

SCOMM

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Calista Corporation

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SENT VIA FAX: 1-907-465-2040

May 10, 1995

The Honorable Norman Rokeberg
House of Representatives
State Capitol
Juneau, AK 99801-1182

Dear Representative Rokeberg:

The Calista Corporation is in full support of Senate Bill 176 which addresses the bonding and oil contingency plan issues for gas exploration. This exemption will encourage the exploration and development of potential gas fields in areas which are less likely to strike oil.

It also allows smaller, independent oil and gas operators to economically explore and develop smaller gas properties. Our region has the potential for small natural gas fields, and should we encourage the development of these types of fields, they will have an enormous, positive economic impact within our communities.

Therefore, we hereby respectfully request the passage of Senate Bill 176.

Sincerely,

CALISTA CORPORATION



Richard Romer
Vice President, Corporate Development

cc: Matthew Nicolai, President

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.

**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 NATURAL RESOURCES

DIVISION OF OIL AND GAS

TONY KNOWLES, GOVERNOR

3601 C STREET, SUITE 1380
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Representative 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.

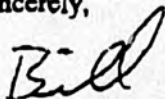
lease number	owner	expiration date
	(only one owner shown)	
374129	Lapp Resources	3-31-1998
374135	Lapp Resources	3-31-1998
374134	Lapp Resources	3-31-2000
381224	Z Energy	3-31-2000

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

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July 12, 1995

Representative Norm Rokeberg
716 West Fourth Avenue
Anchorage, AK 99501-2133

Dear Representative Rokeberg:

Thank you for your efforts to reduce bonding on gas wells during the last few months. As you are aware, we are particularly concerned that the State has arranged its affairs to become an unfavorable place for oil and gas companies (especially independents) to operate. The independent exploration companies here are planning an organization to represent their views and recommendations to elected officials, regulators, and other independents.

The economic loss the State will suffer as North Slope oil and gas production declines during the next 10 years will be difficult to survive without continued hydrocarbon exploration and development, and further diversification of the economy into mining, fishing, timber and especially, tourism. It is therefore imperative, if the State is to rebuild and maintain its revenue stream, for the State to position itself to be a good partner to industry, and provide a climate favorable for further hydrocarbon development.

In addition to excessive and redundant bonding and insurance requirements, there are a number of other issues which I would like to see addressed. I have set out below some **specific** recommendations which I believe would demonstrate to Alaskans and the international exploration community that the government of the State of Alaska is now serious about promoting, attracting and maintaining petroleum development:

1. **Royalty Reduction** - Attract oil and gas companies to explore for new oil and gas fields, and develop existing undeveloped fields with favorable rulings on royalty reduction applications. Under the new legislation, applications for royalty reduction are likely to be expensive for developers of fields serving limited rural markets. Locally-produced and used rural gas should be royalty-free to encourage its development.
2. **Acreage Availability** - Make the State's oil and gas lands available for exploration. The current five-year schedule is too restrictive and inflexible to serve the needs of the State or the exploration industry. Dramatic action needs to be taken to retain companies already here and attract significant new players. For example, we could auction off all state oil and gas lands in a reverse Dutch Auction starting at a high price and monthly reducing the price until it reaches \$0.50 per acre. Land in the State's exploration acreage portfolio which is not leased, is not able to be explored by anyone, and will never contribute to the state's revenue stream. Any land not under lease at \$0.50 per acre is left available on an over-the-counter basis until it sells, first-come-first-served. The Exploration Licensing bill the legislature passed in 1994 should also be applied to our statewide acreage bank. New regulations implementing this legislation are not yet adopted. If a significant number of new exploration license projects are not on the books at the end of the first year, then the legislation and regulations should be amended to make it more attractive. If over-the-counter acreage applications are interpreted as unconstitutional by the courts, amend the constitution. The industry will generate a wealth of exploration ideas, capital and enthusiasm when they have assured access to the land base.

3. **Sudden Death Syndrome** - Eliminate drop-dead provisions in the State's bidding, leasing, annual rental and royalty payment procedures. Current practice requires the State to confiscate leases or dismantle units if rental or royalty payments are not made exactly on time. The State, who holds all the regulatory and permit power, can easily penalize a company by not issuing permits until payment is made. If the payment is late, interest can be added to the bill, but confiscation of the lease, or other draconian measures are not required. Most companies operating here would appreciate some measure of flexibility in administration of our oil and gas programs. Many other states and countries use this flexible approach, and companies find it makes working in those countries much more civilized. Our oil and gas leasing rules are modeled on rules developed in the lower-48 where most of the leasing activity takes place on private fee-simple land, between a private landowner and an oil company. In this case, the landowner has no teeth, except in the courts, to penalize a company for missing payments. The State has all the power it needs, but should not use it to penalize companies for minor problems.
4. **DEC Insurance/Bonding Requirements** - Reduce DEC environmental bonding, currently \$1,000,000 per oil or gas exploration well, to be more competitive with that required by other states and countries who have a healthy and entrepreneurial independent oil and gas exploration and production sector. The current DEC bond on an oil production well varies with the production rate, but is still a significant disincentive for all but the largest companies to operate here. There is no bonding requirement for a gas production well. Industry organizations in other states operate a bond pool for their members to make operating more affordable (and their bonds are much smaller, generally between \$10,000 and \$50,000). Some other countries merely require that the operator buy and maintain non-cancelable blowout and cleanup insurance and that the insurance certificate be on file with the appropriate agency. Prudent operators buy this coverage anyway, so this approach does not significantly increase operating costs.
5. **AOGCC Bonding** - Revise Alaska Oil and Gas Conservation Commission drilling regulations and AOGCC bonding (currently \$100,000 per location or \$200,000 statewide) so that small-scale developments by Alaskan companies will be feasible. Even these relatively modest bonding requirements are enough to cause economic hardship to small gas development projects, for instance drilling a number of low-productivity wells to supply a remote village with gas. Using the proper drilling and production equipment, drilling and equipping each well may cost less than the required bond! AOGCC could make a case-by-case determination of plugging and abandonment costs for each proposed well.
6. **Waiver of Royalty** - Small domestic or commercial users of the State's energy resources in rural Alaska would not pay the State a royalty on the resource. To qualify, the resource would need to be produced less than (for example) fifty miles from the user, in an area not connected to, or commercially able to be connected to, a larger gas pipeline network (i.e., excluding Cook Inlet and the developed North Slope areas). The State would benefit by the local economic development, employment, reduced Power Cost Equalization subsidies, and reduced social welfare costs. Many of the lower-48 states allow small-scale users to tap wells, royalty free, which larger petroleum companies have abandoned, to heat their houses, ranches, chicken farms and small factories.
7. **Data Availability** - Make seismic data publicly available after five years at low cost (the cost of copying). This is analogous to the State's current policy of allowing public access to private drilling data after two years. Current practice makes it difficult for new companies to gain access to seismic information, even though the area may be available for bidding. New companies must purchase, at great expense, the data from current or former explorers, if they are willing to sell. If they will not sell their data, new companies coming to Alaska must shoot their own surveys, also at great expense, duplicating work already completed and leading to further environmental impacts. Existing explorers will argue against this policy, however most overseas countries require that seismic data be available 5 years after acquisition or after the exploration license has been surrendered, whichever is sooner.

8. **Industry Advocacy** - Convert the DNR's Oil and Gas Division into an advocate for the industry. The petroleum industry now provides over 85% of the State's budget, but no government agency is looking after the health and welfare of the industry. This has led to the current situation where many of the State's major companies have pulled out of the State, and others are curtailing their operations here. In fact, in recent years the DNR's Oil and Gas Division believed that its role is that of an adversary of the industry in order to "protect the State's interests". We may "protect our interests" into bankruptcy!
9. **Regulatory Reform** - Regulation of the industry could be done by the Alaska Oil and Gas Conservation Commission. The AOGCC is already a semi-judicial agency which now regulates technical aspects of petroleum production. The AOGCC's decisions are made by a three-member panel, which is perceived to produce better decisions than the normal bureaucratic agencies with a single director and a single commissioner. Royalty calculations would be handled by the Department of Revenue, and lease administration by the Department of Lands. Oil and gas lease sales and exploration licensing would be handled differently, as explained above in number 2. This would free the DNR's Oil and Gas Division to concentrate on promoting the State's petroleum resource projects and attracting additional exploration investments. Regulations which discourage small-scale developments should be revised.
10. **Permitting Reform** - Many of the permits which are now required should be abolished or rolled into other permits. An explorer now must acquire an inordinate number of permits just to drill a single well. These procedures must be streamlined if Alaska is to be competitive. Permitting for a single well now typically takes many months. How about a single "general permit" for exploration or production drilling which covers all of the activities usually undertaken in drilling these types of wells? Another alternative would be to create a one-stop-shop for permitting. Many other nations have a government department who is responsible for interfacing with other government agencies and working through the permitting process on behalf of the companies. This allows the government to sort through its own differences and present the finished product to the company, rather than have the company acting as mediator to various departments who have different agendas and different (at times conflicting) permitting requirements.
11. **Punitive Damage Limits** - Limit liability for punitive damages from accidents. Many other states in the USA have done this already. People will cease to be productive if the courts continue to award gigantic punitive damage settlements. Business will move to other states or countries where accidental occurrences will not result in settlements which will significantly increase the cost of doing business, either through settlements or higher insurance costs.
12. **Tort Reform** - The State's laws currently make it easy and cheap for a group with a different agenda to sue a company, and delay or stop a project which they may not even have a stake in. The many special interest groups with an anti-business attitude could be capable of doing significant damage to the State's business climate.
13. **Royalty Assessment Reform** - Eliminate the Department of Revenue's practice of backcharging producers for royalties on the Department's assessment of fair market value of petroleum when arms-length transactions indicate another (lower) price is the real market value. The State has, in the past, argued that the royalty should be based on an assessed value of the petroleum, not the actual sales price. This is equivalent of the IRS saying that your job is really worth more than your employer paid you, so you owe income taxes on more money than you received last year.
14. **Access to Capital** - Change State banking and commerce regulations to make raising risk and investment capital easier. The Federal Securities and Exchange Commission (SEC) has mechanisms which make raising equity capital easier. Easing of certain rules could allow more Alaskans to participate in the development of their own natural resources.

15. **Conflict Creation** - Eliminate State agency managers who create conflict to maintain or increase their political power. Managers with a fixed or declining budget are more likely to create conflict to increase their visibility and power. The resulting lawsuits are very disruptive to the flow of business, and if for instance, exploration licensing or lease sales are shut down, the flow of royalty money to the State will ultimately be affected.
16. **Control Rulemakers** - Eliminate bureaucratic rulemaking used to penalize companies which is outside the scope of the statutes and regulations. The Oil and Gas Division refused to issue some of the oil and gas leases after the January 1993 lease sale because of a perceived irregularity in the paperwork. The Superior Court ordered the State on October 7, 1994, to issue the leases, and criticized the Division for refusing to issue the leases without a significant reason. The Division's actions in this case prevented the State from receiving its cash bonus bid and annual rentals for nearly .vo years, and delayed the exploration and development of the resource, and the resulting State royalty payments.
17. **Dispute Penalties** - Eliminate excessive penalty charges on disputed oil tax claims, and fix the statutes to reduce the likelihood of future tax disputes. Get the Department of Revenue and the DNR to agree on their definitions - they now frequently disagree.
18. **Double Standards** - Zero discharge of liquids and solids from drilling and production operations is not economic or practical. True hazardous wastes should be shipped to a disposal site or incinerated, but drilling fluids, cuttings, and produced water which has been treated (if required) should not be restricted. The State's current policy of not allowing any subsurface waters to be disposed of in surface water bodies is punitive and displays a double-standard being applied to different industries. For instance, someone with a water well is allowed to dispose of that water (after treatment) in surface waters (even though some wells in the Fairbanks area carry high levels of arsenic), but water from a gas well must be re-injected in a disposal well, even if it is of high quality.
19. **Administrative Hearings** - Revise the administrative hearing process to allow cross-examination of agency personnel and to allow additional evidence to be admitted. This could be done by re-affirming that Section 31.05.080 of the Alaska Statutes is still valid. Agency personnel and the courts have held that this section of Alaska's statutes are currently not in effect. This section of the Statutes is very important for companies who wish to get a fair trial after the administrative appeals process has failed them. As the rules stand now, companies have difficulty presenting their entire case on administrative appeal, and agency personnel are largely protected by the rules. It is essential that oil companies have the same rights as others to a full and fair trial which will protect them from capricious bureaucratic acts.

I trust that we will be able to make some progress on these matters in the years ahead.

Sincerely,



David W. Lappi
President

Companion bill to HB334
heard by D+6 May 5, 1995