

SENATE CS FOR CS FOR HOUSE BILL NO. 50(FIN) am S

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Amended: 5/15/24

Offered: 5/12/24

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

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to carbon storage on state land; relating to the powers and duties of the**
2 **Alaska Oil and Gas Conservation Commission; relating to deposits into the permanent**
3 **fund; establishing the carbon storage closure trust fund and carbon dioxide storage**
4 **facility administrative fund; relating to geothermal resources; relating to carbon storage**
5 **exploration licenses; relating to carbon storage leases; relating to carbon storage**
6 **operator permits; relating to enhanced oil or gas recovery; relating to long-term**
7 **monitoring and maintenance of storage facilities; relating to carbon oxide sequestration**
8 **tax credits; relating to the Regulatory Commission of Alaska and regulation of the**
9 **service of natural gas storage; relating to the regulation of liquefied natural gas import**
10 **facilities; relating to the oil and gas production tax; relating to the duties of the**
11 **Department of Natural Resources; relating to carbon dioxide pipelines; relating to**
12 **reserve-based state loans for oil and gas development projects in the Cook Inlet**

1 **sedimentary basin; relating to the Alaska Industrial Development and Export**
 2 **Authority; requiring the Alaska Industrial Development and Export Authority to report**
 3 **to the legislature on oil and gas projects with potential to increase oil and gas production**
 4 **from the Cook Inlet sedimentary basin; relating to an audit of carbon storage leases**
 5 **conducted by the legislative audit division; and providing for an effective date."**

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

7 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
 8 to read:

9 SHORT TITLE. This Act may be known as the Carbon Capture, Utilization, and
 10 Storage Act.

11 * **Sec. 2.** AS 31.05.027 is amended to read:

12 **Sec. 31.05.027. Land subject to commission's authority.** The authority of the
 13 commission applies to all land in the state lawfully subject to its police powers,
 14 including land of the United States and land subject to the jurisdiction of the United
 15 States. The authority of the commission further applies to all land included in a
 16 voluntary cooperative or unit plan of development or operation entered into in
 17 accordance with AS 38.05.180(p) or 38.05.725.

18 * **Sec. 3.** AS 31.05.030(m) is amended to read:

19 (m) The commission has jurisdiction and authority over all persons and
 20 property, public and private, necessary to carry out the purposes and intent of
 21 AS 41.06, except for provisions in AS 41.06.005 - 41.06.060 and 41.06.305
 22 [AS 41.06] for which the Department of Natural Resources has jurisdiction.

23 * **Sec. 4.** AS 37.05.146(c) is amended by adding new paragraphs to read:

24 (86) carbon dioxide storage facility administrative fund
 25 (AS 41.06.160);

26 (87) carbon storage closure trust fund (AS 37.14.850).

27 * **Sec. 5.** AS 37.13.010(a) is amended to read:

28 (a) Under art. IX, sec. 15, of the state constitution, there is established as a
 29 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

1 (1) 25 percent of all mineral lease rentals, royalties, royalty sale
 2 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue
 3 sharing payments received by the state from mineral leases issued on or before
 4 December 1, 1979, and 25 percent of all bonuses received by the state from mineral
 5 leases issued on or before February 15, 1980;

6 (2) 50 percent of all mineral lease rentals, royalties, royalty sale
 7 proceeds, net profit shares under AS 38.05.180(f) and (g), **carbon storage injection**
 8 **royalties required under AS 38.05.705(c)(3)(B)**, and federal mineral revenue sharing
 9 payments received by the state from mineral leases issued after December 1, 1979, and
 10 50 percent of all bonuses received by the state from mineral leases issued after
 11 February 15, 1980; and

12 (3) any other money appropriated to or otherwise allocated by law or
 13 former law to the Alaska permanent fund.

14 * **Sec. 6.** AS 37.14 is amended by adding a new section to read:

15 **Article 11. Carbon Storage Closure Trust Fund.**

16 **Sec. 37.14.850. Carbon storage closure trust fund.** (a) The carbon storage
 17 closure trust fund is established as a separate trust fund of the state outside and
 18 separate from the general fund. The legislature may appropriate the principal and
 19 earnings of the fund for the purpose of protecting the public interest in maintaining
 20 and closing carbon storage facilities in the state. Money in the fund does not lapse.

21 (b) The carbon storage closure trust fund consists of payments received under
 22 AS 41.06.175 and earnings on the fund. The payments received for each storage
 23 facility shall be separately accounted for under AS 37.05.142. The commissioner of
 24 revenue is a fiduciary of the fund. The commissioner of revenue shall manage and
 25 invest the fund assets as provided in AS 37.10.071.

26 (c) The commissioner of natural resources may make expenditures from the
 27 carbon storage closure trust fund for the purpose of conducting long-term monitoring
 28 and maintenance of a storage facility under AS 41.06.305. If a storage operator is
 29 unable to fulfill the storage operator's duties and the financial assurance provided by
 30 the storage operator under AS 41.06.110(c)(2) is exhausted or insufficient, the Alaska
 31 Oil and Gas Conservation Commission may make expenditures from the fund for the

1 purposes allowed under AS 41.06.105 - 41.06.210.

2 (d) Nothing in this section creates a dedicated fund.

3 (e) In this section,

4 (1) "fund" means the carbon storage closure trust fund;

5 (2) "storage facility" and "storage operator" have the meanings given
6 in AS 41.06.210.

7 * **Sec. 7.** AS 38.05.069(e) is amended to read:

8 (e) Nothing in (c) of this section affects the disposal of minerals under
9 AS 38.05.135 - 38.05.183 **or carbon storage under AS 38.05.700 - 38.05.795.**

10 * **Sec. 8.** AS 38.05.070(a) is amended to read:

11 (a) Land, including tide, submerged, or shoreland, to which the state holds title
12 or to which **the state** [IT] may become entitled, may be leased, except for the
13 extraction of natural resources **and for carbon storage under AS 38.05.700 -**
14 **38.05.795,** in the manner provided in AS 38.05.070 - 38.05.105.

15 * **Sec. 9.** AS 38.05.130 is amended to read:

16 **Sec. 38.05.130. Damages and posting of bond.** Rights may not be exercised
17 by the state, its lessees, successors, or assigns under the reservation as set out in
18 AS 38.05.125 until the state, its lessees, successors, or assigns make provision to pay
19 the owner of the land full payment for all damages sustained by the owner, by reason
20 of entering **onto** [UPON] the land. If the owner for any cause refuses or neglects to
21 settle the damages, the state, its lessees, successors, assigns, or an applicant for a lease
22 or contract from the state for the purpose of prospecting for valuable minerals, or
23 option, contract, or lease for **carbon storage or** mining coal or **a** lease for extracting
24 geothermal resources, petroleum, or natural gas, may enter **onto** [UPON] the land in
25 the exercise of the reserved rights after posting a surety bond determined by the
26 director, after notice and an opportunity to be heard, to be sufficient as to form,
27 amount, and security to secure to the owner payment for damages, and may institute
28 legal proceedings in a court where the land is located, as may be necessary to
29 determine the damages **that** [WHICH] the owner may suffer.

30 * **Sec. 10.** AS 38.05.135(a) is amended to read:

31 (a) Except as otherwise provided, valuable mineral deposits in land belonging

1 to the state shall be open to exploration, development, and the extraction of minerals.
 2 All land, together with tide, submerged, or shoreland, to which the state holds title to
 3 or to which the state may become entitled, may be obtained by permit or lease for the
 4 purpose of exploration, development, and the extraction of minerals. Except as
 5 specifically limited by AS 38.05.131 - 38.05.181 **and 38.05.700 - 38.05.795**, land may
 6 be withheld from lease application on a first-come, first-served basis, and offered only
 7 on a competitive bid basis when determined by the commissioner to be in the best
 8 interests of the state.

9 * **Sec. 11.** AS 38.05.135(c) is amended to read:

10 (c) Payment of a royalty or a net profit share payment to the state under a lease
 11 issued under AS 38.05.135 - 38.05.181 **or an injection charge under AS 38.05.700 -**
 12 **38.05.795** becomes due on the date and in the manner specified in the lease or in a
 13 regulation adopted by the commissioner.

14 * **Sec. 12.** AS 38.05.135(d) is amended to read:

15 (d) If a royalty or net profit share payment to which the state is entitled under
 16 AS 38.05.135 - 38.05.181 **or an injection charge under AS 38.05.700 - 38.05.795** is
 17 not paid or is underpaid when it becomes due under (c) of this section, the unpaid
 18 amount of the royalty, [OR] net profit share payment, **or injection charge** bears
 19 interest in a calendar quarter at the rate of five percentage points above the annual rate
 20 charged member banks for advances by the 12th Federal Reserve District as of the
 21 first day of that calendar quarter, or at the annual rate of 11 percent, whichever is
 22 greater, compounded quarterly as of the last day of that quarter.

23 * **Sec. 13.** AS 38.05.135(e) is amended to read:

24 (e) If a royalty or net profit share payment to which the state is entitled under
 25 AS 38.05.135 - 38.05.181 **or an injection charge under AS 38.05.700 - 38.05.795** is
 26 overpaid, interest at the rate and compounded in the manner provided in (d) of this
 27 section shall be allowed and paid on the overpayment. The interest allowance is
 28 subject to the following:

29 (1) if the state grants a credit against future payments for the
 30 overpayment, the state shall pay interest on the overpayment

31 (A) from the date that is the later of the date the overpayment

1 was

2 (i) due; or

3 (ii) received;

4 (B) to the date that is the earlier of the date

5 (i) of notice to the lessee of the credit; or

6 (ii) on which the lessee actually takes the credit;

7 (2) if the state refunds the overpayment, the state shall pay interest on

8 the overpayment

9 (A) from the date that is the later of the date the overpayment

10 was

11 (i) due; or

12 (ii) received;

13 (B) to the date the state issues the refund.

14 * **Sec. 14.** AS 38.05.140(a) is amended to read:

15 (a) A person may not take or hold coal leases or permits during the life of coal

16 leases on state land exceeding an aggregate of 92,160 acres, except that a person may

17 apply for coal leases or permits for acreage in addition to 92,160 acres, not exceeding

18 a total of 5,120 additional acres of state land. The additional area applied for shall be

19 in multiples of 40 acres, and the application shall contain a statement that the granting

20 of a lease for additional land is necessary for the person to carry on business

21 economically and is in the public interest. On the filing of the application, except as

22 provided by AS 38.05.180(ff)(3) or 38.05.180(gg) and 38.05.700 - 38.05.795, the coal

23 deposits in the land covered by the application shall be temporarily set aside and

24 withdrawn from all other forms of disposal provided under AS 38.05.135 - 38.05.181.

25 * **Sec. 15.** AS 38.05.181(a) is amended to read:

26 (a) The commissioner may, under regulations adopted by the commissioner,

27 grant prospecting licenses [PERMITS] and leases to a qualified person to explore for,

28 develop, or use geothermal resources. When title to the surface parcel is held by a

29 person other than the state, that person shall have a preferential right to a geothermal

30 prospecting license [PERMIT] or lease for the area underlying the surface parcel. The

31 surface owner must exercise the preference right within 30 days after receiving notice

1 of the application for a license [PERMIT], or by agreeing to meet the terms of a bid
2 within 60 days after receiving notice of the acceptance of the bid for a lease.

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

21 * **Sec. 17.** AS 38.05.181(d) is amended to read:

22 (d) On state land that is designated a competitive geothermal area and is not
23 subject to an existing prospecting license [PERMIT], the commissioner may issue
24 geothermal leases to the highest bidder by competitive bidding procedures established
25 by regulations adopted by the commissioner. At the discretion of the commissioner,
26 competitive lease sales may be by oral or sealed bid, on the basis of a cash bonus,
27 profit share, or royalty share.

28 * **Sec. 18.** AS 38.05.181(e) is amended to read:

29 (e) Prospecting licenses [PERMITS] and geothermal leases granted under this
30 section must [, EXCEPT IN THE CASE OF PARCELS SUBJECT TO A
31 PREFERENCE RIGHT UNDER (b) OF THIS SECTION,] be issued for at least 40

1 acres but not more than 2,560 acres. A person may not own, or hold an interest in,
 2 geothermal leases covering more than **100,000** [51,200] acres. However, geothermal
 3 leases in commercial production, individually or under a unit operation or well spacing
 4 or pooling arrangement, do not count against the acreage limitation. All prospecting
 5 **licenses** [PERMITS] and geothermal leases are subject to an annual rental **fee**
 6 **established by the department in regulation and** [,] payable in advance [, OF \$3
 7 PER ACRE]. The rental for a year shall be credited against royalties accruing for that
 8 year.

9 * **Sec. 19.** AS 38.05.181(f) is amended to read:

10 (f) A geothermal lease shall be issued for a primary term of 10 years and may
 11 be renewed for an additional term of five years if the lessee is actively engaged in
 12 drilling operations. A geothermal lease is valid for the duration of commercial
 13 production. [BEGINNING 20 YEARS AFTER THE INITIATION OF
 14 COMMERCIAL PRODUCTION AND AT 10-YEAR INTERVALS THEREAFTER,
 15 THE COMMISSIONER MAY RENEGOTIATE THE RENTALS AND
 16 ROYALTIES DUE ON A GEOTHERMAL LEASE.]

17 * **Sec. 20.** AS 38.05.184 is amended by adding a new subsection to read:

18 (h) A department or other state agency may not issue a carbon storage license
 19 or lease on state-owned land and water seaward of the mean higher high water line,
 20 beginning at Anchor Point; then around the perimeter of Kachemak Bay, to Point
 21 Pogibshi; then west to the three mile limit of state land and water; then north to a point
 22 three miles west of Anchor Point; then east to the mean higher high water line of
 23 Anchor Point, the point of beginning.

24 * **Sec. 21.** AS 38.05 is amended by adding new sections to read:

25 **Article 15A. Carbon Storage Exploration Licenses; Leases.**

26 **Sec. 38.05.700. Applicability; regulations.** (a) The provisions of
 27 AS 38.05.700 - 38.05.795 apply to the licensing of state land for carbon storage
 28 exploration and the leasing of state land for carbon storage.

29 (b) The commissioner may adopt regulations necessary to implement
 30 AS 38.05.700 - 38.05.795.

31 **Sec. 38.05.705. Carbon storage exploration licensing.** (a) The commissioner

1 may issue carbon storage exploration licenses on state land.

2 (b) A carbon storage exploration license gives the licensee

3 (1) the exclusive right to explore, for carbon storage purposes, the state
4 land described in the license for a five-year term; and

5 (2) the option to convert the license for all or part of the state land
6 described in the license into a carbon storage lease after the licensee complies with the
7 lease conversion process described in AS 38.05.715.

8 (c) A carbon storage exploration license must

9 (1) be conditioned on the posting of a bond or other security acceptable
10 to the department and in favor of the state;

11 (2) be conditioned on an obligation by the licensee to fulfill a specified
12 work commitment as set out in the license; the work commitment must include
13 mandatory provisions for

14 (A) an annual fee paid by the licensee to the department in an
15 amount that is at least \$20 an acre, subject to the license; and

16 (B) an annual report describing the licensee's exploration
17 activities in the previous calendar year, which the licensee shall provide to the
18 department; and

19 (3) include proposed commercial terms that apply if the license is
20 converted into a carbon storage lease, which must, at a minimum, provide for

21 (A) an annual rent of at least \$20 an acre; and

22 (B) a charge on injected volumes of carbon dioxide of at least
23 \$2.50 a ton.

24 (d) The commissioner may revoke a carbon storage exploration license before
25 the termination of the five-year term of the license if the licensee fails to comply with
26 the requirements of (c) of this section or applicable regulations.

27 (e) The department may renew a carbon storage exploration license for a term
28 sufficient to determine whether the licensee's permit application will be accepted
29 under AS 41.06.105 - 41.06.210 if the licensee

30 (1) before the expiration of the license, applies for a permit under
31 AS 41.06.120;

1 (2) is in compliance with the conditions of the license;

2 (3) provides documentation acceptable to the department of the
3 pending permit application; and

4 (4) submits to the department an executed renewal form affirming the
5 original terms of the license for the term of the renewed license.

6 (f) A carbon storage exploration license that has been renewed under (e) of
7 this section terminates immediately if the Alaska Oil and Gas Conservation
8 Commission denies the licensee's permit application under AS 41.06.105 - 41.06.210.

9 (g) The dollar amounts in (c) of this section shall increase every five years in
10 proportion to the Consumer Price Index for urban consumers for urban Alaska, as
11 determined by the United States Department of Labor, Bureau of Labor Statistics. The
12 index for January 2024 is the reference base index.

13 (h) A charge on injected volumes of carbon dioxide required under (c)(3)(B)
14 of this section or as altered by the commissioner under AS 38.05.715(c) is a royalty
15 for the purposes of the Alaska permanent fund under AS 37.13.010.

16 **Sec. 38.05.710. License procedures.** (a) To apply for a carbon storage
17 exploration license under AS 38.05.705, an applicant shall submit to the commissioner
18 a proposal that

19 (1) identifies the specific area to be subject to the license;

20 (2) proposes minimum work commitments;

21 (3) proposes commercial terms applicable to a carbon storage lease
22 that satisfy the requirements of AS 38.05.705(c)(3);

23 (4) demonstrates the applicant's ability to assume responsibility of a
24 carbon storage lease;

25 (5) describes how the applicant meets the minimum qualifications for a
26 licensee under applicable regulations; and

27 (6) includes an attestation of the applicant's ability to perform the
28 requirements of (2) - (4) of this subsection.

29 (b) The commissioner shall publish notice of a proposal received under (a) of
30 this section. The notice must include a solicitation for competing proposals. The
31 commissioner shall send a copy of the published notice to each lessee under

1 AS 38.05.135 - 38.05.181 within one-half mile of the area proposed for the
2 exploration license. Any person may submit a competing proposal, including a
3 proposal for the authorization of subsurface storage of oil or gas under
4 AS 38.05.180(u), under the process established by the commissioner in regulation.
5 The regulations must require that a competing proposal be submitted not later than 90
6 days after the commissioner's notice is published.

7 (c) After the period for submission of competing proposals has passed, the
8 commissioner shall issue a written finding determining whether issuance of a carbon
9 storage exploration license is in the best interests of the state. If the commissioner
10 determines that issuance of a carbon storage exploration license is in the best interests
11 of the state, the finding must

12 (1) describe the limitations, stipulations, and conditions of the license
13 and any changes to the conditions detailed in the proposal submitted under (a) of this
14 section, or a competing proposal, that are required before issuance of the exploration
15 license;

16 (2) set out the commercial terms required for the eventual conversion
17 of the exploration license into a carbon storage lease;

18 (3) if there are competing proposals from multiple applicants, identify
19 which applicants are qualified for the issuance of the exploration license and include
20 information about the competitive bid process as set out in (e) of this section; and

21 (4) include a copy of the exploration license to be issued and the form
22 of lease that will be used for any portion of the exploration license area that is later
23 converted to a lease under AS 38.05.715.

24 (d) If the commissioner determines that issuance of a carbon storage
25 exploration license is in the best interests of the state and that only one applicant is
26 qualified for a license, the applicant may accept or reject the exploration license, as
27 limited or conditioned by the terms of the finding made under (c) of this section and in
28 the form of lease attached to the finding, not later than 30 days after the date the
29 finding was issued. The applicant shall accept or reject the issuance of the carbon
30 storage exploration license in writing. If an applicant fails to respond within 30 days
31 after the finding was issued, the commissioner shall consider the applicant's failure to

1 respond as a rejection of the license.

2 (e) If the commissioner determines that issuance of a carbon storage
3 exploration license is in the best interests of the state and that more than one applicant
4 is qualified for a license, the commissioner shall issue a request for competitive sealed
5 bids, under procedures adopted by regulation, to determine which qualified applicants
6 will receive a license. If the commissioner determines that a competitive bid process is
7 necessary, the best interest finding made under (c) of this section must include notice
8 that the commissioner intends to request competitive bids.

9 (f) The commissioner shall establish in regulation the criteria for the
10 assessment of competitive bids under (e) of this section and for the determination of a
11 successful bidder.

12 (g) If a lessee under AS 38.05.135 - 38.05.181 in the area covered by a
13 proposed carbon storage exploration license participates in a competitive bid process
14 under (e) of this section and is not the successful bidder, before issuing the license, the
15 commissioner shall provide the lessee an opportunity to match the successful bid. If
16 the lessee matches the successful bid, the commissioner shall issue a carbon storage
17 exploration license to the lessee.

18 (h) A carbon storage exploration license issued under this section and a carbon
19 storage lease under AS 38.05.715 or 38.05.720 must include

20 (1) a covenant from the licensee or lessee not to unreasonably interfere
21 with the rights of a lessee under AS 38.05.135 - 38.05.181; and

22 (2) a clause by which the licensee or lessee indemnifies the state for
23 any unreasonable interference the licensee or lessee might cause to the rights of a
24 lessee under AS 38.05.135 - 38.05.181.

25 (i) When notice is required under this section, the
26 department shall follow the requirements for notice under
27 AS 38.05.945(b) and (c).

28 **Sec. 38.05.715. Conversion to lease by licensee.** (a) The commissioner may
29 convert a carbon storage exploration license to a carbon storage lease if the licensee
30 complies with (b) of this section.

31 (b) To convert a carbon storage exploration license to a carbon storage lease, a

1 licensee shall provide to the commissioner a copy of the permit obtained under
2 AS 41.06.120. After receiving a copy of the permit, the commissioner may issue a
3 carbon storage lease for those areas of the exploration license approved for carbon
4 storage by the permit if the licensee has

5 (1) fulfilled the work commitments set out in the license;

6 (2) demonstrated the ability to meet the commercial terms for the lease
7 as set out in the license.

8 (c) Notwithstanding (b) of this section, if the commissioner determines that a
9 carbon storage project is in the best interests of the state and would not be
10 economically feasible under the commercial terms set by the license, the
11 commissioner may issue the carbon storage lease under alternative commercial terms.
12 A lease issued under this subsection must be supported by a written finding that
13 contains specific factual details justifying the decision, an explanation of the
14 commissioner's reasons for issuing the lease, and a description of the original terms
15 and the alternative terms of the lease. The finding must be published on the
16 commissioner's publicly available Internet website.

17 (d) A lease issued under this section must include

18 (1) commercial terms for the lease;

19 (2) the agreements required under AS 38.05.710(h); and

20 (3) any other condition or obligation the commissioner considers
21 necessary or that is required by regulation.

22 **Sec. 38.05.720. Transition from enhanced oil recovery operations to**
23 **carbon storage operations.** (a) A lessee under AS 38.05.180 shall acquire a carbon
24 storage lease before engaging in carbon storage activity that is not associated with
25 enhanced oil or gas recovery.

26 (b) At the commissioner's discretion, the commissioner may issue a carbon
27 storage lease to a lessee under AS 38.05.180 if the lessee is in compliance with
28 regulations adopted under AS 41.06.185(b). The commissioner may consider the
29 qualifications and abilities of the lessee to meet the commercial requirements of a
30 carbon storage lease and whether issuance of the lease is in the best interests of the
31 state.

1 (c) A carbon storage lease issued under this section must include
 2 (1) commercial terms acceptable to the department that satisfy the
 3 requirements of AS 38.05.705(c)(3);
 4 (2) the agreements required under AS 38.05.710(h);
 5 (3) any other condition or obligation the commissioner considers
 6 necessary or that is required by regulation.

7 (d) Before a carbon storage lease issued under this section may be transferred
 8 or assigned to an entity that is not the responsible party under the existing oil and gas
 9 lease under AS 38.05.180, the assuming party must provide financial assurance
 10 acceptable to the department that the obligations of the lease can be met.

11 (e) The department may adopt regulations that allow all or part of a lease
 12 issued under AS 38.05.180 to be transitioned to a lease under this section upon the
 13 receipt of a permit issued under AS 41.06.185.

14 **Sec. 38.05.725. Plan of development and operations; unitization.** (a) The
 15 commissioner shall require the filing and approval of a plan of development and
 16 operation for a carbon storage lease.

17 (b) To prevent or assist in preventing waste, and to protect the correlative
 18 rights of persons owning interest in the tracts of land affected, with the approval of the
 19 commissioner, a group of lessees may validly integrate the lessees' interests to provide
 20 for the unitized management, development, and operation of the tracts of land as a
 21 unit. The commissioner may suspend or modify a development plan approved under
 22 (a) of this section in accordance with the unit agreement. In this subsection, "unit
 23 agreement" means an agreement by lessees with an interest in the unit, the state, and
 24 any other carbon storage lessor with an interest in the unit.

25 (c) A lease operated under a plan approved or prescribed by the commissioner
 26 under this section is excepted from determining holdings or control under
 27 AS 38.05.140. The provisions of this section concerning cooperative or unit plans are
 28 in addition to and do not affect AS 31.05 and AS 41.06.

29 **Sec. 38.05.730. Payments from carbon storage exploration licenses and**
 30 **carbon storage leases.** Except as otherwise provided in AS 38.05.705(h) or under art.
 31 IX, sec. 15, Constitution of the State of Alaska, the department shall deposit in the

1 general fund the money it collects under AS 38.05.700 - 38.05.795.

2 **Sec. 38.05.735. Annual report to the legislature.** The commissioner shall
3 prepare an annual report that includes an accounting of the carbon storage closure trust
4 fund established under AS 37.14.850 and information on carbon storage licensing
5 applications and decisions and the issuance of carbon storage leases. The
6 commissioner shall submit the report to the senate secretary and the chief clerk of the
7 house of representatives on or before February 1 of each year and notify the legislature
8 that the report is available.

9 **Sec. 38.05.740. Removal and restoration after termination.** Upon
10 termination of a license under AS 38.05.705 or a lease under AS 38.05.715 or
11 38.05.720, a licensee or lessee shall promptly remove all improvements and
12 equipment, except as otherwise approved in writing by the commissioner, and shall
13 restore the land to a condition that is approved by the commissioner.

14 **Sec. 38.05.795. Definitions.** In AS 38.05.700 - 38.05.795, unless the context
15 requires otherwise,

16 (1) "carbon storage" means the underground storage of carbon dioxide
17 in a carbon storage reservoir;

18 (2) "enhanced oil or gas recovery" has the meaning in AS 41.06.210;

19 (3) "reservoir" has the meaning given in AS 41.06.210.

20 * **Sec. 22.** AS 38.05.965(6) is amended to read:

21 (6) "geothermal resources" means the natural heat of the earth at
22 temperatures greater than 80 [120] degrees Celsius, measured at the point where the
23 highest-temperature resources encountered enter or contact a well or other resource
24 extraction device, and includes

25 (A) the energy, including pressure, in whatever form present in,
26 resulting from, created by, or that may be extracted from that natural heat;

27 (B) the material medium, including the geothermal fluid
28 naturally present, as well as substances artificially introduced to serve as a heat
29 transfer medium; and

30 (C) all dissolved or entrained minerals and gases that may be
31 obtained from the material medium, but excluding hydrocarbon substances and

1 helium;

2 * **Sec. 23.** AS 38.35.020(a) is amended to read:

3 (a) Rights-of-way on state land, including rights-of-way over, under, along,
4 across, or on [UPON] the right-of-way of a public road or highway or the right-of-way
5 of a railroad or other public utility, or across, on [UPON], over, or under a river or
6 other body of water or land belonging to or administered by the state may be granted
7 by noncompetitive lease by the commissioner for pipeline purposes for the
8 transportation of oil, products, carbon dioxide, or natural gas under those conditions
9 prescribed by law or by administrative regulation. Except to the extent authorized by
10 an oil and gas lease, a gas only lease, or a carbon storage lease, or an oil and gas,
11 [OR] gas only, or carbon storage unit agreement approved by the state, no person
12 may engage in any construction or operation of any part of an oil, products, carbon
13 dioxide, or natural gas pipeline that is or is proposed to be, [WHICH] in whole or in
14 part, [IS OR IS PROPOSED TO BE] on state land unless that person has obtained
15 from the commissioner a right-of-way lease of the land under this chapter.

16 * **Sec. 24.** AS 38.35.020(b) is amended to read:

17 (b) The commissioner may by regulation exempt from the requirement of a
18 right-of-way lease under this chapter the construction or operation of

19 (1) field gathering lines or any reasonable classification of field
20 gathering lines; and

21 (2) a pipeline transporting carbon dioxide within a field for the
22 purpose of an enhanced oil or gas recovery project under AS 41.06.185 or field
23 pressurization measures within that same field [THEM FROM THE
24 REQUIREMENT OF A RIGHT-OF-WAY LEASE UNDER THIS CHAPTER].

25 * **Sec. 25.** AS 38.35.122 is amended to read:

26 **Sec. 38.35.122. Products pipeline and carbon dioxide transportation**
27 **pipeline leases.** The commissioner has discretion to include any or all of the terms set
28 out in AS 38.35.120 in leases of state land for products pipeline right-of-way purposes
29 **or carbon dioxide transportation pipeline right-of-way purposes.**

30 * **Sec. 26.** AS 38.35.230(3) is amended to read:

31 (3) "lease" means the instrument or extension of an instrument issued

1 under this chapter granting a leasehold interest in state land for pipeline right-of-way
 2 purposes to a person and authorizing the construction or operation of, or **the**
 3 transportation, service, or sale by, a pipeline for crude oil, natural gas, **carbon**
 4 **dioxide**, or products;

5 * **Sec. 27.** AS 38.35.230(7) is amended to read:

6 (7) "pipeline" or "pipeline facility" means all the facilities of a total
 7 system of pipe, whether owned or operated under a contract, agreement, or lease, used
 8 by a carrier for transportation of crude oil, natural gas, **carbon dioxide**, or products for
 9 delivery, for storage, or for further transportation, and including all pipe, pump or
 10 compressor stations, station equipment, tanks, valves, access roads, bridges, airfields,
 11 terminals and terminal facilities, including docks and tanker loading facilities,
 12 operations control center for both the upstream part of the pipeline and the terminal,
 13 tanker ballast treatment facilities, and fire protection system, communication system,
 14 and all other facilities used or necessary for an integral line of pipe, taken as a whole,
 15 to **carry out** [EFFECTUATE] transportation, including an extension or enlargement
 16 of the line;

17 * **Sec. 28.** AS 38.35.230(10) is amended to read:

18 (10) "transportation" means the shipment or carriage by a pipeline of
 19 crude oil, natural gas, **carbon dioxide**, or products from an upstream terminus in one
 20 or more fields or points of production or supply of the minerals to a downstream
 21 terminus in one or more points for delivery of the minerals to a purchaser or
 22 consignee, for storage, or for further carriage or shipment, including shipment or
 23 carriage within the state that may be classified as interstate or foreign transportation to
 24 the extent that the transportation may constitutionally be subjected to the provisions of
 25 this chapter, as well as all services necessary to **carry out** [EFFECTUATE] shipment
 26 or carriage, including [, AMONG OTHER THINGS,] the receipt, storage, processing,
 27 handling, transfer in transit, forwarding, and delivery of the minerals.

28 * **Sec. 29.** AS 38.35.230 is amended by adding a new paragraph to read:

29 (11) "carbon dioxide" has the meaning given in AS 41.06.210.

30 * **Sec. 30.** AS 41.06.005 is amended to read:

31 **Sec. 41.06.005. Jurisdiction over geothermal resources.** (a) The commission

1 has jurisdiction under **AS 41.06.005 - 41.06.060** [THIS CHAPTER] over geothermal
2 wells to prevent waste, to protect correlative rights, and to ensure public safety.

3 (b) The Department of Natural Resources has jurisdiction under **AS 41.06.005**
4 **- 41.06.060** [THIS CHAPTER] over management of geothermal leases and units in the
5 public interest and to effect development.

6 * **Sec. 31.** AS 41.06.020 is amended to read:

7 **Sec. 41.06.020. Authority of commission; application.** (a) The commission
8 has jurisdiction over all persons and property, public and private, necessary to carry
9 out the purposes and intent of **AS 41.06.005 - 41.06.060** [THIS CHAPTER].

10 (b) The authority of the commission applies to all land in the state lawfully
11 subject to the police power of the state, including private land, municipal land, state
12 land, land of the United States, and land subject to the jurisdiction of the United
13 States, and to all land included in a voluntary cooperative or unit plan of development
14 or operation entered into in accordance with AS 38.05.181. When land that is subject
15 to the commission's authority is committed to a unit agreement involving land subject
16 to federal jurisdiction, the operation of **AS 41.06.005 - 41.06.060** [THIS CHAPTER]
17 or a part of **AS 41.06.005 - 41.06.060** [THIS CHAPTER] may be suspended if

18 (1) the unit operations are regulated by the United States; and

19 (2) the conservation of geothermal resources is accomplished under the
20 unit agreement.

21 (c) **The provisions of AS 41.06.005 - 41.06.060 apply** [THIS CHAPTER
22 APPLIES]

23 (1) to wells drilled in search of, in support of, or for the recovery or
24 production of geothermal resources;

25 (2) when a person engaged in drilling activity not otherwise subject to
26 the provisions of **AS 41.06.005 - 41.06.060** [THIS CHAPTER] encounters geothermal
27 resources, fluid, or water of sufficient heat or pressure to constitute a threat to human
28 life or health unless the drilling operation is subject to oil and gas drilling regulation
29 under AS 31.05;

30 (3) in areas and under conditions in which the commission determines
31 that drilling may encounter geothermal resources, fluid, or water of sufficient heat or

1 pressure to constitute a threat to human life or health.

2 (d) To the extent the provisions of AS 31.05 do not conflict with the
3 provisions of AS 41.06.005 - 41.06.060 [THIS CHAPTER], the provisions of
4 AS 31.05 are applicable to wells drilled in search of, in support of, or for the recovery
5 or production of geothermal resources.

6 (e) Nothing in AS 41.06.005 - 41.06.060 [THIS CHAPTER] limits the
7 authority of the department

8 (1) over geothermal resources under AS 38.05.181; or

9 (2) to approve and manage geothermal units or operations that include
10 state land.

11 * **Sec. 32.** AS 41.06.030(e) is amended to read:

12 (e) The commissioner may adopt regulations under AS 44.62 (**Administrative**
13 **Procedure Act**) to carry out the purposes and intent of AS 41.06.005 - 41.06.060
14 [THIS CHAPTER] for duties assigned to the department, including the promotion of
15 maximum economic recovery.

16 * **Sec. 33.** AS 41.06.035(b) is amended to read:

17 (b) The commission may adopt regulations under AS 44.62 (**Administrative**
18 **Procedure Act**) and issue orders appropriate to carry out the purposes and intent of
19 AS 41.06.005 - 41.06.060 [THIS CHAPTER] for duties assigned to the commission,
20 including orders regarding the establishment of drilling units for pools as set out in
21 AS 31.05.100 and orders regarding unitized operation and integration of interests as
22 set out in AS 31.05.110.

23 * **Sec. 34.** AS 41.06.040(a) is amended to read:

24 (a) The commission shall adopt regulations under AS 44.62 (Administrative
25 Procedure Act), issue orders, and take other appropriate action to carry out the
26 purposes and intent of AS 41.06.005 - 41.06.060 [THIS CHAPTER], including
27 adopting regulations to prevent

28 (1) geothermal resources, water or other fluids, and gases from
29 escaping into strata other than that in which they are found, unless in accordance with
30 an approved reinjection program;

31 (2) contamination of surface and groundwater;

1 (3) premature degradation of a geothermal system by water
2 encroachment or otherwise;

3 (4) blowouts, cavings, and seepage; and

4 (5) unreasonable disturbance or injury to neighboring properties, prior
5 water rights, prior oil or gas rights, human life, health, and the natural environment.

6 * **Sec. 35.** AS 41.06.050(e) is amended to read:

7 (e) In making the determination under (d) of this section, the commission shall
8 consider whether the

9 (1) proposed well will significantly interfere with or substantially
10 impair a prior water, oil, or gas right;

11 (2) proposed well is contrary to a provision of AS 41.06.005 -
12 41.06.060 [THIS CHAPTER], a regulation adopted by the commission, another law,
13 or an order, stipulation, or term of a permit issued by the commission; and

14 (3) applicant is in violation of a provision of AS 41.06.005 - 41.06.060
15 [THIS CHAPTER], a regulation adopted by the commission, another law, or an order,
16 stipulation, or term of a permit issued by the commission; the commission shall
17 consider the magnitude of the violation.

18 * **Sec. 36.** AS 41.06.055(c) is amended to read:

19 (c) The commission shall determine the regulatory cost charges levied under
20 this section so that the total amount to be collected approximately equals the
21 appropriations made for the operating costs of the commission that have been incurred
22 under AS 41.06.005 - 41.06.060 [THIS CHAPTER] for the fiscal year.

23 * **Sec. 37.** AS 41.06.055(d) is amended to read:

24 (d) The commission shall collect the regulatory cost charges imposed under
25 this section. The Department of Administration shall identify the amount of
26 appropriations made for the operating costs of the commission under AS 41.06.005 -
27 41.06.060 [THIS CHAPTER] that lapse into the general fund each year. The
28 legislature may appropriate an amount that is at least equal to the lapsed amount to the
29 commission for its operating costs under AS 41.06.005 - 41.06.060 [THIS
30 CHAPTER] for the next fiscal year. If the legislature makes an appropriation to the
31 commission under this subsection that is equal to or greater than the lapsed amount,

1 the commission shall reduce the total regulatory cost charge collected for that fiscal
2 year by a comparable amount.

3 * **Sec. 38.** AS 41.06.060 is amended to read:

4 **Sec. 41.06.060. Definitions.** In AS 41.06.005 - 41.06.060 [THIS CHAPTER],
5 unless the context otherwise requires,

6 (1) "commercial use" means the sale of heat or power to a third party;

7 (2) "commission" means the Alaska Oil and Gas Conservation
8 Commission created under AS 31.05.005;

9 (3) "correlative rights" means the right of an owner of each property in
10 a geothermal system to produce without waste the owner's just and equitable share of
11 the geothermal resources in the geothermal system; a just and reasonable share is an
12 amount, so far as can be practically determined and so far as can be practically
13 produced without waste, that is substantially in proportion to the quantity of
14 recoverable geothermal resources under the owner's property relative to the total
15 recoverable geothermal resources in the geothermal system;

16 (4) "geothermal fluid" means liquids and steam at temperatures greater
17 than 120 degrees Celsius or any commercial use of liquids and steam naturally present
18 in a geothermal system at temperatures less than 120 degrees Celsius;

19 (5) "geothermal resources"

20 (A) means the natural heat of the earth at temperatures greater
21 than 120 degrees Celsius, or any use of that heat for commercial purposes,
22 measured at the point at which [WHERE] the highest-temperature resources
23 encountered enter or contact a well or other resource extraction device or any
24 commercial use of the natural heat of the earth;

25 (B) includes

26 (i) the energy, including pressure, in whatever form
27 present in, resulting from, created by, or that may be extracted from
28 that natural heat;

29 (ii) the material medium, including steam and other
30 gases, hot water, and hot brines constituting the geothermal fluid
31 naturally present, as well as substances artificially introduced to serve

1 as a heat transfer medium; and

2 (iii) all dissolved or entrained minerals and gases that
3 may be obtained from the material medium, but excluding hydrocarbon
4 substances and helium;

5 (6) "geothermal system" means a stratum, pool, reservoir, or other
6 geologic formation containing geothermal resources;

7 (7) "operator" means a person drilling, maintaining, operating,
8 producing, or in control of a well;

9 (8) "owner" means the person who has the right to drill into or produce
10 from a geothermal system and to appropriate the geothermal resources produced from
11 a geothermal system for that person and others;

12 (9) "waste" means, in addition to its ordinary meaning, physical waste,
13 and includes an inefficient, excessive, or improper production, use, or dissipation of
14 geothermal resources, including

15 (A) drilling, transporting, or storage methods that cause or tend
16 to cause unnecessary surface loss of geothermal resources;

17 (B) locating, spacing, drilling, equipping, operating, producing,
18 or venting of a well in a manner that results or tends to result in reducing the
19 ultimate economic recovery of geothermal resources;

20 (10) "well" means a well drilled, converted, or reactivated for the
21 discovery, testing, production, or subsurface injection of geothermal resources.

22 * **Sec. 39.** AS 41.06 is amended by adding new sections to read:

23 **Article 2. Carbon Storage; Injection.**

24 **Sec. 41.06.105. Jurisdiction over storage facilities.** The commission has
25 jurisdiction under AS 41.06.105 - 41.06.210 over storage facilities to prevent waste,
26 protect correlative rights, and ensure public health and safety.

27 **Sec. 41.06.110. Authority of the commission.** (a) The authority of the
28 commission applies to all land

29 (1) in the state lawfully subject to the police power of the state,
30 including private land, municipal land, state land, federal land, and land subject to the
31 jurisdiction of the United States; and

1 (2) included in a voluntary cooperative or unit plan of development or
2 operation entered into in accordance with AS 38.05.725.

3 (b) When land that is subject to the commission's authority is committed to a
4 unit agreement involving land subject to federal jurisdiction, the operation of
5 AS 41.06.105 - 41.06.210 may be suspended if

6 (1) the unit operations are regulated by the United States; and

7 (2) conservation of resources in the reservoir or pool is accomplished
8 in the agreement.

9 (c) The commission has the authority to

10 (1) regulate activities related to a storage facility, including the
11 construction, operation, and closure of the facility;

12 (2) require that storage operators provide assurance, including bonds,
13 that money is available to fulfill the storage operator's duties;

14 (3) enter, at a reasonable time and in a reasonable manner, a storage
15 facility to

16 (A) inspect equipment and facilities;

17 (B) observe, monitor, and investigate operation; and

18 (C) inspect records required to be maintained at the facility;

19 (4) exercise continuing jurisdiction over storage operators and storage
20 facilities, including the authority, after notice and hearing, to amend provisions in a
21 permit and to revoke a permit; and

22 (5) dissolve or change the boundaries of an oil or gas field or unit
23 established by the commission that is within or near the boundaries of a storage
24 reservoir.

25 (d) To the extent AS 31.05 does not conflict with AS 41.06.105 - 41.06.210,
26 the provisions of AS 31.05 are applicable to wells drilled in search of, in support of,
27 and for carbon storage.

28 (e) Nothing in AS 41.06.105 - 41.06.210 limits the authority of the
29 Department of Natural Resources under AS 38.05.700 - 38.05.795 or AS 41.06.305.

30 **Sec. 41.06.115. Waste prohibited; investigation.** Waste in a storage facility
31 or storage reservoir in the state is prohibited. The commission may investigate to

1 determine whether waste exists or is imminent, or whether other facts exist that justify
 2 or require action by the commission to prohibit waste. The injection of carbon dioxide
 3 and substances commonly associated with carbon dioxide injection is not considered
 4 waste.

5 **Sec. 41.06.120. Storage facility permit.** (a) A storage operator is required to
 6 obtain a permit from the commission to operate a storage facility.

7 (b) A permit may not be transferred unless the commission consents.

8 (c) A person applying for a permit shall

9 (1) request a preapplication meeting with the commission staff;

10 (2) comply with application requirements;

11 (3) pay a fee in an amount determined by the commission; and

12 (4) pay the commission the cost the commission incurs in reviewing
 13 the person's application, publishing notices for hearings, and holding hearings on the
 14 person's permit application.

15 (d) A permit application must include sufficient information to enable the
 16 commission to determine whether the storage facility will interfere with or impair an
 17 existing water, oil, gas, or other mineral interest.

18 (e) The commission shall set the amount of the fee in (c)(3) of this section
 19 based on the anticipated cost to the commission associated with processing
 20 applications, including preliminary work in advance of receiving an application. The
 21 commission may enter into an agreement with a prospective applicant that requires the
 22 applicant to reimburse the commission for reasonable costs of work incurred in
 23 preparing for activities before the commission receives an application.

24 (f) The commission shall deposit fees collected under this section in the
 25 carbon dioxide storage facility administrative fund established in AS 41.06.160.

26 **Sec. 41.06.125. Hearing on permit application.** (a) Before issuing a permit
 27 for a storage facility, the commission shall hold a public hearing.

28 (b) The commission shall provide notice of a public hearing under this section.
 29 The commission shall provide notice in the same manner as a notice under
 30 AS 31.05.050(b) and shall provide notice to

31 (1) each mineral lessee, mineral owner, and mineral right owner of

1 record within the storage reservoir and within one-half mile of the boundaries of the
2 storage reservoir;

3 (2) each surface owner of land overlying the storage reservoir and
4 within one-half mile of the boundaries of the storage reservoir; and

5 (3) any additional persons that the commission considers necessary.

6 (c) A hearing notice required by this section must comply with deadlines set
7 by the commission.

8 **Sec. 41.06.130. Permit requirements.** (a) The commission shall consult with
9 the Department of Environmental Conservation and the Department of Natural
10 Resources before issuing a permit under AS 41.06.120.

11 (b) Before the commission may approve a permit application submitted under
12 AS 41.06.120, the commission must find

13 (1) that the storage operator has complied with all requirements set by
14 the commission;

15 (2) that the proposed storage facility is suitable and feasible for carbon
16 storage;

17 (3) that the carbon dioxide to be stored is of a quality that allows it to
18 be safely and efficiently stored in the storage reservoir;

19 (4) that the storage operator has made a good faith effort to get the
20 consent of all persons with an ownership interest in the proposed storage reservoir and
21 surface owners of land overlying the proposed storage reservoir;

22 (5) if the proposed storage facility contains commercially valuable
23 minerals, that the interests of the mineral owners or mineral lessees will not be
24 adversely affected or have been addressed in an arrangement entered into by the
25 mineral owners or mineral lessees and the storage operator;

26 (6) that the proposed storage facility will not adversely affect surface
27 water or formations containing fresh water;

28 (7) that carbon dioxide is not reasonably anticipated to escape from the
29 storage reservoir;

30 (8) that substances that compromise the objectives of AS 41.06.105 -
31 41.06.210 or the integrity of a storage reservoir will not enter a storage reservoir;

1 (9) that the proposed storage facility will not endanger human health or
2 unduly endanger the environment;

3 (10) that the proposed storage facility is in the public interest;

4 (11) that the horizontal and vertical boundaries of the proposed storage
5 reservoir are defined and the boundaries include buffer areas to ensure that the storage
6 facility is operated safely and as contemplated;

7 (12) that the storage operator will establish monitoring facilities and
8 protocols to assess the location and migration of carbon dioxide injected for carbon
9 storage and to ensure compliance with all permit, statutory, and administrative
10 requirements;

11 (13) that all nonconsenting landowners or holders of mineral rights are,
12 or will be, equitably compensated; and

13 (14) that the storage operator is not in violation of a provision of
14 AS 41.06.105 - 41.06.210 or regulations adopted by the commission.

15 **Sec. 41.06.135. Permit provisions.** The commission may include in a permit
16 or order any parameters necessary to carry out the objectives of AS 41.06.105 -
17 41.06.210, prevent waste, protect correlative rights, and ensure the health and safety of
18 persons affected by the permit.

19 **Sec. 41.06.140. Amalgamating property interests.** If a storage operator does
20 not obtain the consent of all persons with an ownership interest in the storage
21 reservoir, the commission may order that the pore space rights of nonconsenting
22 owners be included in a storage facility and subject to carbon storage. Before the
23 commission may issue an order forming an amalgamation under this section, the
24 commission shall provide public notice and hold a hearing.

25 **Sec. 41.06.145. Certificate.** When the commission issues a permit under
26 AS 41.06.120, the commission shall also issue a certificate that states that the permit
27 has been issued, describes the area covered, and contains other information the
28 commission considers appropriate. The storage operator may file a copy of the
29 certificate with the office of the recorder in the district in which the storage facility is
30 located.

31 **Sec. 41.06.150. Environmental protection; storage reservoir integrity.** (a)

1 The commission shall take action to ensure that

2 (1) substances that compromise the integrity of a storage reservoir do
3 not enter a storage reservoir; and

4 (2) carbon dioxide does not escape from a storage facility.

5 (b) For the purposes of this section, and in the application of other laws,
6 carbon dioxide that is stored and remains in carbon storage under a permit is not
7 considered a pollutant and does not constitute a nuisance.

8 (c) The commission's authority under (a) of this section does not limit the
9 jurisdiction of the Department of Environmental Conservation.

10 **Sec. 41.06.155. Preservation of rights.** Nothing in AS 41.06.105 - 41.06.210

11 (1) prejudices the rights of a person with a property interest in a
12 storage facility to exercise rights that have not been committed to the storage facility;
13 or

14 (2) prevents a mineral owner or mineral lessee from drilling through or
15 near a storage reservoir to explore for and develop minerals if the drilling, production,
16 and related activities comply with requirements set by the commission to preserve the
17 integrity of the storage facility and protect the objectives of AS 41.06.105 - 41.06.210.

18 **Sec. 41.06.160. Fees; carbon dioxide storage facility administrative fund.**

19 (a) A storage operator shall pay to the commission a fee on each metric ton of carbon
20 dioxide injected for carbon storage. The commission shall set the amount of the fee
21 based on the anticipated expenses the commission will incur in regulating storage
22 facilities during each phase, including the construction, operational, and pre-
23 completion phases. The commission shall deposit a fee collected under this subsection
24 in the carbon dioxide storage facility administrative fund established in (b) of this
25 section.

26 (b) The carbon dioxide storage facility administrative fund is established in
27 the general fund. The fund consists of

28 (1) fees received under (a) of this section;

29 (2) fees received under AS 41.06.120 and 41.06.195; and

30 (3) interest earned on money in the fund.

31 (c) Money in the carbon dioxide storage facility administrative fund shall be

1 separately accounted for under AS 37.05.142. The legislature may appropriate the
 2 money in the fund to the commission to carry out the purposes of AS 41.06.105 -
 3 41.06.210.

4 **Sec. 41.06.165. Title to carbon dioxide.** The storage operator has title to the
 5 carbon dioxide injected into and stored in a storage reservoir and holds title until the
 6 commission issues a certificate of completion under AS 41.06.170. While the storage
 7 operator holds title, the operator is liable for any damage the carbon dioxide may
 8 cause, including damage caused by carbon dioxide that escapes from the storage
 9 facility. When a certificate of completion is issued under AS 41.06.170, title to carbon
 10 dioxide injected into and stored in a storage reservoir is transferred to the owner of the
 11 pore space, unless the storage operator and the owner of the pore space have a
 12 contrary agreement.

13 **Sec. 41.06.170. Certificate of completion.** (a) Once a storage operator
 14 discontinues carbon dioxide injections into a storage reservoir, and upon application
 15 by the storage operator, the commission may issue a certificate of completion

16 (1) only after public notice and hearing; the commission shall establish
 17 notice requirements for a hearing under this paragraph;

18 (2) only after the commission consults with the Department of
 19 Environmental Conservation, the Department of Natural Resources, and all persons
 20 with an ownership interest in the storage reservoir; and

21 (3) after a period of at least 50 years, or another period approved by
 22 the commission for the storage reservoir based on requirements established in
 23 regulation, has elapsed since the last carbon dioxide injection into the storage
 24 reservoir.

25 (b) The commission may issue a certificate of completion only if the storage
 26 operator

27 (1) has fully complied with all laws governing the storage facility;

28 (2) shows that the operator has addressed all pending claims regarding
 29 the operation of the storage facility;

30 (3) shows that the underground place or pore space in which the
 31 injected carbon dioxide is stored is not expected to pose a threat to human health,

1 human safety, the environment, or underground sources of drinking water;

2 (4) shows that the stored or injected carbon dioxide is unlikely to cross
3 an underground or pore space boundary and is not expected to endanger an
4 underground source of drinking water or otherwise endanger human health, human
5 safety, or the environment;

6 (5) shows that all wells, equipment, and facilities allowed to remain in
7 place following post-injection site care and site closure are in good condition and
8 retain mechanical integrity;

9 (6) shows that the operator has plugged wells, removed equipment and
10 facilities, and completed reclamation work as required by the commission and the
11 Department of Natural Resources;

12 (7) has paid all fees and surcharges owed for the storage facility; and

13 (8) meets any other regulatory requirements established by the state.

14 (c) Once a certificate of completion is issued, the department assumes primary
15 responsibility for long-term monitoring and maintenance of the storage facility, as
16 provided in AS 41.06.305. The storage operator and all persons who generated
17 injected carbon dioxide are released from liability to the state associated with the
18 storage facility in an amount equal to the amount attributed to the storage facility in
19 the carbon storage closure trust fund established in AS 37.14.850. The state, the
20 department, or the commission is not liable for damages arising out of, or in any
21 manner connected with, long-term monitoring and maintenance of a storage facility if
22 the amount for the storage facility separately accounted for in the carbon storage
23 closure trust fund established in AS 37.14.850 is unavailable or insufficient. A bond
24 posted by the storage operator under AS 41.06.110(c)(2) must be released. In this
25 subsection, "long-term monitoring and maintenance" has the meaning given in
26 AS 41.06.305(e).

27 **Sec. 41.06.175. Carbon storage facility injection surcharge.** (a) A storage
28 operator injecting carbon dioxide at a storage facility shall pay to the commission a
29 surcharge each year for the first 12 years that carbon dioxide is injected at the storage
30 facility. The commission shall deposit the surcharge into the general fund. The
31 legislature may appropriate a surcharge collected under this subsection into the carbon

1 storage closure trust fund established in AS 37.14.850.

2 (b) The annual surcharge in this section is determined by the following
3 formula: $S = (7,500,000 \times (I/261.78)) / 12$, where

4 (1) S is the dollar amount of the annual surcharge for a storage facility;

5 (2) I is equal to the Consumer Price Index for urban consumers for
6 urban Alaska, as determined by the United States Department of Labor, Bureau of
7 Labor Statistics, without seasonal adjustment, for December of the calendar year
8 immediately preceding the year of issuance of the storage facility permit.

9 **Sec. 41.06.180. Penalties.** (a) In addition to the penalties in (b) - (d) of this
10 section, a person who violates a provision of AS 41.06.105 - 41.06.210, a regulation
11 adopted under AS 41.06.105 - 41.06.210, or an order or term of a permit issued by the
12 commission under AS 41.06.105 - 41.06.210 is liable for a civil penalty of not more
13 than \$100,000 for the initial violation and not more than \$10,000 for each day
14 thereafter on which the violation continues.

15 (b) A person who knowingly commits an act specified in AS 11.46.630(a) for
16 the purpose of evading a provision of AS 41.06.105 - 41.06.210, a regulation adopted
17 under AS 41.06.105 - 41.06.210, or an order, stipulation, or term of a permit issued by
18 the commission is guilty of a class A misdemeanor.

19 (c) A person who knowingly violates a provision of AS 41.06.105 - 41.06.210,
20 a regulation adopted under AS 41.06.105 - 41.06.210, or an order, stipulation, or term
21 of a permit issued by the commission is guilty of a class A misdemeanor punishable
22 by a fine of not more than \$10,000 a day for each day of violation.

23 (d) A person who knowingly aids or abets another person in the violation of a
24 provision of AS 41.06.105 - 41.06.210, a regulation adopted under AS 41.06.105 -
25 41.06.210, or an order, stipulation, or term of a permit issued by the commission is
26 subject to the same penalty as that prescribed in this section for the violation by the
27 other person.

28 (e) The commission may assess the civil penalties provided in this section,
29 and, if not paid, the penalties are recoverable by suit filed by the attorney general in
30 the name and on behalf of the commission in the superior court. The payment of a
31 penalty does not relieve a person on whom the penalty is imposed from liability to any

1 other person for damages arising out of the violation.

2 (f) In determining the amount of a penalty assessed under (a) of this section,
3 the commission shall consider

4 (1) the extent to which the person committing the violation was acting
5 in good faith in attempting to comply;

6 (2) the extent to which the person committing the violation acted in a
7 wilful or knowing manner;

8 (3) the extent and seriousness of the violation and the actual or
9 potential threat to public health or the environment;

10 (4) the economic or environmental harm or injury to the public caused
11 by the violation;

12 (5) the economic value or other benefits derived by the person
13 committing the violation from the commission of the violation;

14 (6) any history of previous violations by the person committing the
15 violation;

16 (7) the need to deter similar behavior by the person committing the
17 violation and others similarly situated at the time of the violation or in the future;

18 (8) the effort made by the person committing the violation to correct
19 the violation and prevent future violations; and

20 (9) other matters justice requires.

21 **Sec. 41.06.185. Enhanced oil or gas recovery.** (a) Except as provided in (b)
22 of this section, the provisions of AS 41.06.105 - 41.06.210 do not apply to
23 applications filed with the commission proposing to use carbon dioxide for enhanced
24 oil or gas recovery.

25 (b) The commission may adopt regulations that allow enhanced oil or gas
26 recovery and related well activities to be converted to a storage facility. The
27 regulations must require that, in considering whether to approve a conversion, and
28 upon conversion, the provisions of AS 41.06.105 - 41.06.210 apply. The regulations
29 may impose additional requirements to AS 41.06.105 - 41.06.210, or describe specific
30 situations in which the requirements of AS 41.06.105 - 41.06.210 are waived, to
31 ensure that the objectives of AS 41.06.105 - 41.06.210 are met.

1 **Sec. 41.06.190. Cooperative agreements and contracts.** (a) The commission
2 may enter into agreements with other governments, government entities, and state
3 agencies for the purpose of carrying out the objectives of AS 41.06.105 - 41.06.210.

4 (b) The commission may enter into contracts with private persons to assist in
5 carrying out the objectives of AS 41.06.105 - 41.06.210. If an emergency exists, the
6 commission may enter into contracts without public notice and without competitive
7 bidding.

8 **Sec. 41.06.195. Determining capacity of storage reservoir; carbon credits;
9 fees.** (a) The commission may adopt a written policy establishing procedures and
10 criteria that the commission will use to determine the carbon storage capacity of a
11 storage reservoir, including for the purpose of enhanced oil or gas recovery.

12 (b) The purpose of determining the carbon storage capacity of a storage
13 reservoir is to facilitate calculating the amount of stored carbon dioxide for matters
14 including carbon credits, allowances, trading, emissions allocations, and offsets. The
15 commission may charge a reasonable fee to a person requesting a capacity
16 determination. The commission shall set the fee by regulation. The commission shall
17 deposit fees received under this subsection in the carbon dioxide storage facility
18 administrative fund established in AS 41.06.160.

19 (c) In this section, "carbon storage capacity of a storage reservoir" means the
20 maximum injected volume in a storage reservoir at which the pressure in the reservoir
21 does not pose a risk to the integrity of the reservoir or its ability to maintain carbon
22 storage.

23 **Sec. 41.06.210. Definitions.** In AS 41.06.105 - 41.06.210, unless the context
24 requires otherwise,

25 (1) "carbon dioxide" means carbon dioxide of a quality that will not
26 compromise

27 (A) the safety of carbon storage; and

28 (B) the properties of a storage reservoir that allow the reservoir
29 to effectively enclose and contain a stored gas or stored supercritical fluid;

30 (2) "carbon storage" means the underground storage of carbon dioxide
31 in a storage reservoir;

1 (3) "commission" means the Alaska Oil and Gas Conservation
2 Commission created under AS 31.05.005;

3 (4) "enhanced oil or gas recovery" means the increased recovery of
4 hydrocarbons, including oil and gas, from a common source of supply achieved by
5 artificial means or by the application of energy extrinsic to the common source of
6 supply, including pressuring, cycling, pressure maintenance or injection of a substance
7 or form of energy, including injection of water, gas, carbon dioxide, or both gas and
8 carbon dioxide, including immiscible and miscible floods, as long as the enhanced oil
9 or gas recovery does not include injection of a substance or form of energy for the sole
10 purpose of

11 (A) aiding in the lifting of fluids in the well; or

12 (B) stimulation of the reservoir at or near the well by
13 mechanical, chemical, thermal, or explosive means;

14 (5) "permit" means a storage facility permit issued under
15 AS 41.06.120;

16 (6) "pore space" means a cavity or void in a subsurface sedimentary
17 stratum;

18 (7) "reservoir" means a subsurface sedimentary stratum, formation,
19 aquifer, cavity, or void, including pore space, oil and gas reservoirs, saline formations,
20 and coal seams that are suitable, or capable of being made suitable, for injection and
21 carbon storage;

22 (8) "storage facility" means the storage reservoir, underground
23 equipment, well, and surface facilities and equipment used in accordance with a
24 permit; "storage facility" does not include pipelines, compressors, surface facilities,
25 and equipment used to transport carbon dioxide to the storage facility that are
26 unrelated to well safety and metering;

27 (9) "storage operator" means a person holding or applying for a permit;

28 (10) "storage reservoir" means a reservoir proposed, authorized, or
29 used for carbon storage;

30 (11) "supercritical fluid" means a substance at or above its critical
31 temperature and critical pressure that is neither a liquid nor a gas but that has

1 properties of both;

2 (12) "waste" means, in addition to its ordinary meaning, physical
3 waste, and includes inefficient, excessive, or improper operation of a storage facility
4 or well;

5 (13) "well" means a well that is drilled, converted, or reactivated for
6 discovery, testing, or subsurface injection into a reservoir.

7 **Article 3. Long-Term Monitoring and Maintenance of Carbon Storage Facilities.**

8 **Sec. 41.06.305. Long-term monitoring and maintenance.** (a) The
9 department shall conduct long-term monitoring and maintenance of a storage facility
10 that has been issued a certificate of completion under AS 41.06.170.

11 (b) Under this section, the authority of the department applies to all land in the
12 state lawfully subject to the police power of the state, including private land,
13 municipal land, state land, land of the United States, and land subject to the
14 jurisdiction of the United States. The department may enter, at a reasonable time and
15 in a reasonable manner, the site of a storage facility that has been issued a certificate
16 of completion under AS 41.06.170.

17 (c) The state, the department, and the commission have no obligation to pay
18 costs associated with long-term monitoring and maintenance of a storage facility in an
19 amount greater than the amount attributable to that storage facility and separately
20 accounted for under AS 37.14.850.

21 (d) The department may adopt regulations under AS 44.62 (Administrative
22 Procedure Act) to carry out the purposes of this section.

23 (e) In this section,

24 (1) "commission" means the Alaska Oil and Gas Conservation
25 Commission created under AS 31.05.005;

26 (2) "long-term monitoring and maintenance" means an activity
27 associated with monitoring and maintenance of a storage facility that has been issued a
28 certificate of completion under AS 41.06.170 and may include

29 (A) operational and long-term inspecting, testing, and
30 monitoring of the storage facility site, wells, and remaining facilities;

31 (B) remediation measures arising from the storage facility site,

1 including remediation of property and mechanical problems associated with
2 wells and remaining facilities;

3 (C) repairing mechanical leaks at the storage facility site;

4 (D) plugging and abandoning wells;

5 (E) converting wells for use as observation wells;

6 (F) purchasing or paying insurance costs for a storage facility,
7 whether commercially or through government funding;

8 (3) "storage facility" has the meaning given in AS 41.06.210.

9 * **Sec. 40.** AS 41.21.167(a) is amended to read:

10 (a) The land and water areas described in AS 41.21.161 are not open to
11 mineral entry under AS 38.05.135 - 38.05.275 or 38.05.700 - 38.05.795.

12 * **Sec. 41.** AS 41.21.491(d) is amended to read:

13 (d) Except for oil and gas leasing under AS 38.05.180 and carbon storage
14 licensing and leasing under AS 38.05.700 - 38.05.795, the mineral estate in the state-
15 owned land and water described in (a) of this section is closed to mineral entry under
16 AS 38.05.181 - 38.05.275.

17 * **Sec. 42.** AS 41.21.502(c) is amended to read:

18 (c) The mineral estate in the state-owned land and water described in (a) of
19 this section is open to oil and gas leasing under AS 38.05.180 and carbon storage
20 licensing and leasing under AS 38.05.700 - 38.05.795. The mineral estate in the
21 state-owned land and water described in (a) of this section is closed to mineral entry
22 under AS 38.05.181 - 38.05.275.

23 * **Sec. 43.** AS 41.21.617 is amended to read:

24 **Sec. 41.21.617. Other uses generally.** The state land and water described in
25 AS 41.21.611(b) is closed to mineral entry under AS 38.05.135 - 38.05.275 and
26 38.05.700 - 38.05.795, to commercial harvest of timber, and to sale under state land
27 disposal laws. The commissioner may lease the land described in AS 41.21.611(b)
28 under AS 38.05.070 - 38.05.105 for a purpose consistent with AS 41.21.610(a) and
29 (b). A municipality may select land within the Alaska Chilkat Bald Eagle Preserve
30 under law.

31 * **Sec. 44.** AS 42.05.141 is amended by adding new subsections to read:

1 (g) The commission shall, as required under AS 44.88.850(b), determine
 2 whether the sale price in a gas sales agreement for gas produced through a project
 3 partially or fully funded by a loan under AS 44.88.850 constitutes a just and
 4 reasonable immediate delivery price for gas.

5 (h) Except as provided in AS 42.05.711(q) and (s), the commission shall
 6 regulate under this chapter the service of natural gas storage and the service of
 7 liquefied natural gas storage, including storage furnished by operating a natural gas
 8 storage facility that is part of a

9 (1) pipeline facility operated by a pipeline carrier; or

10 (2) natural gas pipeline facility operated by a natural gas pipeline
 11 carrier.

12 (i) In (h) of this section, "natural gas pipeline carrier," "natural gas pipeline
 13 facility," "pipeline carrier," and "pipeline facility" have the meanings given in
 14 AS 42.06.630.

15 * **Sec. 45.** AS 42.05.381(k) is amended to read:

16 (k) The cost to the utility of storing gas in a gas storage facility or storing
 17 liquefied natural gas in a liquefied natural gas storage facility that is allowed in
 18 determining a just and reasonable rate shall reflect the

19 **(1)** reduction in cost attributable to any exemption from a payment due
 20 under AS 38.05.096 or 38.05.180(u), as applicable, and the value of a tax credit that
 21 the owner of the gas storage facility received under AS 43.20.046 or 43.20.047, as
 22 applicable; **the** [. THE] commission may request the

23 **(A)** [(1)] commissioner of natural resources to report the value
 24 of the exemption from a payment due under AS 38.05.096 or 38.05.180(u), as
 25 applicable, that the gas storage facility received; and

26 **(B)** [(2)] commissioner of revenue to report information on the
 27 amount of tax credits claimed under AS 43.20.046 and 43.20.047, as
 28 applicable, for the gas storage facility or liquefied natural gas storage facility;

29 **(2) fair market value of oil and gas fields, drilling rigs, production**
 30 **platforms, wells, and similar assets used for gas storage or liquefied natural gas**
 31 **storage and a fair return on the fair market value of those assets;**

1 **(3) costs related to the dismantlement, removal, and restoration of**
 2 **a gas storage facility or liquefied natural gas storage facility** [. IN THIS
 3 SUBSECTION, "GAS STORAGE FACILITY" HAS THE MEANING GIVEN IN
 4 AS 31.05.032].

5 * **Sec. 46.** AS 42.05.381 is amended by adding a new subsection to read:

6 (p) In (k) of this section, "gas storage facility" has the meaning given in
 7 AS 31.05.032(c).

8 * **Sec. 47.** AS 42.05 is amended by adding a new section to article 5 to read:

9 **Sec. 42.05.505. Records of gas storage facilities.** Records held by the
 10 commission related to the finances of a gas storage facility, a liquefied natural gas
 11 storage facility, or a public utility providing the service of natural gas storage,
 12 including financial statements and financial assurance agreements, are confidential
 13 and are not public records under AS 40.25.100 - 40.25.295 (Alaska Public Records
 14 Act). The commission may disclose information from a record subject to this section
 15 only to a state or federal agency if the commission determines that disclosure of the
 16 information is necessary for the commission to complete its duties.

17 * **Sec. 48.** AS 42.05.711(q) is amended to read:

18 (q) The service of natural gas storage furnished by operating a natural gas
 19 storage facility that is [(1) PART OF A PIPELINE FACILITY OPERATED BY A
 20 PIPELINE CARRIER, (2) PART OF A NATURAL GAS PIPELINE FACILITY
 21 OPERATED BY A NATURAL GAS PIPELINE CARRIER, OR (3)] part of a North
 22 Slope natural gas pipeline facility operated by a North Slope natural gas pipeline
 23 carrier is exempt from this chapter. In this subsection, ["NATURAL GAS PIPELINE
 24 CARRIER," "NATURAL GAS PIPELINE FACILITY,]" "North Slope natural gas
 25 pipeline carrier [,]" **and** "North Slope natural gas pipeline facility [,]" ["PIPELINE
 26 CARRIER," AND "PIPELINE FACILITY"] have the meanings given in
 27 AS 42.06.630.

28 * **Sec. 49.** AS 42.05.711 is amended by adding a new subsection read:

29 (w) A liquefied natural gas import facility under the jurisdiction of the Federal
 30 Energy Regulatory Commission is exempt from this chapter.

31 * **Sec. 50.** AS 42.06.140 is amended by adding new subsections to read:

1 (c) The commission shall regulate under AS 42.05 the service of natural gas
2 and liquefied natural gas storage, including storage furnished by operating a natural
3 gas storage facility that is part of a

4 (1) pipeline facility operated by a pipeline carrier; or

5 (2) natural gas pipeline facility operated by a natural gas pipeline
6 carrier.

7 (d) In this section,

8 (1) "service of liquefied natural gas storage" means the operation of a
9 liquefied natural gas storage facility; "service of liquefied natural gas storage" does
10 not include the storage of liquefied natural gas

11 (A) owned by or contractually obligated to the owner, operator,
12 or manager of the liquefied natural gas storage facility; or

13 (B) for which the price of storage is not separately itemized;

14 (2) "service of natural gas storage" means the operation of a natural
15 gas storage facility primarily or exclusively for the benefit of third-party customers,
16 and not for the benefit of the owner, operator, or manager of the natural gas storage
17 facility; "service of natural gas storage" does not include the storage of natural gas

18 (A) owned by or contractually obligated to the owner, operator,
19 or manager of the natural gas storage facility; or

20 (B) for which the price of storage is not separately itemized.

21 * **Sec. 51.** AS 43.20.036 is amended by adding a new subsection to read:

22 (k) For purposes of calculating the income tax payable under this chapter, the
23 taxpayer may not apply as a credit against tax liability the carbon oxide sequestration
24 credit allowed as to federal taxes under 26 U.S.C. 45Q (Internal Revenue Code).

25 * **Sec. 52.** AS 43.55.165(e) is amended to read:

26 (e) For purposes of this section, lease expenditures do not include

27 (1) depreciation, depletion, or amortization;

28 (2) oil or gas royalty payments, production payments, lease profit
29 shares, or other payments or distributions of a share of oil or gas production, profit, or
30 revenue, except that a producer's lease expenditures applicable to oil and gas produced
31 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net

1 profit paid to the state under that lease;

2 (3) taxes based on or measured by net income;

3 (4) interest or other financing charges or costs of raising equity or debt
4 capital;

5 (5) acquisition costs for a lease or property or exploration license;

6 (6) costs arising from fraud, wilful misconduct, gross negligence,
7 violation of law, or failure to comply with an obligation under a lease, permit, or
8 license issued by the state or federal government;

9 (7) fines or penalties imposed by law;

10 (8) costs of arbitration, litigation, or other dispute resolution activities
11 that involve the state or concern the rights or obligations among owners of interests in,
12 or rights to production from, one or more leases or properties or a unit;

13 (9) costs incurred in organizing a partnership, joint venture, or other
14 business entity or arrangement;

15 (10) amounts paid to indemnify the state; the exclusion provided by
16 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
17 a third-party insurer or surety;

18 (11) surcharges levied under AS 43.55.201 or 43.55.300;

19 (12) an expenditure otherwise deductible under (b) of this section that
20 is a result of an internal transfer, a transaction with an affiliate, or a transaction
21 between related parties, or is otherwise not an arm's length transaction, unless the
22 producer establishes to the satisfaction of the department that the amount of the
23 expenditure does not exceed the fair market value of the expenditure;

24 (13) an expenditure incurred to purchase an interest in any corporation,
25 partnership, limited liability company, business trust, or any other business entity,
26 whether or not the transaction is treated as an asset sale for federal income tax
27 purposes;

28 (14) a tax levied under AS 43.55.011 or 43.55.014;

29 (15) costs incurred for dismantlement, removal, surrender, or
30 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
31 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in

1 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
2 excluded under this paragraph if the dismantlement, removal, surrender, or
3 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
4 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

5 (16) costs incurred for containment, control, cleanup, or removal in
6 connection with any unpermitted release of oil or a hazardous substance and any
7 liability for damages imposed on the producer or explorer for that unpermitted release;
8 this paragraph does not apply to the cost of developing and maintaining an oil
9 discharge prevention and contingency plan under AS 46.04.030;

10 (17) costs incurred to satisfy a work commitment under an exploration
11 license under AS 38.05.132;

12 (18) that portion of expenditures, that would otherwise be qualified
13 capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that
14 are less than the product of \$0.30 multiplied by the total taxable production from each
15 lease or property, in BTU equivalent barrels, during that calendar year, except that,
16 when a portion of a calendar year is subject to this provision, the expenditures and
17 volumes shall be prorated within that calendar year;

18 (19) costs incurred for repair, replacement, or deferred maintenance of
19 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
20 undertaken in response to a failure, problem, or event that results in an unscheduled
21 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
22 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
23 equipment, other than a well, that is undertaken in response to, or is otherwise
24 associated with, an unpermitted release of a hazardous substance or of gas; however,
25 costs under this paragraph that would otherwise constitute lease expenditures under (a)
26 and (b) of this section may be treated as lease expenditures if the department
27 determines that the repair or replacement is solely necessitated by an act of war, by an
28 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
29 inevitable, and irresistible character, the effects of which could not have been
30 prevented or avoided by the exercise of due care or foresight, or by an intentional or
31 negligent act or omission of a third party, other than a party or its agents in privity of

1 contract with, or employed by, the producer or an operator acting for the producer, but
 2 only if the producer or operator, as applicable, exercised due care in operating and
 3 maintaining the facility, pipeline, structure, or equipment, and took reasonable
 4 precautions against the act or omission of the third party and against the consequences
 5 of the act or omission; in this paragraph,

6 (A) "costs incurred for repair, replacement, or deferred
 7 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
 8 to dismantle and remove the facility, pipeline, structure, or equipment that is
 9 being replaced;

10 (B) "hazardous substance" has the meaning given in
 11 AS 46.03.826;

12 (C) "replacement" includes renovation or improvement;

13 (20) costs incurred to construct, acquire, or operate a refinery or crude
 14 oil topping plant, regardless of whether the products of the refinery or topping plant
 15 are used in oil or gas exploration, development, or production operations; however, if
 16 a producer owns a refinery or crude oil topping plant that is located on or near the
 17 premises of the producer's lease or property in the state and that processes the
 18 producer's oil produced from that lease or property into a product that the producer
 19 uses in the operation of the lease or property in drilling for or producing oil or gas, the
 20 producer's lease expenditures include the amount calculated by subtracting from the
 21 fair market value of the product used the prevailing value, as determined under
 22 AS 43.55.020(f), of the oil that is processed;

23 (21) costs of lobbying, public relations, public relations advertising, or
 24 policy advocacy;

25 (22) costs incurred as part of a capital expenditure or other action taken
 26 for a carbon management purpose under AS 38.05.081 or a carbon offset project under
 27 AS 38.95.400 - 38.95.499;

28 **(23) costs incurred for carbon capture or carbon storage,**
 29 **including fees incurred under AS 41.06.160, surcharges incurred under**
 30 **AS 41.06.175, or costs associated with obtaining, operating, or maintaining a**
 31 **license or lease under AS 38.05.700 - 38.05.795; in this paragraph,**

1 **(A) "carbon capture" means the process of capturing**
 2 **carbon dioxide from a chemical, mechanical, or industrial process, or**
 3 **directly from the ambient atmosphere, and reducing the carbon dioxide to**
 4 **a concentrated form, including a supercritical fluid; "carbon capture"**
 5 **does not include gas processing or gas treatment;**

6 **(B) "carbon storage" means the long-term geologic storage**
 7 **of carbon dioxide in a carbon storage facility permitted under**
 8 **AS 41.06.120 or a Class VI injection well, as defined in 40 C.F.R. 146.5(f).**

9 * **Sec. 53.** AS 44.25.020 is amended to read:

10 **Sec. 44.25.020. Duties of department.** The Department of Revenue shall

11 (1) enforce the tax laws of the state;

12 (2) collect, account for, have custody of, invest, and manage all state
 13 funds and all revenues of the state except revenues incidental to a program of licensing
 14 and regulation carried on by another state department, funds managed and invested by
 15 the Alaska Retirement Management Board, and as otherwise provided by law;

16 (3) invest and manage the balance of the power development fund in
 17 accordance with AS 44.83.386;

18 (4) administer the surety bond program for licensure as a fish
 19 processor or primary fish buyer;

20 **(5) provide reasonable assistance to the Alaska Industrial**
 21 **Development and Export Authority under AS 44.88.850(c).**

22 * **Sec. 54.** AS 44.37.020 is amended by adding a new subsection to read:

23 (d) The Department of Natural Resources shall provide reasonable assistance
 24 to the Alaska Industrial Development and Export Authority under AS 44.88.850(c).

25 * **Sec. 55.** AS 44.88 is amended by adding new sections to read:

26 **Article 10A. Cook Inlet Reserve-Based Lending.**

27 **Sec. 44.88.850. Cook Inlet reserve-based lending account.** (a) The Cook
 28 Inlet reserve-based lending account is established in the revolving fund. The account
 29 consists of money or assets deposited into the account by the authority and
 30 contributions from other sources.

31 (b) The authority may use money in the account to make one or more reserve-

1 based loans to fund oil and gas development projects the authority considers necessary
 2 to increase oil and gas production from the Cook Inlet sedimentary basin. The
 3 authority may, as a term of the loan, accept an ownership share in the project funded
 4 by the loan. If the authority accepts an ownership share as a term of the loan, the
 5 ownership share must be in the form of a carried interest that does not obligate the
 6 authority to contribute to the development costs of the project. The authority may
 7 make a loan under this section only

8 (1) to a legal entity in compliance with state and federal laws;

9 (2) if the loan applicant provides a written waiver permitting the
 10 authority to access or obtain copies of the loan applicant's confidential records that are
 11 in possession of the Department of Natural Resources or the Department of Revenue;
 12 information provided to the authority under this section shall be kept confidential by
 13 the authority unless disclosure is authorized by the loan applicant or borrower;

14 (3) if the authority obtains an independent study performed by an
 15 experienced, qualified expert that confirms the valuation of the loan security and the
 16 capacity of the loan to support the oil and gas development project and to cause or
 17 increase the commercial production of oil or gas from the Cook Inlet sedimentary
 18 basin;

19 (4) if the Regulatory Commission of Alaska determines, under
 20 AS 42.05.141(g), that the sale price in a gas sales agreement for gas produced through
 21 a project partially or fully funded by a loan under this section does not exceed a just
 22 and reasonable immediate delivery price for gas;

23 (5) if the authority determines that the sales price for oil and gas
 24 produced through a project partially or fully funded by a loan under this section is
 25 reasonable and in the best interests of residents of the state.

26 (c) The authority may request assistance from the Department of Revenue
 27 under AS 44.25.020(a)(5) or the Department of Natural Resources under
 28 AS 44.37.020(d) to execute this section.

29 (d) The authority may accept an overriding royalty interest in a lease for
 30 which a loan has been extended under (b) of this section if, as a term of the loan, the
 31 overriding royalty interest is subject to prior approval by the Department of Natural

1 Resources. The authority may only have the overriding royalty interest transferred to
2 the authority if the borrower defaults.

3 **Sec. 44.88.855. Report to the legislature on Cook Inlet oil and gas**
4 **development projects.** (a) The authority shall evaluate oil and gas development
5 projects the authority believes have reasonable potential to increase oil and gas
6 production from the Cook Inlet sedimentary basin. Each year, the authority shall
7 prepare a report related to those oil and gas development projects and shall, by the first
8 day of each regular session of the legislature, deliver the report to the senate secretary
9 and the chief clerk of the house of representatives and notify the legislature that the
10 report is available. At the request of a legislative committee, a representative of the
11 authority shall appear in that committee to review the report. For each oil and gas
12 development project, the report must include

13 (1) a cost estimate for the project;
14 (2) the potential recoverable gas from the project;
15 (3) the projected rate of return for the project;
16 (4) if the authority recommends a reserve-based loan for the project,
17 the amount of funds necessary for deposit into the Cook Inlet reserve-based lending
18 account to provide a loan for the project and the recommended source of funds for the
19 deposit.

20 (b) Notwithstanding AS 44.88.215, 44.88.850(b)(2), or any other law, a
21 borrower's information shall be subject to the public reporting requirements under this
22 section. Each year, the authority shall prepare a report related to Cook Inlet reserve-
23 based loans made under AS 44.88.850 and shall, by the first day of each regular
24 session of the legislature, deliver the report to the senate secretary and the chief clerk
25 of the house of representatives and notify the legislature that the report is available. At
26 the request of a legislative committee, a representative of the authority shall appear in
27 that committee to review the report. The report must

28 (1) identify each entity borrowing funds under AS 44.88.850;
29 (2) list the amount borrowed by each borrower and the date each loan
30 was approved;
31 (3) include a summary of the terms of the lending agreement with each

1 borrower;

2 (4) summarize each project for which a loan was made, including the
3 status of the project and the volume of oil and gas produced and expected to be
4 produced from the project;

5 (5) list the status of payments made on the loan, including whether the
6 loan is or ever was in default.

7 * **Sec. 56.** AS 44.88.900 is amended by adding new paragraphs to read:

8 (20) "oil and gas development project" means a development project to
9 produce proven oil or gas reserves;

10 (21) "reserve-based loan" means a loan made against and fully secured
11 by an oil and gas field, proven undeveloped or developed oil and gas reserves, or other
12 assets of the entity receiving the loan.

13 * **Sec. 57.** AS 46.03.020 is amended to read:

14 **Sec. 46.03.020. Powers of the department.** The department may

15 (1) enter into contracts and compliance agreements necessary or
16 convenient to carry out the functions, powers, and duties of the department;

17 (2) review and appraise programs and activities of state departments
18 and agencies in light of the policy set out in AS 46.03.010 for the purpose of
19 determining the extent to which the programs and activities are contributing to the
20 achievement of that policy and to make recommendations to the departments and
21 agencies, including environmental guidelines;

22 (3) consult with and cooperate with

23 (A) officials and representatives of any nonprofit corporation or
24 organization in the state;

25 (B) persons, organizations, and groups, public and private,
26 using, served by, interested in, or concerned with the environment of the state;

27 (4) appear and participate in proceedings before any state or federal
28 regulatory agency involving or affecting the purposes of the department;

29 (5) undertake studies, inquiries, surveys, or analyses it may consider
30 essential to the accomplishment of the purposes of the department; these activities
31 may be carried out by the personnel of the department or in cooperation with public or

1 private agencies, including educational, civic, and research organizations, colleges,
2 universities, institutes, and foundations;

3 (6) at reasonable times, enter and inspect with the consent of the owner
4 or occupier any property or premises to investigate either actual or suspected sources
5 of pollution or contamination or to ascertain compliance or noncompliance with a
6 regulation that may be adopted under AS 46.03.020 - 46.03.040; information relating
7 to secret processes or methods of manufacture discovered during investigation is
8 confidential;

9 (7) conduct investigations and hold hearings and compel the
10 attendance of witnesses and the production of accounts, books, and documents by the
11 issuance of a subpoena;

12 (8) advise and cooperate with municipal, regional, and other local
13 agencies and officials in the state, to carry out the purposes of this chapter;

14 (9) act as the official agency of the state in all matters affecting the
15 purposes of the department under federal laws now or hereafter enacted;

16 (10) adopt regulations necessary to carry out the purposes of this
17 chapter, including regulations providing for

18 (A) control, prevention, and abatement of air, water, or land or
19 subsurface land pollution;

20 (B) safeguard standards for carbon dioxide, petroleum, and
21 natural gas pipeline construction, operation, modification, or alteration;

22 (C) protection of public water supplies by establishing
23 minimum drinking water standards, and standards for the construction,
24 improvement, and maintenance of public water supply systems;

25 (D) collection and disposal of sewage and industrial waste;

26 (E) collection and disposal of garbage, refuse, and other
27 discarded solid materials from industrial, commercial, agricultural, and
28 community activities or operations;

29 (F) control of pesticides;

30 (G) other purposes as may be required for the implementation
31 of the policy declared in AS 46.03.010;

1 (H) handling, transportation, treatment, storage, and disposal of
2 hazardous wastes;

3 (11) inspect the premises of sellers and suppliers of paint, vessels, and
4 marine and boating supplies, and take other actions necessary to enforce
5 AS 46.03.715;

6 (12) notwithstanding any other provision of law, take all actions
7 necessary to receive authorization from the administrator of the United States
8 Environmental Protection Agency to administer and enforce a National Pollutant
9 Discharge Elimination System program in accordance with 33 U.S.C. 1342 (sec. 402,
10 Clean Water Act), 33 U.S.C. 1345 (sec. 405, Clean Water Act), 40 C.F.R. Part 123,
11 and 40 C.F.R. Part 403, as amended;

12 (13) require the owner or operator of a facility to undertake
13 monitoring, sampling, and reporting activities described in 33 U.S.C. 1318 (sec. 308,
14 Clean Water Act);

15 (14) notwithstanding any other provision of law, take all actions
16 necessary to receive federal authorization of a state program for the department and
17 the Department of Natural Resources to administer and enforce a dredge and fill
18 permitting program allowed under 33 U.S.C. 1344 (sec. 404, Clean Water Act) and to
19 implement the program, if authorized.

20 * **Sec. 58.** AS 42.05.990(10)(B) and 42.05.990(11)(B) are repealed.

21 * **Sec. 59.** The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 LEGISLATIVE AUDIT DIVISION REPORT TO THE LEGISLATURE. The
24 legislative audit division shall conduct an audit of carbon storage leases in the state under
25 AS 38.05.700 - 38.05.795 and submit the audit to the senate secretary and the chief clerk of
26 the house of representatives on or before January 1, 2033, and notify the legislature that the
27 audit is available. The audit must include detailed fiscal information from each fiscal year,
28 beginning with the fiscal year ending June 30, 2025, total revenues and costs to the state
29 associated with carbon storage leases in each fiscal year, and recommendations to improve the
30 carbon storage program.

31 * **Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 TRANSITION: CONVERSION OF EXISTING PROSPECTING PERMIT
3 APPLICATIONS AND PROSPECTING PERMITS. (a) The commissioner of natural
4 resources shall convert an application for a prospecting permit made under AS 38.05.181(c),
5 as that subsection read on the day before the effective date of sec. 16 of this Act, that is
6 pending with the Department of Natural Resources on the effective date of sec. 16 of this Act,
7 to an application for a prospecting license under AS 38.05.181(c), as amended by sec. 16 of
8 this Act.

9 (b) A person with a valid permit issued under AS 38.05.181(c), as that subsection
10 read on the day before the effective date of sec. 16 of this Act, may request in writing that the
11 commissioner of natural resources convert the prospecting permit into a prospecting license
12 under AS 38.05.181, as amended by secs. 15 - 19 of this Act. The Department of Natural
13 Resources shall provide public notice of a request for the conversion of a prospecting permit
14 into a prospecting license under this section.

15 (c) Upon request of a person qualified under (b) of this section, the commissioner of
16 natural resources shall convert a prospecting permit issued under AS 38.05.181(c), as that
17 section read on the day before the effective date of sec. 16 of this Act, into a prospecting
18 license under AS 38.05.181, as amended by secs. 15 - 19 of this Act. Notwithstanding
19 AS 38.05.035(e), the director of the division of lands is not required to make a written finding
20 and the commissioner of natural resources is not required to expressly approve the conversion
21 of a prospecting permit into a prospecting license under this section. Notwithstanding
22 AS 38.05.181(c), as amended by sec. 16 of this Act, a prospecting permit converted into a
23 prospecting license under this section may not expire later than five years from the date the
24 permit was issued under AS 38.05.181(c), as that subsection read on the day before the
25 effective date of sec. 16 of this Act.

26 * **Sec. 61.** The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 TRANSITION: REGULATIONS. The Department of Natural Resources, the
29 Department of Revenue, and the Alaska Oil and Gas Conservation Commission may adopt
30 regulations necessary to implement the changes made by this Act. The regulations take effect
31 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law

1 implemented by the regulation.

2 * **Sec. 62.** The uncodified law of the State of Alaska is amended by adding a new section to
3 read:

4 REVISOR'S INSTRUCTION. The revisor of statutes is requested to change the
5 chapter heading for AS 41.06 from "Geothermal Resources" to "Geothermal Resources and
6 Carbon Storage."

7 * **Sec. 63.** Section 61 of this Act takes effect immediately under AS 01.10.070(c).