SENATE BILL NO. 96

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - FIRST SESSION

BY SENATOR MICCICHE

Introduced: 4/3/13
Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

"An Act relating to the primary period of an oil and gas or gas only lease and the extension of a lease; relating to terms to be included in an oil and gas or gas only lease; relating to rental for an oil and gas or gas only lease; and providing for an effective date."

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

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

(h) The commissioner may include terms in any lease imposing a minimum work commitment on the lessee. **<u>Except as provided in (m) of this section, these</u>** [THESE] terms **<u>must</u>** [SHALL] be made public before the sale, and may include appropriate penalty provisions to take effect in the event the lessee does not fulfill the minimum work commitment. If it is demonstrated that a lease has been proven unproductive by actions of adjacent lease holders, the commissioner may set aside a work commitment. The commissioner may waive for a period not to exceed one two-year period any term of a minimum work commitment if the commissioner makes a written finding either that conditions preventing drilling or exploration were beyond the lessee's reasonable ability to foresee or control or that the lessee has demonstrated through good faith efforts an intent and ability to drill or develop the lease during the term of the waiver.

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

(m) An oil and gas lease or a gas only lease must cover a reasonably compact area not exceeding 5,760 acres, and may be for a maximum period of 10 years, except that the commissioner may issue a lease for a period not less than five years upon a finding that it is in the best interests of the state. An oil and gas lease **<u>or gas only lease</u>** shall be **<u>extended beyond its primary term</u>** [AUTOMATICALLY EXTENDED] if**<u>, at the end of the primary term, oil or gas is produced in paying quantities from the lease</u>** and for so long thereafter as oil or gas is produced in paying quantities from the lease or if the lease is committed to a unit approved by the commissioner**<u>. If a lease is not automatically extended under this subsection, the commissioner may approve a one-time extension of the primary term of an oil and gas lease or gas only lease upon written application by the lessee if the commissioner finds that the extension is in the best interest of the state. A person requesting a one-time extension must send the request to the commissioner at least 180 days before the expiration date of the primary term of the lease. The length of the primary term of the lease combined with the term of the one-time extension may not exceed a total of 10 years. The commissioner may consider the funds expended by the lessee to explore and develop the lease, the types of work completed by or on behalf of a lessee, and any other relevant information in deciding whether to extend the lease. Notwithstanding the provisions in (h) of this section the commissioner may condition a lease extension on posting of a performance bond by the lessee, meeting a minimum work commitment, or both. The work commitment, if required, must be expressed in terms of money to be spent or type and amount of work to be performed</u>** [, AND A GAS ONLY LEASE SHALL BE AUTOMATICALLY EXTENDED IF AND FOR SO LONG THEREAFTER AS GAS IS PRODUCED IN PAYING QUANTITIES FROM THE LEASE OR IF THE LEASE IS COMMITTED TO A UNIT APPROVED BY THE COMMISSIONER]. A lease issued under this section covering land on which there is a well capable of producing oil or gas in paying quantities does not expire because the lessee fails to produce oil or gas unless the lessee is allowed reasonable time to place the well on a producing status. Upon extension, **if oil or gas is produced in paying quantities from the lease or the lease is committed to a unit approved by the commissioner,** the commissioner may increase lease rentals so long as the increased rental rate does not exceed 150 percent of the rate for the preceding year. **If the commissioner grants a one-time lease extension, upon extension, the rental for the last three years of a lease extension shall increase to $250 an acre for each year, except that, at the commissioner's discretion, the rental may be less than $250 an acre if the commissioner determines that a lessee has exercised reasonable diligence to explore and develop the lease during the primary term.** If drilling**, including operations such as redrilling, sidetracking, or using other means necessary to reach the originally proposed bottom hole location,** has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence [, INCLUDING SUCH OPERATIONS AS REDRILLING, SIDETRACKING, OR OTHER MEANS NECESSARY TO REACH THE ORIGINALLY PROPOSED BOTTOM HOLE LOCATION], the lease continues in effect until 90 days after drilling has ceased and for so long thereafter as oil or gas is produced in paying quantities. An oil and gas lease or a gas only lease issued under this section **that** [WHICH] is subject to termination by reason of cessation of production does not terminate if, within 60 days after production ceases, reworking or drilling operations are commenced on the land under lease and are thereafter conducted with reasonable diligence during the period of nonproduction.

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

(n) The commissioner may establish by regulation that after a well has been plugged and abandoned, the rental rate **that** [WHICH] was in effect during the year of abandonment is maintained for the remainder of the term. Rental is payable in advance and continues until income to the state from royalty or net profit share exceeds rental income to the state for that year. **Except as provided in (m) and (w) of this section** [UNDER THIS SUBSECTION],

(1) **an** [LEASES FOR] oil and gas or [FOR] gas only **lease must** [SHALL] provide for payment to the state of rental on the following basis:

(A) for the first year, $1.00 **an** [PER] acre;

(B) for the second year, $1.50 **an** [PER] acre;

(C) for the third year, $2.00 **an** [PER] acre;

(D) for the fourth year, $2.50 **an** [PER] acre;

(E) for the fifth and following years, $3.00 **an** [PER] acre;

(2) if the lessee under a gas only lease demonstrates to the commissioner that the potential resources underlying the lease are reasonably estimated to be only nonconventional gas,

(A) the rental payment is $1.00 **an** [PER] acre until the lease expires or paying quantities of conventional oil or gas are discovered underlying the lease; and

(B) if the nonconventional gas produced will not be in direct competition with gas on which a royalty at a rate of at least 12.5 percent is payable, then the royalty share payable to the state on all production of gas from the pool attributable to that lease shall be 6.25 percent based **on** [UPON] production delivered in pipeline quality and free of all lease expenses, including separation, cleaning, dehydration, gathering, salt water disposal, and preparation for transportation off the lease.

*** Sec. 4.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION. A lessee of an oil and gas lease or gas only lease for which the primary term of the lease ends within 180 days after the effective date of sec. 2 of this Act that chooses to apply for a one-time extension of the primary term of the lease under AS 38.05.180(m), as amended by sec. 2 of this Act, must submit a written application for the extension 30 days before the end of the primary term of the lease or within 10 days after the effective date of sec. 2 of this Act.

*** Sec. 5.** This Act takes effect immediately under AS 01.10.070(c).