

SENATE BILL NO. 460

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST

Introduced: 3/27/92

Referred: O&G, Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing exploration licenses for oil and gas exploration and to oil and gas
2 leasing under exploration licenses."

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

4 * Section 1. AS 38.05 is amended by adding a new section to read:

5 ARTICLE 5A. OIL AND GAS EXPLORATION LICENSE.

6 Sec. 38.05.133. OIL AND GAS EXPLORATION LICENSE. (a) To encourage
7 exploration for oil and gas in areas of unidentified resource potential, under regulations adopted
8 by the commissioner, the commissioner may award an oil and gas exploration license to a
9 qualified applicant. The license gives the licensee the exclusive right to explore for deposits of
10 oil and gas in land belonging to the state for a term not to exceed 10 years.

11 (b) An exploration license awarded under this section

12 (1) may not cover an area exceeding 2,500,000 acres;

13 (2) shall be awarded on the basis of an exploration plan and work commitment
14 approved by the commissioner;

1 (3) may not be awarded unless the performance of the licensee is secured by a
2 bond in favor of the state in an amount that is not less than the estimated cost of completion of
3 the activity under the approved exploration plan and work commitment; and

4 (4) is subject to termination by the commissioner if the commissioner determines
5 that the licensee has failed to meet the minimum work commitment; termination of the
6 exploration license forfeits all or a portion of the bond required under (3) of this subsection to
7 the state.

8 (c) At any time during the term of the license, if the licensee submits a plan of
9 development satisfactory to the commissioner, the commissioner may issue to the licensee a lease
10 of part of the land subject to the license. A lease awarded under this subsection is not subject
11 to the acreage limitation imposed by AS 38.05.180(m).

12 (d) The commissioner shall condition a lease issued under (c) of this section upon
13 payment to the state of a royalty specified in the lease, and may condition a lease upon other
14 payments to the state.

15 * Sec. 2. AS 38.05.140(c) is amended to read:

16 (c) A person may not take or hold at one time phosphate leases on state land exceeding
17 in the aggregate 10,240 acres. A person may not take or hold sodium leases or permits during
18 the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that
19 the commissioner may, where it is necessary in order to secure the economic mining of sodium
20 compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres.
21 Except as provided in AS 38.05.133, a [A] person may not take or hold at any one time oil or
22 gas leases exceeding in the aggregate 500,000 acres granted on tide and submerged land and
23 500,000 acres on all land other than tide and submerged land, including leases held both as lessee
24 and under option or operating agreement from others. Where more than a single person holds
25 an interest in an oil or gas lease, each person shall be charged only with that percentage of the
26 total acreage which corresponds to its percentage share of the total beneficial interest in the lease.

27 * Sec. 3. AS 38.05.180(d) is amended to read:

28 (d) The commissioner may issue oil and gas leases in an area that has not been included
29 in a leasing program submitted, in accordance with (b) of this section, to the legislature if

30 (1) the land to be leased was previously subject to a valid state or federal oil and
31 gas lease; [OR]

1 (2) the land to be leased is contiguous to land already under state, federal or
2 private lease and the commissioner makes a written finding, after hearing, that leasing of the land
3 would result in a substantial probability of early evaluation and development of the land to be
4 leased; [OR]

5 (3) the land to be leased is adjacent to land owned or controlled by another party
6 on which a discovery of commercial quantities of oil or gas has been made, and the
7 commissioner finds, after hearing, that there is a reasonable probability that the land to be leased
8 contains oil or gas in communication with the oil or gas discovered on the land of the other
9 party; [OR]

10 (4) the land to be leased is adjacent to land included in the federal five-year Outer
11 Continental Shelf leasing program under 43 U.S.C. 1344, and the commissioner makes a written
12 finding, after hearing, that coordinated or simultaneous leasing with the federal government is
13 in the public interest; or

14 (5) the land to be leased is the subject of an exploration license awarded
15 under AS 38.05.133.

16 * Sec. 4. AS 38.05.180(m) is amended to read:

17 (m) An oil and gas lease must cover a reasonably compact area that may not exceed
18 [EXCEEDING] 5,760 acres, unless entered into under AS 38.05.133, and may be for a
19 maximum period of 10 years, except that the commissioner may issue a lease for a period not
20 less than five years upon a finding that it is in the best interests of the state. An oil and gas
21 lease shall be automatically extended if and for so long thereafter as oil or gas is produced in
22 paying quantities from the lease or if the lease is committed to a unit approved by the
23 commissioner. A lease issued under this section covering land on which there is a well capable
24 of producing oil or gas in paying quantities does not expire because the lessee fails to produce
25 oil or gas unless the lessee is allowed reasonable time to place the well on a producing status.
26 Upon extension, the commissioner may increase lease rentals so long as the increased rental rate
27 does not exceed 150 percent of the rate for the preceding year. If drilling has commenced on
28 the expiration date of the primary term of the lease and is continued with reasonable diligence,
29 including such operations as redrilling, sidetracking, or other means necessary to reach the
30 originally proposed bottom hole location, the lease continues in effect until 90 days after drilling
31 has ceased and for so long thereafter as oil or gas is produced in paying quantities. An oil and

1 gas lease issued under this section which is subject to termination by reason of cessation of
2 production does not terminate if, within 60 days after production ceases, reworking or drilling
3 operations are commenced on the land under lease and are thereafter conducted with reasonable
4 diligence during the period of nonproduction.