

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1544 SCOMM 57: SENATE SPECIAL COMMITTEE ON OIL & GAS, 1987-1988 ~~34~~

1-21-88

AMERADA
HESS

BRIEFING (JOINT
with SENATE JUD)



Alaska State Legislature

SENATE SPECIAL COMMITTEE ON OIL AND GAS

SENATOR BETTYE FAHRENKAMP
CHAIRMAN
SENATOR JACK COGHILL
SENATOR PAUL FISCHER

P.O. BOX V
JUNEAU, AK 99811
(907) 465-3834

MEMORANDUM

TO: Members, Senate Special Committee on Oil and Gas
Senate Judiciary Committee

FROM: Committee staff
Senate Special Committee on Oil and Gas

RE: Committee hearing, January 21, 1988

DATE: January 20, 1988

On Thursday, January 21 at 1:30 in the Butrovich Room, the Senate Special Committee on Oil and Gas will hold a joint hearing with the Senate Judiciary Committee for a briefing on the Amerada Hess royalty litigation by Wil Condon, the state's lead counsel.

The Amerada Hess case is the state's largest royalty oil case, with potential recovery estimated to be between \$300 million and \$2 billion. At issue is the value of Alaska North Slope oil at the wellhead.

In the summer of 1977, when the Trans Alaska Pipeline System commenced operations, there was no consensus among the oil producers and the state as to how to implement the lease form provisions that give the state its 12.5% royalty share. The governor applied to the Alaska Superior Court for a judgement on the proper way to determine wellhead value. Some portions of the case (field costs) were settled in 1980. In November, 1987, a scheduling order was issued setting a trial date for October 2, 1989. Also in November, three producers, Standard Alaska, Exxon, and Chevron, filed suit in U.S. District Court against the state, contending that they could not get a fair trial in any court in Alaska because every resident had a pecuniary interest in the outcome. The state is moving to dismiss the case.

Wil Condon will make a detailed presentation using a sample month of oil production to illustrate the state's approach to the case. This could take up to four hours. The case involves some highly sensitive information, much of which is confidential by law, and whose disclosure could adversely affect the business interests of various parties. In order to protect the confidentiality of this information, the court has entered a protective order. This allows only certain classes of individuals to have access to this information and prevents them from sharing it with others who do not have the right to see it. For purposes of this briefing, we must comply with the court's protective order. Legislators may have access under Paragraph 5(i) of the order. A copy is attached for your review. Certain information in the case has been classified "Confidential" and "Highly Confidential". Only "Confidential" information will be disclosed at the briefing. However, the briefing will be conducted in Executive Session and legislators will be required to sign a statement agreeing to comply with the order.

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OF COUNSEL
JOHN C. HUGHES
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ANCHORAGE

VIA DHL

January 12, 1988

Senator Bettye Fahrenkamp
Senate Special Committee on Oil and Gas
P.O. Box V
Juneau, Alaska 99811

Dear Senator Fahrenkamp:

Your letter of December 17, 1987, to Mr. Rozell and me as Alaska counsel for the energy company defendants in the Amerada Hess royalty case was referred to the appropriate representatives of each of our respective clients. To be effective for your purposes each of the defendants would have to waive the "confidentiality agreement," which is in the form of a protective order. This letter is intended to explain why the defendants politely and respectfully decline your request.

A protective order was initially proposed by the defendants to facilitate compliance with discovery requests in Amerada Hess. The protective order eventually entered by Judge Carpeneti in Amerada Hess reflected extensive briefing and compromise by both sides. It was designed to protect the confidentiality of both business and governmental records. It provides for two tiers of confidentiality, with carefully constructed limits as to who can see each tier within the individual defendant companies as well as within the State. That Order also provides in paragraph 9 that:

The provisions of this Protective Order shall not apply (a) if the party asserting confidentiality specifically waives in writing the protective

Senator Bettye Fahrenkamp
January 12, 1988
Page 2

conditions set forth in this Order with respect to the use of any information, whether generally or for a specified purpose

Therefore, if a defendant were to waive the confidentiality protections as you have requested, that waiver would eliminate the protective provisions of the Protective Order for all purposes as to that information.

Unfortunately, the scope of your request is not limited to the July 1984 transactional data. Having heard Wil Condon's presentation, we believe that authorizing a similar presentation to your committee would entail waiving the Protective Order as to much more commercially sensitive and confidential information than just the various prices at which oil was transacted in July 1984. The State's presentation included discussion of individual company marketing and valuation methodologies, some of which reflected information on documents designated Highly Confidential under the Protective Order. Thus, the scope of any waiver would be difficult to delineate and the protections of the Protective Order would be jeopardized as to many of the Confidential and Highly Confidential documents produced by individual defendants beyond those dealing solely with July 1984 transactional data.

Given the spirit of such Sunshine laws as AS 09.25.110 and AS 09.25.120 and Uniform Rule 22(a) of the Alaska State Legislature, and given ¶ 9 of the Protective Order, it would be difficult to confine any Confidential or Highly Confidential information to the legislators on your committee and their staff. Even if the Protective Order were amended to confine the effect of the waiver you request just to your committee, and even if the Sunshine laws would not compel disclosure of that information, the Alaska Legislature has involved itself directly in the marketing of Alaska's royalty oil by retaining authority to review and approve amendments of royalty-in-kind oil sales contracts, such as in AS 38.05.183(f). Accordingly, it would be inappropriate for the details of commercially sensitive marketing strategy information to be made available to the Legislature, when the Legislature effectively functions as a competitor for marketing oil.

Finally, our evaluation of the State's chances of success in Amerada Hess is markedly different from that reflected in Wil Condon's presentation, both as to whether the State is entitled to any additional royalty payments from any defendant, and,

HUGHES THORSNESS GANTZ POWELL & BRUNDIN

ATTORNEYS AT LAW

Senator Bettye Fahrenkamp

January 12, 1988

Page 3

whether the State's latest theory of lease interpretation is valid. It is not our intention to denigrate the State's counsel or consultants in any way with respect to their handling, evaluation, or attempts to develop a theory of the case. Our point is simply that there are many disputed legal and factual issues in the case, some of which are complex, and that our views of the case differ substantially from those advanced by the State.

For these reasons, the defendants respectfully decline to waive the protections of Judge Carpeneti's Protective Order.

HUGHES, THORSNESS, GANTZ,
POWELL & BRUNDIN
Attorneys for defendants other
than ARCO Alaska Inc. and
Atlantic Richfield Company

By: Carl J. D. Bauman
Carl J. D. Bauman

cc: Wilson L. Condon, Esq.
Amerada Hess Royalty Litigation Committee

LAW OFFICES OF
FAULKNER, BANFIELD, DOOGAN & HOLMES
A PROFESSIONAL CORPORATION

JAN 19 1988

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ANTHONY M. SHOLTY
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OF COUNSEL

NORMAN C. BANFIELD
LAWRENCE T. FEENEY
LEE S. GLASS, M.D.**

HERBERT L. FAULKNER (1882 - 1972)
FRANK M. DOOGAN (1923 - 1977)

January 15, 1988

**ADMITTED IN WASHINGTON & ALASKA
OTHERS NOT ADMITTED IN WASHINGTON

Senator Bettye Fahrenkamp
Alaska State Legislature
P.O. Box V, Mail Stop 3100
Juneau, AK 99811

RE: State v. Amerada Hess
6-1547

Dear Senator Fahrenkamp:

As I have explained to Daniel Consenstein by telephone and in a meeting at your office, ARCO is unable to provide you with the waiver of the court order requested in your letter of December 17, 1987. Our reasons are similar in most respects to those outlined by Carl Bauman in his letter to you of January 12. As I indicated to Mr. Consenstein, I am also available to talk with you further about questions you may have on this subject if you think it would be helpful to do so.

Very truly yours,

Barth Royell

William B. Rozell

WBR:pb/1309q

cc: Wilson Condon
Royalty Litigation Committee



Alaska State Legislature

SENATE SPECIAL COMMITTEE ON OIL AND GAS

SENATOR BETTYE FAHRENKAMP
CHAIRMAN
SENATOR JACK COGHILL
SENATOR PAUL FISCHER

P.O. BOX V
JUNEAU, AK 99811
(907) 465-3834

December 17, 1987

Carl J.D. Bauman, Esq.
Hughes, Thorness, Gantz,
Powell and Brundin
509 West Third Avenue
Anchorage, AK 99501

William B. Rozell, Esq.
Faulkner, Banfield, Doogan and Holmes
302 Gold Street
Juneau, AK 99801

Dear Messrs. Bauman and Rozell:

The Senate Special Committee on Oil and Gas and the Senate Judiciary Committee are preparing hearing schedules for the first part of the 1988 Legislative Session. Of particular interest to both committees is the Amerada Hess royalty case.

We have requested that attorneys for the state brief the legislature on their theory of the case and the manner in which they expect to establish liability. They have informed me that they recently made such a presentation to the defendants, using a sample month, July, 1984, to illustrate their approach to the case. They noted, however, that confidentiality agreements prevent them from sharing this presentation with the legislature unless a specific waiver is granted by all defendants.

I would appreciate your efforts in securing from your respective clients a waiver in order that the legislature and its staff, in one or more meetings, could be provided a briefing using the July, 1984 illustration.

I look forward to receiving your positive response at your earliest convenience. Please contact my committee staff, Danny Consenstein at 465-3834, for additional information.

Sincerely,

Bettye
Bettye Fahrenkamp
Chairman

BF:dc/og
cc: Senator J. Kerttula, Chairman
Senate Judiciary Committee

January 21, 1988

Joint Meeting of Senate Special Committee on Oil and Gas and
Senate Judiciary Meeting

Briefing by Wil Condon on the Amerada Hess Royalty Litigation
TO TESTIFY:

BRUCE BOTHELO or BOB MAYNARD, Attorney General's office

Will review the progress of the interagency working group.

WIL CONDON, Lead Counsel for the state.

Make sure Wil explains in detail the implications of signing
the confidentiality waiver. Can you take notes?

QUESTIONS:

1) On November 2, 1987, three producers, Standard Alaska, Exxon,
and Chevron, filed suit in U.S. District Court in Anchorage
against the state, contending that they could not get a fair
trial in any court in Alaska because every resident of the state
had a pecuniary interest in the outcome.

How has this affected the state's position or strategy?

Were you prepared for this development?

2) The exchange transactions that some producers, mostly
Standard, negotiated resulted in substantial profits to the
producer. Is the state entitled to share in those profits?

3) Is there any indication that ARCO manipulated tanker charges?
That high priced tankers were put on runs designed to reduce
royalty liability?

4) Have the individual producers maintained consistency in
presenting their pricing methodology? If not, was the state
informed when a change in methodology occurred?

5) Some have suggested that even if these issues are resolved in
court, wellhead pricing is inherently complex to administer and
prone to abuses. Shouldn't the state be looking for alternative
pricing methodologies to avoid future disputes over value on both
the royalty and the tax side?

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

☐ 1031 W 4th AVENUE
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ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

January 21, 1988

☒ P.O. BOX K—STATE CAPITOL
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

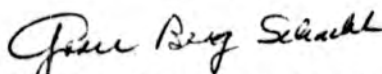
TO WHOM IT MAY CONCERN:

Re: Section 5(i) of the Protective
Order in State v. Amerada
Hess, et al.

I hereby determine that the disclosure to certain members of the Legislature of certain confidential information contained in a proposed presentation by Mr. Wilson Condon is necessary pursuant to Section 5(i) of the Protective Order in State v. Amerada Hess, et al.

I have had the opportunity to review this material when it was presented to me last July. Given the Legislature's expressed desire to exercise its oversight responsibility with respect to the conduct of this executive branch activity, I believe it is necessary to make a presentation such as this to give them the understanding I believe they need to effectively exercise that responsibility. The only way we can inform the Legislature about any of the precise details of this litigation is by resort to information which has been classified by the defendants as confidential pursuant to the Protective Order. I believe the Legislature needs to develop an appreciation for some of these precise details to effectively fulfill its role with respect to this litigation.

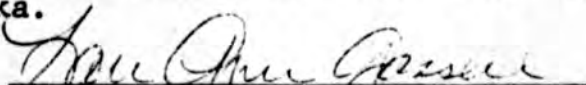
Sincerely,



Grace Berg Schaible
Attorney General

GBS:jf

SUBSCRIBED AND SWORN TO before me this 21st day of
January, 1988 at Juneau, Alaska.


Notary Public, State of Alaska

My commission expires: 1-19-90

January 21, 1988

Joint Meeting of Senate Special Committee on Oil and Gas and
Senate Judiciary Meeting

Briefing by Wil Condon on the Amerada Hess Royalty Litigation

TO TESTIFY:

BRUCE BOTHELO or BOB MAYNARD, Attorney General's office

Will review the progress of the interagency working group.

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QUESTIONS:

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How has this affected the state's position or strategy?

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4) Have the individual producers maintained consistency in presenting their pricing methodology? If not, was the state informed when a change in methodology occurred?

5) Some have suggested that even if these issues are resolved in court, wellhead pricing is inherently complex to administer and prone to abuses. Shouldn't the state be looking for alternative pricing methodologies to avoid future disputes over value on both the royalty and the tax side?

EXHIBIT A
AGREEMENT TO BE BOUND BY
PROTECTIVE ORDER

I, _____ (print or type
name), am employed by _____.

I hereby acknowledge that I have received and read a copy of the Protective Order entered in the action pending in the Superior Court for the State of Alaska, First Judicial District of Juneau, entitled STATE OF ALASKA, et al. v. AMERADA HESS CORPORATION, et al. (No. 1 JU 77-847 Civil), and understand the limitations it imposes on the use and disclosure of information designated as "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL." I agree to be bound by all of the terms of such Protective order.

DATED: _____

9/14/84
 REC. FILE _____
 CLERK'S _____
 ON DATE _____
 INDEX No. _____

IN THE SUPERIOR COURT FOR THE STATE OF ALASKA
 FIRST JUDICIAL DISTRICT AT JUNEAU

STATE OF ALASKA,

Plaintiff,

COMMISSIONERS OF NATURAL
 RESOURCES, STATE OF ALASKA, and
 DIRECTOR OF THE DIVISION OF
 LANDS, STATE OF ALASKA

Involuntary Plaintiffs,

vs.

AMERADA HESS CORPORATION;
 ATLANTIC RICHFIELD COMPANY;
 BP ALASKA INC.; BP ALASKA
 EXPLORATION, INC.; EXXON
 CORPORATION; GETTY OIL COMPANY;
 HUNT INDUSTRIES; CAROLINE HUNT
 TRUST ESTATE; LAMAR HUNT TRUST
 ESTATE; WILLIAM HERBERT HUNT
 TRUST ESTATE; N.B. HUNT; THE
 LOUISIANA LAND AND EXPLORATION
 COMPANY; MARATHON OIL COMPANY;
 MOBIL OIL CORPORATION; OHIO
 PETROLEUM COMPANY; CHEVRON
 U.S.A., INC.; PLACID OIL COMPANY;
 and PHILLIPS PETROLEUM COMPANY,
 PARTNERSHIP PROPERTIES, CO., a
 Colorado general partnership;
 PETRO-LEWIS CORPORATION, and
 AHOCO PRODUCTION COMPANY,

Defendants.

Hallen, Partner, & Gordon

SEP 14 1984

RECEIVED

FILED IN THE TRIAL COURTS
 STATE OF ALASKA, FIRST DISTRICT
 AT JUNEAU

SEP 11 1984

Clerk of Court

By PB Deputy

No. 1JU-77-847 Civil

PROTECTIVE ORDER

In order to facilitate expeditious discovery while protecting the confidentiality of business and governmental records, the following Protective Order is entered:

1. (a) Any party may designate as "CONFIDENTIAL" any information produced, filed, or otherwise disclosed by it in this action. The designation shall be based on a good faith belief that the designated information consists of proprietary business information or sensitive governmental information not normally available to the public or to persons or entities outside the party and its affiliates (or nonparty source as defined in

paragraph 2). Information so designated may be disclosed only to the extent set forth below. A party may at any time serve a written notice of objection to the designation of information as "CONFIDENTIAL". The notice shall identify specifically the information from which the objecting party wishes to have the designation removed and specify the reasons for wishing to do so. Within 30 days of actual receipt of such notice, the designating party or nonparty source shall notify the objecting party in writing whether the designating party or nonparty source will agree to remove the designation as requested. Absent such agreement, the objecting party may move for an Order declassifying the specified information.

(b) Any party may designate as "HIGHLY CONFIDENTIAL" information produced or disclosed which the party determines in good faith is of such a high level of sensitivity that its disclosure to current employees of one or more parties could result in material competitive prejudice to the party or nonparty source disclosing such information; provided, however, that any such information more than one year old shall not be designated "HIGHLY CONFIDENTIAL" in the absence of an accompanying statement of the reasons therefor. Any party may, within 30 days after receipt of such "HIGHLY CONFIDENTIAL" information more than one year old and accompanying statement of reasons, object to the designation, in which event the party so designating the information shall be required, within 30 days after receipt of any such objection, to move for an order of the court confirming said designation. The information shall be treated as "HIGHLY CONFIDENTIAL" unless and until the designation is modified by court order, or the designating party has failed to move as required hereinabove. If information is properly designated as "HIGHLY CONFIDENTIAL" at the time of its production, the fact that it becomes more than one year old shall

not affect its designation.

(c) Except as expressly provided herein, no person or entity who is not presently a party to this action shall be afforded access to any information designated as "CONFIDENTIAL" or as "HIGHLY CONFIDENTIAL" without further order of the court.

2. The provisions of this Protective Order apply equally to any person or entity not a party ("nonparty source") who provides information in the form of documents, testimony, or otherwise in this action.

3. (a) The designation of information as "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL" shall be made by placing or affixing on it a legend reading as follows:

CONFIDENTIAL MATERIAL [or HIGHLY
CONFIDENTIAL]. Not to be used, copied, or
disclosed except in accordance with Protective
order, State of Alaska, et al., v. Amerada
Hess Corporation, et al., Superior Court for
the State of Alaska, No. 1JU-77-847 Civil.

(b) A party to this action or nonparty source may designate any part of deposition testimony in which its own information is disclosed, directly or indirectly, as "CONFIDENTIAL" or as "HIGHLY CONFIDENTIAL" by advising the reporter at the time of the deposition or within ten days of receiving a copy of any transcript ordered on an expedited basis. The reporter shall annotate the transcript accordingly and, if such transcript is required to be filed with the court, shall file the transcript under seal with the clerk. If information in the transcript is not designated as "CONFIDENTIAL" or as "HIGHLY CONFIDENTIAL" until after the reporter has disseminated copies thereof, the reporter shall notify each

recipient of the designation, and such recipient shall apply the legend required by subparagraph 3(a).

(c) During the period between the date of the deposition testimony and the tenth day after receipt of the transcript thereof, all deposition transcripts and exhibits marked therein shall be treated as "CONFIDENTIAL," except that any portions designated as "HIGHLY CONFIDENTIAL" shall be treated as provided in paragraph 7.

4. Information designated "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL" under this Protective Order shall be used solely for matters relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and shall not be used or disclosed for any other governmental, business, competitive, or other purpose whatsoever, unless the party or nonparty source furnishing such information consents in writing to such other uses. Such information shall be kept in secure, limited-access facilities and may be disclosed only as set forth below. Until further order of the court, counsel for each party shall retain the originals of each Agreement in the form attached hereto as Exhibit A. With respect to information designated "HIGHLY CONFIDENTIAL," counsel for each party shall also maintain until further order of the court a list of any persons given access to such information by that counsel, and a description of the information disclosed.

5. Counsel for a party who obtains from any source information designated as "CONFIDENTIAL" under this Protective Order may disclose or permit disclosure of such information only to the following:

(a) Outside counsel for any party working on matters relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and paralegal and clerical employees of law firms which serve as outside counsel;

(b) Corporate attorneys, regularly employed by a corporate party or its parent or subsidiaries, working on matters relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and paralegal and clerical employees assisting them;

(c) The Attorney General, the Department of Law attorneys working on matters relating to royalties or taxes pursuant to AS 43.21 or as 43.55 claimed to be due to the State of Alaska, and paralegal and clerical employees assisting them;

(d) Personnel of the Alaska Court System;

(e) Court reporters in any jurisdiction, who are engaged in proceedings relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and who, prior to disclosure, have agreed to be bound by this Protective Order by executing an Agreement in the form attached hereto as Exhibit A;

(f) Outside consultants or experts, and their employees and assistants, retained to assist counsel with respect to matters relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and who, prior to disclosure, have agreed to be bound by the terms of this Protective Order by executing an Agreement in the form attached hereto as Exhibit A. The term "outside", as used in this subparagraph and elsewhere in this Protective Order, refers to a person who is not an officer or employee of a party to this action;

(g) Employees of the Departments of Natural Resources or Revenue assisting counsel for the State of Alaska on matters relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and who, prior to disclosure, have agreed to be bound by the terms of this Protective Order by executing an Agreement in the form attached

hereto as Exhibit A;

(h) Any witness, who, prior to disclosure, has agreed to be bound by the terms of this Protective Order by executing an Agreement in the form attached hereto as Exhibit A. In connection with issuance of process to compel attendance of a witness at a deposition or other proceeding the parties agree that such process may include a notice specifying that information disclosed at such deposition or other proceeding shall be disclosed and is protected pursuant to the terms of this Protective Order, in which event the witness, who shall be served with a copy of this Protective Order, shall not be required to sign the Agreement in the form attached hereto as Exhibit A. Any witness to whom such information is disclosed may not retain such information, or any notes, compilations, or other materials derived from such information, after the conclusion of his or her testimony, unless such witness is a person to whom counsel is otherwise entitled to disclose such information under subparagraphs (a) through (g) hereinabove or such witness is itself the source of such information; and

(i) Any present or former officer, director, or employee of a party whose participation is determined to be necessary by counsel of record for that party and who, prior to disclosure, has agreed to be bound by the terms of this Protective Order by executing an Agreement in the form attached hereto as Exhibit A.

6. Information produced under this Protective Order disclosed to employees of the Department of Revenue shall be deemed to be data obtained from a taxpayer in a report or return made under AS 43.21 or AS 43.55 and shall, in addition to the protection afforded by this Protective Order, have the confidentiality provided by AS 43.05.230 and applicable regulations thereunder; provided, however, that transactional

data more than one year old consisting of sales price, volume, gravity (API°), date of shipment, transportation costs, delivery point, and date of delivery in the sale, exchange, or other disposition of Alaska North Slope Crude Oil or gas which is provided to the Department of Revenue for use in a tax proceeding, shall be kept confidential as provided by AS 43.05.230 and the applicable Department of Revenue Regulations, and the Department of Revenue shall not be subject to the other provisions of this protective order with respect to such data which is more than one year old.

7. (a) Disclosure of information designated as "HIGHLY CONFIDENTIAL" shall be limited to those persons described in subparagraphs 5(a) through 5(h).

(h) Persons described in subparagraph 5(f) and 5(h), who are officers or employees of any company or entity, or affiliate or subsidiary thereof, engaged in the exploration, production, trading, transportation, refining or marketing of oil or gas:

(i) shall not be provided with any "HIGHLY CONFIDENTIAL" information except upon actual notice to the party or nonparty source furnishing such information five business days in advance of disclosure; provided that if such notice is given no party or person acting on behalf of or at the instance of a party, other than the party providing such notice shall contact the expert, consultant, or witness nor subject such person to discovery to inquire into matters arising within such person's consultation with the notifying party, except as provided in Rule 26(b)(4); and

(ii) shall not disclose any information subject to this Protective Order to his employer or any representative thereof or utilize this information as the basis for gaining any competitive advantage over any party or nonparty

source.

(c) Persons described in subparagraph 5(g) shall not be permitted to use any information subject to this Protective Order as the basis for gaining any competitive advantage over any party or nonparty source furnishing information in connection with the disposition by the State of Alaska of royalty oil and gas.

(d) Information designated as "HIGHLY CONFIDENTIAL" may be disclosed to persons described in subparagraph 5(h), provided that (unless such witness is a person to whom counsel is otherwise entitled to disclose such information under subparagraphs 5(a) through 5(g) hereinabove) no such person is permitted to retain such information, or any notes, compilations or other materials derived from such information;

8. Except with the written consent of the party or nonparty source who furnished such information, counsel for any party or any other person who obtains access to information designated as "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL" under this Protective Order shall not use or make copies, duplicates, extracts, summaries, or descriptions of the information or any portion thereof except as may be reasonably necessary in connection with preparation for and trial or hearing of matters relating to royalties or taxes pursuant to AS 43.21 or AS 43.55 claimed to be due to the State of Alaska, and any appeals therefrom. Any such copies, duplicates, extracts, summaries, or descriptions shall be marked with the appropriate legend as set forth in subparagraph 3(a) and accordingly be treated as "CONFIDENTIAL" or as "HIGHLY CONFIDENTIAL", under this Protective Order.

9. The provisions of this Protective Order shall not apply (a) if the party asserting confidentiality specifically

waives in writing the protective conditions set forth in this Order with respect to the use of any information, whether generally or for a specified purpose, or (b) if information is lawfully acquired by a party or its counsel, without use of or reliance upon any information designated by the other party or any nonparty source as "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL." Under either circumstance the information may be disclosed by the State or any defendant without regard to the provisions of this Protective Order.

10. All depositions in this action shall be held in the presence only of the deponent, officers of the court (including the reporter), and persons described in paragraph 5. Persons not permitted, pursuant to paragraph 7, to have access to information designated as "HIGHLY CONFIDENTIAL" may be excluded from any depositions during such times as information designated as "HIGHLY CONFIDENTIAL" is being disclosed.

11. (a) To the extent that a document to be filed with the court may reveal information designated as "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL", any portion of the document containing designated information shall be marked as set forth in subparagraph 3(a) and filed in a sealed envelope. The service copies shall also be so marked. All copies shall be withheld from public disclosure as provided herein, except upon order of the court.

(b) The use of any information designated as "CONFIDENTIAL" or "HIGHLY CONFIDENTIAL" in any court proceeding shall not cause it to lose its designated status, and the parties shall take all steps reasonably required to protect its confidentiality during such use. The parties should cooperate in advance of trial or hearing to minimize the need for continuing the protected status of such information.

12. (a) The provisions of this Protective Order shall

survive after termination of this action. All parties and persons subject to this Protective Order shall take reasonable precautions to maintain the information in accordance with the terms of this Protective Order.

(b) The clerk shall maintain under seal all papers filed under seal with the court as to which a claim of confidentiality was made.

13. The court may modify this Protective Order at any time for good cause shown and upon notice to the affected parties.

14. Nothing in this Protective Order limits in any way the authority of the Department of Revenue to conduct tax audits or investigations or to independently obtain or use information in the conduct of such tax audits or investigations.

IT IS SO ORDERED this 11th day of September, 1984.

Walter L. Carpenetti
WALTER L. CARPENETTI
SUPERIOR COURT JUDGE

CERTIFICATION

The undersigned certifies that on the 12 day of September, 1984, a true copy of this document was served on the following attorneys:
Robert Maynard; Wilson Condon; Carl Bauman;
David Nelson; Wm. Rosell; John Norman; Arden Page;
CLERK OF COURT (JUNEAU).

17 *P.R. Locke*

034565

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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David Nelson, Wm. Rosell, John Norman, Arden Page;
CLERK OF COURT (Jury).
17 *P.R. Loe*

1/21/88

BE	Sturg	Menard	Amerasia Hess Briefing
Coghill	Joe	Miller	
Fischer	Kerstula	Pierce	
	Halford	Martin	
		Huley	

Bob Maynard

Leg needs to know info.

- 1) large amounts \$ - conspiracy 300 - 2 billion
- 2) Policy decisions on how OAG should be valued
- 3) cannot make decision w/o
- 4) Leg must appropriate \$ for litigation

Protective order - can be if "need to know"
AG

2 levels -

- 1) confidential
- 2) highly confidential

AG memo - is rec pursuant to 5(i) of protective effectively exercise oversight responsibility

Originally asked for waiver -
Now "highly confidential" is deleted.

Joe what is prejudice?

Protective order doesn't include legislators

Kirk Congress knows, AG knows
but leg doesn't.

Maynard

Tapes on list marked as "confidential"

Administration — working group —

valuation of state's royalty ~~for~~ share 1977-86

cleaning costs resolved in 1980-1

Internal working group —

meet regular basis —

DNR, Rev, OMB, AG schedule, Maynard, B. DeLo
Eason DNR, Fleishinger DOR.

Policies + goals.

BBE

"void" — legislature missing.

Condon Value of oil at PS#1

Kuparuk + PB — on state land.

Selected in 1963 — Statehood Act.

Same submerged land at Statehood.

1st lease sale Dec. 1964 — (most of Kuparuk)

Offered in ^{July} 1965 — (most of PB)

in 1967 — offshore — gas cap discovered

Reoffered Sept 1969 = 900 million

Lease form — drafted by Territorial.

Royalty provisions

several of's together.

State & producers disagree on some parts -

Can take in value or in kind -

Since 1979 - $\frac{1}{2}$ in kind, $\frac{1}{2}$ in value.

Tied most sales to 4th outcome.

Some not - (2 competitive sales)

ALPETCO

Lease For -

41 11 12.5% amount or value

41 14 Royalty in kind

41 15 Value 41

"The field market value at the well"

41 16 Price 41

shall not be less than the highest of:

2) Posted

3) prevailing price rec'd by after producers

Establish minimum -

might be higher than price rec'd.

Mechanically tied to specific transaction

Agree - min - is set -
could be more

Lessee's agree —
no sale at well —
none else either

State —

No transactions at Christmas free —
should count if sale to 3rd party —
wherever they occur, with back to well.
if #1, Valdez, Ant. use sales at those points

3) Look at other's deals.

Hal

Other interpretation

Cond

Companies — done the best job marketing —
then — don't apply other's deals

Burden on state to prove other's are higher —
Some companies don't sell —

Aug

Different approaches —

Cond

12

Facts

is part of case determining intent of original
lease drafters?

Con

yes — Defendants not together.

Cord

In 1964 - used standard form -
no deliberations on how should apply to ANS.

Statehood approaching.

Everett Brown. from BLM
collected lease forms from the states OK, Texas, LA.
Wist O & G A

hired BILL DYER

Dept of Int.

Draft at pub hearing in Dec.

During 1st session Land Act revised.
from Brandt & Connors to Fred

4/15

DNR Connors

Phil Holdworth - used special
approval

hired consultant - draft new

WOBs - comments on draft. - hired

WANVIK - depositions taken.

Martin

why does it take so long.

Cord

Co's different #'s - not all right.
State look at it all.

need to look at market facts -

trial 10/89 appeal 1 1/2 years 1992
can't decide in a vacuum.

Martin

change lease form?

Cord

Everett - 1/2 ^{build} new 1979 form

39% Knapik 1982 form - different

Myrdal body of expertise to find new solutions.

Joe Range of \$ - ?

Con have claimed refunds

Joe interpret against drafter (State)

May Court did not apply against state.

Joe ~~State court~~ - Suit in Federal Court.

Fisher stop spending \$

May costs drop after trial -

Now - experts - acct's
\$ 6 million

Cond

Need, accurate, reliable data -
crude production to disposition -
complicated -

Oil delivered in April at Gulf

Royalty obligations are monthly -

Some co's kept good records -

Exxon good. - others from tankers but not tied
Million pages of documents - most expensive
25,000 tanker loads
100,000 deliveries 5 billion barrels.

May Side benefits - database useful for tax analysis

2) Require reporting in future.

Fitz

Jo ~~Establish~~ Continuing expenditures?

Mon Costs but not as much

RF look at statutory changes to require reporting.

Condn. Average Mktl.

can't use prices rec'd

Disposition Breakdown -

None sold - ALL EXCHANGED →

per value on Exchanges.

2-5-88

BRIEFING ON
Oil & GAS
(JOINT with
SENATE RES.)

JOINT SENATE RESOURCES COMMITTEE AND SENATE OIL AND GAS

February 5, 1988

1:38 p.m.

MEMBERS PRESENT

Senator Jack Coghill, Chairman
Senator Bettye Fahrenkamp, Chairman
Senator Paul Fischer
Senator Jim Duncan
Senator Fred Zharoff
Senator Arliss Sturgulewski
Senator Dick Eliason
Senator Fanning

COMMITTEE CALENDAR

SENATE BILL NO. 304

"An Act relating to filing and recording, recordable documents, conveyances, plats, and platting authorities; and providing for an effective date."

Overview of the oil and gas policy management accounting practices

WITNESS REGISTER

Hugh Malone, Commissioner
Department of Revenue
P.O. Box S
Juneau, Alaska 99811

Bill Van Dyke
Petroleum Manager
Division of Oil and Gas
Dept. of Natural Resources

Chat Chatterton, Chairman
Oil and Gas Conservation
Committee
Department of Commerce
and Economic Development
3001 Porcupine Drive
Anchorage, Alaska 99501
(Testified via teleconference)

Bob Maynard
Assistant Attorney General
P.O. Box K
Juneau, Alaska 99811

PREVIOUS ACTION

SB 304 - See Resource Committee minutes dated 1/20/88, and 1/27/88.

ACTION NARRATIVE

TAPE 1, SIDE 1
Number 001

Senator Coghill called the Senate Resources meeting to order at 1:38 p.m.

Number 014

#SB304

The first measure to come before the committee was Senate Bill 304. Senator Coghill noted there was an amendment on the second page of the bill. He said section 5 was added which read, "(5) instructions that explain to the public the formal requirements that a document must satisfy to be recorded."

Number 33

Senator Sturgulewski moved for the adoption of the committee substitute for Senate Bill 304, Resources and asked unanimous consent. Senator Coghill asked if there were any objections. Hearing none, it was so ordered.

Senator Coghill informed the members the committee substitute for Senate Bill was before the committee. Senator Sturgulewski made a motion to move the bill with individual recommendations. Senator Coghill asked if there were any objections. Hearing no objections, the motion passed.

#

Number 091

Senator Coghill announced the next item on the agenda would be an overview of the oil and gas policy management accounting practices. Mr. Bill Van Dyke, Petroleum Manager for the Division of Oil and Gas within Department of Natural Resources was first to testify before the committee.

Mr. Van Dyke said he would be giving a brief overview of the royalty accounting and management of oil and gas. He said the oil is made pipeline quality, then it flows to pump station one where there is a royalty meter. From the meters there are meter tickets produced. He said that is the official spot where royalty is measured and volume is accounted for. Mr. Van Dyke informed the members that Standard Oil is the oil movements coordinator at Prudhoe Bay.

Mr. Van Dyke said they receive meter tickets, operative reports and a monthly royalty report which is filed by each of the lessees. They then cross check what comes in on the royalty reports to make sure it matches up with meter tickets, operative reports and numbers that the Alaska Oil and Gas Conservation Commission (AOGCC) has provided.

Number 190

Senator Eliason asked why a bank in Pennsylvania is used. Commissioner Hugh Malone said the First Pennsylvania Bank is a clearing bank and they are capable of providing services at a national level.

Mr. Van Dyke said as oil is produced at Prudhoe Bay it goes through cleaning and separation facilities. Some of that gas produced is burned as fuel to run equipment and provide heating. He said there is no royalty due on that gas.

He said there is a certain amount of oil that goes through the crude oil topping plant. Mr. Van Dyke noted there is a small refinery which makes diesel. He informed the committee members diesel is used mostly for well operations.

Number 260

Senator Sturgulewski asked how gas liquids are handled. Mr. Van Dyke said the gas liquids are blended with the crude oil, then the combined mixture goes through pump one and is metered. Senator Sturgulewski asked if there is a royalty determination on the combined mixture and asked what the value of product is. Mr. Van Dyke said they are presently having a disagreement determining what type of processing fee should be deducted. He said the disagreement is determining whether it should be the Prudhoe Bay field cost that was agreed on or a different number.

Number 284

Senator Sturgulewski asked if it is recorded separately so a value can be established. Mr. Van Dyke said the natural gas liquids are produced at a natural gas facility in Prudhoe Bay and that volume coming out is metered.

Senator Coghill noted there are four meters that are being tracked. One is for the liquids, one off the diesel plant, one from the Kuparuk oil field and the main meter at pump one.

Number 306

Mr. Van Dyke said the main meter for Prudhoe Bay is at pump one. He noted Kuparuk, Lisbourne and Endicott have separate meters and they all feed into pump one.

Senator Fahrenkamp asked if the figure of 40,000 is a correct figure for natural gas liquids. Mr. Van Dyke said some days there are 50,000 to 55,000 barrels output per day and there are hopes the plant could output more. Mr. Van Dyke said they receive the volume numbers on the royalty tickets and royalty returns. They then prepare bills for

inkind purchasers such as Mapco, Petrostar, Chevron, etc. for the volumes taken.

Senator Fahrenkamp asked if the state gets royalty on all the natural gas the companies burn. Mr. Van Dyke said not on the gas burned in the field. He said they receive royalty on the gas that is sold to Alyeska. He informed the members the first four pump stations use natural gas for fuel. Senator Fahrenkamp asked Mr. Van Dyke how he thinks the accounting procedure is working.

Mr. Van Dyke said he believes the system is working very well. He also noted there has been an independent petroleum accounting firm that has looked at the system and indicated they felt comfortable with it. He noted Legislative Audit looks at the records every other year.

Number 408

Senator Coghill asked if the gas, which is used to run the camps, is metered. Mr. Van Dyke said the gas used by Arco and Standard is used for free and the gas sold by a third party is metered. He also said 1/8 of the gas they burn, if sold somewhere else, would have a 1/8 royalty.

Mr. Van Dyke said when the central gas facility at Prudhoe Bay came on line, natural gas liquids were produced and shipped down the pipeline, the producers filed their monthly royalty return including their share of the natural gas liquids. They deducted a processing fee from the reported value.

Number 450

Senator Coghill asked how the volume is tied through the meters, to a price, when there isn't an established price. Mr. Van Dyke said the producers report a price.

Number 471

Mr. Robert Maynard, Assistant Attorney General came before the committee. He said the companies pay a royalty on all oil taken out of the system that is used by the pump stations below pump four. He said they report a number and the state can disagree with the number. Mr. Maynard said they do record and pay a royalty on those amounts. He referred to the natural gas used for field fuel and noted there is not a royalty obligation on that. Mr. Maynard stated the royalty question arises only when gas is removed from the unit.

Number 493

Senator Eliason asked at what point, certainly not at the well head, certainly not a pump station one where they have the count, is it at the market place on that particular day, that the oil is being delivered to that market. Is that where the final figures come from or how do you work that. Mr. Maynard said some of the companies accounted for the price of the oil as it value day it was removed from the field, the day it actually entered pump station one. Some of the companies value the oil on the day it actually arrived in the lower 48.

Number 509

Senator Coghill referred to the product going through pump one and the meter, it is laced with gas liquids, it goes into their system, they take their cut and put the balance back into the line and send it down through. Senator Coghill asked how value is determined for the product that is going to the refineries. Mr. Maynard said they are taking the position that once the gas liquid is butted with the oil stream, it becomes oil. He said the companies are taking the position that the gas liquids are not oil and should be treated as something different. Senator Coghill asked if the value of the oil is increased because it is being laced with gas.

Number 534

Mr. Maynard said the companies are trying to charge \$4 to \$7 as a processing fee for every barrel treated as gas liquids. Mr. Maynard said the oil companies are trying to say that every barrel they treat as gas liquids, are entitled to a processing fee of \$4 to \$7 per barrel. If it is treated as oil they only get \$.70. He said once it goes into pump one, the whole stream value is raised.

Number 568

Mr. Maynard told committee members there is a fairly complex accounting system used by the TAPS System called "quality bank" which charges or penalizes individual shippers, depending on whether it is crude or gas liquids, that are being injected into the system. If higher gravity crudes are being injected, there will be a credit. If lower crudes are being injected a company would have to pay more into the quality bank. He said the quality bank is supposed to equalize the cost of transporting crude oil of different grades

Number 602

Senator Fahrenkamp referred to unitization and how its done. She asked Mr. Van Dyke to explain how it works.

Mr. Van Dyke said they offer individual oil and gas leases for sale and administer those leases. People go onto those leases and drill exploratory wells. If they are successful and the surrounding lessees are successful, they would unitize, they join together and through a written agreement. They operate that field as if it were one big oil and gas lease.

Senator Fahrenkamp asked what the criteria is to determine who participates in the unit. Mr. Van Dyke said the people who have leases over that common oil and gas pool are the ones who are entitled to participate in that unit agreement.

Number 633

Senator Fahrenkamp asked if there is specific criteria of who makes the bottom line decision and what is the system of appeal.

TAPE 1, SIDE 2
Number 001

Mr. Van Dyke said they petition the commissioner and ask to come into the unit. The commissioner decides based on the technical information that is presented. He noted there are appeal rights. Mr. Van Dyke stated the Conservation Commission has that same authority on all leases in the state.

Number 041

Senator Fahrenkamp referred to not having a set criteria and asked if it is determined by each unit. Mr. Van Dyke told her it is determined by each application.

Number 105

Senator Coghill asked if the state has a formula to add acreage that has been dropped. Mr. Van Dyke said if someone goes outside an existing unit and drills, finds oil and gas, that is clear evidence of a find. He said he couldn't see how it could be denied to bring that lease in.

Senator Fahrenkamp referred to Sale 54 and asked who bid, what was taken in on it and what method was used. Mr. Van Dyke showed a map with some summary information on it. He stated there was a lot of competition for those tracts. Senator Fahrenkamp asked how people are notified of a sale. Mr. Van Dyke noted there is a mailing list and, as people call in, they are added. He noted they send notices to trade journals such as the Oil and Gas Journal and publish notices in local papers.

Senator Fahrenkamp asked what the incentives were on the sale. Mr. Van Dyke said they offered exploration incentive credit. Someone bids and wins a lease, they drill an exploratory well, they are allowed to credit 15% of that well cost or so many dollars per foot, against rents and royalties due the state.

Number 207

Mr. Van Dyke said the commissioner and Governor wanted to know what Canada and other states were doing as far as incentives. He said they then compiled a comprehensive report of a listing and analysis of what laws other states actually put on the books. He said they discussed, with the commissioner, which of those laws might or might not make sense for Alaska. He said they are presently under advisement. Senator Fahrenkamp asked that the committee be kept informed as to the status regarding the advisements.

Number 236

Senator Fahrenkamp referred to legislation passed, last year, regarding exempt sales. She asked if there has been any exempt sales held. Mr. Van Dyke said there was an amendment to statute number 38.05.035. He said those provisions will be used in a sale this coming June.

Number 256

Senator Coghill referred to lease sales and asked if all lease holders, in a particular lease sale, would have the same terms and conditions when they are issued. Mr. Van Dyke said in the most part all the terms and conditions for a lease sale are identical.

Number 321

Senator Fahrenkamp referred to Dr. Stansilaw from Cambridge Energy testifying before the Finance Committee. Dr. Stansilaw had said prices could go to \$12 and even lower. She asked if there is any kind of a provision in any policies of the department where the state, on their royalty part, could decrease production or have any control of what is produced.

Number 363

Mr. Maynard said this was looked at during the end of the Sheffield Administration. He said there are potential options but if the state went in and tried to close out Prudhoe Bay, lateral consequences occur elsewhere. He said there is a concept of economic waste which is sometimes used, as a basis, for regulating production. He said the Texas Railroad used this concept to cut production in Texas

when the prices dropped. Mr. Maynard said there is nothing in the state's leases which would allow that particular concept. He said the concept primarily used by the Oil and Gas Commission deals with physical waste in which economic considerations are a secondary consideration.

Number 390

Senator Fahrenkamp asked Mr. Maynard if there is a need for a statutory change? Mr. Chatterton said there are four oil producing states which have language in their statutes that deal with economic waste. He said the the U.S. can't do much to control the world price of crude even with our eight million barrels per day production. He said he didn't know what could be done to prevent this.

Number 434

Mr. Maynard said that preventing negative well head values and the possibility raising an already adequate price to a higher level are two different things. He said the only way the state would be able, under present law, to cut back production would be under the rubric or an announced goal of preventing waste of the resource.

Number 480

Senator Coghill referred to the lease and production contracts the state presently has in place. He asked if the state couldn't go to a statutory authority saying that economic waste, of our resource, is when oil is being pumped out at a negative return to the state. Mr. Maynard said theoretically the lease is still subject to exercise of governmental powers over conservation.

Number 494

Senator Fahrenkamp asked if we couldn't take our oil and put it into a holding tank. Mr. Chatterton said we could have our own Alaska strategic petroleum reserve and put royalty oil into it. He noted that we don't get any royalty until the environmental oil is captured and then we get 1/8 of the barrel. He said we could take all the 1/8 of the barrels and reinject it into a subsurface reservoir and bank roll it. Mr. Chatterton noted the only problem is we may not get all the oil back.

Number 529

Senator Fahrenkamp referred to under lifted provisions in cases of emergencies and asked if under lifting can go into effect in the case of waste and, if it could it be changed statutorily. Mr. Maynard told her the answer was no to both questions.

Number 538

Senator Fahrenkamp asked Mr. Chatterton if he believes the accounting system is working. Mr. Chatterton said their part is to try and assure the people of Alaska that the oil is being produced at "severed them from the property," and is accounted for, measured properly and honestly, and the quality of the oil is recorded and reported. He said there is not a question in his mind that a top notch job is being done.

Number 568

Senator Coghill asked Commissioner Malone to come before the committee. Senator Coghill asked if Mr. Malone feels the accounting procedures are satisfactory and protect the public's interest.

Number 583

Commissioner Malone said in as far the accounting and physical production of oil and gas leases in the state goes, he believes the information is adequate. It is basically the same system the producers are using. He said the real problem comes in when the engineers leave and the accountants take over.

Commissioner Malone referred to the zero well head value as it affects the tax area and said there is a legal way for the state to protect itself. That is to put a floor on severance tax. He said there is a way to do this on the tax side but royalty is more complicated because it is a contract.

TAPE 2, SIDE 1
Number 001

Mr. Malone noted he believes the state needs to make efforts in making sure they have information, on a current basis, that is in much greater detail than is being received at the present time. He indicated this problem could be brought up to date.

He said what can't be fixed are the complexity of the transactions that are inherent in national and international businesses.

Number 061

Senator Coghill asked if there isn't a way that certain reporting structures would be required.

Mr. Malone said the state does need to make more of an effort, on a current basis rather than a project basis, to

get data. The executive and legislative branches should be reviewing the data to make sure the tax and royalty laws are being administered. He suggested the legislature look at the structure of the laws to see if there are ways that the law could be made more simple. He said it would be best to do it through the legislative process.

Number 102

Senator Fahrenkamp asked in the event of oil spills, hazardous waste cleanups or bankruptcy, are their bonds sufficient to cover the cost.

Mr. Van Dyke referred to the oil and gas leases at Prudhoe and Kuparuk. The operators are required to post a bond to cover those lease operations and activities. Senator Fahrenkamp asked if the bonds are sufficiently covering spill areas? Mr. Van Dyke said as far as oil and gas operations and leases go, the bonds are sufficient.

Number 170

Mr. Chatterton said by regulation, the commission requires a \$100 thousand bond as a condition for issuing a permit for drilling a single well. A \$200 thousand bond is required for two or more wells. He said the \$100 thousand would be insufficient if the operator walked away. He also noted if the bonds were raised to a higher amount, it would be bad for independent operators as it is more difficult for them to obtain bonds.

Number 225

Senator Coghill told the committee these issues would be scheduled, before the Senate Resources Committee, at a later date. He adjourned the meeting at 3:23 p.m.

2/5/88

Cog Fanning
BF Eliason
Fischer Stojewski
Druca

Joint w/ Senate Resources
+ Senate Special Committee on
Oil & Gas.

BILL VAN DYKE — Div. Oil and Gas. —
Petroleum Manager —

Royalty Sub. R.R. and Maryland.

North Slope —

wade pipeline quality → P.S. #1.

royalty meter — meter tickets — volume

and Standard responsible —

also meter for Kuyamuk + monthly royalty reports

Royalty payments were transferred to Bank in
Pennsylvania 1st Pen Bank

Topping plant — diesel — reported separately

~~Sub~~ NGL — separate accounting or value

blended system — so through PS #1
value —

processing fee — Purchase By field costs
or others

Royalty

~~Van Dyke~~

Independent Petroleum
+ Leg Audit — OK.

~~Sub~~

Current?

Vandyle yes. w/in a month.

Blasum meters other place on line -

Vandyle Yes. in Vadder

Arco + Standard use gas for free.

Quality Bank —

requesting higher gravity — credit.
lower — penal. —

differential payments — contribution to stream

relate to tariffs

for equalizing costs —

Unitization —

1) leases —

2) — fields cover

unit agreement to operate as one lease.
operated by one operator.

use well data, seismic, results from development
wells. — amended over time —

or state leases — commissioner makes final
determination

on all leases — AOGCC

looked at circle tangent methods —

2 circles wouldn't overlap

Sale 54 —

happy w # of companies —
dollar per acre but that good —

major bidd against each other.
maintain mailing list. —

Notify —

Early exploration — offered ex mentis credit.

allowed to credit up to 15% of well costs
total % of well or \$ ~~per~~ per foot.

Other incentives —

hosting + analysis of other states —

Exempt sales —

will use in June —
useful in North Slope —
later in Cook Inlet.

Cog

Lease terms + sales?

VinDyk

mostly identical — environmental strips
loyalty

Zero-wellhead — protect royalties?

not aware —

truly to prevent waste of resource.

reinvest royalty oil —

underlifting — for emergency —

triggered by lifting provisions.

Chat

measurements are being done —

meters checked daily.

any oil severed is accounted for accurately.

Malone

information adequate.

same systems that producers use.

floor or severance tax —
incl ELR

80¢ / barrel

4.00¢

difficulty w/ setback —

accounting

- ① better detail from co's.
- ②. gather own empirical data.

Don

look at simplifying tax laws.

Bonds — are they high enough

Chat — ~~commission~~ requires 100,000 bond. — single
200,000 — 2 or more.

would be insufficient for state to cover
down-hole abandonment.

large operators have no problem selling bond.
independents can't get underwriting —

adjourned.

3:20 —

JOINT MEETING OF SENATE SPECIAL COMMITTEE ON OIL AND GAS AND
SENATE RESOURCES COMMITTEE

February 5, 1988

Briefing on State oil and gas management, policies, and
accounting.

TO TESTIFY:

BILL VAN DYKE, Division of Oil and Gas, DNR

CHAT CHATTERTON, Alaska Oil and Gas Conservation Commission
(on teleconference)

ALSO ATTENDING:

DEBRA VOGT, Department of Revenue,

RICHARD FINEBERG, Division of Policy , OMB

BOB MAYNARD, Attorney General's Office

1. Ask for an overview of the division's role in implementing oil and gas policies.
 - A. How do other agencies, Revenue, Law, DEC, Fish and Game, OMB work with you?
2. Recent Oil and Gas Activity
 - A. What's been happening around the state in the oil and gas industry?
 - B. I've heard that the industry is expecting to increase drilling and exploration activity next year. Standard Alaska said it will spend about \$400 million and ARCO indicates it will spend about \$300 million.
 - 1) How does this compare to last year?
 - a) It's about double.
3. Review Five Year Plan
 - A. What lease sales are planned for the next year?

4. Results of Sale #54, Kuparuk Uplands

A. Who bid?

B. Who is notified of our lease sales?

1) We were told by Japanese oil industry executive at a recent conference that they were eager to integrate into upstream activities, like exploration and production. Should the state make an effort to actively solicit more interest in our lease sales?

C. The state offered incentive credits to companies willing to explore within five years. Can you explain how that works? Do you expect to offer these in the future?

1) The division did some research this fall on other tax incentives. Can you comment on the results? Can you explain:

a) Discovery Royalties, or

b) Royalty Holidays

5. Exempt Sales

A. Last year the oil and gas committee sponsored legislation that would help to streamline the exempt sales procedures. We hoped this would allow the division to hold exempt sales in areas of interest to industry in less time. Has this worked? Have you had any or planning any exempt sales?

B. Any other suggestions for legislation?

6. Tracking and accounting for state oil and gas

A. How is throughput determined?

- 1) Is there a meter somewhere? Where?
 - a) Yes. In Prudhoe Bay. But after the topping plant takes out what it needs. How much is that?
- 2) Who checks it? How often?
 - a) DNR checks it every other week. Is that enough?
- 3) Have you noticed any relationship between oil prices and throughput? When prices were at their lowest in 1986, what was the throughput?
 - a) It was high because high profits were being made in the refinery runs.
- 4) Do the other agencies, Revenue and the Oil and Gas Conservation Commission, use the same numbers?
 - a) No. They each have different figures. Why?
 - b) The most glaring example is that the throughput numbers being used for Revenue projections have been low and were recently revised upwards by 50,000 barrels per day to account for the NGL's produced.
- 5) Ask Chat Chatterton how he feels the accounting procedure is working.
 - a) He admits there are problems.

B. Protection of state resources in low or zero wellhead prices.

- 1) Dr. Stanislaw told us yesterday that prices could go to \$12 in the short term. Or even lower. He said there is nothing to stop it from going lower.
- 2) What can the state do in the event that oil prices drop to a level where the netback value is close to zero as it did in 1986? Do we have the authority to restrict production? Underlift?

7. Bonds required for oil and gas leases.

- A. How much is required? In the event of an oil spill or hazardous waste clean-up, and a company declares bankruptcy, are they sufficient to cover costs? Should they be increased?

8. NGL field costs negotiations.

- A. Can you review the background, discuss some of the disputed

issues and bring us up to date on the status of the negotiations?

9. Unitization

- A. Can you explain the procedures the division uses for unitizing oil and gas fields?
- B. What are the criteria for determining participating areas?
- C. How often are they reviewed?
- D. Other states use the "circle tangent method". Wouldn't that be simpler and lead to less controversy?
- E. Ask Chat Chatterton to explain how the Oil and Gas Conservation Commission handles unitization.
- F. Is it consistent with the Division of Oil and Gas? Is there a unified state policy?
- G. Are state resources and state revenues being drained as a result of unitization policies?

April 7, 1987

Katherine Fortney
State Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510-0734

Dear Kate:

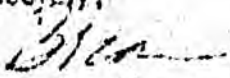
Burglin et al (Burglin) is requesting a written policy from the Division of Oil and Gas regarding P.A. (participating area) review. It is clear under II AAC 83.351 (c) "A participating area must be expanded to include acreage reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities, and must be contracted to exclude acreage reasonably proven through use of geological, geophysical or engineering data to be incapable of producing hydrocarbons in paying quantities, subject to approval by the commissioner. A revised division of interest or formula allocating production and costs must be submitted for approval under II AAC 83.271 at the time of expansion or contraction of a participating area."

The Division of Oil and Gas staff has emphasized initial P.A.'s in their recent decisions concerning P.A.'s. Burglin is requesting the division address Burglin's following concerns:

- (1) How often are P.A.'s reviewed by division staff?
- (2) When does an initial P.A. become a final P.A.?
- (3) How are initial P.A.'s clearly delineated?
- (4) Does the division staff take any initiative to expand or contract P.A.'s based on additional information?
- (5) Does the unit operator have any obligation to expand or contract a P.A. when additional information dictates a P.A. expansion or contraction?

If you have any questions concerning Burglin's request, please contact Brian at 452-5149.

Sincerely,


Brian Burglin

BB/mug

cc: James Eason
Bill Van Dyke
Comm. Judy Brady

Senator Bettye Fahrenkamp
Senator Jack Coghill
Senator Don Bennett

(1)

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

PO BOX 7034
ANCHORAGE, ALASKA 99510-7034

April 17, 1987

(907) 762-4241

Mr. Brian Burglin
P. O. Box 131
Fairbanks, AK 99707

Dear Mr. Burglin:

I have reviewed your April 7, 1987 request to Ms. Catherine Fortney for a written policy regarding the Division of Oil and Gas's review and determination of participating areas (PAs) for oil and gas units.

In brief, the division agrees with you that the determination of participating areas is governed by 11 AAC 83.351, and that the configuration of participating areas, both initial and subsequent, must be determined on the basis of all geological and engineering data available at the time the PA is established or expanded/contracted. It is almost inevitable that some technical information pertaining to the establishment of participating areas will be proprietary, and not available to all parties within or adjacent to the unit; however, the division must, by the terms of 11 AAC 83.351, take all available information into account when approving a participating area.

The answers to your specific questions are as follows:

(1) Reviews of participating areas are generally triggered by internal unit action such as planned expansions or contractions of the unit area, or a request by one or more of the unit working interest owners for expansion or contraction of the participating area. However, the division may initiate a review and revision to an approved participating area on its own volition or at the request of others when new data are presented indicating that such a revision is necessary to protect the state's interest or the correlative rights of others.

(2) Generally there is no such thing as a "final" participating area until unit reserves are depleted. Participating areas are continually subject to review and expansion or contraction based on new technical data. For most oil and gas units, contraction of the unit area to exclude all lands outside of an approved participating area is tied to the date of establishment of the "initial" participating area (the first participating area within the unit). There may be no practical difference between "initial" participating areas and subsequent participating areas if sufficient data are available at the time the initial participating area is approved to confirm the distribution of reserves within the unit area.

How often is it continually?

(3) Initial participating areas are delineated on the basis of all geological, geophysical, and engineering data available to the division at the time the participating area is established. Data may be available from more than one source, and the separate parties, which may not have access to all information regarding the participating area limits, may not agree with one another's interpretations. In the case of conflicting technical data, the division reviews all information available, and makes an independent determination of an appropriate participating area based on the terms of the AAC 83.351.

WHAT SPECIFIC CIRCUMSTANCES
IS USED?

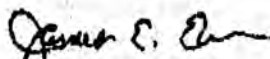
(4) Under certain circumstances, the division has initiated action for expansion or contraction of a participating area, particularly in those instances where data indicate that an existing participating area does not adequately and equitably represent the interests of all parties involved. However, normal practice is for one or more of the working interest owners of a unit to initiate action for expansion or contraction of a participating area. A lessee adjacent to the unit may also initiate expansion or contraction if that lessee possesses technical information showing that such action is warranted.

WHAT SPECIFIC TECHNICAL
INFORMATION?

(5) In general, under the terms of the AAC 83.351, the drill operator, representing the working interest owners of a unit, is obligated to expand or contract when additional information indicates that such an expansion or contraction is appropriate. This obligation is also usually reflected in the provisions of the various unit agreements.

I hope this is responsive to your questions regarding the division's policy in the establishment and expansion/contraction of participating areas. If you have any additional questions on the above, please feel free to contact me.

Sincerely,


James E. Eason
Director

cc: Judith M. Brady, Commissioner
Catherine Fortney, DNR/DO&G
Bill Van Dyke, DNR/DO&G
Cass Arley, DNR/DO&G

Senator Bettye Fahrenkamp
Senator Jack Coghlin
Senator Don Bennett

April 28, 1987

James Eason
Division of Oil and Gas
P. O. Box 7034
Anchorage, Alaska 99510-7034

Dear Jim:

As Burglin et al. (Burglin) understands your 4/17/87 letter, the division generally does not review participating areas unless requested to do so by an interested party.

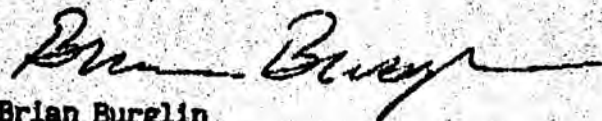
Burglin's concern with this policy is that in undeveloped gas fields there can be many years and substantial drilling activity which change initial geological interpretation before a participating area is reviewed by the division.

For example, the last participating area review and revision for the Beluga River Unit was made in 1977. From 1965 thru 1977 six (6) gas wells were drilled within the Beluga River Unit, during which time there were five participating area revisions of the Beluga River field. From 1978 to 1987 twelve (12) gas wells have been drilled with no participating area review by the Division of Oil and Gas. Mr. Bill Van Dyke confirmed that the Beluga River Unit participating areas had not been reviewed by the division staff in over 1 1/2 years, and was unaware of any Beluga River Unit participating area review since 1978. From 1985 thru 1986 eight (8) additional wells have been drilled in the Beluga River Unit. There is no economic incentive for a unit operator to initiate a participating area expansion or contraction when additional well data confirms, modifies, or rejects initial structural interpretation and estimated productive limits, once the original Working Interest Owners have lost their interest in the surrounding acreage, through unit contraction. Well data is usually confidential to adjacent lease holders or interested parties for at least two years after wells have been drilled.

Burglin feels the State's interest would be better protected if participating areas were reviewed on an annual basis and

1987/4/26/10
this review incorporated into unit plans of a development and operation, especially in undefined gas pools.

Sincerely,



Brian Burglin

BB/kd

cc: Commissioner Brady
Bill Van Dyke
Senator Fahrenkamp
Senator Coghill
Senator Bennett
Commissioner C. Chatterton

11 AAC 83.346
11 AAC 83.356

Plans for rehabilitation of the affected unit area after completion of operations or phases of those operations; and

reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities. Under 11 AAC 83.32(4a), the unit operator also shall submit to the commissioner for approval a proposed division of interest or formula setting out the percentage of production and cost to be allocated to each lease and portion of lease within the unit operating area. Upon approval by the commissioner, the share of production to be allocated to each participating well,

The Act, which permits the Federal Reserve to establish a reserve for the purpose of insuring the deposits of the insured banks, is a part of the general policy of the Government to insure the deposits of the insured banks, and it is a part of the general policy of the Government to insure the deposits of the insured banks, and it is a part of the general policy of the Government to insure the deposits of the insured banks.

[illegible]

AS 38 05 020
AS 38 05 145
AS 38 05 180

11 USC 93.995, APPLICATIONS. Repealed
6/28/81.

AAC 83386. UNIT AREA: CONTRACTION AND EXPANSION. (a) A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

...and the proposed operations, including but not limited to the location and design of well sites, material sites, water supplies, solid waste sites, buildings, roads, utilities, airstrips, and all other facilities and equipment necessary to conduct the proposed operations;

(3) plans for rehabilitation of the affected unit area after completion of operations or phases of those operations; and

(4) a description of operating procedures designed to prevent or minimize adverse effects on other natural resources and other uses of the unit area and adjacent areas, including fish and wildlife habitats, historic and archeological sites, and public use areas.

(e) In approving a unit plan of operations or an amendment of a plan, the commissioner will require amendments he determines necessary to protect the state's interest. The commissioner will not require any amendment that would be inconsistent with the terms of sale under which the lease was obtained, or with the terms of the lease itself, or which would deprive the lessee of reasonable use of the leasehold interest.

(f) The unit operator may, with the approval of the commissioner, amend an approved plan of operations.

(g) Upon completion of operations, the unit operator shall inspect the area of operations and submit a report indicating the completion date of operations and stating any noncompliance of which the unit operator knows, or should reasonably know, with requirements imposed as a condition of approval of the plan. (EIT 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)
Authority: AS 38.05.020 AS 38.05.145
AS 38.05.130 AS 38.05.180

11 AAC 83.350. APPROVAL OF FEDERAL UNITS. Repealed 6/28/81.

11 AAC 83.351. PARTICIPATING AREA. (a) At least 90 days before sustained unit production from a reservoir, the unit operator shall submit to the commissioner for approval a description, based on subdivisions of the public land or its aliquot parts, of the proposed participating area. The participating area may include only the land

reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities. Under 11 AAC 83.321(a), the unit operator also shall submit to the commissioner for approval a proposed division of interest or formula setting out the percentage of production and costs to be allocated to each lease and portion of lease within the participating area. Upon approval by the commissioner, the area of productivity constitutes a participating area.

(b) A separate participating area must be established as provided in (a) of this section for each reservoir delineated, except that with the consent of the commissioner and all working interest owners, any two or more reservoirs or participating areas within the unit may be combined into one participating area. Separate participating areas may be established to distinguish between an oil rim and a gas cap within the same reservoir.

(c) A participating area must be expanded to include acreage reasonably estimated through use of geological, geophysical, and engineering data to be capable of producing or contributing to the production of hydrocarbons in paying quantities, and must be contracted or exclude acreage reasonably proven through use of geological, geophysical, or engineering data to be incapable of producing hydrocarbons in paying quantities, subject to approval by the commissioner. A revised division of interest or formula allocating production and costs must be submitted for approval under 11 AAC 83.371 at the time of expansion or contraction of a participating area. (EIT 6/28/81, Reg. 78; am 3/18/83, Reg. 85; am 3/30/84, Reg. 89)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.353. APPLICATIONS. Repealed 6/28/81.

11 AAC 83.356. UNIT AREA: CONTRACTION AND EXPANSION. (a) A unit must encompass the minimum area required to include all or part of one or more oil or gas reservoirs, or all or part of one or more potential hydrocarbon accumulations.

The commissioner will, in his discretion, contract the unit area to include only those lands then included in an approved participating area and lands that facilitate production including the immediately adjacent lands necessary for secondary or tertiary recovery, pressure maintenance, reinjection, or cycling operations. The commissioner will, in his discretion, after considering provisions of 11 AAC 83.303, delay contraction of the unit area if the circumstances of a particular unit warrant. If any portion of a lease is included in the participating area, the entire lease will remain committed to the unit.

(c) Any expansion or contraction of the unit area must be based on legal subdivisions of land as defined in 11 AAC 88.185.

(d) No land will be excluded from a unit area due to the depletion of hydrocarbons.

(e) Not sooner than 10 years from the effective date of the unit agreement, the commissioner will, in his discretion, contract the unit area to include only that land covered by an approved unit plan of exploration or development, or that area underlain by one or more oil or gas reservoirs or one or more potential hydrocarbon accumulations and lands that facilitate production as set out in (b) of this section. Before any contraction of the unit area under this subsection, the commissioner will give the unit operator, the working-interest owners, and royalty owners of the leases or portions of leases being excluded reasonable notice and an opportunity to be heard. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 31.05.110
AS 38.05.020

AS 38.05.145
AS 38.05.180

11 AAC 83.360. NOTATION OF APPROVAL. Repealed 6/28/81.

11 AAC 83.361. CERTIFICATION OF WELL TEST RESULTS. For the purposes of 11 AAC 83.301 — 11 AAC 83.395, a well will be considered capable of producing hydrocarbons in paying quantities, as defined in 11 AAC 83.395, when so certified by the commissioner following application by the lessee or unit operator.

The commissioner will require the submission of data necessary to make the certification, including all results of the flow test or tests, supporting geological data, and cost data reasonably necessary to show that the production capability of the well satisfies the economic requirements of the paying quantities definition. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.365. UNIT BONDS. Repealed 6/28/81.

11 AAC 83.366. UNIT OPERATING AGREEMENT. Any division of the unit operating agreement must be submitted to the commissioner before it takes effect. The unit agreement controls the respective rights and obligations of the unit operator, the working-interest owners, the State of Alaska, and royalty interest owners other than the State of Alaska in case of conflict between the unit agreement and the unit operating agreement. Where conflicts exist solely between working-interest owners, the unit operating agreement prevails. (Eff. 6/28/81, Reg. 78; am 8/15/82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.370. ALLOCATION OF INTEREST. Repealed 6/28/81.

11 AAC 83.371. ALLOCATION OF PRODUCTION AND COSTS. (a) The proposed or revised division of interest or formula allocating hydrocarbon production and unit operating costs among the leases in the unit area may not take effect until approved by the commissioner in writing. When requested by the commissioner, the lessee or unit operator shall promptly file with the commissioner all data that relates to the proposed or revised division of interest or allocation formula for all leases in the participating area. Before any disapproval of the proposed or revised division of interest or allocation formula, the commissioner will give the working interest and royalty owners reasonable notice and an opportunity to be heard. After the

the commissioner will approve the proposed revised division of interest or allocation formula as submitted unless he finds in writing that the formula does not equitably allocate production and costs among the lessees.

(b) If there is a separate division of interest or allocation formula among any of the parties holding an interest in the unit that is different from the division of interest or allocation formula approved by the commissioner, the parties to the separate division of interest or allocation formula not approved by the commissioner shall submit a copy of that formula to the commissioner and a statement explaining the reasons for the difference. (Eff. 6/28/81, Reg. 78; am 3/18/83, Reg. 85)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.373. SEVERANCE (a) Except as otherwise provided in this section and 11 AAC 83.356, where only a portion of a lease is committed to a unit agreement approved or prescribed by the commissioner, the commitment constitutes a severance of the lease as to the unitized and nonunitized portions of the lease. The portion of the lease not committed to the unit will be treated as a separate and distinct lease having the same effective date and term as the original lease and may be maintained thereafter only in accordance with the terms and conditions of the original lease, statutes and regulations. Any portion of the lease not committed to the unit agreement will not be affected by the unitization or pooling of any other portion of the lease by operations in the unit, or by suspension approved or ordered for the unit under 11 AAC 83.336(b).

(b) The commissioner will, in his discretion, grant up to a two-year extension of the lease term for that portion of a lease not committed to the unit agreement under this section.

(c) A lease having a well certified as capable of production in paying quantities before commitment to the unit agreement will not be severed. (Eff. 9-5-74, Reg. 51; am 7-22-79, Reg. 71; am 6-28-81, Reg. 73; am 5-15-82, Reg. 83)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.374. DEFAULT (a) Failure to comply with any of the terms of an approved unit agreement, including any plans of exploration, development, or operations which are a part of the unit agreement, is a default under the unit agreement.

(b) The commissioner will give notice to the unit operator and defaulting party (if other than the unit operator) of the default. The notice will state the nature of the default and include a demand to cure the default by a specific date, which in the case of failure to pay rentals or royalties will be a date determined by the commissioner and in the case of any other default will be a date not less than 90 days after the date of the commissioner's notice of default.

(c) If a default occurs with respect to a unit in which there is a well capable of producing oil or gas in paying quantities and the default is not cured by the date indicated in the demand, the commissioner will, in his discretion, and after giving the unit operator and defaulting party (if other than the unit operator) reasonable notice and opportunity to be heard, terminate the unit agreement by making void, as to the termination to the unit operator as a defaulting party. Termination is effective upon mailing the notice.

(d) If a default occurs with respect to a unit in which there is a well capable of producing oil or gas in paying quantities and the default is not cured by the date indicated in the demand, the commissioner will, in his discretion, seek to terminate the unit agreement by judicial proceedings. (Eff. 6-28-81, Reg. 74)

Authority: AS 38.05.020
AS 38.05.145
AS 38.05.180

11 AAC 83.375. CONFIDENTIALITY OF DATA. Repealed 2-1-83.

11 AAC 83.379. SIGNATURES. Each signature on the unit agreement must be notarized or attested by at least two witnesses. Corporate or other signatures made in a representative capacity must be accompanied by evidence of the authority of the signatory to act on behalf of the principal or by a reference to such evidence previously filed. The printed or typed name and address of each signatory to the unit agreement must be set out below the signature.

For the purpose of this section, an affected owner is an owner of a quarter section directly or diagonally offsetting any quarter section upon which the operation is proposed to be conducted. In areas where irregular-shaped properties are to be drilled, the commission will determine who is an affected owner.

(i) A directional survey report, required by (a)(3) or (e) of this section, must contain the following:

- (1) name of surveying company;
 - (2) name, title, and signature of person actually performing the survey;
 - (3) the date on which the survey was performed;
 - (4) type of survey conducted;
 - (5) method used in calculating survey;
 - (6) a complete identification of the well to as to indicate the name of the operator, the property name, the well number, and field name;
 - (7) the depth interval over which the survey was conducted; and
 - (8) a plat showing the surface location, the plotted well course, and the nearest property lines or unit lines.
- (j) An inclination survey report, required by (a)(2) of this section, must contain a tabulation of the depth and drift angles for all inclination survey points.

(k) The commission will, in its discretion, require the submittal of the original film, time sheets, charts, graphs, discs, and other data used to compile the survey required by (a)(3) or (e) of this section.

(l) Upon application, the commission will, in its discretion, waive all or part of the directional survey requirements of this section, or approve alternate means for determining the location of a bore hole. (Eff. 4/13/80, Reg. 74, am 4/2/86, Reg. 97)

Authority: AS 31.05.030

20. AS 31.05.030, DRILLING UNITS AND WELL SPACING. (a) In areas where the fields the establishment of drilling units and a spacing pattern may be governed by special pool rules adopted in accordance with 20 AAC 25.530. In the absence of an order by the commission establishing drilling units or prescribing a spacing pattern for a pool, the following apply:

(1) a governmental quarter section constitutes the drilling unit for oil exploration; the surface location for a well exploring for oil must be at least 500 feet from the drilling unit boundary;

640 ACRES
(2) a governmental section constitutes the drilling unit for gas exploration; the surface location for a well exploring for gas must be at least 1500 feet from the drilling unit boundary;

(3) where oil has been discovered, not more than one well may be drilled to that pool on any governmental quarter section, nor may any oil pool be opened to the well bore closer than 500 feet to any quarter section line, nor closer than 1,000 feet to any well drilling to or capable of producing from the same pool; and

(4) where gas has been discovered, not more than one well may be drilled to that pool on any governmental section, nor may any gas pool be opened to the well bore closer than 1,500 feet to any section line, nor closer than 3,000 feet to any well drilling to or capable of producing from the same pool.

(b) An application for exception to the provisions of this section must set out the names of all owners and of all operators of governmental quarter sections directly and diagonally offsetting the quarter section where the oil well is located, or the names of all owners and of all operators of governmental sections directly or diagonally offsetting the section where the gas well is located. A plat must be attached, drawn to a scale of one inch equaling 2,640 feet or larger, showing the location of the well for which the exception is sought, all other completed and drilling wells on the property, and all adjoining properties and wells. The application must be verified by a person acquainted with the facts, stating that all facts are true and

that the plan correctly portrays pertinent and required data. The applicant for exception must send notice of the application by registered mail to all owners and to all operators noted above, and furnish the commission with a copy of the notice, date of mailing, and the addresses to which the notices were sent. The application for exception will be handled in accordance with 20 AAC 25.540.

(c) A well may not be re-entered for the purpose of producing oil on a property that is smaller than the governmental quarter section upon which the well is located or for the purpose of producing gas on a property that is smaller than the governmental section upon which the well is located.

(d) If two or more separately owned properties are embraced within a governmental quarter section to be drilled, or a well re-entered for oil, or a governmental section to be drilled, or a well re-entered for gas, persons owning the oil or gas rights may voluntarily pool their separate interests to form a drilling unit. A copy of the pooling agreement must be submitted to the commission. If one or more persons owning oil and gas rights fail to voluntarily pool their interests, the commission, upon petition or its own motion, and after public hearing, will, in its discretion, make an order pooling the owner's interests for the development of their land as a drilling unit. (Eff. 4/13/85, Reg. 74; am 4/2/86, Reg. 97)

Authority: AS 31.05.030
AS 31.05.100

20 AAC 25.061. WELL SITE SURVEYS. (a) Near surface strata to a depth of 2000 feet in the well site area for all exploratory and stratigraphic test wells must be evaluated seismically by common depth point refraction or reflection profile analysis to identify anomalous velocity variations indicative of potential shallow gas sources. Analysis results must be included with the application for the Permit to Drill (Form 10-401).

(b) The well site area must be evaluated by sidescan sonar and other pertinent surveys to determine whether potential seabed hazards to drilling operations are present for each type of well listed in 20 AAC 23.005 to be drilled

offshore from a mobile bottom support vessel or floating unit. Survey results must be included with the application for Permit to Drill (Form 10-401).

(c) Upon request by the operator, the commission, in its discretion, will waive the requirements of this section. (Eff. 4/13/85, Reg. 74; am 4/2/86, Reg. 97)

Authority: AS 31.05.030

20 AAC 25.065. HYDROGEN SULFIDE. (a) When hydrogen sulfide gas is encountered, the operator shall notify the commission within 24 hours.

(b) If a well is to be drilled in an area where a formation to be penetrated is known to contain hydrogen sulfide gas or if hydrogen sulfide is encountered while drilling, each operator shall meet the requirements of API RP 49, "Recommended Practices for Safe Drilling of Wells Containing Hydrogen Sulfide."

(c) If there is an insufficient theory of drilling in an area to know whether hydrogen sulfide exists, the commission will specify on the drilling permit for the operator shall comply with the minimum requirements for detection monitoring, contingency and control, and training as follows:

(1) detection monitoring

(A) an automatic hydrogen sulfide monitor must be installed and must have a combination visual and audible alarm system located where it can be seen or heard from all parts of the location;

(B) the automatic hydrogen sulfide monitor must have a minimum of two probes, one at the shale shaker and one on the bell nipple; and

(C) in addition to the automatic hydrogen sulfide monitor, at least three manual detectors with an adequate supply of extra detector tubes must be available at the drill site;

(2) contingency and control

November 11, 1988

James Eason
State of Alaska
Division of Oil and Gas
Pouch 7-034
Anchorage, Alaska 99510

Re: Pretty Creek Unit Establishment of Initial Participating Area

Dear Mr. Eason:

Thank you for your prompt response to Burglin et al (Burglin's) October 22, 1988 letter.

Burglin does agree that the criteria for establishment of participating areas is set forth in 11 AAC 83.351, however, Burglin does not agree that the Division has consistently followed 11 AAC 83.351. At this time Burglin is unable to discern what methodology, if any, is used by the Division for the establishment of participating areas. When Burglin specifically demonstrated that the Division has not followed the criteria as set forth in 11 AAC 83.351 based on submitted data, the Division informs Burglin that the Division has the authority to "geologically compromise" the data submitted. This was acknowledged by Ms. Fortney's letter of 2/20/88 in which she states: "It is our belief that your contention that 11 AAC 83.351 does not give the Division of Oil and Gas the power to accept a compromise PA is without merit. 11 AAC 83.351, attached to this letter as Part II of Attachment 1, is completely silent as to the methodology by which the extent of a participating area is determined. All it requires is that the participating area include only the land reasonably known to be underlain by hydrocarbons and known or reasonably estimated through use of geological, geophysical or engineering data to be capable of producing or contributing in production of hydrocarbons in paying quantities."

In any unit with more than one working interest owner, there are bound to be differing technical interpretations of the available data. In that sense, each and every unit area and participating area application that comes into this office for approval is a "compromise" application. Not only is the State not explicitly prohibited from considering and approving such "compromise" applications, we are required to consider all interpretations submitted, including the "compromise" interpretations, and, if necessary, decide which interpretation best fits the available data.

In this case, where the working interest owners have not agreed on a consensus or compromise geologic interpretation of the area, any approved participating area will by necessity be a "compromise" for at least some of the parties involved. However, any initial participating area is subject to further revision in the future as newly acquired data indicate the need for such revision."

11 AAC 83.351 does not explicitly give the Commissioner or the Division their

November 11, 1986

James Eason

P. 2

assumed authority to compromise geological data. If the Division had the authority to "geologically compromise" participating areas, then 11 AAC 83.351 would not be needed. In Ms. Brown's decision letter of January 7, 1986 she stated: "The regulation governing the establishment of participating areas (11 AAC 83.351) states that a participating area may include only the land reasonably known to be underlain by hydrocarbons or reasonably estimated through use of geological, geophysical and engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities, and that a participating area must be expanded to include acreage reasonably estimated through use of geological, geophysical or engineering data to be capable of producing or contributing to production of hydrocarbons in paying quantities. The division interprets this regulation to mean that all lands included within a defined hydrocarbon accumulation must be included within the participating area of a producing well."

To allow the Division to "compromise" a party out of a PA when that party has met and followed the criteria of 11 AAC 22.351 is definitely not in the compromised parties' best interest. Further, the Commissioner is required under 11 AAC 83.303 to "(3) provide for the protection of all parties of interest, including the state."

In conclusion, Burglin still feels that a hearing is needed to discuss the Division's "methodology" for the establishment of participating areas, whether the Division is willing to discuss it or not.

Sincerely,

Brian Burglin

Brian Burglin

BB/mbg

cc: Governor Steve Cowper
Senator Bettya Fahrenkamp
Senator Don Bennett
Rep. Mike Davis
Rep. Mike Miller

Rep. Nilo Koponen
Rep. Mark Beyer
Rep. Steve Frank
Commissioner Chatterton, AOGCC

May 27, 1986

Lonnie C. Smith
Commissioner
Alaska Oil and Gas Conservation Commission
3001 Porcupine Dr.
Anchorage, Alaska 99501-3192

Re: The application of CHEVRON U.S.A. INC. for an exception
to 20 AAC 25.055 to permit the drilling of a well in Pretty
Creek Unit.

Dear Commissioner Smith:

Burglin et al (Burglin) is filing written protest against any well location
exceptions requested by Chevron on behalf of the existing oil and gas owners
of the Pretty Creek Unit.

Burglin does not feel any proposed well location exceptions should be
granted in an approved unit in which no underlying reservoirs have been
clearly delineated. The productive limits of the Beaulieu and Sterling
formations within the Pretty Creek Unit have not been clearly delineated
at this time.

Chevron has not submitted a complete Unit Plan of Development for
11 AAC 83.343 which must include: "(1) engineering proposals, plans and
activities for the unit, including plans to delineate all underlying oil and
gas reservoirs, bring the reservoirs into production, and maintain and
enhance production once established;
(2) plans for the exploration or delineation of any lands in the unit not
included in a participating area".

The Division of Oil and Gas admittedly uses "compromised" geology for the
establishment of initial PA's (Participating Areas). To allow well spacing
exceptions in conjunction with "compromised" geology prior to clear delineation
of all underlying reservoirs is not in the best interest of the State of Alaska.

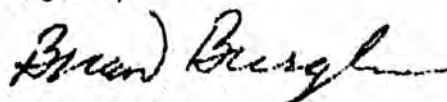
Compromised initial PA's (allocation of production) and liberal well-spacing
exceptions are two of the primary reasons why Burglin has recommended
the State of Alaska adopt the circle-tangent method for determining a PA.

Lonnie C. Smith
May 27, 1986
page 2

Adoption of the circle-tangent method would greatly restrict the use of
compromise PA's and well-spacing exceptions.

If you have any questions, please call Brian at 452-5110.

Regards,



Brian Burglin

cc: Rep. Mike Davis
Rep. John Ringstad
Rep. Steve Frank
Rep. Mike W. Miller
Sen. Don Bennett
Sen. Bettye Fahrenkamp
Kate Eortney, DNR

B6/plb

enclosures

(14)

3-7-88

Oil & GAS

HEARING

(Joint with
SENATE RES.)

JOINT SENATE RESOURCES COMMITTEE AND OIL AND GAS

March 7, 1988

1:39 p.m.

MEMBERS PRESENT

Senator Jack Coghill, Chairman
Senator Bettye Fahrenkamp, Chairman
Senator Paul Fischer
Senator Jim Duncan
Senator Fred Zharoff
Senator Arliss Sturgulewski
Senator Dick Eliason
Senator Ken Fanning

COMMITTEE CALENDAR

Overview of Oil and Gas matters

WITNESS REGISTER

Bill Van Dyke
Petroleum Manager
Dept. of Natural Resources
P.O. Box 107034
Anchorage, Alaska 99510
(907) 762-2547

Cliff Burglin
Land Consultant & Independent
Oil Leaser
Fairbanks, Alaska

ACTION NARRATIVE

TAPE 1, SIDE 1
Number 001

Senator Coghill called the Senate Resources meeting to order at 1:39 p.m. Senator Coghill announced the schedule for the meeting.

Number 045

Mr. Bill Van Dyke, Petroleum Manager for the Division of Oil and Gas within the Department of Natural Resources, was first to come before the committee members. He continued to explain some information which was in the committee member's packets. He also passed, to the members, a general summary of the unitization process. Mr. Van Dyke noted the bulk of the handouts were unitization regulations. He also noted there were regulations from the Gas Conservation Commission on well spacing also included.

Mr. Van Dyke referred to exempt lease sales and noted there is one planed for September, 1988, in addition to one

scheduled for June, 1988. He said they have requested comments to see how much interest there is. If there is good interest for the North Slope sale, it will be held in September.

Number 106

Senator Coghill asked which areas would be up for lease. Mr. Van Dyke told Senator Coghill the areas are all onshore. The sale proposed for September is south of Prudhoe Bay in Kuparuk.

Mr. Van Dyke referred to the handout on unitization and said Department of Natural Resources has never been the ones instigating unitization, it has been lessees that have decided they want to unitize. Mr. Van Dyke said the lessees present geological and geophysical information to support why the areas should be unitized.

Number 151

Senator Fahrenkamp asked if there is a disagreement between the geologists and the people of the state, what method of appeal is there. Mr. Van Dyke said if the commissioner approved a unit boundary which someone disagreed with, they could appeal the commissioner's position and ask her to reconsider. If they still felt strong about it, they could go to court and have a judge make a ruling. He also said they could go to the Conservation Commission. Mr. Van Dyke noted there are regulations in 11 AAC 88 regarding appeals. Senator Coghill noted he would like a copy of these regulations.

Number 188

Mr. Van Dyke said a participating area is a subset of the unit area and is formed over one particular oil and gas pool. He said at Prudhoe Bay there are a number of different oil and gas pools within the Prudhoe Bay unit boundary. Mr. Van Dyke said a participating area is a means of allocating ownership within the oil and gas pools.

Number 215

Senator Coghill asked if the applicants seismic and geologic data is relied on to make the unitization decisions. Mr. Van Dyke said the data is used it is very seldom that there is only one set of information. There is information from several companies and the Department of Natural Resources. All information is considered, he stated.

Number 235

Mr. Van Dyke referred to information the legislators had and said it shows well spacings and a map field limit. He continued to present visual information, maps, and illustrations to the committee members while explaining them.

Number 312

Mr. Van Dyke referred to the well logs and said this information is submitted to the Conservation Commission for every well drilled in the state and then becomes public information after two years. Senator Coghill referred to the information submitted and asked if it is kept confidential and if Department of Natural Resources uses it to determine their position as far as unitization is concerned. Mr. Van Dyke said they get copies of the seismic information if it is gathered on state land it is used in the determination. Senator Coghill asked if Department of Natural Resources goes out and does seismic work. Mr. Van Dyke said the information they receive is either from the oil companies or from a seismic companies. He said the seismic companies gather the information and then they sell it to anyone who wants to buy it. The state is entitled to a copy and pays the copying charges.

Number 370

The next person to testify before the committee was Mr. Cliff Burglin, Land Consultant and Independent Oil Leaser. He said he believes the state is painting itself into a corner and there are two ways it will loose a tremendous amount of revenue. Alaska has approximately a billion acres of potential oil and gas exploration lands onshore and offshore. He noted Russia is the largest oil producer in the world and Canada is also one of the largest.

Mr. Burglin said the state has to fight for it's share of the market. He said major oil companies can go to Canada, Russia or federal lands. He continued, by explaining different maps. He said you can have a lot of federal oil put into a state pipeline in which you get much less revenue. Senator Coghill referred to the Prudhoe field as being big, that there are federal leases offshore to the north. He also noted there are onshore state leases that, because of the differences in the return due to royalties, oil companies would then extract it out of the federal leases and take away the royalty revenue stream into the state treasury. Mr. Burglin said this is correct.

Number 428

Mr. Burglin referred to oil companies trying to make money and asked why would they pay the state 93% net profits when they could pay the federal government 16 and 2/3% royalty.

They will drill the oil from the federal land which can then drain the oil from Alaskan acreage.

Number 454

Mr. Burglin referred to there always being a glut of oil and said when people won't face the economic facts, the state will and is getting to be in very dire trouble.

Mr. Burglin said the state has maybe 300 million acres onshore and offshore they could develop and noted there is not a shortage of places to drill, develop and explore for oil. He said the companies are there to make money for their stock holders and will go where they can make the best field. He said there are some concerns that need to be dealt with right now. Mr. Burglin referred to the Seal Island field and said there are at least six different potential producing zones. The chance of finding commercial oil fields is very good but not necessarily on state land. He continued to explain a state petroleum map to the members.

Mr. Burglin referred to Guidered Bay and Milne Point and said the state needs to make the leasing terms all the same. It needs to be 12.5% plus severance tax. He said there is a very serious problem brewing.

Number 516

Senator Fischer asked Mr. Burglin if Milne Point is considered a marginal field. Mr. Burglin said yes. Senator Fischer asked if it is considered marginal because the state is getting too much of a percentage. Mr. Burglin said yes.

Number 524

Senator Coghill asked Mr. Burglin if he is suggesting the state make a reform in their leasing policy to have all leases equal and on the same return base.

Mr. Burglin indicated this should be done. He said the major oil companies have the ability to move around and will drain oil where they make the most dollars.

Number 526

Senator Fischer referred to Amerada Hess and said they offered the state royalty. He asked Mr. Burglin if the state reduced the amount of royalty, how would the competitor feel. Senator Fischer asked Mr. Burglin how he would justify it.

Mr. Burglin said they wouldn't care because they could drain oil from the federal tracks and leave Alaska with nothing.

Mr. Burglin stated the State of Alaska has to fight to keep its share of the market. He said Mexico, Iran, Iraq, Saudi Arabia, Nigeria, Algeria, Venezuela and Canada could get Alaska's two million barrels just like that.

Number 566

Senator Fahrenkamp referred to the time when there was high royalty parts of the contract sales. She said she didn't believe this was done by legislation but rather by the agreements of the sale.

Mr. Van Dyke said the statutes were amended to allow a number of different options but the commissioner, by region, picks a bidding method.

Number 575

Mr. Burglin said people are hung up on the big bonus bids. He referred to Prudhoe Bay and said the high bonus bids were \$1,471,000. He said the state has gotten billions in royalties and severance taxes from Prudhoe Bay. He noted the money doesn't come from the bonus bids but rather from production. He stated that Alaska is going to have to fight for production.

Number 587

Senator Coghill asked Mr. Burglin if he is saying that there should be a formula to add acreage to unitization and get as much land as possible, as soon as possible, under exploration. Mr. Burglin said yes and continued to show examples of areas, on a map, which should be opened.

Senator Eliason asked if the lands are not put up for bid what will happen to the oil under them. Mr. Burglin said it will get drained from other adjacent lands.

Mr. Burglin referred to Sale 54 and said seventy-five days before the sale he wrote a letter to the commissioner and requested some acreage to be put up for bid. He said about thirty days before the sale he got an answer saying the state couldn't honor the request. Mr. Burglin said by not doing this, the state lost about \$5 million in bonus bids.

Number 624

Mr. Burglin noted in Texas 15,000 wells are drilled in their worst economic times. He noted Alaska has to be aggressive in it's leasing policies.

Senator Eliason asked how the oil was being siphoned off of Alaska's land. Mr. Burglin said it isn't being done yet. Senator Eliason asked why should the state produce more wells when the price of oil may drop to \$10. Mr. Burglin said because Alaska needs to keep it's share of the world market.

TAPE 1, SIDE 2
Number 003

Senator Fahrenkamp asked if we need to encourage oil exploration and get leases bid out so Alaska can keep producing at the present level as we approach production declining. Mr. Burglin said yes.

Number 031

Senator Sturgulewski said Mr. Burglin is asking two things and that is to take existing leases and put them back to 12.5%. He is also requesting lands that are not presently leased onshore be added to lease sales coming up. Mr. Burglin suggested this be done as quickly as possible.

Senator Sturgulewski asked what would happen if the state did what he is suggesting. Mr. Burglin said there may be a lot more competition for state acreage. This would allow independents to come in who can operate cheaper. Senator Sturgulewski said he is talking about a substantial number of leases which exist. She asked what the affect would be. Mr. Burglin said there would be development in some areas that you would not see. He said and he continued to show the committee members examples by showing them different areas on the map.

Number 083

Senator Eliason referred to Mr. Burglin saying the bonus on bids is not the main point of lessors but is a small part. He said he fails to see how there will be more production if the line is running at capacity now and there is no oil from the federal leases going into the pipeline. He asked how will the production be increased.

Mr. Burglin said if the state's production tappers off, oil from the federal leases can go into the pipeline. Senator Eliason said none of the federal oil has gone into the line and asked how has the state lost so much money. Mr. Burglin said we haven't yet but there are a lot of things that need correcting.

Number 114

Senator Fischer asked if there are fields in production, at the present time, that are yielding the state greater than

12.5%. Mr. Burglin said he didn't believe so. Senator Fischer said if the state does reduce all leases to 12.5% we could loose revenue.

Number 138

Senator Coghill referred to conditions put on all the lessees with all the variances and said we're competing. What we want to do is standardize drilling/exploration which would create a lot more activity. Mr. Burglin said he believes it would create more activity but if it wasn't done you wouldn't loose what you've presently got.

Senator Coghill asked Mr. Burglin if he is saying that now is the time to correct this because the federal and native leases are in competition with the state. The federal and native leases will be bid out next to our fields and would be drain Alaska's field. Mr. Burglin said it could easily be done.

Mr. Burglin said the feds are in the process of hurting themselves because they have a high minimum bonus bid. He said he believes they are putting up 40 million acres and their minimum bonus bid is \$150 per acre or, rounded off, \$1 million per track.

Number 194

Mr. Burglin referred to levels of stature in the oil business. He said the highest level is Exxon, Shell and BP. Next there is Chevron, Mobile than the Unions, Philips which are not in the ball park of the top three. Mr. Burglin said the state should want these companies involved. They're important to the state as producers.

Number 216

Senator Fahrenkamp referred back to about eight years ago to a question as to why the state couldn't interest independents. She said the answer is because it is so expensive the independents won't come. She said Mr. Burglin is bringing in the aspect that part of the leasing policy has as much to do with it as the expense. Mr. Burglin said it does and also the environmental issues. He said the the insinuation is that every developer is going to destroy the land. He gave examples of places that have been mined and noted there isn't any environmental damage.

Number 257

Senator Fahrenkamp said a push is on in Congress for the drilling muds, etc., to be classified as hazardous waste. She said drilling lead is hazardous waste and asked Mr. Burglin how this would effect the chances of getting into

development with independents. Mr. Burglin said it would make it more costly.

Senator Fanning said if we were to change the leasing structure to ensure and allow that independents and others were able to cross the board and lease more acreages of land, the tendency wouldn't be for the royalty and severance tax percentages to decrease from 12.5% to 8%, it could probably be done in a way where they would increase as long as the entry fee was decreased. He said there is such a high entry fee it prohibits anyone else from getting involved in the current competitive leases.

Mr. Burglin said the state doesn't need \$20 or \$15 dollar oil, it needs \$3 dollar oil. That way the state will always sell oil. He referred to when Prudhoe Bay was discovered and the price was \$3 per barrel at the wellhead and the majors determined Prudhoe was economic at that price.

Number 307

Senator Fanning said, from a state standpoint, the legislature would like to see why there is an advantage to decreasing fees, to open up more country and to increase the percentages in the event that there is a climb.

Mr. Burglin said you have to get costs as low as you possibly can where oil is back a \$3 per barrel again, you can still be competitive. He said you can land a barrel of Saudi Arabian oil in New York harbor for about \$1.25 per barrel and state oil has got to compete with this.

Number 324

Senator Fanning asked how much money would the state make if there were noncompetitive leasing in other fields. He asked if money would be made from leasing and would we discover new discoveries that weren't discovered because of our procedure. He asked would we make more money. Mr. Burglin answered yes to all the questions. Senator Fanning asked why we would make more money.

Number 328

Mr. Burglin said because there would be more drilling, more activity, more people working. He referred to activity in the Copper River Basin. He said the more you have the more it generates and the less costly the power and fuel is, the better the economy is going to be. Mr. Burglin said it decreases costs to miners, agriculture, fishing, etc.

Number 340

Senator Eliason said he has been told that a lot of activities have been curtailed on the North Slope because the price of oil dropped below a certain level. He asked why would someone go and drill a well at the high costs and with no return.

Mr. Burglin said there is a point where it is uneconomical. He noted he didn't know what the point was but with some of the major producers on the North Slope it is about \$7.50 per barrel.

Number 382

Senator Fanning asked what the average royalty was in private land stakes. Mr. Burglin said it is between 12.5% and 20%. He said you would always be competitive at 12.5% and noted the severance tax which could be moved up or down.

Number 392

Senator Fanning said if there was an annual lease payment for tracks on a per acre basis, what figure would make it so independents and others could compete. Mr. Burglin said \$1.00 per acre would get a lot of people involved. Senator Fanning said at \$1.00 an acre how many million acres are we talking about and what type of annual revenue would there be on the lease payments. Mr. Burglin said between \$20 million and \$50 million.

Number 416

Mr. Burglin stated he hopes the oil and gas land in the state wasn't set aside for the major oil companies to explore and produce.

Senator Eliason referred to fluctuating the severance tax to fit the criteria after wells go into production and asked how would it be decided when to do this. Mr. Burglin said there needs to be people in the state government who study these things.

Number 450

Mr. Burglin noted all his leases are state leases. Senator Eliason asked Mr. Burglin if he was producing any oil at the present time. Mr. Burglin said no.

Number 456

Mr. Burglin referred to a bulletin put out the the Alaska Oil and Gas Conservation Commission dated 2/19/88. He said it shows all the undefined fields. He also noted he had asked the Governor how he knows where the reserves are if

the fields are mostly undefined. Mr. Burglin referred to the Kuparuk River field and said it is undefined.

Number 487

Senator Sturgulewski asked Mr. Burglin what he proposes needs to be done with unitization. Mr. Burglin said the fields need to be defined. He said more wells have to be drilled. Senator Sturgulewski asked by whom. Mr. Burglin said by the operators.

Mr. Burglin said when they present good data and ask the state for something, it is very difficult to deal with someone that says, "no you can't do it." He said the state doesn't even have to say why, they use the excuse that some of their data is confidential.

Number 522

Senator Coghill asked Mr. Burglin if he thinks there should be a step policy on unitization so the geological data that is brought to the table, and if the unitization does or doesn't move forward, it should be based on that data. Mr. Burglin said this is right.

Number 529

Senator Fanning said if the companies could see the state's data what policy would take place in the way things are developed. Mr. Burglin said the companies would show their data and give testimony and the state just says no your picture is inaccurate and, therefore, the companies cannot become part of the unit or create a new unit. The state says they disagree with the companies information and the companies ask why. The state responds by saying it is proprietary and confidential.

Number 569

Senator Coghill asked Mr. Burglin if he is suggesting to the committee is that only the seismic information that is brought to the table for unitization of a field should be considered at the meeting, by expert witnesses, which would include the state. The state would have to make their presentation also.

Senator Coghill asked if this would be before the Oil and Gas Conservation Commission. Mr. Burglin said yes.

Number 600

Mr. Burglin noted there are exploration units and producing units. Mr. Burglin referred to the Kemmy Springs unit and said it is an exploration unit of 110 thousand acres. He

noted if his company applies for a unit that is 40 thousand acres and wanted to drill a well and spend \$5 or \$10 million, why does the state say no - we're not going to let you do that.

Senator Coghill said units allow lease holders to share costs. He referred to companies wanting to unitize to get into a better position to drill a well and asked what was the state's rationale to saying no.

Senator Fischer said he thought when companies have leased land they could drill as many wells as they want.

TAPE 2, SIDE 1
Number 001

Mr. Burglin referred to the Department of Natural Resources and said they have geologists and petroleum engineers that should be generating data for the legislature. Senator Coghill asked if it would be an advantage for the state to identify fields by keeping track of oil and by having unitization.

Mr. Burglin said if the fields are defined by drilling, but according to the state's data they have not defined most of the fields including Prudhoe Bay.

Number 093

Mr. Bill Van Dyke came before the committee members once again. Senator Coghill asked if the ultimate goal to solve this type of dilemma is to give the commission the power on unitization?

Mr. Van Dyke said there has never been an order or demand that someone cannot drill on their own lease. He said whether it is a situation where there is a lease holder outside a unit boundary that feels they should be in the unit, they are entitled to go drill that lease and prove that they are entitled to be in that unit. Mr. Van Dyke said if it is inside a unit boundary but not within a participating area, they are entitled to drill that track and prove that there is oil in that pool and then include it in a participating area.

Senator Fahrenkamp asked if this was the only way they can drill a hole. Mr. Van Dyke said they can present geophysical or information which supports that they should be there. He said if it is sound information they'll be included in the participating area.

Number 162

Senator Fanning said he thought the situation was where Chevron and Mr. Burglin has specifically applied to drill on a lease that they held and was denied. He asked Mr. Van Dyke if a lease holder wanted to drill the department wouldn't deny them.

Mr. Van Dyke said if a lease holder wants to drill they can. They may ask to unitize and that request may be denied but they can still go and drill on their own lease.

Senator Fahrenkamp asked if they both couldn't drill and share expenses. Mr. Van Dyke said they could drill and share the expenses. Senator Fahrenkamp asked what was denied. Mr. Van Dyke said the request to unitize was denied as the department didn't feel there was a prospect there.

Number 188

Mr. Van Dyke said if the companies believed there is a prospect, he assumed they would have drilled it anyway as they still own the leases. The state just denied the request to unitize. He noted unitization also extends leases. He said a company gets to the 9th year and 364th day of the lease and decides to submit a unit application so they can get a five or ten year extension on their leases. Mr. Van Dyke said the state doesn't believe this is good policy.

Number 197

Senator Fanning said to Mr. Burglin they were denied unitization but still could have drilled. Senator Fanning asked why they didn't. Mr. Burglin said the rest of the leases around the well would have expired.

Mr. Burglin noted these leases were 20% and 30% net profit leases which would've meant the state would have made 40% or 45% of production.

Senator Fanning referred to the wells which would have been drilled, unitization would've been denied, and asked if there is an opportunity, upon discovery, to reapply for unitization and would an extension on surrounding leases be granted.

Number 242

Mr. Van Dyke said all the options are open at that point. Senator Fanning asked if there are any guarantees or assurances. Mr. Van Dyke said if someone discovers a oil and gas pool, the area should be unitized.

Senator Fanning said if there is a guarantee of a discovery would the state reconsider its inappropriate actions of not to unitize. He also asked if the state would, after a discovery and based on new information, unitize. Mr. Van Dyke said he isn't aware of any unit applications, meeting those conditions, that has ever been denied.

Number 266

Senator Fanning said in the event the department denies unitization and in the event any company wants to precede with drilling and asked if there is currently a mechanism that would mandate an automatic extension of the unitization leases or leases under potential unitization until completion of the well. Mr. Van Dyke said there are no provisions in the statutory regulations which allows lease extensions under the assumption that it is going to be a productive well. He said only the lease where the well is being drilled can be extended but surrounding leases would expire.

Senator Fanning asked Mr. Van Dyke if he would oppose mandating a regulation. Mr. Van Dyke said it would be hard to administer if one persons extenuating circumstances is going to be someone else's tough luck.

Number 301

There was a short discussion between committee members regarding this matter.

Number 323

Mr. Burglin said these leases were ten year work commitment leases and between the time the companies got them and the time when they were beginning to expire the price of oil had dropped substantially.

Number 330

Senator Coghill asked what happened to those leases. Mr. Burglin said they went back to the state have been put up for competitive bid. Mr. Burglin said instead of letting them get developed for 20% royalty and 30% net profits, they took them away and put them up for bid for 12.5%. Senator Coghill asked if these leases are available for exploration. Mr. Burglin indicated they are. Senator Coghill asked if they could apply for unitization now. Mr. Burglin said possibly.

Number 346

Senator Fanning said if there is production in those specific areas, the bid used to be a 30% net profit and 20%

royalty and they are bid out now at 12.5%, he asked Mr. Van Dyke how this makes sense to the state.

Mr. Van Dyke said if there is oil and gas under those leases, it didn't make sense. He said it does make sense to apply rules equally regardless of who the lessee is and regardless of whether it is a state lease involved or federal lands.

Number 402

Senator Coghill adjourned the Senate Resources meeting at 3:35 p.m.

Alaska State Legislature

Senate Resources Committee

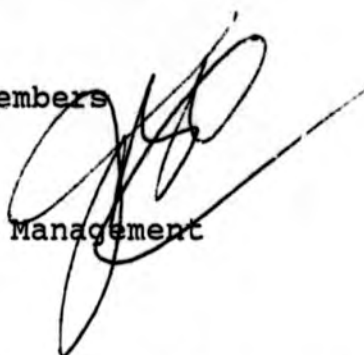


Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Arliss Sturgulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Eliason

Box V
Juneau, Alaska 99811
(907) 465-4907

MEMORANDUM

To: Senate Resource Committee Members
From: Senator Coghill
Subj: Today's Meeting on Oil & Gas Management
Date: March 7, 1988



The focus of this committee meeting is on the unitization aspect of state petroleum resources management. We will have a short briefing by the Division of Oil and Gas and we'll follow that up with a presentation by Mr. Cliff Burglin.

Attached to this memorandum is a March 17, 1983 list of qualifications of Division of Oil and Gas personnel. This is for your information since Bill Van Dyke and Catherine (Cass) Arley will be making the divisions presentation today.

This should be an interesting meeting.

