Alaska Oil and Gas Association

AOGA

121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907) 272-1481 Fax: (907) 279-8114
Email: moriarty@aoga.org
Kara Moriarty, Executive Director

COMMENTS OF THE ALASKA OIL & GAS ASSOCIATION
ON SB 209
SENATE RESOURCES COMMITTEE
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Co-Chairmen Paskvan and Wagoner, Members of the Committee: good afternoon. For the record, my name is Kara Moriarty and I'm the Executive Director of the Alaska Oil and Gas Association (AOGA). Thank you for the invitation and opportunity to testify on Senate Bill 209.

AOGA is a business trade association whose mission is to foster the long-term viability of the oil and gas industry for the benefit of all Alaskans. Our 16 member companies represent the breadth and scope of the industry in Alaska, and have interests all across Alaska, both onshore and offshore.

As I've mentioned in previous testimony, AOGA's members hold active leases for more than 1.2 million acres of state land.

AOGA does not support Senate Bill 209. This bill was described as being a "pro-development bill that simply seeks to get more oil in the pipeline." We respectfully and emphatically disagree. We think this bill would do the exact opposite and kill development before it even has a chance of happening because it will have a chilling effect on the very first step in the development process, the leasing program.

The current leasing system in Alaska is an "auction" system that is used on State land and is also used on federal lands in the Gulf of Mexico, offshore Alaska, and the National Petroleum Reserve. For state leases, the areas offered are quite small. By law, a lease cannot be more than 5,760 acres, or 9 square miles. The bid variable for the "auction" is almost always a cash bonus. The bonus is calculated by multiplying the number of dollars per acre bid by the number of acres contained in the lease. Whoever bids the most for each lease wins the exclusive rights to explore on that lease for the term of the lease. Every activity that is carried out on the lease requires permits. No permits are granted, or lately even guaranteed, as a result of the bidding process.

This bill seems to shift the current leasing program into a licensing program. Licensing is used around the world and comes in many different variations. Typically VERY large areas of land are made available to be licensed by competing companies. The licenses are often awarded based on the work commitment made. Typically there is no cash bonus. The winner is determined by how much work, and often the kind of work, the potential licensee is willing to do. Licenses are awarded for only very large tracts of land, and the jurisdiction usually provides seismic information and award permits in a much more expedient manner versus Alaska where state and federal permits take years, not months.

Alaska has had a licensing program for almost 20 years. Licenses are available for up to 500,000 acres of land and are based on a work commitment and there is no bonus bid. It is important to note, the current state licensing program is and was created for the exploration basins, not the producing provinces, so it is current statute that licensing cannot be used in the Cook Inlet or on most areas of the North Slope. When area wide leasing was established, it was clear the administration and legislature at the time saw the need for both systems, and the Legislature did not want to give up the bonus bids in those areas. In fact, the state's area-wide leasing program is one of the few bright spots of doing business in Alaska from a company's perspective because our leasing program is very consistent. SB 209 would create administrative burdens that will likely alter the certainty for timing and awarding of bids. Additionally, a number of licenses have been awarded and wells have been drilled, but it is crucial to point out, that no production has yet resulted from a license.

As I mentioned, licensing involves very large swathes of land. In doing some research, we evaluated an upcoming licensing round in Greenland, the entire licensing area is about 50,000 square kilometers. The individual licenses will be available within that area range from 420,000 acres to 940,000 acres. By comparison, the Prudhoe Bay field is about 215,000 acres. So the smallest license available is about twice the size of the entire Prudhoe Bay oilfield. Additionally, the smallest license available would contain about 72 state leases.

If the state wants to turn our current leasing program into a licensing program, then the state should evaluate all facets of a licensing program, such as providing much more seismic information up front and expedite permits in a more timely manner.

In evaluating this last lease sale on December 7, 2011, the State received over $14 million in high bonus bids, and leased almost 335,000 acres in 178 different tracts of land. Two currently producing companies participated in this sale, long-time Alaska company ConocoPhillips won 34 tracts, and one of the state's smallest producers, Pioneer Natural Resources submitted one bid, which it obtained for 1 tract. The other companies that participated were Royale Energy, Great Bear Petroleum, Repsol, 70 & 148 (a division of Armstrong), Woodstone Resources, Savant Alaska, Alaska LLC and individuals Dan Donkel, Samuel Cade, Paul Gavora, Andrew Bachner, and Keith Forsgren. I think it is important to note, that the two most recent producing fields, Oooguruk and Nikaitchuq, were leases originally obtained by one of these smaller companies and eventually sold and/or partnered with a producing company to explore and produce these leases.

Following the lease sale, the Commissioner of Natural Resources stated, “It was quite a respectable showing.” He went onto say, “I would say that there were some companies that I thought would show up who didn’t. It’s always hard to know why…” Sullivan said further, “These (lease sales) are just the first inning of a long term strategy… Here is the issue: We recognize the status quo is not working. A critical part of our five-point plan is tax reform.”

Even though the state received 219 bids for the North Slope area-wide lease sale, no bids were submitted for the same lease sale in the Foothills area.

Senate Bill 209 says that for each lease a company wants to submit a bid for, the bidder must submit a plan of development for that lease. So for this last North Slope Area-wide lease sale, 219 individual bids were received, and as I mentioned 178 tracks were sold. Under this legislation, the above bidders would have had to submit 219 individual plans of development for evaluation. Royale Energy would have had to submit 87 different plans of development, Great Bear 32 and Repsol 26. AOGA finds it hard to believe companies, especially smaller companies would have the ability and resources to submit detailed plans of development prior to submitting a bid for lease. The same concern rings true not only for the North Slope, but for Cook Inlet as well. Cook Inlet is experiencing a resurgence of interest and requiring a plan of development prior to a lease sale is impractical and unnecessary.

In addition, this bill would require companies to provide their own interpretation of each lease prior to bidding and determine how they will develop each lease without having the opportunity to evaluate each lease. The company may have limited seismic and may not have access to all the well data. The bidder may be working from a geologic concept that can’t be tested until they actually have the lease and are able to evaluate it. That’s what exploration is for, to test what is actually there, much in the same way Repsol is doing with their leases on state land, and what Shell is trying to do in the offshore. A company should not be forced into making unnecessary commitments before it has a robust opportunity to evaluate and understand what the potential of the lease might be.

Not one of my member companies believes this bill will result in more development or more oil in the pipeline. On the contrary, we believe that forcing companies to perform this intrusive exercise will do nothing more than drive out the very explorers Alaska is trying to attract.

Thank you for the opportunity to testify and I’m happy to take any questions the committee may have.