

**In the Matter Of:**  
**DNR PUBLIC WORKSHOP**

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**CHANGES TO OIL & GAS REGULATIONS**

*September 09, 2013*

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**DNR PUBLIC WORKSHOP ON POTENTIAL  
CHANGES TO OIL AND GAS REGULATIONS  
OFFSHORE PLATFORMS - REHABILITATION AND ASSURANCES**

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**Monday, September 9, 2013  
9:00 - 11:00 a.m.**

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**A-P-P-E-A-R-A-N-C-E-S**

**FACILITATOR:**

Bill Barron, Director, Division of Oil and Gas

**DNR PARTICIPANTS:**

Bill Barron, Director, Division of Oil and Gas  
Jennifer Owens, Petroleum Systems Integrity Office  
Matt Snodgrass, Commercial Section, Division of  
Oil and Gas

**Court Reporter:**

Sonja L. Reeves, RPR  
PACIFIC RIM REPORTING  
711 M Street, Suite 4  
Anchorage, Alaska 99501

1                   MR. BARRON: Good morning, everyone.  
2 Welcome to the public workshop on Offshore Platform  
3 South of the 68th Parallel Rehabilitation Plans and  
4 Assurances.

5                   I would like the Denai'na Center security to  
6 give us a briefing on evacuation plans for this  
7 building. Is she here? She is not here. She has  
8 evacuated.

9                   Okay. Well, we have been in this building  
10 enough to be able to tell you what to do. You will exit  
11 in the -- there is two exits in this room, one directly  
12 behind you, the door you came in, and there is one  
13 immediately to the back of this room.

14                  Just go down, use the stairwells that are in  
15 the main lobby or through the back entrance here has  
16 also got stairs connected to it, and exit the building  
17 and proceed to the street to a safe distance.

18                  While you may think that this is kind of one  
19 of those ho-hum kind of things that you do because we do  
20 it, as I was leaving the Atwood Building a moment ago,  
21 it was being evacuated, not for a drill, so we don't  
22 know what's going on at the Atwood Building, but it was  
23 being evacuated, so these are important messages.

24 Please keep that in mind.

25                  I'm going to introduce the team today and

1 hope we have a lively discussion on this. I'm Bill  
2 Barron, and I'm the Director of Oil and Gas for the  
3 State of Alaska.

4 Beside me is Jennifer Owens, part of our  
5 petroleum systems integrity office. And Matt Snodgrass,  
6 part of the commercial team. And Bob Pawlowski is the  
7 timekeeper, legislative liaison.

8 Also helping today is Dave Norton, also part  
9 of the petroleum systems. He is the Sergeant-at-Arms.  
10 Wendy Woolf, regulations project manager, door monitor.  
11 And Milca Fernando, also with PSIO. She is an intern  
12 and also at the door.

13 We also have today Becky Kruse and Ashley  
14 Brown, part of the Department of Law, to advise us on  
15 any procedural questions.

16 We have a court reporter, Gary -- that's not  
17 Gary. We have a court reporter with us today as well.

18 Please take time to silence your cell phones  
19 or other electronics now.

20 Thank you for joining us today. You may  
21 have thoughts about unrelated issues or other DNR  
22 regulations, but this workshop, we really want to hear  
23 from you about the content of rehabilitation plans, the  
24 ideas regarding assurances for offshore platforms south  
25 of the 68th parallel.

1                   For some of you who have attended public  
2 hearings or meetings in the past, this room may look  
3 like a public meeting or a hearing, but it is not. Let  
4 me explain.

5                   Today we are holding a workshop regarding  
6 potential regulations, which is different from a  
7 traditional public meeting or hearing for regulations  
8 that are out for public review and comment.

9                   Today's public workshop is an opportunity  
10 for DNR to receive input from the public before  
11 regulations are drafted and released for public review.  
12 This workshop is intended to gather ideas, thoughts and  
13 concerns from the public, to assist DNR in creating  
14 potential regulations regarding offshore platforms.

15                   We will do our best to answer your  
16 questions, but please understand that we may not have  
17 concrete answers. We are thinking and deliberating on  
18 these issues, just as you are.

19                   We would like this workshop format to feel  
20 flexible, so if you have a statement, make your  
21 statement. If you would like dialogue, we're happy to  
22 go back and forth with questions and answers. If you  
23 have ideas, we would love to hear them.

24                   A sign-in sheet is just outside this room.  
25 Please sign up by 10:00 a.m. if you wish to speak. If

1 we get to 11:00 and there are still people who have not  
2 had an opportunity to speak, we will extend the time  
3 until noon to accommodate those who have signed up to  
4 speak by 10:00 a.m. please be sure your name is on the  
5 list if you wish to speak today.

6 Each speaker will be called up individually  
7 and they will have three minutes to speak. If there is  
8 a question, the time used by DNR to respond to your  
9 question will not count toward your three-minute limit.

10 If time permits, we may go back to the top  
11 of the sign-in for people who want to speak again. When  
12 it's your turn to speak, please come up to the  
13 microphone, state your name, your first name and last,  
14 spell your last name and state who you are representing  
15 for the court reporter.

16 The timekeeper will indicate when you have  
17 one minute left, 30 seconds left, and when your time is  
18 up.

19 For those people on the phone, the operator  
20 will indicate when it's your turn to speak. We will be  
21 taking speakers from phone lines, interspersed with  
22 speakers from this room.

23 For those who do not wish to speak, there  
24 are remark sheets available at the sign-up desk and you  
25 can leave your written remarks, idea, thoughts or

1 questions with us today so that DNR can consider them as  
2 we deliberate this issue.

3 These will not be considered formal public  
4 comments however. The formal comment process will begin  
5 when DNR notices actual proposed regulations.

6 MS. OWENS: Operator, can you do a roll  
7 call, please?

8 THE OPERATOR: I have Alyssa Cole, Bill  
9 Bore, John Smith.

10 MS. OWENS: Thank you.

11 MR. BARRON: Okay. We will take the first  
12 speaker on the list here in the office, or in Anchorage.  
13 Kara Moriarty with AOGA, will you please come forward?

14 MS. MORIARTY: Good morning. For the  
15 record, my name is Kara Moriarty and I'm the executive  
16 director of the Alaska Oil and Gas Association, commonly  
17 referred to as AOGA.

18 We want to thank the department for  
19 establishing this workshop and for allowing our  
20 participation on the potential changes to regulations  
21 regarding rehabilitation plans and dismantlement,  
22 removal and restoration assurances, commonly referred  
23 to, I think, by the department and industry as DR&R.

24 As you know, our association represents  
25 companies on both the North Slope and Cook Inlet. And

1 as your background document describes, there are  
2 currently 16 offshore oil and gas platforms in Cook  
3 Inlet, and 14 of the 16 are either currently owned or  
4 operated by AOGA members.

5 As our member companies already have some  
6 type of assurance agreement with the state, it will be  
7 helpful to know, and that's why we think this workshop  
8 will be helpful for us, to know the state's intent for  
9 these potential regulations.

10 Is the intent to adopt a set formula that  
11 will apply to all operators, even if companies already  
12 have an existing agreement? Or is the intent of the  
13 state to establish new regulations or a formula for just  
14 future operators in Cook Inlet?

15 From AOGA's perspective, it is difficult to  
16 comment specifically on the sample formula in the  
17 background document without having a full appreciation  
18 of the state's intent, because we need to know if this  
19 formula will be prescriptive for all or will the state  
20 still make assurance decisions on a case-by-case basis  
21 with a formula to act as the guide?

22 I'll just tell you our initial preference  
23 would be to allow current agreements to remain in place  
24 and to allow the state the flexibility to determine  
25 assurances company by company.

1                   If the state intends to adopt what we're  
2 calling a one-size-fits-all model or formula, we will  
3 need additional time to provide feedback on the sample  
4 formula and potentially suggest other formulas or  
5 amendments to the formula for consideration.

6                   But, again, let me emphasize how much we  
7 appreciate this opportunity to have a dialogue back and  
8 forth in a public way about your intentions and goals,  
9 and we look forward to working with you on this topic.

10                  MR. BARRON: Thank you, Kara. Good feedback  
11 and good questions.

12                  Right now, the reason why we're having the  
13 workshop is we don't have the answers to those. Part of  
14 the conundrum the division and the state is facing is we  
15 do have different standards for different companies at  
16 this point.

17                  And what we're trying to do, I think, is  
18 what is right for the state and what's right for the  
19 industry and that's why -- and right for the public, is  
20 to have a standard that everybody understands what they  
21 are going to be expected to do and what the bonding  
22 associated with that activity should be.

23                  And, again, that's so that everybody knows  
24 what the playing field is. We haven't clearly -- and  
25 most of you know that in my background, clearly the

1 division, and myself as an individual, have thought long  
2 and hard about the platforms in the Inlet over many,  
3 many years, but yet we still have never really codified  
4 what should be done or when it should be done or how it  
5 should be done or how the bonding should be.

6 So that's why we're here, is we want to hear  
7 the feedback before we get too far down the path. So as  
8 I understand it, you would like to see the agreements  
9 that are currently in place with the companies that have  
10 the agreements to stay in place, and then everything  
11 else is point forward? Is that my understanding?

12 MS. MORIARTY: That is correct, Director. I  
13 think from our company's standpoint, they have made some  
14 investment decisions based on those agreements, and if  
15 they were to change, just like anything else in the  
16 industry, it would affect their future investment  
17 decisions.

18 And so I think from our standpoint we would  
19 like to see what remains is there or at least allow that  
20 flexibility moving forward.

21 MR. BARRON: Let me respond back to a side  
22 question. If there was a way to develop a system that  
23 would put your member companies in the same financial  
24 position they are today with their current process, if  
25 there was a system that could be designed to do that,

1 but yet then also be consistent in terms of procedural,  
2 is that something that your members would consider?

3 MS. MORIARTY: I think they would be open to  
4 examining that and open for that consideration, as long  
5 as it doesn't affect their current financial position  
6 with their current agreements.

7 MR. BARRON: Okay. Thank you. I appreciate  
8 it. The next person identified of interest is J.R.  
9 Wilcox.

10 MR. WILCOX: My name is J.R. Wilcox. I'm  
11 president of Cook Inlet Energy, and I would like to echo  
12 Kara's comments about thanking the division for the  
13 opportunity to ask questions.

14 As I'm sure you know, the Cook Inlet Energy  
15 operates one of the platforms in Cook Inlet, the Osprey,  
16 and currently has a DR&R agreement in place with the  
17 division.

18 Our first question would also be similar to  
19 AOGA's. We would be interested in whether the proposed  
20 regulations would impact the current agreement in place  
21 or whether the idea is to shape future agreements.  
22 That's question one there.

23 More broadly, we're interested in how the  
24 division is approaching the process, whether they are  
25 viewing this from a cost-benefit standpoint looking at

1 the benefits of development in Cook Inlet and the  
2 barrier that an overly conservative bonding standard  
3 would impose relative to whatever risks the division  
4 perceives from having a DR&R.

5 We are interested in what studies have been  
6 done about the level of DR&R that would be required that  
7 would be in the best interest of the state, whether full  
8 removal of platforms was the principal option being  
9 considered or whether other options were being  
10 considered, such as cleaning and abandonment or partial  
11 removal.

12 And we were interested in how the amount of  
13 DR&R bonds would be determined and whether there were --  
14 was consideration of different instruments to guarantee  
15 DR&R funding, such as insurance pools or use of the 404  
16 fund or similar.

17 MR. BARRON: Okay. Thank you, J.R. Let me  
18 kind of -- I think I fielded the first one in my  
19 response to Kara.

20 As far as -- let me bounce -- part of this I  
21 really want this to be kind of a give and take, so,  
22 J.R., let me ask you a question.

23 What do you think the disposition of the  
24 platform should be? Should there be full removal?  
25 Should there be abandon in place? What do you think is

1 the right thing to do?

2 MR. WILCOX: Well, I mean, I have got my own  
3 opinion, of course, but Cook Inlet Energy hasn't fleshed  
4 out a statement on that yet.

5 Just broadly, I think that if there is a  
6 real risk, then it's probably appropriate to look at how  
7 to address it, so it's easy to see where  
8 contamination -- any sources of hydrocarbon clearly need  
9 to get removed, but just the platform sitting there, is  
10 that necessarily worse for the state than knocking it  
11 over and having it on the floor?

12 I'm not sure that's so obvious, and that's  
13 where the majority of the expense would lie.

14 MR. BARRON: I appreciate that. Part of the  
15 -- again, in order to try and engage discussion, one of  
16 the things that we are looking at and thinking about is  
17 if it stays in place and the lease is -- the production  
18 is done and the leases are returned to the state, who is  
19 responsible for that facility?

20 Is that a state's responsibility? Is that  
21 the previous leaseholder's responsibility. At the end  
22 of the day, who is responsible for that platform? Who  
23 is responsible for maintenance? Who is responsible for  
24 cathodic? Who is responsible for nav aids? Who becomes  
25 the responsible party?

1                   So if you have got some thoughts on that, I  
2 would appreciate your input.

3                   MR. WILCOX: I would just observe that the  
4 cost of maintaining the platform in a lighthouse mode  
5 with adequate navigational beacons and CP would be  
6 minute compared to the cost of full removal.

7                   MR. BARRON: Okay. As far as the -- your  
8 question relative to bonding and finances, I'll pass  
9 that to Matt.

10                  MR. SNODGRASS: So, J.R., the question I  
11 heard is have we really thought about the cost benefit  
12 of bonding. And I think as you sort of look at what we  
13 have put out and as we sort of march towards and try and  
14 sort of cement our thinking around these issues, this  
15 cost-benefit question is exactly what we're trying to do  
16 here.

17                  It's exactly the sort of effort to try and  
18 measure the risks and help offset those risks in an  
19 appropriate way that don't extract undue amounts of  
20 capital on projects, but help protects the state's best  
21 interest. This sort of cost-benefit analysis is exactly  
22 what we're trying to undertake here.

23                  MR. WILCOX: That's good, so there is a  
24 recognition.

25                  MR. SNODGRASS: There is.

1                   MR. WILCOX: If you ask for a billion  
2 dollars, you're not going to get any new platforms.

3                   MR. BARRON: Probably wouldn't get the  
4 billion dollars either. Okay. Your time has expired,  
5 J.R. I appreciate it. Thank you.

6                   Let's go to the phone. Operator, can you  
7 give us the first respondent on the phone, please?

8                   THE OPERATOR: This is the conference  
9 operator. A few of the people on line are having a hard  
10 time hearing you. I don't know if you can adjust your  
11 microphone there in the room.

12                   I don't have anyone going into questions.

13                   MR. BARRON: Thank you, operator. Back in  
14 Anchorage now, the next person on the sign-up sheet is  
15 Bruce Webb. Mr. Webb?

16                   MR. WEBB: My name is Bruce Webb. I'm  
17 vice-president of Furie Operating Alaska.

18                   As the others have said, we appreciate this  
19 opportunity to speak and let our comments be heard. As  
20 you know, Furie is a new exploration company in the Cook  
21 Inlet, and we're emerging into the beginnings of  
22 production and development.

23                   Next year, we'll have, hopefully, our first  
24 platform in about 20 years placed in the Cook Inlet. So  
25 we're uniquely positioned to be very concerned about

1 what these regulations may do for us, especially  
2 financially.

3 We understand that there is inherent  
4 disagreements between the State of Alaska in bonding in  
5 companies like us, because the state wants to insure the  
6 platforms are abandoned to their standards and the cost  
7 of that is incurred whether the company remains in  
8 business or not.

9 Likewise, the company needs the income and  
10 flexibility to use the funds to continue development,  
11 and we just hope that the state sees that and considers  
12 it. That's basically it.

13 MR. BARRON: Thank you, Mr. Webb. Yeah,  
14 again, as Mr. Snodgrass, Matt, referenced, we do have  
15 that -- we do understand that tension. But, again, part  
16 of the goal is how do we at the state work with the  
17 industry and with the public at large to establish what  
18 is the best thing to do in the state's best interest,  
19 the public's best interest and the industry.

20 There is a way to do this. We're trying to  
21 figure that out right now, but at the end of the day,  
22 the question that I asked Mr. Wilcox is at the end of  
23 the day, AOGA's question still is: If you walk away  
24 from it, who is responsible for it?

25 If that's going to be a state

1 responsibility, is that the right -- is that the right  
2 answer? Again, that's the healthy tension between  
3 capital today versus liability tomorrow, and how does  
4 the state protect itself from being the last man  
5 standing. Again, I appreciate your thoughts and  
6 comments.

7 Operator, is there anyone else on the phone  
8 that now wishes to speak?

9 THE OPERATOR: Go ahead with your question.

10 UNIDENTIFIED SPEAKER: I can't hear  
11 anything. I can't hear what they are saying at all.  
12 It's just kind of a mumble in the background, so I can't  
13 ask a question. Thank you.

14 MR. BARRON: We're endeavoring to make the  
15 phone communications work as best we can.

16 Operator, can you query if this is the mic  
17 that can or cannot be heard.

18 THE OPERATOR: I can hear you, sir.

19 MR. BARRON: Can this mic be heard?

20 THE OPERATOR: I can hear you, sir.

21 MR. BARRON: Back into Anchorage, we have  
22 another signer. David Hall, would you please join us?  
23 What we can do -- that's all that have signed up to  
24 speak. We can start back at the top of the list again.

25 Kara, would you like to have any additional

1 comments?

2 MS. MORIARTY: Not at this time, Director.

3 Thank you.

4 MR. BARRON: J.R., you're back on if you  
5 care to join us. And Bruce just left the room.

6 Is there anyone in the audience that would  
7 like to step forward and make a comment or ask a  
8 question, please?

9 MR. MUNGER: For the record, Michael Munger,  
10 executive director of the Cook Inlet Regional Citizens  
11 Advisory Council, or Cook Inlet RCAC.

12 I'll echo all comments by the commenters  
13 this morning. I do appreciate the opportunity and the  
14 forward thinking of DNR to have a workshop concerning  
15 the proposed regulations or getting some ideas before  
16 you put a straw man out.

17 I did want to inform DNR that the council,  
18 and I know that you're aware of this, Mr. Barron, that  
19 we produced a report on DR&R for the Cook Inlet  
20 platforms in 2005. We will be updating that to try to  
21 bring it more into the current year, if you will.

22 There should be some revisions to that  
23 report. We look forward to commenting on the  
24 regulations when they do become available, as we do with  
25 all oil-related activities in Cook Inlet, so I

1 appreciate the opportunity.

2 MR. BARRON: Thank you, Mike. Can you make  
3 sure that your updated 2005 report is sent into my  
4 office?

5 MR. MUNGER: Absolutely.

6 MR. BARRON: Thank you very much. We have a  
7 new attendee, Richard Fineberg, I believe that's  
8 correct.

9 MR. FINEBERG: Richard Fineberg, as an  
10 independent testifying. I would like to point out just,  
11 it may be obvious, but I think it should be stated, that  
12 DR&R is not a capital investment in the normal sense.

13 It is a set aside for future spending. It  
14 should be distinguished, and the state has often failed  
15 to make that distinction operationally in the past.

16 Number two, I had a second thought that  
17 flows from that and I hadn't jotted it down. I have  
18 lost it. Forgive me for taking the time.

19 MR. BARRON: That's quite all right. Just  
20 take your time.

21 MR. FINEBERG: Let me move on. I have some  
22 recommendations going from -- oh, point two that I had  
23 not written down because we just got there, there have  
24 been tremendous overcharges in the past and it has  
25 anti-competitive implications also.

1                   This has been a long history. I'm referring  
2 to the Trans-Alaska Pipeline in particular as my main  
3 case study.

4                   I have some recommendations from a report I  
5 did in 2004 that I would like to read. One, pipeline  
6 owners should be required to establish external trust  
7 accounts for the receipt of all past and future  
8 expenditures.

9                   Two, the regulation should be developed to  
10 insure that DR&R collected is sufficient and will be  
11 employed in a timely manner. And I would assume that  
12 means that the lighthouse should be covered also, but I  
13 didn't state that and that's not self-evident.

14                   Three, because the uncertainties in long  
15 range are inherent in the situation, making it  
16 difficult, if not impossible, to forecast the amounts,  
17 all petroleum collections should be reviewed and updated  
18 periodically to insure that the levels are appropriate.

19                   I will try to get there as quick as I can,  
20 only two short ones to go.

21                   The regulation should be crafted with  
22 attention to the distinction between the independents  
23 and the owner operators, if it's a pipeline, and that  
24 may be true for platforms.

25                   May I do the fifth or do you want to call

1 time?

2 MR. BARRON: Go ahead. We have got some  
3 latitude of time.

4 MR. FINEBERG: Thank you, sir. We need  
5 maximum transparency. I think -- I want to make sure  
6 what I said in the first, was it clear, an external  
7 trust fund.

8 What I'm trying to say is the funds should  
9 reside somewhere else than with the industry. It should  
10 perhaps be escrowed, would probably be the key word  
11 there. And that was in my first recommendation from  
12 2004.

13 MR. BARRON: Is your report a public  
14 document?

15 MR. FINEBERG: Yes.

16 MR. BARRON: Can you insure that the  
17 division receives a copy of it?

18 MR. FINEBERG: I can tell you where it is on  
19 my website. We can resolve that right now.  
20 Finebergresearch.com, and you can find it when you need  
21 it.

22 MR. BARRON: Thank you, sir. And I believe  
23 that Mr. Hall has joined us again. David, would you  
24 like to speak?

25 MR. HALL: I think in light of J.R. already

1 captured the same issues, I would just be repeating.

2 MR. BARRON: Just to make sure, you did sign  
3 in as a yes, and now you're saying that J.R. covered  
4 your comments?

5 MR. HALL: Correct.

6 MR. BARRON: Thank you very much. Operator,  
7 we'll try the phone one more time.

8 THE OPERATOR: I don't have anyone coming in  
9 to queue, sir.

10 MR. BARRON: Back to the general audience in  
11 Anchorage. Is there -- I'll open the floor back up. Is  
12 there anyone who cares to make a comment or ask a  
13 question? In the back, please join us.

14 MR. DEVALPINE: My name is Andrew DeValpine.  
15 I just have a question as a member of the public,  
16 although I do work for the Division of Oil and Gas.

17 MR. BARRON: Can you spell your last name,  
18 please?

19 MR. DEVALPINE: Yes, D-e-V-a-l-p-i-n-e. The  
20 comment, I guess, is mineral companies now, and I  
21 understand this to be a change in their approach over  
22 past historical practices, they plan for reclamation and  
23 closure from the beginning in planning their entire life  
24 of the mine.

25 I guess my question is, and it perhaps

1 reflects a lack of understanding of how it works in the  
2 oil industry, but why wouldn't that be possible for a  
3 developer of an offshore field to work that -- to work  
4 that kind of concept in regarding platforms?

5 And I wouldn't expect you to have any answer  
6 to that. I guess it's a comment and maybe a question  
7 for the folks in the room, but that's all I had.

8 MR. BARRON: Thank you very much. I can  
9 take a bit of a stab at a general discussion about the  
10 difference between mining and oil and gas, and that is,  
11 part of it, one, is a federal requirement by the mining  
12 industry to have that established on bonding and  
13 reclamation from the outset before the project takes  
14 place, at least that's my understanding of federal  
15 statutes.

16 In terms of the oil and gas industry, that  
17 is something that is quite foreign to that industry.  
18 The industry has a long history of building facilities  
19 and installations and then selling those to new owners  
20 and not necessarily at all ever taking into account the  
21 final disposition of those, those facilities or assets.

22 That goes along with the property sale, and  
23 that's a liability that the new owner typically picks up  
24 as part of the negotiated settlement in the acquisition.  
25 So that's just a difference between the two industries.

1 One is required by federal law, and the oil and gas  
2 industry does not have that federal requirement, so the  
3 industry itself has never embraced that kind of process.

4 Anyone want to clarify that with more  
5 detail, please come to the mic. I believe those are  
6 correct responses.

7 MR. DEVALPINE: This is Andrew Devalpine  
8 again. I guess that just raises the question for me  
9 then, could the state, even though the feds haven't done  
10 that historically, is that an approach the state could  
11 adopt?

12 MR. BARRON: In response to that, that's  
13 something that we might consider. I think that is  
14 something that we would have to give some long and hard  
15 thought about, because that would be a significant  
16 change for this industry in particular.

17 That's not necessarily something that we  
18 would shy away from. It would be something we would  
19 have to engage in robust dialogue with all interested  
20 parties.

21 MR. WATT: Jim Watt, Buccaneer Alaska. I  
22 would like to comment in terms of the funding of future  
23 abandonment from an industry perspective.

24 It's been my experience that for large  
25 abandonments in particular that a sinking fund is

1 established quite often within the corporate balance  
2 sheet. So in essence that's a unit of production  
3 funding, so you take the reserve, proven reserves, often  
4 -- (indiscernible) -- as a whole number and you divide  
5 that yearly in terms of what you produce. And based on  
6 your expected abandonment costs, you set aside those  
7 funds.

8 So hypothetically at the end of the  
9 producing life, crude develop producing reserves, then  
10 you would have the abandonment funds to carry out that  
11 process. And I think that that is far better in terms  
12 of how the state may look at this, in particular for  
13 asking for full bonding up front.

14 For smaller companies that is in essence  
15 asking for additional capital up front. That certainly  
16 will curtail activity in the basin, and that maybe the  
17 sinking fund approach would be something for  
18 consideration.

19 MR. BARRON: Thank you very much. I have a  
20 follow-up question for you, sir.

21 If the state were to consider a sinking fund  
22 option, which we appreciate your input on, how would the  
23 state then insure that those funds that have been  
24 secured by the initial company or company A are passed  
25 on to the subsequent company B, company C?

1                   In the normal trend of the industry  
2 properties are sold numerous times in the course of its  
3 life. If there was a subsequent sale, how could the  
4 state then insure that that sinking fund was passed to  
5 the next company?

6                   MR. WATT: As I stated before, that's a part  
7 of the transaction that companies go through now. I  
8 think that the state needs to be comfortable that with  
9 the remaining reserves at the point of that transaction  
10 that that fund can be funded over the life of those  
11 reserves. I would say that would be the focus of the  
12 state.

13                  MR. BARRON: What I'm trying to understand  
14 is while that may be part of the transaction between  
15 those two companies, again, the question is, at the end  
16 of the life of the facility, how does the state insure  
17 that those funds are still able for the state to secure  
18 in the need for that abandonment.

19                  If the next player just leaves, how do we  
20 make sure that those funds are available to the state?  
21 Any ideas?

22                  MR. WATT: Well, I guess your question, at  
23 the point of transaction of sale, if there is  
24 abandonment funds set aside, would those funds be made  
25 available to the new acquirer? Is that your question?

1 MR. BARRON: That's part of it, yeah.

2 MR. WATT: Well, normally, in the terms of a  
3 transaction, the future abandonment costs are estimated,  
4 and that lessens the value of the transaction. So you  
5 know, that's kind of how it's viewed, so there is a  
6 future estimate of value of costs to abandonment, and  
7 then that's established as a transaction price.

8 So in essence, there is no transfer of funds  
9 from one company to another. It's realization of the  
10 future abandonment costs.

11 MR. BARRON: But in that scenario, at no  
12 time does the state actually have call on any of those  
13 funds; is that correct?

14 MR. WATT: That is correct.

15 MR. BARRON: Thank you for your comments.  
16 Any other comments from Anchorage? Operator, anyone on  
17 the phone, please?

18 MR. TUNSETH: My name is Ryan Tunseth. I  
19 work for XTO Energy. My comments are not from the  
20 company XTO Energy, but more as a concerned citizen. My  
21 last name is spelled T-u-n-s-e-t-h.

22 And thank you for your time this morning. I  
23 guess what I would really like to say is, you know, in  
24 all of these discussions about abandonment, and this is  
25 maybe something that's addressed in the --

1 (indiscernible) -- report, I'm not sure, but it seems  
2 like we really need to identify what that means as far  
3 as lighthouse status, complete removal, et cetera,  
4 because there may be benefits to the state to have  
5 platforms in the Inlet.

6 I'm not sure that we have looked at ice  
7 conditions and how navigational considerations would  
8 change. And so rather than going down the road of  
9 understanding what the funding requirements are, it  
10 seems like the first thing needs to be what will  
11 abandonment actually look like.

12 And that, to me, is probably going to be  
13 very much a case-by-case determination. Thank you for  
14 your time.

15 MR. BARRON: Thank you very much for your  
16 comments. Mr. Hall?

17 MR. HALL: David Hall with Cook Inlet  
18 Energy. I had a question. I had heard just a little  
19 bit of if full abandonment, DR&R was going to be  
20 required, and I think the underlying question, if it is,  
21 how much. And that's a big question for us too.

22 And I think our opinion is there needs to be  
23 more review and more studies done. I concur with the  
24 last caller. There needs to be a comprehensive review  
25 of the impacts if the platforms are fully removed at the

1 appropriate time and what does that look like.

2 There also may be some interim step too, if  
3 there is going to be a bond required, perhaps it could  
4 be just for something for lighthouse conditions.

5 I mean thinking back at the Osprey platform,  
6 whenever it had gone through the abandonment with the  
7 previous operator, if the platform would have been DR&R  
8 removed at that time, there would have been an amount of  
9 reserves left behind, so I think there has got be a  
10 pretty good review of the impacts if the platforms are  
11 going to be removed.

12 MR. BARRON: Very good. Thank you very  
13 much. Any other interested party wanting to make a  
14 comment? Back to my script.

15 If no one else wants to speak, we will take  
16 an at ease, but we will be here until 11:00. We will go  
17 off record, Court Reporter, but we will reconvene if the  
18 need arises.

19 Thank you for participating today. We will  
20 now go at ease.

21 (There was a break.)

22 MR. BARRON: Okay. Well, it is now,  
23 according to my clock, approximately 11:00. And we will  
24 continue -- let's see -- today's workshop -- hang on a  
25 minute. Get to the right point in the script.

1 All right. If today's workshop sparks  
2 additional ideas or comments, remarks that you would  
3 like to share with us, please submit them in writing by  
4 this Friday, September 13th, to Jennifer at  
5 jennifer.owens@alaska.gov.

6 A transcript of this meeting will be posted  
7 on the division website. The next step in the  
8 regulation process is for DNR to consider the input we  
9 received today and deliberate internally to prepare  
10 draft regulations.

11 DNR will consult with other state agencies  
12 during this deliberation, then DNR will make public  
13 notice of a public review draft of the proposed  
14 regulations, giving the public an opportunity to review  
15 and comment on the proposed regulations.

16 If you want your name added to the Division  
17 of Oil and Gas e-mail distribution list for regulations,  
18 please see Wendy Woolf or e-mail Wendy.

19 For more information about the regulations  
20 adoption process, you can go to Department of Law's  
21 website and review drafting manual for administrative  
22 regulations.

23 Thank you very much for attending and  
24 participating in this process. This will close the  
25 public meeting. Thank you.

1 Thank you, Operator. We're off line.

2 THE OPERATOR: Sir, I do have a question on  
3 line now at this time. Never mind. He hung up now.  
4 Thank you.

5 MR. BARRON: Operator, is there someone on  
6 line?

7 THE OPERATOR: There was a gentleman that  
8 was holding while you were doing that announcement and  
9 as soon as you finished, he hung up, so not at this  
10 time. You're the only one on line.

11 MR. BARRON: The public meeting is closed.  
12 Thank you.

13 (Proceedings concluded at 11:00 a.m.)

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CERTIFICATE

I, SONJA L. REEVES, Registered Professional Reporter and Notary Public in and for the State of Alaska, do hereby certify that the foregoing proceedings were taken before me at the time and place herein set forth; that the testimony and proceedings were reported stenographically by me and later transcribed by computer transcription; that the foregoing is a true record of the testimony and proceedings taken at that time; and that I am not a party to nor have I any interest in the outcome of the action herein contained.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal this 12th day of September 2013.

\_\_\_\_\_  
SONJA L. REEVES, RPR  
My Commission Expires 8/7/15

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