

SENATE BILL NO. 113

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Introduced: 3/7/95

Referred: RES, FIN

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing a reduction in coal, oil, and gas royalty for the producers
2 of those minerals used in certain projects."

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

4 * **Section 1.** AS 38.05.134 is amended to read:

5 Sec. 38.05.134. **CONVERSION TO LEASE.** If the licensee requests and the
6 commissioner determines that the work commitment obligation set out in an oil and
7 gas exploration license issued under AS 38.05.132 has been met, the commissioner
8 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,
9 of the area described in the exploration license that remains after the relinquishments,
10 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this
11 section

- 12 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);
- 13 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);
- 14 (3) must be conditioned upon a royalty in amount or value of not less

1 than 12.5 percent of production. **except that a lessee who, proceeding under**
2 **AS 38.05.131 - 38.05.134, produces oil or gas that is used in a project that**
3 **qualifies under AS 38.05.180(dd) is entitled to the reduction in royalty authorized**
4 **by that subsection;**

5 (4) must include an annual rent of \$3 per acre or fraction of an acre
6 initially paid to the state at inception of the lease and payable annually after that until
7 the income to the state from royalty under that lease exceeds the rental income to the
8 state under that lease for that year; and

9 (5) is subject to other conditions and obligations that are specified in
10 the lease.

11 * **Sec. 2.** AS 38.05.150(d) is amended to read:

12 (d) For the privilege of mining or extracting the coal in the land covered by
13 the lease, the lessee shall pay to the state the royalties specified in the lease. The
14 royalties shall be fixed before offering the lease, **except that a lessee who produces**
15 **coal and sells or delivers it to a project that qualifies under (f) of this section shall**
16 **pay the royalty determined under that subsection,** and shall be effective for a period
17 of not more than 20 years. The royalties shall be not less than five cents a ton of
18 2,000 pounds. The lessee shall also pay an annual rental, payable at the date of the
19 lease and annually thereafter, on the land or coal deposits covered by the lease, at a
20 rate fixed by the commissioner before offering the lease. The annual rental shall be
21 effective for a period of not more than 20 years. The annual rental shall be not less
22 than 25 cents an acre for the first year of the lease, not less than 50 cents an acre for
23 the second year, third year, fourth year and fifth year, and not less than \$1 an acre for
24 each year thereafter during the continuance of the lease. The rental for each year shall
25 be credited against the royalties as they accrue for that year. Each lease shall provide
26 that the annual rental payment is subject to adjustment at intervals of no more than 20
27 years and adjustments shall be based on the current rates for properties similarly
28 situated.

29 * **Sec. 3.** AS 38.05.150 is amended by adding a new subsection to read:

30 (f) For coal produced from a lease and sold or delivered for use in a project
31 that qualifies under this subsection, the commissioner may reduce the royalty on the

1 amount or value of the coal produced and delivered to the project, not to exceed a
2 reduction of 50 percent in the royalty rate, as the commissioner may determine. Sale
3 of coal for a project qualifies for a royalty reduction under this subsection if the
4 commissioner determines that

5 (1) the sale or delivery of the coal for which the reduction in the
6 royalty is sought is to a facility that converts the coal for use as an energy resource
7 by the general public; and

8 (2) the facility to which the coal is sold and delivered is

9 (A) owned or operated by

10 (i) a municipality; or

11 (ii) a village, as that term is defined in AS 46.03.900;

12 and

13 (B) located in the state and not more than 50 miles from the
14 point of production of the coal.

15 * **Sec. 4.** AS 38.05.180(f) is amended to read:

16 (f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may
17 issue oil and gas leases on state land to the highest responsible qualified bidder **as**
18 **follows:**

19 **(1) the commissioner shall issue an oil and gas lease to the**
20 **successful bidder** determined by competitive bidding under regulations adopted by the
21 commissioner; **bidding** [. BIDDING] may be by sealed bid or according to any other
22 bidding procedure the commissioner determines is in the best interests of the state;

23 **(2) whenever** [. WHENEVER], under any of the leasing methods
24 listed in this subsection, a royalty share is reserved to the state, it shall be delivered
25 in pipeline quality and free of all lease or unit expenses, including but not limited to
26 separation, cleaning, dehydration, gathering, salt water disposal, and preparation for
27 transportation off the lease or unit area;

28 **(3) following** [. FOLLOWING] a pre-sale analysis, the commissioner
29 may choose at least one of the following leasing methods:

30 **(A)** [(1)] a cash bonus bid with a fixed royalty share reserved
31 to the state of not less than 12.5 percent in amount or value of the production

1 removed or sold from the lease;

2 (B) [(2)] a cash bonus bid with a fixed royalty share reserved
3 to the state of not less than 12.5 percent in amount or value of the production
4 removed or sold from the lease and a fixed share of the net profit derived from
5 the lease of not less than 30 percent reserved to the state;

6 (C) [(3)] a fixed cash bonus with a royalty share reserved to the
7 state as the bid variable but no less than 12.5 percent in amount or value of the
8 production removed or sold from the lease;

9 (D) [(4)] a fixed cash bonus with the share of the net profit
10 derived from the lease reserved to the state as the bid variable;

11 (E) [(5)] a fixed cash bonus with a fixed royalty share reserved
12 to the state of not less than 12.5 percent in amount or value of the production
13 removed or sold from the lease with the share of the net profit derived from
14 the lease reserved to the state as the bid variable;

15 (F) [(6)] a cash bonus bid with a fixed royalty share reserved
16 to the state based on a sliding scale according to the volume of production or
17 other factor but in no event less than 12.5 percent in amount or value of the
18 production removed or sold from the lease;

19 (G) [(7)] a fixed cash bonus with a royalty share reserved to the
20 state based on a sliding scale according to the volume of production or other
21 factor as the bid variable but not less than 12.5 percent in amount or value of
22 the production removed or sold from the lease;

23 **(4) notwithstanding a requirement, in the leasing method chosen,**
24 **of a minimum fixed royalty share, a lessee who produces oil or gas and sells or**
25 **delivers it to a project that qualifies under (dd) of this section shall pay the**
26 **royalty determined under that subsection.**

27 * Sec. 5. AS 38.05.180(w) is amended to read:

28 (w) Notwithstanding any other provisions of this section, land **that** [WHICH]
29 has been offered for lease within the previous five years and **that** [WHICH] received
30 no bids at competitive sale or for which no bid was accepted may be, at the discretion
31 of the commissioner, immediately offered for lease, under regulations adopted by the

1 commissioner, upon terms appearing most advantageous to the state; however,
2 noncompetitive leasing is prohibited. The commissioner shall establish a royalty
3 determined to be in the public interest but not less than 12.5 [12 1/2] percent, **subject**
4 **to reduction under (dd) of this section**. A lease must provide for payment to the
5 state or rental but need not adhere to the rental schedule in (n) of this section nor to
6 the 5,760-acres-per-lease limitation in (m) of this section. The lease term may not
7 exceed 10 years, except as provided in (o) of this section.

8 * **Sec. 6.** AS 38.05.180 is amended by adding a new subsection to read:

9 (dd) For oil or gas produced from a lease and sold or delivered for use in a
10 project that qualifies under this subsection, the commissioner may reduce the royalty
11 on the amount or value of oil or gas produced and delivered to the project, not to
12 exceed a reduction of 50 percent in the royalty rate, as the commissioner may
13 determine. Sale of oil or gas for a project qualifies for a royalty reduction under this
14 subsection if the commissioner determines that

15 (1) the sale or delivery of the oil or gas for which the reduction in the
16 royalty is sought is to a facility that converts the oil and gas for use as an energy
17 resource by the general public; and

18 (2) the facility to which the oil or gas is sold and delivered is

19 (A) owned or operated by

20 (i) a municipality; or

21 (ii) a village, as that term is defined in AS 46.03.900;

22 (B) located in the state and not more than 50 miles from the
23 point of production of the oil or gas; and

24 (C) not connected to a pipeline that exists on the effective date
25 of this Act and, in the judgment of the commissioner, could not be connected
26 to a pipeline that existed on the effective date of this Act because the law does
27 not permit the connection or because the connection would not be economically
28 feasible.