

SB

96

<TARGET><BILL>SB 96</BILL><SUBJECT>SB
96</SUBJECT><COMM>SFIN28</COMM></TARGET>

ALASKA STATE LEGISLATURE

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SENATOR PETER A. MICCICHE

Sponsor Statement

DISTRICT

Anchor Point

Clam Gulch

Cohoe

Diamond Ridge

Fox River

Fritz Creek

Funny River

Halibut Cove

Happy Valley

Homer

Kachemak City

Kachemak Selo

Kalifornsky

Kasilof

Kenai

Nikolaevsk

Ninilchik

Razdolna

Ridgeway

Seldovia

Soldotna

Voznesenka

Senate Bill 96 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.

Sectional Summary

SB 96 – Oil and Gas and Gas Only Leases

The following is a sectional summary of SB 96 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 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.



April 4, 2013

The Honorable Peter Micciche
Alaska State Senate
Juneau, Alaska 99801

Subject: Senate Bill 96: "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 Senator Micciche:

Thank you for the opportunity to comment on Senate Bill 96. Senate Bill 96 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:

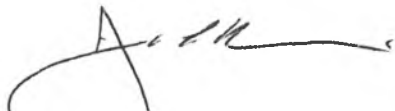
1. Section 2, page 2, lines 25-26. Delete the following – "... posting of a performance bond by the lessee,..." The cost of acquiring and providing a performance bond is excessive and overly burdensome, and it would be difficult to fashion the criteria to determine whether the operator has met the "performance" 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



One-time Lease Extension

SB 96

Senate Finance Committee

April 8, 2013

William C. Barron, Director
Division of Oil and Gas



What is SB 96?



- Cannot allow lease extensions under current statutes
- SB 96 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 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 SB 96?



Background

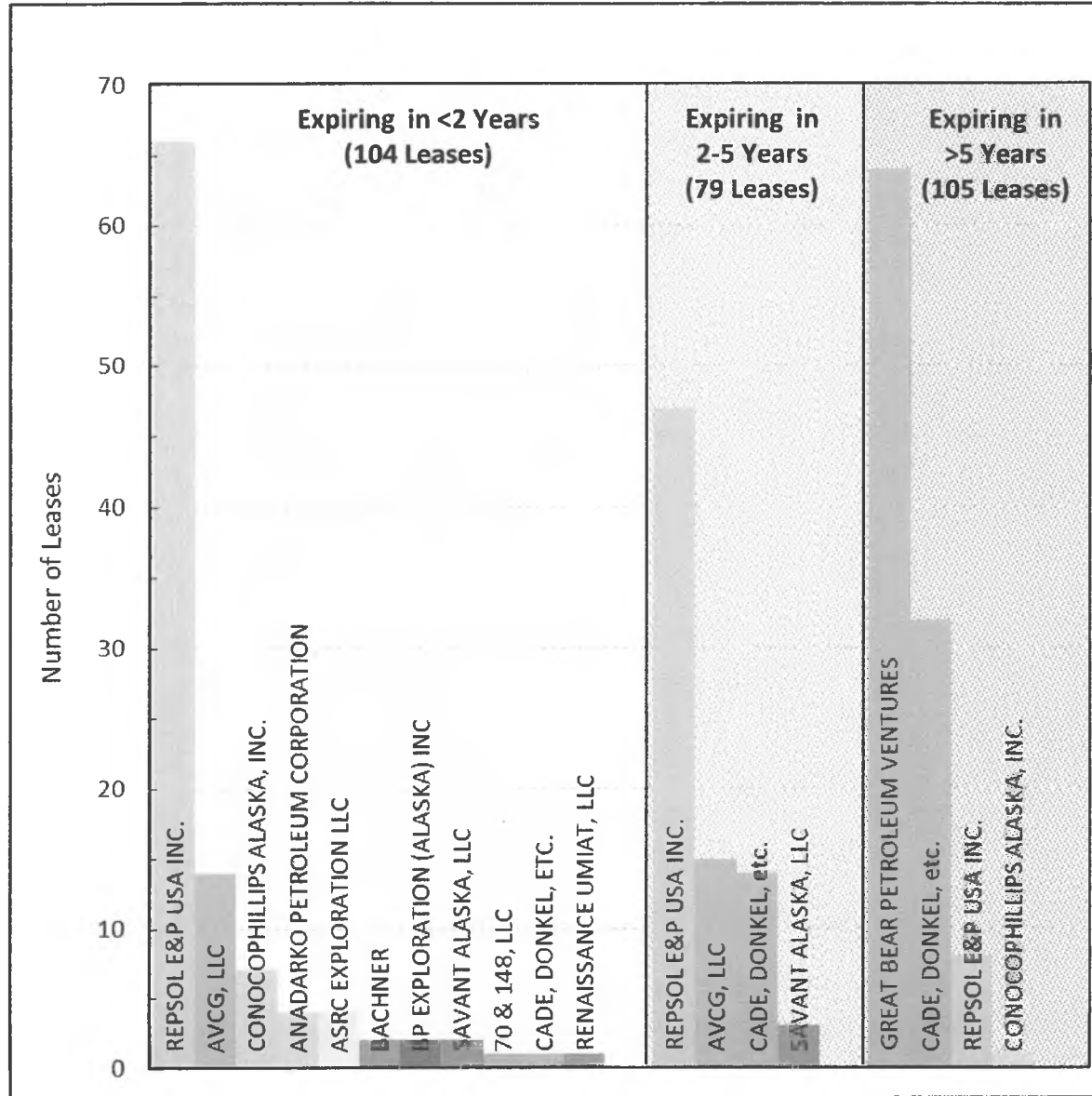
- Maximum lease term is 10 years; minimum is 5 years.
- In 2007, 2008, and 2009, some leases had 5- and 7-year terms.
- Difficult to perform exploration, delineation, and production drilling in those time frames

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.

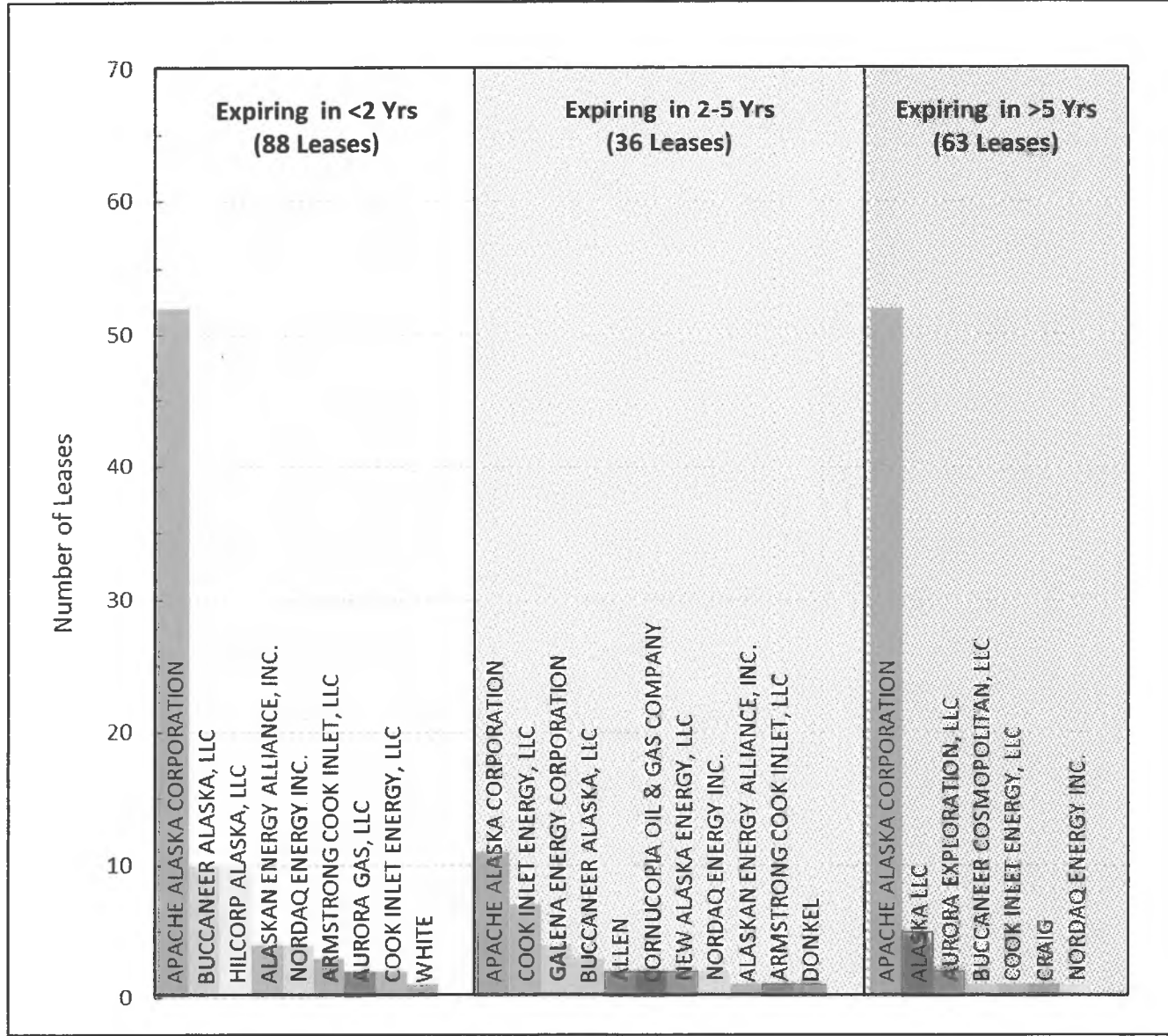


Northern Alaska Lease Distribution





Cook Inlet Lease Distribution





What are the benefits of SB 96?



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



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April 5, 2013

Senator Peter Micciche
State Capitol
Juneau, Alaska 99801

Re: SB 96

Dear Senator Micciche:

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 SB 96 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 SB 96 as it is written.

The power assigned to the Commissioner in SB 96 would be a valuable tool in furthering investment and rewarding efforts to develop Alaska's resources. We have every confidence in its integrity.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. A. Barnes', with a horizontal line extending to the right.

John A. Barnes

Cc: Representative Kurt Olson
Representative Eric Felge
Senator Cathy Giessel
William C. Barron, Director, DNR