

**HB**

**199**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

DATE: 3/18/94

FURTHER:

DATE TURNED INTO OFFICE: 4-12-94

Finance Committee considered CS FOR HOUSE BILL NO. 199(O&G) am

"An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses, and to oil and gas leases in certain areas of the state; and providing for an effective date."

and recommends:

replace with S CS CSHB 199 (FINANCE)  same title  
 or  adopt previous \_\_\_\_\_ CS \_\_\_\_\_  new title  
 attaches amendment(s)  technical title change (HB only)

*reports it back as follows*

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

do pass

do not pass

no recommendation

individual recommendations

**NEW FISCAL NOTES**

Department	Date	Zero	Fiscal

**PREVIOUS FISCAL NOTES**

Department	Date	Zero	Fiscal
DNR	2/7/94	<input checked="" type="checkbox"/>	

Appropriation No Fiscal Note

**DO PASS:**

*Thomas Rini*  
*Tom Kelly*

**OTHER RECOMMENDATIONS:**

*Kevin D. Nor*  
*Barry King* N.R.

1. *Irue / Co-Chair* 10/22/94  
 Co-Chair: Signature/Recommendation

2. *Shawn* N.R.  
 Co-Chair: Signature/Recommendation

# FISCAL NOTE

No. 2

Bill Version: CSHB 199 (O&G)

BILL (H) Publish Date: 2/9/94

**STATE OF ALASKA**  
**1994 LEGISLATIVE SESSION**

Revision Date: 7-Feb-94 Dept Affected: Natural Resources  
 Title: "An Act providing for oil and gas exploration  
licenses, and oil and gas leases, incertain areas of the state..." BRU: Resource Development  
 Sponsor: House Rules by request of the Governor Component: Oil & Gas Development  
 Requestor: House Oil & Gas Component Serial No. 439

**Expenditures/Revenues (Thousands of Dollars)**

OPERATING EXPENDITURES	FY95	FY96	FY97	FY98	FY99	FY00
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CAPITAL EXPENDITURES</b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	0.0	0.0	0.0

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
<b>TOTAL</b>	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY94) cost: \$ None

**POSITIONS**

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

The zero fiscal note is predicated on the Division of Oil & Gas being funded to the full level of the Governor's budget request. The Division of Oil & Gas will be the primary administrators of this program and need to be fully staffed to accomplish this task.

Prepared by: Jim Eason, Director Phone: 762-2548  
 Division: Oil & Gas Date: 7-Feb-94  
 Approved by Commissioner: Harry A. Noah Date: 7-Feb-94  
 Agency: Natural Resources

4-12-94

8-GH1012Q ✓  
Chenoweth  
3/22/94

*US 01012Q*

ADOPTED

SENATE CS FOR CS FOR HOUSE BILL NO. 199(FIN)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
EIGHTEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

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

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the exploration and production of oil and gas and related  
2 hydrocarbons, to oil and gas exploration licenses, and to oil and gas leases in  
3 certain areas of the state; and providing for an effective date."

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

5 \* Section 1. AS 38.05.020(b) is amended to read:

6 (b) The commissioner may

7 (1) establish reasonable procedures and adopt reasonable regulations  
8 necessary to carry out this chapter and, whenever necessary, issue directives or orders  
9 to the director to carry out specific functions and duties; regulations adopted by the  
10 commissioner shall be adopted under AS 44.62 ([THE] Administrative Procedure Act)  
11 [(AS 44.62)]; orders by the commissioner classifying land, issued after January 3,  
12 1959, are not required to be adopted under AS 44.62 ([THE] Administrative Procedure  
13 Act) [(AS 44.62)];

14 (2) enter into agreements considered necessary to carry out the purposes

1 of this chapter, including agreements with federal and state agencies;

2 (3) review any order or action of the director;

3 (4) exercise the powers and do the acts necessary to carry out the  
4 provisions and objectives of this chapter;

5 (5) notwithstanding the provisions of any other section of this chapter,  
grant an extension of the time within which payments due on any exploration license,  
7 lease, or sale of state land, minerals, or materials may be made, including payment of  
8 rental and royalties, on a finding that compliance with the requirements is or was  
9 prevented by reason of war, riots, or acts of God;

10 (6) classify tracts for agricultural uses and require the prequalification,  
11 including the submission of conservation plans, development plans, or other plans,  
12 schedules, or programs, of persons who apply to participate in an agricultural  
13 development project under AS 44.33.475;

14 (7) waive, postpone, or otherwise modify the development requirements  
15 of a contract for the sale of agricultural land if

16 (A) the land is inaccessible by road; and

17 (B) transportation, marketing, and development costs render the  
18 required development uneconomic.

19 \* Sec. 2. AS 38.05 is amended by adding new sections to read:

20 ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.

21 Sec. 38.05.131. APPLICABILITY; DETERMINATION; REGULATIONS. (a)

22 Unless specifically provided otherwise in AS 38.05.132 - 38.05.134, the provisions of  
23 AS 38.05.005 - 38.05.040, 38.05.140(f), 38.05.180, 38.05.182 - 38.05.184, and  
24 38.05.920 - 38.05.990 apply to the issuance of oil and gas exploration licenses and  
25 leases under AS 38.05.132 - 38.05.134.

26 (b) The provisions of AS 38.05.131 - 38.05.134 do not apply to land

27 (1) north of the Umiat baseline; and

28 (2) in the vicinity of Cook Inlet that is within the area bounded by

29 (A) the north boundary of Township 17 North, Seward  
30 Meridian;

31 (B) the Seward Meridian;

1 (C) the south boundary of Township 7 South, Seward Meridian;  
2 and

3 (D) the west boundary of Range 19 West, Seward Meridian.

4 (c) The commissioner shall make preliminary written determinations of the  
5 state land that may be subject to the provisions of AS 38.05.132. The determinations  
6 shall be given public notice using the methods described in AS 38.05.945(b). After  
7 completion of the comment period and evaluation of the comments received, the  
8 commissioner shall issue a written determination of the state land that is subject to the  
9 provisions of AS 38.05.132.

10 (d) The commissioner may adopt regulations necessary to implement  
11 AS 38.05.131 - 38.05.134.

12 (e) The commissioner may not issue exploration licenses to a licensee so that,  
13 at any one time, the licensee holds exploration licenses on more than 2,000,000 acres.

14 Sec. 38.05.132. OIL AND GAS EXPLORATION LICENSE. (a) To  
15 encourage exploration for oil and gas on state land, the commissioner may issue oil  
16 and gas exploration licenses.

17 (b) An oil and gas exploration license issued under this section gives the  
18 licensee

19 (1) the exclusive right to explore, for a term not to exceed 10 years, for  
20 deposits of oil and gas on unleased state land described in the exploration license  
21 unless the exploration license is terminated under (d)(1) of this section or the land is  
22 earlier relinquished, removed, or deleted under (d)(2) of this section; and

23 (2) unless the exploration license is terminated under (d)(1) of this  
24 section, the option to convert the exploration license for all or part of the state land,  
25 except the land that is deleted or removed from the land described in the exploration  
26 license under (d)(2) of this section, into an oil and gas lease upon fulfillment of the  
27 work commitments contained in the exploration license.

28 (c) An exploration license awarded under this section

29 (1) is not subject to the acreage limitations imposed by AS 38.05.140(c)  
30 or 38.05.180(m);

31 (2) may cover, subject to the maximum acreage limitation on

1 exploration licenses by one licensee under AS 38.05.131(e), an area of not less than  
2 20,000 acres and not more than 500,000 acres, that must be reasonably compact and  
3 contiguous;

4 (3) must be conditioned upon an obligation to perform a specified work  
5 commitment, in total for the term of the license, expressed in dollars of direct  
6 exploration expenditures; the specified work commitment must include a requirement  
7 that the licensee complete at least 25 percent of the licensee's total specified work  
8 commitment by the fourth anniversary of the effective date of the issuance of the oil  
9 and gas exploration license;

10 (4) must be conditioned upon the posting of a bond or other security  
11 acceptable to the commissioner, in favor of the state and subject to the following  
12 requirements:

13 (A) the bond or other security must be renewed annually;

14 (B) the annual bond or other security shall be calculated as the  
15 entire work commitment expressed in dollars, less the cumulative direct  
16 exploration expenditures of the licensee as of the last day of the most recent  
17 project year, divided by the number of years remaining in the term of the  
18 exploration license;

19 (5) is subject to an annual review and revocation if the commissioner  
20 determines that the licensee has failed to provide or maintain in effect the bond or  
21 other security required by (4) of this subsection;

22 (6) must be conditioned upon the licensee's payment to the state of a  
23 nonrefundable oil and gas exploration license fee <sup>B</sup> in an amount determined by the  
24 commissioner, ~~not to exceed~~ \$1 for each acre of land or fraction of each acre that is  
25 subject to the exploration license; and

26 (7) must be conditioned upon an agreement that exploration  
27 expenditures are subject to audit by the commissioner.

28 (d) If, on the fourth anniversary of the effective date of the issuance of the  
29 exploration license awarded under this section,

30 (1) the licensee has not completed at least 25 percent of the licensee's  
31 total specified work commitment, as measured by the licensee's direct exploration

X

*Amend  
#5  
LS*

1 expenditures, the exploration license terminates;

2 (2) the licensee has completed at least 25 percent but has not completed  
3 at least 50 percent of the licensee's total specified work commitment, as measured by  
4 the licensee's direct exploration expenditure, the commissioner shall remove or delete  
5 or shall require the licensee to relinquish a portion of the area within the exploration  
6 license; relinquishment, removal, or deletion of an area from the state land described  
7 in the exploration license terminates the licensee's rights under AS 38.05.131 -  
8 38.05.134 in the area that is relinquished, removed, or deleted; a relinquishment,  
9 removal, or deletion of a portion of the area described in the exploration license must  
10 be in areas that are reasonably compact and contiguous; the areas relinquished from  
11 the state land described in the exploration license must be areas identified by the  
12 licensee but, if the licensee fails to identify sufficient area, the commissioner may  
13 identify any additional acreage required to be removed or deleted from the area under  
14 license to meet the requirements of this subsection; within the area described in the  
15 exploration license issued under (a) - (c) of this section,

16 (A) 25 percent must be relinquished, removed, or deleted not  
17 later than the fourth anniversary of the effective date of the issuance of the  
18 exploration license;

19 (B) an additional 10 percent of the acreage remaining after  
20 relinquishment, removal, or deletion of acreage required by (A) of this  
21 paragraph and by previous relinquishments, removals, or deletions under this  
22 paragraph must be removed or deleted on each of the succeeding anniversaries  
23 of the effective date of the issuance of the exploration license;

24 (C) the cumulative total of the acreage relinquished, removed,  
25 or deleted under (A) and (B) of this paragraph may not be required to exceed  
26 50 percent of the area awarded within the original exploration license area.

27 (e) If, immediately before the beginning of the period for annual renewal of  
28 the bond or other security under (c)(4)(A) of this section, the licensee fails to provide  
29 or maintain in effect the bond or other security required by (c) of this section for the  
30 period covered by the annual renewal and the commissioner revokes the exploration  
31 license, the bond or other security then in effect for the licensee's obligations under

1 the exploration license is forfeited to the state.

2 (f) In this section,

3 (1) "direct exploration expenditure" means cash expenses undertaken  
4 in performance of a specified work commitment under the provisions of AS 38.05.131  
5 - 38.05.134 and necessarily incurred by the licensee in the permitting, mobilization,  
6 conducting, demobilization, and evaluation of geophysical and geological surveys, or  
7 the drilling, logging, coring, testing, and evaluation of oil and gas wells: the term

8 (A) includes direct labor costs, including the cost of benefits,  
9 for employees directly associated with the work commitment programs, the cost  
10 of renting or leasing equipment from parties not affiliated with the licensee, the  
11 reasonable costs of maintaining and operating equipment, payments to  
12 consultants and independent contractors not affiliated with the licensee, and  
13 costs of materials and supplies;

14 (B) does not include noncash expenses such as depreciation and  
15 reserves, interest or other costs of borrowed funds, return on investment,  
16 overhead, insurance or bond premiums, or any other expense that is  
17 unreasonable or that the licensee has not incurred to satisfy the licensee's work  
18 commitment;

19 (2) "work commitment" includes the drilling of one or more exploration  
20 wells or the gathering of data from activities described in (f)(1) of this section, or both.

21 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures in this section  
22 apply to the issuance of an oil and gas exploration license under AS 38.05.132.

23 (b) The licensing process is initiated by the commissioner preparing, or a  
24 prospective licensee submitting to the commissioner, a proposal that identifies a  
25 specific area to be subject to the exploration license, proposes specific minimum work  
26 commitments, and states the minimum qualifications for a licensee as established by  
27 regulations adopted by the commissioner. A prospective licensee may initiate a  
28 proposal only in response to a call for proposals by the commissioner or during a  
29 period specified in regulations adopted by the commissioner. The regulations must  
30 provide for at least one period for that purpose during each calendar year.

31 (c) If the commissioner initiates the licensing process under (b) of this section,

1 the commissioner shall publish notice of the commissioner's proposal in order to solicit  
2 comments and competing proposals.

3 (d) Within 30 days after receipt of a proposal from a prospective licensee  
4 under (b) of this section, the commissioner shall either reject it in a written decision  
5 or give public notice of the intent to evaluate the acceptability of the proposal. The  
6 commissioner shall solicit comments on a proposal for which public notice is given  
7 under this subsection, and shall request competing proposals.

8 (e) The commissioner may make a written request to a prospective licensee for  
9 additional information on the prospective licensee's proposal. The commissioner shall  
10 keep confidential information described in AS 38.05.035(2)(9) that is voluntarily  
11 provided if the prospective licensee has made a written request that the information  
12 remain confidential.

13 (f) After considering proposals not rejected under (d) of this section and public  
14 comment on those proposals, the commissioner shall issue a written finding addressing  
15 all matters set out in AS 38.05.035(e) and (g), except for AS 38.05.035(g)(1)(K). If  
16 the finding concludes that the state's best interests would be served by issuing an oil  
17 and gas exploration license, the finding must (1) describe the limitations, stipulations,  
18 conditions, or changes from the initiating proposal or competing proposals that are  
19 required to make the issuance of the exploration license conform to the best interests  
20 of the state, and (2) if only one proposal was submitted, identify the prospective  
21 licensee whom the commissioner finds should be issued the exploration license. The  
22 commissioner shall attach to the finding a copy of the exploration license to be issued  
23 and the form of lease that will be used for any portion of the exploration license area  
24 subsequently converted to an oil and gas lease under AS 38.05.134.

25 (g) If only one prospective licensee submits a proposal and the finding under  
26 (f) of this section concludes that an exploration license should be issued to that  
27 prospective licensee, the prospective licensee has 30 days after issuance of the finding  
28 within which to accept or reject the issuance of the exploration license, as limited or  
29 conditioned by the terms contained in the finding. The exploration license to be issued  
30 and the form of lease that will be used must be attached to that finding. The  
31 prospective licensee must accept or reject the issuance of the exploration license in

1 writing.

2 (h) If competing proposals are submitted, and the commissioner's finding  
3 under (f) of this section concludes that an oil and gas exploration license should be  
4 issued, the commissioner shall issue a request for competitive sealed bids, under  
5 procedures adopted by the commissioner by regulation, to determine which prospective  
6 licensee should be issued the exploration license. The finding provided to the  
7 prospective licensees and the public under (f) of this section must contain notice that  
8 (1) the commissioner intends to request competitive sealed bids, (2) a prospective  
9 licensee who intends to participate in the bidding must notify the commissioner in  
10 writing by the date specified in the notice, and (3) a prospective licensee's notice of  
11 intent to participate in the bidding constitutes acceptance of issuance of the exploration  
12 license, as limited or conditioned by the terms contained in the finding and by the  
13 exploration license to be issued and the form of lease to be used that have been  
14 attached to that finding, if the prospective licensee is the successful bidder. The  
15 successful bidder is the prospective licensee who submits the highest bid in terms of  
16 the minimum work commitment dollar amount.

17 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the  
18 commissioner determines that the work commitment obligation set out in an oil and  
19 gas exploration license issued under AS 38.05.132 has been met, the commissioner  
20 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,  
21 of the area described in the exploration license that remains after the relinquishments,  
22 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this  
23 section

24 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

25 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

26 (3) must be conditioned upon a royalty in amount or value of not less  
27 than 12.5 percent of production;

28 (4) must include an annual rent of \$3 per acre or fraction of an acre  
29 initially paid to the state at inception of the lease and payable annually after that until  
30 the income to the state from royalty under that lease exceeds the rental income to the  
31 state under that lease for that year; and

1 (5) is subject to other conditions and obligations that are specified in  
2 the lease.

3 \* Sec. 3. AS 38.05.135(a) is amended to read:

4 (a) Except as otherwise provided, valuable mineral deposits in land belonging  
5 to the state shall be open to exploration, development, and the extraction of minerals.  
6 All land, together with tide, submerged, or shoreland, to which the state holds title to  
7 or to which the state may become entitled, may be obtained by permit or lease for the  
8 purpose of exploration, development, and the extraction of minerals. Except as  
9 specifically limited by AS 38.05.131 - 38.05.181 [AS 38.05.135 - 38.05.181], land may  
10 be withheld from lease application on a first-come, first-served basis, and offered only  
11 on a competitive bid basis when determined by the commissioner to be in the best  
12 interests of the state. [In unproven areas the commissioner may offer additional  
13 incentives, including a reduction of royalty to a minimum of five percent in the case  
14 of oil and gas, and other terms in and granting a permit or lease for exploration and  
15 development whenever it appears to be in the best interests of the state to do so.]

16 \* Sec. 4. AS 38.05.140(f) is amended to read:

17 (f) The submerged and shoreland lying north of 57 degrees, 30 minutes north  
18 latitude and east of 159 degrees, 49 minutes west longitude within the Bristol Bay  
19 drainage are designated as the Bristol Bay Fisheries Reserve. Within the Bristol Bay  
20 Fisheries Reserve no surface entry permit to develop an oil or gas lease or oil and gas  
21 exploration license may be issued on state owned or controlled land until the  
22 legislature by appropriate resolution specifically finds that the entry will not constitute  
23 danger to the fishery.

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

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

28 (1) [THE LAND TO BE LEASED] was previously subject to a valid  
29 state or federal oil and gas lease; [OR]

30 (2) [THE LAND TO BE LEASED] is contiguous to land already under  
31 state, federal or private lease and the commissioner makes a written finding, after

1 hearing, that leasing of the land would result in a substantial probability of early  
2 evaluation and development of the land to be leased; [OR]

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

8 (4) [THE LAND TO BE LEASED] is adjacent to land included in the  
9 federal five-year Outer Continental Shelf leasing program under 43 U.S.C. 1344, and  
10 the commissioner makes a written finding, after hearing, that coordinated or  
11 simultaneous leasing with the federal government is in the public interest; or

12 (5) is the subject of an oil and gas exploration license issued under  
13 AS 38.05.131 - 38.05.134.

14 \* Sec. 6. AS 38.05.180(f) is amended to read:

15 (f) Except as provided by AS 38.05.131 - 38.05.134, the [THE]  
16 commissioner may issue oil and gas leases on state land to the highest responsible  
17 qualified bidder determined by competitive bidding under regulations adopted by the  
18 commissioner. Bidding may be by sealed bid or according to any other bidding  
19 procedure the commissioner determines is in the best interests of the state. Whenever,  
20 under any of the leasing methods listed in this subsection, a royalty share is reserved  
21 to the state, it shall be delivered in pipeline quality and free of all lease or unit  
22 expenses, including but not limited to separation, cleaning, dehydration, gathering, salt  
23 water disposal, and preparation for transportation off the lease or unit area. Following  
24 a pre-sale analysis, the commissioner may choose at least one of the following leasing  
25 methods:

26 (1) a cash bonus bid with a fixed royalty share reserved to the state of  
27 not less than 12.5 [12 1/2] percent in amount or value of the production removed or  
28 sold from the lease;

29 (2) a cash bonus bid with a fixed royalty share reserved to the state of  
30 not less than 12.5 [12 1/2] percent in amount or value of the production removed or  
31 sold from the lease and a fixed share of the net profit derived from the lease of not

1 less than 30 percent reserved to the state;

2 (3) a fixed cash bonus with a royalty share reserved to the state as the  
3 bid variable but no less than 12.5 [12 1/2] percent in amount or value of the  
4 production removed or sold from the lease;

5 (4) a fixed cash bonus with the share of the net profit derived from the  
6 lease reserved to the state as the bid variable;

7 (5) a fixed cash bonus with a fixed royalty share reserved to the state  
8 of not less than 12.5 [12 1/2] percent in amount or value of the production removed  
9 or sold from the lease with the share of the net profit derived from the lease reserved  
10 to the state as the bid variable;

11 (6) a cash bonus bid with a fixed royalty share reserved to the state  
12 based on a sliding scale according to the volume of production or other factor but in  
13 no event less than 12.5 [12 1/2] percent in amount or value of the production removed  
14 or sold from the lease;

15 (7) a fixed cash bonus with a royalty share reserved to the state based  
16 on a sliding scale according to the volume of production or other factor as the bid  
17 variable but not less than 12.5 [12 1/2] percent in amount or value of the production  
18 removed or sold from the lease.

19 \* Sec. 7. AS 38.05.945(a) is amended to read:

20 (a) This section establishes the requirements for notice given by the department  
21 for the following actions:

22 (1) classification or reclassification of state land under AS 38.05.300  
23 and the closing of land to mineral leasing or entry under AS 38.05.185;

24 (2) zoning of land under applicable law;

25 (3) a decision under AS 38.05.035(e) or 38.05.132 - 38.05.134  
26 regarding the sale, lease, or disposal of an interest in state land or resources;

27 (4) a competitive disposal of an interest in state land or resources after  
28 final decision under AS 38.05.035(e);

29 (5) a public hearing under AS 38.05.856(b);

30 (6) a preliminary finding under AS 38.05.035(e) and 38.05.855(c)  
31 concerning sites for aquatic farms and related hatcheries.

1 \* **Sec. 8. ADDITIONAL EXCLUDED AREA.** In addition to the area designated in  
2 AS 38.05.131(b), added by sec. 2 of this Act, the provisions of AS 38.05.131 - 38.05.134,  
3 added by sec. 2 of this Act, do not apply to land within proposed Competitive Oil and Gas  
4 Lease Sales 80, 87, and 88, as the area to be offered in each of those proposed competitive  
5 oil and gas lease sales was delineated in the Five-Year Oil and Gas Leasing Program prepared  
6 by the Department of Natural Resources and dated January 1993. However, the exclusion of  
7 the land in any one of those lease sales that is required by this section ceases on the date the  
8 land described in the lease sale is first offered for competitive oil and gas leasing under  
9 AS 38.05.180, and that land is thereafter subject to the provisions of AS 38.05.131 -  
10 38.05.134, added by sec. 2 of this Act.

11 \* **Sec. 9. REGULATIONS.** The commissioner of natural resources may proceed to adopt  
12 regulations necessary to implement AS 38.05.131 - 38.05.134, added by sec. 2 of this Act.  
13 The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the  
14 effective date of secs. 1 - 8 of this Act.

15 \* **Sec. 10.** Section 9 of this Act takes effect immediately under AS 01.10.070(c).

*withdrawn*

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR KERTTULA

TO: CSHB 199(O&G) am

Page 8, following line 20:

Insert a new subsection to read:

"(i) The commissioner may not issue an exploration license under (g) or (h) of this section unless the prospective licensee has paid to the state

(1) all taxes due the state under AS 43; and

(2) all royalty payments due the state under this chapter."

Page 8, line 21, after "LEASE.":

Insert "(a)"

Page 9, following line 6:

Insert a new subsection to read:

"(b) The commissioner may not convert an oil and gas exploration license to a lease under (a) of this section unless the licensee has paid to the state

(1) all taxes due the state under AS 43; and

(2) all royalty payments due the state under this chapter."

SENATE FINANCE  
COMMITTEE  
Amendment Number: 1  
Bill Number: 199  
Sponsor: Kerttula Date: 4/9/94  
Logged In By: (Bm)

A M E N D M E N T

*Revised* OBJECTED  
FAILED

OFFERED IN THE SENATE  
TO: CSHB 199(O&G) am

BY SENATOR KERTTULA *3-2*  
*withdrawn*

Page 8, following line 20:

Insert a new subsection to read:

"(i) An exploration license to be issued under (g) or (h) of this section takes effect only if the exploration license is approved by the governor."

*revised by Atty General  
within 30 days  
of the time rec'd.*

SENATE FINANCE  
COMMITTEE

Amendment Number: (2)  
Bill Number: HB 199  
Sponsor: Kerttula Date: 4/9/94  
Logged In By: (initials)

*Kelly + Kerttula  
supported*

*Reece, Shantz, Reizer  
opposed*

AMENDMENT

~~ADOPTED~~

OFFERED IN THE SENATE

BY SENATOR SHARP

TO: Draft SCS CSHB 199(FIN)

Page 4, line 2:

Delete "20,000 acres"

Insert "10,000 acres"

SENATE FINANCE  
COMMITTEE (3)  
Amendment Number: \_\_\_\_\_  
Bill Number: NS 199  
Sponsor: SHARP Date: 4/11/94  
Logged In By: RZ

~~ADOPTED~~

Amendment HB 199

Page 9, line <sup>12</sup>~~13~~ delete "In unproven areas the commissioner may offer additional incentives, including a reduction of royalty to a minimum of five percent in the case of oil and gas, and other terms in and granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so."

Insert [in unproven areas the commissioner may offer additional incentives, including a reduction of royalty to a minimum of five percent in the case of oil and gas, and other terms in and granting a permit or lease for exploration and development whenever it appears to be in the best interests of the state to do so.]

Amend # 4

SENATE AMENDMENT

BY Rieger ~~\_\_\_\_\_~~ #/

To: SCS CS HR 199 (FIN) SENATE BILL No. ADOPTED

To: \_\_\_\_\_ HOUSE BILL No. \_\_\_\_\_

PAGE: 4      LINE: 6

after "expenditures;" insert:

"the specified work commitment may include a provision which adjusts the dollar amount for inflation;"

Back-up

WALTER J. HICKEL  
GOVERNOR



P. O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500

STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

18 1993

March 5, 1993

*The Honorable Ramona L. Barnes  
Speaker of the House  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801 1182*

*Dear Speaker Barnes:*

*Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.*

*The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.*

*Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the*

~~ORIGINAL~~

COMMITTEE COPY

The Honorable Ramona L. Barnes

March 5, 1993

Page 2

46 199

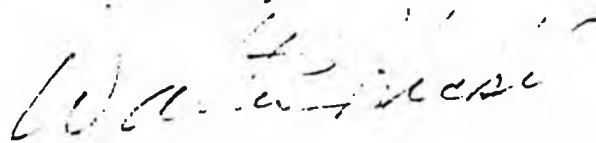
acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaska's remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,



Walter J. Hickel  
Governor

SENATE BILL NO. 150 by the Senate Rules Committee by request of the Governor, entitled:

"An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date."

was read the first time and referred to the Senate Special Committee on Oil and Gas, Judiciary and Finance Committees.

Zero fiscal notes published today from Department of Revenue and Department of Natural Resources.

Governor's transmittal letter dated March 5:

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill authorizing oil and gas exploration licenses for tracts of state land up to 500,000 acres in size and providing for subsequent leasing of some or all of the acreage subject to the license.

The bill is designed to encourage the exploration and development of areas within the state with undetermined oil and gas potential. In contrast to the provisions of the state's existing competitive oil and gas leasing program, the bill would allow the state to issue licenses covering relatively large tracts to licensees based upon their commitment to perform certain exploration programs, the monetary value of which has been predetermined. The bill is not intended to replace the state's competitive leasing program; rather, it is intended to provide an effective alternative to encourage exploration in those areas that traditionally have not attracted the interest of explorationists under the state's current leasing regime.

Under the bill, either the state or a prospective licensee could nominate an area of unidentified oil and gas potential, consisting of reasonably compact and contiguous acreage that should be subject to a license. The commissioner of natural resources would be authorized to impose reasonable work commitments on the licensee with respect to the license area. Subsequent to the successful completion of the predetermined work commitment, the licensee could convert portions or all of the acreage to one or more leases, each not to exceed 30,000 acres in size. The imposition of the required work commitment and the requirement to pay an annual rental on acreage subject to lease are together intended to discourage warehousing of acreage that the licensee does not intend to explore or develop. The commissioner is authorized to include reasonable conditions and obligations in the leases arising from conversion of licenses.

A license proposal would require public notice and the opportunity for competing proposals by other prospective licensees as well as the opportunity for public comment. The commissioner

of natural resources would be required to make a finding that issuing a license is in the best interest of the state.

The exploration and potential development of Alaskas remote and underexplored basins will be further encouraged by the adoption of the licensing and leasing methodology contained in this bill.

I urge your prompt and favorable consideration of this bill.

Sincerely,  
/s/  
Walter J. Hickel  
Governor

April 14, 1993  
SB 150

SENATE JOURNAL

p. 1356

The Senate Special Committee on Oil and Gas considered SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date" and recommended it be replaced with

CS FOR SENATE BILL NO. 150(O&G), entitled:

"An Act relating to oil and gas exploration licenses and to oil and gas leases in certain areas of the state, and to the proof of financial responsibility required for operation of onshore facilities for the production of crude oil and associated hydrocarbons and for exploration for oil and gas and related hydrocarbons; and providing for an effective date."

Signing do pass: Senator Lerman, Chair, Senator Halford. Signing no recommendation: Senators Salo, Sharp.

Previous zero fiscal notes apply to the committee substitute.

SENATE BILL NO. 150 was referred to the Judiciary Committee.

April 15, 1993  
SB 150

SENATE JOURNAL

p. 1417

Senator Taylor, Chair, moved and asked unanimous consent that the Judiciary Committee referral be waived on SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date." Senator Duncan objected.

The question being: "Shall the Judiciary Committee referral be waived on SENATE BILL NO. 150?" The roll was taken with the following result:

Waive SB 150 from Judiciary Committee?

YEAS: 10 NAYS: 9 EXCUSED: 0 ABSENT: 1

Yeas: Halford, Jacko, Kelly, Leman, Miller, Pearce, Phillips, Rieger, Sharp, Taylor

Nays: Adams, Donley, Duncan, Ellis, Kerttula, Lincoln, Little, Salo, Zharoff

Absent: Frank

and so, the motion failed.

April 15, 1993

SENATE JOURNAL

p. 1419

**SB 150**

Senator Taylor moved and asked unanimous consent that the Judiciary Committee referral be waived on SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date." Senator Duncan objected.

The question being: "Shall the Judiciary Committee referral be waived on SENATE BILL NO. 150?" The roll was taken with the following result:

Waive SB 150 from Judiciary Committee?

**YEAS: 11 NAYS: 9 EXCUSED: 0 ABSENT: 0**

Yeas: Frank, Halford, Jacko, Kelly, Leman, Miller, Pearce, Phillips, Rieger, Sharp, Taylor

Nays: Adams, Donley, Duncan, Ellis, Kerttula, Lincoln, Little, Salo, Zharoff

and so, the Judiciary Committee referral was waived.

SENATE BILL NO. 150 was referred to the Finance Committee.

April 28, 1993

SENATE JOURNAL

p. 1250

**SB 150**

The Finance Committee considered SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date" and recommended it be replaced with

CS FOR SENATE BILL NO. 150(FIN), entitled:

"An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses and to oil and gas leases in certain areas of the state, and to the proof of financial responsibility required for the operation of facilities for the production of crude oil and associated hydrocarbons and facilities for exploration for oil and gas and related hydrocarbons; and extending the period in which a sale on the five- year oil and gas lease sale schedule may be delayed; and providing for an effective date."

Signing do pass: Senator Pearce, Cochair. Signing no recommendation: Senator Frank, Cochair, Senators Kelly, Rieger, Sharp. Signing do not pass: Senator Kerttula.

Previous zero fiscal notes apply to the committee substitute.

SENATE BILL NO. 150 was referred to the Rules Committee.

April 29, 1993 SENATE JOURNAL p. 1902  
SB 150

The Rules Committee considered SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date." Signing to calendar: Senator Jacko, Chair, Senators Halford, Rieger. Signing no recommendation: Senator Little.

SENATE BILL NO. 150 is on today's calendar.

April 29, 1993 SENATE JOURNAL p. 1908  
SB 150

SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date" was read the second time.

Senator Pearce moved and asked unanimous consent for the adoption of the Finance Committee Substitute offered on page 1860. Senator Duncan objected.

Senator Taylor moved and asked unanimous consent that SENATE BILL NO. 150 be placed at the bottom of Second Reading of Bills. Without objection, it was so ordered.

April 29, 1993 SENATE JOURNAL p. 1941  
SB 150

SENATE BILL NO. 150 "An Act providing for oil and gas exploration licenses, and oil and gas leases, in certain areas of the state; and providing for an effective date" which had been placed at the bottom of Second Reading of Bills was before the Senate at this time with a motion pending to adopt the Finance Committee Substitute.

April 29, 1993 SENATE JOURNAL p. 1942  
SB 150

Senator Ellis maintained his objection to the adoption of the Finance Committee Substitute.

The question being: "Shall the Finance Committee Substitute be adopted?" The roll was taken with the following result:

SB 150  
Adopt Finance CS?

YEAS: 11 NAYS: 9 EXCUSED: 0 ABSENT: 0

Yeas: Frank, Halford, Jacko, Kelly, Leman, Miller, Pearce, Phillips, Rieger, Sharp, Taylor

Nays: Adams, Donley, Duncan, Ellis, Kerttula, Lincoln, Little, Salo, Zharoff

and so, CS FOR SENATE BILL NO. 150(FIN) "An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses and to oil and gas leases in certain areas of the state, and to the proof of financial responsibility required for the operation of facilities for the production of crude oil and associated hydrocarbons and facilities for exploration for oil and gas and related hydrocarbons; and extending the period in which a sale on the five-year oil and gas lease sale schedule may be delayed; and providing for an effective date" was adopted.

CS FOR SENATE BILL NO. 150(FIN) was read the second time.

Fiscal note for the Finance committee substitute published today from Department of Natural Resources.

April 29, 1993  
SB 150

SENATE JOURNAL

p. 1943

Senators Little, Kerttula offered Amendment No. 1:

Page 12, line 5:

Delete "1,000,000"  
Insert "5,000,000"

Senator Little moved for the adoption of Amendment No. 1. Senator Taylor objected.

The question being: "Shall Amendment No. 1 be adopted?" The roll was taken with the following result:

CSSB 150(FIN)  
Second Reading  
Amendment No. 1

YEAS: 13 NAYS: 7 EXCUSED: 0 ABSENT: 0

Yeas: Adams, Donley, Duncan, Ellis, Halford, Kerttula, Leman, Lincoln, Little, Pearce, Rieger, Salo, Zharoff

Nays: Frank, Jacko, Kelly, Miller, Phillips, Sharp, Taylor

and so, Amendment No. 1 was adopted.

Senator Taylor moved and asked unanimous consent that CS FOR SENATE BILL NO. 150(FIN) am be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

CS FOR SENATE BILL NO. 150(FIN) am was read the third time.

The question being: "Shall CS FOR SENATE BILL NO. 150(FIN) am "An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses and to oil and gas leases in certain areas of the state, and to the proof of

April 29, 1993

SENATE JOURNAL

p. 1944

**SB 150**

financial responsibility required for the operation of facilities for the production of crude oil and associated hydrocarbons and facilities for exploration for oil and gas and related hydrocarbons; and extending g the period in which a sale on the five-year oil and gas lease sale schedule may be delayed; and providing for an effective date" pass the Senate?" The roll was taken with the following result:

CSSB 150(FIN) am

Third Reading - Final Passage

Effective Date

**YEAS: 9 NAYS: 11 EXCUSED: 0 ABSENT: 0**

Yeas: Donley, Halford, Jacko, Lerman, Pearce, Phillips, Rieger, Salo, Taylor

Nays: Adams, Duncan, Ellis, Frank, Kelly, Kerttula, Lincoln, Little, Miller, Sharp, Zharoff

and so, CS FOR SENATE BILL NO. 150(FIN) am failed.

Senator Salo gave notice of reconsideration.

April 30, 1993

SENATE JOURNAL

p. 1985

**SB 150**

Senator Taylor requested that the reconsideration on CS FOR SENATE BILL NO. 150(FIN) am be taken up.

April 30, 1993

SENATE JOURNAL

p. 1985

**SB 150**

CS FOR SENATE BILL NO. 150(FIN) am "An Act relating to the exploration and production of oil and gas and related hydrocarbons, to oil and gas exploration licenses and to oil and gas leases in certain areas of the state, and to the proof of financial responsibility required for the operation of facilities for the production of crude oil and associated hydrocarbons and facilities for exploration for oil and gas and related hydrocarbons; and extending the period in which a sale on the five-year oil and gas lease sale schedule may be delayed; and providing for an effective



certain areas of the state, and to the proof of financial responsibility required for the operation of facilities for the production of crude oil and associated hydrocarbons and facilities for exploration for oil and gas and related hydrocarbons; and extending the period in which a sale on the five-year oil and gas lease sale schedule may be delayed; and providing for an effective date."

CS FOR SENATE BILL NO. 150(FIN) am was re-referred to the Senate Special Committee on Oil and Gas.

JPC 4-11-94  
Boyd  
HB 199

WALTER J. HICKEL, GOVERNOR

**DEPT. OF NATURAL RESOURCES**

P.O. BOX 107034  
ANCHORAGE, ALASKA 99510-7034  
PHONE: (907) 762-2553

**DIVISION OF OIL AND GAS**

March 29, 1994

The Honorable Drue Pearce  
Alaska State Legislature  
State Capitol, Room 508  
Juneau, Alaska 99801-1182

Dear Senator Pearce:

Enclosed you will find a table that compares three versions of the Exploration Licensing legislation. The first version (left column) is the original version introduced by the Governor. The middle column describes the version currently in the Senate; this is the way the bill was left at the end of last session. The third column is the version that was just passed by the House. It represents the changes made as a result of a number of meetings between DNR and industry held between sessions last Summer and Fall. In addition, this version of the bill contains three amendments adopted on the House floor.

At the end of last session it was quite clear that changes needed to be made in order to have legislation that would be supported by all parties involved. Between sessions DNR met with eighteen companies of all sizes—from one-person entrepreneurs to the largest oil companies—and everyone in-between. The purpose of the DNR-industry meetings was to reach consensus on Exploration Licensing. Although the underlying concepts of Exploration Licensing remain intact, there have been some substantial modifications to specific aspects of the existing Senate bill. We now have a bill that satisfies both the state and industry. Major changes that came from these meetings involve bonding requirements and relinquishment provisions (as summarized in the attached table).

The amendments adopted in the House are also summarized in the table. In short, the amendments provide for:

- an extension of AS 38.05.140(f) so that surface entry for licensing is not permitted in a portion of Bristol Bay. Surface entry on leases is currently not allowed in this area unless approved by the Legislature
- public notice for certain documents
- A "cap" of 2 million acres on the amount of land one company may have under license at one time.

Industry and DNR support these amendments.

Two items that were added to the bill last session have now been removed and have been introduced as separate, stand-alone legislation. These are also shown in the table. The first item is a reduction of bonding requirements for onshore exploration facilities (now SB-239). The second is a modification of Title 38 that eliminates the so-called "90 day provision" on holding lease sales (now HB 322). These items were removed to keep the bill strictly focused on Exploration Licensing.

The Exploration Licensing Legislation passed in the House and currently pending in the Senate will give companies the opportunity to explore lands which have drawn little or no interest under the current leasing system. High interest lands on the North slope and in Cook Inlet are off-limits to licensing and will continue to be leased under the existing 5 Year Oil and Gas Leasing Program. Exploration Licensing does not replace the 5 Year Oil and Gas Leasing program rather it augments the current plan.

Under Exploration Licensing parcels of up to 500,000 acres will be made available for licensing. This amount of acreage (and more) is routinely offered in lease sales under the current 5 Year Leasing Program. Exploration Licensing, unlike the current leasing program, requires work to be done. In fact, the license is awarded to the company that promises to do the most work. This work commitment is secured with a bond that is renewed annually. If the company fails to perform 25% of the work commitment within four years it forfeits its license and that years bond. Exploration Licensing is designed to get the maximum amount of money into exploration—with the hope that increased exploration will lead to new oil and gas discoveries. New discoveries mean more royalties and taxes—new income—to offset the shrinking revenues as Prudhoe Bay declines.

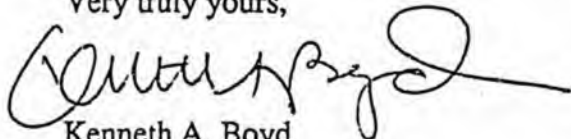
All of the environmental safeguards that are part of current statute apply to Exploration Licensing. A Best Interest Finding is done before the issuance of the license, and all the statutory requirements for permits and other license/lease-related activities remain in place.

History shows that oil and gas exploration means money and jobs, increasing the opportunity to explore and develop new areas will mean more money and more jobs. Jobs for all sorts of people—from geologists to camp cooks. These jobs will be created in geographically diverse areas of the state.

Alaska is at a crossroads of opportunity in the oil and gas business. Alaska must compete in an increasingly international arena for exploration dollars, and competition for these dollars is intense. Exploration Licensing will help keep Alaska firmly in the forefront in the competition for exploration expenditures.

Please call with questions or comments.

Very truly yours,



Kenneth A. Boyd  
Deputy Director

29-Mar-94

**EXPLORATION LICENSING**

**Senate Bill No. 150**

**CSSB150 (Fin)**

**Senate CS for  
CS HB-199 (Fin)/Q**

<b>Geographical Restrictions</b>	To state land with insufficient geological or geophysical information, or for unleased state land previously available for lease.	Land north of the Umiat Baseline; pending lease sales 57, 77, 80, 87 & 88, and portions of the Cook Inlet area are excluded.	Land north of the Umiat Baseline; pending lease sales 80, 87 & 88, and portions of the Cook Inlet area are excluded. AS 39.05.140(f) amended to restrict surface entry in Bristol Bay Fisheries Reserve.
<b>Relinquishment</b>	No relinquishment provision.	Relinquish 25 % of the license area at end of 4th year, plus an additional 10 % of the original area each year thereafter.	If 50 % of the work commitment is completed by the end of the 4th year, no relinquishment is required. Otherwise, 25% of the original acreage must be surrendered with an additional 10% of the remaining acreage each year - to a maximum of 50% total relinquishment.
<b>Bonding</b>	Bonding for the total work commitment; forfeit difference between work commitment and completed work if there is a default.	Annual bond equal to 10 % of that years work commitment.	Calculated annually as the entire work commitment expressed in dollars, less cumulative expenditures, divided by the number of years remaining in the license.
<b>Competitive Bidding</b>	Oral outcry auction; awarded to the highest work commitment expressed in dollars.	Competitive sealed bids; award based upon highest dollar bid in terms of work commitment. Allowed expenditures are defined.	Competitive sealed bids; award based upon highest dollar bid in terms of work commitment. Allowed expenditures are defined.

<b>Acreage Chargeability</b>	License area not more than 500,000 acres; All or part converted to 30,000 acre lease tracts upon fulfillment of work commitment Not subject to acreage limitations at AS 38.05.140(c).	License area not more than 500,000 acres; All or part converted to standard lease tracts upon fulfillment of work commitment Subject to acreage limitations at AS 38.05.140(c).	License not less than 20,000 nor more than 500,000 acres. All or part may be converted to standard lease tracts upon fulfillment of work commitment. Subject to acreage limitations at AS 38.05.140(c).
<b>Acreage Restrictions</b>	Not addressed.	Not addressed.	2,000,000 acres maximum to any licensee at any one time.
<b>Application Fee</b>	\$1 acre	Not more than \$1 acre.	Not more than \$1 acre as set by the commissioner.
<b>Minimum Work Commitments</b>	Must fulfill work commitment by the end of the license term.	Yearly work commitment, subject to review.	Must have completed at least 25 % of the work commitment by the end of the 4th year.
<b>Title 46 Financial Responsibility</b>	Not addressed.	Lowers financial responsibility for onshore exploration facilities from \$5-million to \$1-million.	Removed. Reintroduced in SB 239.
<b>90-Day Provision</b>	Not addressed.	Allows DNR to delay an oil & gas lease sale beyond 90-days of scheduled sale date.	Removed and reintroduced in HB 322.
<b>Lease Rental</b>	\$3 Acre.	\$3 Acre.	\$3 Acre.
<b>Public Notice</b>	Not addressed.	Not addressed.	Provides for public notice of the commissioner's finding.

**Disclaimer:**

This document is for discussion purposes only; it is not intended to be a comprehensive description of the provisions of the bill.

WALTER J. HICKEL  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

April 5, 1994

bill file SFC  
P. O. Box 110001  
Juneau, Alaska 99811-0001  
(907) 465-3500

APR 05 1994

The Honorable Rick Halford  
President of the Senate  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Mr. President:

I want to take this opportunity to reaffirm my complete support for the exploration licensing bill (HB 199) recently passed by the House and due for consideration by the Senate. I also want to set the record straight as there has been misinterpretation of several provisions of HB 199.

Some have erroneously professed that the bill sets the royalty payment to the state at 5 percent, a provision I would not endorse. In fact, the bill states: "A lease issued under this section...must be conditioned upon a royalty in amount or value of not less than 12.5 percent of production. [Emphasis added.]" I totally support a minimum level of 12.5 percent.

Another assertion is that this bill gives the commissioner of the Department of Natural Resources additional power. This simply is not the case. All current statutory environmental safeguards apply to exploration licensing. A Best Interest Finding must be done before a license can be issued, and all the statutory requirements for permits and other license/lease-related activities will remain in place. As to the work commitment, the commissioner has virtually no discretion. The bill states clearly that "the successful bidder is the prospective licensee who submits the highest bid in terms of the minimum work commitment dollar amount." In case of a tie, a sealed bid is used to determine the winner. There is no other standard; whoever bids the most gets the license.

Alaska is at a crossroads of opportunity in the oil and gas business. We must compete in an increasingly international arena for exploration dollars and competition for these dollars is intense. Exploration licensing is one more tool, in addition to our current leasing program, to help keep Alaska firmly in the forefront of the competition.

I ask you to join me in supporting this important piece of legislation.

With best regards.

Sincerely,

A handwritten signature in cursive script that reads "Wally".

Walter J. Hickel  
Governor

cc: *The Honorable Loren Leman, Chair, Senate Oil and Gas*  
*The Honorable Joe Green, Chair, House Oil and Gas*  
*The Honorable Jim Duncan, Senate Minority Leader*  
*The Honorable Fran Ulmer, House Minority Leader*  
*The Honorable Drue Pearce, Co-Chair, Senate Finance Committee*  
*The Honorable Steve Frank, Co-Chair, Senate Finance Committee*

## Alaska Oil and Gas Association

---



121 W. Fireweed Lane, Suite 207  
Anchorage, Alaska 99503-2035  
Phone: (907)272-1481 Fax: (907)279-8114

### FACSIMILE TRANSMITTAL

DATE: April 11, 1994

TO: Senator Drue Pearce  
465-3872

FROM: Judy Brady

# PAGES: 4 (including cover)

Please call Tamara Sheffield at 272-1481 if problems occur during transmission.

## Alaska Oil and Gas Association

---

121 West Fireweed Lane, Suite 207  
Anchorage, Alaska 99503-2035  
Phone: (907) 272-1481 Fax: (907) 279-8114

April 11, 1994

The Honorable Drue Pearce, Co-Chair  
Finance Committee  
Alaska State Senate  
Room 408  
State Capitol  
Juneau, Alaska 99801-1182

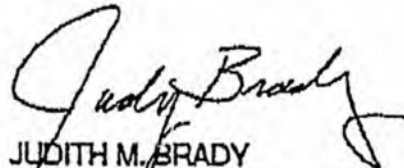
Dear Senator Pearce:

The Alaska Oil and Gas Association (AOGA) is a trade association whose member companies account for the majority of oil and gas exploration, production and transportation activities in Alaska.

The Association would like to offer the attached AOGA position on HB 199 for the record of the April 12, 1994 Senate Finance Committee hearing on HB 199, Oil & Gas Exploration Licenses/Leases.

AOGA appreciates the opportunity to provide written comments on the legislation. If I can be of further assistance on this issue, please contact me at your convenience.

Sincerely,



JUDITH M. BRADY  
Executive Director

JMB:ts  
SLC.PEARCE.HB199.041194

Attachment

**ALASKA OIL AND GAS ASSOCIATION  
POSITION  
ON  
LARGE BLOCK EXPLORATION LICENSING LEGISLATION  
(HB 199/SB 150)**

The Alaska Oil and Gas Association (AOGA) is a trade association, whose member companies account for the majority of oil and gas exploration, production, transportation and marketing activities in Alaska.

AOGA believes that large block licensing is an attractive addition to the State's leasing program to accelerate exploration and potential development of Alaska's frontier areas.

The Association has established the following position on large block exploration licensing legislation:

- AOGA supports a large block licensing program that does not apply to lands (1) north of the Umiat baseline; (2) lands south of the Umiat baseline that are within proposed Competitive Oil and Gas Lease Sales 80, 87 and 88 prior to the initial sale; and (3) in the vicinity of Cook Inlet that are within the area bounded by the north boundary of Township 17 North S.M., the Seward Meridian, the south boundary of Township 7 South S.M., and the west boundary of Range 19 West S.M.
- AOGA supports a program in which a license is conditioned upon the posting of an annual bond or other security in favor of the state and in which the annual bond or other security is calculated as the entire work commitment expressed in dollars less the cumulative expenditures as of the last day of the most recent project-year, divided by the remaining years of the exploration license.
- AOGA supports a competitive program in which all licenses are awarded on the basis of written, sealed bids for total dollar work commitment. The commissioner should adopt regulations to evaluate competing proposals.

**AOGA Position on HB 199/SB 150****Page 2**

- **AOGA supports a program in which conversion from license to lease is under existing state leasing statutes AS 38.05.180 (j)-(m), (o)-(u), and (x)-(z), and upon conversion, such a lease is subject to the acreage chargeability of AS 38.05.140(c).**
- **AOGA supports a program in which any relinquishment of the License area does not occur before the fourth anniversary of the License and each year thereafter is a percentage relinquishment of the remaining License area not to exceed 50 percent of the original License area. As an incentive for early evaluation of a License area, AOGA believes no relinquishment should be required if the Licensee has expended 50 percent of the approved work commitment by the fourth anniversary of the License.**

**The House Oil and Gas Committee Substitute for HB 199 is consistent with the AOGA position on exploration licensing legislation. AOGA supports CSHB 199.**

**AOGA MEMBERS:**

**Amerada Hess Corporation  
Anadarko Petroleum Corporation  
ARCO Alaska, Inc.  
BP Exploration (Alaska), Inc.  
Chevron U.S.A. Inc.  
Cook Inlet Region, Inc.  
Exxon Company, U.S.A.  
MAPCO Alaska Petroleum Inc.  
Marathon Oil Company**

**Mobil Oil Corporation  
Petrofina Delaware, Inc.  
Petro Star, Inc.  
Phillips Petroleum Company  
Rowan Companies, Inc.  
Shell Western E&P Inc.  
Texaco Inc.  
Union Texas Petroleum Alaska Corp.  
UNOCAL**