

ALASKA LEGISLATURE

1389

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

Name of State	Comments	Contact Person(s)
Delaware	<ul style="list-style-type: none"> • Received HCFA approval 5/95 for "The Diamond State Health Plan" (DSHP), which mandates enrollment in capitated managed care delivery systems • 1115 Waiver approved • Plan is effective 1/1/96 	Kay Holmes, DSHP Coordinator 302-577-4900
District of Columbia	<ul style="list-style-type: none"> • Implemented DC Medicaid Managed Care program (combination of fee-for-service and capitated options) in 4/94 • Mandatory for AFDC and AFDC-related recipients • Medicaid Program is in financial difficulty • 1915 (b) waiver approved 	Sue Brown, Commission of Health Care Finance 202-727-0735
Florida	<ul style="list-style-type: none"> • Florida has offered a managed care plan to Medicaid enrollees for 13 years • Plan to expand in March, 1996 • Has an HMO option, but it does not operate in all parts of the state; hopes to expand the areas where HMOs will serve Medicaid recipients • A QA study found all the capitated plans to be deficient so there is a temporary enrollment freeze for those plans • HMO Licensing both with the State and the Medicaid Agency is bogged down • Present enrollment is 1/3 MediPass (PCCM program) 1/3 HMO, and 1/3 regular fee-for-service • 1915 (b) waiver approved 	Paige McGivern 904-487-3090

Name of State	Comments	Contact Person(s)
Georgia	<ul style="list-style-type: none"> • May begin to offer a Medicaid HMO option in the Atlanta area; currently reviewing HMO applications • Implemented their PCCM program, Georgia Better Health Care, in 10/1/93; operational in a few counties only • 1915 (b) waiver approved • Plans are underway to expand GBHC statewide 	Patrick Williams 404-657-7793
Hawaii	<ul style="list-style-type: none"> • Hawaii Health Quest, which began 8-1-94, provides medical, dental, and mental health benefits through a capitated managed care delivery system to persons receiving AFDC, GA, and the State Health Insurance Program • Five private insurers have been given two-year contracts to provide benefits • One year lock-in • Will issue another RFP in late 1995 for the next two-year period • Open to accepting bids from mainland companies Current companies all Hawaii-based 	Barbara Bianco, Public Information Officer 808-586-5454
Idaho	<ul style="list-style-type: none"> • PCCM model introduced in October, 1993 • No HMO option now • MMIS system will be reconfigured to meet managed care requirements. Work to be completed by 12/31/96. • After MMIS improved, will consider expanding the managed care option • Of the 44 counties, 7 are considered urban, 12 rural and 25 frontier (6 persons or less a square mile) • 1915 (b) waiver approved 	Jan Cheever, Supervisor of Healthy Connections 208-334-5804 or Robin Schmidt, Healthy Connections Representative 208-334-5804

Name of State	Comments	Contact Person(s)
Illinois	<ul style="list-style-type: none"> • 1115 waiver request pending with HCFA for MediPlan Plus, which will contract with HMOs statewide to care for the MediPlan Plus eligibles; a PCCM program is also operational • Has contracted with HMOs in portions of the state for 20 years • Hope to release an RFP soon for HMOs to bid • Medicaid eligibles concentrated in Chicago, Peoria, and East St. Louis 	<p>Dawn Claborn 217-524-7478</p> <p>Ed Hartman Bureau of Managed Care 217-524-7478</p>
Indiana	<ul style="list-style-type: none"> • Has a PCCM program and is introducing risk-based capitated managed care option • During the summer of 1994, implemented a mandatory managed care program called Hoosier-Healthwise • Phasing in managed care regionally over three-year period, depending on access and participation • Use an enrollment broker to enroll recipients • 1915 (b) waiver approved 	<p>Wendy Bokota 317-233-0237</p>
Iowa	<ul style="list-style-type: none"> • Currently offers a mandatory PCCM or HMO option to Medicaid recipients • The HMO option is not available statewide • Iowa wants to contract with HMOs to serve areas currently not offering an HMO option • 1915 (b) waiver approved 	<p>Mary Roberts, Dept. of Human Services 515-281-8747</p>

Name of State	Comments	Contact Person(s)
Kansas	<ul style="list-style-type: none"> • Has a statewide PCCM program • 1115 waiver pending: project (Community Care) would implement a managed cooperation demonstration project in four predominantly rural counties and would assess the success of a non-competitive managed care model in rural areas • In December, 1995, plans to offer an HMO option in Kansas City area and then will expand to different areas of the state • In December, 1996, proposes to sole-source contract with a prepaid health plan for the Wichita area (The plan is made up of hospitals and providers in Wichita) 	Brenda Jackson 913-296-3981
Kentucky	<ul style="list-style-type: none"> • 1115 Waiver approved by HCFA but state legislature has not allowed implementation • Medicaid agency wants to implement a mandatory HMO program for Medicaid eligibles • Currently has a PCCM program statewide • 1915 (b) waiver approved 	Larry McCarthy 502-564-8196
Louisiana	<ul style="list-style-type: none"> • State has amended 1115 waiver request (original waiver was disapproved by HCFA in 6/95); still under HCFA consideration • All Medicaid enrollees would be required to join competing HMOs under contract with the state • Currently has a PCCM program 	Carolyn Maggio, Director 504-342-2964 Bonnie Butler, Analyst Health Development 504-342-6068

Name of State	Comments	Contact Person(s)
Maine	<ul style="list-style-type: none"> • HMO RFP was released in April 1995 • Intends to implement a mandatory managed care option • Established PCCM program; will be phased out except in three rural counties • 1915 (b) waiver approved 	Deborah Curtis, Director, Division of Managed Care or Lauren Rice 207-287-3835
Maryland	<ul style="list-style-type: none"> • PCCM program (MAC Program) implemented 12/91 • HMO option available since 1975 • Enrollment in HMOs is voluntary • Capitation paid at 95.5% of fee-for-service, including a consideration for administration • 1915 (b) waiver approved 	Dawn L. Grosshandler, Chief 410-225-5444
Massachusetts	<ul style="list-style-type: none"> • HCFA 1115 waiver, MassHealth, approved 4/95; awaiting approval from state legislature • Statewide HMO and PCCM option • Enrollment mandatory • Health benefit managers enroll recipients (currently have a bias toward the PCCM program) 	Michael Bailit, Asst. Commissioner 617-348-5510
Michigan	<ul style="list-style-type: none"> • Has implemented a statewide mandatory managed care plan • Has a statewide PCCM plan, the Physician Sponsor Plan • The HMO option and the partially capitated plan, the Clinic Plan, are primarily available in central and southern MI, although expanding to other areas • Over 90% of non-institutionalized AFDC and SSI clients enrolled in managed care • 1915(b) waiver approved 	Mark Verleger 517-335-5501

Name of State	Comments	Contact Person(s)
Minnesota	<ul style="list-style-type: none"> • 1115 waiver, Prepaid Medical Assistance Project Plus (PMAP), approved 4/95 • Will expand eligibility and place persons in integrated service networks • Especially interested in expansion in rural areas • HMO option currently available in some regions 	Kathleen Schuler, Acting Director, Managed Care Division 612-297-4668
Mississippi	<ul style="list-style-type: none"> • Has a PCCM option; considering HMO option, but nothing has been developed • Currently has a 1915(b) waiver • HMO licensing regulations currently being changed by the legislature 	Judith Michael 601-359-6133
Missouri	<ul style="list-style-type: none"> • Has submitted both a 1915 (b) and an 1115 waiver request; approval is still pending • Has operated mandatory choice health plan options program in Kansas City since 1984 • Seeking legislative support for managed care expansion • Plan a three to five year process to fully implement managed care on a regional basis • HMOs will bid based on a capitation range published in the RFP 	Gary Bailey 314-751-6922 Linda Vaughn, Management Analysis Specialist; Managed Care Division 314-751-7820
Montana	<ul style="list-style-type: none"> • Expanding the PCCM option and introducing an HMO option • Many counties are rural and frontier • Encouraging HMO development/expansion in areas not covered currently • 1915 (b) waiver approved 	Sharon Donovan 406-444-4148

Name of State	Comments	Contact Person(s)
Nebraska	<ul style="list-style-type: none"> • Let two competitively bid contracts (each covering one half of the state) with two HMOs who will cover the state in Spring, 1995 • Will not re-bid for two years • Implementing a statewide PCCM program using a contracted network manager 	Bob Seiffert, Medical Services Division 402-471-9718
Nevada	<ul style="list-style-type: none"> • PCCM program since 1983 • Medicaid has contracted to provide care and service under a pre-paid health plan since May, 1988 • Current contractors are University of Nevada School of Medicine, NevadaCare, Inc., and Community Health Centers of Southern Nevada (an FQHC) 	Joanne Grundmen, Program Specialist 702-687-4768
New Hampshire	<ul style="list-style-type: none"> • Currently contracts with HMOs • Voluntary program at this time • State is looking at pilot initiatives to help in the redesign of its healthcare system • 1115 waiver pending 	Diane M. Kemp, Program Specialist 603-271-4365
New Jersey	<ul style="list-style-type: none"> • 1915 (b) waiver pending at HCFA • Plans to implement an HMO-only mandatory enrollment program • Currently contracts with HMOs but not in every area of the state • Have 400,000 additional recipients to enroll in a plan • Use health benefit managers to enroll recipients 	Daniel Walsky, Director of Medicaid Managed Care 609-588-2705

Name of State	Comments	Contact Person(s)
New Mexico	<ul style="list-style-type: none"> • Primary Care Network (PCN), a PCCM program, is currently operational statewide • Plans to offer an HMO option in the urban areas in 1996 • Currently redesigning MMIS to support full managed care functionality • 1915 (b) waiver approved 	Paul Benson, Chief Office of Managed Care 505-827-3122
New York	<ul style="list-style-type: none"> • Currently has capitated, partially capitated and PCCM programs • Plans to implement a mandatory HMO program throughout the state within the next two years • New York City plans to enroll all Medicaid eligibles living in NYC within one year, HCFA disallowed the plan • The governor appointed a director of managed care in the Dept. of Public Health who will coordinate all efforts outside of NYC • NYC will administer its own program • 1915 (b) waiver approved 	Jim Wray Director, Office of Managed Care 518-473-5600
North Carolina	<ul style="list-style-type: none"> • Carolina Access, a PCCM program is in 38 of 100 counties (covers 50% of eligible population); currently re-grouping; plans to expand in early 1996 • Has an HMO contract with Kaiser Permanente • May introduce an HMO option in the Charlotte area • 1915 (b) waiver pending 	Nancy O'Dowd or Joe Robbins, Division of Medical Assistance 919-715-5417

Name of State	Comments	Contact Person(s)
North Dakota	<ul style="list-style-type: none"> • PCCM program for AFDC eligibles; preparing waiver renewal for statewide program • May implement an HMO option in the eastern part of the state • Has done preliminary rate setting only • Only two small regional HMOs in the state now • 1915 (b) waiver approved 	Darlene LeNoue, Administrator, Medical Services Division 701-328-4577
Ohio	<ul style="list-style-type: none"> • Plans to implement OhioCare; the 1115 waiver (approving OhioCare and expanding eligibility) was approved 1/95. However, State has decided to delay expansion pending Congress' discussion on budgetary matters • Current recipients will be moved into managed care plans; mental health and drug addiction benefits will be coordinated • Will rely heavily on HMO contracts • Currently contracts with HMOs to provide services for the Medicaid population • RFP will be issued • 1915 (b) waiver pending 	Cynthia Burnell 614-466-4693
Oklahoma	<ul style="list-style-type: none"> • Wants to begin "Sooner Care"; HCFA approval of 1115 waiver is pending • Project would be a five-year statewide managed care program using both fully and partially capitated delivery systems. Emphasis will be to address access problems in rural areas • Issued an RFP to HMOs that was due back 3/24/95; will reopen HMO bidding annually 	Leigh Brown, J.D. M.P.H., Deputy Administrator for Health Policy 405-530-3439

Name of State	Comments	Contact Person(s)
Oregon	<ul style="list-style-type: none"> • Began the Oregon Health Plan 1115 demonstration on 3/19/93 • Uses managed care models including fully capitated, partially capitated, and PCCM programs • Currently contracts with many HMOs • 90,000 eligibles enrolled in HMOs as of 6/1/94 • Considering proposal for \$5 co-payment for doctor visits for those newly eligible • 1915 (b) waiver approved 	<p>Hersh Crawford, Director 503-945-5767</p> <p>D'Anne Gilmore, Health Plan Unit 503-945-9827</p>
Pennsylvania	<ul style="list-style-type: none"> • State has a PCCM program (HealthPASS) • Has some HMO contracts and is interested in contracting with additional HMOs in other areas of the state • Planning statewide expansion over next three year; expansions will begin 7/96 in Philadelphia area • Uses a competitively bid approach in parts of Philadelphia for an HIO to manage PCCM program; huge profits were reaped in first contract period • 1902 (b) waiver approved 	<p>Frank Lentz, Director, Bureau of Special Medical Assistance Programs</p> <p>Michael Jacobs 717-772-6198</p>
Rhode Island	<ul style="list-style-type: none"> • 1115 waiver approved in Fall, 1993 for Rite Care which will: <ul style="list-style-type: none"> • expand eligibility under Medicaid • implement a fully capitated managed care delivery system • Recipients enroll in one of 5 existing HMOs 	<p>Ron Ek 401-464-3113</p>

Name of State	Comments	Contact Person(s)
South Carolina	<ul style="list-style-type: none"> • Originally wanted to implement a statewide capitated managed care plan but have scaled that back and may not offer an HMO option at all, or if it does, will be voluntary • Currently has a PCCM program • 1902 (b) approved 	Debbie Francis, Chief 803-253-6119
South Dakota	<ul style="list-style-type: none"> • 7/1/93 began a PCCM program • Currently awaiting approval of waiver renewal • No HMO contracts • 1902 (b) wavier approved 	Donna Keeler, Dept. of Social Services 605-773-3495
Tennessee	<ul style="list-style-type: none"> • TennCare, 1115 waiver approved Fall 1993, replaced the Medicaid program and extended eligibility to 1 million additional recipients • Services are offered through five PPOs and seven HMOs • Market-based pricing 	Manuel Martins, Ass't. Commissioner 615-741-0213
Texas	<ul style="list-style-type: none"> • Legislature currently debating the future of Medicaid • Many want to offer or mandate HMO coverage in most parts of the state • Has both an HMO and a PCCM option in different areas of the state • 1915 (b) waiver approved 	Stacey Hull, Program Specialist 512-794-6852
Utah	<ul style="list-style-type: none"> • Choice of Health Care Delivery (CHCD), a 1915(b) waiver program, is mandatory in urban areas only; recipients choose between HMO and primary care physician • HMO option available in urban areas only • 1115 Waiver pending to expand eligibility to 100% of poverty 	Ed Furia or Barbara Christensen, Div. of Health Care Financing, Bureau of Managed Health Care 801-538-6505 or 538-6456

Name of State	Comments	Contact Person(s)
Vermont	<ul style="list-style-type: none"> • 1115 waiver approved, The Vermont Health Access Plan, proposes to implement mandatory HMO enrollment. It will also expand coverage to 150% of poverty; HCFA approved the waiver 7/95 • State legislature has approved plan to expand coverage, effective 1/96; funding will be gained through cigarette tax revenues 	Paul Willis 802-828-2900
Virginia	<ul style="list-style-type: none"> • There are three managed care programs: Medallion I, a PCCM, started in 1992; Options, the state's voluntary HMO; and Medallion II, the state's mandatory HMO. Medallion II is scheduled to go into effect 1/96 • Will begin to offer HMO option in the Norfolk area 1/96 and will implement in other urban areas every six months (Northern VA. Richmond, Roanoke) • PCCM program was expanded to cover elderly, blind and disabled recipients in July, 1995 • 1902 (b) waiver approved • 	Thomas McGraw 804-371-6400
Washington	<ul style="list-style-type: none"> • Has a PCCM program • Mandatory enrollment in managed care is required for AFDC and AFDC-related • 1902 (b) waiver approved • 	Joan Bentz, Acting Director, Office of Managed Care 206-586-2583
West Virginia	<ul style="list-style-type: none"> • Has a statewide PCCM program • In the planning stages and wants to offer an HMO option, probably one year away • 1902 (b) waiver approved 	Sharon Carte 304-926-1717

Name of State	Comments	Contact Person(s)
Wisconsin	<ul style="list-style-type: none"> • Has both HMO and PCCM programs • HMOs are present in only 5 of the 72 counties; HMO enrollment is mandatory in these counties for AFDC recipients • PCCM program is available in 7 counties • Will release an RFP for statewide expansion in December 1995 • Plan to implement managed care in stages • 1902 (b) waiver approved 	<p>Ruth Belshaw, Managed Care Unit Supervisor 608-266-1935</p> <p>Mary Durkin 608-267-7927</p>
Wyoming	<ul style="list-style-type: none"> • No managed care programs in operation • Hoping to offer both a PCCM and HMO option 	<p>Kenneth C. Kamis, Administrator, Division of Health Care Financing 307-777-7531</p>

Exhibit B
Glossary of Abbreviations
Used in the Text

Glossary of Abbreviations Used in the Text

Abbreviation	Meaning
1115 Waiver	A research and demonstration waiver granted by the Health Care Financing Administration
1915 (b) Waiver	A waiver granted by the Health Care Financing Administration aka Freedom of Choice Waiver
AFDC	Aid to Families with Dependent Children
BC/BS	Blue Cross Blue Shield
Carolina Access	North Carolina's primary care case management program
Case Managed Fee-for-Service	A health plan which requires prior authorization of most services not rendered by the primary care provider. The primary care provider is usually paid on a fee-for-service basis. Also known as enhanced fee-for-service or managed fee-for-service.
Community Health Aide	A person living in a remote Alaskan village who has been appointed to oversee health care activities and provide services within a specified framework.
DMA	Division of Medical Assistance
DSHP	Diamond State Health Plan, Delaware's 1115 waiver program

Enhanced Fee-for-Service	A health plan which requires prior authorization of most services not rendered by the primary care provider. The primary care provider is usually paid on a fee-for-service basis. Also known as case managed fee-for-service or managed fee-for-service.
EPSDT	Early Periodic Screening, Diagnosis and Treatment
FFS or ffs	Fee-for-Service
FQHC	Federally Qualified Health Center
GA	General Assistance -- state-only funded medical program
GBHC	Georgia Better Health Care; Georgia's PCCM program
HCFA	Health Care Financing Administration
Healthy Connections	Idaho's primary care case management plan
HEDIS	National Committee for Quality Assurance, Health Plan Employer Data and Information Set
HIO	Health Insuring Organization
HMO	Health Maintenance Organization
IHS	Indian Health Services
KenPac	Kentucky's primary care case management plan
Lock-In	Refers to a period of time during which a health plan enrollee may not disenroll from a health plan except for good

	cause. May also refer to a recipient monitoring program developed to monitor access to care for high utilizing recipients.
Managed Fee-for-Service	A health plan which requires prior authorization of most services not rendered by the primary care provider. The primary care provider is usually paid on a fee-for-service basis. Also known as enhanced fee-for-service or case managed fee-for-service.
MCO	Managed Care Organization
MediPass	Florida and Iowa's primary care case management plan
MediPlan Plus	Illinois' 1115 waiver program
Mid-Level Providers	Nurse Practitioners, Nurse Midwives and Physician Assistants are often referred to as mid-level providers
MMIS	Medicaid Management Information System
Partial Capitation	Programs are structured to reimburse managed care organizations for a specific set of contracted services at a per member per month capitation rate. Members must seek care covered by the MCO within the MCO's panel of providers. Services outside of the partially capitated contract may be reimbursed through a contract or fee-for-service basis.
Passport to Health	Montana's primary care case management
PCCM	Primary Care Case Management

PCCP	Colorado's Primary Care Physician Program (a PCCM program)
PCN	Primary Care Network, New Mexico's primary care case management
PCP	Primary Care Physician
pmpm	Per Member Per Month
PPP	Primary Provider Program, Wisconsin's primary care case management program
PSP	Physician Sponsor Plan, Michigan's primary care case management program
QA	Quality Assurance
RFP	Request for Proposals
RHC	Rural Health Center
Rite Care	Rhode Island's 1115 waiver program
RMP	Recipient Monitoring Program, also known as "lock-in"
SSI	Supplemental Security Income
SURS	Surveillance, Utilization and Review System
Waiver	A mechanism by which HCFA authorizes a state Medicaid agency to "waive" Title XIX regulations. There are two waiver authorities that HCFA can do -- 1115 and 1915(b).

State of Alaska
DEPARTMENT OF HEALTH AND SOCIAL SERVICES
Division of Medical Assistance

MEDICAID PROGRAM CASE MANAGEMENT
RFP 95-0175

DELIVERABLE #3
REPORT OF OTHER STATES MANAGED CARE PROGRAMS

FEBRUARY 20, 1996

SUBMITTED BY:
FOX SYSTEMS INC.
HEALTH MANAGEMENT ASSOCIATES

SUBMITTED TO:
STATE OF ALASKA
DIVISION OF MEDICAL ASSISTANCE

FOX

4110 North Scottsdale Road, Suite 345
Scottsdale, Arizona 85251
Voice 602.423.8184
fax 602.423.8108

HMA

120 N Washington Sq., Suite 705
Lansing, Michigan 48933
voice 517.482.9237
fax 517.482.0920

Report of Other States' Managed Care Programs

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INTRODUCTION

The State of Alaska is exploring the idea of managed care for its Medicaid and General Relief Medical programs. Managing the medical care of enrolled members is not a new concept; it has been available for decades. However, only in the past 15 years has it become prevalent as a vehicle for service delivery to Medicaid recipients. The foundation of a managed care program includes features which, if everything works well, create an atmosphere conducive to good medical care which benefits all of the participating parties; i.e., the Medicaid recipient, the providers of care, the Medicaid agency, and society in general.

This report lays the groundwork for Medicaid managed care future decision making in Alaska. It begins with a definition of terms common to managed care. Graphic displays of managed care features and models are provided. The report discusses several forms of managed care but focuses on managed or enhanced fee-for-service, also known as Primary Care Case Management (PCCM), partially capitated systems and fully capitated, and at risk systems. The PCCM program in particular is explored in regard to the following key features: providers, enrollee populations, the authorization process, systems requirements, and geographic implementation.

The report begins by providing some pros and cons of the possible systems ranging from unfettered fee-for-service to full capitation HMO. It proceeds with a discussion of managed care features and models as designed and implemented by other states. This is followed by a summary of managed care programs in selected states. The states were selected for review because of unique design features and/or because they have frontier counties which somewhat approximate Alaska's population demographics. A synopsis of all states' managed care programs is contained in Exhibit A. The final segment of the report focuses on administrative management practices both within and without a managed care structure with an emphasis on the PCCM model. A glossary of terms is found in Exhibit B of the report.

DEFINITION OF TERMS

To prepare the reader for a discussion of current State Medicaid managed care delivery systems, this section explains the terms used in the text. The major features of three delivery systems are described: primary care case management, partial capitation, and full capitation. Several states have incorporated each of the delivery systems within their Medicaid programs and some have implemented only one system. Most states gradually improve their delivery systems by adjusting policies and procedures as necessary to ensure that quality, cost-effective care is provided to recipients of Medicaid.

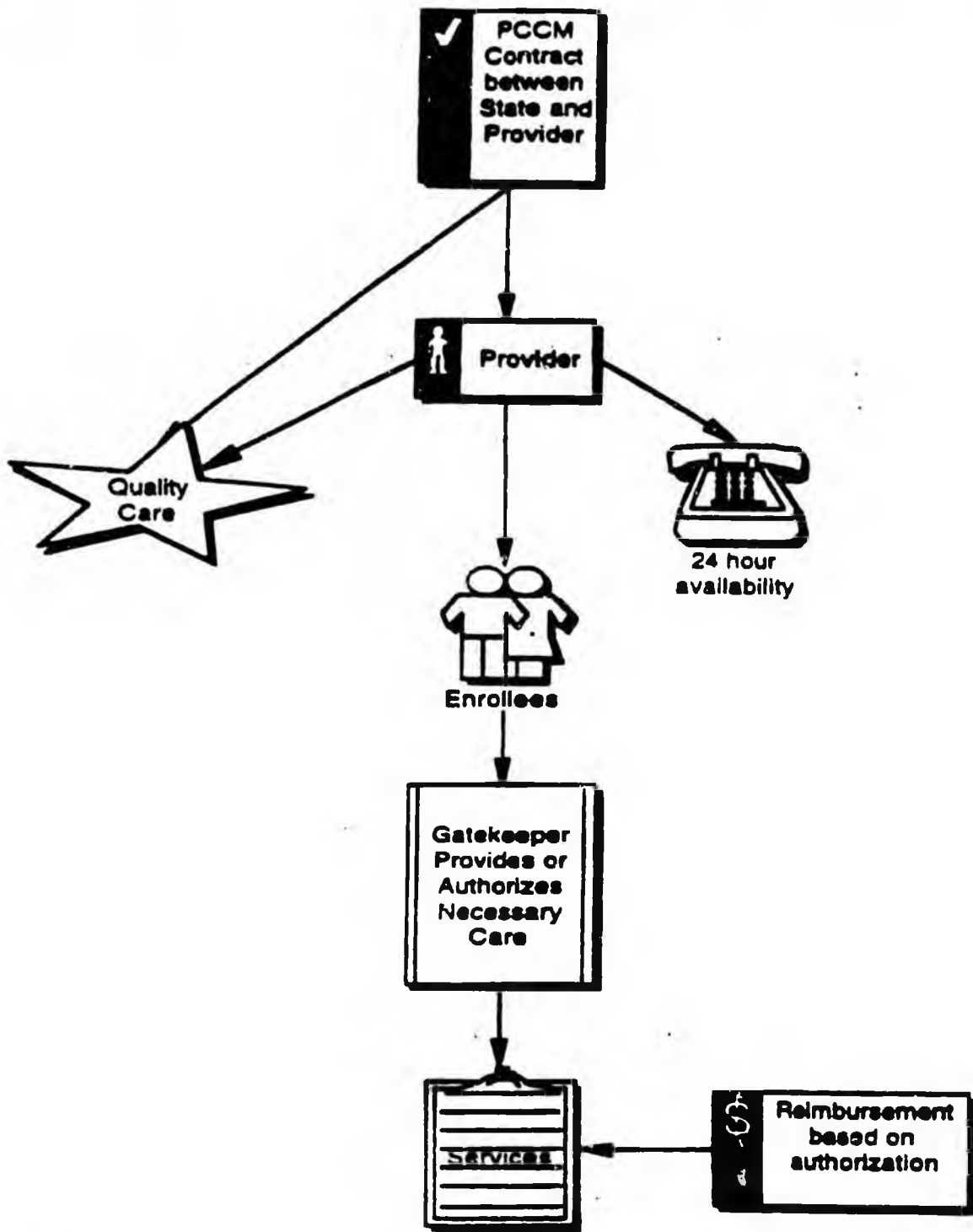
The following discussion will focus on the "ideal" managed care models. The reader should be mindful that many variations of these delivery systems exist.

Primary Care Case Management is emphasized in the description of terms because it has potential for relatively rapid implementation within Alaska's current health care system.

Primary Care Case Management (PCCM) plans are sometimes referred to as enhanced or managed fee-for-service. Features of these plans are as follows:

1. A primary care provider (PCP) either provides or authorizes a specified group of health care benefits.
2. Recipients enroll with the PCP of their choice for at least one month.
3. PCPs are usually paid a case management fee which may range from \$2 to \$6 per enrollee per month.
4. PCPs may be reimbursed on a fee-for-service basis or may be partially capitated. Most programs reimburse on a fee-for-service basis.
5. PCP's may be medical doctors, nurse practitioners, physician assistants, or other mid-level practitioners. A group of health care providers such as Rural Health Clinics, Federally Qualified Health Care Centers and Indian Health Centers may be designated as the PCP.
6. Different populations have been targeted for initial membership in the PCCM plan. The non-institutionalized AFDC and AFDC-related population are most often chosen for initial program implementation. SSI and SSI related eligibles are often added after the State gains experience.
7. PCCMs have usually been implemented in an urban area of the state first with expansion to the rural areas occurring as the plan becomes more familiar to providers.
8. States must design/modify information systems to accommodate needed functions of the PCCM plan such as a method for enrollment in the plan, claims tracking ability and editing linked to the PCP. Examples of necessary systems modifications includes: edits to prevent payment to providers who do not have authorization and system recognition of claims possessing the proper authorization codes.

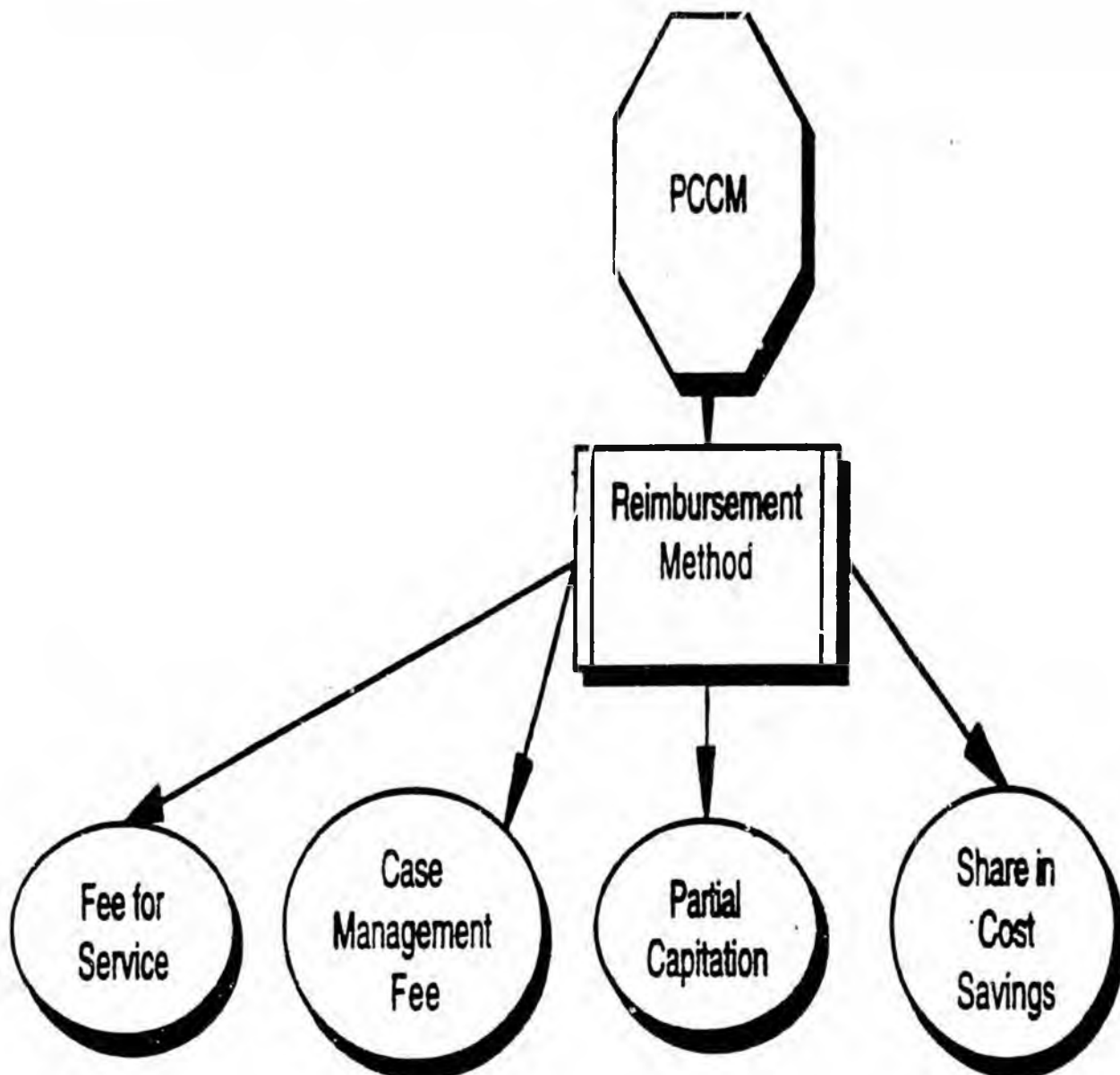
A diagram which depicts the operation of a Primary Care Case Management System is shown below.



PCCM Model

REIMBURSEMENT

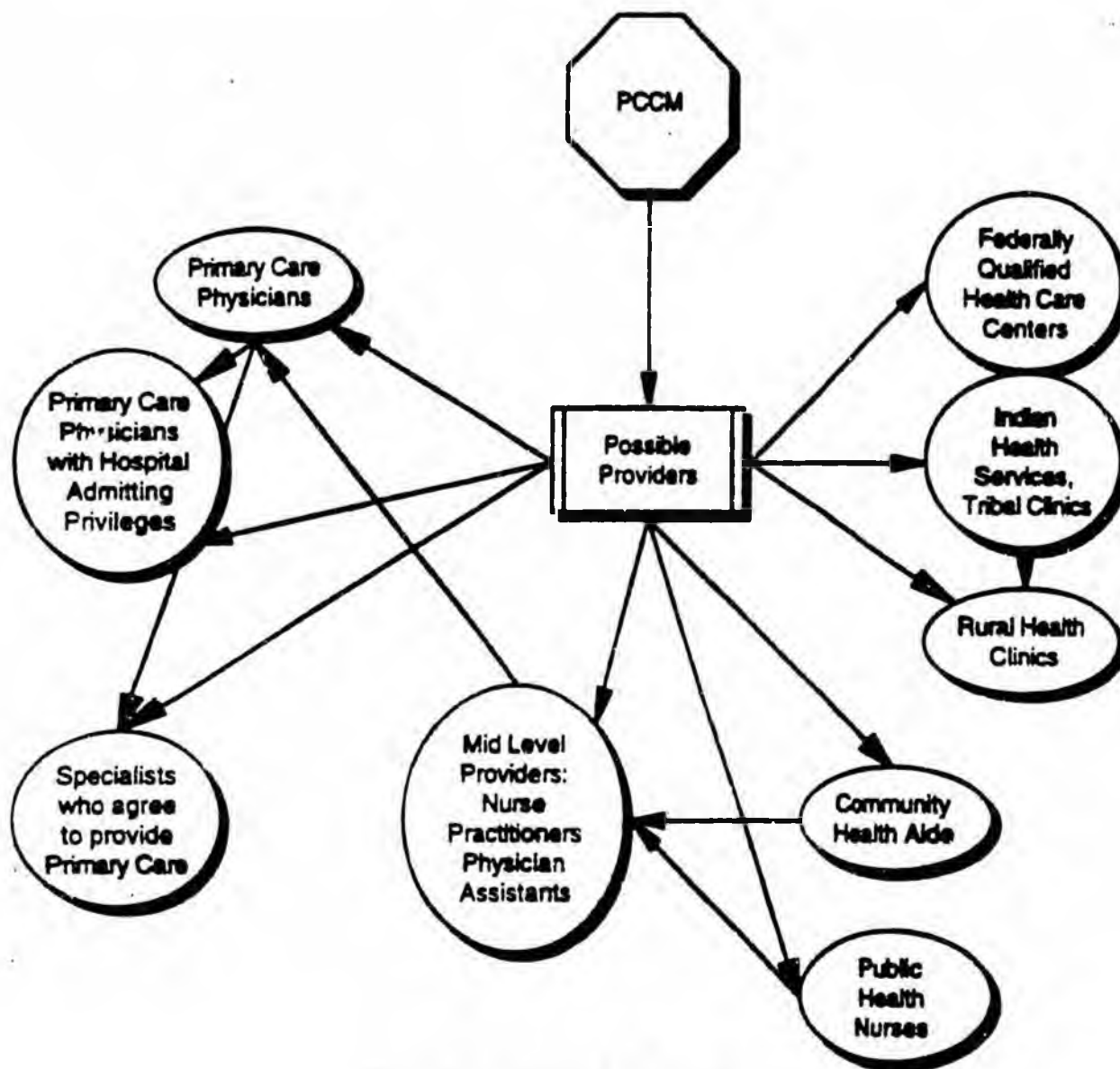
States may reimburse providers under a PCCM plan in a variety of ways. The following diagram indicates methodologies states have chosen to compensate the providers in their PCCM plans. One or more of the reimbursement methods may be combined.



Possible Reimbursement Methodology under a PCCM

PROVIDER PANEL

States must also decide who should be included in the panel of PCCM providers. Primary Care Physicians who practice either in a group setting or individually are always part of the program. Specialists who either have a primary care practice or agree to provide primary care to enrollees may be allowed to participate. Sometimes hospital admitting privileges are a program requirement. Additionally states have included other health care professionals to the panel such as nurse practitioners or physician assistants. Some states allow Federally Qualified Health Care Centers, Rural Health Centers, and Indian Health Service Clinics and Tribal Clinics to participate as single providers.

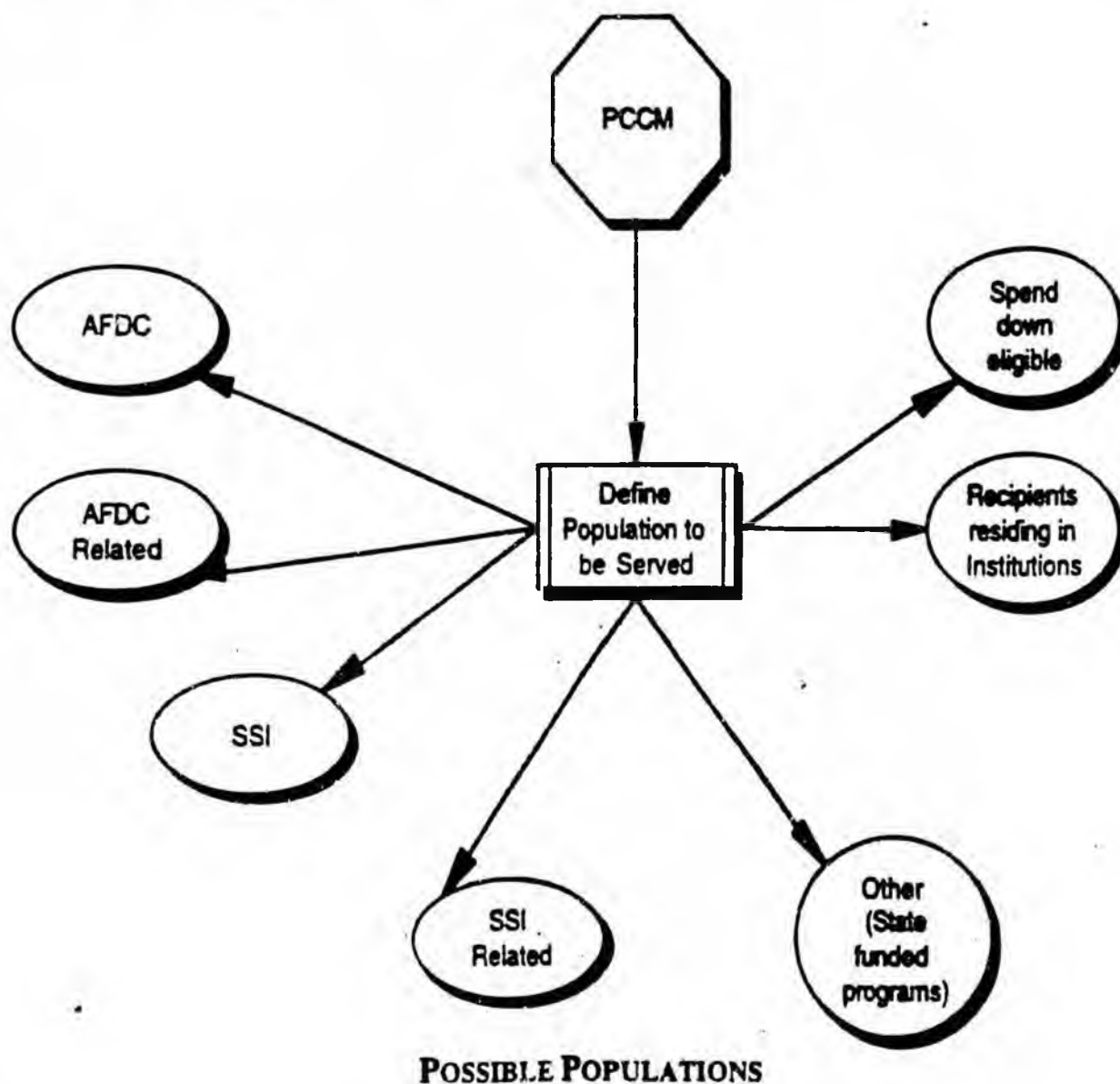


Possible PCCM Providers

PCCM ENROLLEE:

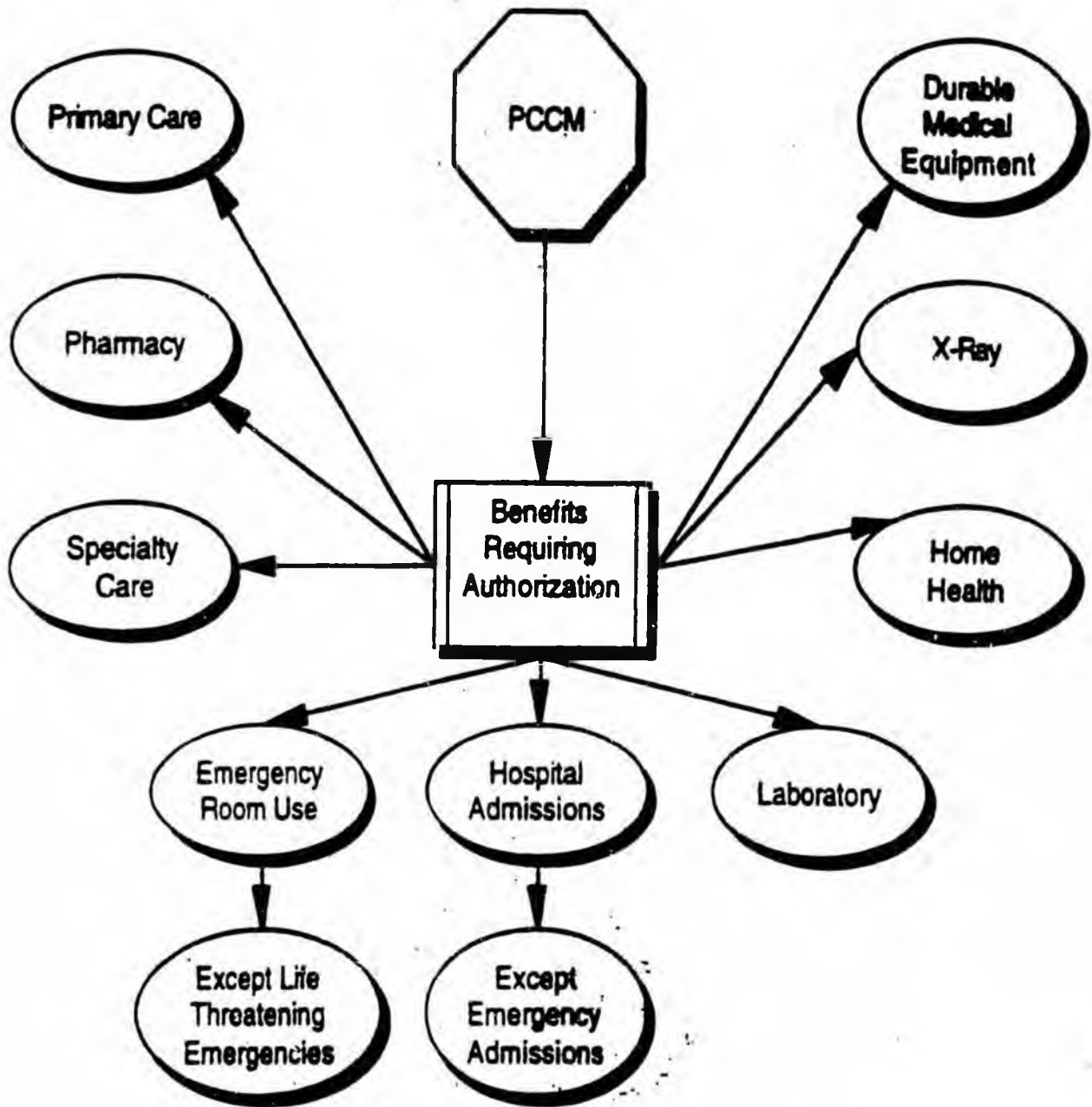
When designing a PCCM program, states must determine the target population. States have found that providers generally prefer to begin with the AFDC population. The benefit of this is that practitioners can begin to become educated about medical care management practices on a population that is generally healthy. As expertise in the provider and recipient community is gained, states generally begin adding the SSI population to the patient mix. This insures that doctors will not be overwhelmed with a caseload of very sick and/or disabled patients in the beginning of the program. One caution is patient load size. Enrolling AFDC recipients first may leave inadequate slots for SSI patients using the physicians.

Usually recipients who gain Medicaid eligibility by "spending down" for medical care until they reach a level that Medicaid will pay additional medical care expenses, are excluded from enrollment in a PCCM because of the erratic on-again, off-again nature of their eligibility. Also patients who are institutionalized are usually excluded from enrollment.



PCCM AUTHORIZATION:

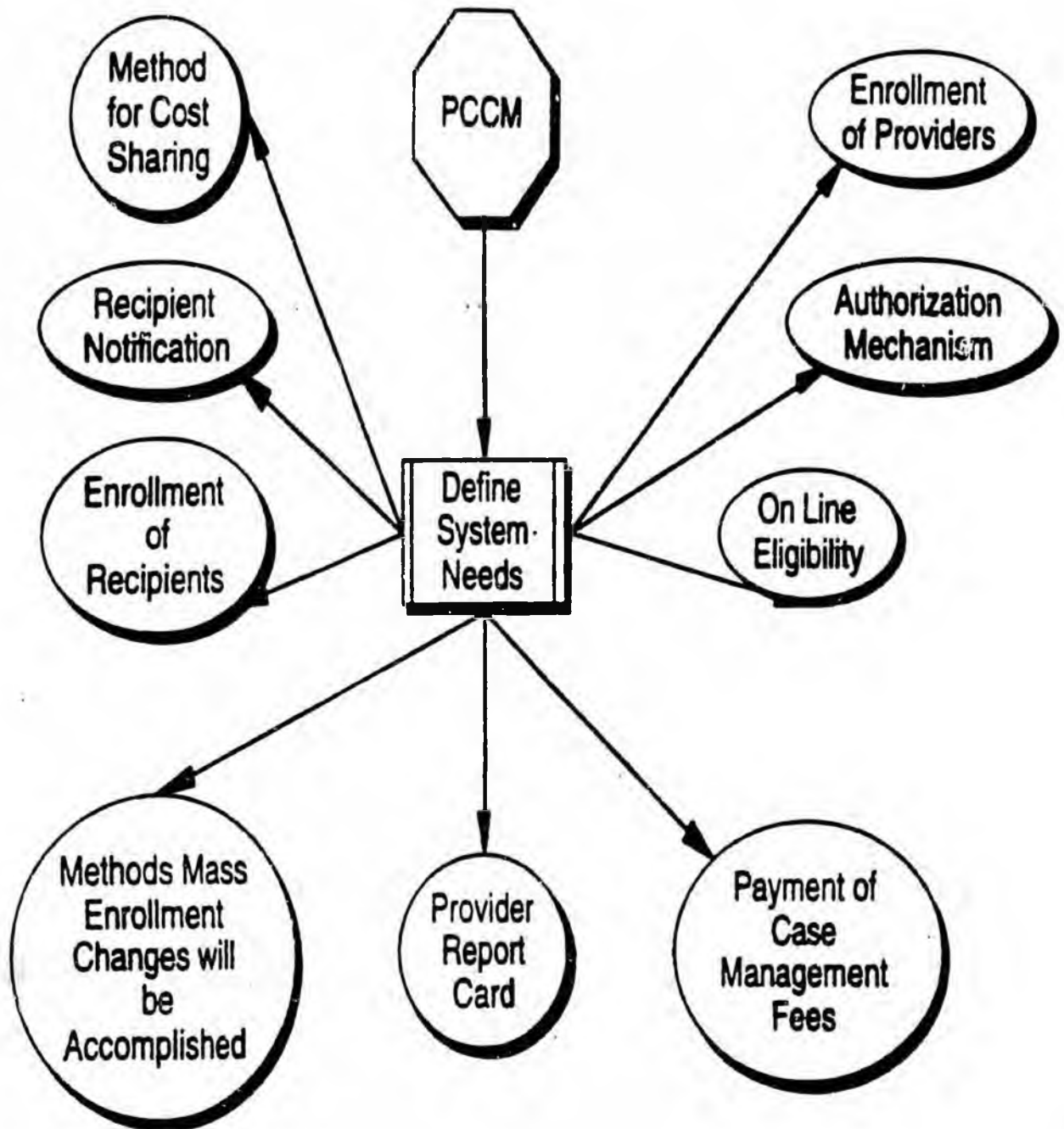
A cornerstone of the PCCM program is the authorization system implemented to curb overuse and misuse of services. States must carefully determine which Medicaid benefits require authorization. A sample of the benefits that may require authorization is listed below.



Benefits Requiring Authorization

PCCM SYSTEMS REQUIREMENTS

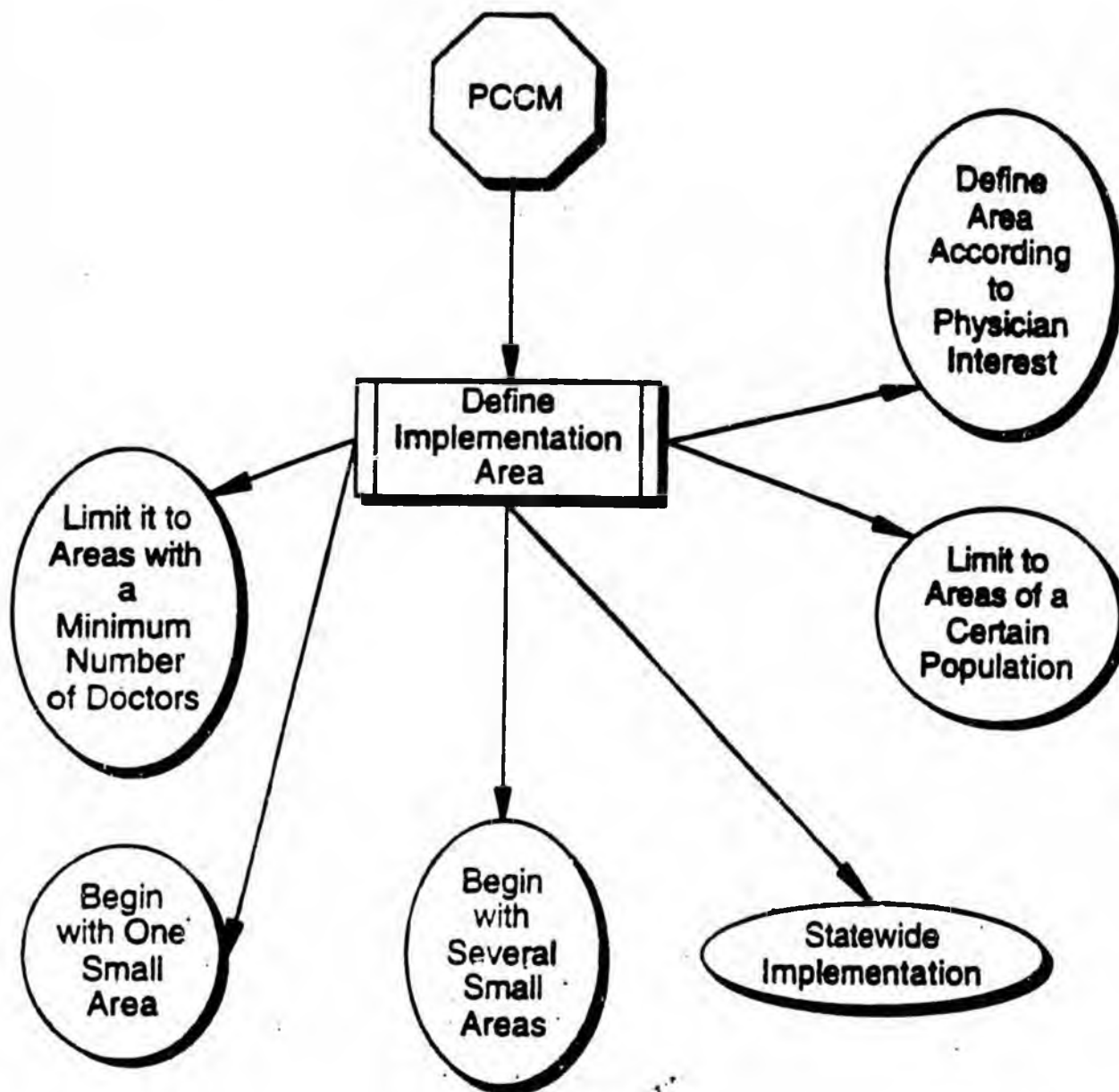
Changes in a delivery system require system adjustments and refinements so the tasks of the new program are functional. Examples of information system changes are shown below (this will vary depending on the features incorporated in the program design).



Define Systems Needs

PCCM IMPLEMENTATION AREA

As the PCCM program is conceived, States must determine the area of the state best suited for the initial implementation of the program. Considerations that may be discussed are depicted in the following diagram.

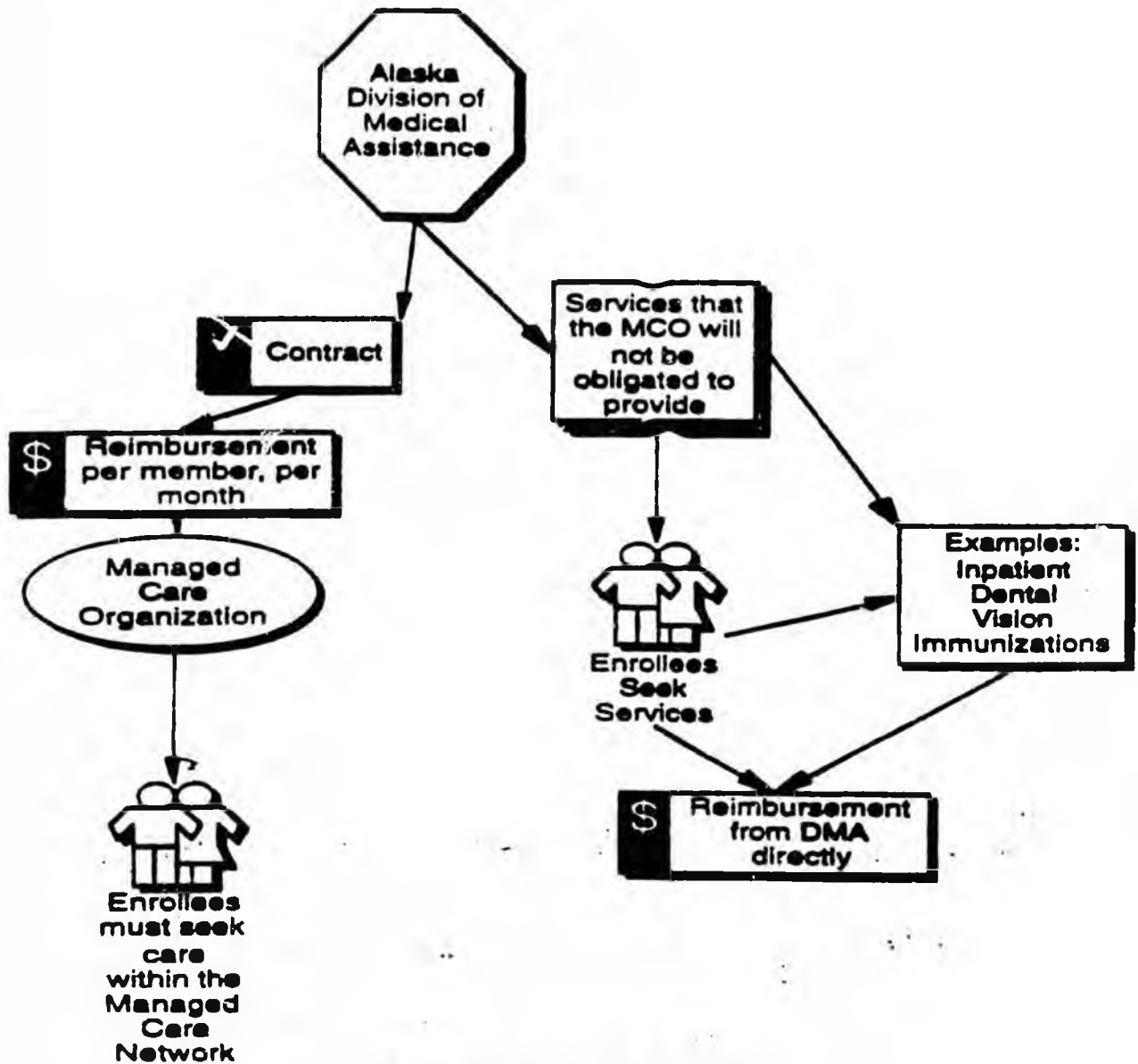


Implementation Areas

PARTIALLY CAPITATED REIMBURSEMENT SYSTEMS

Another reimbursement methodology that is used by states implementing managed care is a partially capitated system. Programs are structured to reimburse managed care organizations for a specific set of contracted services at a per member per month (pmpm) capitation rate. Members must seek care covered by the MCO within the MCO's panel of providers. Services outside of the partially capitated contract may be reimbursed through a contract arrangement or a fee-for-service basis. For example, a state may capitate all ambulatory services but continue to pay for inpatient hospital costs on a fee-for-service basis and pay for vision care under a separate contract.

The following diagram depicts a partially capitated system.



Partially Capitated Model

FULLY CAPITATED SYSTEMS

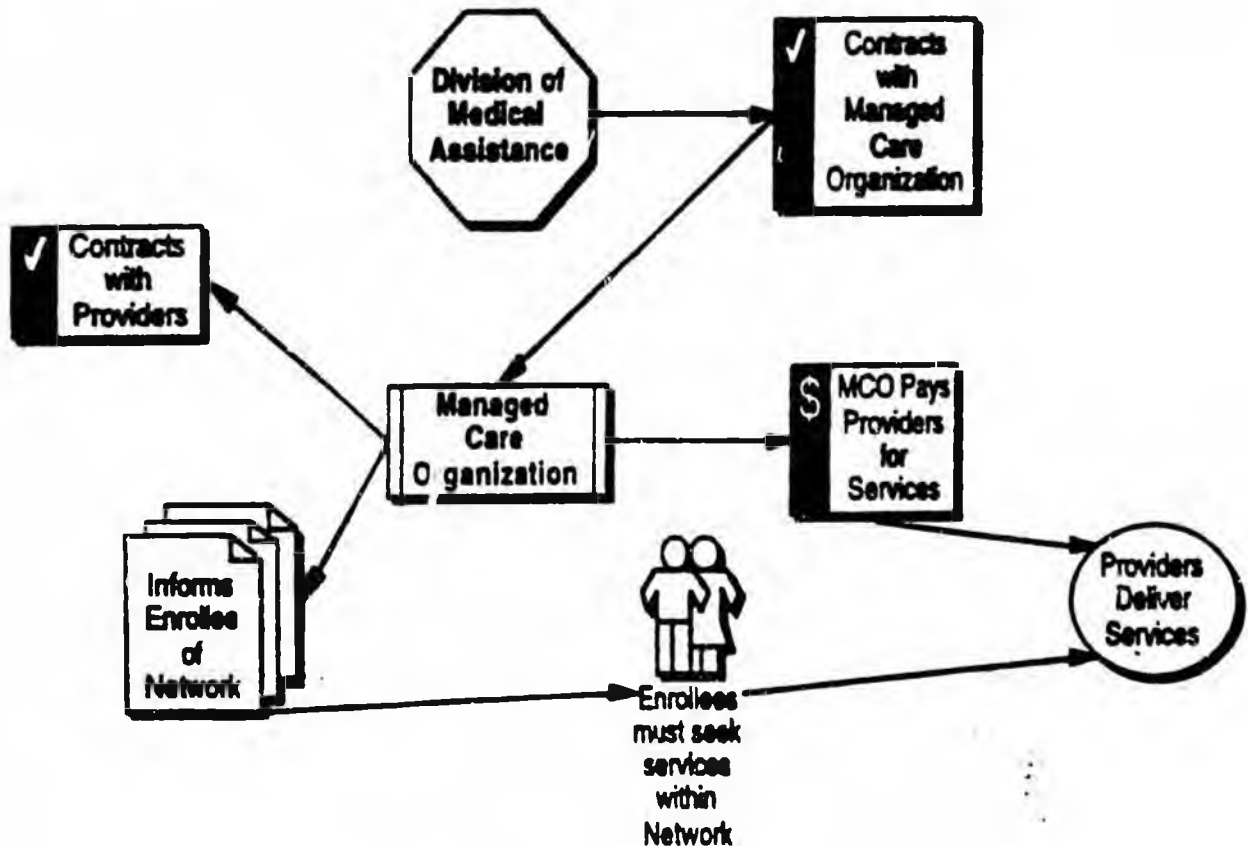
Under a fully capitated system, states contract with managed care organizations for the full continuum of care. The MCO is generally paid a capitation rate on a per member per month basis. Capitation rates may vary based on the enrollee's Medicaid category of assistance, age, sex, and geographic location in the state.

The MCO arranges all care that is medically necessary for their enrollees within its panel of providers. Enrollees are required to seek services within the MCO using the established internal referral process. Their freedom to seek treatment from any provider is restricted.

The MCO:

- administers the plan,
- contracts with providers,
- authorizes services,
- pays claims or contracted amounts to providers, and
- oversees the quality of care and utilization patterns

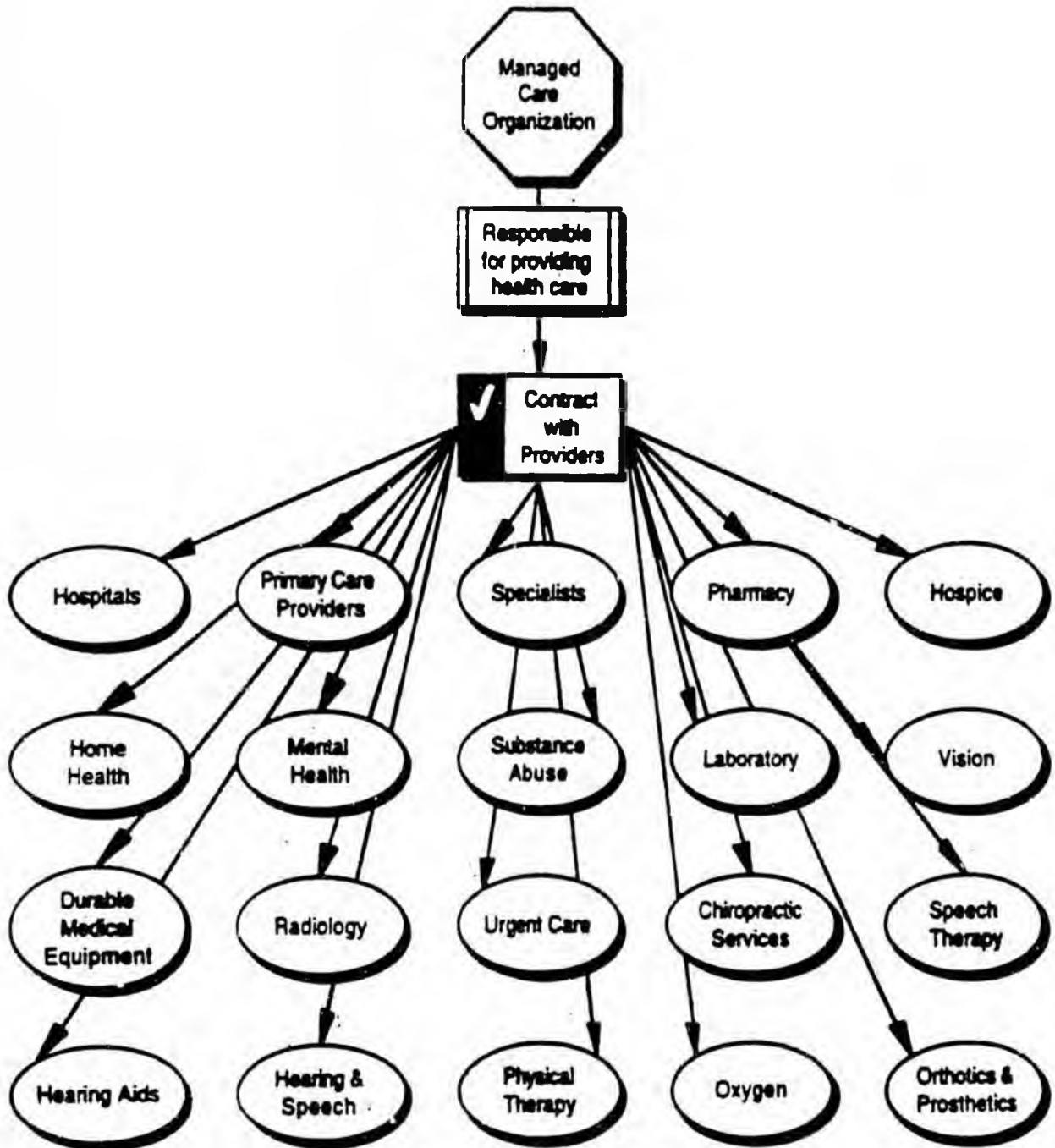
Most states require MCOs to be licensed. The Medicaid contract is obtained apart from the licensing process. The licensing agency and the Medicaid office oversee the operation of the MCO to ensure compliance with state laws and Medicaid policies and procedures.



Fully Capitated System

NETWORK OF PROVIDERS

Both partially capitated and fully capitated systems contract with a network of providers who furnish medical care to enrollees of the plan. The panel of providers may be very extensive for fully capitated systems that provide the full continuum of care.



An Example of a Network of Providers

PROS AND CONS OF DIFFERENT DELIVERY SYSTEMS

The following tables discuss both the favorable and unfavorable aspects of each delivery system discussed above. Fee-for-service is included since it is the current system that Alaska is using. Simply put, fee-for-service is a delivery system that pays providers for services rendered using a predetermined fee schedule. Patients are free to access benefits as they see fit. The state may have administrative procedures that limit access to some services; e.g., a Medicaid enrollee may only receive vision care that includes the dispensing of glasses once every two years because of limits the program has instituted.

Fee-for-Service

FFS	Pros	Cons
<p>Definition:</p> <p>The traditional health care payment system, under which physicians and other providers receive a payment that does not exceed their billed charge for each unit of service provided.</p>	<ul style="list-style-type: none"> • Freedom of choice for recipients • No risk for providers • Cost and utilization can be tracked through the payment system • Can set fee screen based on state's budget and need for access 	<ul style="list-style-type: none"> • May encourage over-use of services (by providers, by recipients) • Recipients on their own to find and secure services • Payments are usually low, thus discouraging many providers from participating; however Alaska pays providers very well • No coordination of care • No continuity of care • No incentive to terminate treatment • Difficult to budget (open ended) • Extensive auditing required • Quality of care is difficult to measure and monitor

Managed Fee-for-Service

Managed Fee-for-Service	Pros	Cons
<p>Also called Enhanced Fee-for-Service or Primary Care Case Management (PCCM), although PCCM can be also be capitated</p> <p>Definition:</p> <p>A managed care plan which reimburses providers on a fee-for-service basis but also pays a case management fee to providers who must deliver or authorize care for eligible enrollees.</p>	<ul style="list-style-type: none"> • Monetary incentive for physician participation thus potentially increasing access to primary care • Some incentive for providers to manage care • Little, if any, risk to providers • Provision of a "medical home" decreases use of ER for routine and less urgent care • Tracking of encounters through the payment system allows creation of a "report card" for the Primary Care Provider (PCP) which allows comparison between provider's practices and may allow the state to disenroll providers who do not practice within the norm 	<ul style="list-style-type: none"> • Providers may be unskilled in care management techniques • Providers may not be motivated to care manage; may not change any of their historical practice modes • Providers may not have the time or resources to devote to managing Medicaid recipients • Enrollees, especially assigned enrollees, may have had no previous contact with the assigned provider. There is no incentive for the provider to outreach to the client nor for the client to seek out the assigned provider • Primary care providers may be well equipped to provide care for AFDC-type patients but ill equipped to provide the specialized care needed by SSI eligibles • There is little disincentive to curtail excessive utilization of services • Less freedom of choice for the recipient • Type of care may differ widely by region • Ability to change each month may result in lack of continuity of care • Difficult to budget (open ended)

Partial Capitation

Partial Capitation	Pros	Cons
<p>Definition:</p> <p>Programs reimburse managed care organizations for a specific set of contracted services at a per member per month capitation rate.</p>	<ul style="list-style-type: none"> • Budget predictability is possible for the capitated services (although total eligible recipient numbers remain unknown) • Incentive to manage the capitated services • Some incentive to manage the non-capitated services if there is a bonus arrangement • Access to services is guaranteed through the contractual agreement • Quality assurance requirements are defined by contract and can be monitored • Licensing of the entity may be required • Utilization analysis may be possible to the extent that encounter reporting is required • Both coordination of care and continuity of care should be assured for the enrollee 	<ul style="list-style-type: none"> • The provider is at risk for the capitated services • Incentive for underservice • May be cost shifting to the non-capitated services, even in a bonus arrangement • Less direct control of the providers rendering services (although credentialing is usually more thorough in a capitated system) • Utilization reporting with client level detail may not be available • Oversight by the State Agency requires more diligence and a shift from the FFS perspective

Full Capitation

Full Capitation	Pros	Cons
<p>Definition:</p> <p>The provider is responsible for delivering or arranging for the delivery of all health services required by the covered person under the conditions of the provider contract for a negotiated per capita rate usually paid monthly.</p>	<ul style="list-style-type: none"> • Budget predictability (although the number of eligibles will affect this) • The provider is contracted for services and population. The contract requirements can be measured and monitored with recourse if contract terms are not met • Offers lower cost solutions to prescribed treatments which may include services which are not currently covered • Cost shifting is curtailed if all benefits are included in the benefit package • Much of the provider and service provision oversight shifts to the managed care organization • Licensing is likely required • Federal contract rules provide additional regulatory oversight 	<ul style="list-style-type: none"> • Incentive to underserve • Access through traditional providers (FFS) may dry up as more services are provided through MCOs. This can create problems if an MCO goes out of business or terminates the contract • Many traditional providers (FFS) do not like MCOs and refuse to contract with them; this may result in a continuity of care issue to the extent that recipients are required to change provider • High cost services may be hard to get even when medically appropriate • State oversight must be defined and in place • Utilization reporting may require new systems • Rate setting becomes more difficult as the FFS base disappears

COMPONENTS OF A MANAGED CARE SYSTEM

INTRODUCTION

The widespread introduction of managed care programs for Medicaid recipients over the past several years has resulted in a wealth of available information about the do's and don'ts of Medicaid managed care. Despite each state's uniqueness in terms of size, demography, location, and number of Medicaid recipients, many of the lessons learned and the experiences of other states are transferable from one state to another.

Every state has either implemented some form of managed care or is developing a program. Many states are nearing complete enrollment of their Medicaid population into one or more managed care programs. In Michigan, for example, 93 percent of the AFDC and non-institutionalized SSI Medicaid recipients are enrolled in some form of managed care.

The following synopsis provides a description of the components of Medicaid managed care programs throughout the country. Specific emphasis is being placed on the program components and specific state experience that have applicability to Alaska. The following states were contacted for additional information: Colorado, Connecticut, Florida, Georgia, Idaho, Iowa, Kentucky, Maine, Michigan, Montana, Nebraska, New Jersey, New Mexico, North Carolina, North Dakota, South Dakota, Virginia, and Wisconsin. Specific information received via telephone in response to a series of questions is included in the next section. Information on every state can be found in Exhibit A.

Primary Care Case Management (PCCM) programs and Health Maintenance Organizations (HMOs) are the two most common forms of managed care used across the nation for the Medicaid population. HMOs and other types of risk-based programs are used almost exclusively in urban areas or in areas where there is a large concentration of Medicaid recipients. Because of this and because of the risk associated with HMOs, states have, for the most part, initiated their mandatory managed care programs with a PCCM. Once managed care is established, one or more HMOs may be offered as a voluntary enrollment option, and then the Medicaid agency may migrate toward mandatory HMO enrollment or other risk-based arrangements as appropriate and feasible given the level of Medicaid recipients in the state, the availability of HMOs, and other considerations. Many states had experience with HMO contracting and voluntary enrollment prior to the early 1980s when 1915(b) waivers and larger scale implementation of mandatory and innovative approaches began.

Because of the vastness of Alaska and the relatively small number of Medicaid recipients in any one area, particular attention is paid to PCCM programs.

PROGRAM COMPONENTS

ENROLLMENT

Enrollment in a managed care program can be voluntary or mandatory. In terms of ease of implementation, it is simpler to introduce the program on a voluntary basis in a small area. This enables the State to "test" the program on a fairly small scale and make adjustments as necessary. When questioned about enrollment, several states emphasized the importance of starting on a small scale.

In addition to the manageability of a small-scale start-up, implementation on a limited basis also allows the State to focus its efforts on a geographic area where adequate provider participation can

(7) 6

HOUSE COMMITTEE REPORT

Date Referred to Committee: January 8, 1996

FURTHER REFERRALS:

3/27/96
State Affairs
Finance

Date of Committee Action: 3/26/96

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered: HB 393

HOUSE BILL NO. 393 MANAGED CARE PROGRAM FOR MEDICAID

"An Act relating to managed care for recipients of medical assistance; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 393 (HES) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) _____ fiscal note(s) _____

zero fiscal note(s) H+SS zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>G. Davis</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
<u>Robert Rokeberg</u>	<input checked="" type="checkbox"/>			
<u>Don Bundy</u>			<input checked="" type="checkbox"/>	
<u>Tommy Toohay</u>		<input checked="" type="checkbox"/>		
<u>Robert Robinson</u>			<input checked="" type="checkbox"/>	
<u>Tommy Brice</u>				<input checked="" type="checkbox"/>
	(2)	(1)	(2)	(1)

30-CHAIR'S SIGNATURE [Signature]
Toohay

HB

394

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: March 14, 1996

FURTHER REFERRALS:

Date of Committee Action: 4/11/96 pm

The FINANCE Committee considered:

HB 394

HOUSE BILL NO. 394

GAS & COAL METHANE LICENSES & LEASES

"An Act authorizing a program of natural gas and coal bed methane development licensing and leasing; relating to regulation of certain natural gas exploration facilities and coal bed methane exploration facilities for purposes of preparation of discharge prevention and contingency plans and compliance with financial responsibility requirements; amending the duties of the Alaska Oil and Gas Conservation Commission as they relate to natural gas exploration activities and coal bed methane exploration activities; and amending the exemption from obtaining a waste disposal permit for disposal of waste produced from coal bed methane drilling."

recommends it be replaced with the following committee substitute HOUSE BILL (H.N.) the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) FINANCE 2/23/96
 fiscal note(s) _____ fiscal note(s)

zero fiscal note(s) _____ zero fiscal note(s) DEC 1/23/96

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Mark Harley</i>	<i>Harley</i>	X			
<i>Richard Foster</i>	<i>Foster</i>	X			
<i>Cory Martin</i>	<i>Martin</i>	X			
<i>Bob Simpson</i>	<i>Simpson</i>			X	
<i>Pat Kelly</i>	<i>Kelly</i>	X			
<i>Gene Thompson</i>	<i>Thompson</i>	X			
<i>Richard Foster</i>	<i>Foster</i>	X			

CHAIR'S SIGNATURE *Mark Harley* *Richard Foster*

FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. CSHB394(RES)

Revision Date: 26-Mar-96 Dept Affected Natural Resources
 Title: An Act authorizing a program of natural gas BRU: Resource Development
and coal bed methane development licensing and leasing... Component: Oil & Gas Development
 Sponsor: Rep(s) Ogan, Rokeberg, James, Kohring
 Requestor: House Resources Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES						
TRAVEL	8.0	8.0	8.0	8.0	8.0	8.0
CONTRACTUAL	5.0	5.0	5.0	5.0	5.0	5.0
SUPPLIES	2.0	2.0	2.0	2.0	2.0	2.0
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	15.0	15.0	15.0	15.0	15.0	15.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	15.0	15.0	15.0	15.0	15.0	15.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	15.0	15.0	15.0	15.0	15.0	15.0

Estimate of any current year (FY96) cost: \$ None

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Travel costs include costs for staff to attend public hearings concerning the issuing of leases, and for inspecting drilling operations to verify operator is adhering to lease stipulations.

Contractual costs include printing and publishing of public notices and display ads.

Supplies costs include costs for paper, pens, computer discs and other miscellaneous supplies.

Prepared by: Ken Boyd, Director Phone: 269-8800
 Division: Oil & Gas Date: 26-Mar-96
 Approved by Commissioner: [Signature] Date: 26-Mar-96
 Agency: Natural Resources

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FISCAL NOTE

STATE OF ALASKA
1996 LEGISLATIVE SESSION

BILL NO. HB 394(RES)

Revision Date: 18-Mar-96
Title: Shallow Natural Gas Leasing
Sponsor: Ogan, Rokeburg, James and Kohring
Requestor: House Finance Committee

Department Affected: Environmental Conservation
BRU: Spill Prevention & Response
Component: Industry Preparedness & Pipeline Program

COMPONENT SERIAL NO. 1922

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	0.0	0.0	0.0	0.0	0.0	0.0
CONTRACTUAL	0.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.0	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND&STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS,CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
------------------------	-----	-----	-----	-----	-----	-----

FUND SOURCE

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipt	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY96) cost: \$ 0.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

Prepared by: Lynn J Tomich Kent
Division: Acting Director, Division of Spill Prevention & Response

Phone: 465-5390
Date: 3/19/96

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

Date: 3/19/96

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9-LS1463AR
Chenoweth/Crawford
4/2/96

Adopted 4/13/96
* change to pg 4 adopted #9

CS FOR HOUSE BILL NO. 394()

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES OGAN AND ROKEBERG, James, Kohring

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing shallow natural gas leasing from sources within 3,000 feet
2 of the surface; relating to regulation of natural gas exploration facilities for
3 purposes of preparation of discharge prevention and contingency plans and
4 compliance with financial responsibility requirements; addressing the relationship
5 between shallow natural gas and other natural resources; and adding, in the
6 exemption from obtaining a waste disposal permit for disposal of waste produced
7 from drilling, a reference to shallow natural gas."

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

9 * Section 1. LEGISLATIVE FINDINGS AND PURPOSE. (a) The legislature finds that
10 (1) there exist throughout the state sizeable deposits of coal and small but
11 commercially significant amounts of natural gas located close to the earth's surface that are
12 usually, though not always, associated with and emitted from coal deposits;
13 (2) the methane derived from this coal and other sources and that is found in

1 reservoirs at depths of less than 3,000 feet could be tapped to serve as a principal or a chief
2 supplemental energy source of benefit to residents of areas in which they are found;

3 (3) the methane derived from this coal and other shallow gas reservoirs could
4 be developed without interfering with the development and transportation of the state's vast gas
5 reserves available for interstate and foreign markets; and

6 (4) it is in the best interests of the state and its people that this natural gas should
7 be identified and developed, especially to serve as a source of natural gas for use in rural
8 communities and remote locations within the state, especially when this natural gas can be
9 delivered to consumers at less cost than alternative energy sources.

10 (b) In authorizing a program of leasing shallow natural gas from state land, it is the
11 legislature's purpose to provide both a means and an incentive by which that gas may be
12 identified and developed at low cost for the direct benefit of residents of remote or sparsely
13 populated areas for which connection to the in-place gas pipeline transmission and distribution
14 system serving population centers in Southcentral Alaska is not economically feasible.

15 * Sec. 2. AS 38.05.035(e)(6) is amended to read: *Previously Sec. 3*

16 (6) before a public hearing, if held, or in any case not less than 21 days
17 before the sale, lease, or other disposal of available land, property, resources, or
18 interests in them other than a sale, lease, or other disposal of available land or an
19 interest in land for oil and gas under (5) of this subsection, the director shall make
20 available to the public a written finding that, in accordance with (1) of this subsection,
21 sets out the material facts and applicable statutes and regulations and any other
22 information required by statute or regulation to be considered upon which the
23 determination that the sale, lease, or other disposal will best serve the interests of the
24 state was based; however, a written finding is not required before the approval of

25 (A) a contract for a negotiated sale authorized under
26 AS 38.05.115;

27 (B) a lease of land for a shore fishery site under AS 38.05.082;

28 (C) a permit or other authorization revocable by the
29 commissioner;

30 (D) a mineral claim located under AS 38.05.195;

31 (E) a mineral lease issued under AS 38.05.205;

32 (F) a production license issued under AS 38.05.207;

1 (G) an exempt oil and gas sale under AS 38.05.180(d) of
 2 acreage offered in a sale that was held within the previous five years if the sale
 3 was subject to a written best interest finding, unless the commissioner
 4 determines that new information has become available that justifies a revision
 5 of the best interest finding; [OR]

6 (H) a lease sale under AS 38.05.180(w) of acreage offered in
 7 a sale that was held within the previous five years if the sale was subject to a
 8 best interest finding, unless the commissioner determines that new information
 9 has become available that justifies a revision of the best interest finding; or

10 (I) a shallow gas lease authorized under AS 38.05.177 in an
 11 area for which leasing is authorized under AS 38.05.177:

12 * Sec. 3. AS 38.05.140(a) is amended to read:

13 (a) A person may not take or hold coal leases or permits during the life of coal
 14 leases on state land exceeding an aggregate of 46,080 acres, except that a person may
 15 apply for coal leases or permits for acreage in addition to 46,080 acres, not exceeding
 16 a total of 5,120 additional acres of state land. The additional area applied for shall be
 17 in multiples of 40 acres and the application shall contain a statement that the granting
 18 of a lease for additional land is necessary for the person to carry on business
 19 economically and is in the public interest. On the filing of the application, except as
 20 provided by AS 38.05.177(a)(2)(B), the coal deposits in the land covered by the
 21 application shall be temporarily set aside and withdrawn from all other forms of
 22 disposal provided under AS 38.05.135 - 38.05.181.

23 * Sec. 4. AS 38.05.150 is amended by adding a new subsection to read:

24 (f) Notwithstanding AS 38.05.177, a lease entered into under this section gives
 25 the lessee the right to vent or remove methane and other gas held in association with
 26 the coal in the land covered by the lease to ensure safe coal mining operations.

27 * Sec. 5. AS 38.05 is amended by adding a new section to read: *previously sec. 2*

28 Sec. 38.05.177. SHALLOW NATURAL GAS LEASES. (a) The provisions of
 29 this section

30 (1) apply to gas, whether methane associated with and derived from coal
 31 deposits or otherwise, developed from a source that is within 3,000 feet of the surface;
 32 and

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(2) do not apply to authorize lease of

(A) the land (i) that is or is proposed to be subject to an oil and gas exploration license or lease issued under AS 38.05.131 - 38.05.134; (ii) that is leased under AS 38.05.180; or (iii) that is included in the final findings of a proposed oil and gas leasing program prepared under AS 38.05.180(b); however, the commissioner may waive the limitations of this subparagraph; or

(B) the land that is held under a coal lease entered into under AS 38.05.150, unless the applicant for a shallow natural gas lease is also the lessee under AS 38.05.150 of that land.

(b) For the purpose of exploring for and developing shallow natural gas reservoirs, upon application, the director may lease to a person land for which the state owns the subsurface rights. A person applying for a lease under this subsection

(1) shall specify the area to be leased; the area to be leased may not exceed 5,760 acres; a lessee may not hold more than 23,040 acres of land under leases entered into under this section;

(2) may not be required to pay an application fee or any other form of payment as a condition of submitting or processing the lease application or obtaining the lease.

(c) Within 20 days of receipt of a lease application, the director shall give notice of receipt of the lease application and call for comments from the public. The director's call for public comments must provide opportunity for public comment for a period of 60 days. ^{after review of available information} If ^{IT IS IN THE} (on the basis of public comments received) the director determines to enter into a lease for the area described in (b) of this section, the director shall execute the lease within 90 days after the close of the public comment period or, if review is required under AS 46.40, within 30 days after the final consistency determination is made under AS 46.40. A lease entered into under this subsection gives the lessee the exclusive right to explore for, develop, and produce, for a term of three years, natural gas on the state land described in the lease; the right to explore for, develop, and produce is limited to gas derived from natural gas within 3,000 feet of the surface.

State's statement

(d) A lease shall be automatically extended if and for so long thereafter as gas is produced in paying quantities from the lease. A lease issued under this section covering land on which there is a well capable of producing gas in paying quantities

1 does not expire because the lessee fails to produce gas unless the lessee is allowed
2 reasonable time to place the well on a producing status. If drilling has commenced on
3 the expiration date of the primary term of the lease and is continued with reasonable
4 diligence, including such operations as redrilling, sidetracking, or other means necessary
5 to reach the originally proposed bottom hole location, the lease is extended for one year
6 and for so long thereafter as gas is produced in paying quantities. A gas lease issued
7 under this section that is subject to termination by reason of cessation of production does
8 not terminate if, within 90 days after production ceases or a longer period determined at
9 the discretion of the director, reworking or drilling operations are commenced on the land
10 under lease and are thereafter conducted with reasonable diligence during the period of
11 nonproduction. In addition, upon application by the lessee, the director may once extend
12 a lease issued under (c) of this section for a period of not more than three years.

13 (e) The director may, following the procedures described in (c) of this section,
14 adjust the boundaries of a lease entered into under this section as may be necessary to
15 ensure development of natural gas within a reasonably compact area; a lease as adjusted
16 under this paragraph remains subject to the acreage limitations set out in (b)(1) of this
17 section.

18 (f) A shallow gas lease must provide for payment to the state of rental in the
19 amount of 50 cents per acre. The rent is due and payable on the dates determined in the
20 lease. If rent is not paid when due, the director shall mail the lessee written notice of
21 nonpayment at the end of each month, while the rent remains unpaid, for a period of two
22 months. The lessee may cure the failure to pay rent when due within 90 days after the
23 rent payment becomes due and payable by paying to the director the amount of rent due
24 together with a penalty of the greater of \$50 or five percent of the amount of rent in
25 default. If the lessee fails to remedy the lessee's failure to pay rent, the director shall
26 terminate the lease.

27 (g) The royalty payable on natural gas produced from a lease is 6.25 percent of
28 the value of the production removed or sold from the lease.

29 (h) A lease issued under this section is subject to the following terms and
30 conditions and may be terminated by the director in the event of a breach of a term or
31 condition:

32 (1) the lessee may surrender the lease or relinquish part of the lease at

1 any time;

2 (2) the lease may not be transferred or assigned until a well capable of
3 commercial production of gas has been drilled on the lease; however, this paragraph does
4 not prohibit the lessee from entering into a farm out agreement or similar arrangement
5 with a third party under which the third party assists in exploration and development of
6 production from the lease if the agreement or arrangement does not require a payment
7 of consideration by the third party to the lessee, except that the lessee may retain an
8 overriding royalty interest in the lease or may retain a net profit or other production
9 payment;

10 (3) gas produced from the lease may not be sold or otherwise made
11 available for insertion into the in-place gas pipeline transmission or distribution system
12 serving population centers in Southcentral Alaska, except that the director may waive this
13 limitation to permit the exchange of the gas produced for other gas that may be
14 distributed in rural communities and remote locations within the state.

15 (i) The applicant for a lease may conduct a title search for the area described in
16 the lease application.

17 (j) A lease does not give the lessee the right to produce oil. A lease does not
18 give the lessee the right to produce gas from sources that are not within 3,000 feet of the
19 surface. If an onshore well drilling for natural gas under a lease authorized by this
20 section penetrates a formation capable of producing gas below 3,000 feet of the surface,
21 the owner or operator

22 (1) shall notify the department and the Alaska Oil and Gas Conservation
23 Commission; and

24 (2) may not conduct further operations in the drilled well until the facility
25 complies with all applicable laws and regulations relating to oil and gas production;
26 however, this paragraph does not prevent the owner or operator from conducting
27 activities that may be required by the Alaska Oil and Gas Conservation Commission to
28 plug, plug-back, or abandon a well.

29 (k) The commissioner of natural resources may adopt only the regulations that
30 are reasonable and that are necessary to implement, interpret, or make specific the
31 provisions of this section or to establish procedures to govern application of the
32 provisions of this section.

1 (l) A lessee obtaining a lease under this section may exercise the rights
2 authorized by this section and the lease. The rights granted by the lease must be
3 exercised in a manner that does not unreasonably interfere with eventual development
4 of the coal deposit on the land leased. Consistent with the principle of reasonable
5 concurrent uses as set out in art. VIII, sec. 8, of the state constitution, the state may
6 also lease the land under AS 38.05.150. However, in a lease entered into under
7 AS 38.05.150 for land that is already leased under this section, coal may not be mined
8 or extracted by the coal lease from the coal lessee without prior agreement with the
9 lessee holding the lease issued under this section.

10 (m) In this section, "lease" means a shallow gas lease authorized by this section.

11 * Sec. 6. AS 38.05.180(f) is amended to read: *previously Sec. 4*

12 (f) Except as provided by AS 38.05.131 - 38.05.134 and 38.05.177, the
13 commissioner may issue oil and gas leases on state land to the highest responsible
14 qualified bidder determined by competitive bidding under regulations adopted by the
15 commissioner. Bidding may be by sealed bid or according to any other bidding
16 procedure the commissioner determines is in the best interests of the state. Whenever,
17 under any of the leasing methods listed in this subsection, a royalty share is reserved
18 to the state, it shall be delivered in pipeline quality and free of all lease or unit
19 expenses, including but not limited to separation, cleaning, dehydration, gathering, salt
20 water disposal, and preparation for transportation off the lease or unit area. Following
21 a pre-sale analysis, the commissioner may choose at least one of the following leasing
22 methods:

23 (1) a cash bonus bid with a fixed royalty share reserved to the state of
24 not less than 12.5 percent in amount or value of the production removed or sold from
25 the lease;

26 (2) a cash bonus bid with a fixed royalty share reserved to the state of
27 not less than 12.5 percent in amount or value of the production removed or sold from
28 the lease and a fixed share of the net profit derived from the lease of not less than 30
29 percent reserved to the state;

30 (3) a fixed cash bonus with a royalty share reserved to the state as the
31 bid variable but no less than 12.5 percent in amount or value of the production

1 removed or sold from the lease;

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

4 (5) a fixed cash bonus with a fixed royalty share reserved to the state
5 of not less than 12.5 percent in amount or value of the production removed or sold
6 from the lease with the share of the net profit derived from the lease reserved to the
7 state as the bid variable;

8 (6) a cash bonus bid with a fixed royalty share reserved to the state
9 based on a sliding scale according to the volume of production or other factor but in
10 no event less than 12.5 percent in amount or value of the production removed or sold
11 from the lease;

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

16 * Sec. 7. AS 46.03.100(f) is amended to read: *previously sec. 5*

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

22 (1) mineral drilling, trenching, ditching, and similar activities;

23 (2) landscaping;

24 (3) water well drilling, geophysical drilling, or coal bed methane
25 drilling or other natural gas drilling to recover gas from a reservoir at a depth of
26 less than 3,000 feet; or

27 (4) drilling, ditching, trenching, and similar activities associated with
28 facility construction and maintenance or with road or other transportation facility
29 construction and maintenance; however, the exemption provided by this paragraph does
30 not relieve a person from obtaining a permit under (a) of this section if

31 (A) the drilling, ditching, trenching, or similar activity will

1 involve the removal of the groundwater, stormwater, or wastewater runoff that
2 has accumulated and is present at an excavation site for facility, road, or other
3 transportation construction or maintenance; and

4 (B) a permit is otherwise required by (a) of this section.

5 * Sec. 8. AS 46.04.030(b) is amended to read: *previously Sec. 6*

6 (b) A person may not cause or permit the operation of a pipeline or an
7 exploration or production facility in the state unless an oil discharge prevention and
8 contingency plan for the pipeline or facility has been approved by the department and
9 the person is in compliance with the plan. This subsection does not apply to an
10 onshore exploration facility used solely to explore for shallow natural gas by
11 means of drilling a well on a lease authorized under AS 38.05.177.

12 * Sec. 9. AS 46.04.030 is amended by adding a new subsection to read: *previously Sec. 7*

13 (s) If an onshore well drilling for gas under a lease authorized by
14 AS 38.05.177 penetrates a formation capable of producing oil, the owner or operator

15 (1) shall notify the department and the Alaska Oil and Gas
16 Conservation Commission; and

17 (2) may not conduct further operations in the drilled well until the
18 facility complies with all applicable laws and regulations relating to oil and gas
19 production; however, this paragraph does not prevent the owner or operator from
20 conducting activities that may be required by the Alaska Oil and Gas Conservation
21 Commission to plug, plug-back, or abandon a well.

22 * Sec. 10. AS 46.04.040(b) is amended to read: *previously Sec. 8*

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

27 (1) a pipeline or an offshore exploration or production facility is
28 \$50,000,000 per incident;

29 (2) an onshore production facility is

30 (A) \$20,000,000 per incident if the facility produces over
31 10,000 barrels per day of oil;

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(B) \$10,000,000 per incident if the facility produces over 5,000 barrels per day but not more than 10,000 barrels per day of oil;

(C) \$5,000,000 per incident if the facility produces over 2,500 barrels per day but not more than 5,000 barrels per day of oil;

(D) \$1,000,000 per incident if the facility produces 2,500 barrels per day or less of oil;

(3) an onshore exploration facility is

(A) \$25,000 per incident for a facility used solely to explore for shallow natural gas by means of drilling a well when authorized by AS 38.05.177; and

(B) except as provided by (A) of this paragraph, \$1,000,000 per incident.

* Sec. 11. AS 46.04.040 is amended by adding a new subsection to read: *previously Sec. 9*

(n) If an onshore well authorized under AS 38.05.177 to recover shallow natural gas penetrates a formation capable of producing oil, the owner or operator may not conduct further exploration activity. However, this subsection does not prevent the owner or operator from conducting activities that may be required by the Alaska Oil and Gas Conservation Commission to plug and abandon a well.

* Sec. 12. AS 46.04.050 is amended by adding a new subsection to read: *previously Sec. 10*

(c) Except as provided in AS 46.04.030(s), the provisions of AS 46.04.030(b) do not apply to an onshore exploration facility used solely to explore for natural gas by means of drilling a well when authorized under AS 38.05.177.

No 613J

AMENDMENT I : adopted

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

1 Page 10, lines 9 and 10:

2 Delete "when authorized by AS 38.05.177"

3 Insert "to explore for and develop gas, whether methane associated with and
4 derived from coal deposits or otherwise, from a source that is within 3,000 feet of the
5 surface"

adopted No 10Bj
AMENDMENT 2

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

- 1 Page 6, line 15:
- 2 Delete "may"
- 3 Insert "shall"

adopted No Obj
AMENDMENT 3

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

- 1 Page 5, line 28, following "lease":
- 2 Insert ", the production to be delivered in pipeline quality and free of all lease
- 3 expenses, including but not limited to separation, cleaning, dehydration, gathering, salt water
- 4 disposal, and preparation for transportation off the lease"

adopted NO. 0B)
AMENDMENT 4

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

- 1 Page 7, following line 9:
- 2 Insert a new subsection to read:
- 3 "(m) Except as otherwise specifically provided in this section, the provisions
- 4 of AS 38.05.135 - 38.05.184 apply to leases entered into under this section."

- 5 Reletter the following subsection accordingly.

adopted
NO OBJ

AMENDMENT 5

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

1 Page 4, lines 16 - 18:

2 Delete all material and insert:

3 "(2) may be required to pay a reasonable application fee, *not to exceed \$500* ~~as the~~
4 ~~commissioner may determine, as a condition of submitting or processing the lease~~
5 ~~application or obtaining the lease."~~

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

adopted
NO OBJ
AMENDMENT 5

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

1 Page 4, lines 16 - 18:

2 Delete all material and insert:

3 *not to exceed \$500* (✓)
4 "(2) may be required to pay a reasonable application fee, ~~as the~~
5 ~~commissioner may determine, as a condition of submitting or processing the lease~~
~~application or obtaining the lease."~~

NOT Offered

9-LS1463\R.11
Chenoweth
4/9/96

withdrawn
AMENDMENT ~~to~~

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

1 Page 4, line 6:

2 Delete "or"

3 Page 4, line 9, after "land":

4 Insert "; or

5 (C) submerged land and shoreland designated as the Bristol

6 Bay Fisheries Reserve by AS 38.05.140(f)"

4/11/96 pm

9-LS1463R.19 ✓
Chenoweth
4/11/96

Withdrawn
AMENDMENT 6

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

- 1 Page 6, line 9:
- 2 Delete ";
- 3 Insert ".

- 4 Page 6, lines 10 - 14:
- 5 Delete all material.

Failed 2-6

AMENDMENT 7

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

- 1 Page 3, line 31, following "otherwise":
- 2 Insert ", exclusive of gas found in association with oil"

Failed 3-6

AMENDMENT 8

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

1 Page 5, lines 20 - 22:

2 Delete "If rent is not paid when due, the director shall mail the lessee written notice of
3 nonpayment at the end of each month, while the rent remains unpaid, for a period of two
4 months."

OK

AMENDMENT

9

adopted as
amended
as

OFFERED IN THE HOUSE

TO: CSHB 394() "R" version

- 1 Page 4, line 22, after "determines":
- 2 Insert "that it is in the best interests of the state"

HB 394

CHANGES FROM VERSION (O) TO VERSION (R)

- **GREEN HIGHLIGHTER** denotes new language
- **BLUE HIGHLIGHTER** denotes sections that have been renumbered

New Language and where it occurs:

1. pp. 1, lines 4-5: New language is added to the title. "addressing the relationship between shallow natural gas and other natural resources;"
2. pp. 3, lines 12-26: Both section 3 & 4 are new sections to this bill. This addition is made, so that the holder of a coal lease will not have to face a competing application for a shallow natural gas lease for the same tract. Please refer to the memorandum dated March 29, 1996 from Legislative Counsel, Jack Chenoweth for a more detailed analysis.
3. pp. 4, line 2: "is proposed to be" inserted in the place of the word "becomes".
4. pp. 4, line 4: The words "included" and "in the final findings" are added.
5. pp. 4, line 6: "of this subparagraph" is inserted by request of DNR. This allows the commissioner to waive all limitations of this subparagraph rather than just (iii).
6. pp. 4, lines 8-9: The line "unless the applicant for a shallow natural gas lease is also the lessee under AS 38.05.150 of that land." is added. This change is a part of the overall changes having to do with coal mines and gas leases.
7. pp. 4, line 19: "Within 20 days of" is inserted here replacing language that exists in version O. This is a request made by DNR.
8. pp. 4, line 27: "of three" replaces "not to exceed five" This is a request made by DNR.
9. pp. 5, line 5: "is extended for one year" replaces "continues in effect until 90 days after drilling has ceased" This is a request made by DNR.

4/3/96
Attachment 1

10. pp. 5, line 8: "90" replaces "60". This is a request of DNR.
11. pp. 5, line 8-9: "or a longer period determined at the discretion of the director" is inserted.
12. pp. 5, line 13: "following the procedures described in (c) of this section" is included so that the public forum process must be adhered to if boundaries are adjusted.
13. pp. 5, line 18-19: This language replaces the language which exists in version O. This is a cosmetic change. The version R language mimics the existing language in oil and gas statutes. This is a DNR request.
14. pp. 5, line 32: "the lease" and "part of" are inserted here in order to address the concerns of the private sector. This allows the private entities to surrender parts of a lease that are unproductive, so that the private entities may enter into other leases.
15. pp. 6, line 2: "a well capable of" replaces "after the date of initial". This is a change requested by DNR.
16. pp. 6, line 3: "has been drilled" replaces "from the area" This is a change requested by DNR.
17. pp. 6, line 15: "may" replaces "shall" This is a change requested by DNR.
18. pp. 6, lines 17-18: The two sentences on these lines, in version O, had been only one sentence. They are separated to further clarify their intent. "A lease does not give the lessee the right to produce oil."
19. pp. 7, lines 1-9: This subsection (l) is a part of the new language that deals with the relationship between coal mine leases and shallow gas leases. This subsection allows for the possibility of the overlapping development of the shallow natural gas and the coal resources.
20. pp. 9, line 21: "plug-back, or" is inserted in order to remain consistent with language found in Sec. 5 (j), on pp. 6 line 28.

3/15/96

**SECTIONAL ANALYSIS CSHB 394
VERSION O**

Bill Section 1 sets out legislative findings, a statement of purpose, and a statement of intent for the measure.

Bill Section 2 authorizes a shallow natural gas leasing program. Its key components are:

- The program is made applicable to recovery of natural gas, from any source, located within 3000 feet of the surface, but is inapplicable to (1) areas that cannot be leased under the oil and gas exploration licensing and leasing program (i.e. North Slope and Cook Inlet), (2) land under an exploration license or lease, or already leased under AS38.05.180, or part of the state's five year proposed oil and gas lease program, and (3) land under coal lease under the effective date of the Act
- The leases have no minimum size requirement. A maximum lease size of 5,760 acres is established, and total land leased cannot be more than 23,040 acres
- A public comment period is established
- A lease will be automatically extended if production of gas at paying quantities continues
- Rent and royalty rates are set out in AS38.05.177(f) and (G)
- There are several conditions and restrictions on the shallow gas lease, including limitations on lease assignment and on insertion of the gas into the in-place transmission system generally serving the population centers of southcentral Alaska; the rights of the state and of the lessee to terminate or surrender the lease are spelled out
- The commissioner of natural resources is given the ability to adopt only those regulations that are absolutely necessary to these operations

Bill Section 3 exempts the requirement of a best interest finding

Bill Section 4 exempts shallow gas leases from competitive bidding requirements based on the choice of leasing methods specified in that section for oil and gas leases

Bill Section 5 includes natural gas drilling of depths less than 3,000 feet as an activity under AS46.03.100.

Bill Section 6: There is a general requirement in law that pipelines and exploration and production facilities may not be operated unless an oil discharge prevention and contingency plan has been developed and is in place for the pipeline and for the exploration and production facility. The amendment made by this section establishes an exception from that requirement for an onshore well drilling for shallow natural gas so long as that facility does not encounter a formation capable of producing oil.

Bill Section 7 sets out the steps that the owner or operator of a shallow natural gas well must take if the operation encounters a formation capable of producing oil.

Bill Section 8 sets the financial responsibility requirement applicable to an onshore exploration facility exploring for shallow natural gas at \$25,000.

Bill Section 9 requires the operator or owner to stop operating, with exceptions, when a formation capable of producing oil is encountered.

Bill Section 10 sets out exemptions from the laws establishing oil discharge prevention and contingency plans and financial responsibility requirements. This bill section notes the additional exemption from these provisions for shallow natural gas exploration facilities except as may be required when that well penetrates a formation capable of producing oil.

Bill Section 11 affirms that persons holding coal leases in effect on the effective date of this Act have the right to develop coal bed methane and related gas held in association with the coal.



NAKNEK ELECTRIC ASSOCIATION, INC.

POST OFFICE BOX 118 • NAKNEK, ALASKA 99633 • PHONE 246-4261 • FAX (907) 246-6242

Testimony Before the House Finance Committee On HB394 April 3, 1996

Honorable chairman and members of the House Finance Committee, thank you for this opportunity to testify in favor of HB394.

I am the General Manager of Naknek Electric Association, Inc. We generate and distribute electricity for the communities of Naknek, King Salmon, and South Naknek. We use about 1.4 million gallons of diesel annually, which we buy in bulk and store in a 1.6 million gallon tank farm.

For many years we have sought alternative sources of energy. But it is hard to compete with diesel - first, because the initial cost of generation equipment is low - less than \$500 per kilowatt, even for relatively small generators - and secondly because diesel is plentiful. Maybe expensive sometimes, but always plentiful.

In 1987, NEA commissioned a study to analyze the viability of natural gas for electric generation. A geologist was retained to do an analysis of available records on oil and gas exploration efforts in our area. As you know, Bristol Bay has been the focus of great interest by oil and gas developers in the past and over \$90 million were paid in oil leases twenty years ago. A lot of exploratory and seismic work was done back then but unfortunately all of it was either offshore or southwest along the Alaska Peninsula.

The analysis determined that natural gas was highly likely to be present in our area in quantities sufficient for local energy needs. However, the cost to develop it, using prevailing technology and methods, was discouraging as long as diesel fuel was available at a relatively reasonable rate.

A lot has transpired since then. Now, affordable exploration tools such as thermal imagery and radar photography make it feasible to paint that "x" on the ground at vastly less cost than seismic analysis. Shallow well coiled-tube drilling techniques cost a fraction of what conventional drilling does. Exploration and development of gas in small communities is no longer cost prohibitive. If we are successful in our search for gas, we will be demonstrating the newly commercialized fuel cell technology in Naknek in 1999.

4/3/96
Attachment 2

Testimony on HB394
April 3, 1996
Page 2

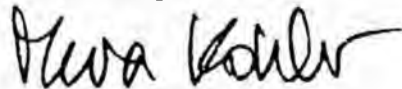
The area surrounding Naknek is mostly state owned. We need the support of the state in our efforts to switch to a local energy source. When I have approached the Department of Natural Resources in the past, the first response I have gotten is "Well, there's no identified gas source in your area." That is true. But then, there has been no exploration activity in our area at all so there is no way of knowing whether there is or isn't gas here. Another response I have gotten is "How do you plan to deal with the drilling wastes?" For the depth and diameter of hole that we contemplate, the drilling wastes could be used by a medium size colony of ants for a potential dwelling.

I believe this bill will go a long way to make feasible the small-scale development of gas sources in our remote communities. For too long, our stance has been to let the big boys do the work because only they are capable, financially and expertise-wise, to fulfill the regulatory and bureaucratic requirements. This bill will make it feasible for the little guys - the communities and utilities serving the smallest areas - to not have to wait for a benevolent big brother to come and rescue them from their diesel bondage.

I urge this committee to pass this bill and I would be happy to answer any questions that you may have.

Thank you again for the opportunity to testify.

Sincerely,



Meera Kohler
General Manager

LEGAL SERVICES

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

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

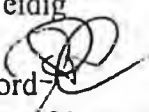
130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

April 3, 1996

SUBJECT: Draft CSHB 394 (), relating to shallow bed natural gas leasing -- sectional analysis (Work Order No. 9-LS1463\R)

TO: Representative Scott Ogan
ATTN: Hans Neidig

FROM: James P. Crawford 
Assistant Revisor of Statutes

This is a revision of the bill that incorporates amendments prepared by this office and revisions requested by your office after consultation with the Department of Natural Resources. As a preliminary matter, note that this sectional summary should not be considered an authoritative interpretation of the bill, and the bill itself is the best statement of its contents.

Bill section 2 (AS 38.05.035(e)(6)) exempts from the requirement of a written best interest finding shallow bed gas development leases under AS 38.05.177.

Bill sections 3 and 4 incorporate amendment 9-LS1463\O.2, prepared by Legislative Counsel Jack Chenoweth, which appears in this version without significant change other than adjusting cross-references to reflect the renumbering occasioned by other changes requested by you and the Department of Revenue. Incorporating this amendment caused an addition to the bill title to express the treatment in this version of the relationship between shallow natural gas and other natural resources. Additionally, incorporating this amendment added language to AS 38.05.177 at subsection (a)(2)(B) and added new subsection (l) to that section.

In his 29 March 1996 memorandum (attached), Jack very ably analyzed the impact of amendment O.2; and I direct your attention to Jack's discussion. Note, however, that in Jack's memo reference to AS 38.05.177(a)(2)(C) should now be read as AS 38.05.177(a)(2)(B) and reference to subsection (m) should now be read as subsection (l).

Bill section 5 (AS 38.05.177), the heart of the bill, authorizes a shallow bed natural gas leasing program. Among the key features of the leasing program:

Representative Scott Ogan

April 3, 1996

Page 2

-- The program is made applicable to recovery of natural gas, from coal deposits or any other source, located within 3,000 feet of the surface at the drill site, but is inapplicable to land under or proposed to be under an exploration license or lease, to land already leased under AS 38.05.180, or to land that is part of the state's five-year proposed oil and gas lease program as reflected in final findings. However, the commissioner may waive these exceptions to the reach of AS 38.05.177 so that the provisions of this section would authorize leasing of these lands. The program is unavailable to land under coal lease unless the shallow bed natural gas lease applicant is the lessee of land subject to that coal lease;

-- The leases may be awarded to cover areas not greater than 23,040 acres; lease applicants may not be required to pay a fee for the application or its processing;

-- Following a public comment period for a lease application, the director is authorized to provide the lease applicant an initial shallow bed gas development lease giving the exclusive right, for a period of three years, to explore for, develop, and produce shallow bed natural gas;

-- The initial shallow bed gas development lease may be extended for so long as gas is produced in paying quantities; lessees are allowed a reasonable time to put wells capable of producing in paying quantities into producing status; if drilling has at least commenced on the lease expiration date, the lease may be extended for one year on a showing of diligent efforts; if a lease is terminable for cessation of production and production in fact ceases but operations commence on the lease within a certain period, lease termination is avoided if operations are conducted diligently; additionally, on application by the lessee, the director may extend a lease one time only for three years or less;

-- The shallow bed natural gas lessee is required to pay rent in the amount of 50 cents per acre and royalty at 6.25 percent of the value of the production removed or sold from the lease;

-- There are several conditions and restrictions on the shallow bed gas development lease, including limitations on lease assignment and on insertion of the gas into the in-place transmission system generally serving the population centers of southcentral Alaska;

-- An applicant is permitted to conduct title searches;

-- The limitations of a lease granted under this program are spelled out with respect to the production of oil and to the production of gas from sources not within 3,000 feet of the surface;

-- The authority of commissioner of natural resources to adopt regulations is spelled out;

Representative Scott Ogan
April 3, 1996
Page 3

-- Overlapping development of shallow natural gas and coal resources is possible.

Bill section 6 (AS 38.05.180(f)) exempts shallow bed gas development leases from competitive bidding requirements.

Bill section 7 (46.03.100(f)) adds shallow bed natural gas drilling to the exemptions from obtaining a waste disposal permit for disposal of waste produced from drilling.

Bill section 8 (AS 46.04.030(b)) incorporates 9-LS1463\O.14, another amendment drafted by Jack Chenoweth. There is a general requirement in law that pipelines and exploration and production facilities may not be operated unless an oil discharge prevention and contingency plan has been developed and is in place for the pipeline and for the exploration and production facility. The amendment establishes an exception from that requirement for an onshore exploration facility used solely to explore for shallow bed natural gas by drilling a well on an authorized lease.

Bill section 9 (AS 46.04.030(s)) sets out the steps that a shallow bed natural gas operator must take if the operation encounters a formation capable of producing oil.

Bill section 10 (AS 46.04.040(b)) sets the financial responsibility requirement applicable to an onshore exploration facility exploring for shallow bed natural gas at \$25,000 per incident.

Bill section 11 (AS 46.04.040(n)) requires the operator of a shallow bed natural gas operator to cease operating, with exceptions, when the operator penetrates a formation capable of producing oil while exploring for gas.

Bill section 12 (AS 46.04.050(c)) adds to the provisions of AS 46.04.050, which sets out exemptions from the laws establishing oil discharge prevention and contingency plans and financial responsibility requirements. This bill section notes the additional exemptions from these provisions for shallow bed natural gas exploration facilities except as may be required when that well penetrates a formation capable of producing oil.

JPC:klb
96-253.klb

Enclosure

LEGAL SERVICES

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

COPY

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

March 29, 1996

SUBJECT: Amendment O.2 to CSHB 394(RES)
(Work Order No. 9-LS1463\O.2)

TO: Representative Scott Ogan
ATTN: Hans Neidig

FROM: Jack Chenoweth
Legislative Counsel

Amendment O.2 generally addresses the relationship that you asked to be defined between lessees under a shallow natural gas lease and lessees under a coal lease.

As a preliminary note, I indicated that, in my judgment, the changes that you were requesting would have a continuing or ongoing effect and should be incorporated as part of the permanent law. Consequently, in this amendment, I added and amended permanent law provisions and removed the bill's last section, the temporary law provision that outlined the relationship between shallow natural gas leases and coal leases in effect on this bill's effective date.

As to coal and the rights of coal lessees:

The addition of (f) to AS 38.05.150 in proposed bill section 3 follows the language you presented. It affirms that, notwithstanding anything provided in AS 38.05.177 authorizing shallow natural gas leasing, coal lessees have the right to vent gas held in association with coal to ensure a safe coal mining operation.

*

CSHB 394(RES), in its AS 38.05.177(a)(2)(C), currently precludes issuance of a shallow natural gas lease on land that is already the subject of a coal lease. The amendment made to the bill at page 2, line 30 and page 2, line 31 modifies that prohibition by giving a holder of a coal lease the opportunity to obtain a shallow natural gas lease for the tract.

The corollary of that is the amendment made to AS 38.05.140(a). Under current law, when an application is filed for a coal lease, coal deposits are withdrawn "from all other forms of disposal provided under AS 38.05.135 - 38.05.181." The application for the coal lease

Representative Scott Ogan

March 29, 1996

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makes exploration and mining of the coal exclusive. Without the exception provided in proposed new bill section 2, the holder of a coal lease would be unable to also obtain a shallow natural gas lease under AS 38.05.177 for the same tract.

The net effect of these changes is to say, in effect, that the holder of a coal lease will not have to face a competing application for a shallow natural gas lease for the same tract.

As to shallow natural gas and shallow natural gas lessees:

The material added in new subsection (m), page 6, following line 5, considers the relationship between the shallow gas lessee and the ultimate opportunity to develop the coal resources of the tract after extraction of the gas. In line with our discussion, relying on the "concurrent use" principle of the state constitution's resource article, this subsection allows for the possibility of the overlapping development of the shallow natural gas and the coal resources.

As drafted, the holder of a shallow natural gas lease faces the possibility of a competing application for issuance of a coal lease on the same tract. In the case of land in which the shallow gas lessee holds the older interest, while the land may also be leased for its coal potential, mining and extraction of the coal by the coal lessee cannot proceed without the prior agreement of the shallow natural gas lessee.

Due to these changes, the amendment proposes to insert an additional clause in the bill's title.

JBC:glc:klb

96-195.glc

Enclosure

Version O Deletions

pp. 2, lines 21-22 delete all material

pp. 3, lines 9-11 delete all material to "receipt" on line 11

pp. 4, lines 5-18 delete all material after the word "years"
on line 5.

pp. 5, lines 21-22 delete all material

pp. 10, lines 17-23 delete all material

ALASKA RURAL ENERGY INITIATIVE



Division of Energy
Department of Community and Regional Affairs
State of Alaska

June 1995

EXECUTIVE SUMMARY

There are over 150 small villages in rural Alaska that are not accessible by road, that are characterized by severe climate and widespread poverty, and that are heavily dependent on fuel oil for power generation and heat. The average population per village is about 250 residents, mostly Alaska Natives.

Bulk Fuel Storage

In most cases, the village fuel supply must be delivered by barge during a brief ice-free shipping season and stored throughout the year. Every village relies on above-ground tank farms for essential fuel storage though few of these facilities presently meet minimum standards of safety or environmental protection. Most lack adequate foundations, dikes, and piping systems as well as basic security fences. Many are rusted, improperly sited, and violate electrical codes.

An increasing number of villages now face the possibility that fuel will not be delivered because of these deficiencies. Fuel carriers are threatened with liability for environmental damage if they fill village tanks that subsequently leak. Most recently, the U.S. Coast Guard, with regulatory jurisdiction over fuel transfer facilities between the delivery barge and the storage tank, has sent letters to the owners of nearly 80 fuel storage facilities threatening to deny fuel deliveries unless deficiencies are corrected.

The estimated cost for repair and renovation of fuel storage facilities in rural Alaska is \$200 million, excluding future inflation. This does not include remediation of contaminated soil and groundwater.

Electric Utilities

Approximately 80 communities in rural Alaska are served by small, single-village electric utilities; roughly the same number are served by larger, multi-village utilities. Most of these communities have no transmission link to any other community and are entirely dependent on local diesel generators for their power supply. The cost of power in rural Alaska is high, roughly 4 to 5 times the average elsewhere in the United States.

Particularly in the single-village utilities, power plant and distribution systems often do not meet accepted utility standards for safety, efficiency, reliability, and environmental protection. These villages require adequate electric service, however, for economic advancement and for support of other community facilities. Upgrading the physical plant of the electric utility to meet minimum standards is a pre-condition for utility self-reliance, as well as community self-reliance, in the future.

The estimated cost to upgrade the single-village utilities is \$25 million, excluding future inflation. Upgrade costs for the multi-village utilities have not been systematically estimated.

Proposal for Funding

Policies, programs, and expenditures of both the State and Federal governments have contributed over the years to the relative permanence of remote Native villages in Alaska. Resolving the problem of deteriorating fuel tanks and substandard electric utility systems

is beyond the means of village residents. A joint State/Federal effort is needed to bring these facilities to the point where they no longer represent a safety or environmental hazard, and can be maintained and replaced as necessary without further long-term government support. To this end, the following is proposed:

1. The State and Federal governments will together make available for expenditure \$25 million per year -- \$12.5 million each -- until, in combination with local match contributions, a total investment of \$250 million is reached. While the number of years required to reach this investment total will not exceed 10, the actual number of years may be less depending on the size of the local match contributions. The \$250 million total includes the estimate of \$200 million for bulk fuel storage, \$25 million for upgrading single-village electric utilities, and an allowance of \$25 million for additional electric utility upgrades and for inflation.

It is proposed that the Federal contribution be appropriated to the Rural Utilities Service in the U. S. Department of Agriculture and, from there, channeled to the Division of Energy in the Alaska Department of Community and Regional Affairs, which will administer the program.

2. The funds will be expended as grants. Cash or in-kind match from participants will be required. The Division of Energy will retain authority to approve project design.
3. For bulk fuel storage facilities, a key objective will be to consolidate existing tank farms into a smaller number of code-compliant fuel storage facilities. The Division of Energy will meet with tank farm owners to develop consolidation agreements which will identify, for each consolidated facility, a single entity to assume ownership and operating responsibility, and which will set out each participant's rights and obligations. Each participant will be assured the right to solicit competitive bids for fuel delivery in the future.

Grant agreements with the designated facility owners will incorporate the consolidation agreements, will provide assurances with regard to long-term operation and maintenance of the facilities, and will establish requirements for periodic facility inspection and reporting.

4. For electric utility upgrades, project approval will be contingent on local commitment to professional utility management in the future. The Division of Energy will meet with utility boards and managers to define the upgrade projects and to negotiate utility management agreements. In these agreements, utilities may commit to joining a consolidated utility organization or to other arrangements that will ensure capable utility management.

Grant agreements will incorporate the utility management agreements and will include a utility pledge not to seek additional State or Federal grants for ordinary capital improvements such as normal renewal and replacement of diesel generating plant.

5. For the first year of this initiative, the State is seeking \$16 million in federal funds to match a prior commitment of \$16 million in State funds: \$10 million for bulk fuel storage and \$6 million for electric utility upgrades.

3. REMOTE VILLAGE ELECTRIC UTILITIES

3.1 Electric Utilities in Rural Alaska

There are over 150 small communities in rural Alaska with electric utility service provided mostly by local diesel generators, and without any electrical interconnection outside the community. These communities are served by roughly 100 separate electric utility organizations. Some of these utilities have developed sufficient scale economies and expertise to operate with reasonable efficiency, to maintain accepted utility standards, and to be capable of financing their own plant requirements. These utilities typically serve a regional center or serve a number of small communities. In most rural Alaska communities, however, the electric utility operates generation and distribution plant that does not comply with accepted utility standards, and government assistance is required to finance capital improvements as well as on-going operations.

The cost of power provided by these village utilities is exceptionally high: median residential rates are in the range of 40-45 cents per kWh, 4 to 5 times the average elsewhere in the United States. For this reason, since 1981 the State has funded a power cost equalization program under which the State pays a portion of the monthly electric bill for customers of rural electric utilities, and has spent about \$200 million on the program to date. While this has enabled residents of remote villages to afford basic electrical service, the current annual program cost of \$20 million cannot be sustained by the State indefinitely as oil production from Prudhoe Bay and associated State revenues continue to decline.

Most of these isolated village utilities provide their own management, administrative services, maintenance and operations, constituting a very high burden of fixed costs per unit of electricity sold. Because competent mechanical and electrical expertise is often difficult to maintain in these organizations, generator maintenance is often sporadic and unorganized -- a situation which leads directly to catastrophic and expensive breakdowns. Merger with a larger utility organization offers the opportunity to benefit from sufficient scale economies to overcome some of these disadvantages. However, before such consolidation can be considered, the physical plant of the village utility must be improved to the point that it meets accepted industry standards.

Reliable electric service is needed in the villages not only as a prerequisite for economic advancement but also to support other necessary community infrastructure, including water and sewer systems. For the continuation of electrical service over the long-term in these isolated communities, electric utility plant and operations must be upgraded to the point that government support is no longer needed. Ideally, by bringing the physical plant up to standards either of the Rural Utilities Service (RUS, formerly the Rural Electrification Administration), or of the National Electrical Safety Code (NESC) and the National Electrical Code (NEC), the isolated village utilities can be merged into new or established regional utilities that are self-reliant with respect to operations and capital financing. These regional organizations may be cooperatives, investor-owned utilities, or regional governmental entities.

3.2 State Effort to Upgrade Rural Utilities

Since 1990, the State has expended over \$10 million for upgrade of electric utility systems in rural communities receiving power cost equalization payments, excluding expenditures for evaluation and construction of alternatives such as rural hydroelectric projects. Included in Attachment 3 is appropriation and expenditure detail for \$6 million committed by the State for this purpose in fiscal years 91-93.

3.3 Estimated Cost to Upgrade Rural Utility Systems to Industry Standards

Approximately 80 rural villages are each served by their own electric utility organization. For 52 of these villages, cost estimates totaling \$16.2 million have recently been prepared to upgrade generation and distribution systems in accordance with minimum accepted utility standards. Appendix B includes the system evaluation and cost estimate summaries for each of these 52 village electric utilities. Based on these results, the estimated upgrade cost for the 80 independent, single-village utility systems is approximately \$25 million, excluding any adjustment for future inflation. Detailed estimates of required upgrade costs have not been systematically prepared for the additional communities that are served by regional utility organizations, or for the larger communities that serve as regional centers.

The estimates presented for the 52 single-village utilities in Appendix B provide only for code compliance of diesel dependent remote utilities, and do not include any additional amount for funding alternatives to local diesel generation such as small hydro or wind generation where appropriate resources are available, or transmission lines linking villages where feasible. Implementing these alternatives throughout rural Alaska is estimated to require considerably more capital resources. The State will continue to support such alternatives over the long term, but is seeking in this proposal the more limited objective of meeting basic utility standards as a prerequisite for energy self-reliance.



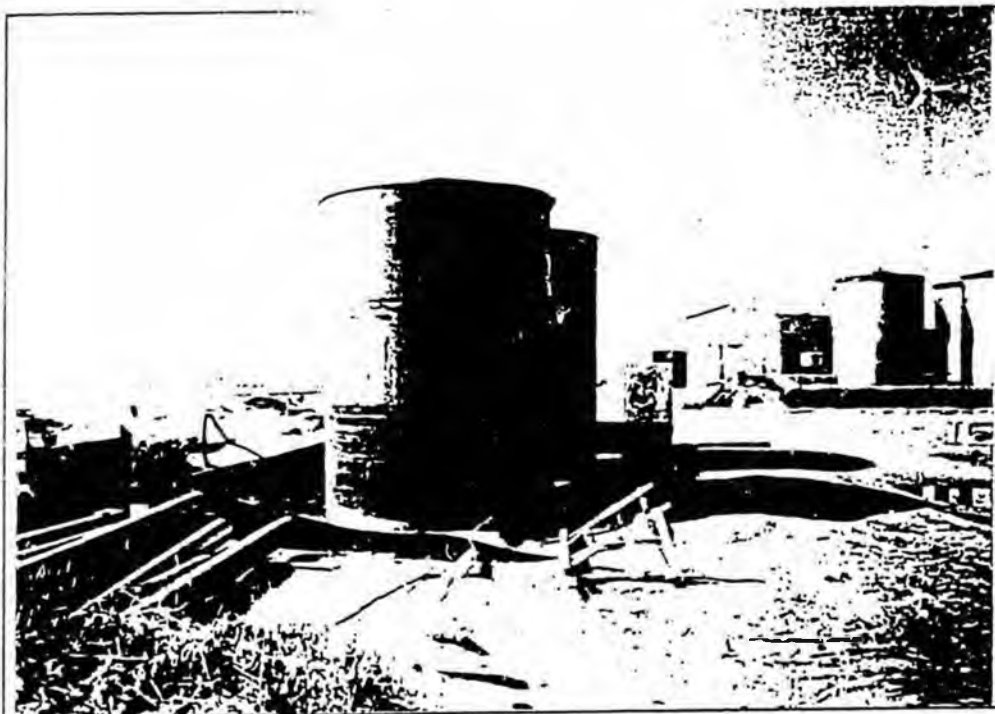
Photograph A.1
Severely corroded tanks connected by rubber hose. Evidence of fuel spillage throughout area.



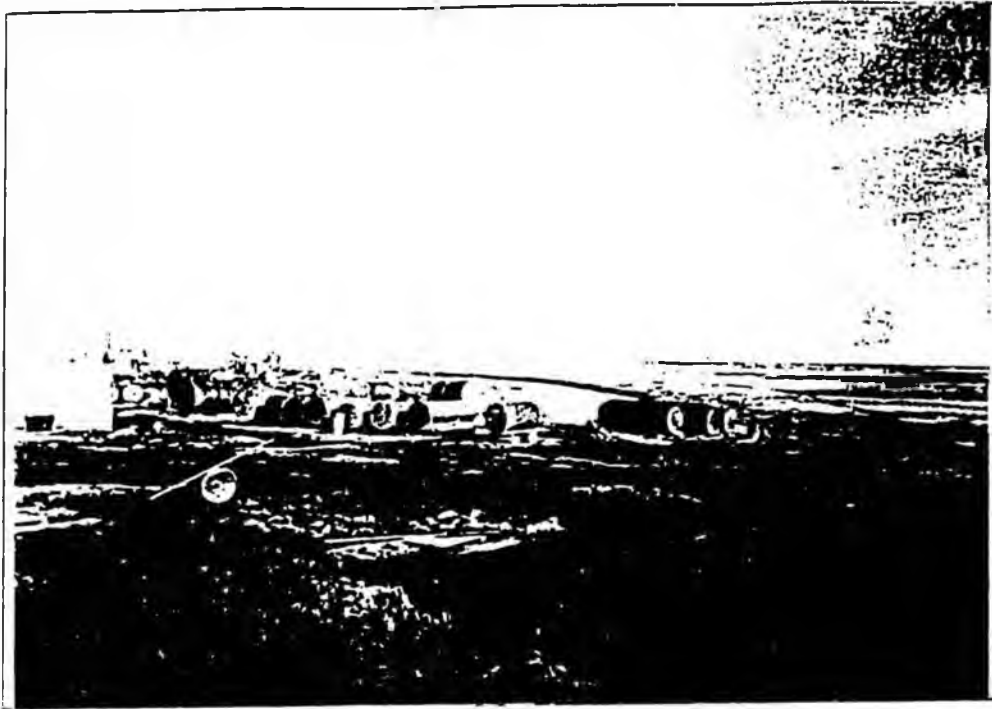
Photograph A.2
Severely corroded tanks on improper foundations (small dimension wood cribbing).



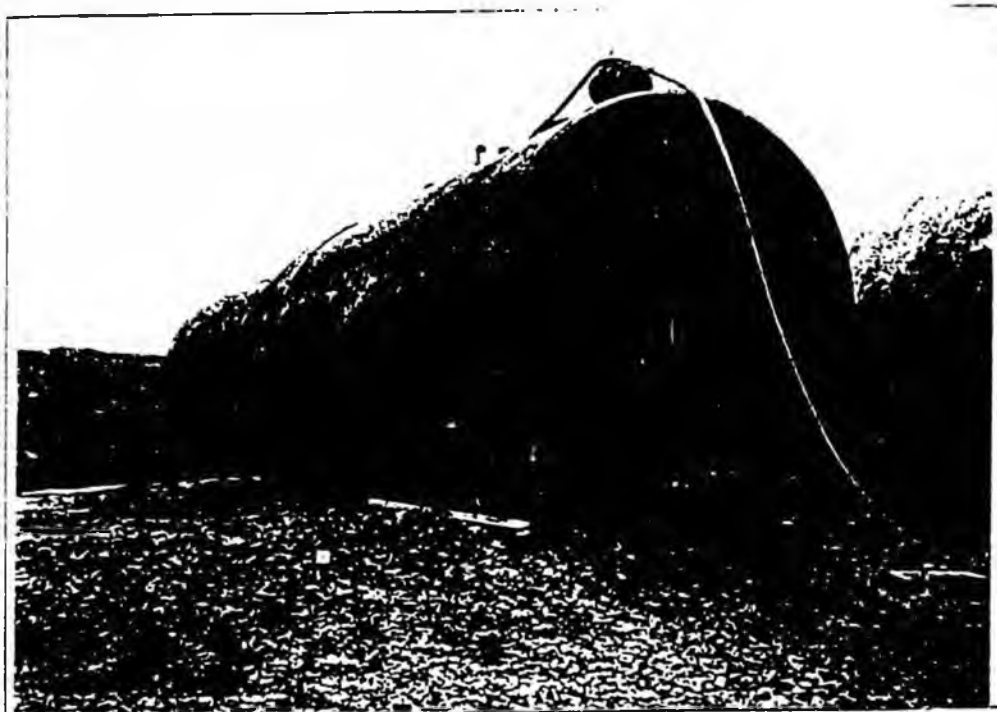
Photograph A.3
Tanks on improper foundations with no means of secondary containment. Facility located in close proximity to a river.



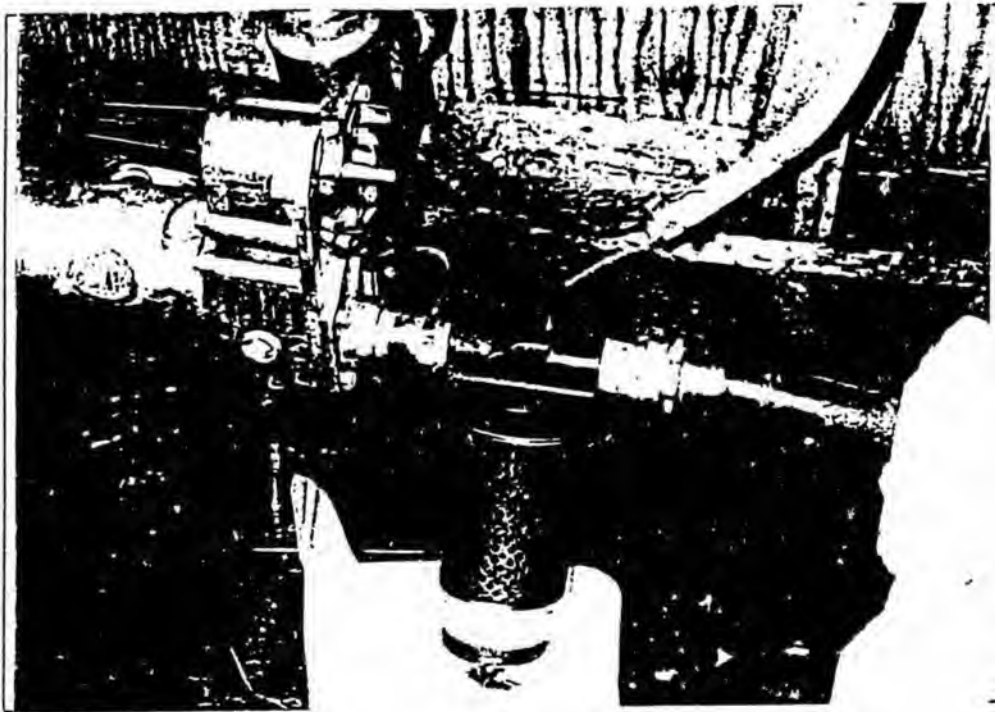
Photograph A.4
Corroded tanks located immediately adjacent to ocean. Steel dike completely rusted out and useless as secondary containment.



Photograph A.5
Tanks scattered along
river bank with no dikes,
no security, and improper
foundations.



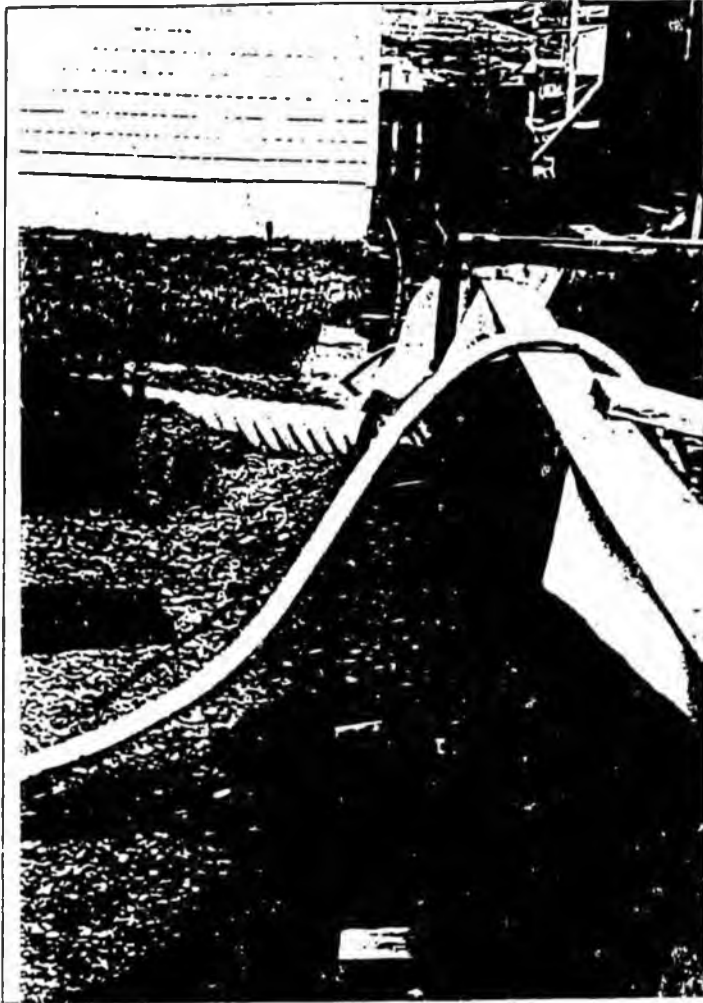
Photograph A.6
Severely dented tank with
no foundation. Placed at
edge of beach with no
dike. Gravity dispensing
of fuel. No security.



Photograph A.7
Improper wiring adjacent
to leaking gasoline piping.



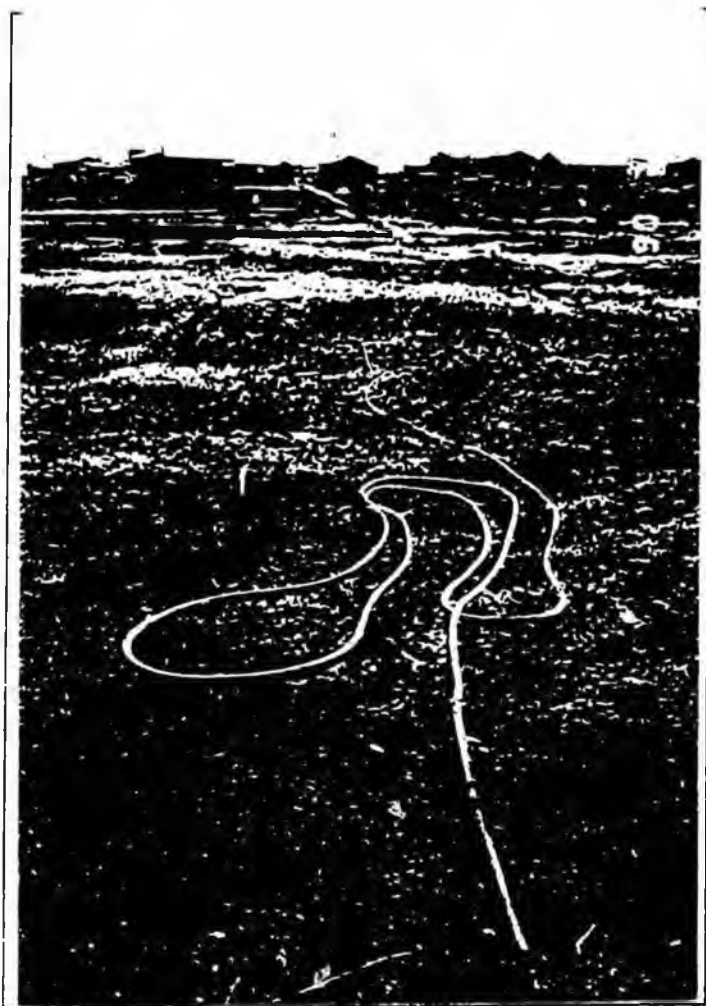
Photograph A.8
Improper piping system
and poor operational
procedures resulted in
explosion of tank.



Photograph A.9
Fuel stain on ground caused by leaking piping joints.

Photograph A.10
Faulty piping system reportedly broke during winter, spilling an estimated 50 gallons of fuel.





Photograph A.11
1200' long hose used to transfer diesel fuel from storage tanks to power plant on a weekly basis.

Photograph A.12
Hose replaced with proper welded steel pipeline by AEA with Bulk Fuel Emergency Repair program funds.

