DATE: 3/5/93

FURTHER: JUDICIARY
FINANCE

Date of 5-Day Notice: 3-11-93
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 4-14-93

Senate Special Committee on Oil and Gas considered SB 150

"An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date."

and recommends it be replaced with

and recommends:

replace with _____ CS SB 150 (O&G)

- same title
- new title
- technical title change (HB only)

attaches amendment(s) and report it back as follows

adopts _____ Letter of Intent

further referral to the _____

do pass

do not pass

no recommendation

individual recommendations

20 Feb

FISCAL NOTE INFORMATION

* SB CS
u

Department	Date	Zero	Fiscal
DNR	3/2	✓	
REV	3/2	✓	

Department	Date	Zero	Fiscal

Appropriation No Fiscal Note

Governor's Bill with Previous Fiscal Notes (enter information above)

DO PASS:

OTHER RECOMMENDATIONS:

Rich Hatford

Judy Sals (No Rec)

Bob Sharp N.B.

Loren A. Swan DP
Chair: Signature and Recommendation