

Original sponsors: Brown, M.Davis,  
Gruenberg, and Ellis

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 128 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to state oil and gas and geothermal  
7 leasing practices and adjustments of state royalties  
8 to encourage commercial production."

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

10 \* Section 1. AS 38.05.035(e) is amended to read:

11 (e) Upon a written finding that the interests of the state will  
12 be best served, the director may, with the consent of the commis-  
13 sioner, approve contracts for the sale, lease, or other disposal of  
14 available land, resources, property or interests in them, and, in  
15 addition to the conditions and limitations imposed by law, may impose  
16 additional conditions or limitations in the contracts as the director  
17 determines, with the consent of the commissioner, will best serve the  
18 interests of the state. A contract for the sale, lease, or other  
19 disposal of available land or an interest in land is not legally  
20 binding on the state until the commissioner approves the contract but  
21 if the appraised value is not greater than \$50,000 in the case of the  
22 sale of land or an interest in land, or \$5,000 in the case of the  
23 annual rental of land or interest in land, the director may execute  
24 the contract without the approval of the commissioner. Before a  
25 public hearing, if held, or in any case no less than 21 days before  
26 the sale, lease, or other disposal of available land, property, re-  
27 sources, or interests in them, the director shall make available to  
28 the public a written finding that sets out the facts and applicable  
29 law upon which the determination that the sale, lease, or other

1 disposal will best serve the interests of the state was based. A  
2 written finding is not required before the approval of

3 (1) a contract for a negotiated sale authorized under  
4 AS 38.05.115;

5 (2) a lease of land for a shore fishery site under AS 38.-  
6 05.082;

7 (3) a permit or other authorization revocable by the com-  
8 missioner;

9 (4) a mineral claim located under AS 38.05.195;

10 (5) a mineral lease issued under AS 38.05.205; [OR]

11 (6) a production license issued under AS 38.05.207; [OR]

12 (7) an exempt oil and gas sale under AS 38.05.180(d) of  
13 acreage offered in a sale that was held within the previous five years  
14 if the sale was subject to [FOR WHICH] a written best interest find-  
15 ing, [HAS BEEN ISSUED FOR THE AREA OF THE SALE WITHIN THE 36 MONTHS  
16 BEFORE THE DATE OF THE SALE] unless the commissioner determines that  
17 new information has become available that justifies a revision of the  
18 best interest finding; or

19 (8) a lease sale under AS 38.05.180(w) of acreage offered  
20 in a sale that was held within the previous five years if the sale was  
21 subject to a best interest finding, unless the commissioner determines  
22 that new information has become available that justifies a revision of  
23 the best interest finding.

24 \* Sec. 2. AS 38.05.180(j) is amended to read:

25 (j) To prolong the economic life of an oil and gas field or to  
26 reestablish commercial production of shut-in oil or gas that would not  
27 otherwise be economically feasible, the commissioner shall adopt  
28 regulations [FOR ALL BIDDING METHODS] to allow reduction of royalty on  
29 leases [WITHIN THE FIELD TO COMPENSATE FOR INCREASING COSTS IN THE

1       LATER STAGES OF PRODUCTION DECLINE]. The commissioner may not grant a  
2       reduction of royalty unless the [UNTIL TWO YEARS' INITIAL PRODUCTION  
3       FROM THE FIELD HAS OCCURRED AND EACH] lessee requesting the reduction  
4       makes [HAS MADE] a clear showing that the revenue from the lessee's  
5       share of all hydrocarbons produced from the field is or is likely to  
6       continue to be insufficient to produce a reasonable rate of return  
7       with respect to the [THAT] lessee's total investment in the field.  
8       The commissioner may condition a royalty reduction granted under this  
9       subsection in any way necessary to protect the state's interest,  
10       including restoration of the state's royalty share in the event of an  
11       increase in the price of oil or gas. Before approving a royalty  
12       reduction, the commissioner shall make a written finding that the  
13       state has obtained the maximum possible economic return that is com-  
14       patible with allowing a reasonable rate of economic return for the  
15       lessee, and send copies of the finding to the president of the senate  
16       and speaker of the house of representatives.

17       \* Sec. 3. AS 38.05.180(w) is amended to read:

18               (w) Notwithstanding any other provisions of this section, land  
19       which has been offered for lease within the previous five years and  
20       which received no bids at competitive sale or for which no bid was  
21       accepted may be, at the discretion of the commissioner, immediately  
22       offered for lease, under regulations adopted by the commissioner, upon  
23       terms appearing most advantageous to the state; however, noncompeti-  
24       tive leasing is prohibited. The commissioner shall establish a royal-  
25       ty determined to be in the public interest but not less than 12 1/2  
26       percent. A lease must provide for payment to the state or rental but  
27       need not adhere to the rental schedule in (n) of this section nor to  
28       the 5,760-acres-per-lease limitation in (m) of this section. The  
29       lease term may not exceed 10 [FIVE] years, except as provided in (m)

1 and (o) of this section.

2 \* Sec. 4. AS 38.05.945(c) is amended to read:

3 (c) Notice [EXCEPT FOR OIL AND GAS LEASING UNDER AS 38.05.180  
4 AND GEOTHERMAL LEASING UNDER AS 38.05.181, NOTICE] at least 30 days  
5 before action under (a) of this section shall also be given to the  
6 following:

7 (1) to a municipality if the land is within the boundaries  
8 of the municipality, to a coordinating body established by community  
9 councils in a municipality if the coordinating body or a community  
10 council within the area served by a coordinating body requests notice  
11 in writing; if there is no coordinating body within the municipality,  
12 notice shall be provided to each community council established by the  
13 charter or ordinance of the municipality if the land is located within  
14 the boundaries of the municipality and if the community council re-  
15 quests notice in writing;

16 (2) to a regional corporation if the boundaries of the  
17 corporation as established by sec. 7(a) of the Alaska Native Claims  
18 Settlement Act encompass the land and the land is outside a municipal-  
19 ity;

20 (3) to a village corporation organized under sec. 8(a) of  
21 the Alaska Native Claims Settlement Act if the land is within 25 miles  
22 of the village for which the corporation was established and the land  
23 is located outside a municipality;

24 (4) to the postmaster of a permanent settlement of more  
25 than 25 persons located within 25 miles of the land if the land is  
26 located outside a municipality, with a request that the notice be  
27 posted in a conspicuous location;

28 (5) to a nonprofit community organization or a governing  
29 body that has requested notification in writing and provided a map of

1 its boundaries, if the land is within the boundaries.