

**HOUSE BILL NO. 420**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-THIRD LEGISLATURE - SECOND SESSION

**BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

**Introduced: 2/2/04**

**Referred: House Special Committee on Oil and Gas, Resources, Finance**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to recovery of shallow natural gas; and providing for an effective**  
2 **date."**

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

4 **\* Section 1.** AS 38.05.177(k) is amended to read:

5 (k) The commissioner [MAY]

6 (1) may adopt only the regulations that are reasonable and that are  
7 necessary to implement, interpret, or make specific the provisions of this section or to  
8 establish procedures to govern application of the provisions of this section; [AND]

9 (2) may, in addition to any requirement for a bond under  
10 AS 38.05.130, establish by regulation a form and amount for statewide, areawide,  
11 unit-wide, or per-lease bonds sufficient to secure damages that may be caused by the  
12 activities of a lessee, or the lessee's successors or assigns, related to a shallow natural  
13 gas lease entered into under this section; if the commissioner acts under this  
14 paragraph, the commissioner

1 (A) shall require a person applying for a lease under this  
2 section to post the bond as a condition for the director's executing the lease;

3 (B) may not require a bond posted under this paragraph from a  
4 person applying for a lease if the person has already posted a bond covering  
5 the person's statewide oil and gas leasing activities in an amount of at least  
6 \$500,000; and

7 **(3) shall require the lessee to provide written advance notice to the**  
8 **owner of initial entry onto the property of the owner at least 30 days before**  
9 **initial entry.**

10 \* **Sec. 2.** AS 38.05.177 is amended by adding new subsections to read:

11 (p) From amounts collected under AS 43.57.020 that are deposited to the  
12 general fund and separately accounted for as described in that section, subject to  
13 appropriation, the commissioner may pay

14 (1) an owner for the costs of remedying the contamination or alteration  
15 of a water well or of digging a new water well to serve as the source of the owner's  
16 potable water; the commissioner may make a payment under this paragraph only if

17 (A) within 30 days after receiving written notice under (k)(3) of  
18 this section, the owner tests the well for water purity and flow and maintains  
19 the test record; and

20 (B) contamination or alteration of the water well occurs after  
21 commencement of activities under the lessee's entry onto the property or on  
22 adjacent property that is not more distant than 1,500 feet from the owner's  
23 well, and the activities appear to be probable hydrologic consequences of the  
24 lessee's activities on the lease; and

25 (2) a refund to a lessee that paid the exaction levied by AS 43.57.020  
26 on production from a shallow natural gas well if, during the period of the well's  
27 production and for a period of five years that follows the plugging and abandonment  
28 of the well, the commissioner did not make payment on an application received under  
29 (1) of this section asserting contamination or alteration of a water well based on  
30 activities that appear to be probable hydrologic consequences of the lessee's activities  
31 on the lease.

1  
2 (q) In (k)(3) and (p) of this section, "owner" means a property owner whose  
3 property is subject to the reservation described in AS 38.05.125.

4 \* **Sec. 3.** AS 43.57 is amended by adding a new section to read:

5 **Sec. 43.57.020. Shallow natural gas exaction to meet costs of well water**  
6 **contamination or alteration.** (a) Every producer of shallow natural gas from a lease  
7 entered into under AS 38.05.177 shall pay an exaction of \$.01 per 20 million cubic  
8 feet of shallow natural gas removed from each lease or property in the state.

9 (b) The exaction described in (a) of this section is in addition to and shall be  
10 paid in the same manner as the taxes imposed by AS 43.55. Producers shall make  
11 reports of production in the same manner and under the same penalties as required by  
12 AS 43.55.

13 (c) Proceeds of the exaction described in this section shall be paid into the  
14 general fund. The commissioner of administration shall separately account for all  
15 proceeds deposited into the general fund under this section.

16 (d) Not later than 30 days after the end of each calendar quarter, the  
17 commissioner of administration shall determine, as of the end of that quarter, the fiscal  
18 year's balance in the account established in (c) of this section. Within 15 days after  
19 making the determinations required by this subsection, the commissioner of  
20 administration shall report the sum calculated under this subsection to the  
21 commissioner of revenue. If the commissioner of administration reports that the sum  
22 reported under (b) of this section equals or exceeds \$250,000, the commissioner of  
23 revenue shall suspend imposition and collection of the exaction levied and collected  
24 under (a) of this section. Suspension of the imposition and collection of the exaction  
25 begins on the first day of the calendar quarter next following the commissioner's  
26 receipt of the commissioner of administration's report under this subsection. Before  
27 the first day of a suspension authorized by this subsection, the commissioner shall  
28 make a reasonable effort to notify all persons who are known to the department to be  
29 paying the exaction under (a) of this section that the levy and collection of the  
30 exaction will be suspended.

31 (e) If the commissioner of administration reports that the sum determined

1 under (d) of this section is less than \$250,000, the commissioner of revenue shall  
2 require imposition and collection of the exaction authorized under this section. If the  
3 exaction is not in effect, reimposition of the exaction begins on the first day of the  
4 calendar quarter next following the commissioner's receipt of the commissioner of  
5 administration's report under (d) of this section. Before the first day of reimposition of  
6 the exaction authorized by this subsection, the commissioner shall make a reasonable  
7 effort to notify all persons who are known to the department to be required to pay the  
8 exaction under (a) of this section that the exaction will be reimposed.

9 (f) The provisions of AS 43.05 and AS 43.10 apply for the enforcement and  
10 collection of the exaction imposed by this section.

11 \* **Sec. 4.** This Act takes effect July 1, 2004.