



ALASKA STATE LEGISLATURE

HOUSE LABOR & COMMERCE COMMITTEE

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Sponsor Statement

HB 198

House Bill 198 proposes changes to the oil and gas leasing statutes to provide the Commissioner of the Department of Natural Resources with the ability to grant a one-time extension to the primary term of an oil and gas or gas only lease. Under Alaska Statute AS 38.05.180(m), oil and gas leases may be extended automatically (1) if and for so long as oil or gas is produced in paying quantities from the leased area, or (2) if the lease is committed to a unit approved by the Commissioner of the Department of Natural Resources.

The bill would amend AS 38.05.180(m) to provide the Commissioner of the Department of Natural Resources (or their designee) the discretion to grant a one-time lease extension to the primary term of up to five (5) years with the total primary period of the lease and extension, not to exceed ten (10) years.

The Commissioner of the Department of Natural Resources may grant a one-time lease extension if such extension is in the best interest of the state. This legislation ensures that any lease extension will not tie up leases indefinitely, but instead will move lessees towards exploration and production. In considering whether to grant an extension, the commissioner shall consider the funds expended by the lessee to explore and develop the lease and the types of work completed by or on behalf of a lessee. In granting a one-time lease extension, the Commissioner may impose a minimum work commitment as a condition of any extension, which could include:

- Detailed description of the type and amount of work to be completed;
- Type and /or amount of data to be collected;
- Estimate of dollars to be expended; and
- Requiring a lessee to post a performance bond.

If a lease extension is granted, the rental rate for the last three years of a lease extension shall increase to \$250 per acre per year; however, the commissioner has the discretion to reduce this increased rental rate if it is determined that a lessee has exercised reasonable diligence in exploring and developing the lease during the primary term.

A lessee must submit a lease extension request in writing no later than 180 days prior to the lease expiration date, except during calendar year 2013. For existing leases with a primary term ending less than 90 days after the effective date of the Act, the lessee must submit an application for extension at least 30 days before the expiration date of the primary term, or within 10 days of the effective date of this act.