

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004

8672

11302 SENATE RESOURCES

by a body corporate and public of the state and for an essential public and governmental purpose, and the obligations, and the interest and income on and from the obligations, and all fees, charges, funds, revenues, income, and other money pledged or available to pay or secure the payment of the obligations, or interest on the obligations, are exempt from state taxation except for transfer, inheritance, and estate taxes.

Sec. 41.41.990. Definitions. In this chapter,

1. "authority" means the Alaska Natural Gas Development Authority;
2. "board" means the board of directors of the Alaska Natural Gas Development Authority;
3. "project" means the gas transmission pipeline, together with all related property and facilities, to extend from the Prudhoe Bay area on the North Slope of Alaska to tidewater at a point on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid, and includes planning, design, and construction of the pipeline and facilities as described in AS 41.41.010(a)(1) - (5).

*Sec. 3. AS 39.25.110(11) is amended by adding a new subparagraph to read:

(G) Alaska Natural Gas Development Authority;

*Sec. 4. AS 39.50.200(b) is amended by adding a new paragraph to read:

(57) the board of directors and chief executive officer of the Alaska Natural Gas Development Authority (AS 41.41.020).

*Sec. 5. The uncodified law of the State of Alaska is amended by adding a new section to read:

DEVELOPMENT OF PROJECT PLAN. Not later than one year after the first meeting of the board of directors of the Alaska Natural Gas Development Authority, the board shall produce a development plan. The development plan must include

1. estimates of construction costs and timelines;
2. gas procurement prices;
3. use of the state's royalty gas;
4. estimates of revenue to the general fund and the Alaska permanent fund;
5. a revenue sharing plan with municipal governments;
6. a plan for delivery and pricing of natural gas to communities along the pipeline route and to Southcentral Alaska through a spur line;
7. a plan for delivery and pricing of LNG to Yukon River and coastal communities;
8. a payment schedule to companies providing permits or other valuable assets;
9. a marketing plan to approach potential buyers;
10. a plan to maximize Alaskan hire, including project labor agreements; and
11. a plan to ensure meeting the highest environmental and safety standards, including a citizens advisory council.
12. The goal of the authority is to have the Alaskan gas line in full production by 2007.

*Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to read:

INITIAL APPOINTMENTS OF MEMBERS OF ALASKA NATURAL GAS DEVELOPMENT

AUTHORITY BOARD OF DIRECTORS. Of the members first appointed under AS 41.41.020(a), enacted by sec. 2 of this Act,

1. three members shall be appointed to three-year terms;
2. two members shall be appointed to two-year terms; and
3. two members shall be appointed to one-year terms.



Initiative Petition Status Report



Alaska Division of Elections Home Page

SB

247

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/12/04

FURTHER: Finance

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3-18-04

Resources Committee considered SENATE BILL NO. 247

SB 247 AK NATURAL GAS DEV. AUTHORITY INITIATIVE

"An Act amending the definition of 'project' in the Act establishing the Alaska Natural Gas Development Authority; and providing for an effective date."

and recommends:

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

Senate Bill:
 Same Title
 New Title

House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	7/1/04		✓		

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Joseph Decker</i>	✓			
<i>Ben ...</i>	✓			
<i>...</i>	✓			
CHAIR: <i>Scott ...</i>			✓	

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 247
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Natural Gas Dev Auth Initiative RDU AK Natural Gas Dev Authority
 Component AK Natural Gas Dev Authority
 Sponsor Senator Wagoner
 Requester Senate Resources Component No. 2708

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	****	****	****	****	****	****
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

**** This legislation would change the responsibility of the Alaska Natural Gas Development Authority from reviewing the economic viability of a gas pipeline from Prudhoe Bay to Valdez and a spur from Glennallen to the Southcentral gas distribution grid to including the review of the economic viability of a gas line to tidewater at a point on Cook Inlet.

Since the Alaska Natural Gas Development Authority is already reviewing the economic viability of a spur to the Southcentral gas distribution grid, it is uncertain if additional funds will be necessary to expand that review to include to tidewater at a point on Cook Inlet.

Prepared by: Steve Porter, Deputy Commissioner Phone (907) 465-2365
 Division Department of Revenue Date/Time 3/11/04 11:12 AM
 Approved by: Steve Porter, Deputy Commissioner Date 3/11/2004
 Agency Department of Revenue

ALASKA STATE LEGISLATURE



Official Business

SENATOR THOMAS H. WAGONER

- Co-Chair, Senate Transportation Committee
- Vice-Chair, Senate Resources Committee
- Vice-Chair, Community & Regional Affairs
- Member, Legislative Council

Session: January – May

State Capitol, #427

Juneau, AK 99801

Phone: 907-465-2828 Fax: 907-465-4779

Interim: May – December

145 Main Street Loop; Suite 226

Kenai, AK 99611

Phone: 907-283-7996 Fax 907-283-8127

DATE: January 15, 2004

TO: Senator Ogan, Chair
Senate Resources Committee

FROM: Senator Tom Wagoner *Tom*

RE: Hearing Request – SB 247: ANGDA amendment

I would appreciate your hearing SB 247 – amending the definition of “project” in ANGDA.

I expect to have letters of support by early next week and will provide you with all the information necessary for the committee packet.

Thank you for your time and consideration.



Official Business

ALASKA STATE LEGISLATURE

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SB 247 – Alaska Natural Gas Development Authority Initiative

Sponsor Statement

The Alaska Natural Gas Development Authority (ANGDA) board is mandated to build a natural gas pipeline from Prudhoe Bay to tidewater at Prince William Sound with a spur line to Cook Inlet. That route was on the ballot that was approved by the voters when establishing the ANGDA in November of 2002.

SB 247 amends the project description to provide an additional route for consideration – from Prudhoe Bay to tidewater at Cook Inlet.

Consideration of an alternative route for an Alaska gas line is an issue recently brought to light by discussions with the Mitsubishi Corporation (MC) in October of 2003. According to the Governor's office, a Memorandum of Understanding (MOU) is under consideration between ANGDA and MC. SB 247 provides an alternative that clarifies the authority of ANGDA to pursue an MOU to Cook Inlet.

Adding this second alternative to the ANGDA provides further assurance to the voters of Alaska that the most economical project is brought forward. It is in the interests of all Alaskans to make certain that the final work product by ANGDA is one that has received scrutiny from all perspectives.

Finally, the sponsor believes that this amendment is not against the will of voters; but rather it is a protection of the voters' interests by expanding the project description to determine the most economical project. The primary interest of the voters was to provide an Alaskan natural gas pipeline project and they have expectations that their interests will be protected by appropriate agencies in reviewing routes, projects costs, and so on, and then determining the preferred route.

The final preferred route should be the one that maximizes job benefits for Alaskans, provides revenues for the State of Alaska, and provides Alaskan's access to natural gas.



Official Business

ALASKA STATE LEGISLATURE

SENATOR THOMAS H. WAGONER

- Co-Chair, Senate Transportation Committee
- Vice-Chair, Senate Resources Committee
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- Member, Legislative Council

Session: January – May
State Capitol, #427
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Interim: May – December
145 Main Street Loop; Suite 226
Kenai, AK 99611
Phone: 907-283-7996 Fax 907--283-8127

SB 247 – Alaska Natural Gas Development Authority Initiative

Sectional Analysis

Section 1: Amends the current project description for the Alaska Natural Gas Development Authority by adding another route for consideration - a route from Prudhoe Bay to tidewater at Cook Inlet.

Section 2: Provision for an immediate effective date for the bill.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Introduced by:	Mayor
Date:	01/20/04
Action:	Adopted
Vote:	9 Yes, 0 No

**KENAI PENINSULA BOROUGH
RESOLUTION 2004-008**

**A RESOLUTION SUPPORTING THE PASSAGE OF SENATE BILL 247, WHICH
AMENDS THE NATURAL GAS DEVELOPMENT AUTHORITY ACT OF 2002**

- WHEREAS,** 70 percent of Alaska's population resides within the Railbelt region that extends from southern regions of the Kenai Peninsula Borough to Fairbanks North Star Borough; and
- WHEREAS,** the economics and communities of the Kenai Peninsula Borough, the Cook Inlet Basin, and the Railbelt region rely on plentiful supplies of natural gas to provide reasonably priced heat and electricity for home and business use; and
- WHEREAS,** current proven reserves of natural gas are insufficient to address long-term supply requirements for the Railbelt region; and
- WHEREAS,** Proposition 3 was passed in the 2002 general election that established the Alaska Natural Gas Development Authority (ANGDA) to evaluate and attempt to develop an "all-Alaska" LNG pipeline project from the North Slope to Valdez, with provisions to develop a spur pipeline from Glennallen to the Cook Inlet Basin; and
- WHEREAS,** the underlying premise of Proposition 3 that established ANGDA is that an "all-Alaska" LNG project will "maximize jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans"; and
- WHEREAS,** the Kenai Peninsula Borough believes that under this premise, the best route for the ANGDA LNG project follows the disturbed rights-of-way of the Railbelt from Fairbanks to tidewater in Cook Inlet; and
- WHEREAS,** a Railbelt route would help to preserve existing utility and industrial infrastructure, and would promote new development in rural areas and communities along the Railbelt route by providing access to new supplies of low cost power, heat and raw materials necessary to new value-added industries; and
- WHEREAS,** it is the position of the Kenai Peninsula Borough that economics will decide the success or failure of this project; and
- WHEREAS,** to give the LNG project its best chance for success, ANGDA should base its decisions on sound project economics, which should include a detailed comparative analysis of the Railbelt route option from Fairbanks to tidewater in the Cook Inlet Basin versus the Valdez route; and

WHEREAS, Senate Bill 247 has been introduced in the Alaska State Legislature that, upon passage, would require that both the Valdez route and the Railbelt route to tidewater in Cook Inlet undergo a full design and cost evaluation before a final route is chosen:

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Kenai Peninsula Borough Assembly supports and endorses the passage of Senate Bill 247.

SECTION 2. That copies of this resolution shall be forwarded all members of the Alaska State Legislature, the Honorable Governor Frank Murkowski and the Alaska Natural Gas Development Authority.

SECTION 3. That this resolution shall become effective immediately upon adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 20TH DAY OF JANUARY 2004.



Pete Sprague, Assembly President

ATTEST:



Linda S. Murphy, Borough Clerk



Suggested by: City Council

CITY OF KENAI

RESOLUTION NO. 2004-08

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA, SUPPORTING THE PASSAGE OF SENATE BILL 247 TO AMEND THE NATURAL GAS DEVELOPMENT AUTHORITY ACT OF 2002.

WHEREAS, 70 percent of Alaska's population resides within the Railbelt region that extends from southern regions of the Kenai Peninsula Borough to Fairbanks North Star Borough; and,

WHEREAS, the economies and communities of the Kenai Peninsula Borough, the Cook Inlet basin, and the Railbelt region rely on plentiful supplies of natural gas to provide reasonably priced heat and electricity for home and business use; and,

WHEREAS, current proven reserves of natural gas are insufficient to address long-term supply requirements for the Railbelt region; and,

WHEREAS, Proposition 3 was passed in the 2002 general election and established the Alaska Natural Gas Development Authority (ANGDA) to evaluate and attempt to develop an "all-Alaska" LNG pipeline project from the North Slope to Valdez, with provisions to develop a spur pipeline from Glennallen to the Cook Inlet basin; and,

WHEREAS, the underlying premise of Proposition 3 that established ANGDA is an "all-Alaska" LNG project will "maximize jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans"; and,

WHEREAS, the City of Kenai believes, under this premise, the best route for the ANGDA LNG project follows the disturbed rights-of-way of the Railbelt from Fairbanks to tidewater in the Cook Inlet; and,

WHEREAS, a Railbelt route would help to preserve existing utility and industrial infrastructure and would promote new development in rural areas and communities along the Railbelt route by providing access to new supplies of low cost power, heat and raw materials necessary to new value-added industries; and,

WHEREAS, it is the position of the City of Kenai that economics will decide the success or failure of this project; and,

WHEREAS, to give the LNG project its best chance for success, ANGDA should base its decisions on sound project economics, which should include a detailed comparative analysis of the Railbelt route option from Fairbanks to tidewater in the Cook Inlet Basin versus the Valdez route; and,

WHEREAS, Senate Bill 247 has been introduced in the Alaska State Legislature and, upon passage, would require both the Valdez route and the Railbelt route to tidewater in the Cook Inlet undergo a full design and cost evaluation before a final route is chosen.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI,
ALASKA:

Section 1: The Kenai City Council supports and endorses the passage of
Senate Bill 247; and,

Section 2: Copies of this resolution shall be forwarded to all members of the
Alaska State Legislature, the Honorable Governor Frank Murkowski and the Alaska
Natural Gas Development Authority.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this fourth day of
February, 2004.

ATTEST:

Carol L. Freas
Carol L. Freas, City Clerk

John J. Williams
JOHN J. WILLIAMS, MAYOR



CITY OF KENAI

" Oil Capital of Alaska "

210 FIDALGO AVE., SUITE 200 KENAI, ALASKA 99611-7794
TELEPHONE 907-283-7535
FAX 907-283-3014



February 9, 2004

Governor Frank Murkowski
State of Alaska
P.O. Box 110001
Juneau, Alaska 99811-0001

RE: **SENATE BILL 247 -- RESOLUTION OF SUPPORT**
City of Kenai

Dear Governor Murkowski:

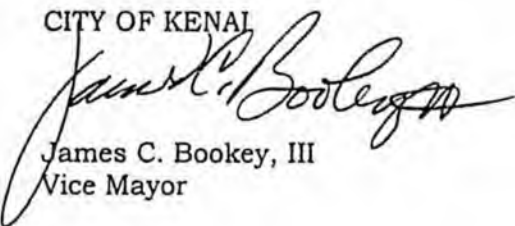
At their regular meeting of February 4, 2004, the Kenai City Council unanimously passed their Resolution No. 2004-08, supporting the passage of Senate Bill 247 to amend the Natural Gas Development Authority Act of 2002.

As expressed in the body of the resolution, which is enclosed for your information, the Alaska Natural Gas Development Authority (ANGDA) was established to evaluate and attempt to develop an "all-Alaska" LNG project to "maximize jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans." With this mission, the City of Kenai believes the best route for the ANGDA LNG project follows the disturbed rights-of-way of the Railbelt from Fairbanks to tidewater in the Cook Inlet.

Additionally, economics will decide the success or failure of this project and giving the LNG project its best chance for success, the ANGDA should base its decisions on sound project economics, which should include a detailed comparative analysis of the Railbelt route option from Fairbanks to tidewater in the Cook Inlet Basin versus the Valdez route.

Thanking you in advance for your consideration.

CITY OF KENAI


James C. Bookey, III
Vice Mayor

clf

Enclosure

cc: Members of the Alaska Legislature
Alaska Natural Gas Development Authority

Subject: Re: Senate Resources Committee Testimony....Scott Heyworth..SB 247

Date: Mon, 26 Jan 2004 10:35:25 -0900

From: Scott Heyworth <heyworth@gci.net>

To: Linda Hay <Linda_Hay@Legis.state.ak.us>

CC: Leonard_Herzog@law.state.ak.us, Harold Heinze <HHeinze@jpo.doi.gov>, Andy Warwick <warwick@gci.net>

Linda:

This is submitted from my notes and is my best estimation of what I said.

I was reading from a variety of notes and writings of mine.

I certainly ad-libbed along the way.

Full disclosure.

I hope it is acceptable and my memory is fairly accurate. This is my intent.

Scott

TESTIMONY:

Subject: Re: Senate Resources Committee Testimony....Scott Heyworth..SB 247

> Good late afternoon Senators:

>

> If Senator Wagoner's SB 247 Bill to amend ANGDA law passed, ANGDA would be
> burdened with an impossible situation.

> And all of this diversion is going against the law voters passed approving
> the Valdez route. Not to Kenai.

>

> Yukon Pacific Corporation started with the Kenai route. It was rejected.

>

> A Kenai routing can never be permitted. And it would only delay us forever.

> That is why I certainly did not put it in the ballot Initiative language.

>

>

> **Expert Analysis:**

>

> I had an expert, maybe one of the best in Alaska, even the USA do a complete
> review of the YPC S.E.I.S.

>

> The SEIS is bullet proof, impossible to overturn, from 5-10 years to even
> get to a new EIS ruling, but you can not possibly get past the Congressional
> approval part. Then and only then can you start the permitting process.

> Another 10 years. Total of a 20 year delay. Plus the Environmental lawsuits.

>

> **Two main reasons it will never fly:**

>

> 1. It is physically impossible to use the Railroad R.O.W. for a gas pipeline
> because of the physical limitations of avalanches, geo-technical, and
> sloping problems.
> For instance.....the RR is just cut right into the sloped banks of
> hillsides in places.....leaving no room on either side for siting of a

> line.

>

> 2. To date, since 1980, no one has even tried to get a ROW through the
> ANILCA, Title 11 statute/law. No one even knows how you go about it.

>

> And if you can't use the ARRC ROW, which you can't, you MUST get a
> Congressional vote to go through Denali Park in some new ROW alignment.

>

> Which Congress will never ever allow. Per the existing EIS law. Congress
> would never approve it. We can't get ANWR through and folks want Congress to put a gas line through
> Denali Park into Kenai?

>

> Reading directly from the SEIS:

>

> "All three Cook Inlet alternatives are considered to be highly unfavorable
> due to the project time delays that would be involved in any attempt to
> secure congressional approval when the proposed route to Anderson Bay would
> avoid the Denali National Park and Preserve entirely," the EIS said.

>

The Denali segment was deemed "the most problematic" insofar as permit
> acquisition was concerned, but the EIS also noted probable permit
> difficulties in Minto Flats and Susitna Flats State Wildlife Refuge.

Another major problem:

> The other big problem that Kenai has is you can not get one major permit.

>It is impossible. That is the export permit to move gas from the North Slope out of Kenai. The permits to do this
have already been given

>to the Highway project and to the YPC project to Valdez. It has to do with quantity available for the projects.

Kenai gets gas quickly:

Kenai gets gas quickly with the existing infrastructure of Enstar.

>

> The Spur line from Glenallen comes after the main line is built.....made
> economical by the huge revenues from the main line exporting LNG from
> Valdez.
> Economies of scale.

>

> The spur line then hooks into the existing Enstar infrastructure that goes
> right to Kenai today. Using the 2 twin gas lines (12" and 16" existing
> under Cook Inlet now) ANGDA can push gas right into Kenai using the Enstar
> system by simply reversing the flow direction. Enstar has confirmed this is
> easily done and they will help us do it.

> Our studies show potential cheap new
> gas under \$3.00. Delivered.

> New Cook Inlet gas is coming into the basket today at over \$4.00 (Tony Izzo,
> ENSTAR).

> Kenai will have all the cheapest, plentiful gas it wants. To help LNG at Nikiski and Agrium.

>

> And all of SouthCentral gets very cheap gas forever with ANGDA.
> And soon...not 20 more years of delay!

>

> Thank you.

>

Scott Heyworth

Cook Inlet Gas Supplies & Prices

- Current Cook Inlet gas prices have been low because the large gas reserves found over 30 years ago were “stranded”
- Cook Inlet gas reserves need to and can be replenished, but exploration for today’s \$2.50 gas will not attract at-risk investors
- Over the next several years all local gas consumers will see the average gas price double as contracts indexed to higher L-48 gas markets dominate newly found on-going gas supplies

Potential Cook Inlet Gas Pricing with North Slope Spur Line



Gas Price in Chicago	\$4.00 / Mbtu
Tariff from North Slope	-\$3.00

Net-Back Gas Price on North Slope	\$1.00
Tariff to Cook Inlet	+ \$1.50

Gas Price in Cook Inlet	\$2.50 / Mbtu

- Cook Inlet price of North Slope gas will be approximately \$1.50 less than the gas price in the Mid-West (the difference in the tariff down the AICan highway vs the tariff to Cook Inlet)
- State can consider legislating additional discounts on royalty gas for Alaskan households and/or businesses

AMENDING the definition of "project" in the ANGDA Act

Ballot Measure 3 specifies that a "project plan" be developed by June 15, 2004 for a gas pipeline linking Prudhoe Bay to Valdez and a spur line from Glennallen to the Cook Inlet area. That work is underway and has received \$350,000. funding. A request for an additional \$2,150,000. in FY04 to complete that effort is under legislative consideration.

SB 247 would expand the definition of the "project" to be studied to include the alternative of a gas pipeline linking Prudhoe Bay directly to the Cook Inlet area only. While a great deal of the work associated with a total ANGDA funding of \$2,500,000. would apply to either project (ie., tax advice and market insight) there are significant new work elements that would be uniquely added to evaluate the feasibility of the new alternative routing direct to Cook Inlet (ie, route selection and environmental permitting).

Expanded Work Scope Under Business Contractors	\$100,000.
Expanded Work Scope Under Project Contractors	\$150,000.
Additional Gas Pipeline Design (emphasis on alignment)	\$500,000.
Assessment of right-of-way and permitting requirements	\$250,000.

Total Additional FY04 Funding	\$1,000,000.

This additional contractor work would allow a comparison of the alternative projects at a feasibility study level (ie., cost, benefits, timing).

The cost of evaluating this alternative project might be lowered by purchasing portions of an existing multi-million dollar study done by Conoco-Phillips and others. This study is a few years old, looked at a gasline direct to Cook Inlet, and only broad summary information has been made public.

ANGDA Business Model

- Achieve lowest cost of service for NS gas transportation using unique bonding and tax status
- Assure maximum benefits to all Alaskans
- Borrow commercially in market & avoid State funding mistake
- Work cooperatively and supportively with other public or commercial entities to get Alaska gas to market

New ANGDA Base Case Investment (Notional)

	Old Base	New Base	Basis	
Treatment Plant	\$2 B	\$1.0 B	$(\$2.3B) * (2/4.5)$	Prod
Pipeline	\$4 B	\$3.5 B	$(\$4.4B) * (800/740) * (36/52)$	Prod
Liquefaction Plant	\$4 B	\$3.0 B	$(15 \text{ Mtons}) * (\$150/\text{ton}) * (1.3)$	BP
LNG Tankers	\$2 B	\$2.25 B	$(9) * (\$150M) + (3) * (\$300M)$	Less US
Spur Line	-	\$0.25 B	$(20'') * (125\text{miles}) * (\$100k/'\text{mile})$	
WC Regas	-	\$0.3 B	0.5 BSCFPD WC facility	
NGL Plant	-	\$0.2 B	$(\$0.4B) * (2/4.5)$	Prod
TOTAL	\$12 B	\$10.5 B	Net of $-\$2.25B$ & $+\$0.75B$	

ANGDA Financing & Tax Alternatives

<u>CASES</u>	Debt to Equity Ratio	Return on Equity	Debt Interest Rate	Taxable Status ?	Cost of Service
High Return Business	70 / 30 %	15 %	8 %	YES	2.83
Attractive Investment	70 / 30 %	12 %	8 %	YES	2.51
Low Interest Debt	80 / 20 %	12 %	5 %	YES	1.94
No Return & Highway Bonds	All Debt	Zero	3.5 %	NO	1.36

Wellhead Value NOT Included in Cost of Service (\$/million BTU)

Comparison of Projects

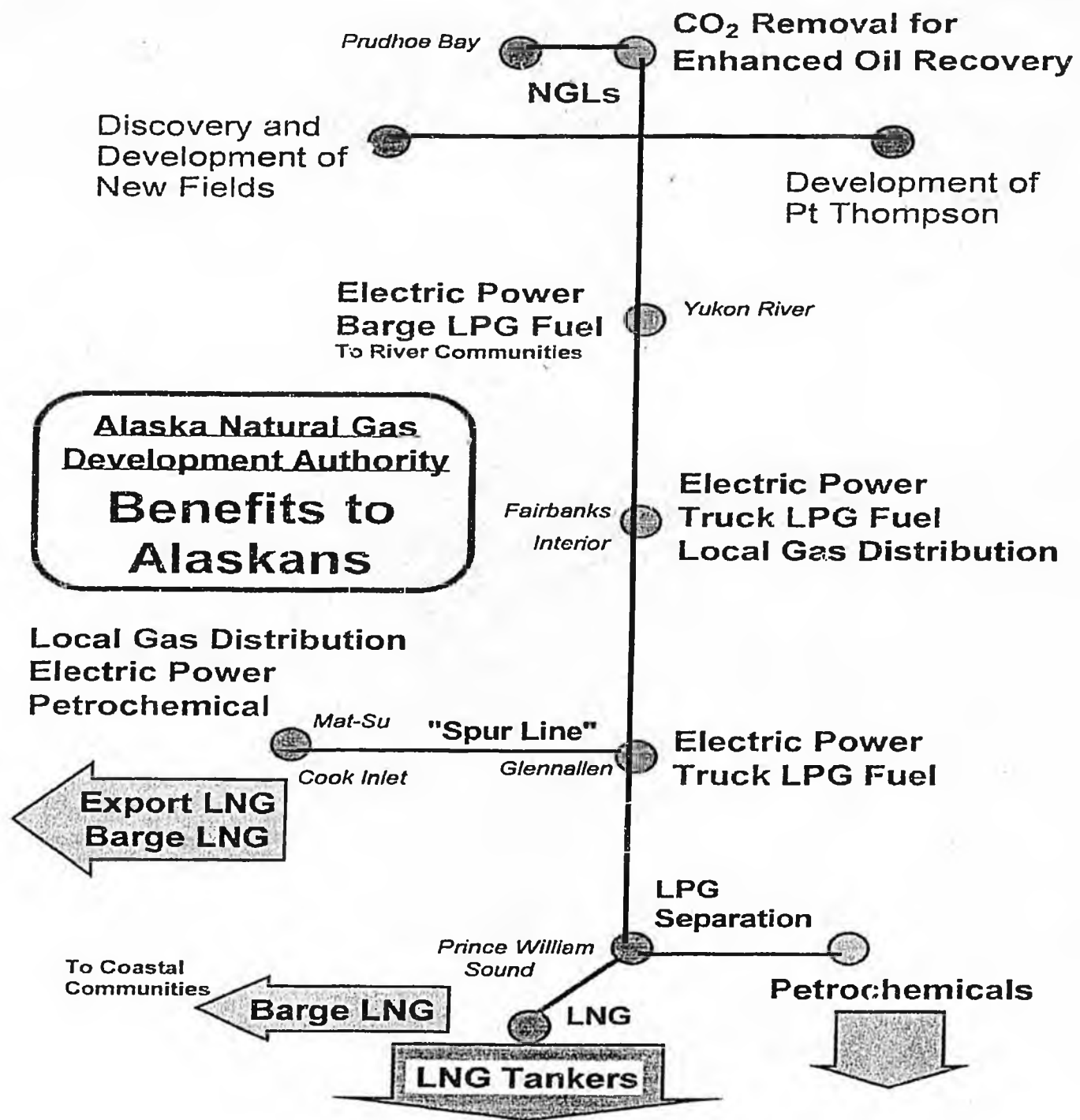
Notional Cost of Service (\$/Mbtu)

	ANGDA LNG	AICan Highway
Attractive Investment	2.51	2.27
Low Interest Debt	1.94	1.79
THROUGHPUT	2 BSCFPD	4.5 BSCFPD
CAPITAL COST	\$10.5 B	\$19 B

Wellhead Value NOT Included in Cost of Service

Observations on All-American LNG Project

- LNG export key to achieving economy of scale with in-state use
- Gas at tidewater opens up a wide variety of options (i.e., petrochemicals & CNG)
- Cost of service drops over a \$1/mmbtu using ANGDA financing & tax leverage
- Alaskan LNG can compete in \$3 gas world
- LNG customers will share in market price risk / reward



Alaska Natural Gas Development Authority
Benefits to Alaskans

Natural Gas Consumption in Alaska (BCF per year)

• Residential	15
• Commercial	20
• Electrical	35
• Agrium Plant	50
• Kenai LNG Plant	100
TOTAL	220 Bcf/yr
• New Public Services (?)	100 - 150

Future Cook Inlet Gas Price

North Slope Gas Delivered via Spur Line



Gas Price in Chicago	\$4.00 / Mbtu
Tariff from North Slope	-\$3.00 -----
Net-Back Gas Price on North Slope	\$1.00
Tariff to Cook Inlet	+\$1.50 -----
Gas Price in Cook Inlet	\$2.50 / Mbtu

Alaska Natural Gas Development Authority

Homepage is: <http://146.63.35.79/>

Harold Heinze

411 W. 4th Ave, Anchorage 99508

(907) 257 – 1347

Fax: (907) 646 - 5005

hheinze@ipo.doi.gov

SB

264

SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 1/14/04

FURTHER:

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED IN TO OFFICE: 1-29-04

Resources Committee considered SENATE BILL NO. 264

SB 264 REPEAL PIPELINE PREAPPLICATION DEADLINE

"An Act repealing the time limitation on the authority of the Department of Natural Resources to enter into agreements with a person or persons desiring to own an oil or natural gas pipeline proposed to be located on state land for the purposes of providing for payment of the reasonable costs incurred in preparing for activities before receipt of an application under the Alaska Right-of-Way Leasing Act; and providing for an effective date."

and recommends:

- be replaced with _____ CS _____ (_____)
- 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 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	10/31/03	✓			1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Ben Stearns</i>	✓			
<i>Joseph Heekin</i>	✓			
<i>Tommy ...</i>	✓			
<i>R. J. ...</i>			✓	
CHAIR: <i>Scott Eggen</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 264
(S) Publish Date: 1/14/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Repeal Sunset: Pipeline RDU: Resource Development
Rights-of-Way Component: Pipeline Coordinator
Sponsor: Rules
Requester: Governor Component No. 1191

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill repeals the sunset provision in AS 38.05.145(c). Repealing the sunset provision allows DNR to continue to enter into reimbursable agreements with pipeline right-of-way lease applicants for costs incurred by DNR when assisting them in the preparation of their lease applications. The fiscal impact of passing this legislation is \$0.0. The impact of not passing the legislation is significant. For FY 04 DNR budgeted about \$336.0 for these services. If we are no longer able to enter into reimbursable services agreements with these prospective clients we will not be able to participate in the pre-application review. Applicants are required to submit detailed applications that include significant engineering and design work. It is critical that DNR participate at the pre-application phase before applicants have invested substantial time and money in a project that may not be feasible.

Prepared by: Janet Burleson Baxter Phone 465-4730
Division: Commissioner's Office Date/Time 12/31/03
Approved by: Thomas Irwin, Commissioner Date 12/31/03
Agency: Natural Resources

SENATE RESOURCES COMMITTEE HEARING
JANUARY 28, 2004
SB 264, REPEAL PIPELINE PREAPPLICATION DEADLINE
Department of Natural Resources

SUMMARY OF INTENT:

- The purpose of the Department of Natural Resources (DNR) proposed bill is to repeal the sunset date in AS 38.35.145(c). This statute allows DNR to enter into agreements with prospective lessees to recover the costs for preliminary work (preapplication work) on a pipeline right-of-way (R/W) lease application. This provision ended on December 31, 2003.
- This provision has been used most recently for pre-application work on the Pt. Thompson project, before that project was delayed; and the Kenai-Kachemak extension.
- Applicants initiate the request for the services and are under no obligation to do so. However, without this legislation DNR is not able to work with applicants until we receive an application.

BACKGROUND:

Pipeline R/W lease applicants must submit detailed applications that require significant engineering and design work. (AS 38.35.050 and .100) Applicants invest significant financial resources to a project just to complete the application. Revisions to the application are costly and may be the pivotal point for an applicant's decision on the feasibility of a project. Applicants have found that it is critical that agencies be involved in the preapplication phase so that industry is aware of permitting issues at an early stage and they can build the issues into their application. Agency participation during the pre-application phase expedites the review and approval of the project.

DNR NEEDS THIS BILL IN ORDER TO ENTER INTO REIMBURSEMENT AGREEMENTS.

- AS 37.10.050 prohibits a State agency from charging a fee unless the fee is set or otherwise authorized by statute. Generally DNR is authorized to charge fees and enter into agreements under AS 37.10.050-.058.
- AS 37.10.058(5) specifically excludes pipeline R/W leases under AS 38.35.
- Fees and charges for pipeline R/W authorizations issued under AS 38.35 are addressed in AS 38.35.140 and .145.
- AS 38.35.140 specifically addresses fees for processing a pipeline R/W application filed under AS 38.35.050, including reasonable costs associated with the monitoring, construction, operation, maintenance and termination of the R/W.
- AS 38.35.145 specifically addresses preapplication costs. AS 38.35.145(c) includes a sunset date of 12/31/03. Absent this bill, DNR is prohibited from entering into agreements for reimbursement for preapplication costs associated with pipeline R/W applications under AS 38.35 after December 31, 2003.

SB 264



FRANK H. MURKOWSKI
GOVERNOR

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

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January 12, 2004

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 107
Juneau, Alaska 99801-1182

Dear President Therriault:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill allowing the Department of Natural Resources (DNR) to continue to enter into reimbursement agreements with applicants for DNR's preliminary work on oil and gas pipeline right-of-way lease applications. DNR's preliminary work streamlines the application process. An effective permitting process is critical to revitalizing the oil and gas industry and growing Alaska's economy. DNR's current authority to enter into reimbursement agreements "sunset" on December 31, 2003. The bill contains a retroactive provision to ensure there is no "window" period when reimbursement agreements could not be entered into by DNR.

AS 38.35 requires pipeline right-of-way lease applicants to submit detailed applications that include significant engineering and design work. Substantial investments of time and money are needed even before an application is officially submitted to DNR. Costs of pre-application work by state agencies like DNR can range from about \$40,000 for a simple pipeline to several millions of dollars for a project like the proposed Alaska natural gas pipeline. Incomplete applications or applications that must be revised later are costly, create delays that could cost a producer the construction season, and may directly impact a decision on the feasibility of a project.

DNR's assistance and guidance results in a good working relationship with the applicant. It also results in early communication and explanation of state law requirements to applicants, complete initial applications, quicker

The Honorable Gene Therriault

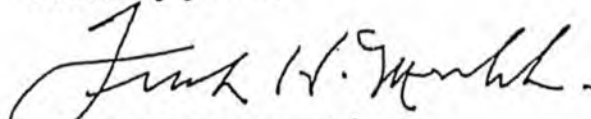
January 12, 2004

Page 2

processing by DNR, fewer revisions, and a greater chance of approval of the project by DNR.

I urge your prompt and favorable action on this matter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Frank H. Murkowski". The signature is fluid and cursive, with a long horizontal stroke at the end.

Frank H. Murkowski

Governor

Enclosure

SB

265

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 1/14/04

FURTHER:

Date of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 2-5-04

Resources Committee considered SENATE BILL NO. 265

SB 265 OIL&GAS LEASE SALE SCHEDULE/NOTIFICATION

"An Act relating to the schedule of proposed oil and gas lease sales and to a related report to the legislature; and providing for an effective date."

and recommends:

- be replaced with S CS SB 265 (Res)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input 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#
<u>DNR</u>	<u>1/27/03</u>			<input checked="" type="checkbox"/>	<u>1</u>

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	DO NOT PASS	No REC	AMEND
<u>[Signature]</u>	<input checked="" type="checkbox"/>			
<u>[Signature]</u>				<input checked="" type="checkbox"/>
<u>[Signature]</u>	<input checked="" type="checkbox"/>			
<u>[Signature]</u>	<input checked="" type="checkbox"/>			
<u>[Signature]</u>	<input checked="" type="checkbox"/>			
CHAIR: <u>[Signature]</u>	<input checked="" type="checkbox"/>			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 265
(S) Publish Date: 1/14/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title Five-Year Oil and Gas Program RDU Resource Development
Component Oil and Gas Development
Sponsor _____
Requester _____ Component No. 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

By amending the Five-Year Oil and Gas Program requirements, DNR will be able to add competitive sales to the schedule at any time instead of only once every two years (current law requires that Five-Year Program be presented to the Legislature in January of the first regular session of each legislature). These amendments will ultimately allow DNR to hold sales in the frontier areas sooner, therefore bringing the state additional revenues (bonus bids, rentals, and eventually, production royalties) in a shorter amount of time. It is impossible to accurately predict at this time what this increase in revenues might be.

Prepared by: Bill Van Dyke Phone 269-8800
Division Oil and Gas Date/Time 10/27/03
Approved by: Thomas Irwin, Commissioner Date 10/27/03
Agency Natural Resources

*OK
Final
Requested*

23-GS2013VD
Chenoweth
2/5/04

CS FOR SENATE BILL NO. 265(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:

Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the schedule of proposed oil and gas lease sales and to a related
2 report to the legislature; and providing for an effective date."

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

4 * **Section 1.** AS 38.05.180(b) is amended to read:

5 (b) The commissioner shall annually [BIENNIALLY] prepare and, before
6 February 1 of each calendar year [, BETWEEN THE FIRST AND THE 15TH
7 DAY OF THE FIRST REGULAR SESSION OF EACH LEGISLATURE], notify the
8 legislature of [THE AVAILABILITY OF, A FIVE-YEAR PROPOSED OIL AND
9 GAS LEASING PROGRAM CONSISTING OF] a five-year program [SCHEDULE]
10 of proposed oil and gas lease sales, [AND] specifying as precisely as practicable the
11 location of tracts [PROPOSED] to be offered for [OIL AND GAS] leasing during the
12 calendar year of the notification [IN WHICH THE PROPOSED PROGRAM IS
13 MADE AVAILABLE TO THE LEGISLATURE] and the following four calendar
14 years. The commissioner may, at any time, notify the legislature of revisions,

1 including additions, to the program. Notification to each legislator, by electronic
2 message or other written means, constitutes notification to the legislature under
3 this subsection.

4 * Sec. 2. AS 38.05.180(c) is amended to read:

5 (c) Except as provided in (d) and (w) of this section, an oil and gas lease sale
6 may not be held unless the legislature was notified under (b) of this section [IT
7 WAS INCLUDED IN THE PROPOSED LEASING PROGRAMS SUBMITTED TO
8 THE LEGISLATURE DURING THE TWO CALENDAR YEARS PRECEDING
9 THE YEAR IN WHICH THE SALE IS HELD]. A lease sale may not be held before
10 the date listed [IT IS SCHEDULED] in the proposed, or a revised, oil and gas leasing
11 program.

12 * Sec. 3. AS 38.05.180(e) is amended to read:

13 (e) The [SIMULTANEOUSLY WITH SUBMISSION OF THE LEASING
14 PROGRAM REQUIRED UNDER (b) OF THIS SECTION, THE] commissioner shall
15 annually prepare and notify the legislature of the availability of a report containing
16 the following:

17 (1) the schedule of all lease sales held during the preceding calendar
18 year, the bidding method or methods utilized, and an analysis of the results of the
19 bidding;

20 (2) if determined, a description of the bidding methods to be used for
21 all lease sales to be held during the current and next two succeeding calendar years;

22 (3) the reasons a particular bidding method has been selected.

23 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).



SENATOR SCOTT OGAN

23RD Alaska State Legislature

Senate District H Lazy Mountain * Butte * Chugiak * Peters Creek * Fairview Loop
Knik-Goose Bay * Big Lake * Houston * Willow * Talkeetna * Trapper Creek

State Capitol, Room 103, Juneau Alaska 99801 * (907) 465-3878 * 1 (800) 862-3878 * Fax (907) 465-3265

Senator_Scott_Ogan@legis.state.ak.us

Http://www.akrepublicans.org/ogan

FACSIMILE TRANSMITTAL SHEET

TO: *Leg Legal*

FROM: *Linda Hay*

COMPANY:

DATE: *2-5-04*

FAX NUMBER:

TOTAL NO. OF PAGES INCLUDING COVER: *2*

PHONE NUMBER:

RE: *Senate Res. CS*

- URGENT
- FOR REVIEW
- PLEASE COMMENT
- PLEASE REPLY
- PLEASE RECYCLE

NOTES/COMMENTS:

*please prepare a CS for SB265
with the attached changes -*

*If there are any questions I
can be CONTACTED @ x 4907*

*Thank You -
Room # 103
Sen. Ogan*

SB 265: Page 1, line 5: annually [BIENNIALY] prepare and
prior to February 1 of each calendar year, notify the
legislature of...

SB 265: Page 2, line 2: or other written means,

SB 265
Oil and Gas Lease Sale Schedule/Notification

Summary:

- SB 265 would amend current Five-Year Oil and Gas Lease Program requirements by allowing DNR to amend the Five-Year schedule on a more timely basis with legislative notification.
- This legislation would allow the state to schedule an areawide lease sale on the Alaska Peninsula for fall 2005. Without this bill, the soonest a sale could be held would be January 2007.
- SB 265 benefits would include:
 - Giving the State the flexibility to respond quickly to changing industry, market, and other conditions and more quickly bring new areas on-line for leasing, resulting in additional revenues for the State of Alaska.
 - Permitting frontier areas in particular, to be brought into production sooner than currently possible.
 - Retaining legislative review of the lease sale program.

Background:

- Under current oil and gas statutes (AS 38.05.180(b) and (c)):
 - The Commissioner of Natural Resources is required to biennially prepare and present to the first regular session of each legislature a five-year schedule of proposed oil and gas lease sales.
 - A proposed lease sale, in turn, must be included in the schedule submitted to the legislature for at least two calendar years before the sale may be held.
- Therefore, under current law, it may be as long as four years between when a sale is requested and when it may be held. For example, under current law, the soonest a sale may be held in the Bristol Bay area is January 2007.
- As a result of these restrictions, the commissioner is unable to quickly respond to changing industry, market and State fiscal conditions in designing and implementing a lease sale program.
- SB 265 would amend the Five-Year Program requirements by:
 - Allowing DNR the flexibility of amending the sale schedule at any time and notifying the Legislature of the change.
 - Removing the current requirement under AS 38.05.180(c) that a proposed sale be on the schedule for two years. Instead, a sale may not be held before the date in the Five-Year Program.
 - DNR annually, instead of biennially, prepares the Five Year Program and notifies the Legislature of its availability.

SB 245



FRANK H. MURKOWSKI
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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 12, 2004

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 107
Juneau, Alaska 99801-1182

Dear President Therriault:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill relating to the scheduling of proposed oil and gas lease sales. This bill would allow the commissioner of the Department of Natural Resources to produce additional revenues for the State of Alaska from oil and gas lease sales by quickly responding to changing industry, market, and other conditions. New areas, particularly frontier areas of the state, can be brought into production sooner than currently possible. The bill would still permit legislative review of the lease sale program.

Currently, the commissioner is required to prepare a "Five Year Schedule of Proposed Oil And Gas Lease Sales" and submit it to the Legislature in January of the first regular session of each Legislature. A proposed lease sale must be included in the schedule for at least two calendar years before the sale can actually be held. This is a ponderous process that makes it difficult to implement the most effective oil and gas lease sale program possible.

This bill is an important part of our mission to use natural resource wealth to produce long-term, stable revenue sources for the state, local and property tax revenue for municipalities, and high paying jobs for Alaskans.

I urge your prompt and favorable support of this legislation.

Sincerely yours,

Frank H. Murkowski
Governor

Enclosure

SB

2666

SENATE COMMITTEE REPORT

DATE: 2/4/04

FURTHER:

DATE TURNED
IN TO OFFICE: 2-5-04

Resources Committee considered SENATE BILL NO. 266

SB 266 BRISTOL BAY OIL & GAS LEASE SALE CLOSURE

"An Act approving an interim classification by the commissioner of natural resources closing certain land within the area of the proposed Bristol Bay (Alaska Peninsula) competitive oil and gas areawide lease sale to oil and gas exploration licensing and shallow natural gas leasing; and providing for an effective date."

and recommends:

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

Senate Bill:
 Same Title
 New Title

House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	Indet.	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	Indet.	FN#
DNR	12/1/03		✓		1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Joseph Seekin</i>	✓			
<i>Ben Steuen</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
CHAIR: <i>[Signature]</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 266
 (S) Publish Date: 1/14/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Mineral Closing Order for Bristol Bay RDU Resource Development
Oil and Gas Competitive Sale Area Component Oil and Gas Development
 Sponsor Rules
 Requester Governor Component No. 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Misellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation ensures that land remains available for the competitive sale program under AS 38.05.180. The bill approves an interim classification by the commissioner of natural resources closing land in the proposed Bristol Bay (Alaska Peninsula) competitive oil and gas areawide lease sale to oil and gas exploration licensing under AS 38.05.131-38.05.134 and shallow natural gas leasing under AS 38.05.177.

No fiscal impact.

Prepared by: Mark D. Myers Phone 269-8800
 Division Oil and Gas Date/Time 12/2/03
 Approved by: Thomas Irwin, Commissioner Date 12/2/03
 Agency Natural Resources

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

January 16, 2004

The Honorable Scott Ogan, Chair
Senate Resources Committee
Alaska State Legislature
State Capitol, Room 103
Juneau, AK 99801

RE: Hearing Request for SB 265 and SB 266

Dear Senator Ogan:

I am writing to request a hearing the week of January 27, 2004 for two bills, SB 265 and SB 266. SB 265 relates to the schedule of proposed oil and gas lease sales and a required report. SB 266 relates to the approval of an associated interim classification order that closes certain land within the proposed Bristol Bay (Alaska Peninsula) competitive oil and gas areawide lease sale to oil and gas exploration licensing and shallow natural gas leasing.

SB 265 would allow the Commissioner of the Department of Natural Resources to produce additional revenues for the State of Alaska from oil and gas lease sales by quickly responding to changing industry, market, and other conditions. New areas, particularly frontier areas of the state, could be brought into production sooner than currently possible. The bill retains legislative review of the lease sale program.

Currently, the Commissioner is required to prepare a "Five Year Schedule of Proposed Oil And Gas Lease Sales" and submit it to the Legislature in January of the first regular session of each Legislature. A proposed lease sale must be included in the schedule for at least two calendar years before the sale can actually be held. This is a ponderous process that makes it difficult to implement the most effective oil and gas lease sale program possible.

SB 266 approves an interim classification by the Commissioner of Natural Resources that closed land in the proposed Bristol Bay (Alaska Peninsula) competitive oil and

Senator Ogan
Page 2
January 16, 2004

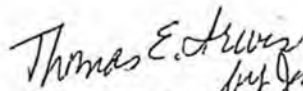
gas areawide lease sale to oil and gas exploration licensing under AS 38.05.131-38.05.134 and shallow natural gas leasing under AS 38.05.177. SB 266 would ensure that land remains available for the competitive sale program under AS 38.05.180.

Under AS 38.05.300(c), a mineral closing order is an interim classification which does not become permanent unless approved by the legislature by the 90th day of the next regular session, or adjournment. This legislation will help facilitate needed economic development and job creation in the Alaska Peninsula.

These bills promote the governor's mission to use natural resource wealth to produce long-term, stable revenue sources for the state, local and property tax revenue for municipalities, and high paying jobs for Alaskans.

Thank you for your consideration. Please contact Janet Burleson Baxter at 465-4730 if you have any questions. You may also contact Mark Myers, Director of the Division of Oil and Gas, or Marie Crosley at (907) 269-8800.

Sincerely,


by Janet Burleson Baxter
Thomas E. Irwin
Commissioner

cc: Mike Tibbles, Legislative Liaison, Governor's Office
Randy Ruaro, Legislative Office
Mark Myers, Director, Division of Oil & Gas, DNR
Marie Crosley, DNR

SB 266



FRANK H. MURKOWSKI
GOVERNOR

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 12, 2004

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 107
Juneau, Alaska 99801-1182

Dear President Therriault:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill approving an interim classification by the commissioner of Natural Resources closing certain land in the Bristol Bay region to oil and gas exploration licensing under AS 38.05.131 through AS 38.05.134 and shallow natural gas leasing under AS 38.05.177. The specific lands affected will be part of a future competitive oil and gas lease sale in the Bristol Bay region. Closure avoids potential conflicts in land use for these areas later, when the proposed competitive oil and gas lease sale occurs.

Under AS 38.05.300(c), a mineral closing order is an interim classification which does not become permanent unless approved by the legislature by the 90th day of the next regular session, or adjournment. This legislation will help facilitate needed economic development and job creation in Alaska's Bristol Bay region.

I urge your prompt and favorable action on this measure.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank H. Murkowski".

Frank H. Murkowski
Governor

Enclosure

SB 266
Limited Mineral Order for Bristol Bay Area

Summary:

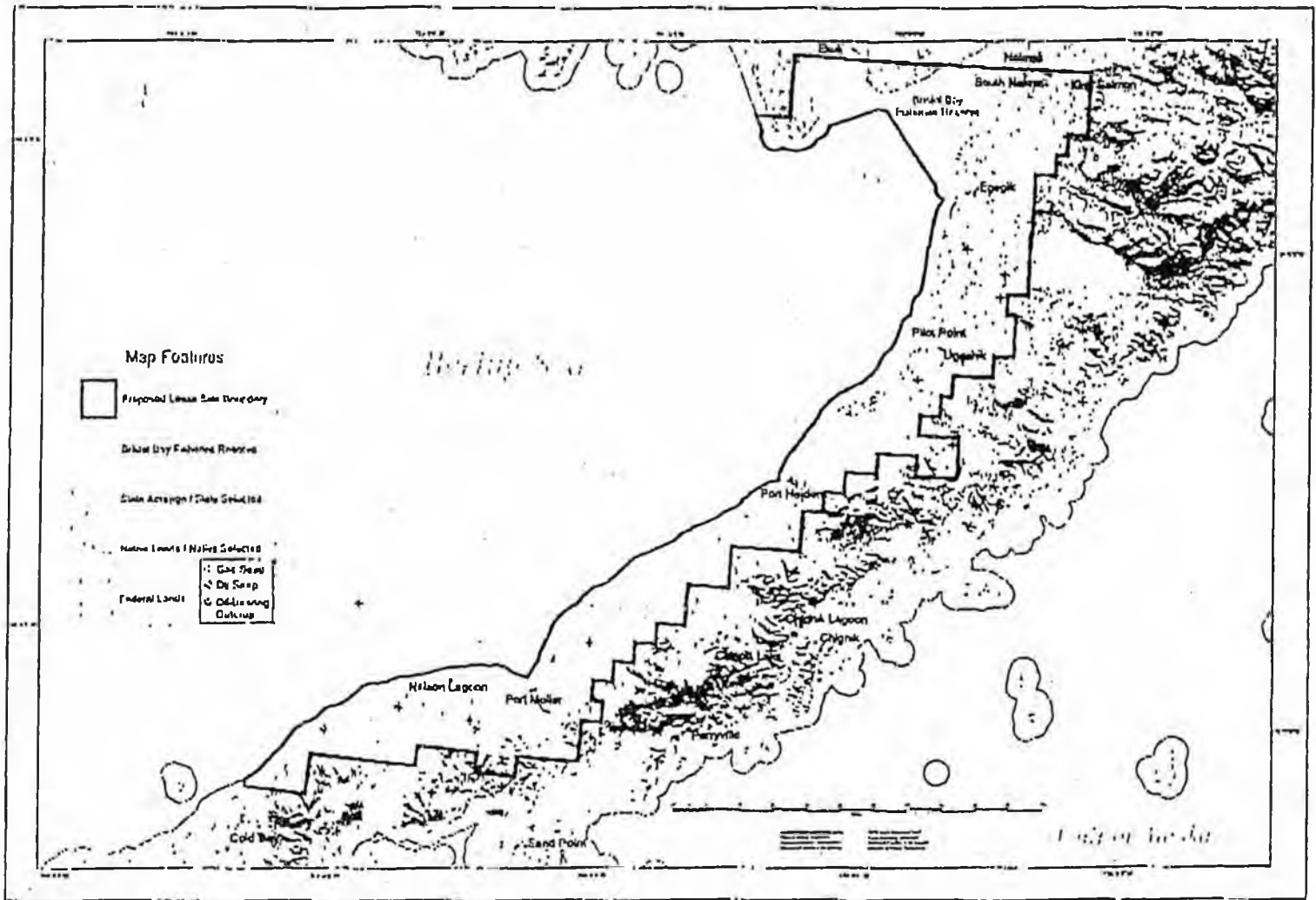
- SB 266 ensures that land remains available for a proposed competitive oil and gas sale in the Bristol Bay area by precluding oil and gas exploration licensing and shallow natural gas leasing in the competitive lease sale area.
- SB 266 will:
 - Avoid potential conflicts in land use for these areas later, if the proposed competitive oil and gas lease sale occurs.
 - Ensure that the state receives the maximum economic benefit from its higher potential oil and gas areas through bonus bids, royalties, and lease terms.
 - Help facilitate needed economic development and job creation in Alaska's Bristol Bay region as well as produce property tax revenue for municipalities.

Background:

- Upon the request of local governments and Native organizations, the Governor has requested that the Department of Natural Resources consider a competitive areawide oil and gas lease sale in the Bristol Bay (Alaska Peninsula) region. Geologists believe that outside of the North Slope and Cook Inlet, the Alaska Peninsula offers the greatest potential in the state for commercial oil and gas development.
- In order to avoid conflicts between the proposed competitive sale and either exploration licensing under AS 38.05.131-AS 38.05.134 or shallow natural gas leasing under AS 38.05.177, the Commissioner of Natural Resources signed a mineral closing order on July 11, 2003. The mineral order only precludes exploration licensing and shallow natural gas leasing in the competitive lease sale area. This order does not affect locatable minerals or leaseable minerals other than shallow natural gas leasing or oil and gas exploration licensing.
- Under AS 38.05.300(c), a mineral closing order is an interim classification which does not become permanent unless approved by the legislature by the 90th day of the next regular session, or adjournment.
- SB 266 would:
 - Prevent speculators from top filing shallow natural gas applications (\$5,000 application fee) in an area of richer oil and gas potential which should be competitively leased.
 - Avoid potential land use and program conflicts if an oil and gas exploration license or shallow natural gas lease is top filed in the proposed competitive sale area.
 - Help maximize economic benefit from the State's higher potential oil and gas areas through royalties, lease terms, and competitive bonus bids.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES

Areawide Lease Sales



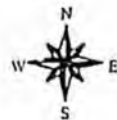
AK Peninsula Areawide Leasing	2003				2004												2005				2006			
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr		
Request for agency initiation																								
Public Comment Period																								
DO&G conducts public informational meetings																								
Drill Permit, Finding & ACMP Consistency Analysis																								
Lease Permit, Finding and Consistency Analysis																								
Public comment period																								
DO&G interprets geological and geophysical data																								
DO&G and OCS geologic field review																								
Drill proposal ACMP Consistency Determination																								
Consistency Determination evaluation period																								
Drill Final Drill Interest Finding (DIF)																								
Issue HIF & CD, Approval sale																								
Reconsideration (30-day/Court Appeal (90-day))																								
LEASE SALE																								
Title review																								
Lease awarded																								
Effective date of leases - April 1																								

Alaska's areawide leasing program allows companies to submit sealed bids on tracts of land of up to 5,760 acres in size. The Commissioner of the Department of Natural Resources sets the terms of the lease sale; the minimum acceptable per acre bid, the primary term of the lease; and the production royalty rate. The highest bidder on a tract wins the right to explore that tract for oil and gas. However, no activity can take place without the required permits in place. In the Bristol Bay region and the Alaska Peninsula, all activity on an oil and gas lease must be in compliance with the Alaska Coastal Management Program and local coastal management district plans.

Leases normally have a primary term of 7 or 10 years; minimum bids are generally set at \$5 or \$10 per acre, depending on the area being leased; the royalty rate is normally 12.5% or 16-2/3%. Once a lease is issued, the lessee pays annual rentals to the state, starting at \$1 per acre and increasing to \$3 per acre by the 5th year of the lease.

If it's determined that an Alaska Peninsula Areawide lease sale is in the state's best interests, a sale will be held in October 2005.

House District 37



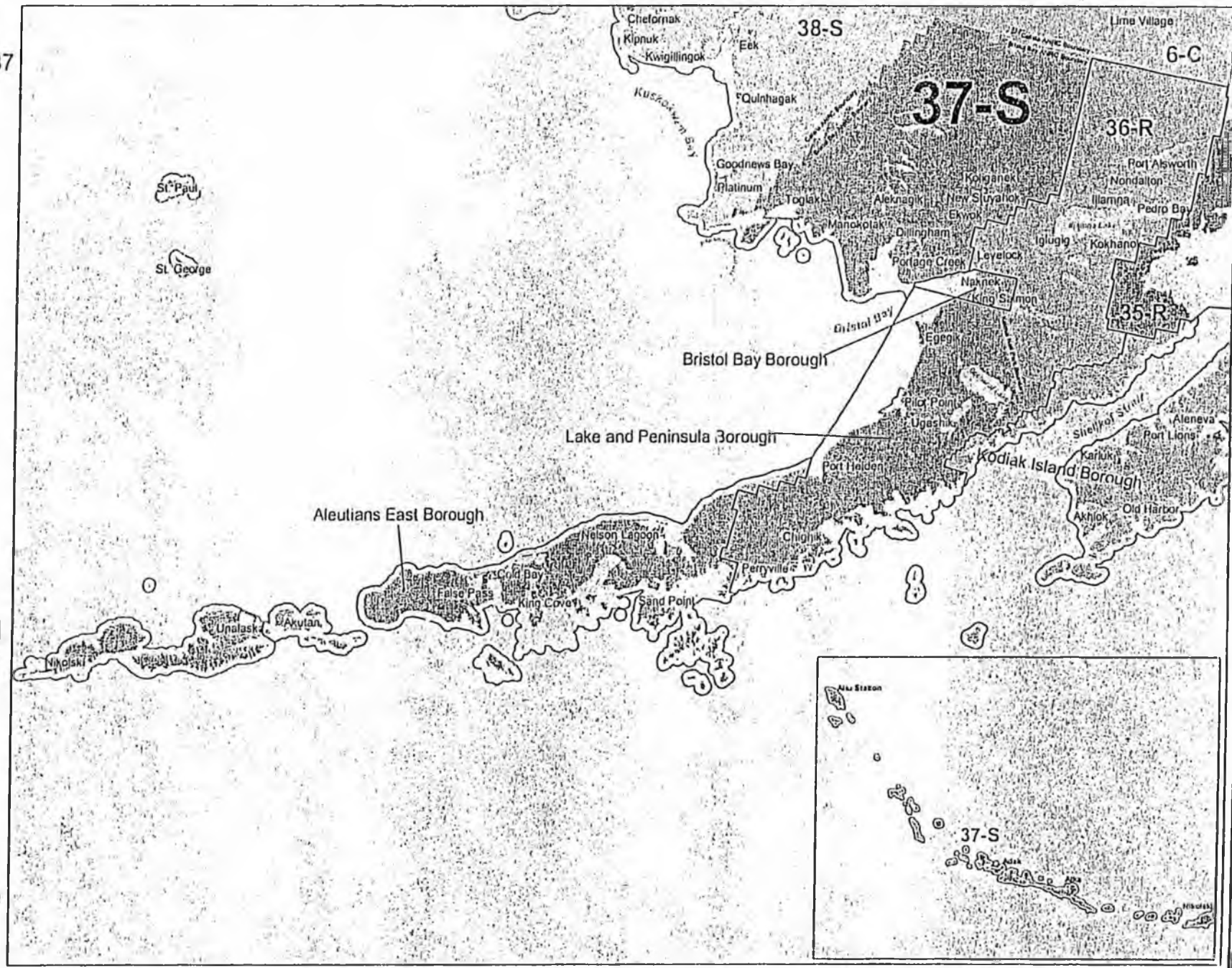
Legend

- Borough Boundary
- City Boundary

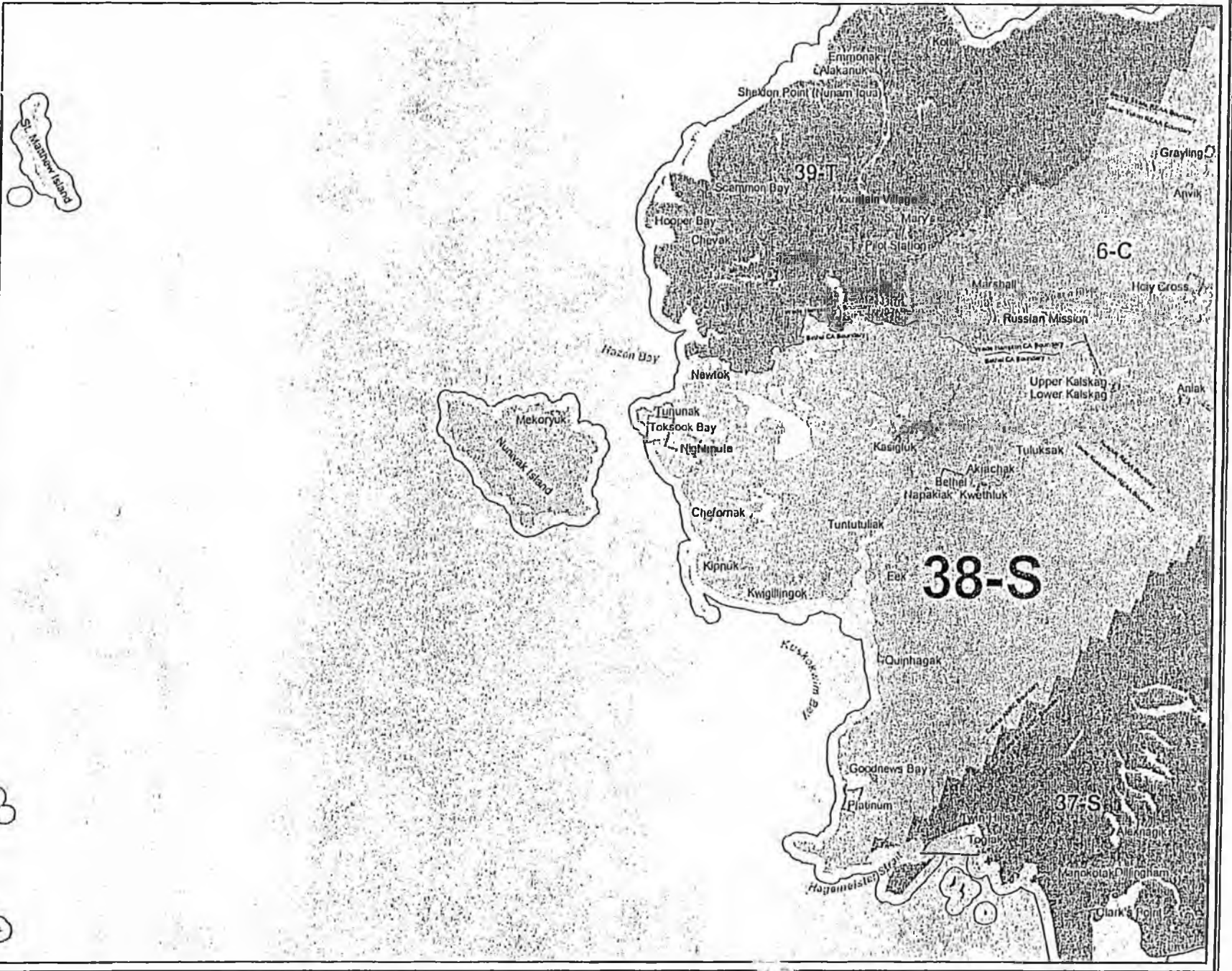


Amendments adopted by
Alaska Redistricting Board
April 13 as modified on April 18, 2002

Prepared by
Alaska Redistricting Board
May 4, 2002



House District 38



Legend

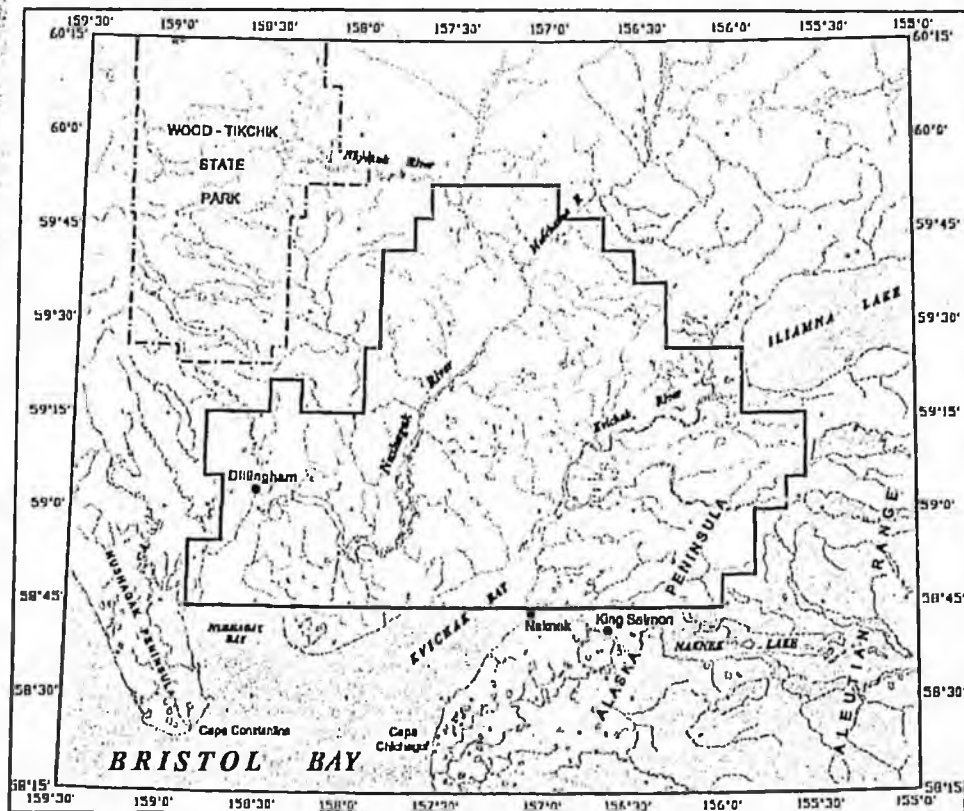
- Borough Boundary
- City Boundary
- Census Area Boundary



Amendments adopted by
Alaska Redistricting Board
April 13 as modified on April 18, 2002

Prepared by
Alaska Redistricting Board
May 4, 2002

Proposed Bristol Bay Basin Exploration License Study Area



Bristol Bay Basin Exploration License Solicitation

Area of Solicitation =



Map prepared, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.
 Alaska Equal Area Conic Projection, 1977 North American Datum, Clarke 1866 spheroid with a central meridian of 157°15', grid latitude of 80°, north arc parallel of 85°, and southern parallel of 50°.

Alaska Peninsula Areawide Lease Sale, and Bristol Bay Basin Exploration License Timelines

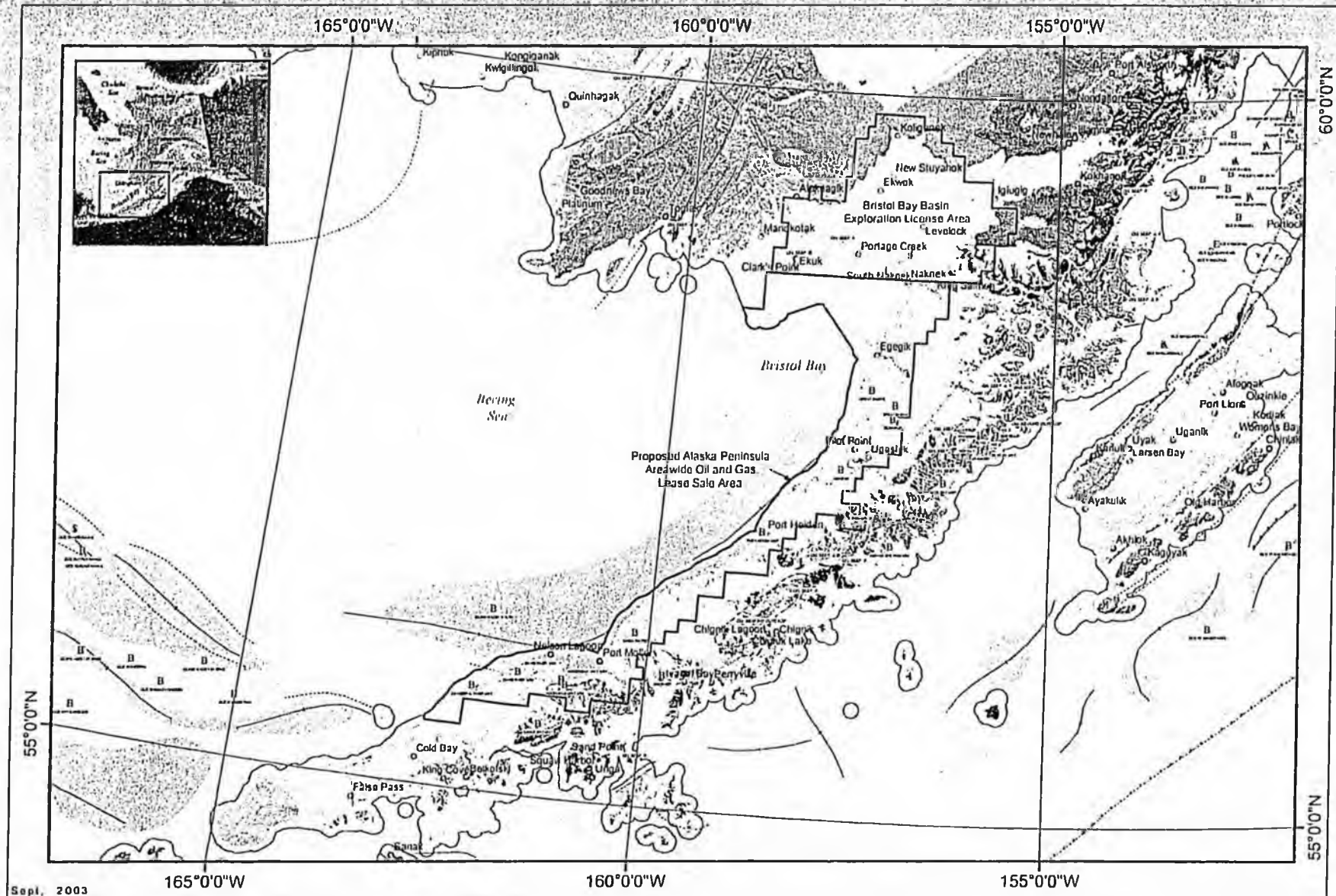
AK Peninsula Areawide Leasing	2003					2004					2005					2006										
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr				
Request for Agency Information	█																									
Request for Public Comment		█																								
DO&G Conducts public informational meetings			█	█	█	█	█	█	█	█	█	█	█	█												
Draft Prelim. Finding & ACMP Consistency Analysis				█	█	█	█	█	█	█	█	█	█	█												
Issue Prelim. Finding and Consistency Analysis					█	█	█	█	█	█	█	█	█	█												
Public comment period																										
DO&G Interprets geological and geophysical data				█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█				
DO&G and DGGG geologic field parties																										
Draft proposed ACMP Consistency Determination																										
Consistency Determination elevation period																										
Draft Final Best Interest Finding (BIF)																										
Issue BIF & CD; Announce Sale																										
Reconsideration (30-day)/Court Appeal (30-day)																										
LEASE SALE	-----																									
Title review																										
Leases awarded																										
Effective date of leases - April 1																										
Exploration License	2003					2004																				
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec								
DO&G Issues solicitation for license proposals	█																									
Request for Agency Information		█																								
Prospective licensee informs of intent to submit			█	█	█																					
Prospective licensee submits proposal				█	█																					
DO&G requests public comment on area					█	█																				
DO&G solicits compelling proposals																										
DO&G conducts public informational meetings																										
DO&G interprets geological and geophysical data																										
Draft Prelim. Finding & ACMP Consistency Analysis					█	█	█	█	█	█	█	█	█	█												
Issue Prelim. Finding and Consistency Analysis																										
Public comment period																										
Draft proposed ACMP Consistency Determination																										
Consistency Determination elevation period																										
Draft Final Finding																										
Issue Final Finding and Consistency Determination																										
Reconsideration (30-day)/Court Appeal (30-day)																										
sealed bid auction; AWARD LICENSE	-----																									
Effective date of license - Oct. 1																										

Onshore Exploration Well Typical Permit Process

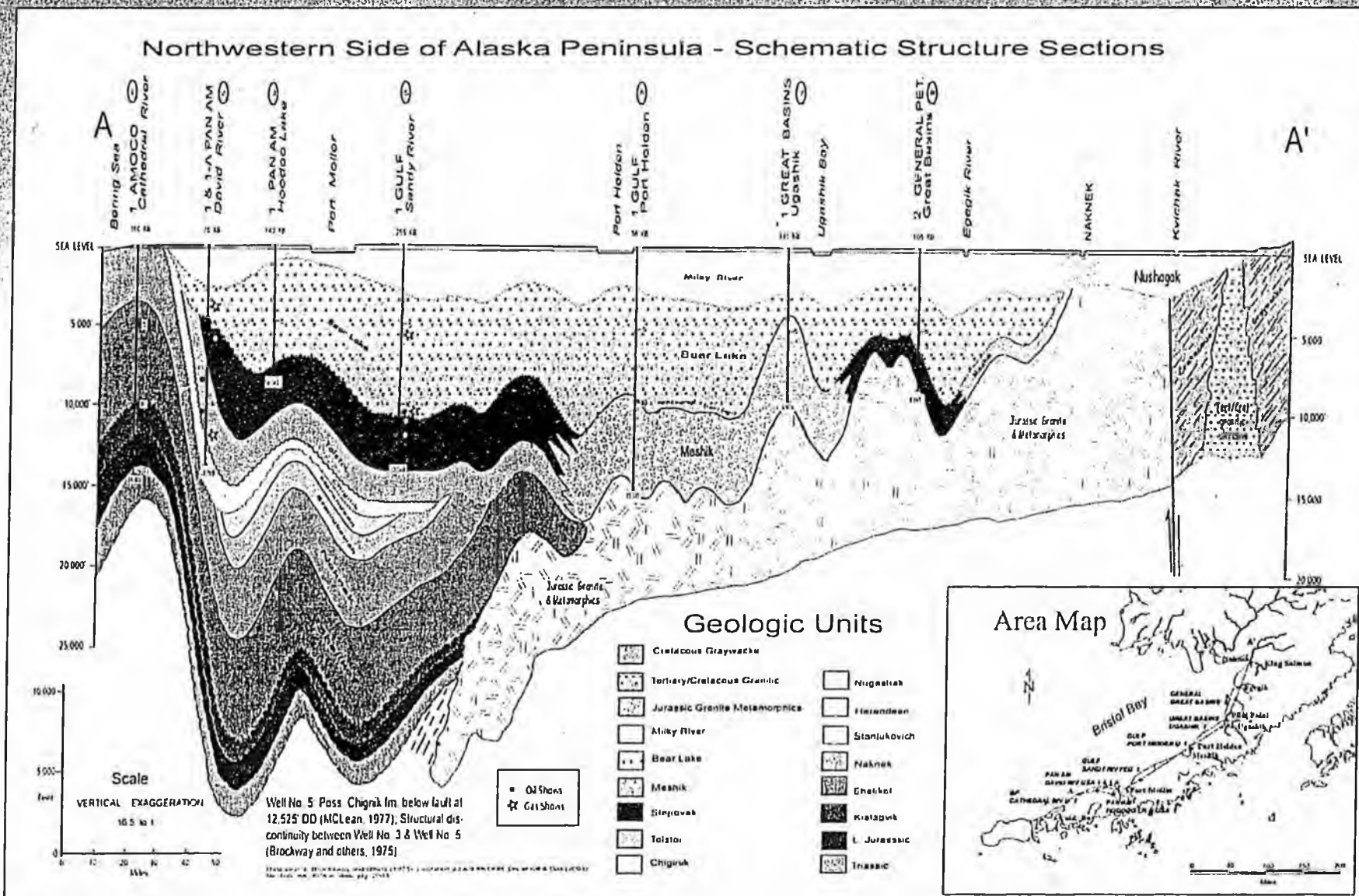
Typical Permit Process - Onshore Exploration Well on the AK Peninsula														
ID	NAME	M	J	J	A	S	O	N	D	J	F	M	A	M
1	Preapplication Conference													
2*	ACMP Consistency Determination - AS 46.40			■	■	■	■							
3	DNR DO&G - Lease Plan of Operations Review			■	■	■	■							
4	DNR Parks - Cultural Resource Survey		■											
5	DNR DMLW - Temporary Water Use Permit			■	■	■	■							
6	DEC - Oil Spill Discharge and Contingency Plan			■	■	■	■							
7	DEC - Solid Waste Disposal Permit			■	■	■	■							
8	DEC - Wastewater Disposal Permit			■	■	■	■							
9	ADNR - Title 41 Anadromous Fish Stream			■	■	■	■							
10	Army Corps of Engineers - Section 404 Permit		■	■	■	■	■							
11	AOGCC - Conservation Order							■						
12	AOGCC - Permit to Drill								■					
13	AOGCC - Application for Sundry Approval									■				
14	Construction and Drilling										■	■	■	■
15	Demobilization and Rehabilitation												■	■

Project: Onshore	Permitting Activity 	Public Notice
Date: 9/03/03	* Only for activity within the Coastal Zone.	

Alaska Peninsula Geologic Map



Alaska Peninsula Geologic Cross Section



COMPOSITE STRATIGRAPHIC SECTION
BRISTOL BAY & ALASKA PENINSULA REGIONS, ALASKA

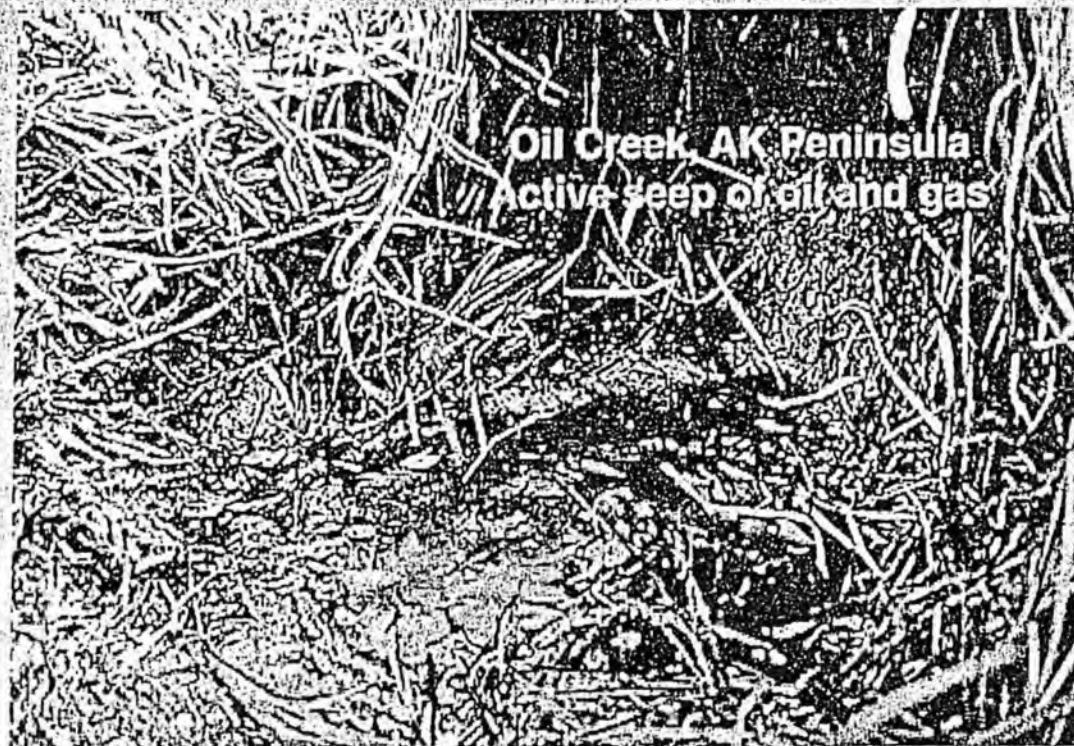
AGE	LITHOLOGY	FORMATION	DESCRIPTION	
CENOZOIC	QUATERNARY	Quaternary - Recent	Unconsolidated sediments and volcanics	
		Volcanics 1000 ±	Unconformity	
		Milky River Fm (Tom) 3000' ±	Conglomerates, sandstones, and mudstones, clastic fraction volcanic derived, fossiliferous, shallow marine environment	
	MIOCENE		Dear Lake Fm (Tmbu) 6000' ±	Sandstones, conglomerates and thin mudstones, locally volcanic derived, locally fossiliferous, transitional environment
			Unga Cgl Mbr. (Tmbu)	Sandstones and conglomerates with interbedded siltstones, mudstones and coals, fossiliferous transitional environment
	Eocene		Methik Fm. (Tom)	Volcanic sandstones and conglomerates with interbedded thick units of black siltstone, all rock types locally calcareous with seams of lignite in upper part of sequence, locally highly fossiliferous, volcanic flows near base of unit and silt rare throughout, predominantly of marine origin
			Tolstoi Fm. (Tel) 6,000' ±	Volcanic conglomerates, sandstone, volcanic breccias, andesitic-basaltic extrusive volcanics, or local siltstone and shale, present on surface and in sub surface from Chignik Bay northward to Ugashik L. area, probably equivalent to the Staporuk Formations and upper part of Tolstoi Formation
				Siltstones with interbedded volcanic sandstones and conglomerates flows, silt and volcanic breccia, non marine to brackish water environment, marine fossils are rare, plant fossils common and very abundant in lower part of sequence
	MESOZOIC	LATE CRETACEOUS	Hoodoo Fm. (Kh) 2,000' ±	Siltstone, sandy shale, claystone with fine grained siltstone at base, few thin sheets of calcareous siltstone and few calcareous sandstone, distinctive black to dark gray color in weathering and production of pneumatic spores, outer part of deep marine environment
			Chignik Fm. (Kc) 1500' ±	Sandstone, siltstone and minor mudstone and conglomerate, shallow marine environment
Cool Valley Mbr. (Kcc) 1000' (of the Chignik Formation)			Conglomerates, sandstone and coal, non marine environment	
Haremsden Ls. (Kth) 600'			Unconformity	
EARLY CRETACEOUS			Stanlukovich Fm (JKa) 2000'	Feldspathic sandstones and shales, thin siltstones, locally abundant Buchia, shallow marine in origin
		LATE JURASSIC		Claystone and siltstones predominate in upper part of unit, lower part of unit consists largely of feldspathic sandstones with some interbedded claystone, siltstone and conglomerate, locally abundant Buchia and belemnites, shallow marine to neritic environment
				Chisik Cgl. Mbr. (Jnc) 400'
		MIDDLE JURASSIC		Siltstone and shale, with lenses of limestone, abundant fossils, marine environment
				Sandstone, siltstone, and conglomerate, marine environment
				Siltstone, sandy siltstone, sandstone, ash beds with abundant calcareous concretions, and fossils, marine environment
	Sandstone, sandy shale and conglomerate, becoming increasingly sandy near top of unit, fossiliferous, marine environment			
		Limestone, chert, volcanic rich rocks; outcrop at Puala Bay northward		

The program is printed on stock 40 lb/3000

Source: Modified from BULL. C. 1. 1961. Geol. Soc. America Number 99. Copyright 1961 by Geol. Soc. of America. Division of Geol. Soc. 2001

Alaska Peninsula Stratigraphic Section

Active Oil and Gas Seep



Brown oil and natural gas (fizzy bubbles) comes out of this hole in the ground continuously. There are several oil creeks in Alaska - not a very original name. This particular oil creek feeds into Puale Bay on the western side of the Alaska Peninsula. There is continuous seepage of oil into the creek throughout its upper part. The lower part of the creek is a salmon spawning area where salmon runs are counted by the State of Alaska.

Alaska Peninsula/ Bristol Bay Basin Hydrocarbon Potential

- **Numerous oil seeps are present along the southern half of the Alaska Peninsula.**
- **26 wells have been drilled onshore since 1903, the latest being the Amoco Becharof #1 in 1985. One offshore stratigraphic test was drilled in 1983, the ARCO North Aleutian COST Well #1.**
- **The northern half of the Alaska Peninsula is a low relief coastal plain underlain by a thick sequence (18,000+ feet) of Tertiary strata that is contiguous with the Bristol Bay Basin to the north. Here the setting is very good for both structural and stratigraphic traps as well as the likelihood of encountering good to locally excellent reservoir quality rocks.**

Alaska Peninsula/ Bristol Bay Basin Hydrocarbon Potential (cont.)

- **Reservoir quality should be considered the highest risk as rocks derived from volcanic and plutonic source areas may give rise to pore plugging cements and clays.**
- **Oil and gas shows are evident in many of the wells. No commercial flow of oil has been proven to date.**
- **Hydrocarbon source rocks of Tertiary age appear to be largely gas prone. Deeper Mesozoic strata may have both gas and oil generating potential.**
- **Seismic control on the Alaska Peninsula is largely poor and archaic. Latest technology in seismic acquisition and processing is needed to further define prospects.**

State of Alaska
OFFICE OF THE GOVERNOR

Frank H. Murkowski
Governor
P.O. Box 110001
Juneau, Alaska 99811-0001
NEWS RELEASE



John Manly
Press Spokesman
907-465-3500
FAX: 907-465-3532
www.gov.state.ak.us

FOR IMMEDIATE RELEASE: December 18, 2003

No. 03-256

State, Aleut Corp. Sign MOU on Oil & Gas Exploration
Will Hold Concurrent Lease Sales and Work Together on Infrastructure

(Juneau) – Governor Frank H. Murkowski today announced that the Department of Natural Resources has signed a Memorandum of Understanding with the Aleut Corporation to hold concurrent oil and gas lease sales on their adjacent lands, and to work to facilitate the construction of transportation infrastructure to support oil and gas development in the Aleut Corporation area. The MOU is similar to one entered into by DNR and the Bristol Bay Native Corporation last Fall and is consistent with the administration's policy of working with the people of the area to develop natural resources.

"The Aleut Corporation is the other major landowner in the Alaska Peninsula area, where we believe significant, commercial quantities of oil and gas can be found," Murkowski said. "We are very pleased that the Aleut Corporation shares the vision of resource development with the state and BBNC. We hope to build a strong economy in cooperation with the people of the region. This MOU is one marker of our commitment, along with the regional corporation, to provide a foundation for that economy."

Under the five-year MOU, the parties agree to work cooperatively to ensure that resource exploration and development activities are done in an environmentally responsible manner, and consistent with land management and development plans of both parties. They also will work to re-open offshore oil and gas prospects in the region, and will try to synchronize the timing of leasing schedules for their respective, adjacent lands. The MOU also has both parties working together to facilitate design and construction of a transportation network to make oil, gas, and other mineral prospects more accessible, and to interconnect communities.

Under the MOU, the state and Native corporation also have a mandate to communicate their development goals to other interested parties throughout Southwest Alaska, including tribal organizations, village corporations, and borough and city governments.

The MOU was signed today by Aleut Corporation President Martha Malavansky and DNR Commissioner Tom Irwin. In accordance with his policy of working with the local people, Murkowski said he expects to sign similar MOUs with the Bristol Bay Borough, the Lake & Peninsula Borough, and the Aleutians East Borough, as well.

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Governor holds forum on Bristol Bay oil, gas

Native leaders look at development in region where fishing has suffered

By MARY PEMBERTON
THE ASSOCIATED PRESS

ANCHORAGE — Gov. Frank Murkowski told a gathering of Native leaders Wednesday that oil and gas exploration would bring good jobs to Southwest Alaska and keep young people from seeking work elsewhere.

"Our job in state government is to help your leadership ... achieve what you want," Murkowski said. "Too many of our kids are leaving this state."

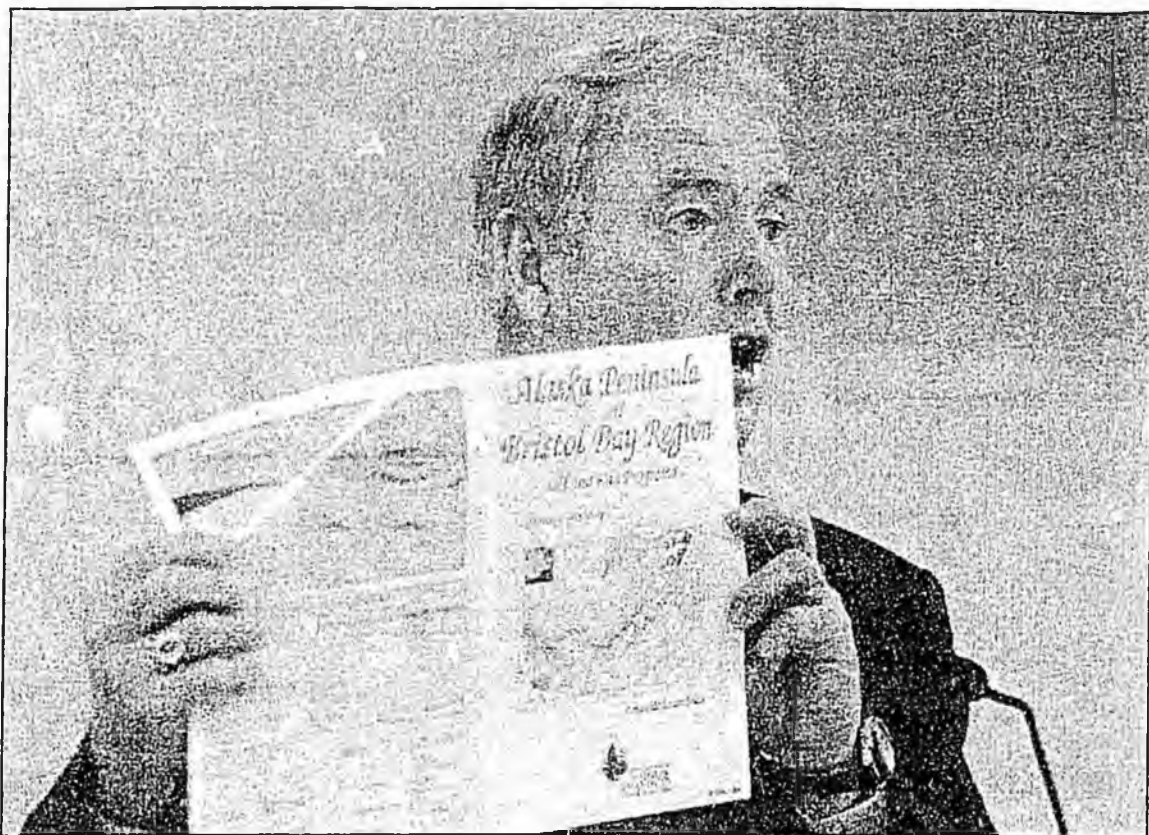
The governor and several of his commissioners met with Native leaders and residents to talk about plans to bring oil and gas development to Bristol Bay and the Alaska Peninsula, which is facing a crushing downturn in commercial fishing.

The state has said that oil and gas reserves in the area are difficult to quantify without further drilling. The last onshore well was drilled in 1985. In 1995, the U.S. Geological Survey estimated that the Alaska Peninsula had a 1-in-20 chance of containing 447 million barrels of oil and 1.4 trillion cubic feet of gas.

In comparison, the Prudhoe Bay oil field, the largest in North America, has recoverable reserves of 12 billion barrels of oil and 30 trillion cubic feet of natural gas.

In July, the state reached an accord with the Bristol Bay Native Corp. over the prospects of holding areawide lease sales. The corporation owns 3.1 million acres in the region on behalf of more than 7,000 shareholders.

If the state determines that a lease sale is in its best interest, the sale likely would be held in October 2005, according to the state. A preliminary decision is expected



AL GRILLO / THE ASSOCIATED PRESS

Development plans: Gov. Frank Murkowski holds a pamphlet outlining his plan for oil and gas exploration on the Alaska Peninsula and around Bristol Bay as he talks with citizens Wednesday in Anchorage.

We have been faced with five to six years of fishing disasters. We need to look at a long-term, bigger picture in Bristol Bay.

ROBIN SAMUELSEN

Bristol Bay Economic Development Corp.

by January with a final decision in September 2004.

The state has said gas development in the area could offset the high cost of energy and help lower the cost of processing fish for local communities. Former state Sen. Nels Anderson of Dillingham, one of the forum's presenters, said it costs \$200 to make a ton of ice in Bristol Bay and \$50 in Cook Inlet because of the higher cost of diesel fuel.

Murkowski said no decision on drilling would be made without substantial input and cooperative effort from the local communities. He said he would be meeting soon with independent oil and gas producers to talk about the potential for developing Bristol Bay re-

serves.

"The prospects are very, very encouraging," he said.

Robin Samuelsen, CEO of the Bristol Bay Economic Development Corp. and moderator of the meeting, threw his support behind the idea.

"We have been faced with five to six years of fishing disasters," Samuelsen told the gathering. "We need to look at a long-term, bigger picture in Bristol Bay."

Fisherman Tom Tilden, a board member of Choggiung Ltd., the village corporation in Dillingham, told the governor that local residents desperately need work but he said concerns remain about the potential harm that drilling could do to the environment.

"I ask that you exercise caution. That is where we hunt," Tilden said. "There are some worries."

Residents are worried that if the project goes forward the big companies will snatch up all the jobs for their employees, said Hazel Nelson, president of Becharof Corp., the village corporation of Egik where the last oil well was drilled.

She told the forum that an army of fishermen have fled the region already to find work in construction in Anchorage.

"How are we going to make sure our people are employed?" she asked.

Commissioner of Labor Greg O'Clary said the governor has issued a directive that Alaska jobs go to Alaskans. He also asked Nelson for her help. He said local organizations need to work with the state to identify areas where job training will be needed.

Murkowski stressed that oil and gas development for the Bristol Bay area could provide a good future.

"Our policy is to maximize the jobs for local residents," he said.

State officials lead oil, gas talks in Naknek

By Rhonda Olsen

Bristol BayTimes

The Department of Natural Resources Division of Oil and Gas gave a presentation of the oil and gas exploration program for the Alaska Peninsula and the Bristol Bay region at a Bristol Bay Borough Assembly meeting last week.

The presentation was led by Mark Myers, director of the division, on behalf of Gov. Frank Murkowski and the Bristol Bay Native Corp.

"My job is to make this process as transparent and interactive as possible," said Myers in reference to the plan and public comment period.

He stressed the importance of "moving forward at the directive of the residents" through the process of evaluation.

Drilling began in this region in 1903. Early seismic data shows that oil and gas seeps are present at the surface.

Don Brizzolara, a geologist for DNR, showed geological charts and data on oil and gas in Bristol Bay and down the Alaska Peninsula.

"Every well on the north side of the peninsula has gas shows," explained Brizzolara. "We do know there is gas and oil out there."

Brizzolara stated that newer seismic data technology will better determine how much oil and gas is out there.

"All the elements are there," said Brizzolara. "Rocks, mudstone and shale tell the story."

He further explained that potential gas seeps are primarily in the Bristol Bay region while oil is further south down the peninsula, especially in the Port Moller area.

James Hansen, leasing manager for the Division of Oil and Gas, explained the two processes for oil and gas exploration - issuing an exploration license and lease sale.

Alaska's exploration licensing program encourages oil and gas exploration in remote areas of the state, and supplements the state's oil and gas leasing program. The holder of an exploration

license has the exclusive right to explore an area between 10,000 and 500,000 acres for up to 10 years.

"Licensing is on a faster track than lease sale," said Hansen. "The bidder willing to spend the most on exploration is awarded the license."

DNR received an exploration license proposal on Sept. 23 from an energy company, Hansen said. They expect another competing proposal by Nov. 25. If it's determined that an exploration license is in the state's best interests, a license will be awarded in September 2004.

Alaska's area-wide leasing program allows companies to submit sealed bids on tracts of land of up to 5,760 acres in size. The DNR commissioner sets the terms of the lease sale; the minimum acceptable per acre bid; the primary term of the lease; and the production royalty rate.

The highest bidder on a tract wins the right to explore that tract for oil and gas. However, no activity can take place without the required permits in place. All activity on an oil and gas lease must be in compliance with the Alaska Coastal Management Program and local coastal management district plans.

If it's determined that an area wide lease sale is in the state's best interests, a sale will be held in October 2005.

Hansen said that no offshore platform drilling would take place. The plan includes onshore drilling with the potential to tap the offshore resources through angle drilling from shore. All drilling would take place within the three-mile limit.

The financial benefits to the boroughs for oil and gas exploration discussed were property tax assessments on acres of exploration, infrastructure improvement due to new roads, and the possibility of local hires by the energy companies.

For up-to-date on-line information on oil and gas exploration check the Division of Oil and Gas Web page at www.dnr.state.ak.us/oil.

MEMORANDUM OF UNDERSTANDING

Between

ALASKA DEPARTMENT OF NATURAL RESOURCES

And

THE ALEUT CORPORATION

To

HOLD CONCURRENT OIL AND GAS LEASE SALES OF STATE AND TAC LAND IN THE ALEUT REGION & TO FACILITATE CONSTRUCTION OF A TRANSPORTATION INFRASTRUCTURE THAT WILL SUPPORT THESE DEVELOPMENT PROJECTS

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and The Aleut Corporation (TAC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and TAC is responsible for managing its 1.572 million acre mineral estate on behalf of its 3,250 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin including portions of the Aleut region on the Alaska peninsula has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Any discoveries of, and subsequent development of, commercial quantities of oil, gas, & mineral deposits in the Aleut region should benefit both the State of Alaska and TAC's shareholders.
- D. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent landowners to have similar land management and leasing programs in place.
- E. With TAC's support, the Alaska Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant to further evaluate the oil and gas potential of the Bristol Bay basin.
- F. The development of transportation infrastructure, as recommended by the Southwest Alaska Regional Transportation Plan, such as deep water ports, roads and airports, along the Alaska Peninsula should make oil, gas, and other mineral prospects more accessible, and thereby more economically feasible to explore and develop.

- G. The Alaska DNR, TAC, and BLM have been working collaboratively to rationalize ANCSA 17(b) and RS 2477 access issues.
- H. The Alaska DNR, TAC, and BLM have been working collaboratively to revoke obsolete federal land withdrawals in the Bristol Bay region.
- I. TAC supports the construction of an access road from Cold Bay to King Cove.

Agreements:

- The term of this MOU will be for five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- To the extent consistent with their respective interests and statutory or regulatory responsibilities, or corporate responsibilities, the Parties will work cooperatively to ensure that exploration and development activities are consistent with the land management and development plans of both Parties.
- The Parties agree that they will cooperate to ensure all development projects in the Aleut region are pursued in an environmentally responsible manner with maximum efforts to minimize impacts to fishery resources.
- TAC and the State of Alaska will work cooperatively to re-open offshore oil and gas prospects to exploration.
- Where reasonable to do so, the Parties will endeavor to synchronize the timing of their oil and gas-leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities.
- The Parties will communicate their development goals to other interested parties in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent legally permissible, information generated pursuant to this MOU may be kept confidential when requested in writing by a party to this MOU. Information released by a party to this MOU must credit the source of the information.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):

DNR Commissioner
State of Alaska DNR
550 W. 7th Ave., Suite 1400
Anchorage, AK 99501-3561

Chief Executive Officer
The Aleut Corporation
4000 Old Seward Hwy, #300
Anchorage, AK 99503

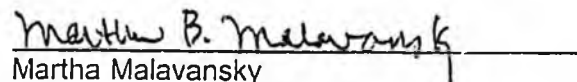
- This MOU may be terminated within thirty(30) days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.
- Others may become party to this MOU upon written consent of the Parties.

Approved:



Tom Irwin, Commissioner
Alaska Dept. of Natural Resources

12/18/03
Date



Martha Malavansky
President, TAC

12/18/03
Date

MEMORANDUM OF UNDERSTANDING

Between

ALASKA DEPARTMENT OF NATURAL RESOURCES

And

BRISTOL BAY NATIVE CORPORATION

To

**FACILITATE OIL AND GAS LEASE SALES ON STATE AND BBNC LAND IN
THE BRISTOL BAY REGION**

THIS MEMORANDUM OF UNDERSTANDING (MOU) is made and entered into by and between the Alaska Department of Natural Resources (DNR) and the Bristol Bay Native Corporation (BBNC), collectively referred to as "the Parties." The purpose of this MOU is to contribute to the achievement of common goals and objectives of the Parties and to establish an effective communication framework between the Parties.

Background:

- A. The DNR is tasked with managing the State of Alaska's land in southwest Alaska and the natural resources contained therein, including oil, gas, and minerals, and BBNC is responsible for managing its 3.1 million acre mineral estate on behalf of its 7,100 shareholders.
- B. Similar to the North Slope and Cook Inlet regions of Alaska, the Bristol Bay basin has been identified as having good potential for commercial quantities of oil and gas deposits.
- C. Exploration of oil and gas resources is a vital component to stimulating the local economy and providing jobs and economic opportunities in the region.
- D. The discovery of commercial quantities of oil and gas would provide an opportunity for low cost energy in the region, further stimulating the local economy.
- E. Any discoveries of commercial quantities of oil and gas in the Bristol Bay region will benefit both BBNC's shareholders and the State of Alaska, so it is in the best interest of the Parties to encourage exploration for such resources.
- F. BBNC has requested that the State facilitate on-shore oil and gas exploration in the region by holding annual areawide leasesales, beginning as soon as possible.
- G. Like other mineral deposits, oil and gas resources know no political boundaries, and it is often logical and desirable for two adjacent

landowners to have similar land management and leasing programs in place.

- H. With BBNC's support, the DNR's Division of Geological and Geophysical Surveys applied for a 3-year, \$700,000 U.S. Dept. of Energy grant (\$150,000 of cash and in-kind contributions to be provided by BBNC) to further evaluate the oil and gas potential of the Bristol Bay basin.

Agreements:

The Parties agree to the following provisions:

- The Parties will work cooperatively to facilitate oil and gas leasesales of state and BBNC lands in the region to be held as soon as feasible.
- The Parties will cooperate to ensure all development projects in the Bristol Bay region will be pursued in an environmentally responsible manner and will minimize impacts to fishery resources.
- The Parties will work cooperatively to convince the federal government to re-open federal offshore oil and gas prospects in the region to exploration.
- The Parties will endeavor to synchronize the timing of their oil and gas leasing schedule for their respective lands.
- The Parties will help facilitate the design and construction of a transportation network that will make oil, gas, and other mineral prospects more accessible and inter-connect communities in the region.
- The Parties will communicate their development goals to other interested entities in southwest Alaska, such as tribal organizations, village corporations, and borough and city governments.
- The Parties will not act contrary to applicable laws, regulations, policies, and procedures.
- To the extent allowable by statutes and regulations, the Parties will share information that will assist in accomplishing the objectives of this agreement.
- Where reasonable, the Parties will issue joint press releases on matters related to this MOU and will coordinate responses to media questions.
- Notices regarding actions under this MOU will be sent to (for each party):


DNR Commissioner
State of Alaska
550 W. 7th Ave., Suite 1450
Anchorage, AK 99501

Chief Executive Officer
Bristol Bay Native Corporation
800 Cordova Street
Anchorage, AK 99501

- The term of this MOU will be five (5) years from the effective date and can be extended for five-year periods thereafter with the written agreement of the Parties.
- This MOU may be terminated with thirty days written notice by either Party.
- This MOU can be modified upon written consent of the Parties.

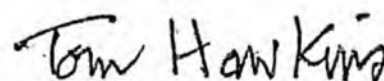
- Others may become party to this MOU upon written consent of the Parties.

Approved:



Thomas E. Irwin, Commissioner
Alaska Dept. of Natural Resources

7/10/03
Date



Tom Hawkins
SRVP & COO, BBNC

7.10.03
Date

4184
JP
TS



Bristol Bay Native Corporation

Enriching Our Native Way of Life

800 Cordova Street, Suite 200 / Anchorage, Alaska 99501-6299 / (907) 278-3602 / fax (907) 276-3924

VIA FEDEX & FAX: (907) 465-3532

June 26, 2003

Honorable Frank Murkowski, Governor
P.O. Box 110001
Juneau, Alaska 99811

Fax Received
JUN 26 2003
Office of the Governor

Subject: Support for Leasing Program in the Bristol Bay Region

Dear Governor Murkowski:

Residents of the Bristol Bay region sorely need your help in order for them to help themselves. We need you to institute an oil and gas leasing program in Bristol Bay. We've compared and contrasted the pros and cons of exploration licensing and leasing, and we believe that, for several reasons, the State's best option is to put its uplands on the leasing schedule.

First, the "leasing notice" is announced to a wider audience than the exploration licensing notice is. Second, leasing, since it includes rental, bonus, and minimum work commitment terms, generally generates more revenue and more information for the State. Lastly, the land leased can be more than the 500,000-acre "cap" imposed by the exploration-licensing program, and this may be more desirable from the industry's standpoint.

BBNC has embarked on a mission to reinvigorate the environmentally responsible exploration for, and development of, oil and gas resources in Bristol Bay. We've also received the blessing, by resolution, of several Bay-area organizations that recognize the need for more jobs and cheaper energy. I've attached copies of the fourteen resolutions I've received so far, which include both regional and village-level organizations.

If you have any questions, please call me at 1-800-478-3602.

Sincerely,
Paul C. Ruski

Paul C. Ruski
V.P., Land & Resources

Co: Tom Irwin, DNR Commissioner
Randy Ruldericht, AOGCC Commissioner
Mark Myers, DOG Director
BBNC Board of Directors

Post-It® Fax Note	2671	Date	6/26/03	Pages	2
To	Gov. Murkowski	From	Paul Ruski		
Co/Dept.	State of Alaska	Co.	BBNC		
Phone #		Phone #			
Fax #	(907) 465-3532	Fax #			

P.O. Box 189
NAKNEK, ALASKA 99633

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TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

October 22, 2003

RECEIVED

OCT 27 2003

DIVISION OF
OIL AND GAS

Commissioner Tom Irwin
Department of Natural Resources
550 W 7th Avenue, Suite 1400
Anchorage, Alaska 99501

RE: Bristol Bay Region: Oil and Gas Programs
Public Comments - Due October 30, 2003

Commissioner Irwin:

Please consider the following comments from the Bristol Bay Borough:

1. The Bristol Bay Borough Assembly is in strong support of the State of Alaska's recent efforts to advance oil & gas exploration in the Bristol Bay region.
2. The Bristol Bay Borough is committed to finalizing a Memorandum of Understanding with the Alaska Department of Natural Resources outlining critical areas of interest with respect to regional oil & gas development and outstanding municipal lands issues.
3. The Bristol Bay Borough is supportive of the continued public outreach evidenced to date by the State of Alaska on the Bristol Bay oil & gas exploration initiative and anticipates that this outreach effort will remain constant throughout the proposed development timeline.

DEPARTMENT OF
NATURAL RESOURCES

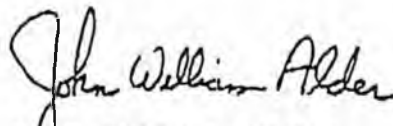
OCT 24 2003

COMMISSIONER'S OFFICE

Letter to Commissioner Irwin
October 22, 2003
Page 2

4. The residents of the Bristol Bay Borough are heavily dependent upon the robust regional fish & wildlife resources for subsistence needs. While the Bristol Bay Borough Assembly is in support of resource development, all development must proceed with due diligence in order to minimize potential negative impacts to the fish & wildlife resources.
5. Local knowledge of regional environmental conditions and fish & wildlife characteristics is one of our greatest resources in the Bristol Bay region. Accordingly, the Bristol Bay Borough recommends that all state agencies proceed throughout the oil & gas development process in a method that relies heavily upon local input. Any subcommittees or advisory panels empowered by the state should include local knowledgeable residents.
6. The Bristol Bay region has long suffered from seasonally sporadic employment. The regional oil & gas development initiative offers an exciting departure from the long winter season low employment cycle. The Bristol Bay Borough Assembly strongly urges the State of Alaska to continue in its expressed commitment to channel oil & gas employment training through the newly established Southwest Alaska Vocational Education Center (SAVEC) in King Salmon thereby enabling optimal local hire during exploration and development of potential oil & gas prospects.

Sincerely,



John William Alder
Borough Manager

cc: Mayor Michael Swain
Borough Assembly members