

**CS FOR SENATE BILL NO. 161(RES)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-FIRST LEGISLATURE - SECOND SESSION

**BY THE SENATE RESOURCES COMMITTEE**

**Offered: 3/13/20**

**Referred: Finance**

**Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to geothermal resources; relating to the definition of 'geothermal**  
2 **resources'; and providing for an effective date."**

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

4 **\* Section 1.** AS 31.05.030(m) is amended to read:

5 (m) The commission has jurisdiction and authority over all persons and  
6 property, public and private, necessary to carry out the purposes and intent of  
7 AS 41.06 [, EXCEPT FOR PROVISIONS IN AS 41.06 FOR WHICH THE  
8 DEPARTMENT OF NATURAL RESOURCES HAS JURISDICTION].

9 **\* Sec. 2.** AS 38.05.181(a) is amended to read:

10 (a) The commissioner may, under regulations adopted by the commissioner,  
11 grant prospecting **licenses** [PERMITS] and leases to a qualified person to explore for,  
12 develop, or use geothermal resources. **A prospecting license or lease is not required**  
13 **under this section to explore for, develop, or use geothermal resources if the**  
14 **geothermal resource is intended for domestic, noncommercial, or small-scale**

1        **industrial use** [WHEN TITLE TO THE SURFACE PARCEL IS HELD BY A  
 2        PERSON OTHER THAN THE STATE, THAT PERSON SHALL HAVE A  
 3        PREFERENTIAL RIGHT TO A GEOTHERMAL PROSPECTING PERMIT OR  
 4        LEASE FOR THE AREA UNDERLYING THE SURFACE PARCEL. THE  
 5        SURFACE OWNER MUST EXERCISE THE PREFERENCE RIGHT WITHIN 30  
 6        DAYS AFTER RECEIVING NOTICE OF THE APPLICATION FOR A PERMIT,  
 7        OR BY AGREEING TO MEET THE TERMS OF A BID WITHIN 60 DAYS AFTER  
 8        RECEIVING NOTICE OF THE ACCEPTANCE OF THE BID FOR A LEASE].

9        \* **Sec. 3.** AS 38.05.181(c) is amended to read:

10            (c) On state land that has not been declared a competitive geothermal area or  
 11            withdrawn from geothermal prospecting, the commissioner may issue a prospecting  
 12            **license** [PERMIT] to the first qualified applicant. The **license** [PERMIT] conveys an  
 13            exclusive right, for a period of **five** [TWO] years, to prospect for geothermal resources  
 14            on state land included under the **license** [PERMIT]. The commissioner has discretion  
 15            to renew the **license** [PERMIT] for an additional one-year term. A holder of a  
 16            prospecting **license** [PERMIT] has the right, **after completion of an agreed-upon**  
 17            **work commitment** [UPON THE SHOWING OF A DISCOVERY OF  
 18            GEOTHERMAL RESOURCES IN COMMERCIAL QUANTITIES] and the  
 19            submission of **an exploration** [A DEVELOPMENT] plan acceptable to the  
 20            commissioner, to convert the **license** [PERMIT] to a noncompetitive lease at a royalty  
 21            rate under (g) of this section. The conversion privilege must be exercised not later than  
 22            30 days after the expiration of the **license** [PERMIT]. If the land included within the  
 23            **license** [PERMIT] is designated a competitive geothermal area during the **license**  
 24            [PERMIT] term, the **licensee** [PERMITTEE] must apply for a noncompetitive lease  
 25            within 30 days after notification of the designation or forfeit the conversion privileges  
 26            and the exclusive right to prospect.

27        \* **Sec. 4.** AS 38.05.181(d) is amended to read:

28            (d) On state land that is designated a competitive geothermal area and is not  
 29            subject to an existing prospecting **license** [PERMIT], the commissioner may issue  
 30            geothermal leases to the highest bidder by competitive bidding procedures established  
 31            by regulations adopted by the commissioner. At the discretion of the commissioner,

1 competitive lease sales may be by oral or sealed bid, on the basis of a cash bonus,  
2 profit share, or royalty share.

3 \* **Sec. 5.** AS 38.05.181(e) is amended to read:

4 (e) Prospecting **licenses** [PERMITS] and geothermal leases granted under this  
5 section must [, EXCEPT IN THE CASE OF PARCELS SUBJECT TO A  
6 PREFERENCE RIGHT UNDER (b) OF THIS SECTION,] be issued for at least 40  
7 acres but not more than 2,560 acres. A person may not own, or hold an interest in,  
8 geothermal leases covering more than **100,000** [51,200] acres. However, geothermal  
9 leases in commercial production, individually or under a unit operation or well spacing  
10 or pooling arrangement, do not count against the acreage limitation. All prospecting  
11 **licenses** [PERMITS] and geothermal leases are subject to an annual rental **fee**  
12 **established by the department in regulation and** [,] payable in advance [, OF \$3  
13 PER ACRE]. The rental for a year shall be credited against royalties accruing for that  
14 year.

15 \* **Sec. 6.** AS 38.05.181(f) is amended to read:

16 (f) A geothermal **license** [LEASE] shall be issued for a [PRIMARY] term of  
17 **five** [10] years and may be **converted to a lease under (c) of this section**  
18 [RENEWED FOR AN ADDITIONAL TERM OF FIVE YEARS IF THE LESSEE IS  
19 ACTIVELY ENGAGED IN DRILLING OPERATIONS]. A geothermal lease is valid  
20 for the duration of commercial production. Beginning 20 years after the initiation of  
21 commercial production and at 10-year intervals thereafter, the commissioner may  
22 renegotiate the rentals and royalties due on a geothermal lease.

23 \* **Sec. 7.** AS 38.05.181 is amended by adding new subsections to read:

24 (i) The commissioner may require a lessee of a geothermal resource to operate  
25 under a unit agreement that prescribes the conditions under which the lessee must  
26 operate. A unit agreement must adequately protect all parties in interest, including the  
27 state. Except as provided in (f) and (j) of this section, the commissioner may not  
28 reduce the royalty on a geothermal lease issued under this section in, or in connection  
29 with, a unit agreement.

30 (j) When determined by the commissioner to be in the public interest, the  
31 commissioner may authorize a lessee and the lessee's representative, together with

1 each other or jointly or severally with another lessee, to collectively adopt or operate  
 2 under a unit agreement. The commissioner may, with the consent of the involved  
 3 lessees, establish, change, or revoke the drilling, producing, and royalty requirements  
 4 of the leases.

5 (k) A geothermal lease and a unit agreement approved under this section must  
 6 specify that lease and unit agreement are subject to applicable statutes and regulations  
 7 in force at the time the lease or unit agreement is entered into and to future  
 8 amendments to those statutes and regulations.

9 \* **Sec. 8.** AS 38.05.965(6) is repealed and reenacted to read:

10 (6) "geothermal resources" means the natural heat of the earth and  
 11 energy, in whatever form, below the surface of the earth present in, resulting from,  
 12 created by, or that may be extracted from the natural heat, and all minerals in solution  
 13 or other products obtained from naturally heated fluids, brines, associated gases, and  
 14 steam, in whatever form, found below the surface of the earth; "geothermal resources"  
 15 does not include oil, hydrocarbon gases, or other hydrocarbon substances;

16 \* **Sec. 9.** AS 41.06.020(e) is amended to read:

17 (e) Nothing in this chapter limits the authority of the department

18 (1) over geothermal resources under AS 38.05.181, **including the**  
 19 **authority** [; OR

20 (2)] to approve and manage geothermal units or operations that include  
 21 state land.

22 \* **Sec. 10.** AS 41.06.020 is amended by adding a new subsection to read:

23 (f) The commission may, when consistent with the purpose and intent of this  
 24 chapter, exempt from this chapter a domestic, noncommercial, or small-scale  
 25 industrial use of geothermal resources.

26 \* **Sec. 11.** AS 41.06.060(4) is amended to read:

27 (4) "geothermal fluid" means liquids, **brines, water, gases, or** [AND]  
 28 steam [AT TEMPERATURES GREATER THAN 120 DEGREES CELSIUS OR  
 29 ANY COMMERCIAL USE OF LIQUIDS AND STEAM] naturally **or artificially**  
 30 present in a geothermal system; **"geothermal fluid" does not include oil,**  
 31 **hydrocarbon gases, or other hydrocarbon substances** [AT TEMPERATURES

1 LESS THAN 120 DEGREES CELSIUS];

2 \* **Sec. 12.** AS 41.06.060(5) is repealed and reenacted to read:

3 (5) "geothermal resources" means the natural heat of the earth and  
4 energy, in whatever form, below the surface of the earth present in, resulting from,  
5 created by, or that may be extracted from the natural heat, and all minerals in solution  
6 or other products obtained from naturally heated fluids, brines, associated gases, and  
7 steam, in whatever form, found below the surface of the earth; "geothermal resources"  
8 does not include oil, hydrocarbon gases, or other hydrocarbon substances;

9 \* **Sec. 13.** AS 41.06.005(b) and 41.06.030 are repealed.

10 \* **Sec. 14.** The uncodified law of the State of Alaska is amended by adding a new section to  
11 read:

12 APPLICABILITY. This Act applies to a license or lease for a geothermal resource  
13 entered into on or after the effective date of secs. 1 - 12 of this Act.

14 \* **Sec. 15.** The uncodified law of the State of Alaska is amended by adding a new section to  
15 read:

16 TRANSITIONAL PROVISIONS: REGULATIONS. The Department of Natural  
17 Resources and the Alaska Oil and Gas Conservation Commission may adopt regulations to  
18 implement the changes made by this Act. The regulations take effect under AS 44.62  
19 (Administrative Procedure Act) but not before the effective date of the law implemented by  
20 the regulation.

21 \* **Sec. 16.** Section 15 of this Act takes effect immediately under AS 01.10.070(c).

22 \* **Sec. 17.** Except as provided in sec. 16 of this Act, this Act takes effect July 1, 2020.