

HB

198

<TARGET><BILL>HB 198</BILL><SUBJECT>HB
198</SUBJECT><COMM>HRES28</COMM></TARGET>



ALASKA STATE LEGISLATURE

HOUSE LABOR & COMMERCE COMMITTEE

REP. KURT OLSON

Chairman
State Capitol, Room 24
Juneau, AK 99801-1182
(907) 465-4954 Fax 465-3835

Rep. Lora Reinbold, Vice-Chair Rep. Dan Saddler
Rep. Mike Chenault Rep. Bob Herron
Rep. Charisse Millett Rep. Andrew Josephson

Sponsor Statement

HB 198

House Bill 198 proposes changes to the oil and gas leasing statutes to provide the Commissioner of the Department of Natural Resources with the ability to grant a one-time extension to the primary term of an oil and gas or gas only lease. Under Alaska Statute AS 38.05.180(m), oil and gas leases may be extended automatically (1) if and for so long as oil or gas is produced in paying quantities from the leased area, or (2) if the lease is committed to a unit approved by the Commissioner of the Department of Natural Resources.

The bill would amend AS 38.05.180(m) to provide the Commissioner of the Department of Natural Resources (or their designee) the discretion to grant a one-time lease extension to the primary term of up to five (5) years with the total primary period of the lease and extension, not to exceed ten (10) years.

The Commissioner of the Department of Natural Resources may grant a one-time lease extension if such extension is in the best interest of the state. This legislation ensures that any lease extension will not tie up leases indefinitely, but instead will move lessees towards exploration and production. In considering whether to grant an extension, the commissioner may consider the funds expended by the lessee to explore and develop the lease and the types of work completed by or on behalf of a lessee. In granting a one-time lease extension, the Commissioner may impose a minimum work commitment as a condition of any extension, which could include:

- Detailed description of the type and amount of work to be completed;
- Type and /or amount of data to be collected;
- Estimate of dollars to be expended; and
- Requiring a lessee to post a performance bond.

If a lease extension is granted, the annual rental rate per acre shall increase up to \$250 per acre per year; however, the commissioner has the discretion to reduce this increased rental rate if it is determined that a lessee has exercised reasonable diligence in exploring and developing the lease during the primary term.

A lessee must submit a lease extension request in writing no later than 180 days prior to the lease expiration date, except during calendar year 2013. For existing leases with a primary term ending less than 90 days after the effective date of the Act, the lessee must submit an application for extension at least 30 days before the expiration date of the primary term, or within 10 days of the effective date of this act.



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Sectional Summary

HB 198 – Oil and Gas and Gas Only Leases

The following is a sectional summary of HB 198 and is not an authoritative representation of the bill. For an authoritative interpretation, please refer to the bill itself.

Section 1: Provides for the exception of section (m) in AS 38.05.180(h)

Section 2: Amends AS 38.05.180(m) to provide the Commissioner of the Department of Natural Resources the discretion to grant a one-time lease extension to the primary term of the an oil and gas or gas only lease. The total of the primary term of the lease and the extension may not exceed ten years.

The section requires that application for an extension be made at least 180 days before the expiration date of the primary term of the lease.

The commissioner may consider funds expended to explore and develop the lease, the types of work completed and any other relevant information in making a decision to grant an extension

The amended section then sets out the facts that may be considered in the decision to grant the extension. It then defines the requirements which may be imposed by the Commissioner as a condition of the extension. Minimum work commitments and performance bond are among the possible requirements imposed. It requires these commitments be defined in terms of money to be spent or the type and amount of work to be performed. The amended section clarifies that imposing a work commitment under a one-time lease extension does not require the terms of the work commitment to be made public before a lease sale as required under section (h).

Section 2 further amends AS 38.05.180(m) to provide the authority to increase the rental rate, for the last three years of the lease, to \$250.00 per acre each year. At the Commissioner's discretion, this rate may be reduced based on specific criteria also spelled out

Section 3: Amends AS 38.05.180(n) to provide for an exception in (m)) to the statutory rental rates so that the rental rates under a one-time lease extension may be increased, and makes terminology changes.

Section 4: Provides transition language to allow for extension applications for leases which expire within 180 days of the effective date of section 2 of the bill.

Section 5: Provides for an immediate effective date.

Fiscal Note

State of Alaska
2013 Legislative Session

Bill Version: HB 198
Fiscal Note Number: _____
() Publish Date: _____

Identifier: HB198-DNR-DOG-4-4-13
Title: OIL AND GAS AND GAS ONLY LEASES
Sponsor: LABOR & COMMERCE
Requester: House Resources

Department: Department of Natural Resources
Appropriation: Oil & Gas
Allocation: Oil & Gas
OMB Component Number: 439

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2014	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2014 Request	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES	FY 2014	FY 2014					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2013) cost: 0.0

Estimated CAPITAL (FY2014) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

Initial Version.

Prepared By: <u>William C. Barron, Director</u>	Phone: <u>(907)269-8800</u>
Division: <u>Division of Oil and Gas</u>	Date: <u>04/04/2013 12:00 PM</u>
Approved By: <u>Daniel S. Sullivan, Commissioner</u>	Date: <u>04/04/13</u>
<u>Department of Natural Resources</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HB 198

Analysis

This bill allows The Department of Natural Resources (DNR), at the commissioner's discretion, to issue a one-time extension on oil and gas leases when there is no oil or gas produced in paying quantities from the lease if the commissioner finds that the extension is in the best interest of the state. The primary term of the lease combined with the extension date may not exceed a total of 10 years and the rental rate for the last three years shall increase to \$250 an acre for each year but can be reduced, at the commissioner's discretion, if the commissioner determines that a lessee has exercised reasonable diligence to explore and develop the lease during the primary term.

DNR does not anticipate needing additional staff or resources to process lease extension requests.

The indeterminate positive revenue change reflects the expectation that elevated rental rates will offset lease bonus if acreage had been placed back in the annual lease sale.

FISCAL NOTE

STATE OF ALASKA
2013 LEGISLATIVE SESSION

Bill Version HB 198
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) HB198 Dept. Affected Natural Resources
 Title Oil and Gas and Gas Only Leases Appropriation Oil and Gas
 Allocation Oil and Gas
 Sponsor House Labor & Commerce
 Requester House Resources OMB Component Number 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY14 Appropriation Requested	Included in Governor's FY14 Request	Out-Year Cost Estimates					
			FY14	FY15	FY16	FY17	FY18	FY19
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants, Benefits								
Miscellaneous								
TOTAL OPERATING	0.0	0.0	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/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
TOTAL		0.0	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS								
Full-time								
Part-time								
Temporary								

CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Estimated **SUPPLEMENTAL (FY13) operating costs** 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated **CAPITAL (FY14) costs** 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
 If yes, by what date are the regulations to be adopted, amended, or repealed? N/A Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

After discussion in committee it was determined that with regard to revenues from lease rental rates, any potential change falls within the normal budgetary variances of the department.

Prepared by Linda Hay
 Division House Resources Committee - Office of Rep. Feige
 Approved by Rep. Eric Feige
House Resources Committee

Phone 907-465-3715
 Date/Time 4/6/13 3:25 PM
 Date 4/6/2013

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2013 LEGISLATIVE SESSION

BILL NO. HB 198

Analysis

This bill allows The Department of Natural Resources (DNR), at the commissioner's discretion, to issue a one-time extension on oil and gas leases when there is no oil or gas produced in paying quantities from the lease if the commissioner finds that the extension is in the best interest of the state. The primary term of the lease combined with the extension date may not exceed a total of 10 years and the rental rate for the last three years shall increase to \$250 an acre for each year but can be reduced, at the commissioner's discretion, if the commissioner determines that a lessee has exercised reasonable diligence to explore and develop the lease during the primary term.

DNR does not anticipate needing additional staff or resources to process lease extension requests.



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Rep. Bob Herron
Rep. Andrew Josephson

MEMORANDUM

TO: Representative Eric Feige, Co-Chair
Representative Dan Saddler, Co-Chair
House Resources Committee

FROM: Rep. Kurt Olson

A handwritten signature in cursive script that reads "Kurt Olson" with a flourish at the end.

DATE: April 2, 2013

RE: Hearing Request - HB 198

I respectfully request that HB 198 be scheduled for a hearing in the House Resources Committee at your earliest convenience.

HB 198 would provide the Commissioner of DNR with the ability to grant a one-time extension to the primary term of an oil and gas or gas only lease. In the event an extension is granted, the total of the primary term and the extension may not exceed 10 years. This bill will give the department another tool to help minimize resource warehousing.

As requested, all documents are being sent electronically.

Thank you for your consideration of this request.

Please contact my staff member Konrad Jackson (465-4954) should any additional information be needed.



One-time Lease Extension

HB 198

House Resources Committee

April 6, 2013

William C. Barron, Director
Division of Oil and Gas



What is HB 198?



- Cannot allow lease extensions under current statutes
- HB 198 allows a maximum 10-year primary term, including extension
- Not automatic; may consider
 - Funds already spent on exploration and development
 - Type of work already completed
 - Other relevant information
- Granted extension may require
 - Increased rental up to \$250/acre for last three years
 - Performance bond
 - Work commitments: specific \$ amount to be expended; type and amount of work to be performed
- Tool to help drive exploration and development



Why do we need HB 198?



Background

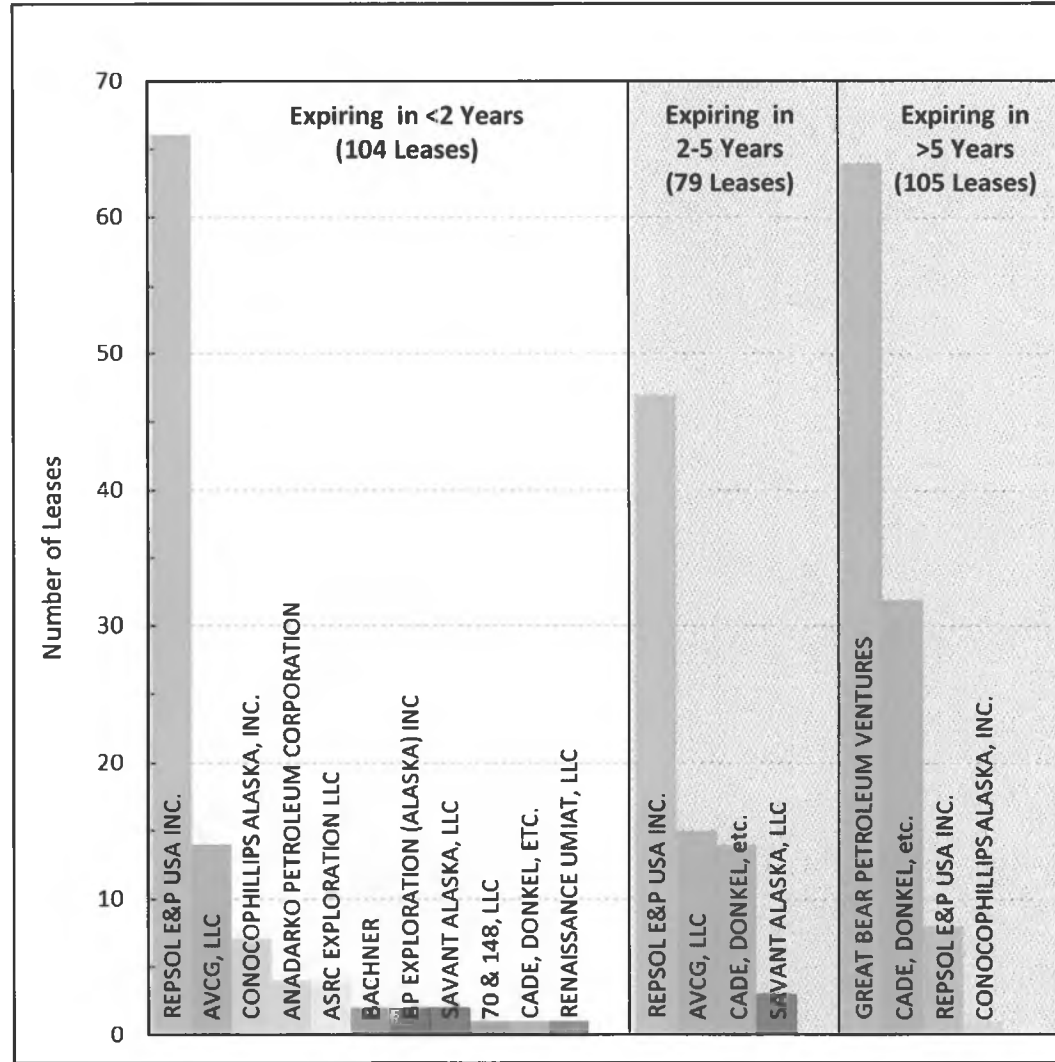
- Maximum lease term is 10 years; minimum is 5 years.
- In 2007, 2008, and 2009, some leases had 5- and 7-year terms.
- Difficult to perform exploration, delineation, and production drilling in those time frames

Unintended consequences of short lease terms

- Premature unit applications attempting to extend leases.
 - Preference is unit decisions based on hydrocarbon accumulations proven by drilling
- Despite best efforts, diligent lessees may lose leases after significant investment.

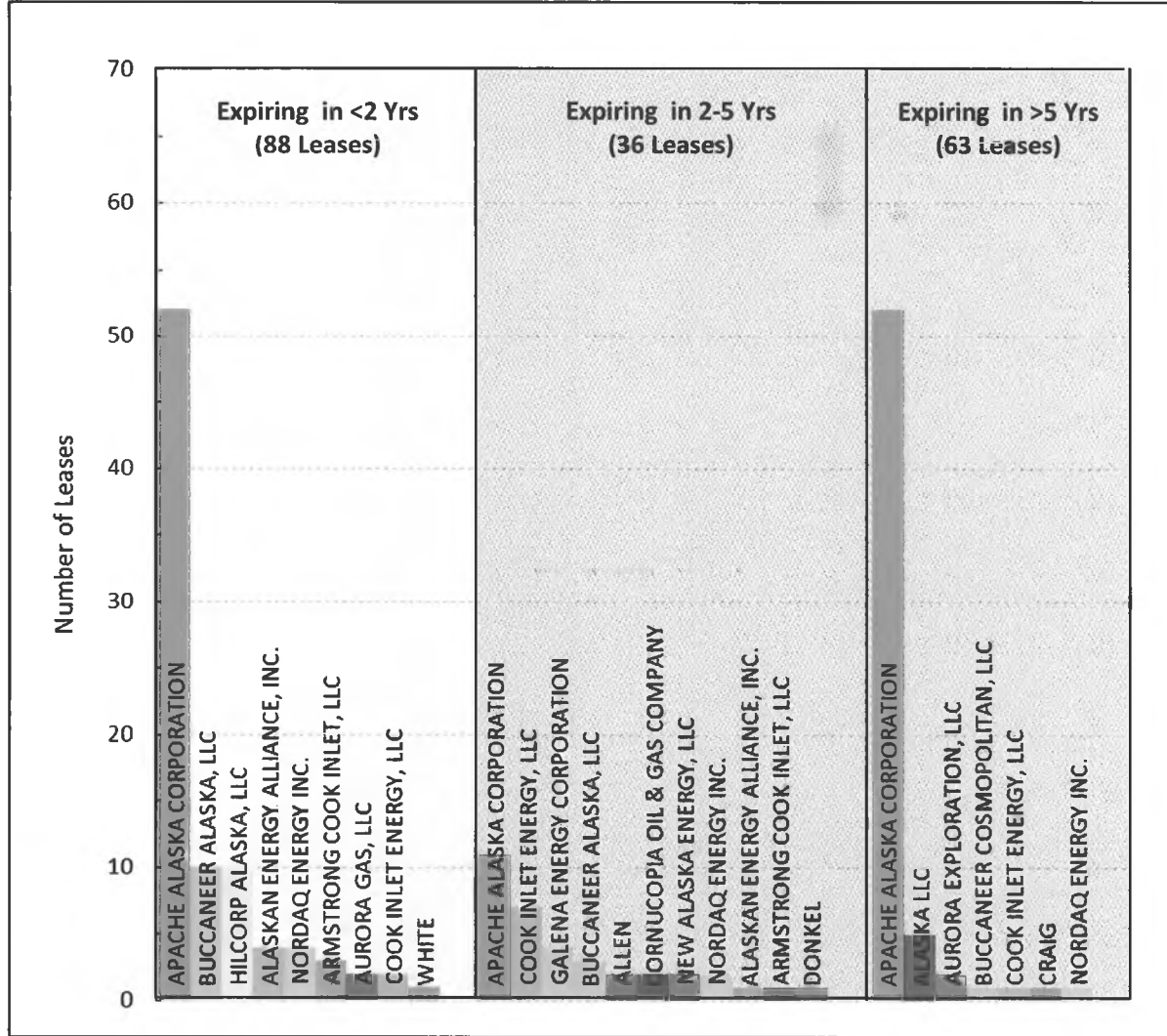


Northern Alaska Lease Distribution





Cook Inlet Lease Distribution





What are the benefits of HB 198?



Benefits to diligent lessees

- Accommodates short drilling windows
- Lessees who have significantly invested in shorter-term leases may have time to bring qualified leases into production

Benefits to the State

- Allows State to require work programs during primary term
- Encourages ongoing work to be completed
- Increases the probability of bringing leases to production

→ puts the state in an aligned position w/ industry
→ increase the conversion rate from ^{non-producing} lease to producing lease
→ allows state to standardize lease periods
→



Hilcorp Alaska, LLC

John A. Barnes
Senior Vice President

Post Office Box 244027
Anchorage, AK 99524

3800 Centerpoint Dr.
Suite 100
Anchorage, AK 99503

Phone: 907/777-8350
Email: jba.barnes@hilcorp.com

April 5, 2013

Representative Kurt Olson
State Capitol
Juneau, Alaska 99801

Re: HB 198

Dear Representative Olson:

I know you are aware that Hilcorp is working hard to revitalize oil and gas development in the Cook Inlet. We are highly motivated to maintain the legacy of responsible development in the Cook Inlet basin. We have made, and are continuing to make, significant investments in the state's resources. We are already seeing the needle move in a positive direction on much-needed energy production for Alaskans.

We understand that HB 198 represents a new approach to lease extensions as they apply to oil and gas development statewide. Where appropriate efforts to develop Alaska's resources are made the bill aims to create expediency in the leasing process. For that reason, Hilcorp supports HB 198 as it is written.

The power assigned to the Commissioner in HB 198 would be a valuable tool in furthering investment and rewarding efforts to develop Alaska's resources. We have every confidence in its integrity.

Sincerely,

John A. Barnes

Cc: **Senator Peter Micciche**
Representative Eric Feige
Senator Cathy Giessel
William C. Barron, Director, DNR



April 4, 2013

The Honorable Kurt Olson, Chairman
Alaska State House of Representatives
Labor and Commerce Committee
Juneau, Alaska 99801

Subject: House Bill 198: "An Act relating to the primary period of an oil and gas or gas only leases and the extension of a lease; relating to terms to be included in an oil and gas or gas only lease; relating to rental for an oil and gas or gas only lease; and providing for an effective date."

Dear Representative Olson:

Thank you for the opportunity to comment on House Bill 198. As you are aware, House Bill 198 would allow the Commissioner of Natural Resources to extend the term of oil and gas leases or gas only leases beyond the original primary term. This legislation offers an alternative to last minute rushes to create units, propose placement of rigs or other lease saving operations that would allow an operator to hold its oil and gas lease. The Department of Natural Resources (Department) has seen this done on a repeated basis using valuable time while the company continues to hold the unit or oil and gas lease while requesting further extensions with no actual work being performed.

Apache Alaska Corporation (Apache) is, in general, supportive of this legislation. As a new operator in Alaska we have acquired a significant amount of acreage which has leases that will expire before we are able to complete our seismic exploration activities, which help us delineate what, if any, potential oil or gas resources are under our leases.

Since entering Cook Inlet in the fall of 2010, Apache has been aggressive in exploration and development efforts. Apache has and continues to find new and innovative ways to conduct seismic so as to create only the slightest disturbance while gathering good quality data. We have employed a cutting-edge technology that, in 2012, resulted in acquiring seismic on over 200,000 acres within the Cook Inlet basin. There is still a lot of work left to do and, in working with the Department, Apache is hopeful that it will have the opportunity to continue its 3D seismic program to better identify the potential of the Cook Inlet Basin.

As you deliberate this bill Apache would recommend the committee adopt the following changes:

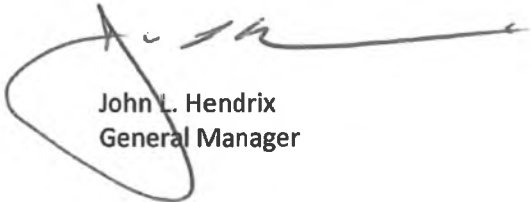
1. Section 2, page 2, lines 25-26. Delete the following – "... posting of a performance bond by the lessee,..." The cost of acquiring and providing a performance bond is excessive and overly burdensome, and it would be difficult to fashion the criteria to determine whether the operator has met the "performance" obligations. The required finding that the lease extension is in the "best interest of the state" and the commissioner's discretion in deciding whether to grant the lease extension should be sufficient.

2. Section 2, page 3, lines 7-12: Change that new sentence to read: "If the commissioner grants a one-time lease extension, upon extension, the rental for the extension time frame shall be set at a reasonable rate, in the commissioner's discretion, based on consideration of whether the lessee has demonstrated reasonable diligence to explore and/or develop the lease during the primary term, but not to exceed 150 percent of the rate for the preceding year of the lease term." The \$250/acre rate set out in the proposed bill is excessive and would be cost-prohibitive in most if not all situations.

As you deliberate this legislation should you have questions please feel free to contact me or Lisa Parker at 907-792-7302.

In advance, thank you for your consideration of this important piece of legislation.

Sincerely yours,



John L. Hendrix
General Manager

cc: Lisa Parker, Apache
Obie O'Brien, Apache
Ron Solt, Apache
Andy Taylor, Apache