

1 IN THE SENATE BY THE JUDICIARY COMMITTEE

2 CS FOR SENATE BILL NO. 225

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRD LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the leasing of state
7 mineral lands."

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

9 * Section 1. AS 38.05.135 is amended to read:

10 Sec. 38.05.135. GENERALLY. Except as otherwise pro-
11 vided, valuable mineral deposits in lands belonging to the
12 state shall be open to exploration, development, and the
13 extraction of minerals. All lands, together with tide, sub-
14 merged, or shorelands [SHORE LANDS], to which the state holds
15 title or to which the state may become entitled, may be
16 obtained by permit or lease for the purpose of exploration,
17 development, and the extraction of minerals. Except as
18 specifically limited by secs. 135 - 180 of this chapter,
19 lands [LANDS] may be withheld from lease application on a
20 first-come, first-served basis, and offered only on a com-
21 petitive bid basis when determined by the commissioner to
22 be in the best interests of the state. In unproven areas
23 the commissioner may offer additional incentive and other
24 terms in granting permit for exploration and development
25 whenever it appears to be in the best interests of the state
26 to do so.

27 * Sec. 2. AS 38.05 is amended by adding a new section to read:

28 Sec. 38.05.137. LEASING AGREEMENTS. The commissioner
29 is authorized to enter into cooperative mineral leasing

1 agreements with the United States regarding lands which are
2 the subject of a title dispute between federal and state
3 authorities. Any such lease need not conform to the provi-
4 sions of state law applicable to state leases issued under
5 the authority of AS 38.05.

6 * Sec. 3. AS 38.05.145 is amended to read:

7 Sec. 38.05.145. LEASING PROCEDURE. (a) Deposits of
8 coal, phosphates, oil shale, sodium, potassium, oil, gas,
9 and state lands containing these deposits are subject to
10 disposition under rules and regulations, recommended by the
11 director and adopted by the commissioner, and the provisions
12 of secs. 145 - 180 of this chapter. In applying the acreage
13 limitations the commissioner may apply the rule of approxi-
14 mation. The uses of the rule of approximation made before
15 March 31, 1960, by the commissioner are ratified.

16 N (b) If the state selects or otherwise acquires land
17 E other than shorelands, title to which was in the federal
18 W government and which, at the effective date of the selection
19 or acquisition, is subject to a valid existing offer for a
20 noncompetitive United States oil and gas lease, or applica-
21 tion for a prospecting permit or noncompetitive mining lease
22 for coal, phosphates, sulphur, oil shale, sodium, or potas-
23 sium under the federal act of February 25, 1920 (41 Stat.
24 M 437 as amended), the offeror or applicant for the federal
25 A permit or lease, if a qualified applicant hereunder, shall
26 T be considered the first qualified applicant for a state non-
27 T competitive oil and gas lease, prospecting permit, or non-
28 E competitive mining lease and is entitled to a state noncom-
29 R petitive lease or permit upon compliance with the provisions

1 of the regulation covering applications within 60 days after
2 receipt of written notice from the commissioner of selection
3 or acquisition. These priorities are not effective if the
4 land covered by the federal offers or applications is clas-
5 sified by the commissioner as competitive land within 90 days
6 after the selection of the land is finally approved by the
7 Secretary of the Interior or the land is otherwise acquired.

8 * Sec. 4. AS 38.05.180(a) is amended to read:

9 (a) All tide and submerged lands, mental health lands,
10 school lands, and university lands shall be leased by
11 competitive bidding, and whenever oil or gas is discovered
12 in commercial quantities, the commissioner shall determine
13 the extent of the area of lands in addition to tide, sub-
14 merged, mental health lands, school, or university lands in
15 the same general area of the discovery well which, by reason
16 of the discovery, the commissioner reasonably believes to be
17 capable of producing oil or gas, and the additional lands
18 shall be leased to the highest responsible qualified bidder
19 by competitive bidding under general regulations, in units
20 of not exceeding 2,560 acres (except that tide and submerged
21 lands shall be leased in units of not exceeding 5,760 acres),
22 which shall be as nearly compact in form as possible, upon
23 the payment by the lessee of such bonus as may be accepted
24 by the commissioner and of such royalty as may be fixed in
25 the lease which shall not be less than 12 1/2 per cent in
26 amount or value of the production removed or sold from the
27 lease. However, the holder of a lease who drills and makes
28 the first discovery of oil or gas in commercial quantities
29 in a geologic structure shall pay a royalty on all production

1 under the lease of five per cent for 10 years following the
2 date of discovery and thereafter the royalty rate shall be
3 not less than 12 1/2 per cent. All lands other than those
4 above provided to be leased by competitive bidding may
5 [SHALL] be leased competitively or noncompetitively as
6 determined by the commissioner to be in the best interests
7 of the state [WITHOUT COMPETITIVE BIDDING TO THE FIRST QUALI-
8 FIED PERSON MAKING APPLICATION]. Noncompetitive leases shall
9 be issued in units of not exceeding 2,560 acres in any one
10 lease. Noncompetitive leases shall be conditioned upon the
11 payment by the lessee of a royalty of 12 1/2 per cent in
12 amount or value of the production removed or sold from the
13 lease. However, the holder of a lease who drills and makes
14 the first discovery of oil or gas in commercial quantities
15 in a geologic structure shall pay a royalty on all production
16 under the lease of five per cent for 10 years following the
17 date of discovery and thereafter the royalty rate is 12 1/2
18 per cent. Competitive leases issued under this subsection
19 shall be for 10 years and shall continue so long thereafter
20 as oil or gas is produced in paying quantities. Noncompeti-
21 tive leases issued under this subsection shall be for a
22 primary term of five years and shall continue so long there-
23 after as oil or gas is produced in paying quantities. If
24 drilling has commenced on the expiration date of the primary
25 term of the lease and is continued with reasonable diligence,
26 such operations to include redrilling, sidetracking or other
27 means necessary to reach the originally proposed bottom hold
28 location, the lease shall continue in effect until 90 days
29 after drilling has ceased and for so long thereafter as oil

1 or gas is produced in paying quantities. If all or part of
2 the lands covered by the lease are lands that have been
3 selected by the state under laws of the United States grant-
4 ing lands to the state and a conditional lease was issued
5 thereon, the term of the lease shall be extended for a period
6 equal to the period during which the lease was conditional.

7 * Sec. 5. AS 38.05.180(d) is amended to read:

8 (d) The commissioner may provide for extension of the
9 term of a lease whether competitive or noncompetitive, if
10 all or part of the lease is [, ON THE EXPIRATION DATE,] in-
11 cluded in an approved unit plan or program of secondary
12 recovery operation to bring about or restore production.

13 * Sec. 6. AS 38.05.180(k) is amended to read:

14 (k) Instead of the foregoing procedure, the federal
15 lessee or his assignee may, at his option, exercise his pre-
16 ference right for a state lease on the shorelands included
17 within the exterior boundaries of his federal lease by apply-
18 ing to the division of lands, Department of Natural Resour-
19 ces. If, at the time of applying, the lands are classified
20 as noncompetitive, the state shall, upon application [WITHIN
21 60 DAYS AFTER THE ISSUANCE OF THE FEDERAL LEASE, OR IF THE
22 FEDERAL LEASE WAS ISSUED BEFORE JULY 1, 1960], issue a lease
23 covering whatever shorelands are included within the exterior
24 boundaries of the federal lease. If, at the time of apply-
25 ing, the shorelands included in the [OFFER FOR A] federal
26 lease are classified as competitive lands, the lands shall
27 be leased by competitive bidding. The competitive lease
28 shall be issued to the [OFFEROR FOR THE] federal lessee or
29 his assignee [LEASE] upon payment to the state of an amount

1 equal to the highest bid for the lease, plus the rental for
2 the first year, payment to be made within 10 days after the
3 lessee's or assignee's [OFFEROR'S] receipt of written notice
4 from the director of the division of lands of the amount of
5 the highest bid. These leases, whether competitive or non-
6 competitive, shall carry the same conditions as an ordinary
7 state lease on the same lands, except that the term of the
8 state lease shall conform to that of the adjoining federal
9 lease, including extended terms, and shall terminate if the
10 federal lease is terminated for any reason. The [THE] lease
11 shall provide for annual rental at the rate of \$100 a unit
12 of 640 acres or part thereof of the lands included within
13 the federal lease until agreement is reached between the
14 state and the Secretary of the Interior of the United States,
15 or his authorized representative, as to the actual area of
16 the shorelands included in the [OFFER FOR A] federal lease,
17 and as to the apportionment between the state and federal
18 government of the rental theretofore paid under the federal
19 lease.

20 * Sec. 7. AS 38.05.180(f) is repealed.