

SCOMM

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Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907)272-1481 Fax: (907)279-8114
L. A. (Ardie) Gray, Public Affairs Manager

May 10, 1995

The Honorable Norman Rokeberg, Chairman
Special Committee on Oil and Gas
Alaska State House of Representatives
Capitol Building, Room 110
Juneau, Alaska

Dear Representative Rokeberg:

The Alaska Oil and Gas Association (AOGA) is a trade association whose member companies account for the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

For your immediate reference, we are sending, via facsimile, the Association's position statement on CSSB 176/CSHB 334, relating to regulation of certain natural gas exploration facilities for purposes of preparation of discharge prevention and contingency plans and compliance with financial responsibility requirements.

If you have any questions or would like additional information regarding AOGA's position on this legislation, please call me at 272-1481.

Sincerely,

A handwritten signature in cursive script, reading "Leigh A. Gray".

LEIGH "ARDIE" GRAY
Public Affairs Manager

Attachment

**AOGA POSITION
ON CSSB 176/CSHB 334,
RELATING TO REGULATION OF CERTAIN NATURAL GAS
EXPLORATION FACILITIES FOR PURPOSES OF PREPARATION OF
DISCHARGE PREVENTION AND CONTINGENCY PLANS AND
COMPLIANCE WITH FINANCIAL RESPONSIBILITY REQUIREMENTS**

The Alaska Oil and Gas Association (AOGA) is a trade association whose 19 member companies account for the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

The Association has reviewed CSSB 176 and its companion CSHB 334 and is concerned about the legislation for the following reasons:

- AOGA believes that state law requiring preparation and implementation of discharge prevention and contingency plans and that the law requiring compliance with financial responsibility requirements for oil and natural gas exploration facilities should be consistent.
- The Association believes it is in the state's best interest to require that consistent, equitable and adequate financial responsibility requirements be met by all persons/companies conducting oil and gas exploration operations in Alaska. The Association is aware of the state's interest to provide opportunities for smaller, independent oil and gas operators, however, the Association believes it is not in the state's best interest to assume financial liability for any operator.

STATE OF ALASKA
DEPARTMENT OF LAW
OFFICE OF THE ATTORNEY GENERAL
ENVIRONMENTAL SECTION
1031 W. 4th Avenue, Suite 200
Anchorage, AK 99501
907/269-5100

Our Fax Number: (907) 278-7022

FAX TRANSMITTAL LETTER

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PLEASE DELIVER THE FOLLOWING PAGES TO:

Jack Phelps
House ~~State~~ Committee
Resource

FAX NO: 465 3793

Total Number of Pages including this cover sheet: 5

Here is the language. Rob Mintz and I
have worked out with AOGCC and DEC
for HB 334. Sections 2 & 4 are not
necessary but we included revisions to
confirm the correct language.

DATE: 5/5/95

TIME: 4:30pm

FROM: Breck Tostevin

Assistant Attorney General - Anchorage

IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CALL:

Vicki O'Brien, Mary Simenoff or Lory Hahn at (907) 269-5274.

Proposed changes to H.B. 334 by AOGCC

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

MAY 05 1995

(1) When requested by a person proposing to explore for gas by means of drilling a well, the commission may evaluate the likelihood that the well will penetrate a formation containing oil. If the commission concludes with reasonable certainty that the well will not penetrate a formation containing oil, the commission shall so certify.

*Sec. 3. AS 46.04.030 is amended by adding a new subsection to read:

(s) If a well certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i) penetrates a formation containing oil, the operator of the exploration facility shall

... item (1) Notify the Alaska Oil & Gas Conservation Commission
& all other appropriate state agencies
item (2) as written

~~*Sec. 5. AS 46.04.040 is amended by adding a new subsection to read:~~

~~(n) if a well certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i) penetrates a formation containing oil, the operator of the exploration facility shall cease all activity until the requirements of (b) of this section are met.~~

Sec. 5 AS 46.04.040 is amended by adding a new subsection to read:

(n) if a well certified by the Alaska Oil & Gas Conservation Commission under AS 31.05.030(i) penetrates a formation containing oil, the operator of the exploration facility shall cease ^{exploration} activity until the requirements of (b) of this section are met.

* Sec. 6. AS 46.04.050 is amended by adding a new section to read:

(c) Except as provided in AS 46.04.030(s) and 46.04.040(n), AS 46.04.030(b) and 46.04.040(b) do not apply to operation of an exploration facility to the extent that it is used to drill a well certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i).

HB 334 Draft

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

(i) When requested by a person proposing to explore for gas by means of drilling a well, the commission may evaluate the likelihood that the well will penetrate a formation containing oil. If the commission concludes with reasonable certainty that the well will not penetrate a formation containing oil, the commission shall so certify.

* Sec. 2. [Delete. But if required, use revised section 2 attached.]

* Sec. 3. AS 46.04.030 is amended by adding a new subsection to read:

(s) If a well certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i) penetrates a formation containing oil, the operator of the facility

(1) shall notify the department, the Alaska Oil and Gas Conservation Commission, and all other appropriate state agencies; and

(2) may not conduct exploration activity except

(A) in compliance with an oil discharge prevention and contingency plan for the facility approved by the department; or

(B) in compliance with an oil discharge prevention and contingency plan for the facility

submitted to the department, pending the department's decision on plan approval.

* Sec. 4. [Delete. But if required, use revised section 4 attached.]

* Sec. 5. AS 46.04.040 is amended by adding a new subsection to read:

(n) If a well certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i) penetrates a formation containing oil, the operator of the facility may not conduct exploration activity until the requirements of (b) of this section are met.

* Sec. 6. AS 46.04.050 is amended by adding a new subsection to read:

(c) Except as provided in AS 46.04.030(s) and 46.04.030(n), the provisions of 46.04.030(b) and 46.04.040(b) do not apply to the operation of an exploration facility to the extent that it is used to explore for gas by means of drilling a well that has been certified by the Alaska Oil and Gas Conservation Commission under AS 31.05.030(i).

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

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

(b) A person may not cause or permit the operation of a pipeline or [AN EXPLORATION OR] production facility in the state or, except as provided in AS 46.04.050(c), may not cause or permit the operation of an exploration facility in the state unless an oil discharge prevention and contingency plan for the pipeline or facility has been approved by the department and the person is in compliance with the plan.

Sec. 4. AS 46.04.040(b) is amended to read:

(b) A person may not cause or permit the operation of a pipeline or [AN EXPLORATION OR] production facility in the state or, except as provided in AS 46.04.050(c), may not cause or permit the operation of an exploration facility in the state unless the person has submitted to the department, and the department has approved, proof of financial ability to respond in damages. Proof of financial responsibility required for

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

(2) an onshore production facility is

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

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

(C) \$5,000,000 per incident if the facility

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produces over 2,500 barrels per day but not more than 5,000 barrels per day of oil;

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

(3) an onshore exploration facility is \$1,000,000.

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LAPP Resources Inc.

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Facsimile +1 (907) 248-7278

May 4, 1995

Representative N. Rokeberg
State Capitol
Juneau, AK 99811

Attn: House Oil and Gas Committee
Re: Committee Substitute HB 334

Dear Representative Rokeberg:

I look forward to the joint Resources and Oil and Gas hearing tomorrow morning at 8:00am. I believe that it is extremely important to pass this bill for the following reasons.

Alaska's bonding requirements are extremely onerous for all but major companies. This is one reason that independents do not operate in Alaska, and small developments serving local Alaskan markets are not feasible.

Alaska has multiple layers of protection in current statutes and regulations:

\$1,000,000 bond for exploration wells with the DEC,

\$10,000 to \$500,000 lease bond with the DNR, and

\$100,000 single well or \$200,000 statewide bond with the AOGCC.

This is potentially \$1.7 million in bonds for even the smallest exploration well. If the well encounters oil, and production ensues, even larger bonds are required by DEC.

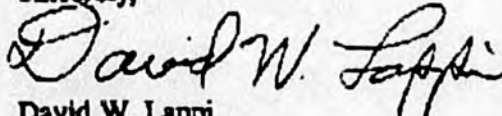
Alaska also has the 470 Fund, a \$50 million emergency kitty for use during oil or other hazardous spill emergencies. This kitty was funded and is maintained by a two cent per barrel tax on oil production.

In light of continuing State budget shortfalls, the State can no longer afford to be an obstacle to private development.

LAPP Resources is currently pursuing small natural gas projects which could supply some areas of rural Alaska with locally-produced gas as a lower cost, more environmentally-friendly fuel than the currently imported diesel fuel. The wells could be drilled for under \$100,000 in some areas. If bonding costs are not reduced, these projects will not be economic, as the bonds will cost more than the drilling. With reduced bonding, independent private gas exploration companies, Native Regional Corporations, or in some cases Village Corporations or rural utilities may be able to participate in the development of their own local energy resources.

Although incentives for the industry are nice, dismantling the disincentives to business will be more effective in the long run and will maintain the State's royalty stream for a longer period.

Sincerely,



David W. Lappi
President

cc Representative Joe Green - Resources Committee Co-Chair
Representative Bill Williams - Resources Committee Co-Chair

Memorandum State of Alaska
Oil and Gas Conservation Commission

To: Representative Rokeburg
 Alaska State Legislature

Date: October 20, 1995

Telephone: 279-1433
Fax number: 276-7542

From: David W. Johnston
 Chairman

Subject: SB 176

The following is my testimony on SB 176. Thank you for the opportunity to comment.

SB176 would authorize the Commission to certify a well as not likely to penetrate a formation containing oil. The operator of a well so certified would not be required to prepare an oil discharge prevention and contingency plan and would be relieved of the financial responsibility requirements of AS 46.

The Commission believes this is a reasonable proposal for the legislature to consider which, if it becomes law, should greatly assist independent operators in developing Alaska's natural gas. The independent operator is the heart and sole of the industry in the lower 48. If operational costs can be lowered in Alaska, it is likely that we too can have a successful group of independents, providing local revenue and employment opportunities for all Alaskans.

The Commission employs a number of knowledgeable oil and gas professionals, capable of analyzing available information to make a reasonable assessment of the likelihood of encountering a formation containing oil. In fact, the Commission has already provided input along these lines to DEC. We would welcome the more formal responsibilities provided by this bill.

With appropriate sideboards, the Commission is convinced that a certification program can be established that will promote development of Alaska's natural gas in a safe and responsible manner. For example, the Commission would not be willing to certify a well in wildcat areas where little or no drilling has taken place. However, in other areas, such as the west side of the Cook Inlet, significant drilling has occurred during the last 30 years. In this area, certification may be appropriate using nearby well control.

The Legislature must understand, however, that regardless of the amount of available well data, there will always be some level of risk of encountering oil. One is never sure until the drill bit finally tells the story.

Should you have any questions, please call.

Z-ENERGY INC.

May 4, 1995

Representative Norm Rokeberg
Chairman, Oil & Gas Committee
Alaska State Legislature
Juneau, AK 99801

VIA FAX: 907-465-2040

Re: CS HB 334

Dear Representative Rokeberg:

As President of a nascent oil and gas exploration and production (E&P) company with 27 square miles of hydrocarbon properties in the Cook Inlet Basin held by the company and its principals, I am writing this letter in support of CS HB 334 entitled "Exempt Natural Gas Facilities from Oil Spill Bond and Plans."

I will provide oral testimony at the May 5, 1995 hearing before the Oil & Gas Committee and the Resources Committee. Briefly, CS HB 334 is critical to the survival of small Independent E&P companies. Also, CS HB 334 is a rational response to the illogical problem of requiring oil spill bonding and contingency planning in the context of a natural gas well. Because deep stratigraphic wells are not expected to encounter oil, they are already exempt from oil spill contingency planning and bonding. The Alaska Oil and Gas Conservation Commission has the necessary technical expertise and geophysical knowledge to draw reasonable conclusions about the probability of encountering oil in a well being drilled on a previously delineated geologic structure. In this context, if the AOGCC concludes that it is improbable for a proposed well to encounter oil, imposing oil spill contingency bonding and planning upon the operators creates a useless economic burden that does nothing to protect the environment.

From an economic perspective, passage of CS HB 334 will allow Independents to develop and produce reserves that may not be evaluated as economically viable by the Majors. Similarly, development of coalbed methane for Bush villages would become more economically feasible with passage of CS HB 334. This resource could provide village residents with an inexpensive and clean fuel for heat and electricity. Furthermore, the environmental risks associated with transporting fuel oil in the bush could be reduced through development of this local environmentally friendly resource.

There are many reasons why there are 8000 Independents doing business in the Lower-48 and only a couple of Independents (Stewart Petroleum & CIRI) producing in Alaska. One of these reasons is the onerous oil spill bonding requirement on natural gas exploration projects. Passage of CS HB 334 could help remove a major hurdle standing

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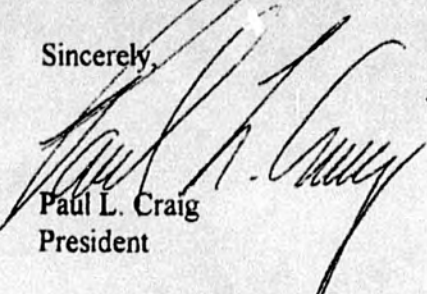
Z-ENERGY INC.

Page 2

in the way of development of Alaskan owned and operated Independent oil and gas exploration and production companies.

Thank you for your support of Committee Substitute for HB 334 entitled, "Exempt Natural Gas Facilities from Oil Spill Bond and Plans."

Sincerely,



Paul L. Craig
President

cc: Representative Joe Green
Representative Bill Williams

Proposed CSHB 334(O&G) Exempt Natural Gas Facilities from Bond & Plans

Sectional Analysis

Section 1 of the bill amends AS 31.05.030 by adding a new subsection (i) granting authority to the Alaska Oil & Gas Conservation Commission (AOGCC) to determine whether there is a reasonable expectation that an exploration well will encounter oil when requested by a permit applicant to do so. If the Commission determines there is no reasonable probability that the activity will encounter oil, the Commission must so certify.

Section 2 of the bill amends AS 46.04.030(b) to exempt exploration activities from the requirement to have an oil spill contingency plan in place if the activity has been certified by the AOGCC under the provisions of AS 31.05.030(i), added by Section 1 of the bill, unless the operator encounters oil.

Section 3 of the bill adds a new subsection (s) to AS 46.04.030 requiring an operator of a facility exempted under AS 31.05.030(i) to notify the local oil spill response cooperative and all appropriate state agencies, and to develop an oil spill response plan within 15 days, if the operator encounters oil.

Section 4 of the bill amends AS 46.04.040(b) to exempt exploration activities from the oil spill financial responsibility requirements if the activity has been certified by the AOGCC under AS 31.05.030(i)

Section 5 of the bill amends AS 46.04.040 by adding a new subsection (n) requiring the operator of an activity exempt under AS 31.05.030(i) to obtain a surety bond to assure performance of surface clean up. The amount of the bond is to be set by AOGCC.

Section 6 of the bill amends AS 46.04.050 by adding a new subsection (c) creating a general exemption for facilities certified under AS 31.05.030(i). The exemption applies to financial responsibility requirements and oil spill contingency plan responsibilities except as provided in Sections 3 and 5 of the bill.

Section 7 of the bill provides for an immediate effective date under AS 01.10.070(c).

Memorandum State of Alaska
Oil and Gas Conservation Commission

To: Jack Phelps
 c/o Rep. Rokeburg

Date: May 4, 1995

Telephone: 279-1433
Fax number: 276-7542

From: David W. Johnston
 Chairman

Subject: HB 334

The Commission proposes the following changes in HB334.

In Section 1, we propose the following language:

"(i) When requested by a person proposing to explore for gas by means of drilling a well, the commission may determine the likelihood that the drilling activity will penetrate a formation containing oil. If the Commission concludes with reasonable certainty that the drilling activity will not penetrate a formation containing oil, the commission shall so certify as to the natural gas exploration facility used in that drilling. For purposes of this subsection, the term natural gas exploration facility has the same meaning as in AS 46.04.900." [Note: Need a definition for natural gas exploration facility in AS 46.04.900 (i.e., natural gas exploration facility shall mean an exploration facility used only for natural gas exploration.)]

In Section 3, we recommend deleting the phrase after AS 31.05.030(i). The section should read:

"If the operator of a natural gas exploration facility, for which the Alaska Oil and Gas Conservation Commission has certified under AS 31.05.030(i), encounters oil, the operator shall...."

We then recommend changing item (1) to read:

"notify the Alaska Oil and Gas Conservation Commission and all other appropriate state agencies."

In Section 5, we recommend the following language:

"If the operator of a natural gas exploration facility for which the Alaska Oil and Gas Conservation Commission certifies under AS 31.05.030(i) encounters oil, the operator must cease all activity until the bonding requirement of (b) of this section are met."

The commission lacks expertise for determining the appropriate bonding amounts to assure surface clean up spilled oil. The commission would likely need to add staff to accomplish this task.

Finally, in section 6, we recommend ending the subsection after AS 31.05.030(i).

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

3601 C STREET, SUITE 1380
ANCHORAGE, ALASKA 99503-5948
PHONE: (907) 762-2549Representative Norman Rokeberg
Room 110
State Capital Building
Juneau, AK 99801-1182

May 9, 1995

RE: House Bill 334

SENT VIA FAX ONLY

Dear Representative Rokeberg:

At your request I researched the state Cook Inlet oil and gas lease holdings of Z Energy and Lapp Resources. I also looked into which if any additional Cook Inlet independent operators, individuals or small company lease holders currently hold oil and gas leases where "gas only" exploration may be undertaken. Listed below is a first cut at the leases. I didn't have much time to research the issue, so the list could be longer.

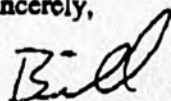
lease number	owner (only one owner shown)	expiration date
374129	Lapp Resources	3-31-1998
374135	Lapp Resources	3-31-1998
374134	Lapp Resources	3-31-2000
381224	Z Energy	3-31-2000

There are at least a dozen or more oil and gas leases where individuals and/or independent operators hold interests and where "gas exploration" is a possibility. However, "gas only" exploration on these leases is only one possibility. As you know, except for the very shallow depths, many areas in the Cook Inlet basin are oil prone as well as gas prone.

One area you may want to address in the CS for the Bill is requiring some minimal amount of a bond to cover accidental non crude oil related spills associated with the exploration operation. Of the spills that do occur, most are related to fuel, hydraulic fluid or lube oil. Crude oil is the exception.

Let me know if you have any further questions.

Sincerely,



Bill Van Dyke
Petroleum Manager



Alaska State Legislature

HOUSE RESOURCES COMMITTEE

State Capitol
Juneau, Alaska 99801-1182
(907) 465-3715

SPONSOR STATEMENT

HB 334

In 1992, the Alaska Legislature passed amendments exempting gas production facilities and gas terminal facilities from the requirements to post a \$1 million bond and develop an approved oil spill contingency plan. Gas exploration activities, however, are not exempt from these requirements. This acts as a deterrent for small operators who may want to develop potential gas fields in areas where there is small likelihood of striking oil. The bonding requirement is particularly daunting, since a \$1 million bond would cost a small operator approximately \$70,000 to post. This is cost prohibitive in many cases.

House Bill 334 addresses this problem by making provisions for an exemption under controlled circumstances. The bill provides that the Alaska Oil & Gas Conservation Commission (AOGCC) must determine that there is a reasonable probability the exploration activity is not directed to a formation containing oil before the exemption is allowed. The bill further requires the applicant to obtain a surety bond in an amount determined by the AOGCC.

House Bill 334 also establishes an interim response plan that must be followed by an operator exploring under an exemption permit if the operator encounters oil during the course of his exploration. Under provisions of the bill, the operator must notify the local oil spill response cooperative and all other appropriate state agencies. The operator must also submit an oil discharge prevention and contingency plan to the Department of Environmental Conservation within 15 days, and be in compliance with that plan.

**BRIEFING PAPER ON THE NEED TO AMEND AS 46.04.050 TO
INCLUDE GAS EXPLORATION WELLS
IN THE EXISTING GAS FACILITIES EXEMPTION
FROM OIL SPILL CONTINGENCY PLANNING AND
FINANCIAL RESPONSIBILITY REQUIREMENTS**

Under existing state law, oil and gas-related facilities, including oil and gas exploration facilities, are generally subject to the requirement to prepare an oil spill contingency plan (AS 46.04.030) and prove financial responsibility in the event of an oil spill by posting a bond or other means (AS 46.04.040). This requirement applies to all exploratory wells, without any consideration of whether the well is expected to encounter oil or gas.

An exemption for natural gas production and terminal facilities from oil spill contingency planning and financial responsibility requirements is set forth in AS 46.04.050(b). The exemption was adopted, with no opposition, because an accidental discharge of natural gas does not pose any environmental risk. Natural gas, unlike oil, dissipates harmlessly into the atmosphere at normal temperatures and pressures.

Some exploration wells are true wildcat wells and are drilled with no definitive knowledge of whether the well will encounter oil or gas. Because such a well may encounter oil, the imposition of the contingency planning and financial responsibility requirements is appropriate. Other exploration wells, which are essentially offset or delineation wells and not true wildcat exploration wells, may be targeted specifically at natural gas deposits or formations in areas with no known oil deposits, with the intention of extending the boundaries of existing fields or developing new fields in areas that previously have experienced exploration and/or development drilling providing information on potential deposits.

To date, the Alaska Dept. of Environmental Conservation has interpreted the exemption in AS 46.04.050(b) in a manner that excludes gas extension, offset or delineation wells, even though such wells have no reasonable likelihood of encountering oil and instead ultimately are intended to produce only gas. Exploratory wells that are targeted solely at natural gas, and have no reasonable likelihood of encountering oil, should not be subject to the expensive, burdensome contingency planning and financial responsibility requirements. Stratigraphic wells or other drilling not intended to drill to a producing formation already are exempted from the contingency plan and financial responsibility requirements under the definition of exploration facility in AS 46.04.900(8).

An exemption for gas exploratory facilities in AS 46.04.050 is necessary to allow smaller, independent oil and gas operators to economically explore and develop smaller properties in existing natural gas provinces such as those in the Cook Inlet Basin. Imposing the very expensive and burdensome contingency planning and financial responsibility requirements on wells that have no reasonable expectation of encountering oil stifles exploration for gas by smaller companies without providing any additional environmental protection.

Without an exemption for gas exploratory wells, the application of AS 46.04.030 and 46.04.040 results in absurd situations. Under the contingency plan requirement to plan for the "realistic maximum oil discharge," for example, the estimate of such a discharge would have to be zero, because there would be no reasonable expectation, based on well logs or other geologic analyses, of encountering oil when drilling such a well. In the case of the financial responsibility requirements, the "per incident" language in AS 46.04.040(b) essentially means that the financial responsibility requirement has no effect when applied to its proposed well, because no oil-related incident could occur from the drilling of the well. These absurdities illustrate why the exemption for gas facilities in AS 46.04.050(b) should include gas exploratory facilities.

To the extent that any question exists as to the likelihood of encountering oil, the State of Alaska Oil and Gas Conservation Commission has the technical expertise to answer the question as part of its drilling permit review process. All oil or gas wells (whether classified as exploratory, development, service or stratigraphic) require a drilling permit from the Alaska Oil and Gas Conservation Commission, and include the requirement to post a \$100,000 bond with the Commission for any liabilities resulting from drilling activities.

Z-ENERGY INC.

April 9, 1995

Senator Loren Leman
State Capital
Juneau, AK 99801

Dear Senator Leman:

Thank you for discussing the Independent Oil & Gas Industry with me during our Juneau - Anchorage flight on Friday. As I promised, please find attached a proposed amendment that would solve the bonding problem for gas exploration wells. A briefing paper is attached for your review.

The proposed amendments to 46.04.050 would resolve a major barrier preventing Dave Lappi of Lapp Resources Inc. and myself from drilling natural gas wells. As I mentioned, there are many other hurdles that should either be removed or streamlined. However, Rome was not built in a day and the problems facing the Independents will not be resolved in one session. If we can resolve the issue of oil spill contingency bonding for natural gas wells this session, we will have accomplished a lot.

I do not think there will be any environmental opposition to this amendment. Natural gas represents an environmentally friendly fuel. If this amendment is passed, Independents could approach small villages regarding use of locally produced coalbed methane to generate electricity and fuel. It is conceivable that some vehicles in the villages could be converted to natural gas. The outcome would be less hazard of spillage associated with the transport of fuel oil, diesel, and gasoline to bush communities. Also, the villages would enjoy improved air quality by burning natural gas rather than the heavier hydrocarbons.

Exemption of natural gas production and transportation facilities from the oil spill contingency bonding requirements was easily adopted by the Alaska Legislature when it was discovered that these facilities had been inappropriately subsumed under oil spill legislation. The proposed amendment is a logical extension of the exemption of natural gas facilities.

If this amendment is not passed, Independents will be left in the untenable position of buying a one million dollar oil spill contingency bond and hiring a consultant to write an oil spill contingency plan to meet DEC requirements. Writing such a plan becomes an exercise in absurdity. For example, under the section specifying expected quantities of oil to be encountered, the logical answer would be "none." Writing an oil spill contingency plan costs about \$100,000. Buying the bond is expected to cost about \$70,000 to \$100,000 -- assuming a vendor can be found. This type of bonding is not required for land based operations anywhere else in the United States. There is no protocol for how

Z-ENERGY INC.

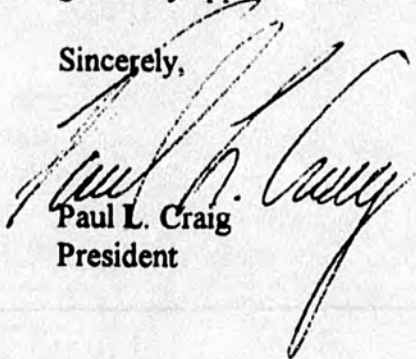
Page 2

to handle this type of bonding within the insurance industry. Hence, simply finding a vendor of this type of insurance product becomes a challenging task.

If this amendment is enacted, the AOGCC could be called upon to identify whether a given well has any chance of encountering liquid hydrocarbons. If not, then the Independent Exploration & Production Company could sensibly develop the prospect without fulfilling absurd oil spill contingency planning and bonding requirements. If the oil spill contingency requirements remain in place relative to natural gas wells, the Independents would make better use of their precious capital by drilling in the Sacramento Valley where an entire well can be drilled for the combined cost of writing an oil spill contingency plan and purchasing an oil spill contingency bond.

Thank you for your interest in the plight of the Independents in Alaska. I hope we are able to resolve this issue during the current session. Between sessions, we could discuss other pressing issues that are inhibiting the growth of the Independent industry in Alaska. Again, it was a pleasure speaking with you during the flight. Your concern for the needs of Alaskans attempting to build the Independent Exploration & Production industry is genuinely appreciated.

Sincerely,



Paul L. Craig
President

Enclosure: Proposed Amendment
Briefing Paper

cc: Dave Lappi
Lapp Resources, Inc.



E. A. OPSTAD & ASSOCIATES

Geoscience • Engineering • Project Management

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P.O. Box 190754

Anchorage, Alaska 99519-0754

Telephone/Fax : (907) 345-6346

Senator Loren Leman
State Capitol
Juneau, Alaska 99801

April 9, 1995

Subject: Amendment to AS 46.04.050

APR 13 1995

Dear Senator Leman:

This letter lends my support to efforts being made by Z-Energy and Lapp Resources to amend AS 46.04.050 by eliminating current bonding and oil spill contingency plan requirements for gas wells in the State of Alaska.

As currently enacted AS 46.04.050 requires a **One Million** dollar bond and *exhaustive* contingency planning to cover **crude oil** spill response procedures....for **gas** wells? Never mind that gas pipelines, gas processing facilities, gas export terminals, and all other related portions of the State's natural gas system have been appropriately exempted from these same bonding and spill contingency planning requirements! Not only is this regulatory framework illogical, it provides absolutely no incremental protection for the environment. When was the last time a crew was mobilized to environmentally remediate crude oil contamination resulting from a gas leak or incident? What current regulations do very well is erect tremendous financial hurdles for villages and small energy companies who wish to develop local natural gas resources for the benefit of their citizenry and owners.

I suspect that the current regulatory situation is a consequence of legislative oversight, or of being generally uninformed relative to the risks associated with natural gas resource exploration and development operations, rather than purposeful intent, but in any event, the current regulatory implementation has effectively stymied the emergence of an independent gas industry in Alaska.

As a licensed Professional Geologist speaking with 18 years of experience in the State I can tell you that Alaska imposes the most restrictive environment for gas operators among all 50 states. This burden is so great that most independent operators don't even bother to consider Alaska as a potential operations area. When enormous bonding and contingency planning requirements are coupled with the State's restrictive land leasing policy (no over-the-counter sales of exempt acreage) and high operating costs, most oil and gas companies simply elect to invest their time and money elsewhere. By way of an example, my company and its partners drilled 6 wells during 1994 in California with a total budget of approximately \$3.5MM (including pipeline and facility construction). This activity (funded largely with Alaska based money) created nearly 50 temporary California jobs associated with exploration drilling activities, and roughly a half a dozen new long term production jobs. The benefits of this work and associated tax revenues are being realized by California, not Alaska, because as Alaskans we find the regulatory environment in our own state too hostile for a small scale operations.

With its inherently high operating costs and remote location, Alaska may never become a major play for independent operators, but by removing some of the barriers that now exist we may at least unlock the door. Alaska needs a viable independent oil and gas industry to undertake projects which are too small to interest the large multinational companies that currently dominate Alaska's oil and gas scene. For example:

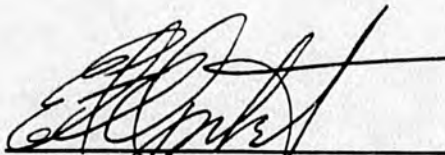
- Would any of the North Slope Operators consider a 2 or 3 well coal gas development program for heating and cooking fuel in one or more of the villages?
- Would any of the Cook Inlet Operators have developed the small West McAurthur River Unit discovered by Stewart Petroleum?
- Have the major companies either dropped leases on "uneconomic" fields or farm-out the acreage, so that they could be developed immediately by independent operators?
- Have any of the majors helped private property owners in the Cook Inlet realize the oil and gas potential of their property (excluding the big CIRI - UTP deal)?

The answer to all of these questions, with a very few exceptions, is of course, NO! Only with the emergence of a viable independent oil and gas industry will small Alaskan communities and private individuals be afforded the opportunity to develop their own energy resources. Only with the emergence of a viable independent oil and gas industry will the many small oil and gas pools throughout the State get developed in a timely fashion, and only a viable independent oil and gas industry can support Alaska when the majors move on to greener international pastures.

The road to developing a healthy independent oil and gas industry in Alaska will be long and arduous, because we have constructed so much of the State's regulatory framework around "big oil" situations. However, we can begin to correct this situation simply by eliminating the oil spill bonding and contingency planning requirements for exploration and development gas wells. This minor adjustment to current statute will open the door to energy independence for many villages and individuals throughout the State, and perhaps, lay the first course of block in the foundation of a new Alaskan industry.

Thank you for taking an interest in this issue, and please feel free to call on me for any support or assistance you might need relative to oil and gas matters.

Respectfully yours,



Erik A. Opstad, BS, MS, PG
President

EAO:lm

9-LS1150\K

Chenoweth

5/6/95

CS FOR HOUSE BILL NO. 334(O&G)**IN THE LEGISLATURE OF THE STATE OF ALASKA****NINETEENTH LEGISLATURE - FIRST SESSION****BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS****Offered:****Referred:****Sponsor(s): HOUSE RESOURCES COMMITTEE****A BILL****FOR AN ACT ENTITLED**

1 "An Act relating to regulation of certain natural gas exploration facilities for
2 purposes of preparation of discharge prevention and contingency plans and
3 compliance with financial responsibility requirements, and amending the duties of
4 the Alaska Oil and Gas Conservation Commission as they relate to natural gas
5 exploration activities; and providing for an effective date."

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

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

8 (i) When requested by a person proposing to explore for gas by drilling a well,
9 the commission may evaluate the likelihood that the well will penetrate a formation
10 containing oil. If the commission concludes with reasonable certainty that the well
11 will not penetrate a formation containing oil, the commission shall so certify.

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

13 (b) A person may not cause or permit the operation of a pipeline or [AN

1 EXPLORATION OR] production facility in the state or, except as provided in
2 AS 46.04.050(c), may not cause or permit the operation of an exploration facility
3 in the state unless an oil discharge prevention and contingency plan for the pipeline
4 or facility has been approved by the department and the person is in compliance with
5 the plan.

6 * Sec. 3. AS 46.04.030 is amended by adding a new subsection to read:

7 (s) If a well certified by the Alaska Oil and Gas Conservation Commission
8 under AS 31.05.030(i) penetrates a formation containing oil, the operator of the facility

9 (1) shall notify the department, the Alaska Oil and Gas Conservation
10 Commission, and all other appropriate state agencies; and

11 (2) may not conduct further exploration activity except in compliance
12 with an oil discharge prevention and contingency plan for the facility

13 (A) approved by the department; or

14 (B) pending the department's decision on plan approval.

15 * Sec. 4. AS 46.04.040(b) is amended to read:

16 (b) A person may not cause or permit the operation of a pipeline or [AN
17 EXPLORATION OR] production facility in the state or, except as provided in
18 AS 46.04.050(c) for a well that has not penetrated a formation containing oil, may
19 not cause or permit the operation of an exploration facility in the state unless the
20 person has furnished to the department, and the department has approved, proof of
21 financial ability to respond in damages. Proof of financial responsibility required for

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

24 (2) an onshore production facility is

25 (A) \$20,000,000 per incident if the facility produces over
26 10,000 barrels per day of oil;

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

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

31 (D) \$1,000,000 per incident if the facility produces 2,500 barrels

1 per day or less of oil;

2 (3) an onshore exploration facility is \$1,000,000 per incident.

3 * Sec. 5. AS 46.04.040 is amended by adding a new subsection to read:

4 (n) If a well certified by the Alaska Oil and Gas Conservation Commission
5 under AS 31.05.030(i) penetrates a formation containing oil, the operator of the facility
6 may not conduct further exploration activity until the requirements of (b) of this
7 section are met.

8 * Sec. 6. AS 46.04.050 is amended by adding a new subsection to read:

9 (c) Except as provided in AS 46.04.030(s) and 46.04.040(n), the provisions of
10 AS 46.04.030(b) and 46.04.040(b) do not apply to the operation of an exploration
11 facility to the extent that it is used to explore for gas by means of drilling a well that
12 has been certified by the Alaska Oil and Gas Conservation Commission under
13 AS 31.05.030(i).

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

9-LS1150F ✓
Chenoweth
5/4/95

CS FOR HOUSE BILL NO. 334()
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

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3 compliance with financial responsibility requirements, and amending the duties of
4 the Alaska Oil and Gas Conservation Commission as they relate to natural gas
5 exploration activities; and providing for an effective date."

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

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

8 (i) When requested by a person preparing to explore for gas, the commission
9 may determine whether there is a reasonable expectation that the exploration activities
10 are directed to hydrocarbon formations containing oil. If the commission determines
11 that there is reasonable ^{Certainly} ~~probability~~ that the exploration activities are not directed to
12 formations containing oil, the commission shall so certify.

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

1 (b) A person may not cause or permit the operation of a pipeline or [AN
2 EXPLORATION OR] production facility in the state or, except as provided in (s) of
3 this section for a natural gas exploration facility for which a certificate has been
4 issued by the Alaska Oil and Gas Conservation Commission under
5 AS 31.05.030(i), may not cause or permit the operation of an exploration facility
6 in the state unless an oil discharge prevention and contingency plan for the pipeline
7 or facility has been approved by the department and the person is in compliance with
8 the plan. *050*

9 * Sec. 3. AS 46.04.030 is amended by adding a new subsection to read:

10 (s) If the operator of a natural gas exploration facility, for which the Alaska
11 Oil and Gas Conservation Commission has certified under AS 31.05.030(i) that there
12 is reasonable probability that the activities of the exploration facility are not directed
13 to formations containing oil, encounters oil, the operator shall

14 (1) notify the oil spill response cooperative designated in the permit
15 issued by the Alaska Oil and Gas Conservation Commission and all other appropriate
16 state agencies; and

17 (2) submit to the department, within 15 days, an oil discharge
18 prevention and contingency plan and, when the plan has been approved, be in
19 compliance with the plan.

20 * Sec. 4. AS 46.04.040(b) is amended to read:

21 (b) A person may not cause or permit the operation of a pipeline or [AN
22 EXPLORATION OR] production facility in the state or, except as provided in (n) of
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29 (1) a pipeline or an offshore exploration or production facility is
30 \$50,000,000 per incident;

31 (2) an onshore production facility is

*delete**inconsistent with existing law Sec 2 & Sec 4**delete*

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

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

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

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

(3) an onshore exploration facility is \$1,000,000 per incident.

* Sec. 5. AS ~~46.04.040~~³¹ is amended by adding a new subsection to read:

(n) The operator of a natural gas exploration facility for which the Alaska Oil and Gas Conservation Commission certifies under AS 31.05.030(i) that the activities of the exploration facility are not directed to formations containing oil may not cause or permit the facility's operation unless the operator first obtains a surety bond in an amount that the Alaska Oil and Gas Conservation Commission may require to assure performance of surface oil clean up.

* Sec. 6. AS 46.04.050 is amended by adding a new subsection to read:

(c) AS 46.04.030^(b) and 46.04.040(b) do not apply to a natural gas exploration facility for which the Alaska Oil and Gas Conservation Commission certifies under AS 31.05.030(i) that there is reasonable probability that the activities of the exploration facility are not directed to formations containing oil.

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Chenoweth

5/3/95

CS FOR HOUSE BILL NO. 334()

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

Sponsor(s): HOUSE RESOURCES COMMITTEE

A BILL

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

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* Sec. 3. AS 46.04.030 is amended by adding a new subsection to read:

(s) If the operator of a natural gas exploration facility, for which the Alaska Oil and Gas Conservation Commission has certified under AS 31.05.030(i) that there is reasonable probability that the activities of the exploration facility are not directed to formations containing oil, encounters oil, the operator shall

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