

HB82 Gas Leases, Renewable Energy Grant Fund

Presented by
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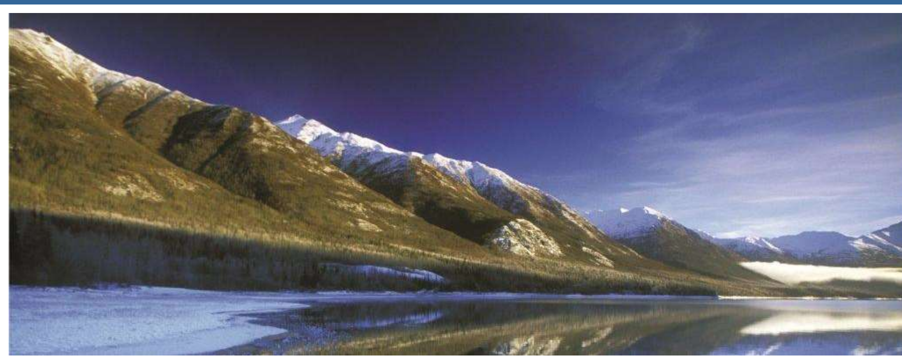


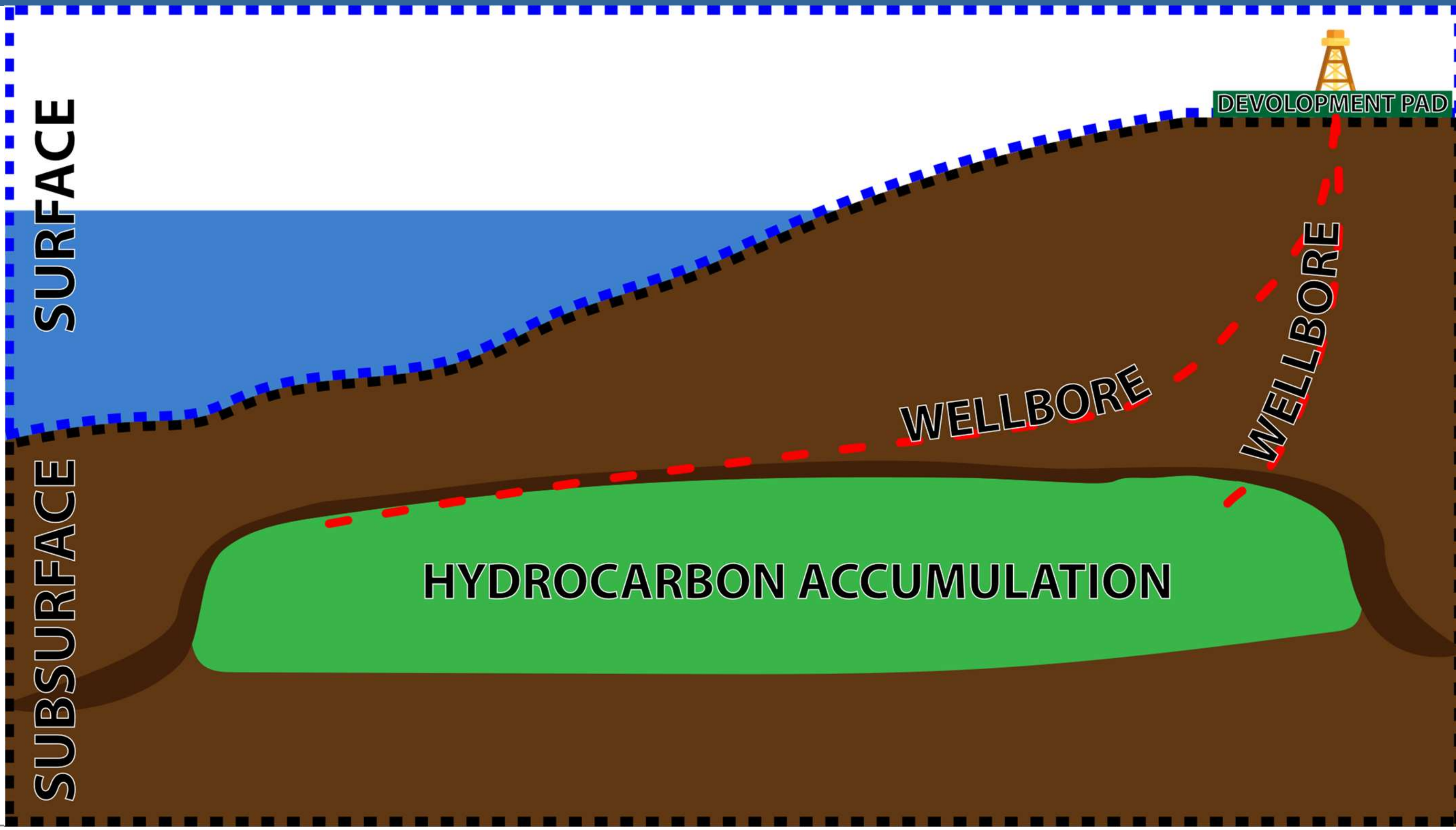

Main purpose of HB 82

- Allow the Division of Oil & Gas to lease and capture revenue from State-owned resources underlying lands restricted from surface use.
  - Would **only** allow for drilling and development from nearby unrestricted land.
  - Would **not** grant any right to use the restricted surface of the leased land.
- **Increased revenue:** Lands with surface-use restrictions can still provide revenue in the form of lease sale bids, annual rental payments, and royalties if made available for subsurface-only development.
- Modern drilling technology enables oil and gas to be developed from adjacent lands with no impact to the surface of subject land, even offshore.
- The State will benefit from the ability to capture revenue through development of State resources with no impact to the surface of protected lands using established regulatory methods.

Surface Impacts

- **Will this bill increase potential for leaks?**
  - **No.** Leases granted under this legislation explicitly do not allow any surface usage, so there would be no possibility of pipelines, drilling rigs, platforms, or any other sort of impact to the waters of Kachemak Bay, the sea floor, or the fisheries.

WHAT *SUBSURFACE* MEANS



Mitigation Measures

- **Mitigation measures against potential impacts of exploration and development are thoroughly addressed in public processes with opportunities for public participation.**
  - Areawide lease sale best interest findings
  - Surface use permitting

- **Anyone interested in public participation should subscribe using the Online Public Notice system.**

Royalty distribution

- **Royalties are paid to resource owners by the working interest owners of an oil and gas lease.**
- **Hydrocarbon accumulations cover more area than a single lease and are not regularly distributed, so the amount assigned to each lease is assigned a *tract allocation factor*.**
- **This is managed by creating a *participating area* within a unitized block of leases. Alaska statutes, regulations, and the unit agreement govern how a participating area is formed and managed.**

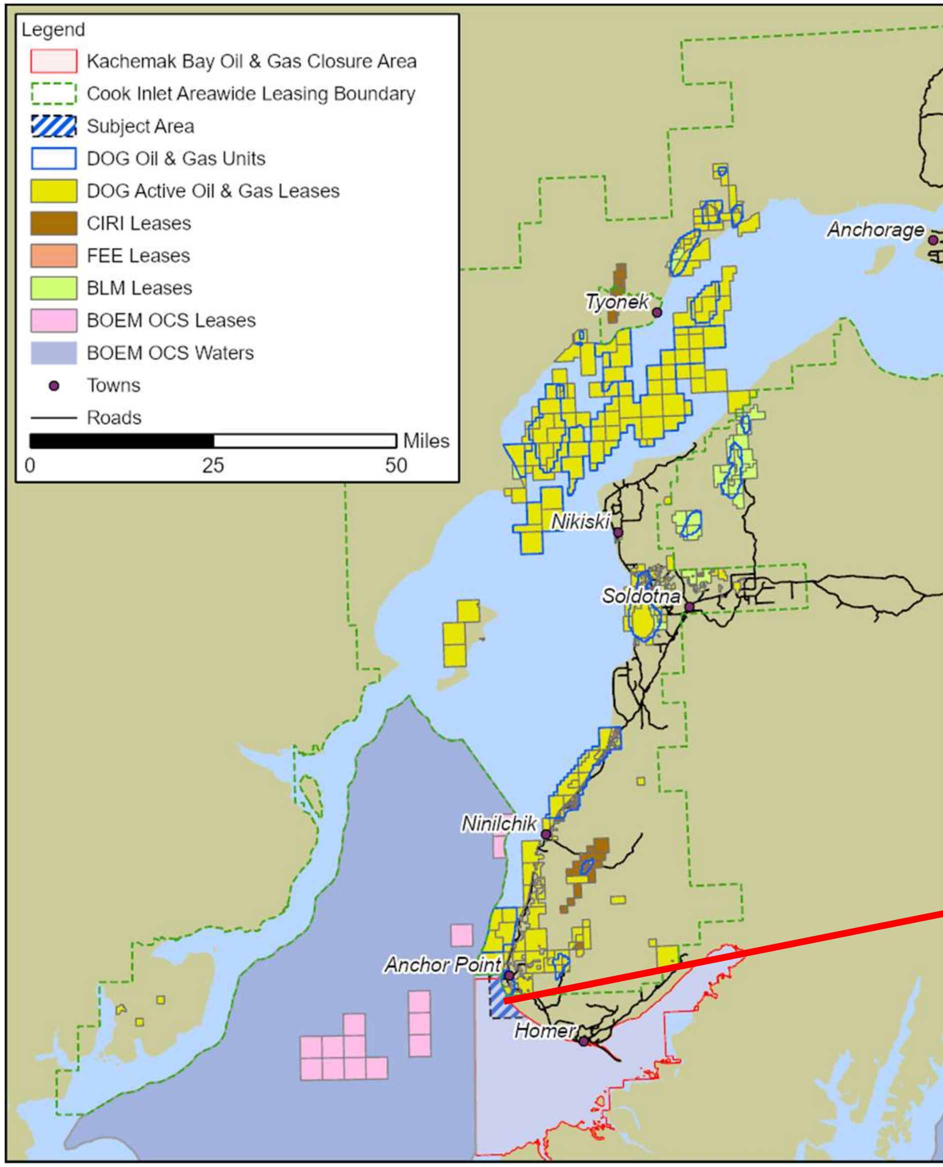
What happens if we can't lease

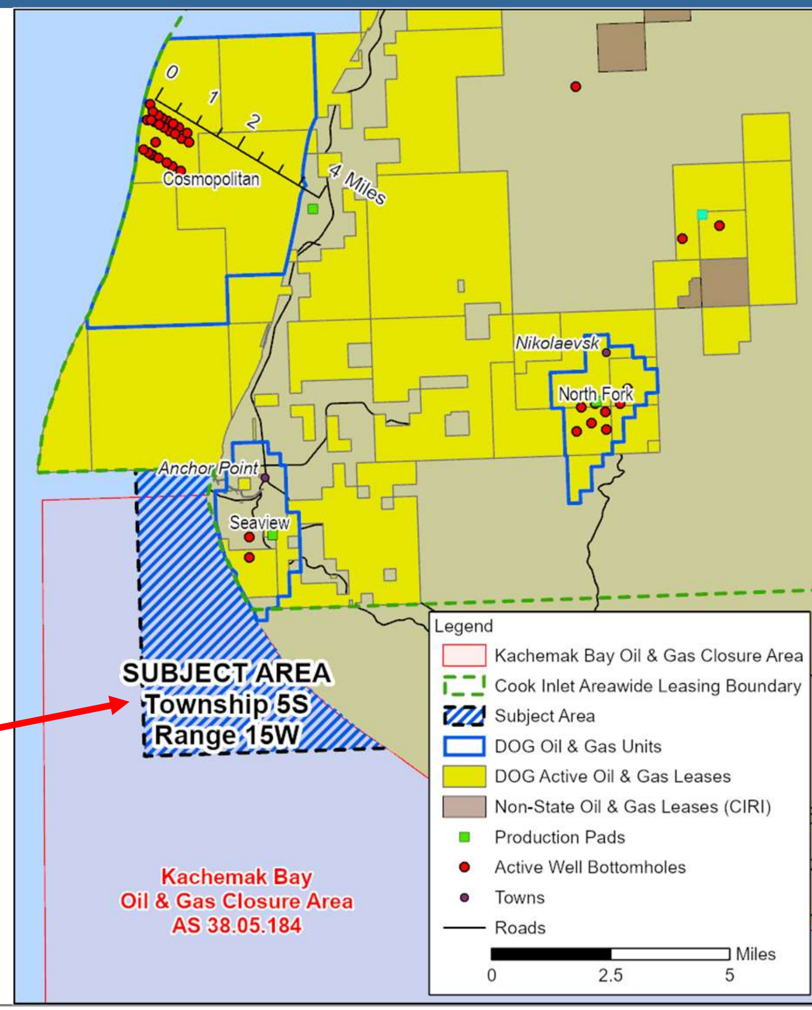
- Leasing is the standard mechanism for establishing a contractual relationship between the resource owner (the State) and the developer.
- **Main concern:** Mechanism for collecting royalties
- If unleased land is drained from wells on adjacent leases, royalties may not be paid to the State or that revenue could be diminished.
- May require seeking remedy through the Alaska Oil & Gas Conservation Commission (AOGCC), a separate state agency.
- The Division of Oil & Gas can't exercise all its regulatory authority over unleased acreage.
- The lease is the primary mechanism for requiring compliance with mitigation measures, sharing of drilling and reservoir data, etc.

Correlative Rights

- Rule of Capture Doctrine – extract oil and gas from a parcel without regard for adjacent parcels.
- Correlative Rights Doctrine – a limit on the rule of capture – each owner of a common oil and gas pool is allowed their fair share.
- DOG can protect its share in two ways:
  - Unit/Participating Area through DOG Unit Process (unavailable to UNLEASED land)
  - Establish Unit via AOGCC – requires public hearing, AOGCC may compel the pooling of interests (AS 31.05.100).
- Compulsory Unit via AOGCC is not common and results in a costly administrative process to pool Kachemak Bay acreage.
- AOGCC further implements the correlative rights doctrine through the statutes/regs that govern well spacings, production rates, injection rates, and other technical aspects of the drilling process

THE SUBJECT AREA





Sectional Analysis

SECTION 1

- Amends AS 38.05 to add a new section, AS 38.05.176.

- Specifies that a statute restricting the surface use of an oil and gas or gas-only lease area does not also restrict leasing and development of the subsurface of that area from unrestricted land.

- The purpose is to address future surface-use restrictions that may be imposed on the State's natural resources.

Sections 2 & 3

- Amends AS 38.04.184 by adding a new subsection (h)
  - Authorized DNR to offer gas-only leases in an area adjacent to Kachemak Bay within Township 5 South, Range 15 West, Seward Meridian, Alaska (see map).
  - No right to use the surface of the land would be authorized, honoring the spirit of the earlier law prohibiting leasing in Kachemak Bay.

- Amends AS 38.03.184(b)
  - Acknowledges the exemption created by the new subsection (h) of this bill.

Sections 4 through 6

- Amends AS 42.45.045(b) to allow the legislature to appropriate revenue from these leases to the Renewable Energy Grant Fund.
- Revenue would come from the State's rentals and royalties made possible by this bill.
- Such appropriations would occur after the required deposit of any such revenue to the Alaska Permanent Fund required under art. IX, sec. 15 of the Alaska Constitution.
- Housekeeping: moves language about Department of Revenue being manager of the fund that was displaced by Section 4.
- Provides for the bill to be effective immediately.

QUESTIONS?