1-29-87

Briefing by

DNR

Div. of Oil & Gas

SENATE SPECIAL COMMITTEE ON
OIL AND GAS
January 29, 1987
3:30 p.m.

MEMBERS PRESENT

Senator Bettye Fahrenkamp, Chairman
Senator Jack Coghill
Senator Paul Fischer

COMMITTEE CALENDAR

Briefing on oil and gas matters by Jim Eason, Director, Division of Oil and Gas, Department of Natural Resources

ACTION NARRATIVE

TAPE ONE SIDE ONE
January 29, 1987

Number 001

The meeting was called to order at 3:30 p.m. by Chairman Fahrenkamp. She then invited Jim Eason to make his presentation to the committee.

Number 005

The first item Mr. Eason discussed was 8(g) revenue sharing, which is a section of the OCS Lands Act that was amended in 1978 to provide that when there is federal leasing of offshore submerged lands adjacent to tracts that are within three miles of a state's three mile limit, the states should have a "fair and equitable" share of those revenues. Between the time Congress enacted those amendments and the time Interior should have been paying money, no one could agree what a fair and equitable share was, and it ended up going to court. Congress resolved the dispute by providing a 27% share of revenues to the states.

Number 062

Senator Fahrenkamp asked if the state opposed that position. Mr. Eason responded that the state fought the Interior's position until Congress decided to act. However, he did not think it was fair to say they had fought the final decision.

Senator Fahrenkamp inquired if the fund had revenues set aside in it. Mr. Eason replied that there was in excess of

$5 billion, which was for all states with leases that had been issued in the 8(g) zone since the 1978 amendments. Alaska has received about $54 million and another $134 million will be received in installments over the next 15 years. There is a separate escrow account for the disputed acreage and under last year's amendments the state stands to get something from that escrow account.

Number 130

Senator Coghill questioned Mr. Eason as to whether the state was getting interest as a part of the settlement. Mr. Eason replied that interest was included in the Congressional settlement.

Number 224

A discussion followed on the Seal Island discovery and a Louisiana court case that will have an effect on that discovery.

Number 273

The second issue Mr. Eason discussed was the Petro Star-Chevron Contract. He said it was not certain if they would be asking the Legislature for a proposed amendment this session. As background, he said Commissioner Wunnicke had given tentative approval to come before the Legislature with Petro Star and Chevron to amend the contract. However, he said he had not had time to brief the new DNR Commissioner on the background or to get a sense if the Administration is going to support the proposed amendment.

Mr. Eason said the contract provides approximately 6500 barrels a day to Chevron and Petro Star from the Kuparuk River Unit. After the negotiation and the Legislature's review of the contract, a new policy of the TAPS carriers which made the Kuparuk oil more expensive to take than the Prudhoe Bay oil.

He said Commissioner Wunnicke had tentatively agreed that the Administration would have probably recommended to the Legislature that they approve an adjustment to offset the surcharge on oil delivered through TAPS. He told the committee that his department would keep them advised on what position the Administration is developing on amending the contract.

Number 420

Mr. Eason then addressed the suspension of production by Conoco, Inc., operators of the Milne Point Unit. He said the operator intends it to be a temporary measure. Last year Conoco requested a reduction in the state's 20%

royalty on production from the unit. However, the statutes that allow for royalty reduction also require two years of production and a showing of non-economics which had not occurred.

Number 466

The next issue discussed by Mr. Eason was the Arctic National Wildlife Refuge. He said no decisions have been made on the several issues under consideration. The state has sat in on several discussions between Fish & Wildlife and Interior representatives since the first week of December and no decisions have been made yet on the state's position.

Number 520

Senator Fahrenkamp asked if a decision will be binding upon the various agencies within the state. Mr. Eason responded that he did not know. Senator Fahrenkamp requested that if Mr. Eason is in attendance at further discussions on ANWR that from a legislative point of view, they'd like to have some kind of assurances that the Administration will speak with once voice.

Number 533

Senator Coghill questioned when the first seismic agreements were made. Mr. Eason responded that the first surveys were done three years ago.

Number 580

Next Mr. Eason discussed disputed acreage. The state generally owns three miles from the coastline outward and always, except off of ANWR, owns the islands. When the bill the was drafted it stipulated that ANWR includes the offshore islands, but he said what isn't clear is whether the water between the island and the mainland is included. The state contends that the submerged lands between the islands and mainland are state lands.

Number 607

Mr. Eason said the department has an oil and gas lease sale proposed for June of this year called the Camden Bay sale, which will lease submerged lands offshore of the islands. He said there is a lot of attention to that sale developing as a result of the fact that it is off of ANWR, and they believe it will be a very controversial sale and they will have to be very meticulous and careful on how they proceed. He said they would keep the committee informed on the status of that sale and their ongoing efforts to hold it on time.

TAPE ONE SIDE TWO
January 29, 1987

Number 650

Senator Fahrenkamp said that in discussions between some members of the Legislature and our Congressional delegation there seems to be some doubt as to what the state's share of revenue from federal lands will be. She asked Mr. Eason to bring the committee up to date on what he felt might happen.

Mr. Eason said that some people within the Department of Interior may be considering a recommendation that the state's entitlement be reduced.

Senator Fahrenkamp asked whether the state had not fully taken advantage of invitations to participate in Interior's planning in ANWR.

Mr. Eason responded that he was not aware of any opportunity that was not accepted at least as far as oil and gas was concerned. He said he had never heard of a formal or informal proposal by an agency or legislator for changing the revenue split.

Senator Fahrenkamp concluded that it was either some misinformation or lack of lines of communication.

Number 740

Mr. Eason said his division is expecting to receive more requests to allow flexibility under the lease for deferrals or opportunities to delay obligations.

He said that although they are aware that there's a need to allow more flexibility under the lease agreements when companies don't have the financial ability and resources to operate, they also realize they have an obligation to enforce leases equally.

Number 848

In response to questions by Senator Coghill, Mr. Eason said he favors a strict interpretation of lease diligence with minimal attempts to provide leeway.

Number 917

Mr. Eason next discussed the West Sak sands project. The estimates of oil contained in the area range up into the high billions of barrels, much larger than the main reservoir at Prudhoe Bay. Although ARCO has abandoned the

project, they said publicly that they were impressed with the results.

Number 973

The next item on the agenda was the 1987 Five-Year Oil and Gas Leasing Schedule which provides for two lease sales each year as opposed to the former three per year. The division believes that its new schedule will provide the state with a strong, judicious leasing program over the next five years. They feel that although it is a lessening of the pace, they think it is appropriate under the circumstances and think that it also assures that they put their concentration and attention on legally defensible findings for the sales that are important to them and industry and, at the same time, deferring areas that are of no interest to industry.

Number 033

Senator Fahrenkamp then asked Mr. Eason about the outcome of Lease Sale 51 and how he thought we could make Alaska leases more attractive and more competitive. She also asked questions on the permitting system and an extensive discussion followed.

Number 170

The next area of discussion was exempt sales. Exempt sales allow the division to conduct competitive lease sales not on the formal five-year schedule under specific conditions. He said that this year two areas, one on the North Slope and the other in Cook Inlet, have been identified for exempt sales and they are reviewing their schedule now to determine whether they can do that.

Number 230

The next item was the TAPS Tariff. He said the state did conclude a settlement with the TAPS carriers last year. As a result of that settlement, and resulting reduced transportation costs, the state has received about $94 million in increased royalty payments.

Also, as an update to the committee, he said that the Alaska Public Utilities Commission was holding hearings on the intra-state tariff. He said it was not clear to him, at that time, what position the APUC was going to take, but there was a possibility that they are moving toward a decision to require a different rate for intra-state tariff than for inter-state tariff.

Number 247

The last item he spoke to, which was a very time consuming project, was the Cook Inlet Royalty Oil Sale. He said that after many months the federal regulations were amended, but didn't allow everything they had hoped. They allowed a limited export from Cook Inlet, but the ability to export Cook Inlet oil depends upon which side of the Inlet you're on. He said after the preliminary decision to sell approximately 3,600 barrels per day to Chinese Petroleum Corporation of Taiwan, and then following public comment, a final decision was issued on January 8, 1987.

TAPE TWO SIDE ONE
January 29, 1987

He concluded by saying delivery of 94 percent of the state's daily royalty oil production from the west side of Cook Inlet is expected to begin in July 1987.

Number 305

Following the conclusion of Mr. Eason's briefing, there was a lengthy question and answer period. He discussed problems with the denomination provision in royalty oil contracts, the status of the Valdez refinery project, gas valuation procedures discussed before the Federal Royalty Management and Advisory Committee, Beaufort Sea drilling restrictions, and BLM's proposed management plan for the Teshekpuk Lake area.

Number 566

Senator Fahrenkamp thanked Mr. Eason for the briefing and said the committee should be as up to date as possible and know where the problem areas were. She then adjourned the meeting at 5:22 p.m.

STATE OF ALASKA

POUCH V
JUNEAU, ALASKA 99811
(907) 465-4941

SENATE SPECIAL COMMITTEE ON OIL AND GAS

MEMORANDUM

TO: Members, Senate Special Committee on Oil and Gas

FROM: Committee Staff

RE: Committee Meeting, January 29, 1987

DATE: January 28, 1987

On Thursday, January 29 at 3:30 pm in the Beltz Room, the Senate Special Committee on Oil and Gas will recieve a briefing from the Department of Natural Resources, Division of Oil and Gas. Jim Eason, Director of the Division, will present an overview of the the division's functions and a review of current policy issues affecting oil and gas development. In addition to the issues listed on the attached agenda, Mr. Eason will provide an update on Cook Inlet gas contracts, the results of this week's Lease Sale #51, and a review of the January, 1987 documents "Five year Oil and Gas Leasing Program" and "Historical and Projected Oil and Gas Consumption". If you have not received copies of the above documents, committee staff will be glad to provide you with them.

OFFICE OF THE COMMISSIONER
Pouch M
Juneau, Alaska 99811
(907) 465-2400

Danny,

This is the draft outline for the presentation to the Senate Resources committee on Wednesday.

It appears we could do one of several things:

1. Repeat the presentation
2. See if there are questions from the presentation before Senate Resources*
3. Do #2 above + add
   A. Cook Inlet Gas Update
   B. Results of Lease Sale 51
   C. Other?

I'd suggest option #3.

Please call.

Bob

Alaska Department of
NATURAL RESOURCES

* This assumes everyone attended the Senate Resources presentation

DIVISION OF OIL AND GAS
James E. Eason, Director

1. Division Responsibilities
2. Division Staff
3. Division Issues
   - A. 8(g) Revenue Sharing
   - B. Petro Star-Chevron Contract Amendment
   - C. Milne Point Shutdown
   - D. ANWR
     1. State supports opening for leasing
     2. Land trades
     3. Disputed acreage
     4. Revenue sharing
     5. Impacts of decisions on state sales
   - E. Diligence provisions of state oil and gas leases
   - F. West Sak Pilot Project Abandonment
   - G. Five-Year Leasing Program
     1. Sale schedule reduced
     2. Exempt sales
   - H. TAPS Tariff
     1. Settlement
     2. APUC rate setting
   - I. Cook Inlet Royalty Oil Sale

Danny,

As requested, here is the agenda for the presentation to the Senate Resources Committee on 12/28.

R. Butts

DIVISION OF OIL AND GAS
James E. Eason, Director

1. Division Responsibilities

The Division of Oil and Gas' primary responsibilities are to assure that prospective oil, gas and geothermal lands are made available for competitive leasing and that the state receives full value for these resources; to assure that all revenues due the state from leasing and production are received; and, to assure that persons holding oil, gas or geothermal leases conduct their surface operations in an environmentally sound and socially conscious manner. The division is comprised of the Director's Office and three management sections: Lease Sales, Lease Administration and Royalty Accounting.

2. Division Staff

The Division of Oil and Gas has 39 employees as of January 1987. There are 38 employees in the Anchorage central office and one employee in the Juneau commissioner's office. The Juneau employee is project manager for formulating the department's response to oil and gas proposals and projects on federal lands, and acts as division liaison with Juneau agencies and the legislature.

3. Division Issues

A. 8(g) Revenue Sharing

The State of Alaska shares in revenues from the leasing of certain OCS tracts within three miles of state submerged lands. Congress amended the OCS Lands Act last year to provide for a 27 percent share of all bonuses, rentals and royalties from the leasing of these 8(g) tracts with the adjoining coastal states. As a result of Congress' action, certain funds, which had been escrowed pending the determination of each state's "fair and equitable" share were distributed. This resulted in the receipt of $51 million in unanticipated revenues for Alaska in 1986, with another $134 million to be received over the next 15 years. However, since the recent amendment was adopted, there has been another development that may affect the amount the state receives from OCS leasing in the 8(g) zone. The U.S. District Court for the Western District of Louisiana has ruled against the State of Louisiana in its lawsuit to compel the Secretary of the Interior to require joint unitization of federal leases which are claimed to be draining reserves from adjacent state leases. In reasserting its pre-1986 amendment position, Interior is claiming that Section 8(g) only requires reimbursement to states for drainage, and that Congress has determined that 27 percent of the revenues are sufficient compensation, regardless of the factual circumstances governing the actual ownership of the resources. Interior's adoption of this posture is likely to make it more difficult to negotiate joint state-federal unit agreements in which resources are allocated on the basis of tract ownership to determine revenue distribution.

B. Petro Star-Chevron Contract Amendment

Last session the legislature approved the department's long term sale of approximately 6500 bbls per day of royalty oil to Petro Star and Chevron. Under the price term of that contract, the purchasers buy royalty oil from the Kuparuk Unit, but pay the state a price which is calculated using the volume weighted average of the prices reported by the producers from the Prudhoe Bay Unit rather than the Kuparuk River Unit. Starting with this Prudhoe Bay price, all upstream transportation-related tariffs, quality-differential adjustments and field costs associated with purchasing Kuparuk River Unit oil vis a vis Prudhoe Bay Unit oil are then netted out to determine the interim (pre-Amerada Hess resolution) per barrel price paid by Petro Star and Chevron for the royalty oil.

It was the intent of the parties to "normalize" the price paid for Kuparuk oil with the price paid for Prudhoe Bay royalty oil without either penalty or benefit accruing to either of the parties. However, subsequent actions by the TAPS carriers have resulted in increased costs under the Petro Star and Chevron contract.

Since the legislature's review of this subject contract, all TAPS carriers have instituted a practice of charging a surcharge for oil delivered to TAPS from the Kuparuk River Unit. The amount charged is variable, but it appears that most carriers are charging $0.11 per barrel; however one carrier is currently charging $0.12 per barrel. This surcharge is not a transportation tariff, per se, and it is not a gravity-based quality adjustment. The stated basis for the adjustment is that it compensates the carriers for transporting oil with a "pumpability" factor different from that of the average Prudhoe Bay crude oil.

Chevron has asked the department to amend the contract to allow deduction of this new cost in calculating its purchase price, but the department has informed Chevron that it believes that an administrative remedy is impossible since the requested amendment would result in a material reduction in the price the state receives for the oil, and the contract itself and the applicable statute require legislative review and approval. Although the department has not yet received a formal request for a contract amendment, it expects Chevron to request the legislature's review of its price term this session.

C. Milne Point Shutdown

Conoco, Inc., operators of the Milne Point Unit, have suspended production. The "warm" shutdown means that production could be reinitiated with a minimum of effort and expense. The direct cost to the state of lost production from Milne Point is minimal because production had declined to about 9,000 bbls per day before the decision was made to suspend operations. During 1986, Conoco requested a reduction in the state's 20% royalty on production from the unit. Although the department worked with Conoco to explore alternatives, and supported a legislative amendment which would have given the commissioner explicit authority to reduce the

royalty rate before two years of production had occurred, no reduction was granted. The division does not know whether Conoco will seek legislative relief from the royalty provisions this session.

D. ANWR

1. State supports opening for leasing

The Department of Natural Resources strongly supports the opening of the Arctic National Wildlife Refuge (ANWR) for oil and gas leasing, and is actively participating with other agencies in the administration to develop a response to the Secretary of the Interior's proposed leasing in ANWR which is contained in the 1002 report released by the U.S. Fish and Wildlife Service late last fall.

2. Land trades

On another front in the ANWR arena the Department is participating in discussion with Interior concerning proposed exchange of state lands for lands within ANWR. The U.S. Fish and Wildlife Service is also discussing potential trades with several Native corporations.

3. Disputed acreage

Although the draft Interior report on ANWR recognizes the submerged lands ownership dispute between the state and federal governments regarding the coastal lagoons between the mainland and offshore barrier islands, it does not address the navigability status of inland waterways. The state also asserts ownership of the submerged lands underlying the Aichilik, Jago, Okilak, Hulahula, Sadlerochit, Staines and Canning rivers. The state maintains that these are navigable waterbodies with title vested to the state at the time of statehood.

4. Revenue sharing

Under present law, the state is entitled to receive 90 percent of the revenues (bonus, rent and royalty) derived from oil and gas production on ANWR. Recent comments by Interior representative Bill Horn suggest that there is some discussion underway to determine Interior's position on whether Congress should take some action to reduce the state's share from future leasing of ANWR.

5. Impacts of decisions on state sales

Currently, the state has two lease sales scheduled on state submerged lands offshore of ANWR (Sale 50, Camden Bay, June 1987; Sale 55, Demarcation Point, June 1988). These areas are considered highly prospective. It is important from the department's perspective that the state urge Congress to allow the potential for the siting in ANWR of oil and gas facilities needed to support offshore oil and gas development. As written, none of the alternatives contained in the draft Department of the Interior report titled "Arctic National Wildlife Refuge, Alaska, Coastal Plain Resource Assessment" (the 1002 report) specifically state that support facilities, if needed, would be permitted.

E. Diligence provisions of state oil and gas leases

In the state's present economic climate, it is likely that there will be increased pressure on the legislature, the administration and the division to relax the diligence provisions of the state's oil and gas leases, to extend drilling and development commitments, and to reduce lessees' royalty obligations. These actions represent major policy decisions which will continue to deserve careful review and thoughtful discussion to assure that the state's long-term interests are protected. It is likely that the proponents of such actions will focus on the current and near-term economic conditions to support their requests; however, petroleum industry activity and crude oil prices traditionally have been cyclical, and this fact should guide consideration of requests to amend the enforcement provisions of state oil and gas leases.

F. West Sak Pilot Project Abandonment

A pilot project by ARCO to evaluate the production characteristics of the West Sak sands has been abandoned. The wells have been plugged and abandoned, and the production facilities are for sale. The lack of firm development plans indicates to the division that the lease owners are not considering production of the West Sak heavy oil in the near future.

G. Five-Year Leasing Program

1. Sale schedule reduced

Since its inception in 1979, the state's formal Five-Year Oil and Gas Leasing Schedule has consisted of three sales a year. This year, in response to state agency budget cuts and reduced industry exploration funds, the division has developed a schedule of two lease sales each year through 1991. Comments were solicited last fall on this reduced schedule. As expected, a variety of opinion was expressed. Comments from industry were mixed. A majority of the companies supported decreasing the number of sales on the schedule, but wanted high potential areas left on the leasing program. Comments from agencies and environmental groups generally supported the reduced schedule. The division believes that its new schedule will provide the state with a strong, judicious leasing program over the next five years.

2. Exempt sales

The division receives several requests from industry each year to hold "exempt" oil and gas lease sales. Exempt sales are provided for in AS 38.05.180(d)(1) through (4), which allows the division to conduct competitive lease sales not on the formal five-year schedule under specific conditions. These conditions range from potential drainage situations to anticipation of early development and evaluation of the acreage being leased. In conducting an exempt sale the division must follow all of the considerable legal requirements imposed on regularly scheduled sales. Already this year the division has received one request for an unscheduled exempt acreage sale in Cook Inlet, and has had an informal inquiry from another company about the feasibility of a North Slope exempt sale. These sales have traditionally

made money for the state, and I personally believe it is a good policy to make acreage available for releasing on an expedited basis particularly where there is known interest. However, the division's ability to respond to these requests will relate directly to the level of funding it receives in FY '88. The division anticipates that it will be able to respond to some exempt sale requests if funding is maintained at the FY '87 Revised level.

H. TAPS Tariff

1. Settlement

On October 23, 1985, the Federal Energy Regulatory Commission (FERC) approved an agreement between the State of Alaska and six of the eight owners of TAPS settling the TAPS tariff litigation. On June 27, 1986, FERC approved an amendment to extend the TAPS tariff settlement to the two remaining owners of TAPS. In the majority of cases, the new tariffs were less than the tariffs individually established by the eight separate pipeline companies, commonly referred to as "carriers".

Under the terms of the settlement, the approved TAPS tariffs were applied retroactively for TAPS shipments effective January 1, 1982. The carriers were required to give refunds to all who had shipped oil ("shippers") after that date. Similarly shippers were required to reimburse the state for any excess transportation charges that had been deducted in determining the royalty value of the state's oil. Because the well head value of North Slope oil increases in proportion to the decrease in tariffs, the value of Alaska's North Slope royalty oil was enhanced by the settlement. Consequently, producers of North Slope oil were required to make additional royalty payments to the state based on the royalty-in-value (R-I-V) taken by these producers. In addition to increased royalty payments from the producers, the state also received increased royalty payments from those who purchased Alaska royalty oil during the period covered by the settlement.

Many of the royalty-in-kind (R-I-K) contracts had clauses which used the producers' reported values (R-I-V) as the basis for the R-I-K value. Thus, as R-I-V values were revised upward, so also were R-I-K values, resulting in additional payments to the state. At the end of October 1986, the state had received almost $94 million in increased royalty payments resulting from the TAPS settlement.

2. APUC rate setting

The FERC tariff applies to interstate shipments of oil. The Alaska Public Utilities Commission (APUC) has authority to set tariffs for intrastate shipments of oil through the TAPS line. The APUC currently is considering the intrastate tariff question. Early indications are that the APUC will not accept the FERC tariff for intrastate shipments. This would result in different tariffs being charged for similar oil movements.

I. Cook Inlet Royalty Oil Sale

In 1986, marketing of Alaska's royalty oil entered a new era with the first offering of Cook Inlet royalty oil to a Pacific Rim country. On December 5, the Commissioner of Natural Resources issued a preliminary decision to sell approximately 3,600 barrels per day of Cook Inlet royalty oil to the Chinese Petroleum Corporation of Taiwan, which submitted a premium bid of $1.83 per barrel above the volume weighted average of producers' reported values plus cleaning and dehydrating charges and platform to shore charges. Following public comment, a final decision was issued on January 8, 1987, and delivery of 97 percent of the state's daily royalty oil production from the west side of Cook Inlet is expected to begin in July 1987.

The successful negotiation of this contract culminated a long and complicated lobbying effort on the part of the state to gain federal permission to export Cook Inlet oil and a detailed solicitation by the department to attract interest in the sale. The formal process which resulted in Alaska's first export sale of royalty oil began on July 15, 1986, when the department issued a Solicitation for Offers to Purchase West Side Cook Inlet Royalty Oil. The solicitation and its exhibits provided information on the proposed sale, under a one-year contract, of 97 percent of the state's daily royalty oil production (3,600 barrels per day) from fields on the west side of Cook Inlet. In response to the department's solicitation, seven companies submitted bids. Because the sale was a non-competitive disposal, the Commissioner was required to consider other factors in addition to the per barrel price offered by prospective purchasers, such as the effects of the sale on the state's economy, the projected positive and negative environmental effects of the transaction, and the effects on existing private commercial enterprise and investments.

0733R

1/29/07
3:32

BF
Fischer
Coghill

Eason

(8 G) Revenue Sharing -

Sec of OCS Land Act amended. 1978
"fair and equitable" split.
in Court.

Congress - 27% share to state.
(also got 1979 lands)

Alk Le 5¢ million
+ 13¢ over next 15 yrs
another acct for disputed acreage.

After boundary dispute

Tom Koester handling dispute.
Master's report to Supreme

only within 3 miles of 3 mile boundary

Ongoing discussion re: joint-fed unitization.
like SEAL ISLAND

Louisiana passing legislative solution —
compell Sec of Int to unitize

check w/ Mark Worcester, LAW

2) Petro Star Chevron Contract Amendment

Chevron would like to pursue amendment.

Negotiated & approved last session

6500 / bbl

2500 Petro

4000 Chev

65
15
325
65
975.00

~ $1000/day

wanted Kuparuk oil

price term based on Prudhoe price deducted

Premium

35 ¢/bbl Petro
50 ¢/bl Chev.

TAPS is charging a "pumpability factor" surcharge on credit allowed.

charging 15 ¢/bl as surcharge.

deducting it from in-value price, royalty payment

→ Ask Maynard —
settlement allows adjustment.
Freedom
how much do they have to take
surcharge.

(3) Shutdown of Milne Point

Royalty relief —

Department agreed w/ Conoco —

→ Statutes require 2 years production
+ showing of non-economic

Check w/ Conoco —

would royalty relief have helped?

(4) ANWR —

→ reconvene 7:00 am

1) Carbon

2) Land trades —

state participating.
no decision made

Coq

looking at broad federal issues.

PBF

assurance That administration speak w/ one voice.

Coq surveys a ANWR -

— 3 years ago - siesm

ASRC well completed last fall

Sohio, BP, Chevron.

AOGCC has confidential data

State has geophysical data

deep seismic data was

Disputed Acreage

State always owns islands

ANWR includes offshore island.

water between ~~Bk~~ islands + mainl. disputed.

Camden Bay #50 in 6/87

3 miles seaward of islands

OCS sale offshore of it.

Revenue sharing –

Congress will want to see our share reduced.

w/in Interior effort to reduce

[Read RD's report]

WORK COMMITMENTS

or ~~dd~~ diligence provisions

supports keeping lessees to their contract.

don't use work commitments anymore.

WEST SAK SANDS

2000 – 2800 ft. shallow.

geologically young.

heavy, low-gravity oil –

difficult to produce.

Arco – West Sak pilot project

proved high rates of production

Arco has abandoned-

5-Year schedule —

Reduced to 2/year.

Concentrate on North Slope or near known production.

#51 289,000 Barrow Bid
100,000 in first year untels.

Much of it was reoffered acreage

favorable — 12% royalty
no net profit share
bid $2/acre.

20% were bid on.

101,000 out of
500,000 acres.

Permit reform —
seems to be working.

Dave Johnson & Wade Schock working on stipulation study

Exempt sales.

looking at streamlining

potential in CI and North Slope

TAPS Tariff

94 million in increased royalties

Export of CI Oil

Still some prohibitions

West side is OK

East - pipeline crosses fed ROW
mixes w/ Fed oil from
Swanson River.

Bid for China Petro - Tajura
1.83/bbl premium
3600/day for 1 year only
each delivery subject to cancellation in the
case of national emergency.

ROYALTY DENOMINATION

Tesoro denomination last year

in new contracts
would be something you could delete

continued

Valdez —

AK Pacific refining.
Interested -
moved offices to anch -
negotiating directly w/ producers

Fed Royalty Management Advisory Committee

Coas valuation
Regulations Reform Dept of Interior
Valuation procedures.

Beaufort Sea drilling restrictions

comments on Camden Bay which
NSB is happy.

Teshekpuk -

decision not to sign

check this out

Petro Star - Mapco -

adjourned 5:20