

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 80/2

10975 HOUSE RESOURCES

20

Q: How does thickness of coal affect the play?

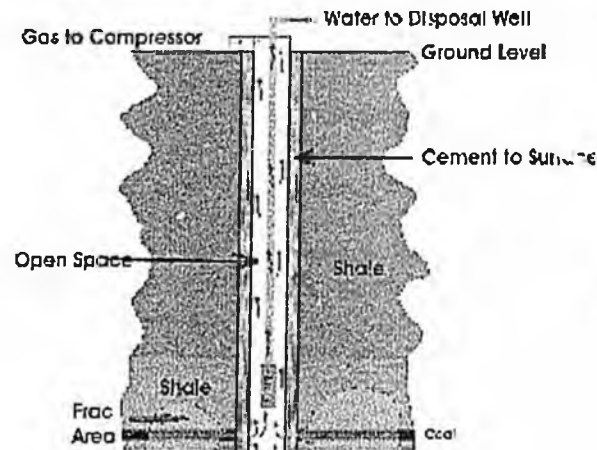
A: All things being equal the thicker the coals the better. However, thin coals (<4feet) are what most basins have. These coals can be laterally contiguous over hundreds of miles such as the Illinois, Forest City, Cherokee, Appalachian and Warrior basins. These coals represented a time of continental swamp development and a period when the earth was stable and warm Coals that are laterally limited and discontinuous but vary from thin to very thick tend to be of younger age and developed during a time of fluvial dominance. Coals in the San Juan, Piceance, Uinta, Raton and Powder River tend to be limited to two miles wide to 40 miles long. These coals represent warm climatic conditions but a time of massive mountain building and erosion in the Rocky Mountains. .

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Q: What about the adjacent shale, do they contribute gas?

A: In Cherokee and Forest City basins (Eastern Kansas) the adjacent shales are organic rich, thermally mature and generating gas. These shales seem to be contributing 50% or more of the gas in a coal bed methane well suggesting this area is more of a shale gas and coal gas play then strictly a coal bed methane one. Similar age shale in Illinois, Appalachian and Warrior basin do not seem to be similarly thermally mature and do not seem to be generating gas.

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Q: How do we complete coal bed methane wells?

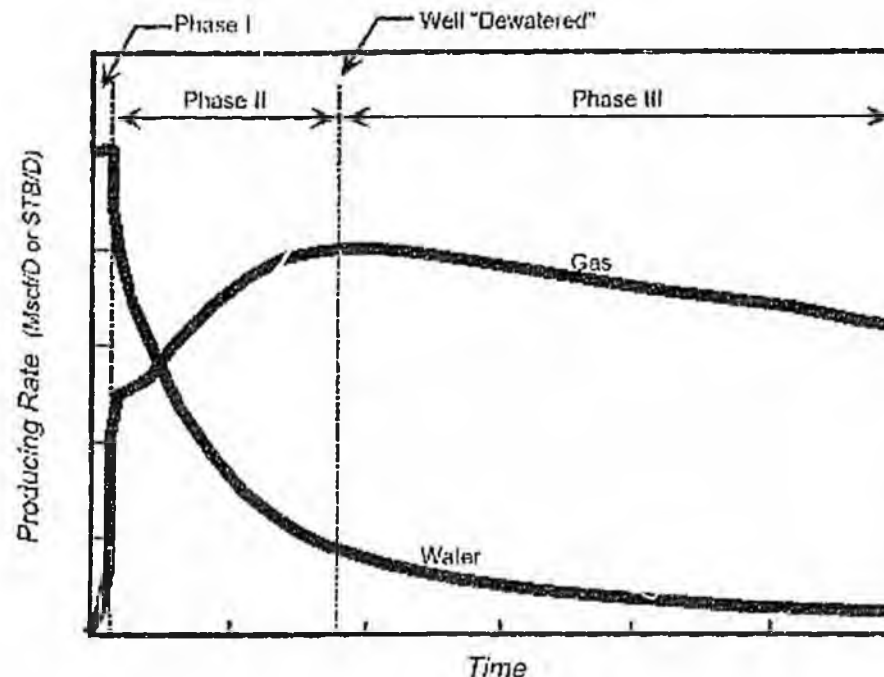
A: We drill to the top of or into the coal and either set pipe and drill in or we run pipe across the coal. In some cases we drill a vertical well and then horizontally drill out along the coal seam. We can horizontally drill several coal seams from the same well bore.

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Q: What can we expect in terms of production?

A: A typical coal bed methane well produces water for long periods of time before the gas is desorbed. If a coal can hold 200 scf per ton and the amount of gas present on the coal, as determined by testing, is 200 scf per ton, then it can essentially start making gas right away. An example of this is in Eastern Kansas and Pennsylvania. If a coal can hold 100 scf per ton but only has 60 scf per ton then the pressure in the reservoir has to be lowered to a certain point before the gas can desorb. Coals like this are found in the Powder River, Illinois and Warrior basins. Gas in a coal bed methane well starts migrating towards the well bore when pressure is essentially near below its saturation point. On top of that, coals that have low amounts of water or moisture (mining term) values, gas production typically begins right away. Coals such as these are found in the Cherokee, Forest City and Appalachian basins. Then there are coals that are over-saturated and produce gas regardless such as the San Juan, Piceance, and Arkoma basins.

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Q: How do we explore for coal bed methane?

A: Generally we know where the coal is located. The problem comes in assessing the resource and this is only done through the drill bit and collecting coal canisters for laboratory analysis.

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Q: Are there any conventional petroleum methods that will help?

A: While seismic methods have been used to define the geometry of coal seams they are not effective in determining the overall lateral continuity of the coals and cannot determine the gas contents of the coal. Coal bed methane is like a large low grade copper or gold porphyry, you have to drill a lot of wells and keep your costs down. Other methods such as aeromagnetics may see basement fracture systems, gravity may define large basement blocks, surface geochemistry cannot detect anything because of the way the gas is held on the coal but in the end you have to drill all your potential locations to make the play work. Coal bed methane plays or projects cover hundreds,

thousands if not millions of acres. Every location needs to be drilled, a certain percentage of wells will be subeconomic and a certain percentage will be exceptional. The majority of wells produce average rates with the goal of dewatering the entire reservoir. Therefore, any coal bed methane play is driven by keeping costs down and drilling as quickly as reasonable every location and getting it hooked to the pipeline.

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A M E N D M E N T

OFFERED IN THE HOUSE
OIL AND GAS COMMITTEE
TO: CSHB 531

BY REPRESENTATIVE CRAWFORD
AND KERTTULA

- 1 Page 6, Lines 24-26; after "purposes", delete all language
2
- 3 Page 25, Lines 25-27; after "payment", delete all language,
4 Insert:
5 at least \$300 a month for each wellhead that the lessee or the lessee's agent
6 locates on the owner's property and at least \$600 a month for a compressor
7 station that the lessee places in operation on the owner's property; and
8 (C) provide a signed agreement with the property owner
9 establishing reasonable times of operation, reasonable points to access the
10 property, and reasonable time frames in which the property may be
11 accessed.
12
- 13 Page 26, Lines 1-5; after "section.", delete all language
14 Insert:
15 [IF THE DEPARTMENT CLEARLY DEMONSTRATES AN OVERRIDING
16 STATE INTEREST, THE COMMISSIONER MAY APPROVE A WAIVER
17 OF LOCAL PLANNING AUTHORITY APPROVAL AND REQUIREMENTS
18 RELATING TO COMPLIANCE WITH LOCAL ORDINANCES AND
19 REGULATIONS. THE COMMISSIONER SHALL ISSUE SPECIFIC
20 FINDINGS GIVING REASONS FOR GRANTING A WAIVER UNDER
21 THIS SUBSECTION.]
22
- 23 Page 43, Line 29; insert a new section to read:
24 * Sec. 53. AS 38.05.945(b) is amended to read:
25 b) When notice is required to be given under this section,
26 (1) the notice must contain sufficient information in
27 commonly understood terms to inform the public of the nature of the action and
28 the opportunity of the public to comment on it;
29 (2) if the notice is of a preliminary written finding described
30 in (a)(3)(A) of this section, the department shall give notice at the beginning of
31 the public comment period for the preliminary written finding, notifying the
32 public of the right to submit comments; the department shall give notice by
33 (A) publication of a legal notice in newspapers of
34 statewide circulation and in newspapers of general circulation in the
35 vicinity of the proposed action at least once a week for two consecutive
36 weeks;
37 (B) publication of a notice in display advertising
38 form in the newspapers described in (A) of this paragraph at least once a
39 week for two consecutive weeks;
40 (C) public service announcements on the electronic
41 media serving the area to be affected by the proposed action; and

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(D) mail or electronic mail to residents in the vicinity of the proposed action;

(E) one or more of the following methods:

- (i) posting in a conspicuous location in the vicinity of the action;
- (ii) notification of parties known or likely to be affected by the action; or
- (iii) another method calculated to reach affected parties;

(3) if the notice is of an action described in (a) of this section, other than notice of an action under (a)(3)(A) of this section, the department shall give notice at least 30 days before the action by publication in newspapers of statewide circulation and in newspapers of general circulation in the vicinity of the proposed action and one or more of the following methods:

- (A) publication through public service announcements on the electronic media serving the area affected by the action;
- (B) posting in a conspicuous location in the vicinity of the action;
- (C) notification of parties known or likely to be affected by the action; or
- (D) another method calculated to reach affected persons.



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mineral resources

BLM clears backlog of methane drilling applications

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Associated Press

BUFFALO, Wyo. – A backlog of 1,400 coal-bed methane drilling permits on federal lands in the Powder River Basin has been cleared, officials said.

The Buffalo Field Office of the BLM is now on track to maintain a steady flow of new permits, according to Richard Zander, assistant field manager.

“Things are progressing fairly well,” he said.

Dru Bower, vice president of the Petroleum Association of Wyoming, said methane producers seem pleased at the faster rate of permitting. However, they have yet to see the Buffalo office reach its goal of a 46-day turnaround, she said.

“But the good news is, we now finally know where our permits are,” she said. “And in working with the BLM, industry has a better understanding of what is required.”

When the methane boom began in 1998, the industry relied mainly on state and private mineral leases while the BLM scrambled to revise its mineral management plan for the basin, knowing demand would move westward where most of the minerals are federally owned.

Federal permitting slowed and even came to a halt this time last year as the BLM completed an environmental impact statement of the effect of methane development.

By the time the plan was finalized in April 2003, the staff had a backlog of 1,400 applications, Zander said.

The permits have been processed and the goal of a 46-day turnaround is close to target, he said.

Since October, the office has issued enough permits to allow 627 new wells, and staffers are working hard to reach a goal of issuing 3,000 permits per year, the rate at which BLM headquarters and the Bush administration has set for the office, he said.

About 1,000 applications are in various stages of completion.

“There are some kinks to workout, but we’re moving along,” Zander said.

Bower said one problem that producers are dealing with is that wildlife surveys often expire before a permit is completed. At the time a company files an application, it is required to conduct a wildlife survey of the area it proposes to develop.

A survey is valid for only one year.

“So if the permits are not issued, then the survey has to be redone.

That’s becoming a problem,” she said.

Sincerely,

Corri Feige
Manager, Governmental Affairs and Public Relations
Evergreen Resources (Alaska) Corporation

-----Original Message-----

From: haanfam [mailto:haanfam@mtaonline.net]

Sent: Wednesday, March 24, 2004 11:43 PM

To: Corri Feige

Cc: Governor Murkowski; Lt_Governor@gov.state.ak.us; Talis Colberg; jbbush@mtaonline.net; Betty Vehrs; Bill Allen; Jim Colver; Jody Simpson; Mary Kvalheim; Representative_Bill_Stoltze@legis.state.ak.us; representative_carl_gatto@legis.state.ak.us; Representative_Vic_Kohring@legis.state.ak.us; Senator_Lyda_Green@legis.state.ak.us; Senator_Scott_Ogan@legis.state.ak.us; Representative_Beverly_Masek@legis.state.ak.us; Alaska Senate; Representative_Nancy_Dahlstrom@legis.state.ak.us; Representative_Pete_Kott@legis.state.ak.us; Senator_Gene_Therriault@legis.state.ak.us; William Van Dyke; Jim_Hansen@dnr.state.ak.us; Dan Seamount; John Norman; Mark Myers; Mark Sprague; Matt Rader; Patrick Galvin; Steve & Joy Cypra; Clint & Rhonda Stark; Heather & Shane Barber; Jack&Becky Sherman; Kim Longo&Tom Green; Mike&Sheryll Carson; Robert&Jennifer Nash; Sharon & Howell Powder

Subject: Evergreen Resources / good neighbor

Corrie:

You indicated today in our phone conversation today that you responded to my previous e-mail inquiring about Evergreen Resources intentions on developing in the Fishhook Road / Hatcher Pass area. Unfortunately my family never received the e-mail response.

What is Evergreen Resources intentions for our area? It seems like your industrial development is better suited for the Susitna Flats. P.S. Would you and your husband come out armed with extreme prejudice if some beligerant cheechackos were blowing their car horns off at the end of your drive way in Chickaloon for two weeks straight / 24 hours a day? Not if they offered you the weekend at a hotel? My wife made me uplug my mom's hand me down upright freezer last fall because it vibrated too much. Thanks neighbor.

Respectfully,

Scott M Haan

Subject: RE: Evergreen Resources / good neighbor

Date: Thu, 25 Mar 2004 13:39:16 -0900

From: "Corri Feige" <CorriF@EvergreenGas.com>

To: "haanfam" <haanfam@mtaonline.net>

CC: "Governor Murkowski" <governor@gov.state.ak.us>, <Lt_Governor@gov.state.ak.us>, "Talis Colberg" <talisappleorchard@hotmail.com>, <jbbush@mtaonline.net>, "Betty Vehrs" <bvehrs@gci.net>, "Bill Allen" <sallen@mtaonline.net>, "Jim Colver" <surveyor@pobox.alaska.net>, "Jody Simpson" <jesimpson@gci.net>, "Mary Kvalheim" <marykv@mtaonline.net>, <Representative_Bill_Stoltze@legis.state.ak.us>, <representative_carl_gatto@legis.state.ak.us>, <Representative_Vic_Kohring@legis.state.ak.us>, <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Scott_Ogan@legis.state.ak.us>, <Representative_Beverly_Masek@legis.state.ak.us>, "Alaska Senate" <Senator_Thomas_Wagoner@legis.state.ak.us>, <Representative_Nancy_Dahlstrom@legis.state.ak.us>, <Representative_Pete_Kott@legis.state.ak.us>, <Senator_Gene_Therriault@legis.state.ak.us>, "William Van Dyke" <William_VanDyke@dnr.state.ak.us>, <Jim_Hansen@dnr.state.ak.us>, "Dan Seamount" <dan_seamount@admin.state.ak.us>, "John Norman" <john_norman@admin.state.ak.us>, "Mark Myers" <mark_myers@dnr.state.ak.us>, "Mark Sprague" <mark_sprague@dnr.state.ak.us>, "Matt Rader" <Matt_Rader@dnr.state.ak.us>, "Patrick Galvin" <Patrick_Galvin@dnr.state.ak.us>, "Steve & Joy Cypra" <scypra@hotmail.com>, "Clint & Rhonda Stark" <stark@mtaonline.net>, "Heather & Shane Barber" <snobound@mtaonline.net>, "Jack&Becky Sherman" <sherman@mtaonline.net>, "Kim Longo&Tom Green" <klongo_is@yahoo.com>, "Mike&Sheryll Carson" <Carsons@mtaonline.net>, "Robert&Jennifer Nash" <jmash@mtaonline.net>, "Sharon & Howell Powder" <powder80@gci.net>

Dear Mr. Haan,

Thanks again for your call yesterday, inquiring about our core drilling operations on the Rutherford property (Little Su #1). As I mentioned yesterday, the surface casing for the Little Su #1 was set in late December, and the actual core drilling is currently underway. We anticipate being on location for approximately 10 days to 2 weeks. After we complete the core drilling, the hole will be plugged and the site reclaimed. It will take several months to analyze all of the data gathered during the core drilling program, and it could be a year before we know where we will focus our next exploration efforts. That's the nature of resource exploration.

I have received inquiries from two landowners very near the core site (less than one-quarter mile), both wondering how long we will be active in the area. Neither individual indicated any disturbance due to our activities. As you yourself noted, we had been drilling for more than four days (since last Saturday) before you noticed our activities!

It is regrettable that you have a neighbor who is honking his horn at all hours of the day and night. I can check the daily logs at the core site and see if anyone has noted the disturbance or a vehicle coming and going at odd hours. Since your home is more than one-half mile from the core site, the incident may not have been noticed.

As always, Evergreen Resources (Alaska) is happy to answer questions and address concerns about our operations. Should you have questions in the future, please don't hesitate to call.

Subject: please contact Republican politicians

Date: Wed, 24 Mar 2004 23:07:43 -0900

From: "haanfam" <haanfam@mtaonline.net>

To: "Steve & Joy Cypra" <scypra@hotmail.com>, "Clint & Rhonda Stark" <stark@mtaonline.net>, "Heather & Shane Barber" <snobound@mtaonline.net>, "Jack&Becky Sherman" <sherman@mtaonline.net>, "Jim & Mary Louise Colver" <surveyor@pobox.alaska.net>, "Kim Longo&Tom Green" <klongo_is@yahoo.com>, "Mike&Sheryll Carson" <Carsons@mtaonline.net>, "Robert&Jennifer Nash" <jrnash@mtaonline.net>, "Sharon & Howell Powder" <powder80@gci.net>

CC: "Talis Colberg" <talisappleorchard@hotmail.com>, <jbbush@mtaonline.net>, "Betty Vehrs" <bvehrs@gci.net>, "Bill Allen" <sallen@mtaonline.net>, "Jody Simpson" <jesimpson@gci.net>, "Mary Kvalheim" <marykv@mtaonline.net>, <Representative_Bill_Stoltze@legis.state.ak.us>, <representative_carl_gatto@legis.state.ak.us>, <Representative_Vic_Kohring@legis.state.ak.us>, <Senator_Lyda_Green@legis.state.ak.us>, <Senator_Scott_Ogan@legis.state.ak.us>, <Representative_Beverly_Masek@legis.state.ak.us>, "Alaska Senate" <Senator_Thomas_Wagoner@legis.state.ak.us>, <Representative_Nancy_Dahlstrom@legis.state.ak.us>, <Representative_Pete_Kott@legis.state.ak.us>, <Senator_Gene_Therriault@legis.state.ak.us>, "William Van Dyke" <William_VanDyke@dnr.state.ak.us>, <Jim_Hansen@dnr.state.ak.us>, "Dan Seamount" <dan_seamount@admin.state.ak.us>, "John Norman" <john_norman@admin.state.ak.us>, "Mark Myers" <mark_myers@dnr.state.ak.us>, "Mark Sprague" <mark_sprague@dnr.state.ak.us>, "Matt Rader" <Matt_Rader@dnr.state.ak.us>, "Patrick Galvin" <Patrick_Galvin@dnr.state.ak.us>

Everyone:

The Fishhook Community Council runoff election was a tie. I talked with Bob Wells and he said that he would talk with Byron Williams about the situation. It is looking like the decision will be determined with a coin toss. I prayed with my family, God's will be done. God is on our side.

It is my understanding that my competitor does not care if we get a noisy jet engine compressor station at the end of the road. Fast assured, Evergreen Resources is very interested in drilling for coalbed methane all around Sun Valley Subdivision. The mechanical drone sound that you will hear for the next two weeks is the drilling of an exploratory core hole on the powerline right of way at the end of Doro Drive. Evergreen Resources employees verbally assaulted and threatened my wife and two small children in December when we rode our snow machines down the unposted power line right of way at the end of Doro Drive and unexpectedly stumbled into their hazardous industrial work site - don't go there if you do not want to be sued.

Evergreen Resources will be pumping out 10000 gallons per day out of their CBM wells. Hard rock wells in our neighborhood are attached to the ground water that they have to deplete to extract CBM gas. When Evergreen Resources sticks a straw in the bottom of the cup with your straw at the top of the cup, as their deeper straw sucks out at a faster rate, your well is going dry. Call Representative Carl Gatto [1-800-565-3743], Senator Lyda Green [1-907-465-6600], Lt Governor Lauren Leman [1-907-465-3520] and Governor Murkowski [1-907-465-3500] and ask them why they leased your land without notifying you or giving you the opportunity to state your case and ask them why Mat-Su residents are being treated like second class citizens in regards to the CBM fiasco. Ask them if we are being treated like second class citizens because we do not live in a first class city. Remind them that the equal

protection clause of the 14th amendment says they cannot treat you like a hillbilly because you do not live in Anchorage. I received a brochure from a CBM advocacy group that shows CBM under Anchorage. The state is about to lease some sites in Anchorage. If Mat-Su residents are going to be forced to have our neighborhood invaded with industrial CBM development then the Tony Knowles Coastal Trail and Prominence Point Subdivision damn sure better be invaded with CBM compressor stations and gas wells.

I have said it numerous times – the MTF pot farmers have the common decency to turn off their generators at night. This being the case, it doesn't seem very neighborly for our Communist neighbor Rob Rutherford, that believes the government should control the natural resources [as Rick Riddel would say] and that lives in Anchorage, to allow these Cheechackos to keep us awake for a month while drilling through the glacial formations or subsequently to deplete our drinking water source or to park an extremely loud jet engine compressor station on his property next to Sun Valley Subdivision into perpetuity.

No big deal? Reminds me of the Clint Eastwood movie where the placer miners have their water supply cutoff by the greedy hydraulic miners. Why won't our elected officials stand up for our rights? We need to send a message to the Republicrats in Juneau that they are supposed to represent their constituents, not special interest campaign contributors. Who are they representing? Please call them and ask.

Respectfully,

Scott M Haan

P.S. Please call Scott Ogan [1-907-465-3878] and Vic Kohring [1-907-465-2186] and tell them thanks for the obnoxious noise. If you want to get together with me to invoke their comrade Rick Halford's law that allows rifle ranges into Mat-Su neighborhoods carte-blanche I have \$5000.00 that I will combine with your money to buy properties neighboring theirs to open 24 hour trap and skeet ranges and I would be happy to start a mid night league with you after they return home.

The Denver Post

Gas-drilling curbs gain key ally

Colorado Farm Bureau backs Udall bill boosting landowner protections

By Mike Saraghan
Denver Post Washington Bureau

Wednesday, March 24, 2004 -

WASHINGTON - The ranchers- vs.-roughnecks battle over gas drilling in the West heated up Tuesday when the state's largest agricultural group endorsed further restrictions on energy development.

The Colorado Farm Bureau, which usually teams up with Republicans against regulations, has endorsed a bill by Rep. Mark Udall, D-Colo., that would increase protections for landowners when gas companies drill on their property.

While the bill has made little progress in the Republican-controlled House, the farm bureau's endorsement of it increases pressure on Western Republicans, who have been taking the side of the petroleum industry to increase production and loosen restrictions.

Industry says more restrictions would needlessly crimp the nation's energy supply. But the farm bureau is concerned about how drilling will affect water.

"Now more than ever, it is vitally important that we in Colorado and the West take the necessary precautions to protect our water supplies," said Colorado Farm Bureau president Alan Foutz. "Water and private property rights are among farmers' and ranchers' top priorities, and Congressman Udall's bill address both."

Drilling for natural gas, especially a form called coal-bed methane, has raised concerns about water quality. It can involve injecting large quantities of water into underground sources of drinking water, or pumping millions of gallons of water out of the ground.

The injected water can include chemicals such as diesel fuel or guar gum. The water pumped out can be salty enough to damage crops and affect nearby wells.

The loudest objections from environmentalists, local officials and ranchers have come from the Four Corners region, Wyoming's Powder River Basin and the Roan Plateau near Rifle, Colo.

Udall said his bill, the Western Waters and Farm Lands Protection Act, would give landowners more leverage in dealing with drillers, regulate the water pumped out during production and require it to meet Clean Water Act standards. And it would require drillers to draft reclamation plans and post bonds to ensure cleanup.

"My bill is designed to address these conflicts in a way that gives farmers and ranchers equal footing with oil and gas developers," said Udall. "Drilling for oil shouldn't leave the soils depleted or waters unusable."

But industry figures say companies are trying to work with landowners. They say Udall's bill isn't needed because landowners already have many of the protections it purports to give.

"The bill is misinformed in its conception," said Ken Wonstolen of the Colorado Oil & Gas Association. "Everything that's in this bill is already covered by federal or state law."

The bill, introduced in December, has been referred to two committees but has not been scheduled for a hearing in either one.

LEGAL SERVICES

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MEMORANDUM

March 15, 2004

SUBJECT: Draft CSHB 531(), relating to natural gas exploration and development and to nonconventional gas, and amending the section under which shallow natural gas leases may be issued -- sectional analysis (Work Order No. 23-LS1818\D)

TO: Representative Vic Kohring

FROM: Jack Chenoweth
Assistant Revisor of Statutes

The draft committee substitute treats comprehensively with the exploration and development of natural gas. It contains changes that

-- convert references and substantive provisions covering shallow natural gas leasing into a leasing policy covering "nonconventional gas" and provide a definition of that term;

-- authorize the Department of Natural Resources to lease for "gas only" under the conventional oil and gas leasing procedures, with limited reservations governing activity involving nonconventional gas leases;

-- expand the use of exploration licensing and leasing under AS 38.05.131 - 38.05.134 to cover "gas only" licenses and leases; and

-- amend or repeal specific parts of AS 38.05.177, the section of the Alaska Land Act (AS 38.05) that currently authorizes and guides shallow natural gas leasing.

PROVISIONS ESTABLISHING A "NONCONVENTIONAL GAS" LEASING POLICY, SUPPLYING A DEFINITION FOR THAT TERM, AND MAKING CONFORMING CHANGES:

Bill section 44 supplies a definition of "nonconventional gas." The definition is added to the body of definitions that are generally applicable to the Alaska Land Act, AS 38.05. This definition replaces a pair of definitions for "shallow natural gas" and a working reference to shallow natural gas in the language of AS 38.05.177(a)(1), appearing at page 20, lines 10 - 13. Note that the definition of "nonconventional gas" proposed in the measure covers "coalbed methane, shales containing gas, or gas hydrates."

Representative Vic Kohring

March 15, 2004

Page 2

With the substitution of the new term and a definition for it, each of the following makes conforming changes:

-- **bill sections 4 - 6**, amending or adding to provisions in AS 31.05 (Alaska Oil and Gas Conservation Commission);

-- a reference in **bill section 26**, amending AS 38.05.177(a); and

-- **bill sections 50 - 54**, substituting "nonconventional gas" for "shallow natural gas" in various references in title 46; this title of the Alaska Statutes generally deals with environmental matters.

AUTHORIZING THE DEPARTMENT OF NATURAL RESOURCES TO LEASE FOR "GAS ONLY" UNDER THE CONVENTIONAL OIL AND GAS LEASING PROCEDURES, WITH LIMITED RESERVATIONS GOVERNING ACTIVITY INVOLVING NONCONVENTIONAL GAS LEASES, AND MAKING CONFORMING CHANGES:

AS 38.05.180(ff), added by **bill section 40**, explicitly authorizes the Department of Natural Resources to "issue leases for gas only" under the conventional oil and gas leasing program.

Out of an abundance of drafting caution, the following revise or delete existing references to "oil and gas," "oil and gas lease," or substantially similar terms and references to acknowledge the alternative authorization of "gas only" leasing:

-- **bill sections 1, 3, 7 - 9, 10** (except the repeal of AS 38.05.035(e)(6)(G) [page 12, lines 4 - 6]), **11, 13, 28 - 31, 32** (except the addition of AS 38.05.180(f)(3)(H) [page 25, lines 1 - 5]), **33 - 37, 39, 41 - 43, 45 - 49, and 55**.

AUTHORIZING THE DEPARTMENT OF NATURAL RESOURCES TO USE EXPLORATION LICENSING AND LEASING FOR "GAS ONLY" UNDER AS 38.05.131 - 38.05.134, AND MAKING CONFORMING CHANGES:

Bill section 14, amending AS 38.05.131(a), explicitly authorizes the Department of Natural Resources to issue exploration licenses and leases for "gas only." The following provisions make related conforming changes:

-- **bill sections 2, 12, 15 - 21, 22** (except the language of new subparagraph (B) [page 19, lines 2 - 7]), and **24**.

PROVISIONS ALTERING OR REPEALING SPECIFIC PARTS OF AS 38.05.177, ADDRESSING SHALLOW NATURAL GAS LEASING:

These remarks principally address the content added by bill sections 26 and 27 and the repeal of certain subsections of AS 38.05.177, the existing shallow natural gas leasing section.

Certain subsections are amended with the intent that their specific provisions override comparable provisions in the conventional oil and gas leasing section, AS 38.05.180. So,

-- AS 38.05.177(a) (**bill section 26**): The change substitutes reference to "nonconventional gas" and amends to delete the content of the balance of the subsection; and

-- AS 38.05.177(l) (**bill section 27**): The insertion in this subsection amends the existing protections for mineral deposits and coal in situations in which a lessee holds a lease that is a nonconventional gas lease.

As to other parts of AS 38.05.177, **bill section 56** repeals the following:

-- AS 38.05.177(b): This subsection currently sets maximum acreage limitations (paragraph (1)) and levies an application fee (paragraph (2)). If gas only leases are to be issued for unconventional gas under AS 38.05.180, then acreage limits of AS 38.05.180(m) should apply, and maximum holding provisions for oil or gas leases set out in AS 38.05.140(c) should also. In the main, oil and gas leases are offered as competitive leases, so there would not be an application process and, hence, a separate application fee for a noncompetitive lease would not be collected. Consequently, this subsection is to be repealed in its entirety.

-- AS 38.05.177(c): This subsection sets out the notice and public comment provisions. Conventional oil and gas leases have different notice provisions, AS 38.05.945(a)(3), and those should operate in lieu of the expedited notice/public comments of this subsection. Again, this subsection is to be repealed in its entirety.

-- AS 38.05.177(d) and (e): These subsections are the lease extension and lease boundary adjustment provisions. Comparable provisions for conventional oil and gas leases appear in AS 38.05.180(m) and should operate in lieu of sec. 177(d) and (e). These subsections are therefore to be repealed.

-- AS 38.05.177(f): This subsection establishes a flat rent at the rate of one dollar per year. The comparable provision appears in AS 38.05.180(n)(2), so this subsection is to be repealed.

-- AS 38.05.177(g): This subsection describes material relating to the royalty payable on shallow natural gas. The comparable provision is addressed in an amendment to AS 38.05.180(f)(3)(H) (page 24, beginning at line 31), so this subsection is to be repealed.

-- AS 38.05.177(h): This is the lease surrender or relinquishment provision. As leasing would occur under AS 38.05.180, provisions covering these subjects under authority of that section would apply, so this subsection may be repealed.

-- AS 38.05.177(j): This subsection lays out a contingency for oversight by the Alaska Oil and Gas Conservation Commission if a shallow natural gas well penetrates a formation capable of producing oil. The comparable provision appears in the concluding part of AS 38.05.177(ff), added by bill section 40 (page 37, beginning at line 29), so the language in this subsection is to be repealed.

-- AS 38.05.177(k): The current subsection establishes a bonding requirement for shallow natural gas leasing to secure the payment of damages, together with limitations on the bond requirement statewide. The comparable bonding requirement in the Alaska Land Act is the general bonding requirement of AS 38.05.130. For exploration licensing activities, there are special bond requirements in AS 38.05.132(c)(4) and (5) and 38.05.132(e). The bond requirements for shallow natural gas leasing are to be repealed. Also proposed for deletion by the repeal of this subsection is language speaking to standards for regulations applicable to the shallow natural gas leasing program.

-- AS 38.05.177(m): This is the lease extension provision. Again, because leasing would occur under the conventional oil and gas leasing procedures of AS 38.05.180, provisions covering these subjects under authority of that section would apply, so that this subsection is being repealed.

-- AS 38.05.177(o): Repeal of this subsection eliminates the definition of "lease" in the context of a "shallow gas lease."

OTHER BILL SECTIONS THAT ARE NOT ADDRESSED OR CONSIDERED ABOVE:

Bill section 10: The repeal of AS 38.05.035(e)(6)(G), page 12, lines 4 - 6, drops the exemption for shallow natural gas leasing from the written finding requirements of that subsection. Before nonconventional gas leasing may occur, proposed nonconventional leases would be required to be supported by a written best interest finding.¹

Bill sections 22 (page 19, lines 2 - 7) **and 32** (page 25, lines 1 - 5): For purposes of retention of the reduced royalty authorized for certain gas, these two amendments add, as to nonconventional gas exploration licensing and leasing and nonconventional gas leasing under the leasing program of AS 38.05.180, provisions for a reduced royalty for nonconventional gas "not produced in direct competition with gas on which a royalty at a rate of at least 12.5 percent is payable." Similar language in the existing provision, AS 38.05.177(g), is to be repealed.

¹ In the draft, the lead-in to AS 38.05.035(e)(6) setting out the required written best interest finding appears in the text of the bill at page 10, line 29 - page 11, line 6.

Representative Vic Kohring
March 15, 2004
Page 5

Bill sections 23 and 25: Both provisions are concerned with the relationship between coal and coal bed generated methane. The amendments delete references to shallow natural gas (coal bed methane) leasing under AS 38.05.177.

Bill section 38: AS 38.05.180(n) currently spells out the rent payable on oil and gas leases. Those rental rates are to be retained for conventional oil and gas leases, but the subsection is proposed to be amended to carry over from existing AS 38.05.177(f) authority for payment of a fixed rent of \$1.00 per acre per year if the lease is shown to contain only sources that are reasonably estimated to contain only nonconventional gas. The burden of making that demonstration is assigned to the lessee.

Bill section 56: In addition to the repeal of specific subsections of AS 38.05.177 described above, the section would repeal paragraphs setting out definitions of "shallow natural gas" in AS 31.05 and AS 46.04. Each repeal is matched (**bill sections 6 and 53**) with addition of definitions for the substituted term "nonconventional gas."

Bill section 57: This transitional provision directs the Department of Natural Resources to deal with shallow natural gas leases executed and lease applications received by December 31, 2003, under the provisions of AS 38.05.177 as it read before its amendment by this Act.

Bill section 58 gives the measure an immediate effective date.

JBC:med:lmb
04-067.lmb

Lesh, Melanie

From: Lesh, Melanie
Sent: Thursday, March 18, 2004 2:43 PM
To: 'Eleanor_Wolfe@legis.state.ak.us'
Cc: Ryan, Kristin J.; Lesh, Melanie
Subject: HB 531 Coal bed methane exemptino in AS 46.03.100 (Waste disposal permits DEC)

Eleanor,

Kristin Ryan is the Director for the Environmental Health Division at the Department of Environmental Conservation.

She worked with Sen. Ogan's office on this amendment to SB 312 (reformatted to the text of HB 531). She'll be there this afternoon

Kristin also worked with Mark Myers and Pat Galvin. Mark asked her to make sure Evergreen was comfortable with it all before proceeding which she did last week...

AMENDMENT

For the House Oil & Gas Committee on HB 531, please consider the following amendment

HB 531 23-LS1818\A

Sec. 52. AS 46.03.100(f) is amended to read:

(f) This section does not apply to discharges of solid or liquid waste material or water discharges from the following activities if the discharge is incidental to the activity and the activity does not produce a discharge from a point source, as that term is defined in regulations adopted under this chapter, directly into any surface water of the state:

- (1) mineral drilling, trenching, ditching, and similar activities;
- (2) landscaping;
- (3) water well drilling and geophysical drilling [OR COAL BED METHANE DRILLING OR OTHER NATURAL GAS DRILLING TO RECOVER GAS FROM A FIELD IF A PART OF THE FIELD IS WITHIN 3,000 FEET OF THE SURFACE]; or

Melanie G. Lesh
Legislative Liaison
Department of Environmental Conservation
410 Willoughby Avenue
Juneau, Alaska 99801
Phone: 465-5290 Fax: 465-5070

A M E N D M E N T

OFFERED IN THE HOUSE

BY *Seaton*

TO: CSHB 531(), Draft Version "D"

1 Page 21, following line 10:

2 Insert a new bill section to read:

3 **"* Sec. 27. AS 38.05.177(d) is amended to read:**

4 (d) A lease

5 (1) shall be automatically extended if and for so long thereafter as gas
6 is produced in paying quantities from the lease and the lessee continues to meet all
7 requirements of the lease; a [. A] lease issued under this section covering land on
8 which there is a well capable of producing gas in paying quantities does not expire
9 because the lessee fails to produce gas unless the lessee is allowed reasonable time to
10 place the well on a producing status; if [. IF] drilling has commenced on the
11 expiration date of the primary term of the lease and is continued with reasonable
12 diligence, including such operations as redrilling, sidetracking, or other means
13 necessary to reach the originally proposed bottom hole location, the lease is extended
14 for one year and for so long thereafter as gas is produced in paying quantities; a [. A]
15 gas lease issued under this section that is subject to termination by reason of cessation
16 of production does not terminate if, within 90 days after production ceases or a longer
17 period determined at the discretion of the director, reworking or drilling operations are
18 commenced on the land under lease and are thereafter conducted with reasonable
19 diligence during the period of nonproduction;

20 (2) issued under former (c) of this section before January 1, 2004,
21 may be extended at the discretion of the director; a lease may be extended under
22 this paragraph [. IN ADDITION,] upon application by the lessee; [,] the director
23 may once extend the [A] lease [ISSUED UNDER (c) OF THIS SECTION] for a

1 period of not more than three years; in exercising discretion to extend a lease under
 2 this paragraph, the director may not extend the lease unless the director
 3 considers

4 (A) the extent of the shallow natural gas exploration
 5 activity already conducted on the lease and on adjacent areas;

6 (B) the probability that further shallow natural gas
 7 exploration activity will occur on the lease and will lead to shallow natural
 8 gas development and production; and

9 (C) whether extension of the lease's primary term will
 10 accelerate the eventual production of shallow natural gas from the lease."

11

12 Renumber the following bill sections accordingly.

13

14 Page 44, line 21:

15 Delete "38.05.177(d),"

16

17 Page 44, line 27, following "AS 38.05.177(a)":

18 Insert ", (d)(1),"

19

20 Page 44, line 28:

21 Delete "secs. 26 and 27"

22 Insert "secs. 26 - 28"

23

24 Page 44, lines 29 - 30:

25 Delete "AS 38.05.177(b) - (h)"

26 Insert "AS 38.05.177(b), (c), (e) - (h)"

27

28 Page 44, line 30:

29 Delete "sec. 56"

30 Insert "sec. 57"

A M E N D M E N T

OFFERED IN THE HOUSE

BY REPRESENTATIVE KERTTULA

TO: CSHB 531(), Draft Version "D"

1 Page 21, following line 10:

2 Insert a new bill section to read:

3 **** Sec. 27.** AS 38.05.177(c) is amended to read:

4 (c) The director shall give notice under AS 38.05.945. In addition to the
5 notice requirements of that section, the director shall give written notice by mail
6 to each owner of land of an action to be taken under this section that may affect
7 the owner's land. The director shall mail the notice required by this subsection
8 at least 30 days before action is to be taken under this section [OF RECEIPT OF
9 THE LEASE APPLICATION AND CALL FOR COMMENTS FROM THE
10 PUBLIC. THE DIRECTOR'S CALL FOR PUBLIC COMMENTS MUST PROVIDE
11 OPPORTUNITY FOR PUBLIC COMMENT FOR A PERIOD OF NOT LESS THAN
12 60 DAYS. IF, AFTER REVIEW OF INFORMATION RECEIVED DURING THE
13 PUBLIC COMMENT PERIOD, THE DIRECTOR DETERMINES THAT THE
14 DISCOVERY OF A LOCAL SOURCE OF NATURAL GAS WOULD BENEFIT
15 THE RESIDENTS OF AN AREA, THE DIRECTOR SHALL EXECUTE A LEASE
16 FOR THE AREA DESCRIBED IN (b) OF THIS SECTION. THE DIRECTOR
17 SHALL EXECUTE THE LEASE AFTER COMPLETION OF A TITLE SEARCH,
18 THE CLOSE OF THE PUBLIC COMMENT PERIOD, AND, IF REVIEW IS
19 REQUIRED UNDER AS 46.40, AFTER THE FINAL CONSISTENCY
20 DETERMINATION IS MADE UNDER AS 46.40. A LEASE ENTERED INTO
21 UNDER THIS SUBSECTION GIVES THE LESSEE THE EXCLUSIVE RIGHT TO
22 EXPLORE FOR, DEVELOP, AND PRODUCE, FOR A TERM OF THREE YEARS,
23 NATURAL GAS ON THE STATE LAND DESCRIBED IN THE LEASE; THE

when the action involves
nonconventional gas,

1 RIGHT TO EXPLORE FOR, DEVELOP, AND PRODUCE IS LIMITED TO GAS
2 FROM A FIELD IF A PART OF THE FIELD IS WITHIN 3,000 FEET OF THE
3 SURFACE]."

4

5 Renumber the following bill sections accordingly.

6

7 Page 44, line 21:

8 Delete "38.05.177(c),"

9

10 Page 44, line 27, following "AS 38.05.177(a)":

11 Insert ", (c),"

12

13 Page 44, line 28:

14 Delete "secs. 26 and 27"

15 Insert "secs. 26 - 28"

16

17 Page 44, lines 29 and 30:

18 Delete "AS 38.05.177(b) - (h)"

19 Insert "AS 38.05.177(b), (d) - (h)"

20

21 Page 44, line 30:

22 Delete "sec. 56"

23 Insert "sec. 57"

Closing comments:

- * The time frame is of essences
- * Impact on other resource development projects statewide
- * Create a more sustainable atmosphere for businesses
- * 2 other committees of referral to clear -
- * DNR workshops conducted in Mat-Su
- * This bill highlights ~~50A~~ areas of concerns sparked by the public
- * Encouragement of hope must compromise with support from pro development and those that oppose the way development occurs.
- * Negative impact on property owners?
none to date

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March 13, 2004

Honorable Vic Kohring
Alaska State Legislature
Capitol Building
Juneau, AK 99801

RE: House Bill 531, Shallow Gas Leasing

Dear Representative Kohring,

Thank you for the opportunity to comment on this bill. We oppose House Bill 531. We believe there are other ways to address the concerns that have been raised and not "throw the baby out with the bath water".

This bill would effectively eliminate the shallow gas program. It would totally change the way shallow gas leases are obtained and administered. It would eliminate the "right of self initiation" that now exists and effectively lock out the individual prospector or gas developer from participating in this business.

The bill proposes replacing self initiation with an exploration license. Before issuance of the exploration license, an area have to go through a best interest finding. The best interest finding would be completed by the Department of Natural Resources as time and staff may become available. Even if this is begun immediately, the best interest finding is likely to require 18 months or more.

Under HB-531, once the best interest finding is completed, the next step is a competitive bid process for the leases. This will eliminate nearly all incentive for individual entrepreneurs to seek out and explore for shallow gas deposits in new areas around the state. The average citizen simply does not have sufficient financial resources to participate in such an extended process. Furthermore, exploration must move forward when the window of opportunity exists. Such an extended process will almost certainly guarantee that the window will have closed by the time a lease sale is held.

The intent of the shallow gas program has been to provide a simple, cost effective program based on self initiation, that will encourage discovery and development of the gas. It was specifically structured to not require the high costs and long time frames of the normal oil & gas leasing system. This was in part to encourage development of smaller fields that cannot withstand the costs of normal oil & gas leasing. It was also to encourage development of gas that could help reduce the cost of energy in rural communities and help provide for remote projects such as mines.

The approach proposed by HB-531 adds tremendous uncertainty for the prospector. The person wanting the license has no rights, or any priority to obtain rights to the area, until and unless he is the successful bidder.

HBK-13-04 01:00 PM ALASKA BUSINESS ASSOCIATION 707 555 7225 1.02

We recommend that the existing leasing system be continued. Two changes that appear to have merit: 1) Limit use of the existing shallow gas leasing system to rural areas; 2) Provide a 10 year term for existing and new shallow gas leases, which should include a work commitment.

Thank you for the opportunity to comment on this bill.

Sincerely,



Steven C. Borell, P.E.
Executive Director

cc: Commissioner Tom Irwin

AMENDMENT 4

OFFERED IN THE HOUSE
TO: CSHB 531(RES)

1 Page 48, following line 12:

2 Insert a new bill section to read:

3 **** Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section
4 to read:

5 **CONVERSION OF EXISTING SHALLOW NATURAL GAS LEASE**
6 **APPLICATIONS.** (a) The applicant for a shallow natural gas lease under AS 38.05.177
7 whose application was received by the Department of Natural Resources before the effective
8 date of this section may, not later than August 31, 2004, or 60 days after the effective date of
9 this Act, whichever is later, convert the application to an exploration license and lease
10 application under AS 38.05.131(a), as amended by sec. 14 of this Act. An applicant
11 converting an application under this subsection

12 (1) may apply for as few as 3,000 acres, notwithstanding the minimum
13 limitation of acreage set out in AS 38.05.132(c)(2);

14 (2) shall pay the fee required by AS 38.05.132(c)(6);

15 (3) is subject to a three-year work commitment in lieu of a work commitment
16 of any other duration required by AS 38.05.132 and, notwithstanding AS 38.05.132(c)(3), is
17 under an obligation to perform a specified work commitment of \$1 per acre per year; and

18 (4) may, subject to (b) of this section, convert an exploration license to a lease
19 under AS 38.05.134, as amended by sec. 22 of this Act.

20 (b) The provisions of AS 38.05.035(e) apply to an application made under (a) of this
21 section.

22 (c) For an application made under (a) of this section, the director of the division of
23 lands shall remit to the applicant the application fee paid by the applicant under

- 1 AS 38.05.177(b)(2)."
- 2
- 3 Renumber the following bill section accordingly.

Exploration Licensing Public Process

- Company submits a proposal consisting of
 - Proposed license area (up to 500,000 acres)
 - Work commitment (\$\$ to be spent on exploration)
 - Term of license (up to 10 years)
- DO&G issues *Notice of Intent to Evaluate a License Proposal* and requests public comment
 - Public comment period must be for at least 30 days
 - Notice is:
 - placed in statewide and local newspapers
 - posted on state and division websites
 - mailed to addressees on division's mailing list
 - posted in local post offices
- DO&G issues *Request for Agency Information*
 - Sent to state and federal agencies, local governments and tribal organizations
 - Minimum of 60 days to submit information
- DO&G issues *Notice of Preliminary Best Interest Finding* and requests public comment; if within the coastal zone, DO&G also issues *ACMP Consistency Analysis*
 - 60-day public comment period
 - Notice is:
 - placed in statewide and local newspapers: 1-time posting
 - posted on state and division websites
 - mailed to addressees on division's mailing list
 - posted in local post offices
 - Display ads placed in statewide and local newspapers; 1 per week for 2 weeks
 - Division conducts public meetings to hear public testimony
- If within the coastal zone, DO&G issues *Proposed ACMP Consistency Determination*
 - 5 days to request elevation to resource commissioners (DNR, DEC, DF&G)
- DO&G issues *Notice of Final Finding, ACMP Consistency Determination*, and awards license
 - Those who participated in the public process have 20 days to request reconsideration by the commissioner

Contents of Best Interest Finding for Exploration Licenses and Areawide Lease Sales

1. Property descriptions and locations;
2. The petroleum potential of the license or sale area, in general terms;
3. Fish and wildlife species and their habitats in the area;
4. Current and projected uses in the area, including uses and value of fish and wildlife;
5. The governmental powers to regulate oil and gas exploration, development, production, and transportation;
6. Reasonably foreseeable cumulative effects of oil and gas exploration, development, production, and transportation on the license or sale area, including effects on subsistence uses, fish and wildlife habitat and populations and their uses, and historic and cultural resources;
7. Stipulations and mitigation measures, including any measures to prevent and mitigate releases of oil and hazardous substances, to be included in the license or leases, and a discussion of the protections offered by these measures;
8. Method or methods most likely to be used to transport oil or gas from the lease sale or license area, and the advantages and disadvantages, and relative risks of each;
9. Reasonably foreseeable fiscal effects of the exploration license or lease sale and the subsequent activity on the state and affected municipalities and communities, including the explicit and implicit subsidies associated with the exploration license or lease sale, if any;
10. Reasonably foreseeable effects of oil and gas exploration, development, production, and transportation on the municipalities and communities within or adjacent to the exploration license or lease sale area; and
11. For lease sales: the bidding method or methods adopted by the commissioner;

For exploration licenses:

- a. describe the limitations, stipulations, conditions or changes from the proposal that are required to make the issuance of the license conform to the best interests of the state; and
- b. if only one proposal was submitted, identify the prospective licensee.

Areawide Leasing Public Process

- Lease sale placed on 5-year leasing schedule
- DO&G issues *Request for Agency Information and Call for Public Comments*
 - Sent to state and federal agencies, local governments and tribal organizations
 - Minimum of 60 days to submit information
 - Notice is:
 - posted on state and division websites
 - mailed to addressees on division's mailing list
- DO&G issues *Notice of Preliminary Best Interest Finding* and requests public comment; if within the coastal zone, DO&G also issues *ACMP Consistency Analysis*
 - 60-day public comment period
 - Notice is:
 - placed in statewide and local newspapers: 1-time posting
 - posted on state and division websites
 - mailed to addressees on division's mailing list
 - posted in local post offices
 - Display ads placed in statewide and local newspapers; 1 per week for 2 weeks
 - Division conducts public meetings to hear public testimony
- If within the coastal zone, DO&G issues *Proposed ACMP Consistency Determination*
 - 5 days to request elevation to resource commissioners (DNR, DEC, DF&G)
- DO&G issues *Notice of Final Finding, ACMP Consistency Determination*, and decision to lease 90 days prior to lease sale
 - Those who participated in the public process have 20 days to request reconsideration by the commissioner

ALASKA PROPERTY OWNERS' BILL OF RIGHTS

WHEREAS, Alaskans cherish their private property rights;

WHEREAS, coalbed methane (shallow gas) development threatens the rights of private property owners to enjoy the fruits of their labors;

WHEREAS, state law currently fails to adequately protect private property owners from the threats of coalbed methane development;

WHEREAS, Alaskans rely on public lands and waters for subsistence, recreation, and the operation of businesses that depend on the health of those lands and waters; and

WHEREAS, many Alaskans live adjacent to public and private lands that have been leased for coalbed methane development;

NOW, THEREFORE, BE IT RESOLVED WE ALASKANS DEMAND THE ADOPTION OF AN ALASKA PROPERTY OWNERS' BILL OF RIGHTS TO PROTECT OUR CLEAN AIR, PURE WATER, PLENTIFUL FISH AND WILDLIFE RESOURCES, AND QUALITY OF LIFE FOR FUTURE GENERATIONS; AND

BE IT FURTHER RESOLVED THAT IN ORDER TO PRESERVE AND SUSTAIN THESE VALUES AND OUR PRIVATE PROPERTY RIGHTS THE LEGISLATURE MUST ADOPT STATEWIDE LEGISLATION THAT INCLUDES ALL OF THE FOLLOWING PROTECTIONS:

- 1) **PROPERTY OWNER CONSENT:** Property owners must have the legal right to say if, when, where and how anyone comes onto their private property to explore, develop and/or produce the subsurface mineral estate. The state must provide a legal fund which surface owners can access to hire legal counsel. Private property owners must also be protected from retaliatory lawsuits from developers.
- 2) **BUYBACK & MORATORIUM:** The state must buy back all coalbed methane leases already let, and halt all further coalbed methane leasing until all the provisions of this Property Owners' Bill of Rights are enacted.
- 3) **PROPER NOTICE:** The state must provide all landowners within five (5) miles of a proposed coalbed methane lease with ninety (90) days actual written notice before a best interest finding process begins. Notice by registered mail must also be provided to local, municipal, and tribal entities with jurisdiction within the proposed lease areas. Notice by publication must also be provided at local post offices, in a local newspaper and a newspaper of statewide circulation. All notices described above must include, among other things, a detailed map of the affected area proposed for lease.

- 4) **BEST INTEREST FINDING:** Prior to issuing any leases, the state must conduct a best interest finding process to analyze the economic, environmental, and social costs and benefits of potential coalbed methane operations, including but not limited to the potential diminution in value to private and public properties.
- 5) **BASELINE STUDIES & BURDEN OF PROOF:** The state must measure baseline water quality and quantity in all areas proposed for leasing prior to granting any lease application, including all surface and well waters that may be affected. Prior to granting any lease application, the state must also measure baseline conditions for methane seepage, as well as for hydrological and geological conditions in all areas proposed for leasing. Finally, the state must conduct baseline inventory studies of existing fish and wildlife populations to identify sensitive or critical wildlife areas to be excluded from coalbed methane leasing. If a property owner's water quality or quantity diminish during or within five (5) years after coalbed methane operations on or around his/her property, there shall be a presumption such operations caused such diminishment or pollution, and the coalbed methane operator shall carry the burden of proving otherwise.
- 6) **LOCAL CONTROL:** The state must ensure local governmental entities have maximum powers of self government that enable them to regulate coalbed methane development to protect the health, safety, general welfare, and quality of life for local residents.
- 7) **PROTECT CRITICAL HABITAT & RECREATIONAL LANDS:** The state must identify and implement "no drill" zones, and prohibit coalbed methane leasing and development in sensitive or critical wildlife areas, particularly those areas used for subsistence, hunting, fishing and recreational activities.
- 8) **WATER PROTECTION:** The state must prohibit coalbed methane water extraction in groundwater aquifers that are the source of existing or future water wells, and prohibit the use of toxic or hydraulic fracturing fluids. Furthermore, the state must require the deep-well underground reinjection of all liquids and wastes produced and used during coalbed methane development, and it must ensure there is no hydrological connection between the waste injection zones and present or future drinking water sources.
- 9) **PROPERTY OWNER SAFEGUARDS:** The state must promulgate by December 2004 enforceable minimum statewide regulations that require best available technology and practices to ensure the health and safety of citizens on the issues of noise, air and water quality, setbacks, use and disposal of any toxics, and surface restoration and reclamation. New standards must also be established that increase the statewide and per incident bond requirement for all coalbed methane operators and developers to ensure full restoration of the surface. These amounts must be sufficient to provide the full pre-leasing fair market value of any property or business damaged by coalbed methane development.
- 10) **COMPETITIVE BIDDING:** In order to maximize the benefit of our natural gas resources, the state must re-institute a competitive bidding process for all coalbed methane (shallow gas) leases.

Submitted this 18th day of March, 2004, to all Alaskans and the Alaska Legislature.

A FEW CBM FACTOIDS

CBM LEASED LANDS IN ALASKA

Mat-su :300,000 acres

Homer: 22,000 acres

Healy: 47,000 acres

Hoolitina: 20,000 acres

Red Dog: 20,000 acres

Applied for: 80,000 acres

None of the bills currently in the legislature apply to the lands already leased.

IN THE MAT-SU VALLEY

--There are 12,396 lots leased to Coal Bed Methane in the Valley

--96% of the lots are privately owned

--The assessed value of the lots is \$235,000,000

--The market value is approximately \$800,000,000

--The total price the CBM companies paid to lease the subsurface rights:\$60,000. 60 leases at \$500 per lease and 300,000 acres at \$1 per acre.

ROYALTIES

--The state gets 12.5%

Mark Meyer[Oil and Gas Commission head]has stated that approximately 1/2 will go to administering CBM, and at present there are not sufficient personnel to do the job

GAS CONSUMPTION IN SOUTHCENTRAL

--Southcentral Alaska uses about 200 billion s of cubic feet of natural gas per year

--37% goes to LGN plant, 25% to Agrium plant, 13% for gas utilities use, 16.5% for power generation, 8% for field operations, 2.5% unaccounted for.

--Evergreen states [in the most optimistic scenerio]they could provide 25-30 billions of cubic per year for maybe 20 years. This is only 1/6 the amount we need. This of course has not been balanced against all the other assets we have in the Valley.

AMOUNT EVERGREEN PAID LOBBYISTS IN 2003

--March: \$10,000 April: \$10,000 May: \$10,000 June: \$10,000 July: \$10,000
October 30: Another \$30,000 billed to Evergreen. This is \$80,000 total Evergreen paid lobbyists.

AMOUNT EVERGREEN PAID SCOTT OGAN

--Evergreen paid Sen. Ogan \$39,000 in 2003. That amounts to over \$100,000 over three years.

JOBS FOR ALASKANS

Evergreen has approximately 275 employees TOTAL. The Alaska operation, even performing at the top of their most optimistic projections, would only be a fraction of their total operations. How could they possibly provide "hundreds" of jobs to Alaskans?



Coastal Realty

Annie Whitney

Associate Broker

March 17, 2004

To Whom It May Concern:

I am writing this letter to express my recent professional experience in regards to the local Coal Bed Methane Lease issue. Because of the leases that were activated without public notice or input and the ensuing controversy, the market for raw land, in my opinion, has been compromised.

I have personally experienced a solid buyer (an investor who had purchased property through me in the past) who decided against several purchases when she found out they were in an area where the subsurface rights had been leased. I also have clients who purchased a property through me last summer call me and express grave concern and alarm because they had just found out that the property they had purchased off East End Road was part of the lease. They had anticipated moving their young family to this property to enjoy a quiet and rural lifestyle not available to them in southern Massachusetts. They are now discussing changing their plans and selling their property. However, the threat, now, of not being able to resell and recoup their losses is very real, since more and more buyers are refusing to purchase properties impacted by these leases.

In my opinion this was a VERY ill-advised decision made within the State of Alaska bureaucracy and it is impacting me personally and my personal ability to do business, as well as impacting property values and the ability of owners to sell their property.

Thank you for your attention to this matter.

Sincerely,

Anne C. Whitney
Associate Broker

anniew@xyz.net

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(907) 235-7700

Homer, Alaska 99603

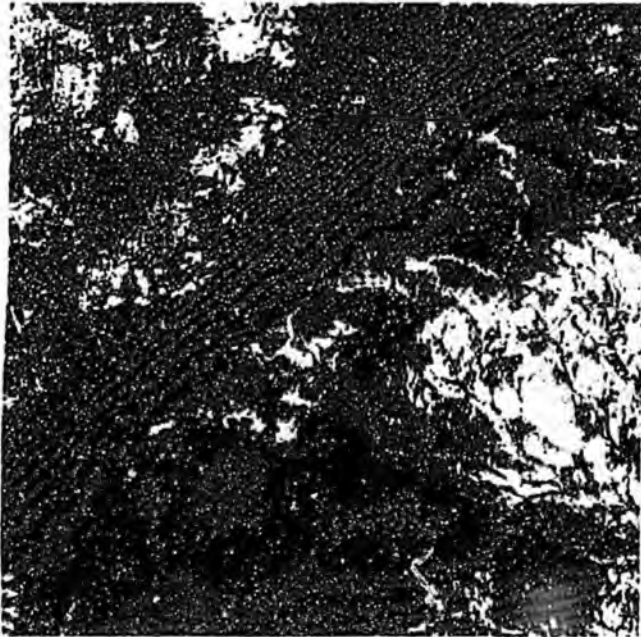
fax: (907) 235-1216

Rapid Gas Field Expansion

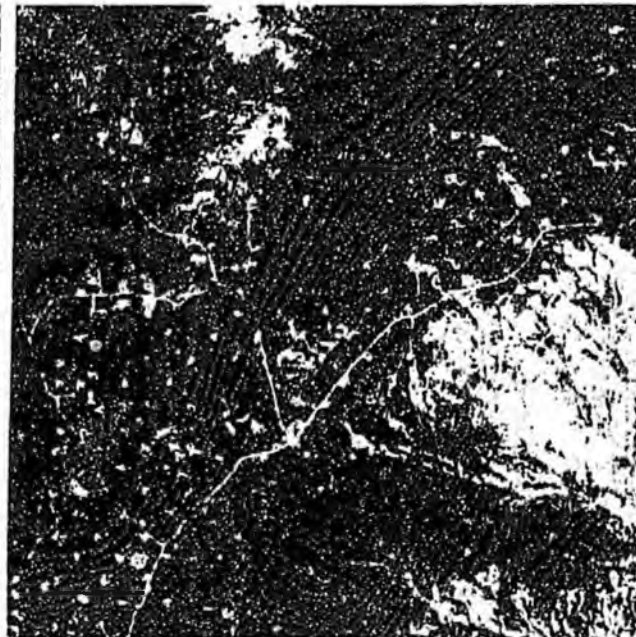
Jonah Field, WY

Images are of a **7 square mile** area, with **1 well per 40 acres**

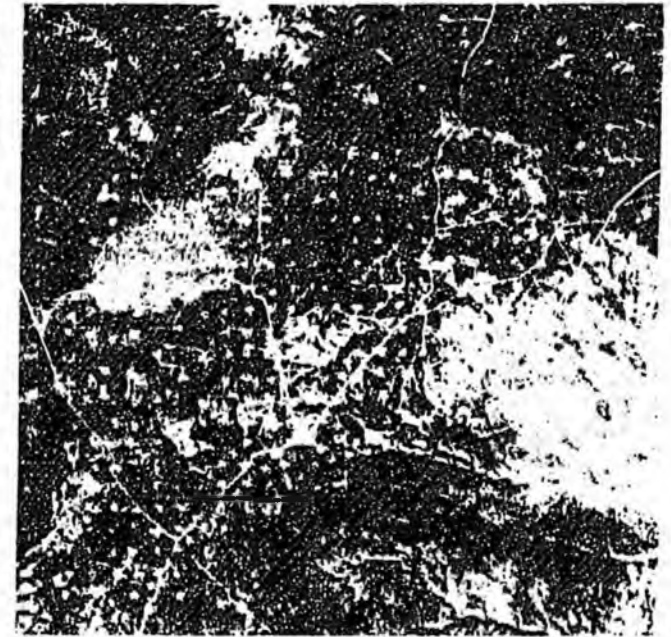
Encana, the operator, has applied to infill drill to **1 well per every 20 acres** – adding another **1,250 wells**



1996

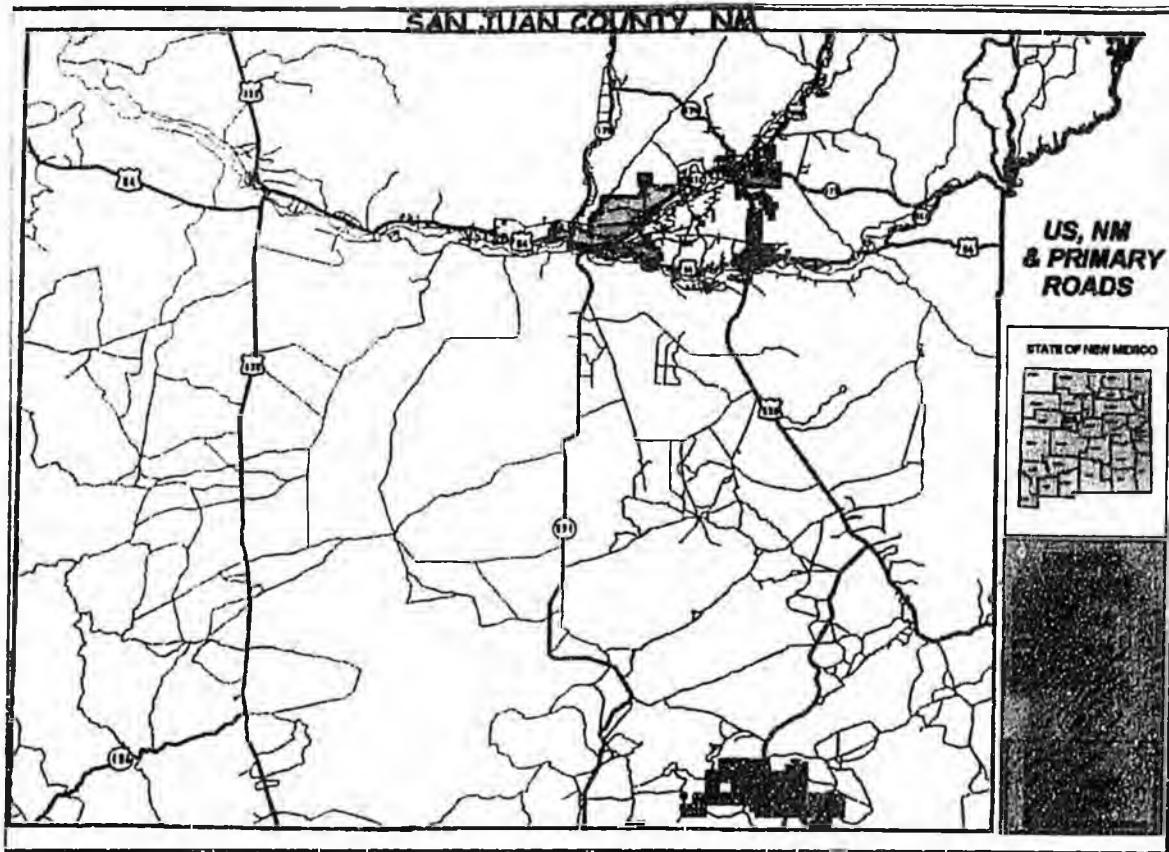


1999

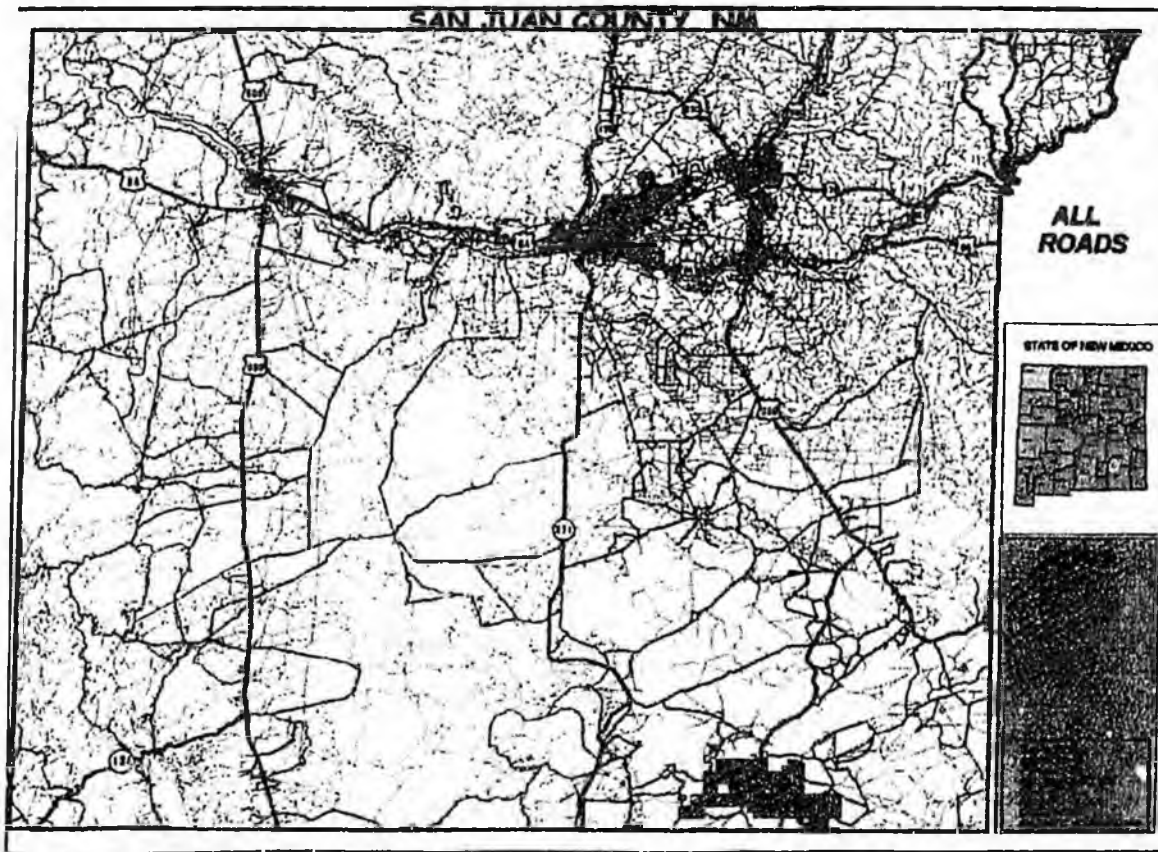


2002

Fifteen Years of Coalbed Methane Before



After



The Future of the Matanuska Moose Range?

AMENDMENT

#1

OFFERED IN THE SENATE

TO: CSHB 531(FIN) am

1 Page 6, line 25:

2 Delete "finds"

3 Insert "determines"

4

5 Page 7, line 4, following "or the":

6 Insert "United States"

7

8 Page 7, line 5:

9 Delete "and"

10

11 Page 7, line 11, following "required":

12 Insert "; and

13

14

15

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17

(D) as a condition of approval of a permit to drill a well for
production or production testing of coal bed methane, require the
operator to design and implement a water well testing program to provide
baseline data on water quality and quantity; the commission shall make
the results of the water well testing program available to the public"

AMENDMENT

#2

OFFERED IN THE SENATE

TO: CSHB 531(FIN) am

1 Page 19, line 10:

2 Delete "(A)"

3

4 Page 19, line 23:

5 Delete "and"

6

7 Page 19, lines 24 - 29:

8 Delete all material.

9

10 Page 23, line 7:

11 Delete "AS 38.05.180(n)(2)"

12 Insert "AS 38.05.180(n)(2)(A)"

13

14 Page 26, lines 26 through 30:

15 Delete all material.

16

17 Page 38, line 28, following "gas":

18 Insert "(A)"

19

20 Page 38, line 30, following "lease":

21 Insert "; and

22

23 (B) if the nonconventional gas produced will not be in

direct competition with gas on which a royalty at a rate of at least 12.5

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percent is payable, then the royalty share payable to the state on all
production of gas from the pool attributable to that lease shall be 6.25
percent based upon production delivered in pipeline quality and free of all
lease expenses, including separation, cleaning, dehydration, gathering, salt
water disposal, and preparation for transportation off the lease"

AMENDMENT

#3

OFFERED IN THE SENATE

TO: CSHB 531(FIN) am

1 Page 20, line 13, following "AS 38.05.180(ff)(4)":

2 Insert "or 38.05.180(gg)"

3

4 Page 20, line 26, following "AS 38.05.180(ff)":

5 Insert ", 38.05.180(gg),"

6

7 Page 39, line 18:

8 Delete "a new subsection"

9 Insert "new subsections"

10

11 Page 40, following line 17:

12 Insert new subsections to read:

13 "(gg) Before approving operations for the development of coal bed methane
14 under AS 38.05.134, 38.05.177, or this section, the director shall ensure that the
15 approval is conditioned upon

16 (1) reasonable and appropriate setbacks governing the placement by
17 the operator of compressor stations; setbacks approved under this paragraph must be
18 determined with reference to the population density and general character of the
19 parcels surrounding the proposed compressor station site; and

20 (2) reasonable and appropriate measures to mitigate the noise of
21 compressors, engines, and other noise generating equipment operated by the operator
22 on the lease or license; measures approved under this paragraph must be determined
23 with reference to the population density and general character of the parcels
24 surrounding the proposed compressor, engine, or other noise generating equipment."

1 (3) the provisions of AS 38.05.130 apply to the extraction of coal bed
2 methane, except that the provisions of that section shall be implemented as follows:

3 (A) for an activity or operation for which the department, by
4 regulation, requires submission and approval of a plan of operations before
5 activities or operations may be undertaken, the director shall, as a condition for
6 issuing the bond, after notice and an opportunity to be heard, review the plan
7 of operations to determine if use of the surface is reasonably necessary to
8 extract coal bed methane; and

9 (B) the director may not require a bond posted under this
10 paragraph from a lessee or agent of a lessee if the lessee or agent has already
11 posted a bond covering the lessee's statewide oil and gas leasing activities.

amendment #

Page 41, lines 27 and 28

Delete "shales containing gas" and insert "gas
contained in shales".

SENATE COMMITTEE REPORT

DATE: 5/1/04

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 5-4-04

Resources Committee considered CS FOR HOUSE BILL NO. 531(FIN) am

HB 531 CONVENTIONAL & NONCONVENTIONAL GAS LEASES

"An Act relating to natural gas exploration and development and to nonconventional gas, and amending the section under which shallow natural gas leases may be issued; and providing for an effective date."

and recommends:

- be replaced with S CS HB 531 (RES)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

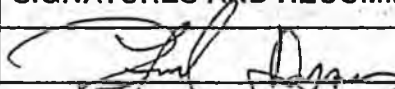
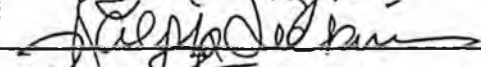
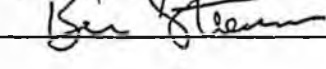
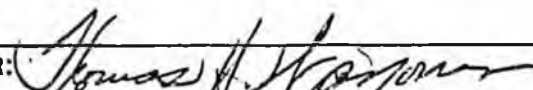
NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	4/29/04	✓			2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	NO REC	AMEND
	✓			
	✓			
	✓			
CHAIR: 	✓			

AMENDMENT

OFFERED IN THE SENATE
TO: CSHB 531(FIN) am

*JAC: For your
info they failed to
deal with this w/
Restores -*

1 Page 20, line 13, following "AS 38.05.180(ff)(4)":
2 Insert "or 38.05.180(gg)"

3
4 Page 20, line 26, following "AS 38.05.180(ff)":
5 Insert ", 38.05.180(gg),"

*prepare for
Finance*

6
7 Page 39, line 18:
8 Delete "a new subsection"
9 Insert "new subsections"

*Page 40, line 6, following "(3)" delete
all material through line 13 following
"(4)"*

10
11 Page 40, following line 17:
12 Insert new subsections to read:

13 "(gg) Before approving operations for the development of coal bed methane
14 under AS 38.05.134, 38.05.177, or this section, the director shall ensure that the
15 approval is conditioned upon

16 (1) reasonable and appropriate setbacks governing the placement by
17 the operator of compressor stations; setbacks approved under this paragraph must be
18 determined with reference to the population density and general character of the
19 parcels surrounding the proposed compressor station site; and

20 (2) reasonable and appropriate measures to mitigate the noise of
21 compressors, engines, and other noise generating equipment operated by the operator
22 on the lease or license; measures approved under this paragraph must be determined
23 with reference to the population density and general character of the parcels
24 surrounding the proposed compressor, engine, or other noise generating equipment."

AMENDMENT 2 #

OFFERED IN THE HOUSE
RESOURCES COMMITTEE
TO: HB 531

BY REPRESENTATIVE KERTTULA

1 Page 47, Line 31; after "AS 46.04.900(25)", insert, "AS 46.40.205"

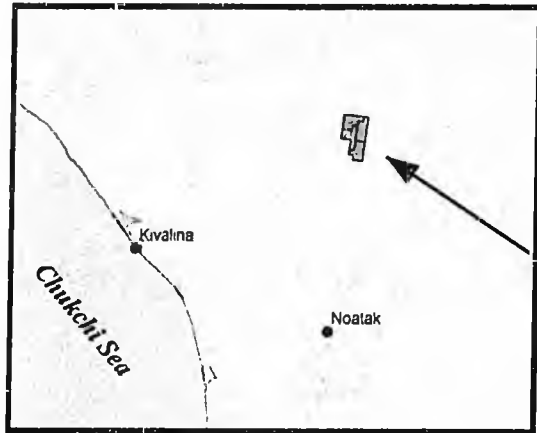
~~2~~

3 Page 48, Line 11- Line 12; delete all language

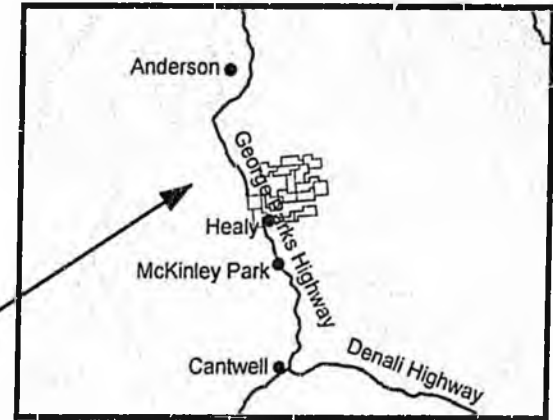
*This should
stay in the bill
- Mr. Crosley ←*

Shallow Natural Gas Leases

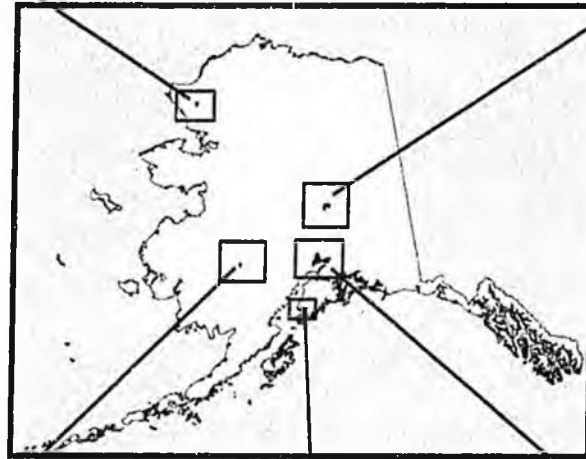
■ Issued Leases
□ Applications



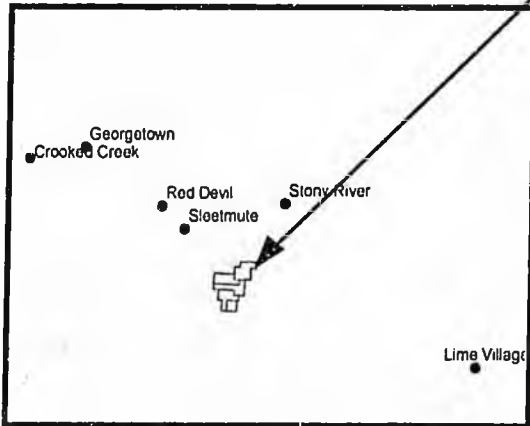
Red Dog



Healy



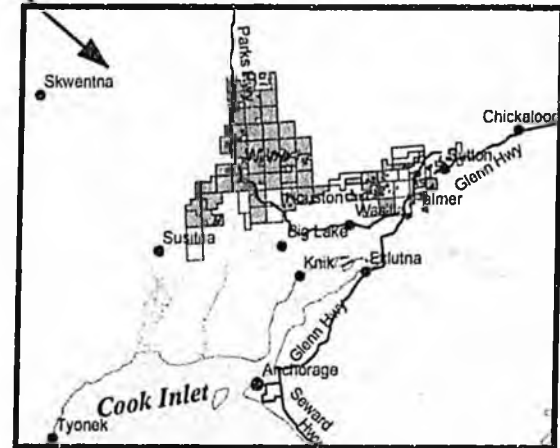
Holitna Basin



Kenai Peninsula



Mat-Su



A M E N D M E N T

OFFERED IN THE HOUSE

BY REPS. ROKEBERG AND JOULE

TO: CSHB 531 (FIN)

Page 15, line 14, following "of gas only."

Insert: "The commissioner may not issue an exploration license on land that is held under an existing coal lease entered into under AS 38.05.150 that has an active permit for exploration or mining unless the licensee under this subsection is also the lessee under AS 38.05.150 of that land."

Page 20, lines 9-10

Delete "[EXCEPT AS PROVIDED BY AS 38.05.177(a)(2)(C),j]"

Insert "except as provided by AS 38.05.180(ff)(4) [AS 38.05.177(a)(2)(C)],"

Page 20, line 23

Delete "A [NOTWITHSTANDING AS 38.05.177, A]"

Insert "Notwithstanding AS 38.05.180(ff) or AS 38.05.132(a) [AS 38.05.177], a"

Page 22, line 15, following "period of nonproduction;"

Insert "on application by the lessee, the director may extend the lease issued under this section for a period of not more than 10 years if the gas produced from the lease is to be used by the lessee solely for its mining operations;"

Page 40, line 6, following "paragraph":

Insert ";

(4) the provisions of this subsection do not apply to authorize a lease for the recovery of nonconventional gas on land that is held under an existing coal lease entered into under AS 38.05.150 that has an active permit for exploration or mining unless the lessee under this subsection is also the lessee under AS 38.05.150 of that land."

AMENDMENT

#2



OFFERED IN THE HOUSE
TO: CSHB 531 (FIN)

BY REPRESENTATIVES KERTTULA & CROFT

- 1 Page 48, Line 4; after "gas";
- 2 Insert:
- 3 "leases issued under AS 38.05.177 and in effect on December 31, 2003"
- 4
- 5 Page 48, Line 5; delete all language.
- 6
- 7 Page 48, Lines 6-7; delete all language.

AMENDMENT

1 #

failed
6-3

OFFERED IN THE HOUSE
RESOURCES COMMITTEE
TO: CSHB 531(RES), Draft Version "V"

BY REPRESENTATIVE KERTTULA

1 Page 39, Line 31-Page40, Line 11;

2 Delete all material and insert:

3 "(3) for a nonconventional gas lease, rights under the reservation as set out
4 in AS 38.05.125 may not be exercised under the lease unless

5 (A) the owner and the state and its lessees, successors, or
6 assigns reach a prior written agreement under which the state and its
7 lessees, successors, or assigns may enter upon the land in the exercise of
8 the reserved right; only one written agreement authorizing entry onto the
9 land may be required under this subparagraph to authorize activity by the
10 state and its lessees, successors, or assigns, or by their agents, attorneys,
11 and servants as allowed under this subsection; an agreement entered into
12 under this subparagraph is

13 (i) for the duration of the period of production or recovery
14 operations unless the parties agree to a different duration; and

15 (ii) a covenant running with the land;

16 (B) the director, after notice and an opportunity to be heard,
17 determines that, to exercise rights under the reservation and the lease, the
18 lessee has no other reasonable means of entry than access and entry upon
19 the land of the owner; the lessee has the burden of demonstrating
20 compliance with this subparagraph; and

21 (C) the state, its lessees, successors, or assigns make provisions to
22 pay the owner of the land full payment for all damages sustained by the
23 owner by reason of entering upon the land for the purpose of exercising
24 rights under the lease, by posting a surety bond determined by the owner
25 and by the state, its lessees, successors, or assigns to be sufficient as to
26 form, amount and security to secure to the owner payment for all damages,
27 subject to the following:

AMENDMENT

OFFERED IN THE HOUSE
RESOURCES COMMITTEE

BY REPRESENTATIVE KERTTULA

TO: CSHB 531(RES), Draft Version "V"

- 1 (i) if a provision of this subparagraph conflicts with a
2 requirement of AS 38.05.130, the provision of this subparagraph
3 prevails; and
4 (ii) in addition to the coverage for actual damages required
5 by AS 38.05.130 or this subparagraph, as appropriate, the parties
6 shall make provision for payment of reasonable compensation to
7 the owner for any loss by the owner of the owner's use and
8 enjoyment of the property."

AMENDMENT #1



OFFERED IN THE HOUSE
TO: CSHB 531(FIN), Draft Version "X"

BY REPRESENTATIVES CROFT
AND KERTTULA

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Page 39, Line 31-Page 40, Line 6;

Delete all material and insert:

"(3) for a nonconventional gas lease, rights under the reservation as set out in AS 38.05.125 may not be exercised under the lease unless

(A) the owner and the state and its lessees, successors, or assigns reach a prior written agreement under which the state and its lessees, successors, or assigns may enter upon the land in the exercise of the reserved right; only one written agreement authorizing entry onto the land may be required under this subparagraph to authorize activity by the state and its lessees, successors, or assigns, or by their agents, attorneys, and servants as allowed under this subsection; an agreement entered into under this subparagraph is

(i) for the duration of the period of production or recovery operations unless the parties agree to a different duration; and

(ii) a covenant running with the land;

(B) the director, after notice and an opportunity to be heard, determines that, to exercise rights under the reservation and the lease, the lessee has no other reasonable means of entry than access and entry upon the land of the owner; the lessee has the burden of demonstrating compliance with this subparagraph; and

(C) the state, its lessees, successors, or assigns make provisions to pay the owner of the land full payment for all damages sustained by the owner by reason of entering upon the land for the purpose of exercising rights under the lease, by posting a surety bond determined by the owner and by the state, its lessees, successors, or assigns to be sufficient as to form, amount and security to secure to the owner payment for all damages, subject to the following:

(i) if a provision of this subparagraph conflicts with a requirement of AS 38.05.130, the provision of this subparagraph prevails; and

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(ii) in addition to the coverage for actual damages required by AS 38.05.130 or this subparagraph, as appropriate, the parties shall make provision for payment of reasonable compensation to the owner for any loss by the owner of the owner's use and enjoyment of the property."



NEWS BULLETIN

May 04, 2004 --- Vol. 10, No. 44

Pioneer picks up Evergreen in \$2.1 billion deal

Dallas-based Pioneer Natural Resources and Denver-based Evergreen Resources announced a \$2.1 billion 'strategic merger' in which Evergreen will become a subsidiary of Pioneer. The deal gives Pioneer a foothold in the Rockies' uncor basins and a chance to reinvest excess cash flow in low-risk, onshore, North American gas plays.

The merger will add 2.4 trillion cubic feet of proved and probable reserves North America gas reserves to Pioneer's portfolio and enhance the independent's Canadian asset portfolio, the smallest of its asset bases.

Scott Sheffield, Pioneer's chairman and CEO and an Evergreen board member, said he and Mark Sexton, Evergreen's CEO, began discussing the possibilities of a merger in March.

Under the terms of the deal, holders of 44 million Evergreen common shares can receive a total of 25 million Pioneer common shares and a total of \$850 million in cash.

The offer carries a value of \$39.35 per Evergreen share, which was based on Pioneer's closing price on Monday. Investors receive 1.16135 Pioneer shares, \$39.35 in cash or a mix of cash (\$19.50) and stock (0.58175 Pioneer shares) for each Evergreen share held.

Denver-based Evergreen agreed to sell its assets in Kansas prior to closing the deal, expected to happen in the second half of the year.

Sheffield briefly mentioned Alaska in an audio web cast this morning, saying both he and Sexton are enthused by their firm's opportunities in the state.

Sexton, who is out of a job but will sit on Pioneer's board, said the merger will result in 'more aggressive development' of Pioneer's properties.

Pioneer officials predicted Evergreen production will double between now and 2008 and Pioneer production will grow by 10 percent per year over next 10 years.

Enbridge files with state to take lead in natural gas pipeline

Calgary-based Enbridge Inc. says it has the capacity on its own to build and operate an Alaska North Slope natural gas pipeline in its application under Alaska's Stranded Gas Development Act it would prefer to lead a consortium with producers and other market participants to put together the deal.

Enbridge announced this morning it has filed its project application with the state.

"This application signals Enbridge's intent to take a lead role in the creation of a consortium that will pursue these opportunities," the company says in its application. "The project will require producer and market support and a strong alignment of key stakeholders to mitigate and share the significant risk that a project of this size and scope will present."

The company proposes in its application to build a 36-inch-diameter pipe, capable of carrying 2.6 billion cubic feet of gas per day with the option of perhaps adding a second line to boost the project to more than 5 bcf per day — if gas supply and market demand expand.

North Slope producers and other project hopefuls have proposed a line moving 4.5 bcf per day as the most economic option. A larger gas supply reducing unit costs for construction and the subsequent tariff. But Enbridge said it believes a smaller line would reduce risks of cost overruns and flooding the market with too much gas at once, while also allowing it to buy conventional gas from North America mills at competitive prices.

Enbridge says gas could start flowing through the line nine years after "project kick-off." The Stranded Gas Act allows the company to negotiate a long-term fiscal contract with the state for payments in lieu of state and municipal taxes on the line.

The company estimates the smaller line would cost about \$3 billion from the North Slope to the Alaska/Yukon border. A processing plant on the slope would be additional, as would a new pipeline from the Alaska border into Alberta to connect with existing pipelines that carry the gas across North America.

Print this story

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Borough Mayor

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— 1964-2004 —

May 4, 2004

Senator Scott Ogan and the Senate Resource Committee
Juneau, Alaska

Mr. Chair and Committee Members:

Please consider this as written testimony to your Committee as the Boroughs official position on the coal bed methane issue here in our Borough. The Borough assembly unanimously passed resolutions 04-035 and 04-036 stating our positions on some of the issues surrounding CBM. It is my understanding that copies of these resolutions have been provided to you in your committee packet.

When the assembly discussed these issues and passed the resolutions they also recognized that DNR was taking considerable public comment in the Mat-Su and would be hearing the residents concerns and that those concerns would be made available to the legislature and included in the process.

We have not taken a direct position on any bill currently under consideration. We have specified positions in our resolutions. Any support or opposition to a particular bill will require an assembly meeting, which we can call with required public notice.

Sincerely,

Tim Anderson
Borough Mayor

Ray Gillespie
Gillespie & Associates
Lobbying and Governmental Affairs

SESSION (Jan. - May)
130 Seward Street #201
Juneau, Alaska 99801
Telephone: 907.463.3375
Fax: 907.463.5522
Cell: 907.230.8843

INTERIM (June - Dec.)
1241 W. 27th Ave. #456
Anchorage, Alaska 99503
Telephone: 907.243.3125
Fax: 907.243.3125

MAR - 9 2004

Members of the Valley Caucus;

Enclosed are two resolutions regarding coal bed methane that were passed by the Mat-Su Borough last night.

If you have any questions please call our office at: 463-3375

Sponsors: Colver and Kvalheim

Adopted: 03/02/04

Motion to Reconsider Failed: 03/02/04

MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 04-036

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY MAKING
RECOMMENDATIONS TO THE GOVERNOR AND LEGISLATURE CONCERNING REFORM
OF SHALLOW GAS LEASING FOR COAL BED METHANE.

WHEREAS, various bills have been introduced in the Alaska
Legislature addressing shallow gas issues in the state of Alaska;
and

WHEREAS, the state of Alaska's shallow gas leasing program
does not require a "Best Interest Finding," which is required
before competitive oil and gas leases are offered; and

WHEREAS, the Matanuska-Susitna Borough Assembly supports
reform of the way in which state-owned subsurface estates are
leased for shallow gas coal bed methane exploration and production;
and


WHEREAS, the Matanuska-Susitna Borough supports public
involvement, adequate notice, and incorporation of public comments
into a decision whether to offer leases and identifying the
location of areas for leasing for shallow gas.

NOW, THEREFORE, BE IT RESOLVED, that the Matanuska-Susitna
Borough Assembly supports the reform of the leasing process for
shallow gas and supports legislation which:

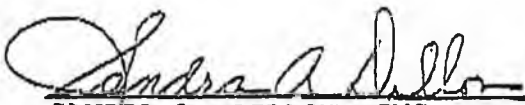
- requires a competitive lease process for shallow gas;

- requires a "Best Interest Finding" prior to offering leases;
- provides for adequately published public notice and notification to individual property owners within proposed lease areas and hold public hearings;
- provides for public hearings; and
- incorporates public comments received and local government concerns before offering any leases for shallow gas.

ADOPTED by the Matanuska-Susitna Borough Assembly this 2 day of March, 2004.


TIMOTHY L. ANDERSON, Borough Mayor

ATTEST:


SANDRA A. DILLON, CMC, Borough Clerk

(SEAL)

PASSED UNANIMOUSLY: Bush, Allen, Colberg, Kvalheim, Simpson,
Colver, and Vehrs

Sponsors: Colver and Kvalheim
Amended by Substitution: 03/02/04
Amended: 03/02/04
Adopted: 03/02/04
Motion to Reconsider Failed: 03/02/04

MATANUSKA-SUSITNA BOROUGH
RESOLUTION SERIAL NO. 04-035 (SUB) (AM)

A RESOLUTION OF THE MATANUSKA-SUSITNA BOROUGH ASSEMBLY MAKING
RECOMMENDATIONS TO THE GOVERNOR AND LEGISLATURE CONCERNING COAL BED
METHANE LEGISLATION AND REGULATIONS.

WHEREAS, various bills have been introduced in the Alaska
Legislature addressing shallow gas issues in the state of Alaska;
and

WHEREAS, the public is concerned about surface impacts from
coal bed methane activity on privately owned properties; and

WHEREAS, the Alaska State Department of Natural Resources is
holding coal bed methane workshops to involve the public in making
recommendations to state and local governments for the adoption of
regulations; and

WHEREAS, the Matanuska-Susitna Borough Assembly supports best
practices for coal bed methane exploration, drilling, and
production operations.

NOW, THEREFORE, BE IT RESOLVED, that the Matanuska-Susitna
Borough Assembly respectfully requests that the Governor and
Legislature consider coal bed methane legislation that includes the
following surface protections:

- noise mitigation requirements for compressor stations;

- minimum setbacks from residences and property lines for wellheads and compressor stations;
- require lessees to submit a master plan locating all facilities and improvements to afford the opportunity for comments by the public; and
- require safety buffers.

BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly respectfully requests that coal bed methane legislation include the following surface landowner protections:

- surface owners should have the ability to negotiate fair and equitable terms for surface use of their property;
- require an Alaska State Department of Natural Resources and Alaska State Oil and Gas Conservation Commission permit before entry or construction upon on a privately owned parcel; the permit shall provide for negotiation and location of any improvements; and
- adequate bonding to make the surface landowner whole if water resources or other impacts to the property affects the use, enjoyment, and value of their property.

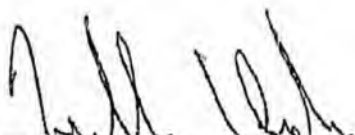
BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly will support legislation that accomplishes the intent of this resolution.

BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly respectfully requests that coal bed methane legislation include the following subsurface and water quality protections:

- require regulations to be adopted by the Alaska State Oil and Gas Conservation Commission requiring:
 - o re-injection of produced water well below known drinking and agricultural water aquifers; and
 - o neutral party testing and monitoring at the expense of the state or developer of all re-injected fluids and drinking water before, during, and after drilling activity.

BE IT FURTHER RESOLVED, that the Matanuska-Susitna Borough Assembly respectfully requests that the Alaska State Legislature amend State statutes to repeal the authority of the Commissioner of Natural Resources to override local government regulations.

ADOPTED by the Matanuska-Susitna Borough Assembly this 2 day of March, 2004.


TIMOTHY L. ANDERSON, Borough Mayor

ATTEST:


SANDRA A. DILLON, CMC, Borough Clerk

(SEAL)

PASSED UNANIMOUSLY: Bush, Allen, Colberg, Kvalheim, Simpson,
Colver, and Vehrs

HB

531

(File 2 of 3)

23-LS1818\D
Chenoweth
3/12/04

CS FOR HOUSE BILL NO. 531()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to natural gas exploration and development and to nonconventional**
2 **gas, and amending the section under which shallow natural gas leases may be issued;**
3 **and providing for an effective date."**

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

5 *** Section 1.** AS 14.40.365(a) is amended to read:

6 (a) The University of Alaska may select and is entitled to receive the
7 conveyance of not less than 250,000 and not more than 260,000 acres of land
8 conveyed to the state under sec. 6(b) of the Alaska Statehood Act (P.L. 85-508, 72
9 Stat. 339). The Board of Regents of the University of Alaska shall periodically submit
10 a list of selections to the commissioner of natural resources and, if the list of selections
11 contains land within the boundaries of a municipality, the Board of Regents of the
12 University of Alaska shall submit the list to the municipality. The Board of Regents
13 and the commissioner of natural resources shall periodically and jointly submit to the
14 legislature, within 30 days of the beginning of a regular legislative session, a list of the

1 selections of land proposed to be conveyed by the state to the University of Alaska
2 under this section. If the list submitted to the legislature contains land within the
3 boundaries of a municipality, the Board of Regents and the commissioner of natural
4 resources shall provide a copy of the list to the municipality. Each list must contain
5 not more than 25 percent of the total acres of land to which the university is entitled
6 after subtracting previous conveyances under this section, but not less than 25,000
7 acres or the remaining entitlement under this section, whichever is less. A list of
8 selections submitted shall be considered approved for conveyance to the University of
9 Alaska unless the legislature acts to disapprove the list during the legislative session
10 during which the list was submitted. If the amount of land to be conveyed exceeds the
11 balance due the university under this section, the university shall set out the land to be
12 conveyed in priority order. Land may not be selected if, on the date of its selection by
13 the university, it

14 (1) is identified in AS 16.20, AS 41.15.300 - 41.15.330, or AS 41.21 or
15 has been reserved by law from the public domain;

16 (2) is located within a municipality unless the land is vacant,
17 unappropriated, unreserved land; if land included on the list of selections is selected
18 by the municipality with remaining selection rights under AS 29.65 within 120 days of
19 receiving the Board of Regents' list of selections under this subsection, the university
20 may not select the land unless a binding agreement between the university and the
21 municipality is negotiated to allow the selection; if the municipal selection is
22 disapproved, in whole or in part, the university may select the land, or any available
23 portion of the land, and that selection will relate back to the date of the Board of
24 Regents' list of selections under this subsection and shall have priority over all other
25 selections or claims made subsequent to that notice; in this paragraph, "vacant,
26 unappropriated, unreserved land" has the meaning given in AS 29.65.130;

27 (3) is land

28 (A) included in a five-year proposed [OIL AND GAS] leasing
29 program under AS 38.05.180(b); or

30 (B) leased under, or for which a lease application is pending
31 under, AS 38.05.180(d) or 38.05.150;

- 1 (4) is subject to
2 (A) an oil, gas, or coal lease, or coal prospecting permit;
3 (B) a mining claim, offshore prospecting permit, a prospecting
4 site, an upland mining lease, or a mining leasehold location;
5 (5) is necessary to carry out the purpose of an interagency land
6 management agreement; or
7 (6) is subject to conveyance under a land exchange or land settlement
8 agreement.

9 * Sec. 2. AS 14.40.365(e) is amended to read:

- 10 (e) The list of selections of land submitted to the legislature may not include a
11 land selection made by the University of Alaska under this section if the commissioner
12 of natural resources determines in writing that the proposed selection
13 (1) includes land that the commissioner, in consultation with the
14 commissioner of fish and game, determines has demonstrated value to the public as a
15 habitat area that is especially critical to the perpetuation of fish or wildlife;
16 (2) includes land for which, at the time of its selection under this
17 section, a municipality has made a selection under AS 29.65 unless the land selection
18 is, at a later date, rejected by the commissioner of natural resources or relinquished by
19 the municipality;
20 (3) includes land that the commissioner reasonably believes may be
21 selected by a newly formed municipality under AS 29.65.030, but the commissioner
22 may not withhold selection under this paragraph for more than three years after the
23 municipality's incorporation;
24 (4) includes land within the boundaries of a municipality, the
25 municipality has a remaining entitlement under AS 29.65, and the municipality selects
26 the land under AS 29.65 within 120 days after receipt by the municipality of the Board
27 of Regents' list of selections under (a) of this section;
28 (5) includes land that, at the time of its selection under this section,
29 (A) is subject to an [OIL AND GAS] exploration license
30 issued under AS 38.05.131 - 38.05.134; or
31 (B) the commissioner reasonably believes will be made part of

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an [OIL AND GAS] exploration license issued under AS 38.05.131 - 38.05.134; the commissioner may not refuse to convey title to land to the University of Alaska under this subparagraph for more than two years after its first selection by the University of Alaska; or

(6) includes land the commissioner of natural resources reasonably believes would not be in the best interests of the state to convey outside of state ownership.

* Sec. 3. AS 19.40.200(b) is amended to read:

(b) The prohibition on disposal of state land under (a) of this section does not apply to a disposal

(1) to a licensed public utility or a licensed common carrier under AS 38.05.810(e);

(2) for the reauthorization of leases that were in effect on January 1, 1994, for nonresidential purposes within the following development nodes:

(A) Coldfoot:

Township 28 North, Range 12 West, Fairbanks Meridian

Sections 3 - 4

Sections 9 - 10

Sections 15 - 16

Sections 20 - 22

(B) Yukon River Crossing:

Township 12 North, Range 10 West, Fairbanks Meridian

Sections 6 - 7

Township 12 North, Range 11 West, Fairbanks Meridian

Sections 1 - 2

Section 12

Township 13 North, Range 10 West, Fairbanks Meridian

Sections 29 - 32

Township 13 North, Range 11 West, Fairbanks Meridian

Section 22

Sections 25 - 27

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Sections 34 - 36

(3) for nonresidential development within the following development

nodes:

(A) Deadhorse:

Township 10 North, Range 14 East, Umiat Meridian

Township 10 North, Range 15 East, Umiat Meridian

Section 8

Sections 17 - 20

Section 30

(B) Coldfoot:

Township 28 North, Range 12 West, Fairbanks Meridian

Sections 3 - 4

Sections 9 - 10

Sections 15 - 16

Sections 20 - 22

Township 29 North, Range 12 West, Fairbanks Meridian

Sections 23 - 27

Sections 34 - 35

(C) Franklin Bluffs:

Township 4 North, Range 14 East, Umiat Meridian

Sections 3 - 4

Sections 9 - 10

Sections 15 - 16

(D) Happy Valley:

Township 3 South, Range 14 East, Umiat Meridian

Sections 19 - 20

Sections 29 - 30

(E) Yukon River Crossing:

Township 12 North, Range 10 West, Fairbanks Meridian

Sections 6 - 7

Township 12 North, Range 11 West, Fairbanks Meridian

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Sections 1 - 2

Section 12

Township 13 North, Range 10 West, Fairbanks Meridian

Sections 29 - 32

Township 13 North, Range 11 West, Fairbanks Meridian

Section 22

Sections 25 - 27

Sections 34 - 36; or

(4) necessary for

(A) an oil and gas lease or gas only lease under AS 38.05.180;

(B) exploration, development, production, or transportation of oil and gas north of 68 degrees north latitude; or

(C) a state lease or materials sale for

(i) exploration, development, production, or transportation of oil or [AND] gas;

(ii) reconstruction or maintenance of state highways; or

(iii) construction or maintenance of airports.

* **Sec. 4.** AS 31.05.030(j) is amended to read:

(j) For the purposes of AS 46.04.030(b), the commission shall determine whether a nonconventional gas well [DRILLED FOR SHALLOW NATURAL GAS] may penetrate a formation capable of flowing oil and, if so, whether the volume of oil encountered will be of such quantities that an oil discharge prevention and contingency plan will be required.

* **Sec. 5.** AS 31.05.060(c) is amended to read:

(c) Notwithstanding the requirements of (a) and (b) of this section that relate to fixing a date for a hearing and causing notice of the hearing to be given, for an action under this chapter that involves the exploration for or development of nonconventional [SHALLOW NATURAL] gas and that has application to a single well or a single field, upon the request of a lessee or operator, the commission may, where operations might be unduly delayed, approve a variance from the commission's regulations that apply to the well or field without providing notice and opportunity to

1 be heard. In the exercise of its authority to issue the variance,

2 (1) the commission may approve the variance if

3 (A) the approval provides at least an equally effective means of
4 accomplishing the requirement set out in the commission's regulation; or

5 (B) the commission determines that the request is more
6 appropriate to the proposed operation than compliance with the requirement of
7 the regulation; and

8 (2) the terms of the approval of the variance may include exempting
9 the lessee or operator from a requirement of a regulation if the commission determines
10 that the requirement is not necessary or not suited to the well or field taking into
11 consideration

12 (A) the nature of the operation involved;

13 (B) the characteristics of the well or field for which the
14 variance is sought; and

15 (C) the reasonably anticipated risks of the exemption from the
16 requirement to human safety and the environment.

17 * Sec. 6. AS 31.05.170 is amended by adding a new paragraph to read:

18 (16) "nonconventional gas" has the meaning given in AS 38.05.965.

19 * Sec. 7. AS 36.30.850(b)(25) is amended to read:

20 (25) acquisition of confidential seismic survey data necessary for pre-
21 sale oil and gas lease or gas only lease analyses under AS 38.05.180;

22 * Sec. 8. AS 36.30.850(b)(33) is amended to read:

23 (33) contracts between the Department of Natural Resources and
24 contractors qualified to evaluate hydrocarbon development, production, transportation,
25 and economics, to assist the commissioner of natural resources in evaluating
26 applications for [OIL AND GAS] royalty increases or decreases or other [OIL AND
27 GAS] royalty adjustments, and evaluating the related financial and technical data,
28 entered into under AS 38.05.180(j);

29 * Sec. 9. AS 38.04.065(i) is amended to read:

30 (i) An oil and gas lease sale or gas only lease sale is not subject to this
31 section. Oil and gas lease sales and gas only lease sales are subject to the planning

1 process established under AS 38.05.180.

2 * Sec. 10. AS 38.05.035(e) is amended to read:

3 (e) Upon a written finding that the interests of the state will be best served, the
4 director may, with the consent of the commissioner, approve contracts for the sale,
5 lease, or other disposal of available land, resources, property, or interests in them. In
6 approving a contract under this subsection, the director need only prepare a single
7 written finding. In addition to the conditions and limitations imposed by law, the
8 director may impose additional conditions or limitations in the contracts as the director
9 determines, with the consent of the commissioner, will best serve the interests of the
10 state. The preparation and issuance of the written finding by the director are subject to
11 the following:

12 (1) with the consent of the commissioner and subject to the director's
13 discretion, for a specific proposed disposal of available land, resources, or property, or
14 of an interest in them, the director, in the written finding,

15 (A) shall establish the scope of the administrative review on
16 which the director's determination is based, and the scope of the written
17 finding supporting that determination; the scope of the administrative review
18 and finding may address only reasonably foreseeable, significant effects of the
19 uses proposed to be authorized by the disposal;

20 (B) may limit the scope of an administrative review and finding
21 for a proposed disposal to

22 (i) applicable statutes and regulations;

23 (ii) the facts pertaining to the land, resources, or
24 property, or interest in them, that the director finds are material to the
25 determination and that are known to the director or knowledge of which
26 is made available to the director during the administrative review; and

27 (iii) issues that, based on the statutes and regulations
28 referred to in (i) of this subparagraph, on the facts as described in (ii) of
29 this subparagraph, and on the nature of the uses sought to be authorized
30 by the disposal, the director finds are material to the determination of
31 whether the proposed disposal will best serve the interests of the state;

1 and

2 (C) may, if the project for which the proposed disposal is
3 sought is a multiphased development, limit the scope of an administrative
4 review and finding for the proposed disposal to the applicable statutes and
5 regulations, facts, and issues identified in (B)(i) - (iii) of this paragraph that
6 pertain solely to the disposal phase of the project when

7 (i) the only uses to be authorized by the proposed
8 disposal are part of that phase;

9 (ii) the disposal is a [AN OIL AND GAS] disposal of
10 oil and gas, or of gas only, and, before the next phase of the project
11 may proceed, public notice and the opportunity to comment are
12 provided under regulations adopted by the department unless the
13 project is subject to a consistency review under AS 46.40 and public
14 notice and the opportunity to comment are provided under
15 AS 46.40.096(c);

16 (iii) the department's approval is required before the
17 next phase of the project may proceed; and

18 (iv) the department describes its reasons for a decision
19 to phase;

20 (2) the director shall discuss in the written finding prepared and issued
21 under this subsection the reasons that each of the following was not material to the
22 director's determination that the interests of the state will be best served:

23 (A) facts pertaining to the land, resources, or property, or an
24 interest in them other than those that the director finds material under (1)(B)(ii)
25 of this subsection; and

26 (B) issues based on the statutes and regulations referred to in
27 (1)(B)(i) of this subsection and on the facts described in (1)(B)(ii) of this
28 subsection;

29 (3) a written finding for an oil and gas lease sale or gas only lease sale
30 under AS 38.05.180 is subject to (g) of this section;

31 (4) a contract for the sale, lease, or other disposal of available land or

1 an interest in land is not legally binding on the state until the commissioner approves
 2 the contract, but if the appraised value is not greater than \$50,000 in the case of the
 3 sale of land or an interest in land, or \$5,000 in the case of the annual rental of land or
 4 interest in land, the director may execute the contract without the approval of the
 5 commissioner;

6 (5) public notice requirements relating to the sale, lease, or other
 7 disposal of available land or an interest in land for oil and gas, or for gas only,
 8 proposed to be scheduled in the five-year oil and gas leasing program under
 9 AS 38.05.180(b), except for a sale under (6)(F) of this subsection, are as follows:

10 (A) before a public hearing, if held, or in any case not less than
 11 180 days before the sale, lease, or other disposal of available land or an interest
 12 in land, the director shall make available to the public a preliminary written
 13 finding that states the scope of the review established under (1)(A) of this
 14 subsection and includes the applicable statutes and regulations, the material
 15 facts and issues in accordance with (1)(B) of this subsection, and information
 16 required by (g) of this section, upon which the determination that the sale,
 17 lease, or other disposal will serve the best interests of the state will be based;
 18 the director shall provide opportunity for public comment on the preliminary
 19 written finding for a period of not less than 60 days;

20 (B) after the public comment period for the preliminary written
 21 finding and not less than 90 days before the sale, lease, or other disposal of
 22 available land or an interest in land for oil and gas or for gas only, the director
 23 shall make available to the public a final written finding that states the scope of
 24 the review established under (1)(A) of this subsection and includes the
 25 applicable statutes and regulations, the material facts and issues in accordance
 26 with (1) of this subsection, and information required by (g) of this section,
 27 upon which the determination that the sale, lease, or other disposal will serve
 28 the best interests of the state is based;

29 (6) before a public hearing, if held, or in any case not less than 21 days
 30 before the sale, lease, or other disposal of available land, property, resources, or
 31 interests in them other than a sale, lease, or other disposal of available land or an

pg. 13
Fish & Wildlife

Line 6 to 22

1 interest in land for oil and gas or for gas only under (5) of this subsection, the director
2 shall make available to the public a written finding that, in accordance with (1) of this
3 subsection, sets out the material facts and applicable statutes and regulations and any
4 other information required by statute or regulation to be considered upon which the
5 determination that the sale, lease, or other disposal will best serve the interests of the
6 state was based; however, a written finding is not required before the approval of

7 (A) a contract for a negotiated sale authorized under
8 AS 38.05.115;

9 (B) a lease of land for a shore fishery site under AS 38.05.082;

10 (C) a permit or other authorization revocable by the
11 commissioner;

12 (D) a mineral claim located under AS 38.05.195;

13 (E) a mineral lease issued under AS 38.05.205;

14 (F) an exempt oil and gas lease sale or gas only lease sale
15 under AS 38.05.180(d) of acreage subject to a best interest finding issued
16 within the previous 10 years or a reoffer oil and gas lease sale or gas only
17 lease sale under AS 38.05.180(w) of acreage subject to a best interest finding
18 issued within the previous 10 years, unless the commissioner determines that
19 substantial new information has become available that justifies a supplement to
20 the most recent best interest finding for the exempt oil and gas lease sale or
21 gas only lease sale acreage and for the reoffer oil and gas lease sale or gas
22 only lease sale acreage; however, for each oil and gas lease sale or gas only
23 lease sale described in this subparagraph, the director shall call for comments
24 from the public; the director's call for public comments must provide
25 opportunity for public comment for a period of not less than 30 days; if the
26 director determines that a supplement to the most recent best interest finding
27 for the acreage is required under this subparagraph,

28 (i) the director shall issue the supplement to the best
29 interest finding not later than 90 days before the sale;

30 (ii) not later than 45 days before the sale, the director
31 shall issue a notice describing the interests to be offered, the location

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and time of the sale, and the terms and conditions of the sale; and

(iii) the supplement has the status of a final written best interest finding for purposes of (i) and (l) of this section;

(G) [A SHALLOW GAS LEASE AUTHORIZED UNDER AS 38.05.177 IN AN AREA FOR WHICH LEASING IS AUTHORIZED UNDER AS 38.05.177;

(H)] a surface use lease under AS 38.05.255;

(H) [(I)] a permit, right-of-way, or easement under AS 38.05.850;

(7) the director shall include in

(A) a preliminary written finding, if required, a summary of agency and public comments, if any, obtained as a result of contacts with other agencies concerning a proposed disposal or as a result of informal efforts undertaken by the department to solicit public response to a proposed disposal, and the department's preliminary responses to those comments; and

(B) the final written finding a summary of agency and public comments received and the department's responses to those comments.

* Sec. 11. AS 38.05.035(g) is amended to read:

(g) Notwithstanding (e)(1)(A) and (B) of this section, when the director prepares a written finding required under (e) of this section for an oil and gas lease sale or a gas only lease sale scheduled under AS 38.05.180, the director shall consider and discuss

(1) in a preliminary or final written finding facts that are known to the director at the time of preparation of the finding and that are

(A) material to issues that were raised during the period allowed for receipt of public comment, whether or not material to a matter set out in (B) of this paragraph, and within the scope of the administrative review established by the director under (e)(1) of this section; or

(B) material to the following matters:

(i) property descriptions and locations;

(ii) the petroleum potential of the sale area, in general

area of best interest finding

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terms;

(iii) fish and wildlife species and their habitats in the area;

(iv) the current and projected uses in the area, including uses and value of fish and wildlife;

(v) the governmental powers to regulate the [OIL AND GAS] exploration, development, production, and transportation of oil and gas or of gas only;

(vi) the reasonably foreseeable cumulative effects of [OIL AND GAS] exploration, development, production, and transportation for oil and gas or for gas only on the sale area, including effects on subsistence uses, fish and wildlife habitat and populations and their uses, and historic and cultural resources;

(vii) lease stipulations and mitigation measures, including any measures to prevent and mitigate releases of oil and hazardous substances, to be included in the leases, and a discussion of the protections offered by these measures;

(viii) the method or methods most likely to be used to transport oil or gas from the lease sale area, and the advantages, disadvantages, and relative risks of each;

(ix) the reasonably foreseeable fiscal effects of the lease sale and the subsequent activity on the state and affected municipalities and communities, including the explicit and implicit subsidies associated with the lease sale, if any;

(x) the reasonably foreseeable effects of [OIL AND GAS] exploration, development, production, and transportation involving oil and gas or gas only on municipalities and communities within or adjacent to the lease sale area; and

(xi) the bidding method or methods adopted by the commissioner under AS 38.05.180; and

(2) the basis for the director's preliminary or final finding, as

Myrtle Thompson
Concern

1 applicable, that, on balance, leasing the area would be in the state's best interest.

2 * Sec. 12. AS 38.05.036(a) is amended to read:

3 (a) The department may conduct audits regarding royalty and net profits under
4 oil and gas contracts, agreements, or leases under this chapter and regarding costs
5 related to [OIL AND GAS] exploration licenses entered into under AS 38.05.131 -
6 38.05.134 and exploration incentive credits under this chapter or under AS 41.09. For
7 purposes of audit under this section,

8 (1) the department may examine the books, papers, records, or
9 memoranda of a person regarding matters related to the audit; and

10 (2) the records and premises where a business is conducted shall be
11 open at all reasonable times for inspection by the department.

12 * Sec. 13. AS 38.05.127(e) is amended to read:

13 (e) The establishment of easements or rights-of-way for oil and gas, gas only,
14 and mineral leases under (a) of this section need not be made until the leases are ready
15 to be developed.

16 * Sec. 14. AS 38.05.131(a) is amended to read:

17 (a) Unless specifically provided otherwise in AS 38.05.132 - 38.05.134, the
18 provisions of AS 38.05.005 - 38.05.037, 38.05.140(f), 38.05.180, 38.05.182 -
19 38.05.184, and 38.05.920 - 38.05.990 apply to the issuance of [OIL AND GAS]
20 exploration licenses and leases for oil and gas, or for gas only, as appropriate.
21 under AS 38.05.132 - 38.05.134.

22 * Sec. 15. AS 38.05.132(a) is amended to read:

23 (a) To encourage exploration for oil and gas on state land, the commissioner
24 may issue [OIL AND GAS] exploration licenses. The commissioner may limit the
25 exploration licenses under AS 38.05.132 - 38.05.134 to exploration for and
26 recovery of gas only.

27 * Sec. 16. AS 38.05.132(b) is amended to read:

28 (b) An [OIL AND GAS] exploration license issued under this section gives
29 the licensee

30 (1) the exclusive right to explore, for a term not to exceed 10 years,
31 [FOR DEPOSITS OF OIL AND GAS] on unleased state land described in the

1 exploration license for deposits of oil and gas, or for deposits of gas only, as
2 appropriate, unless the exploration license is terminated under (d)(1) of this section
3 or the land is earlier relinquished, removed, or deleted under (d)(2) of this section; and
4 (2) unless the exploration license is terminated under (d)(1) of this
5 section, the option to convert the exploration license for all or part of the state land,
6 except the land that is deleted or removed from the land described in the exploration
7 license under (d)(2) of this section, into an oil and gas lease, or a gas lease only, as
8 appropriate, upon fulfillment of the work commitments contained in the exploration
9 license.

10 * Sec. 17. AS 38.05.132(c) is amended to read:

11 (c) An exploration license awarded under this section

12 (1) is not subject to the acreage limitations imposed by
13 AS 38.05.140(c) or 38.05.180(m);

14 (2) may cover, subject to the maximum acreage limitation on
15 exploration licenses by one licensee under AS 38.05.131(e), an area of not less than
16 10,000 acres and not more than 500,000 acres, that must be reasonably compact and
17 contiguous;

18 (3) must be conditioned upon an obligation to perform a specified
19 work commitment, in total for the term of the license, expressed in dollars of direct
20 exploration expenditures; the specified work commitment

21 (A) may include a provision that adjusts the total amount of
22 work commitment, expressed in dollars of direct exploration expenditures, to
23 account for inflation;

24 (B) must include a requirement that the licensee complete at
25 least 25 percent of the licensee's total specified work commitment by the fourth
26 anniversary of the effective date of the issuance of the [OIL AND GAS]
27 exploration license;

28 (4) must be conditioned upon the posting of a bond or other security
29 acceptable to the commissioner, in favor of the state and subject to the following
30 requirements:

31 (A) the bond or other security must be renewed annually;

1 (B) the annual bond or other security shall be calculated as the
2 entire work commitment expressed in dollars, less the cumulative direct
3 exploration expenditures of the licensee as of the last day of the most recent
4 project year, divided by the number of years remaining in the term of the
5 exploration license;

6 (5) is subject to an annual review and revocation if the commissioner
7 determines that the licensee has failed to provide or maintain in effect the bond or
8 other security required by (4) of this subsection;

9 (6) must be conditioned upon the licensee's payment to the state of a
10 nonrefundable [OIL AND GAS] exploration license fee of \$1 for each acre of land or
11 fraction of each acre that is subject to the exploration license; and

12 (7) must be conditioned upon an agreement that exploration
13 expenditures are subject to audit by the commissioner.

14 * Sec. 18. AS 38.05.132(f) is amended to read:

15 (f) In this section,

16 (1) "direct exploration expenditure" means cash expenses undertaken
17 in performance of a specified work commitment under the provisions of AS 38.05.131
18 - 38.05.134 and necessarily incurred by the licensee in the permitting, mobilization,
19 conducting, demobilization, and evaluation of geophysical and geological surveys. or
20 the drilling, logging, coring, testing, and evaluation of oil and gas or gas only wells;
21 the term

22 (A) includes direct labor costs, including the cost of benefits,
23 for employees directly associated with the work commitment programs, the
24 cost of renting or leasing equipment from parties not affiliated with the
25 licensee, the reasonable costs of maintaining and operating equipment,
26 payments to consultants and independent contractors not affiliated with the
27 licensee, and costs of materials and supplies;

28 (B) does not include noncash expenses such as depreciation
29 and reserves, interest or other costs of borrowed funds, return on investment,
30 overhead, insurance or bond premiums, or any other expense that is
31 unreasonable or that the licensee has not incurred to satisfy the licensee's work

1 commitment;

2 (?) "work commitment" includes the drilling of one or more
3 exploration wells or the gathering of data from activities described in (1) of this
4 subsection, or both.

5 * Sec. 19. AS 38.05.133(a) is amended to read:

6 (a) The procedures in this section apply to the issuance of an [OIL AND GAS]
7 exploration license under AS 38.05.132.

8 * Sec. 20. AS 38.05.133(f) is amended to read:

9 (f) After considering proposals not rejected under (d) of this section and public
10 comment on those proposals, the commissioner shall issue a written finding
11 addressing all matters set out in AS 38.05.035(e) and (g), except for
12 AS 38.05.035(g)(1)(B)(xi). If the finding concludes that the state's best interests
13 would be served by issuing an [OIL AND GAS] exploration license, the finding must
14 (1) describe the limitations, stipulations, conditions, or changes from the initiating
15 proposal or competing proposals that are required to make the issuance of the
16 exploration license conform to the best interests of the state, and (2) if only one
17 proposal was submitted, identify the prospective licensee whom the commissioner
18 finds should be issued the exploration license. The commissioner shall attach to the
19 finding a copy of the exploration license to be issued and the form of lease that will be
20 used for any portion of the exploration license area subsequently converted to a [AN
21 OIL AND GAS] lease under AS 38.05.134.

22 * Sec. 21. AS 38.05.133(h) is amended to read:

23 (h) If competing proposals are submitted, and the commissioner's finding
24 under (f) of this section concludes that an [OIL AND GAS] exploration license should
25 be issued, the commissioner shall issue a request for competitive sealed bids, under
26 procedures adopted by the commissioner by regulation, to determine which
27 prospective licensee should be issued the exploration license. The finding provided to
28 the prospective licensees and the public under (f) of this section must contain notice
29 that (1) the commissioner intends to request competitive sealed bids, (2) a prospective
30 licensee who intends to participate in the bidding must notify the commissioner in
31 writing by the date specified in the notice, and (3) a prospective licensee's notice of

1 intent to participate in the bidding constitutes acceptance of issuance of the
2 exploration license, as limited or conditioned by the terms contained in the finding and
3 by the exploration license to be issued and the form of lease to be used that have been
4 attached to that finding, if the prospective licensee is the successful bidder. The
5 successful bidder is the prospective licensee who submits the highest bid in terms of
6 the minimum work commitment dollar amount.

7 * **Sec. 22.** AS 38.05.134 is amended to read:

8 **Sec. 38.05.134. Conversion to lease.** If the licensee requests and the
9 commissioner determines that the work commitment obligation set out in an [OIL
10 AND GAS] exploration license issued under AS 38.05.132 has been met, the
11 commissioner shall convert to one or more [OIL AND GAS] leases all or part, as the
12 licensee may indicate, of the area described in the exploration license that remains
13 after the relinquishments, removals, or deletions required by AS 38.05.132(d)(2). A
14 lease issued under this section

15 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

16 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

17 (3) must be conditioned upon a royalty in amount or value of not less
18 than 12.5 percent of production, except that

19 (A) the lessee who, proceeding under AS 38.05.131 -
20 38.05.134, under a lease issued in the Cook Inlet sedimentary basin who is the
21 first to file with the commissioner a nonconfidential sworn statement claiming
22 to be the first to have drilled a well discovering oil or gas in a previously
23 undiscovered oil or gas pool and who is certified by the commissioner within
24 one year of completion of that discovery well to have drilled a well in that pool
25 that is capable of producing in paying quantities shall pay a royalty of five
26 percent on all production of oil or gas from that pool attributable to that lease
27 for a period of 10 years following the date of discovery of that pool, and
28 thereafter the royalty payable on all production of oil or gas from the pool
29 attributable to that lease shall be determined and payable as specified in the
30 lease; the payment of the five percent royalty under this paragraph is
31 authorized only to a holder of a lease who meets the requirements of