



## Governor Mike Dunleavy STATE OF ALASKA

January 26, 2023

The Honorable Gary Stevens  
Senate President  
Alaska State Legislature  
State Capitol, Room 111  
Juneau, AK 99801-1182

Dear President Stevens:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill relating to carbon capture, utilization, and storage (CCUS) and providing for an effective date.

This bill is a key component of the state's efforts to monetize its immense carbon storage potential and maximize utilization of resources. CCUS projects capture carbon dioxide emitted from point sources or the atmosphere and inject it deep underground into geologic formations for utilization in industrial processes, such as enhanced oil recovery, or for permanent sequestration.

Industry interest in CCUS is growing around the country and the world, driven by regulatory requirements, corporate objectives, and government financing and tax incentives. Alaska's participation in the industry could bring new industrial activity into the state, provide new revenue through CCUS exploration licensing, leasing, and permitting programs, and burnish the state's credentials for environmentally responsible resource development. Alaska is uniquely positioned for success in the CCUS industry, having large, state-owned subsurface acreage positions with highly prospective geologic formations ideal for the underground storage of carbon dioxide.

This omnibus CCUS bill establishes a CCUS leasing and regulatory program for the state. The bill creates a framework for the Department of Natural Resources (DNR) and the Alaska Oil and Gas Conservation Commission (AOGCC) to permit and regulate carbon storage facilities on lands within the state. The bill establishes an exploration licensing and leasing program, along with a pathway for the conversion of enhanced oil recovery operations to sequestration operations. The bill also establishes a mechanism by which the state will assume title to sequestered carbon dioxide following storage facility closure, and an industry-funded trust fund to cover possible long-term liabilities.

The bill provides DNR with the authority to grant carbon storage exploration licenses, and then leases, for the underground storage of carbon dioxide on state land. Generally, a license would have a five-year term with mandatory work commitments including an annual fee of at least \$20 per acre and annual reporting requirements. The bill contains minimum annual rent requirements,

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a per-ton injection charge for stored carbon dioxide, and requirements for bonding or other financial security. Due to the mineral nature of pore space leased for carbon storage, twenty-five percent of lease payments would be deposited into the Alaska Permanent Fund. Carbon storage lessees would be required to file for approval of a plan of development with the commissioner of DNR in a process similar to current oil and gas lessees. The bill requires carbon storage licenses and leases to include covenants to prevent unreasonable interference with the rights of existing mineral lessees and to indemnify the state for any unreasonable interference.

The bill amends statutes for pipeline rights-of-way leasing on state land to include pipelines for the transportation of carbon dioxide. This allows the state to administer pipeline infrastructure for transportation of captured carbon dioxide to geological storage facilities.

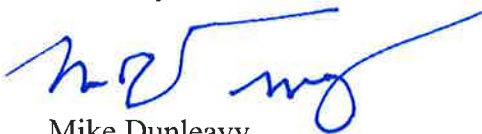
The bill provides the AOGCC with the authority to seek primacy from the United States Environmental Protection Agency for permitting over Class VI underground injection wells. States with primacy over these wells are anticipated to enjoy a competitive advantage in this burgeoning industry due to quicker well permitting. The bill also grants AOGCC statewide regulatory authority over carbon storage facilities to maintain reservoir integrity, protect property rights, and ensure public health and safety. AOGCC would charge application fees to cover the anticipated costs of processing applications. Once carbon dioxide is being injected into a permitted carbon storage facility, the facility operator would pay AOGCC a fee for each ton of carbon dioxide injected to cover anticipated expenses during the operation of the carbon storage facility. Also, AOGCC would set a surcharge based on carbon dioxide injected to address the expenses the state will incur post-closure. The surcharge payments would be deposited into the carbon storage closure trust fund created in the bill. DNR would assume title and management of the facilities and stored carbon post-closure.

This bill has an immediate effective date to allow the state to capitalize on these new opportunities as soon as possible.

This bill is part of my long-term fiscal solution and plan to attract investment to Alaska. The public will benefit from new potential sources of revenue for the state and boroughs, which can be directed to funding programs to benefit Alaskans. The private sector will benefit from new opportunities for industries associated with the capture, transportation, use, and geological storage of carbon dioxide. The state will benefit from an inclusive carbon management strategy that can alleviate investor concerns over Arctic energy and infrastructure projects and strengthen Alaska's resource development opportunities.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mike Dunleavy".

Mike Dunleavy  
Governor

Enclosure