

**SENATE BILL NO. 243**

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

**BY SENATOR MCGUIRE**

**Introduced: 1/27/10**

**Referred: Resources, Finance**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act removing the royalty obligation for geothermal resources."**

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

3 **\* Section 1.** AS 38.05.181(c) is amended to read:

4 (c) On state land that has not been declared a competitive geothermal area or  
5 withdrawn from geothermal prospecting, the commissioner may issue a prospecting  
6 permit to the first qualified applicant. The permit conveys an exclusive right, for a  
7 period of two years, to prospect for geothermal resources on state land included under  
8 the permit. The commissioner has discretion to renew the permit for an additional one-  
9 year term. A holder of a prospecting permit has the right, upon the showing of a  
10 discovery of geothermal resources in commercial quantities and the submission of a  
11 development plan acceptable to the commissioner, to convert the permit to a  
12 noncompetitive lease [AT A ROYALTY RATE UNDER (g) OF THIS SECTION].  
13 The conversion privilege must be exercised not later than 30 days after the expiration  
14 of the permit. If the land included within the permit is designated a competitive  
15 geothermal area during the permit term, the permittee must apply for a noncompetitive

1 lease within 30 days after notification of the designation or forfeit the conversion  
2 privileges and the exclusive right to prospect.

3 \* **Sec. 2.** AS 38.05.181(d) is amended to read:

4 (d) On state land that is designated a competitive geothermal area and is not  
5 subject to an existing prospecting permit, the commissioner may issue geothermal  
6 leases to the highest bidder by competitive bidding procedures established by  
7 regulations adopted by the commissioner. At the discretion of the commissioner,  
8 competitive lease sales may be by oral or sealed bid, on the basis of a cash bonus or [,]  
9 profit share [, OR ROYALTY SHARE].

10 \* **Sec. 3.** AS 38.05.181(e) is amended to read:

11 (e) Prospecting permits and geothermal leases granted under this section must,  
12 except in the case of parcels subject to a preference right under (b) of this section, be  
13 issued for at least 40 acres but not more than 2,560 acres. A person may not own, or  
14 hold an interest in, geothermal leases covering more than 51,200 acres. However,  
15 geothermal leases in commercial production, individually or under a unit operation or  
16 well spacing or pooling arrangement, do not count against the acreage limitation. All  
17 prospecting permits and geothermal leases are subject to an annual rental, payable in  
18 advance, of \$3 per acre. [THE RENTAL FOR A YEAR SHALL BE CREDITED  
19 AGAINST ROYALTIES ACCRUING FOR THAT YEAR.]

20 \* **Sec. 4.** AS 38.05.181(f) is amended to read:

21 (f) A geothermal lease shall be issued for a primary term of 10 years and may  
22 be renewed for an additional term of five years if the lessee is actively engaged in  
23 drilling operations. A geothermal lease is valid for the duration of commercial  
24 production. Beginning 20 years after the initiation of commercial production and at  
25 10-year intervals thereafter, the commissioner may renegotiate the rentals [AND  
26 ROYALTIES] due on a geothermal lease.

27 \* **Sec. 5.** AS 38.05.182(a) is amended to read:

28 (a) Any royalty provided for in AS 38.05.135 - 38.05.180 [AS 38.05.135 -  
29 38.05.181] may be taken in kind rather than in money if the commissioner determines  
30 that the taking in kind would be in the best interest of the state. However, royalties on  
31 oil and gas shall be taken in kind unless the commissioner determines that the taking

1 in money would be in the best interest of the state.

2 \* **Sec. 6.** AS 38.05.181(g) is repealed.

3 \* **Sec. 7.** The uncodified law of the State of Alaska is amended by adding a new section to  
4 read:

5 APPLICABILITY. Sections 1 - 5 of this Act apply to a lease for a geothermal  
6 resource or the renewal of a lease for a geothermal resource entered into on or after the  
7 effective date of this Act.