

SCOMM

1444:7

ALASKA STATE LEGISLATURE

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REPRESENTATIVE VIC KOHRING DISTRICT 14

House Bill 197 Sponsor statement

House Bill 197 clarifies the Department of Environmental Conservation's (DEC) authority to exempt gas exploration wells and production facilities from *oil discharge prevention and contingency plans* ("C-Plans"). The legislation also removes the industry's burden of financial responsibility required of wells that do not pose an oil spill threat.

HB 197 fixes the unintended consequences of last year's HB 531. That legislation, in part, limited previous exemptions for gas exploration and production facilities for all shallow natural gas facilities to a narrow exemption for "non conventional gas wells." The problem HB 197 seeks to correct relates to the new definition of "non conventional gas," which HB 531 defined as "coal bed methane, gas contained in shales or gas hydrates."

Benefits of HB 197 include permitting DEC to focus its resources on the review of C-Plans and proof of financial responsibility for those gas exploration facilities that could potentially incur an oil spill. It also gives DEC authority to conduct inspections the Legislature directed when it changed the *contingency plan review renewal requirement* from three to five years. In addition, the bill relieves industry from unnecessary financial costs associated with preparing and implementing oil spill contingency plans for gas exploration facilities where no threat of an oil release spill exists. Lastly, HB 197 relieves industry from the costs involving demonstrating proof of financial responsibility in response to oil spills at gas exploration facilities, where no threat of spills exist.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

FRANK H. MURKOVSKI,
GOVERNOR

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March 22, 2005

Representative Ralph Samuels
House of Representatives
State Capitol
Juneau, AK 99801-1182

Re: HB 197

Dear Co-Chairman Samuels:

You asked that the Attorney General's Office provide a response to a question raised by Representative Seaton in the March 21, 2005, House Resources Committee Hearing on HB 197. Representative Seaton asked a question concerning the definitions of "oil", "crude oil" and "natural gas" in sections 4 and 5 of the bill. Because the legislative teleconference system went offline, I was unable to respond to the Representative Seaton's question. I appreciate this opportunity to explain these provisions of the bill.

The existing provisions in AS 46.04.050 provide two exemptions to the oil discharge prevention and contingency plan (C-plan) (AS 46.04.030) and financial responsibility (AS 46.04.040) requirements. The first exemption is for "oil terminal facilities" with an oil storage capacity of less than 5,000 barrels of crude oil or less than 10,000 barrels of noncrude oil. The second exemption is for natural gas production and terminal facilities. In addition, there is a C-plan exemption for natural gas exploration and production facilities in AS 46.04.030(a) that, prior to HB 531 applied to shallow natural gas facilities, and now, applies to "nonconventional gas" which is defined as "coal bed methane, gas contained in shales or gas hydrates." AS 38.05.965.

Representative Seaton's question involves the exemptions in AS 46.04.050 which provides as follows:

Sec. 46.04.050. Exemptions.

(a) The provisions of AS 46.04.030, 46.04.040, and 46.04.060 do not apply to an oil terminal facility that has an effective storage capacity of less than 5,000 barrels of crude oil or less than 10,000 barrels of noncrude oil.

Co-Chairman Samuels

March 22, 2005

Page 2

(b) The provisions of AS 46.04.030 and 46.04.040 do not apply to a natural gas production facility and a natural gas terminal facility; for purposes of this subsection the terms "natural gas production facility" and "natural gas terminal facility"

(1) mean a platform, facility, or structure that is used solely for the production, compression, storage, or transport of natural gas;

(2) do not include a platform, facility, or structure that produces, stores, or transports natural gas in combination with oil.

Subsection (b) exempts natural gas production and terminal facilities. Subsection (b) defines those facilities as "a platform, facility, or structure that is used solely for the production, compression, storage, or transport of natural gas" but as not including a platform, facility, or structure that produces, stores, or transports natural gas in combination with oil. AS 46.04.050(b)(2) (emphasis added).

Sections 4 and 5 of HB 197 make two clarifications to the exemption. First, section 5 moves the natural gas exploration and production facility exemption in AS 46.04.030(b) to a new subsection (c) in AS 46.04.050. Second, sections 4 and 5 clarify what is meant by the "exclusion" to the exemption for facilities that handle natural gas "in combination with oil." AS 46.04.050(b)(2). It is important to note that oil is defined very broadly in AS 46.04.900(13): as "oil of any kind and in any form, whether crude, refined, or a petroleum by-product, including but not limited to petroleum, fuel oil, gasoline, lubricating oils, oily sludge, oil refuse, oil mixed with other wastes, crude oils, liquified natural gas, propane, butane, or other liquid hydrocarbons regardless of specific gravity."

Sections 4 and 5 attempt to resolve any ambiguity in these provisions by defining "in combination with oil" as a facility that stores, produces, explores for, or transports natural gas in combination with crude oil and that crude oil does not include natural gas. New subparagraph (ii) addresses a natural gas exploration or production facility that stores refined petroleum products by providing that it would only need a C-plan or financial responsibility if it stores refined petroleum products in volumes exceeding those in AS 46.04.050(a) [(10,000 barrels of noncrude oil)]. This reflects the Department of Environmental Conservation's interpretation of those provisions since the exemption in AS 46.04.050 was amended in 1992 to address natural gas facilities.

In sum, the definitions in sections 4 and 5 are attempts to clarify the current application of these requirements in light of the existing statutory definitions in AS 46.04.900. As a result, it is not necessary to amend sections 4 and 5 of the bill.

Co-Chairman Samuels

March 22, 2005

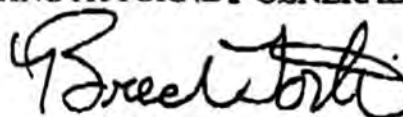
Page 3

It is also worth noting that -- like any other facility in the state -- a facility exempted from the C-plan requirements must still immediately contain and cleanup oil spills as required by AS 46.04.020 and is strictly liable for the costs and damages from a spill under AS 46.03.822.

I hope that this responds to the question raised by Representative Seaton. If I can provide additional assistance, please let me know.

Sincerely,

SCOTT J. NORDSTRAND
ACTING ATTORNEY GENERAL

By: 

Breck C. Tostevin
Assistant Attorney General

BCT/cam

cc: Rep. Kohring
Rep. Ramras
Rep. Seaton
Acting Comm. Fredriksson
Larry Dietrick
Dan Seamont
David Marquez
Deborah Behr
Rob Mintz
Kevin Jardell

LEGAL SERVICES

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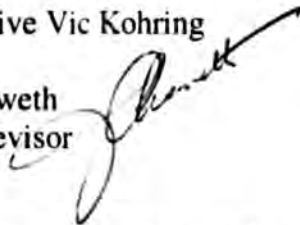
MEMORANDUM

February 24, 2005

SUBJECT: Draft bill exempting certain natural gas exploration and production facilities from oil discharge prevention and contingency plans and proof of financial responsibility, and amending the powers and duties of the Alaska Oil and Gas Conservation Commission with respect to those plans -- notes to accompany the initial draft (Work Order No. 24-LS0664A)

TO: Representative Vic Kohring

FROM: Jack Chenoweth
Assistant Revisor



The accompanying bill draft is offered to implement the eighth entry in your February 12 draft, directing "regulatory relief" from preparation of oil spill response plans for gas wells. My draft borrows from the language of a draft of a governor's bill.

The accompanying bill draft revises various statutes setting parameters for oil discharge prevention and contingency planning and proof of financial responsibility for natural gas exploration and production facilities. It also spells out in greater detail the role assigned in current law to the Alaska Oil and Gas Conservation Commission in determining whether a facility may be exempt from the oil discharge prevention and contingency planning and proof of financial responsibility requirements.

*

OIL DISCHARGE PREVENTION AND CONTINGENCY PLANNING --

Under current AS 46.04.030(b), "[a] person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless an oil discharge prevention and contingency plan for the pipeline or facility has been approved by the department and the person is in compliance with the plan." The language of the subsection goes on to set out an exemption for a facility that is "used solely to explore for or to develop or produce *nonconventional* natural gas resources," that is, to explore for and develop gas resources from coal bed methane, gas contained in shales, and gas hydrates. However, this nonconventional gas exemption does not apply if the Alaska Oil and Gas Conservation Commission determines that a well drilled for nonconventional gas may penetrate a formation capable of flowing oil and the volume of oil encountered will be of such quantities that a contingency plan will be required.

The amendment made by the draft's **bill section 2** eliminates the exemption and the exception to the exemption that appear in existing AS 46.04.030(b). A revised and expanded exemption covering recovery of natural gas without regard to source is set out in the new language of AS 46.04.050(c), added by **bill section 5**.

*

PROOF OF FINANCIAL RESPONSIBILITY --

Under AS 46.04.040(b), "[a] person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless the person has furnished to the department, and the department has approved, proof of financial ability to respond in damages." The subsection goes on to set the proof of financial responsibility that must be demonstrated. For onshore facilities concerned with natural gas recovery, AS 46.04.040(b)(3) draws a distinction between *nonconventional* gas exploration -- the proof required is set at \$25,000 per incident -- and gas exploration from *other than nonconventional* gas sources -- the proof required is set at \$1,000,000 per incident.

The amendment proposed by **bill section 3** eliminates the distinction and extends the \$1,000,000 per incident standard to cover onshore facilities concerned with natural gas recovery from nonconventional gas sources. However, under the language added as AS 46.04.050(c) by bill section 5, certain natural gas exploration facilities may be exempt from proof of financial responsibility requirements.

*

REVISION OF THE OIL DISCHARGE PREVENTION AND CONTINGENCY PLANNING AND PROOF OF FINANCIAL RESPONSIBILITY EXEMPTIONS FOR CERTAIN NATURAL GAS PRODUCTION AND TERMINAL FACILITIES --

Current AS 46.04.050 sets out several exemptions from the oil discharge prevention and contingency planning and proof of financial responsibility requirements of AS 46.04.030 and 46.04.040. AS 46.04.050(b) currently exempts "a natural gas production facility and a natural gas terminal facility." The subsection supplies definitions for those terms, limiting them to "a platform, facility, or structure that is used solely for the production, compression, storage, or transport of natural gas," and making the exemption inoperable if "a platform, facility, or structure . . . produces, stores, or transports natural gas in combination with oil."

The amendments proposed in **bill section 4** modify the language of AS 46.04.050(b) that makes the exemption inoperable. The proposed change is twofold.

First, as proposed in the amendment made by this bill section identified as (2)(B)(i), the exemption would not operate as to a [natural gas production or terminal] platform,

facility, or structure that "produces, stores, or transports natural gas in combination with crude oil," with a definition of "crude oil" supplied.

Second, as proposed in the amendment made by this bill section identified as (2)(B)(ii), the exemption would not operate as to a [natural gas production or terminal] platform, facility, or structure that "is an oil terminal facility¹ regulated under AS 46.04.030 [the oil discharge prevention and contingency planning section] and AS 46.04.040 [the proof of financial responsibility requirements provision]" if the facility stores oil "in quantities exceeding those exempted by (a) of this section."² In conjunction with this change, the measure proposes a definition for "oil."

The amendments proposed by **bill section 4** are to limit the operation of the exemptions authorized by AS 46.04.050(b) to gas-only facilities and terminals and to disallow the exemptions if the gas production facility or gas terminal facility operates in any manner with respect to oil.

*

APPLICATION OF THE OIL DISCHARGE PREVENTION AND CONTINGENCY PLANNING AND PROOF OF FINANCIAL RESPONSIBILITY EXEMPTIONS FOR CERTAIN NATURAL GAS EXPLORATION FACILITIES --

Bill section 5 is the bill's key provision. It is included by way of a replacement and expansion of the exemption described earlier in the material deleted by the amendment to

¹ The chapter supplies a definition to the term "oil terminal facility." Under AS 46.04.900(15):

(15) "oil terminal facility" means an onshore or offshore facility of any kind, and related appurtenances, including but not limited to a deepwater port, bulk storage facility, or marina, located in, on, or under the surface of the land or waters of the state, including tide and submerged land, that is used for the purpose of transferring, processing, refining, or storing oil; a vessel, other than a nontank vessel, is considered an oil terminal facility only when it is used to make a ship-to-ship transfer of oil, and when it is traveling between the place of the ship-to-ship transfer of oil and an oil terminal facility;

² This is a reference to AS 46.04.050(a), which reads:

(a) The provisions of AS 46.04.030, 46.04.040, and 46.04.060 do not apply to an oil terminal facility that has an effective storage capacity of less than 5,000 barrels of crude oil or less than 10,000 barrels of noncrude oil.

AS 46.04.030(b) made in bill section 2. The amendment carries forward the idea, now applicable only to natural gas exploration facilities used to explore for nonconventional gas, that these facilities are to be exempt from the oil discharge prevention and contingency planning and proof of financial responsibility requirements of AS 46.04 unless the Alaska Oil and Gas Conservation Commission determines that there is a reasonable probability that the gas well "will not penetrate a formation capable of flowing oil to the ground surface." As the exemption is proposed to be revised and set out in bill section 5, it applies broadly to all gas exploration facilities -- not just those concerned with recovery of natural gas from nonconventional sources -- and supplies a definition for "natural gas exploration facility" that follows distinctions drawn in AS 46.04.050(b) that I discuss in the preceding paragraph of this memo.³

*

RESPONSIBILITIES OF THE ALASKA OIL AND GAS CONSERVATION COMMISSION --

The material added by bill section 5 refers to an obligation of the AOGCC to make a determination as to activities involving operation of a natural gas exploration facility. The AOGCC's duties are more specifically spelled out in the material added by **bill section 1**. The material added appears unexceptional and largely replaces the material proposed to be deleted in the amended language set out in bill section 2 and in the material in AS 31.05.030(j)(2)(C), shown in the repealer.

*

REPEALERS --

The provisions proposed for repeal in **bill section 6** include AS 31.05.030(j)(2)(C). This subparagraph currently addresses the duties of the Alaska Oil and Gas Conservation Commission:

(j) For exploration and development operations involving nonconventional gas, the [Alaska Oil and Gas Conservation] commission

. . .
(2) shall

³ The definition of "natural gas exploration facility" provided in bill section 5 is partially duplicative of the definition of the more generic term "exploration facility" as set out in AS 46.04.900(8):

(8) "exploration facility" means a platform, vessel, or other facility used to explore for hydrocarbons in or on the waters of the state or in or on land in the state; the term does not include platforms or vessels used for stratigraphic drilling or other operations that are not authorized or intended to drill to a producing formation;

Representative Vic Kohring
February 24, 2005
Page 5

(C) for the purposes of AS 46.04.030(b), determine whether a well drilled for nonconventional gas may penetrate a formation capable for flowing oil and, if so, whether the volume of oil encountered will be of such quantities that an oil discharge prevention and contingency plan will be required;

These concepts appear in material added by bill sections 1 and 5, so their retention here is not warranted.

Proposed also for repeal is AS 46.04.900(10), the definition of "nonconventional gas." With the other changes proposed in the measure, the distinction that limits application of certain current provisions to facilities concerned with recovery of gas from "nonconventional" sources is replaced by material that applies to all natural gas recovery. The definition thus becomes obsolete and can be omitted.

JBC:jad
05-120.jad

Enclosure

24-LS0664VA
Chenoweth
2/24/05

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE KOHRING

Introduced:
Referred:

A BILL**FOR AN ACT ENTITLED**

1 "An Act exempting certain natural gas exploration and production facilities from oil
2 discharge prevention and contingency plans and proof of financial responsibility, and
3 amending the powers and duties of the Alaska Oil and Gas Conservation Commission
4 with respect to those plans; and providing for an effective date."

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

7 (d) For purposes of AS 46.04.050(c) and upon application by the operator, the
8 commission shall evaluate the likelihood that a well at a natural gas exploration
9 facility may penetrate a formation capable of flowing oil to the ground surface and
10 issue a determination based on results of the evaluation. If the commission determines
11 that evidence obtained through the evaluation demonstrates with reasonable certainty
12 that a well will not penetrate a formation capable of flowing oil to the ground surface,
13 it shall report its determination to the Department of Environmental Conservation. In
14 this subsection,

(1) "natural gas exploration facility" has the meaning given in AS 46.04.050(c);

(2) "oil" has the meaning given in AS 46.04.050(c).

* **Sec. 2.** AS 46.04.030(b) is amended to read:

(b) A person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless an oil discharge prevention and contingency plan for the pipeline or facility has been approved by the department and the person is in compliance with the plan. [THIS SUBSECTION DOES NOT APPLY TO AN EXPLORATION OR PRODUCTION FACILITY USED SOLELY TO EXPLORE FOR OR TO DEVELOP OR PRODUCE NONCONVENTIONAL GAS RESOURCES, EXCEPT THAT THIS EXEMPTION DOES NOT APPLY IF THE ALASKA OIL AND GAS CONSERVATION COMMISSION DETERMINES UNDER AS 31.05.030(j) THAT

(1) A WELL DRILLED FOR NONCONVENTIONAL GAS MAY PENETRATE A FORMATION CAPABLE OF FLOWING OIL; AND

(2) THE VOLUME OF OIL ENCOUNTERED WILL BE OF SUCH QUANTITIES THAT A CONTINGENCY PLAN WILL BE REQUIRED.]

* **Sec. 3.** AS 46.04.040(b) is amended to read:

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

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

(2) an onshore production facility is

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

(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 NONCONVENTIONAL GAS BY MEANS OF DRILLING A WELL TO EXPLORE FOR THE GAS; AND

(B) EXCEPT AS PROVIDED BY (A) OF THIS PARAGRAPH,] \$1,000,000 per incident.

* Sec. 4. AS 46.04.050(b) is amended to read:

(b) The provisions of AS 46.04.030 and 46.04.040 do not apply to a natural gas production facility and a natural gas terminal facility; for purposes of this subsection

(1) "crude oil" does not include natural gas or refined petroleum products;

(2) [THE TERMS] "natural gas production facility" and "natural gas terminal facility"

(A) [(1)] mean a platform, facility, or structure that is used solely for the production, compression, storage, or transport of natural gas;

(B) [(2)] do not include a platform, facility, or structure that

(i) produces, stores, or transports natural gas in combination with crude oil; or

(ii) is an oil terminal facility regulated under AS 46.04.030 and 46.04.040 by storing oil in quantities exceeding those exempted by (a) of this section;

(3) "oil" has the meaning given in AS 46.04.900, except that "oil" does not include natural gas.

* Sec. 5. AS 46.04.050 is amended by adding a new subsection to read:

(c) The provisions of AS 46.04.030 and 46.04.040 do not apply to a natural gas exploration facility if the Alaska Oil and Gas Conservation Commission has determined under AS 31.05.030(l) that evidence obtained through evaluation demonstrates with reasonable certainty that all of the wells at a natural gas exploration

1 facility will not penetrate a formation capable of flowing oil the ground surface. If the
2 drilling of a well at an exploration facility exempted under this subsection does
3 penetrate a formation capable of flowing oil to the surface, the owner or operator shall
4 submit an oil discharge prevention and contingency plan and proof of financial
5 responsibility to the department to meet the requirements of AS 46.04.030 and
6 46.04.040. For purposes of this subsection,

7 (1) "crude oil" does not include natural gas or refined petroleum
8 products;

9 (2) "natural gas exploration facility"

10 (A) means a platform, facility, or structure that is used solely
11 for the exploration for natural gas;

12 (B) does not include a platform, facility, or structure that

13 (i) explores for, produces, stores, or transports natural
14 gas in combination with crude oil; or

15 (ii) is an oil terminal facility regulated under
16 AS 46.04.030 and 46.04.040 by storing oil in quantities exceeding
17 those exempted by (a) of this section;

18 (3) "oil" has the meaning given in AS 46.04.900, except that "oil" does
19 not include natural gas.

20 * **Sec. 6.** AS 31.05.030(j)(2)(C) and AS 46.04.900(10) are repealed.

21 * **Sec. 7.** This Act takes effect immediately under AS 01.10.070(c).

24-LS0664\Y
Chenoweth
3/31/05

CS FOR HOUSE BILL NO. 197()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON OIL AND GAS

A BILL

FOR AN ACT ENTITLED

1 "An Act exempting certain natural gas exploration and production facilities from oil
2 discharge prevention and contingency plans and proof of financial responsibility, and
3 amending the powers and duties of the Alaska Oil and Gas Conservation Commission
4 with respect to those plans; and providing for an effective date."

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

7 (1) For purposes of AS 46.04.050(c) and upon application by the operator, the
8 commission shall evaluate the likelihood that a well at a natural gas exploration
9 facility may penetrate a formation capable of flowing oil to the ground surface and
10 issue a determination based on results of the evaluation. If the commission determines
11 that evidence obtained through the evaluation demonstrates with reasonable certainty
12 that a well will not penetrate a formation capable of flowing oil to the ground surface,
13 it shall report its determination to the Department of Environmental Conservation. In
14 this subsection,

(1) "natural gas exploration facility" has the meaning given in AS 46.04.050(c);

(2) "oil" has the meaning given in AS 46.04.050(c).

* Sec. 2. AS 46.04.030(b) is amended to read:

(b) A person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless an oil discharge prevention and contingency plan for the pipeline or facility has been approved by the department and the person is in compliance with the plan. [THIS SUBSECTION DOES NOT APPLY TO AN EXPLORATION OR PRODUCTION FACILITY USED SOLELY TO EXPLORE FOR OR TO DEVELOP OR PRODUCE NONCONVENTIONAL GAS RESOURCES, EXCEPT THAT THIS EXEMPTION DOES NOT APPLY IF THE ALASKA OIL AND GAS CONSERVATION COMMISSION DETERMINES UNDER AS 31.05.030(j) THAT

(1) A WELL DRILLED FOR NONCONVENTIONAL GAS MAY PENETRATE A FORMATION CAPABLE OF FLOWING OIL; AND

(2) THE VOLUME OF OIL ENCOUNTERED WILL BE OF SUCH QUANTITIES THAT A CONTINGENCY PLAN WILL BE REQUIRED.]

* Sec. 3. AS 46.04.040(b) is amended to read:

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

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

(2) an onshore production facility is

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

(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;

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[(A) \$25,000 PER INCIDENT FOR A FACILITY USED SOLELY TO EXPLORE FOR NONCONVENTIONAL GAS BY MEANS OF DRILLING A WELL TO EXPLORE FOR THE GAS; AND

(B) EXCEPT AS PROVIDED BY (A) OF THIS PARAGRAPH,] \$1,000,000 per incident.

* Sec. 4. AS 46.04.050(b) is amended to read:

(b) The provisions of AS 46.04.030 and 46.04.040 do not apply to a natural gas production facility and a natural gas terminal facility; for purposes of this subsection, [THE TERMS] "natural gas production facility" and "natural gas terminal facility"

[(1)] mean a platform, facility, or structure that, except for storage of refined petroleum products in a quantity that does not exceed 10,000 barrels, is used solely for the production, compression, storage, or transport of natural gas [;

(2) DO NOT INCLUDE A PLATFORM, FACILITY, OR STRUCTURE THAT PRODUCES, STORES, OR TRANSPORTS NATURAL GAS IN COMBINATION WITH OIL].

* Sec. 5. AS 46.04.050 is amended by adding a new subsection to read:

(c) The provisions of AS 46.04.030 and 46.04.040 do not apply to a natural gas exploration facility if the Alaska Oil and Gas Conservation Commission has determined under AS 31.05.030(I) that evidence obtained through evaluation demonstrates with reasonable certainty that all of the wells at a natural gas exploration facility will not penetrate a formation capable of flowing oil to the ground surface. If the drilling of a well at an exploration facility exempted under this subsection does penetrate a formation capable of flowing oil to the surface, the owner or operator shall submit an oil discharge prevention and contingency plan and proof of financial responsibility to the department to meet the requirements of AS 46.04.030 and 46.04.040. For purposes of this subsection, "natural gas exploration facility" means a platform, facility, or structure that, except for storage of refined petroleum products in

1 a quantity that does not exceed 10,000 barrels, is used solely for the exploration for
2 natural gas.

3 * Sec. 6. AS 31.05.030(j)(2)(C) and AS 46.04.900(10) are repealed.

4 * Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

LEGAL SERVICES

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MEMORANDUM

April 5, 2005

SUBJECT: Draft CSHB 197 () -- sectional analysis
(Work Order No. 24-LS0664\Y)

TO: Representative Vic Kehringer

FROM: Jack Chenoweth, Assistant Revisor

The bill draft revises various statutes setting parameters for oil discharge prevention and contingency planning and proof of financial responsibility for natural gas exploration and production facilities. It also spells out in greater detail the role assigned in current law to the Alaska Oil and Gas Conservation Commission in determining whether a facility may be exempt from the oil discharge prevention and contingency planning and proof of financial responsibility requirements.

*

OIL DISCHARGE PREVENTION AND CONTINGENCY PLANNING --

Under current AS 46.04.030(b), "[a] person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless an oil discharge prevention and contingency plan for the pipeline or facility has been approved by the department and the person is in compliance with the plan." The language of the subsection goes on to set out an exemption for a facility that is "used solely to explore for or to develop or produce *nonconventional* natural gas resources," that is, to explore for and develop gas resources from coal bed methane, gas contained in shales, and gas hydrates. However, under current law, this nonconventional gas exemption does not apply if the Alaska Oil and Gas Conservation Commission determines that a well drilled for nonconventional gas may penetrate a formation capable of flowing oil and the volume of oil encountered will be of such quantities that a contingency plan will be required.

The amendment made by the draft's **bill section 2** eliminates the exemption and the exception to the exemption that appear in existing AS 46.04.030(b). A revised and expanded exemption covering recovery of natural gas without regard to source is set out in the new language of AS 46.04.050(c), added by **bill section 5**.

*

PROOF OF FINANCIAL RESPONSIBILITY --

Under AS 46.04.040(b), "[a] person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless the person has furnished to the department, and the department has approved, proof of financial ability to respond in damages." The subsection goes on to set the proof of financial responsibility that must be demonstrated. For onshore facilities concerned with natural gas recovery, AS 46.04.040(b)(3) draws a distinction between *nonconventional* gas exploration -- the proof required is set at \$25,000 per incident -- and gas exploration from *other than nonconventional* gas sources -- the proof required is set at \$1,000,000 per incident.

The amendment proposed by **bill section 3** eliminates the distinction and extends the \$1,000,000 per incident standard to cover onshore facilities concerned with natural gas recovery from nonconventional gas sources. However, under the language added as AS 46.04.050(c) by bill section 5, certain natural gas exploration facilities may be exempt from proof of financial responsibility requirements.

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REVISION OF THE OIL DISCHARGE PREVENTION AND CONTINGENCY PLANNING AND PROOF OF FINANCIAL RESPONSIBILITY EXEMPTIONS FOR CERTAIN NATURAL GAS PRODUCTION AND TERMINAL FACILITIES --

Existing AS 46.04.050 sets out several exemptions from the oil discharge prevention and contingency planning and proof of financial responsibility requirements of AS 46.04.030 and 46.04.040. AS 46.04.050(b) currently exempts "a natural gas production facility and a natural gas terminal facility." The subsection supplies definitions for those terms, limiting them to "a platform, facility, or structure that is used solely for the production, compression, storage, or transport of natural gas," and making the exemption inoperable if "a platform, facility, or structure . . . produces, stores, or transports natural gas in combination with oil."

The amendments proposed in **bill section 4** modify the language of AS 46.04.050(b) so that the exemption would operate as to a [natural gas production or terminal] platform, facility, or structure that "is used solely for production, compression, storage, or transport[ation] of natural gas." With the amendment, the facility would be permitted to store a reasonable quantity of refined petroleum products on site without foregoing the exemption.

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APPLICATION OF THE OIL DISCHARGE PREVENTION AND CONTINGENCY PLANNING AND PROOF OF FINANCIAL RESPONSIBILITY EXEMPTIONS FOR CERTAIN NATURAL GAS EXPLORATION FACILITIES --

Bill section 5 is the bill's key provision. It is included by way of a replacement and expansion of the exemption described earlier in the material deleted by the amendment to AS 46.04.030(b) made in bill section 2. The amendment carries forward the idea, now applicable only to natural gas exploration facilities used to explore for nonconventional gas, that these facilities are to be exempt from the oil discharge prevention and contingency planning and proof of financial responsibility requirements of AS 46.04 unless the Alaska Oil and Gas Conservation Commission determines that there is a reasonable probability that the gas well "will not penetrate a formation capable of flowing oil to the ground surface." As the exemption is proposed to be revised and set out in bill section 5, it applies broadly to all gas exploration facilities -- not just those concerned with recovery of natural gas from nonconventional sources -- and supplies a definition for "natural gas exploration facility" that follows distinctions drawn in AS 46.04.050(b) that I discuss in the preceding paragraph of this memo.

*

RESPONSIBILITIES OF THE ALASKA OIL AND GAS CONSERVATION COMMISSION --

The material added by bill section 5 refers to an obligation of the AOGCC to make a determination as to activities involving operation of a natural gas exploration facility. The AOGCC's duties are more specifically spelled out in the material added by **bill section 1**. The material added appears unexceptional and largely replaces the material proposed to be deleted in the amended language set out in bill section 2 and in the material in AS 31.05.030(j)(2)(C), shown in the repealer.

*

REPEALERS --

The provisions proposed for repeal in **bill section 6** include AS 31.05.030(j)(2)(C). This subparagraph currently addresses the duties of the Alaska Oil and Gas Conservation Commission:

(j) For exploration and development operations involving nonconventional gas, the [Alaska Oil and Gas Conservation] commission

. . .
(2) shall

. . .
(C) for the purposes of . . . 46.04.030(b), determine whether a well drilled for nonconventional gas may penetrate a formation capable for flowing oil and, if so, whether the volume of oil encountered will be of such quantities that an oil discharge prevention and contingency plan will be required; . . .

Representative Vic Kohring
April 5, 2005
Page 4

These concepts appear in material added by bill sections 1 and 5, so their retention here is not warranted.

Proposed also for repeal is AS 46.04.900(10), the definition of "nonconventional gas." With the other changes proposed in the measure, the distinction that limits application of certain current provisions to facilities concerned with recovery of gas from "nonconventional" sources is replaced by material that applies to all natural gas recovery. The definition thus becomes obsolete and can be omitted.

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Bill section 7 gives the measure an immediate effective date.

JBC:lmb
05-106.lmb

HB 197 - Sectional Analysis

HB 197 clarifies DEC's authority to exempt natural gas exploration wells that do not pose a threat of an oil spill from the contingency plan and proof of financial responsibility requirements. HB 197 corrects an unintended consequence of HB 531, adopted in May 2004, that narrowed one of the exemptions for natural gas exploration and production facilities from a broad exemption for all shallow natural gas facilities to a narrow exemption for nonconventional gas wells. The 2004 legislation defined "nonconventional gas" as only "coal bed methane, gas contained in shales or gas hydrates."

HB 197 repeals the "nonconventional gas" provisions in AS 46.04.030(b) and AS 46.04.040(b)(3)(A) and replaces them with a broader exemption in AS 46.04.050(c). The new exemption would be for all natural gas exploration wells that the Alaska Oil and Gas Conservation Commission (AOGCC) determines that "evidence demonstrates with reasonable certainty . . . will not penetrate a formation capable of flowing oil to the ground surface."

Section 1. Creates a new authorization in AS 31.05.030(l) for the AOGCC to evaluate the likelihood that a well at a natural gas exploration facility may penetrate a formation capable of flowing oil to the ground surface. If the commission determines that evidence demonstrates with reasonable certainty that a well at a natural gas exploration facility will not penetrate a formation capable of flowing oil to the ground surface, it shall report its determination to DEC. Section 6 repeals the 2004 language authorizing AOGCC to make exception determinations for nonconventional gas wells since that authority is replaced by the new authority in section 1 (AS 31.05.030(l)).

Section 2. Repeals the existing c-plan exemption for nonconventional gas wells and replaces it with a broader exemption in section 5 by creating a new subsection (c) in AS 46.04.050 (exemptions).

Section 3. Repeals the \$25,000 financial responsibility requirement for nonconventional gas onshore exploration facilities. Natural gas facilities would only be required to have financial responsibility under AS 46.04.040 if the wells could penetrate a formation capable of flowing oil to the surface. At which point, they would be required to have \$1 million in financial responsibility as an onshore oil exploration facility.

Section 4. Clarifies the existing exemption for "natural gas production facilities" and "natural gas terminal facilities." Makes clear that the exemption is not lost unless the facility produces, stores or transports natural gas in combination with crude oil or the facility would qualify as

an oil terminal facility with storage capacity above 5,000 barrels of crude oil or 10,000 barrels of noncrude oil.

Section 5. A new subsection to the c-plan and financial responsibility exemptions would exempt a natural gas exploration facility if the AOGCC determines under AS 31.05.030(l) that evidence obtained through evaluation demonstrates with reasonable certainty that all of the exploration wells at the facility will not penetrate a formation capable of flowing oil to the ground surface. If the AOGCC cannot make that determination for all of the wells at the exploration facility, the facility would not be exempted. Similarly, if the drilling of a well does penetrate such a formation a c-plan and financial responsibility would be required.

A new subsection (c) is added to define the term "natural gas exploration facility" with similar exceptions to the exemption if the facility explores, produces, stores or transports natural gas in combination with crude oil or if it qualifies as a regulated oil terminal facility.

Section 6. Repeals the AOGCC nonconventional gas finding provision that is replaced by new AS 31.05.030(l) and removes the definition of nonconventional gas from AS 46.04.900 since it is no longer used in Chapter 4 of Title 46.

RULES COMMITTEE CORRECTIONS TO HB 197(RES)
CONCERNING C-PLAN EXEMPTIONS FOR NATURAL GAS
EXPLORATION WELLS

- HB 197 was intended to exempt gas facilities from c-plan requirements if they were natural gas only facilities and were not otherwise required to have an oil spill contingency plan because they also explore for, produce, store or transport natural gas in combination with oil.
- The Amendment in Resources was apparently directed at making sure refineries, bulk fuel facilities, and refined product pipelines are still required to have a c-plan. That concern was already covered by HB 197 which omits "oil terminal facilities" from the natural gas facility exemptions. Refineries, bulk fuel farms, and refined product pipelines attached to those facilities are all "oil terminal facilities." HB 197 does not change c-plan coverage for those facilities.
- In order to simplify the bill and clarify these points, the Rules Committee CS would define a

Natural gas exploration facility as :

"a platform, facility or structure that, except for the storage of refined petroleum products in a quantity not exceeding 10,000 barrels, is used solely for the exploration for natural gas."

Natural gas production or terminal facility as a:

"a platform, facility or structure that, except for the storage of refined petroleum products in a quantity not exceeding 10,000 barrels, is used solely for the production, compression, storage, or transport of natural gas."

- The Rules CS addresses the concerns raised in the Resources Committee by clarifying that natural gas production or terminal facilities that may also explore, produce, store or transport oil are still required to have an oil spill contingency plan if otherwise required by regulation.

OVERVIEW DOCUMENT

Natural Gas Facility Exemption from DEC Contingency Plan Requirements

This bill clarifies DEC's authority to exempt natural gas exploration wells – that do not pose a threat of an oil spill – from contingency plan and proof of financial responsibility requirements. It corrects an unintended consequence of HB 531, which passed the Legislature in May, 2004. That bill, in part, narrowed the scope of an exemption (for natural gas exploration and production facilities) from the preexisting broad exemption for all shallow natural gas facilities, to a narrow exemption for 'nonconventional gas' wells. The problem stems from the HB 531 definition of 'nonconventional gas' as strictly, "coal bed methane, gas contained in shales or gas hydrates."

Benefits of the Legislation.

- Allows DEC to focus its resources on the review of c-plans and proof of financial responsibility for those natural gas exploration facilities that could potentially threaten the environment with oil spills; and
- Ensures that DEC can conduct the additional inspections and drills that the Legislature envisioned would be performed when it changed the contingency plan review renewal requirement from three to five years;
- Relieves industry from the unnecessary financial costs and schedule impacts of preparing and implementing oil spill contingency plans for natural gas exploration facilities where there is not a threat of an oil release from the well; and
- Relieves industry from the unnecessary cost of demonstrating proof of financial responsibility (i.e. insurance, bonds or letters of credit) to respond to oil spills at natural gas exploration facilities where there is not a threat of an oil release from the well.

The "fix" proposed through this bill repeals the "nonconventional gas" provisions in applicable DEC contingency plan and financial responsibility statutes -- AS 46.04.030(b) and .040(b)(3)(A) -- and replaces them with broader exemption language restated in AS 46.04.050(c) for those natural gas exploration wells that the AOGCC determines the evidence "demonstrates with reasonable certainty . . . will not penetrate a formation capable of flowing oil to the ground surface."

DEC has used its existing authority in AS 46.04.050(b) for natural gas *production* wells to exempt natural gas *exploration* wells where there is sufficient geological information to determine that the wells will not penetrate a formation capable of flowing oil to the surface. In consultation with AOGCC, DEC has determined such wells to be natural gas production facilities under .050(b) even if sufficient information is unavailable to quantify their commercial potential as development wells. This bill would clarify DEC's existing exemption authority in AS 46.04.050(b) by exempting all natural gas exploration wells that are not capable of causing an oil spill from the c-plan and financial responsibility requirements. Sec. 5.

STATE OF ALASKA

ALASKA OIL AND GAS
CONSERVATION COMMISSION

FRANK H. MURKOWSKI, GOVERNOR

333 W. 7TH AVENUE, SUITE 100
ANCHORAGE, ALASKA 99501-3830
PHONE (907) 279-1438
FAX (907) 279-7542

March 14, 2005

The Honorable Victor Kohring
Chair, House Special Committee on Oil and Gas
State Capitol
Juneau, Alaska 99801

Re: Letter of Support Concerning House Bill No. 197

Dear Representative Kohring:

The Alaska Oil and Gas Conservation Commission ("Commission") supports House Bill No. 197 ("HB 197"), which amends the laws regarding oil discharge prevention and contingency plans and proof of financial responsibility ("C-plans") to allow better use of geologic information and understanding in determining the need for such plans.

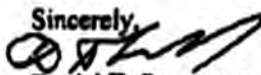
Under current law, a C-plan is required for wells drilled to explore for or produce oil. On the other hand, a C-plan is not required for wells drilled to produce only gas. The treatment of wells drilled to *explore* for gas has a complicated history. Previously, wells drilled for shallow gas were exempted from the C-plan requirement. In 2004, however, HB 531 changed the language from "shallow" gas to "nonconventional" gas. In practical terms, this means that wells drilled to explore for coalbed methane qualify for exemption, but wells drilled to explore for other shallow gas are generally not entitled to exemption. In the Commission's view, there is a mismatch between the current scope of the C-plan exemption and the facts of Alaska's geology.

What the Commission has learned over the years is that drilling in many areas of the state poses essentially no risk of an oil spill. These areas have thick geologic sections containing both conventional and nonconventional gas reservoirs, but have very little potential for the existence of zones capable of flowing liquid hydrocarbons. Requiring a C-plan for wells drilled in these circumstances adds cost and delay to gas exploration without providing increased protection to the environment.

HB 197 corrects the inadequacies in current law by providing for a case-by-case geological evaluation of wells drilled to explore for gas – whether shallow or deep, nonconventional or conventional. Under this bill, a well drilled to explore for gas would qualify for a C-plan exemption if, but only if, the Commission determines that evidence demonstrates with reasonable certainty that the well will not penetrate a formation capable of flowing oil to the ground surface. The approach of HB 197 is to base C-plan exemption decisions on application of the Commission's geologic expertise to the specific facts of a proposed exploration project. The Commission believes this is exactly the right approach.

Thank you for your attention.

Sincerely,


Daniel T. Seamount, Jr.
Commissioner

MAR 18 2005

MAR 16 2005

Unocal Alaska
Union Oil Company of California
909 West 9th Avenue, P.O. Box 196247
Anchorage, Alaska 99519-6247
Telephone (907) 276-7600
Fax (907) 263-7698



Kevin A. Tabler, Manager
Land/Government Affairs

March 11, 2003

Representative Vic Kohring
State of Alaska Legislature
Room 24, State Capitol
Juneau, Alaska 99801-1182

Re: Support for HB197

Representative Kohring:

Union Oil Company of California was delighted to see the introduction of HB 197 to clean up the effect of HB531 (2003 legislation) which created the unintended consequence of elimination of the exemption for oil spill contingency plans for exploration and production facilities used solely to explore, develop or produce shallow natural gas. Our review of the proposed legislation concludes that HB 197 clears up the unintentional change caused by implementation of HB 531 and supports your efforts.

Thank you for taking the initiative to fix this problem.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin A. Tabler", written in a cursive style.

Kevin A. Tabler

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 197

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected:

Environmental Conservation

Title

Related to oil discharge prevention and contingency plans for certain natural gas exploration facilities

RDU

Spill Prevention and Response

Component

Industry Preparedness and

Sponsor

House Oil & Gas Committee

Pipeline Operations

Requester

House Oil & Gas Committee

Component No.

1922

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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

CHANGE IN REVENUES ()

FUND SOURCE

(Thousands of Dollars)

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 Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type—Do not abbreviate)	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 (FY2005) cost:

0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

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)

This bill will not have a financial impact on the department. It clarifies DEC's authority to exempt natural gas exploration wells (that do not pose a threat of an oil spill) from contingency plan and proof of financial responsibility requirements. It corrects an unintended consequence of HB531 passed in May, 2004, which, in part, narrowed the scope of that exemption from the pre-existing broad exemption for all shallow natural gas facilities, to a narrower exemption for "nonconventional gas" wells, defined as strictly "coal bed" methane, gas contained in shales or gas hydrates". This bill repeals the "nonconventional gas" definition in applicable DEC contingency plan statutes AS 46.04.030(b) and 040(b)(3)(A) and replaces it with broader exemption language restated in AS 46.04.050(c) "for those natural gas exploration wells the AOGCC determines will not penetrate a formation capable of flowing oil to the ground surface."

Prepared by: Larry Dietrick, Director

Phone 465-5250

Division: Spill Prevention and Response

Date/Time 3/14/05 3:41 PM

Approved by: Kurt Fredriksson, Acting Commissioner

Date

Agency: Department of Environmental Conservation