

Oil and Gas Lease Litigation

FY2007 Request: \$1,500,000
Reference No: 43298

AP/AL: Appropriation
Category: Development

Project Type: Planning

Location: Statewide

Contact: Nico Bus

House District: Statewide (HD 1-40)

Contact Phone: (907)465-2406

Estimated Project Dates: 02/01/2007 - 06/30/2010

Brief Summary and Statement of Need:

This project will help offset the costs of litigation arising out of the Department of Natural Resources's (DNR) exercise of the state's rights under its leases and the unit agreement (Point Thomson appeal). This request will help fund the costs of outside experts and legal counsel.

Funding:	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>Total</u>
Gen Fund	\$1,500,000						\$1,500,000
Total:	\$1,500,000	\$0	\$0	\$0	\$0	\$0	\$1,500,000

<input type="checkbox"/> State Match Required	<input checked="" type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:

This is new project funding.

Project Description/Justification:

This CIP request will provide funds that may be expended directly by DNR or that may be RSA'd to the Department of Law to pay exclusively for contracts with outside counsel and experts to assist with the appeal of the Point Thomson Unit decision currently before the courts and additional litigation relating to lease terminations.

In November 2006, the DNR commissioner issued a decision on the Point Thomson Unit which terminated the unit. In December 2006, ExxonMobil filed an appeal in the Superior Court. The state will need to respond to motions and briefs in a timely manner to ensure that this case continues to come to a conclusion as quickly as possible. There is also the possibility of a subsequent Supreme Court appeal in which the state will also need to respond.

The commissioner's decision to terminate the unit impacts the terms of the underlying leases. The unit operator has threatened litigation. DNR needs to be able to defend the state's interests in these lands.

Hiring outside counsel and expert witnesses will ensure that the Point Thomson Unit appeal continues to move through the legal process in a timely manner. It will also help ensure that the state has all the necessary resources on this appeal which will deal with the state's basic rights under its leases and unit agreements. Billions of dollars in state revenues are at stake. In addition, exercise of the state's rights might affect future actions.

Why is this Project Needed Now:

The Point Thomson appeals were filed in Superior Court in December 2006, so funding is not in the FY 07 or FY 08 budgets. It is important that as this appeal progresses, the state have access to experts to see this appeal through to conclusion. The appeal may take three years if appealed through the Alaska Supreme Court.