CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 364(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 4/5/04
Referred: Resources, Finance

Sponsor(s): REPRESENTATIVE SEATON

A BILL

FOR AN ACT ENTITLED

"An Act prohibiting the issuance of state shallow natural gas leases in the vicinity of Kachemak Bay, modifying the authority to extend certain shallow natural gas leases, and precluding the director of the division of lands from reissuing or otherwise extending shallow natural gas leases within the Kachemak Bay area if there is a breach of a term or condition of the lease; and providing for an effective date."

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

*** Section 1.** AS 38.05.177(a) is amended to read:

(a) The provisions of this section

(1) apply to gas, whether methane associated with and derived from coal deposits or otherwise, from a field if a part of the field is within 3,000 feet of the surface; and

(2) do not apply to authorize lease of

(A) land

(i) that is subject to an oil and gas exploration license or lease issued under AS 38.05.131 - 38.05.134; or

(ii) that is leased under AS 38.05.180;

(B) the land (i) that is proposed to be subject to an oil and gas exploration license or lease issued under AS 38.05.131 - 38.05.134; or (ii) that is described in and part of a proposed oil and gas leasing program prepared under AS 38.05.180(b); however, the commissioner may waive the limitations of this subparagraph;

(C) the land that is held under a coal lease entered into under AS 38.05.150, unless the applicant for a shallow natural gas lease is also the lessee under AS 38.05.150 of that land; [OR]

(D) the valid existing selections of the Alaska Mental Health Trust Authority made for the purpose of reconstituting the mental health trust established under the Alaska Mental Health Enabling Act, P.L. 84-830, 70 Stat. 709 (1956), that become subject to management under AS 38.05.801, or of land that has been designated by law for or is subject to designation for conveyance to the Alaska Mental Health Trust Authority; however, after consultation with the Alaska Mental Health Trust Authority, the commissioner may waive the limitations of this subparagraph**; or**

(E) land and water within the Kenai Peninsula Borough east of Cook Inlet and south of the north boundary of Township 5 South, Seward Meridian.

*** Sec. 2.** AS 38.05.177(d) is amended to read:

(d) A lease

(1) shall be automatically extended if and for so long thereafter as gas is produced in paying quantities from the lease and the lessee continues to meet all requirements of the lease**; a** [. A] lease issued under this section covering land on which there is a well capable of producing gas in paying quantities does not expire because the lessee fails to produce gas unless the lessee is allowed reasonable time to place the well on a producing status**; if** [. IF] drilling 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 is extended for one year and for so long thereafter as gas is produced in paying quantities**; a** [. A] gas lease issued under this section that is subject to termination by reason of cessation of production does not terminate if, within 90 days after production ceases or a longer period determined at the discretion of the director, reworking or drilling operations are commenced on the land under lease and are thereafter conducted with reasonable diligence during the period of nonproduction**;**

(2) issued under (c) of this section before January 1, 2004, may be extended at the discretion of the director; a lease may be extended under this paragraph [. IN ADDITION,] upon application by the lessee**;** [,] the director may once extend **the** [A] lease [ISSUED UNDER (c) OF THIS SECTION] for a period of not more than three years**; in exercising discretion to extend a lease under this paragraph, the director may not extend the lease unless the director considers**

(A) the extent of the shallow natural gas exploration activity already conducted on the lease and on adjacent areas;

(B) the probability that further shallow natural gas exploration activity will occur on the lease and will lead to shallow natural gas development and production; and

(C) whether extension of the lease's primary term will accelerate the eventual production of shallow natural gas from the lease.

*** Sec. 3.** The uncodified law of the State of Alaska is amended by adding a new section to read:

APPLICATION OF SECTION 1 TO LAND CURRENTLY LEASED IN THE VICINITY OF KACHEMAK BAY FOR SHALLOW NATURAL GAS EXPLORATION AND DEVELOPMENT. The provisions of AS 38.05.177(a)(2)(E), added by sec. 1 of this Act, apply to prohibit the issuance or reissuance of a lease under AS 38.05.177 entered into before the effective date of this Act if the lease terminates because of the failure to extend the lease under AS 38.05.177(d), as modified by sec. 2 of this Act, or if the lease terminates by the operation of AS 38.05.177(h).

*** Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).