

SCOMM

133:12

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: February 19, 2004

FURTHER REFERRALS: Resources
Finance

Date of Committee Action:

The HOUSE SPECIAL COMMITTEE ON OIL AND GAS considered:

SSHB 364

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 364

NATURAL GAS LEASES ON THE KENAI PENINSULA

"An Act establishing a moratorium on the issuance of state shallow natural gas leases in the vicinity of Kachemak Bay, and precluding the commissioner of natural resources from reissuing or otherwise extending leases within the moratorium area if the leases fail to produce gas in paying quantities within the terms of the lease or if there is a breach of a term or condition of the lease; and providing for an effective date."

Recommends it be replaced with [

] HCS or [

✓ CS for

SSHD 364

(1065)

For Senate Bills with new title: [] Technical Title [] New Title: HCR

☐ Same Title ☒ New Title

[] attach amendments

[] add new referral to _____ Committee

[] Letter of Intent Committee

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

Signing with recommendations		Printed Last Name	DP	DNP	NR	AM
~~John~~		HOLM				✓
Nancy Rokeby		ROKEBY				✓
Pam Bertell		Bertell	✓			
Harry Crawford		CRAWFORD	✓			
Reese McCon		McCon			✓	
Chair: Vic Rohring		Rohring				X

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB364SS-DNR-O&G-03-08
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Natural Gas Leases on the Kenai Peninsula RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rep. Seaton
 Requester House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	(**Indeterminate)
-------------------------------	--------------------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

****HB 364 would impose a moratorium on shallow natural gas leasing around the Homer area. This bill would foreclose future income from shallow natural gas application fees, rentals, and royalties in the Homer area.**

Prepared by: Mark D. Myers Phone 269-8800
 Division Oil and Gas Date/Time 3/8/04
 Approved by: Thomas Irwin, Commissioner Date 3/8/04
 Agency Natural Resources

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 364
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY REPRESENTATIVE SEATON

Introduced: 2/19/04

Referred: House Special Committee on Oil and Gas, Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing a moratorium on the issuance of state shallow natural gas leases in
2 the vicinity of Kachemak Bay, and precluding the commissioner of natural resources
3 from reissuing or otherwise extending leases within the moratorium area if the leases fail
4 to produce gas in paying quantities within the terms of the lease or if there is a breach of
5 a term or condition of the lease; and providing for an effective date."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1. LEGISLATIVE FINDINGS.** The legislature finds that

8 (1) the land and water within the Kenai Peninsula Borough east of Cook Inlet
9 and south of the north boundary of Township 5 North, Seward Meridian,

10 (A) is immediately adjacent to the Cook Inlet Areawide Lease Sale and
11 the associated conventional gas projects;

12 (B) follows the same geologic trend supporting conventional gas
13 projects within the Cook Inlet Areawide Lease Sale;

1 (C) demonstrates geology, geography, economics, and demographics
 2 consistent with the area and communities found in the Cook Inlet Areawide Lease
 3 Sale; and

4 (D) is inconsistent with the rural and isolated communities described in
 5 the intent of the shallow natural gas program;

6 (2) it is in the best interest of the state to lease mineral rights through a public
 7 process, with administrative oversight and management, preparation of a best interest finding,
 8 and a competitive bid process; and

9 (3) issuance of shallow natural gas leases with specific limitations on depths in
 10 areas where conventional natural gas reserves may be present creates management problems
 11 that may preclude the full unitization and conservation of the resources.

12 * Sec. 2. AS 38.05.177(a) is amended to read:

13 (a) The provisions of this section

14 (1) apply to gas, whether methane associated with and derived from
 15 coal deposits or otherwise, from a field if a part of the field is within 3,000 feet of the
 16 surface; and

17 (2) do not apply to authorize lease of

18 (A) land

19 (i) that is subject to an oil and gas exploration license or
 20 lease issued under AS 38.05.131 - 38.05.134; or

21 (ii) that is leased under AS 38.05.180;

22 (B) the land (i) that is proposed to be subject to an oil and gas
 23 exploration license or lease issued under AS 38.05.131 - 38.05.134; or (ii) that
 24 is described in and part of a proposed oil and gas leasing program prepared
 25 under AS 38.05.180(b); however, the commissioner may waive the limitations
 26 of this subparagraph;

27 (C) the land that is held under a coal lease entered into under
 28 AS 38.05.150, unless the applicant for a shallow natural gas lease is also the
 29 lessee under AS 38.05.150 of that land; [OR]

30 (D) the valid existing selections of the Alaska Mental Health
 31 Trust Authority made for the purpose of reconstituting the mental health trust

1 established under the Alaska Mental Health Enabling Act, P.L. 84-830, 70
 2 Stat. 709 (1956), that become subject to management under AS 38.05.801, or
 3 of land that has been designated by law for or is subject to designation for
 4 conveyance to the Alaska Mental Health Trust Authority; however, after
 5 consultation with the Alaska Mental Health Trust Authority, the commissioner
 6 may waive the limitations of this subparagraph; or

7 (E) land and water within the Kenai Peninsula Borough
 8 east of Cook Inlet and south of the north boundary of Township 5 South,
 9 Seward Meridian.

10 * Sec. 3. The uncoded law of the State of Alaska is amended by adding a new section to
 11 read:

12 APPLICATION OF SECTION 2 TO LAND CURRENTLY LEASED IN THE
 13 VICINITY OF KACHEMAK BAY FOR SHALLOW NATURAL GAS EXPLORATION
 14 AND DEVELOPMENT. The provisions of AS 38.05.177(a)(2)(E), added by sec. 2 of this
 15 Act, apply to prohibit the issuance or reissuance of a lease under AS 38.05.177 entered into
 16 before the effective date of this Act if the lease terminates because of the failure to extend the
 17 lease under AS 38.05.177(d) or if the lease terminates by the operation of AS 38.05.177(h).

18 * Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

23-LS1464\Q
Chenoweth
3/4/04

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 364()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE SEATON

A BILL

FOR AN ACT ENTITLED

1 "An Act prohibiting the issuance of state shallow natural gas leases in the vicinity of
2 Kachemak Bay, modifying the authority to extend certain shallow natural gas leases,
3 and precluding the director of the division of lands from reissuing or otherwise
4 extending shallow natural gas leases within the Kachemak Bay area if the leases fail to
5 produce gas in paying quantities within the terms of the lease or if there is a breach of a
6 term or condition of the lease; and providing for an effective date."

7 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

8 * **Section 1.** AS 38.05.177(a) is amended to read:

9 (a) The provisions of this section

10 (1) apply to gas, whether methane associated with and derived from
11 coal deposits or otherwise, from a field if a part of the field is within 3,000 feet of the
12 surface; and

13 (2) do not apply to authorize lease of

1 (A) land

2 (i) that is subject to an oil and gas exploration license or
3 lease issued under AS 38.05.131 - 38.05.134; or

4 (ii) that is leased under AS 38.05.180;

5 (B) the land (i) that is proposed to be subject to an oil and gas
6 exploration license or lease issued under AS 38.05.131 - 38.05.134; or (ii) that
7 is described in and part of a proposed oil and gas leasing program prepared
8 under AS 38.05.180(b); however, the commissioner may waive the limitations
9 of this subparagraph;

10 (C) the land that is held under a coal lease entered into under
11 AS 38.05.150, unless the applicant for a shallow natural gas lease is also the
12 lessee under AS 38.05.150 of that land; [OR]

13 (D) the valid existing selections of the Alaska Mental Health
14 Trust Authority made for the purpose of reconstituting the mental health trust
15 established under the Alaska Mental Health Enabling Act, P.L. 84-830, 70
16 Stat. 709 (1956), that become subject to management under AS 38.05.801, or
17 of land that has been designated by law for or is subject to designation for
18 conveyance to the Alaska Mental Health Trust Authority; however, after
19 consultation with the Alaska Mental Health Trust Authority, the commissioner
20 may waive the limitations of this subparagraph; or

21 (E) land and water within the Kenai Peninsula Borough
22 east of Cook Inlet and south of the north boundary of Township 5 South,
23 Seward Meridian.

24 * Sec. 2. AS 38.05.177(d) is amended to read:

25 (d) A lease

26 (1) shall be automatically extended if and for so long thereafter as gas
27 is produced in paying quantities from the lease and the lessee continues to meet all
28 requirements of the lease; a [. A] lease issued under this section covering land on
29 which there is a well capable of producing gas in paying quantities does not expire
30 because the lessee fails to produce gas unless the lessee is allowed reasonable time to
31 place the well on a producing status; if [. IF] drilling has commenced on the

1 expiration date of the primary term of the lease and is continued with reasonable
2 diligence, including such operations as redrilling, sidetracking, or other means
3 necessary to reach the originally proposed bottom hole location, the lease is extended
4 for one year and for so long thereafter as gas is produced in paying quantities; a [A]
5 gas lease issued under this section that is subject to termination by reason of cessation
6 of production does not terminate if, within 90 days after production ceases or a longer
7 period determined at the discretion of the director, reworking or drilling operations are
8 commenced on the land under lease and are thereafter conducted with reasonable
9 diligence during the period of nonproduction;

10 (2) issued under (c) of this section before January 1, 2004, may be
11 extended at the discretion of the director; a lease may be extended under this
12 paragraph [IN ADDITION,] upon application by the lessee; [,] the director may
13 once extend the [A] lease [ISSUED UNDER (c) OF THIS SECTION] for a period of
14 not more than three years; in exercising discretion to extend a lease under this
15 paragraph, in addition to the terms and conditions of (1) of this subsection under
16 which a lease may be extended, the director may not extend the lease unless the
17 director also considers

18 (A) the extent of the shallow natural gas exploration
19 activity already conducted on the lease and on adjacent areas;

20 (B) the likely prospect that further shallow natural gas
21 exploration activity will lead to shallow natural gas development and
22 production; and

23 (C) whether extension of the lease's primary term could
24 expedite the eventual production of shallow natural gas from the lease.

25 * Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 APPLICATION OF SECTION 1 TO LAND CURRENTLY LEASED IN THE
28 VICINITY OF KACHEMAK BAY FOR SHALLOW NATURAL GAS EXPLORATION
29 AND DEVELOPMENT. The provisions of AS 38.05.177(a)(2)(E), added by sec. 1 of this
30 Act, apply to prohibit the issuance or reissuance of a lease under AS 38.05.177 entered into
31 before the effective date of this Act if the lease terminates because of the failure to extend the

- 1 lease under AS 38.05.177(d), as modified by sec. 2 of this Act, or if the lease terminates by
2 the operation of AS 38.05.177(h).
3 * **Sec. 4.** This Act takes effect immediately under AS 01.10.070(c).

ALASKA STATE LEGISLATURE

Chair
FISHERIES

Vice-Chair
EDUCATION

Member
HEALTH, EDUCATION AND SOCIAL SERVICES

Member
STATE AFFAIRS



REPRESENTATIVE PAUL SEATON
House District 35

Session:
State Capitol Building
Juneau, Alaska 99801
Phone 907-465-2689
Fax 907-465-3472
1-800-665-2689
Rep.Paul.Seaton@legis.state.ak.us

Interim:
345 W. Sterling Highway
Suite 102B
Homer, Alaska 99603
Phone 907-235-2921
Fax 907-235-4008

SSHB 364

"An Act prohibiting the issuance of state shallow natural gas leases in the vicinity of Kachemak Bay, modifying the authority to extend certain shallow natural gas leases, and precluding the director of the division of lands from reissuing or otherwise extending shallow natural gas leases within the Kachemak Bay area if the leases fail to produce gas in paying quantities within the terms of the lease or if there is a breach of a term or condition of the lease; and providing for an effective date."

Sponsor Statement

The Sponsor Substitute for HB 364 (SSHB 364) accomplishes three goals. First, it establishes a moratorium on future shallow natural gas leases (as defined by AS 38.05.177) in the Homer area. Second, it precludes the Commissioner of the Department of Natural Resources (DNR) from reissuing the current shallow natural gas leases in the Homer area if the leases do not produce gas in paying quantities within the terms of the lease (three years) or if there is a breach of contract. Third, SSHB 364 gives the Director of the Oil and Gas Division of DNR criteria to judge the merits of using his/her discretion to extend shallow natural gas leases. The Director would now have to consider the likelihood that extension of the lease would "expedite or lead to shallow natural gas development." This bill would in no way complicate future gas leasing in the Homer area through the Area Wide Lease Sale process, or some other leasing program.

The shallow natural gas leases recently let in the Homer area have created two major problems. First, the public is very concerned about the streamlined process under which these leases were let. The current shallow natural gas program provides for over-the-counter type leases; lacking a best-interest-finding, effective public notice, and regulatory provisions, and also decreasing fees and royalties paid to the state, this program has left local residents critical of the gas development in general.



Second, the gas formation underneath Homer follows the same geologic trend currently supporting the conventional natural gas industry on the Kenai Peninsula. To Homer's immediate north, conventional gas projects are underway in Ninilchik and on the North Fork Road. The industry incentives offered under the shallow natural gas lease program are not necessary to coerce the natural gas industry to the region. Homer was left out of the Cook Inlet Area Wide Lease Sale Program, and thus made available for leases under the Shallow Natural Gas Program, because of a political decision made by a previous administration. There is no geologic or economic reason that the gas in the Homer area should be developed differently than the rest of the Kenai Peninsula.

I ask for your support for this extremely important legislation.

ALASKA STATE LEGISLATURE

Chair
FISHERIES

Vice-Chair
EDUCATION

Member
HEALTH, EDUCATION AND SOCIAL SERVICES

Member
STATE AFFAIRS



REPRESENTATIVE PAUL SEATON
House District 35

Session:
State Capitol Building
Juneau, Alaska 99801
Phone 907-465-2689
Fax 907-465-3472
1-800-665-2689
Rep.Paul.Seaton@legis.state.ak.us

Interim:
345 W. Sterling Highway
Suite 102B
Homer, Alaska 99603
Phone 907-235-2921
Fax 907-235-4008

SPONSOR SUBSTITUTE HOUSE BILL 364

"An Act prohibiting the issuance of state shallow natural gas leases in the vicinity of Kachemak Bay, modifying the authority to extend certain shallow natural gas leases, and precluding the director of the division of lands from reissuing or otherwise extending shallow natural gas leases within the Kachemak Bay area if the leases fail to produce gas in paying quantities within the terms of the lease or if there is a breach of a term or condition of the lease; and providing for an effective date."

Sectional Analysis

Section 1 amends AS 38.05.177(a) to exclude "land and water within the Kenai Peninsula Borough east of Cook Inlet and south of the north boundary of Township 5 South, Seward Meridian" from shallow natural gas leasing.

Section 2 amends AS 38.05.177(d) to give the Director of the DNR Division of Oil and Gas discretionary guidelines in making the decision to extend shallow natural gas leases that have not yet produced gas. The Director would now be required to consider the likelihood that extension of the lease will "expedite or lead to shallow natural gas development."

Section 3 amends the uncodified law of the State of Alaska to prohibit the issuance or reissuance of a shallow natural gas lease entered into before the effective date of this Act in the area described in Section 1 of this act, if the lease terminates because of failure to produce under AS 38.05.177(d), as modified by Section 2 of this act, or if part of the lease is relinquished or illegally transferred under AS 38.05.177(h).

Section 4 gives this act an immediate effective date.



(7)

FURTHER REFERRALS: Resources
Finance

Date of Committee Action: April 1, 2004

SSHB 364

NATURAL GAS LEASES ON THE KENAI PENINSULA

Recommends it be replaced with ☐ HCS or ☒ CS for SSAD 267 (UBS)
For Senate Bills with new title: ☐ Technical Title ☐ New Title: HCR _____ ☐ Same Title ☒ New Title

- ☐ attach amendments
☐ add new referral to _____ Committee
☐ Letter of Intent _____ Committee

*List of
Abbrev
for
Depts.:*
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

[illegible][illegible]

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
~~John~~	HOLIM				✓
Nancy Rokeby	ROKEBY				✓
Pam Hertel	Hertel	✓			
Mary Crawford	CRAWFORD	✓			
Rose McGee	McGee			✓	
Chair: Vic Bohring	Bohring				X
Chair:					

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB364SS-DNR-O&G-03-08
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Natural Gas Leases on the Kenai Peninsula RDU: Resource Development
Component: Oil and Gas Development
Sponsor: Rep. Seaton
Requester: House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	(**Indeterminate)					
-------------------------------	--------------------------	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

****HB 364 would impose a moratorium on shallow natural gas leasing around the Homer area. This bill would foreclose future income from shallow natural gas application fees, rentals, and royalties in the Homer area.**

Prepared by: Mark D. Myers Phone: 269-8800
Division: Oil and Gas Date/Time: 3/8/04
Approved by: Thomas Irwin, Commissioner Date: 3/8/04
Agency: Natural Resources



Alaska State Legislature

Please enter into the record by testimony to the (H) O + G
COMMITTEE NAME
committee on HB 364, dated 3/9/04
BILL / SUBJECT TODAY'S DATE

I didn't have my thoughts organized when I testified previously today, so I would just like to add a few words:

I'm personally opposed to developing of CBRM because of ~~the~~ how it can affect the ^{drinking} water (Homer's City reservoir is in the lease), as well as ~~to~~ the land, but I understand why the State might want to encourage development. In that case, please ~~to~~ don't use the 1% of Alaska that is privately owned. That includes my 2.1 acres of land where I have a house.

My concern with HB 364 is that the leases in this area will ^{still} be extended if there's a remote possibility that Unocal or Lapp are even thinking of developing. If it's under the discretion of one person vulnerable to pressure from the governor or industry, I don't have a lot of faith in this system. Thank you.

Signed: Emily Ward Emily Ward
TESTIFIER
self
REPRESENTING
PO Box 2672 Homer
ADDRESS
235-9136
PHONE NO.

Faxed 3/9/04

Introduced by:

Martin, Moss

Date:

12/16/03

Action:

Adopted

Vote:

6 Yes, 3 No

Action:

Notice of Reconsideration given by Mr. Superman

Action:

Notice of Reconsideration Failed

Vote:

4 Yes, 5 No

**KENAI PENINSULA BOROUGH
RESOLUTION 2003-129**

**A RESOLUTION REQUESTING AMENDMENT OF ALASKA STATUTES 31.05.125
AND 38.05.177(O), WHICH AUTHORIZE THE DEPARTMENT OF NATURAL
RESOURCES COMMISSIONER TO WAIVE COMPLIANCE WITH LOCAL LAWS
FOR SHALLOW NATURAL GAS LEASES IN LIMITED CASES, REQUESTING
ADDITIONAL PUBLIC NOTICE REQUIREMENTS, AND REQUESTING THAT THE
STATE BUY BACK SOUTH PENINSULA SHALLOW GAS LEASES**

WHEREAS, in House Bill 69, effective June 7, 2003, the state legislature amended numerous provisions in state law to encourage the development of shallow natural gas resources; and

WHEREAS, in House Bill 394, effective October 9, 1996, the state legislature also amended numerous statutes to authorize shallow natural gas leasing from sources within 3,000 feet of the surface and including related provisions; and

WHEREAS, while the development of natural resources in Alaska is an important element of Alaska's economy, the recognition of property rights and local authority to regulate uses of property for protection of property rights is similarly important; and

WHEREAS, Sections 4 and 6 of HB 69 enact AS 31.05.125 and 38.05.177(o), which delegate to the Commissioner of the Department of Natural Resources ("DNR") the authority to waive local requirements relating to compliance with local laws upon a demonstration of an overriding state interest; and

WHEREAS, the local planning authority, including planning commissions, councils and assemblies, are best able to understand and implement the needs of the local community respecting land uses; and

WHEREAS, it is in the state's best interest to develop its natural resources utilizing partnerships between the state, mineral lessees, surface owners and the public to ensure public understanding and involvement, as supported by Governor Murkowski in his November 12, 2003 address to the Alaska Municipal League; and

WHEREAS, HB 394 enacted AS 38.055.177 governing shallow gas leases, but only requires notice of the lease application be published in a newspaper of general circulation and not in additional local media if available; and

WHEREAS, requiring publication in the local media will significantly improve notice to members of local communities with local media; and

WHEREAS, the Homer community was not given adequate notice of the proposed shallow gas leases, and was not sufficiently made aware of the impact of HB 394 on the process used for issuing shallow gas leases; and

WHEREAS, because processing a lease application may take more than one year it is appropriate to require additional public notice as circumstances may have changed within the intervening year; and

WHEREAS, at a public meeting held November 10, 2003 in Homer, many residents encouraged the state to buy back the South Peninsula Shallow Gas Leases, and Governor Murkowski preliminarily indicated that he may consider this option after further analysis, if it is feasible and desired by the people, recognizing that any buy back would require legislative approval;

NOW THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. For all of the above reasons, the Kenai Peninsula Borough Assembly respectfully requests Governor Frank Murkowski and the Alaska State Legislature buy back the South Peninsula Shallow Gas Leases particularly within the Homer Bridge Creek Watershed and other environmentally sensitive areas in the Homer area.

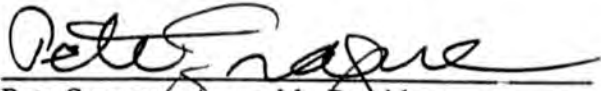
SECTION 2. The Kenai Peninsula Borough urges the Alaska State legislature to significantly amend Alaska Statutes 31.05.15 and 38.05.177(o), to eliminate the ability of the state to waive local land use regulations without advance public notice and hearings, and to require the adoption of clear and high standards that must be met before any local laws may be waived by the DNR Commissioner to accommodate shallow gas leasing.

SECTION 3. That Alaska Statute 38.05.177(c) be amended to require notice of a lease application be published by local news media if available, as well as in a newspaper of general circulation, and to require additional such publication if more than one year elapses between submission of the lease application and final action on the application by the director.

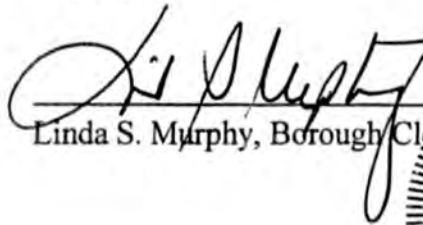
SECTION 4. That copies of this resolution shall be provided to Governor Frank Murkowski, Representatives Vic Kohring, Carl Morgan, Mike Hawker, Kelly Wolf, Mike Chenault, and Paul Seaton, and Senators Georgianna Lincoln, Con Bunde, Thomas Wagoner, and Gary Stevens.

SECTION 5. That this resolution takes effect immediately upon its adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 16TH
DAY OF DECEMBER, 2003.


Pete Sprague, Assembly President

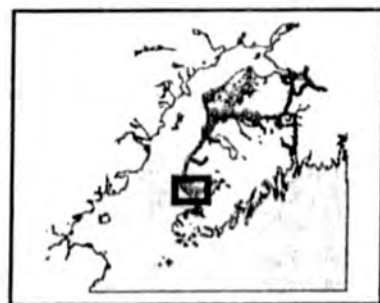
ATTEST:


Linda S. Murphy, Borough Clerk



Anchor Point

GRIDS ARE EXISTING
LEASE AREAS.



Location of detail



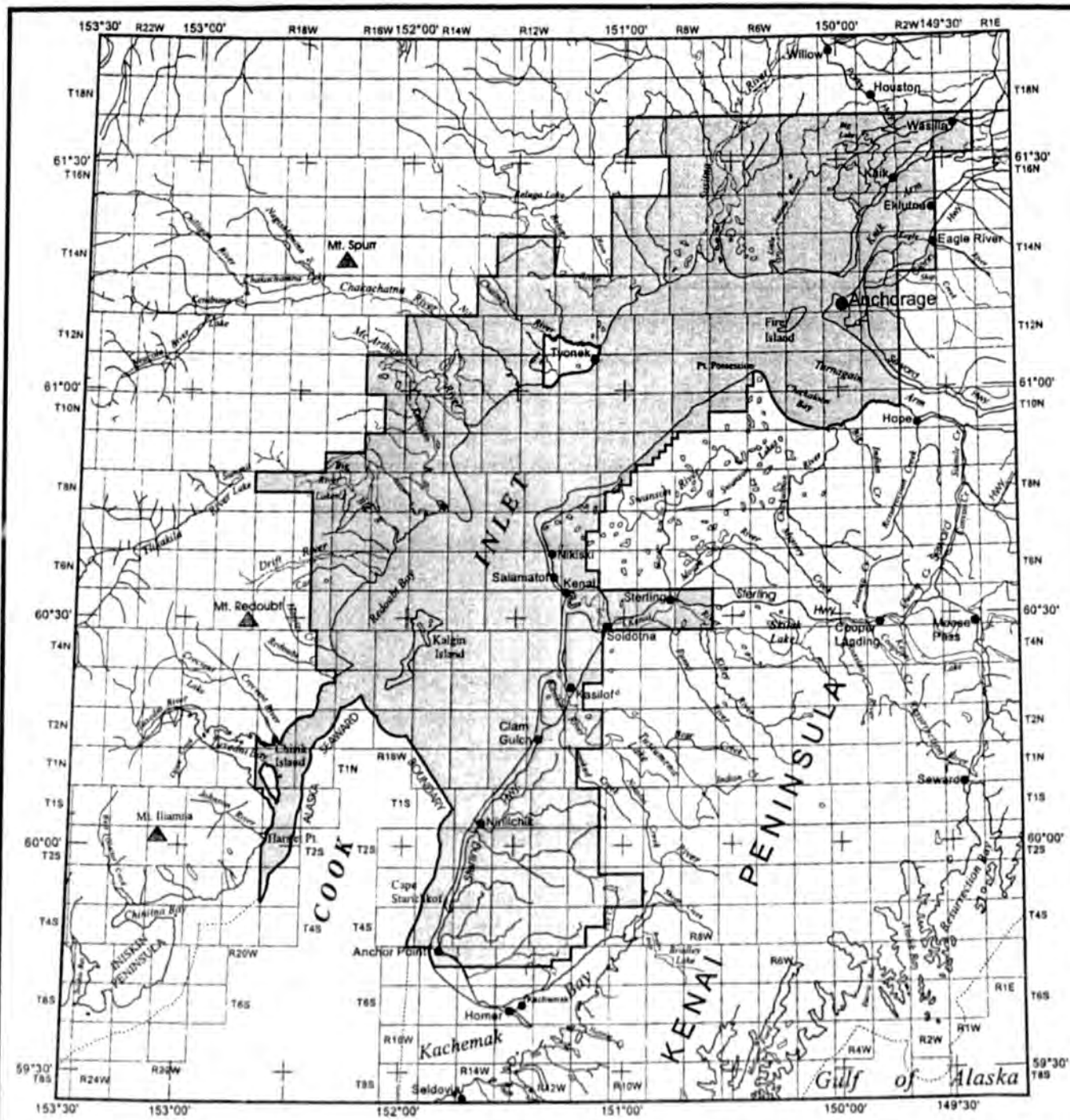
3 1.5 0 3 Miles

Legend

COAL BED METHANE LEASE BOUNDARIES

Kachemak Bay

Homer



COOK INLET AREAWIDE



Proposed Sale Area

SCALE 1:1,425,600 ONE INCH EQUALS 22.5 MILES APPROX.

ADOPTED HOUSE OIL & GAS 3/9/04

AMENDMENT 1

NOTE: This language is similar, but not exactly the same as the Sec. 2 in 1Q

SPONSOR SUBSTITUTE HB 364 AH

Page 3, line 10; Insert new Section 3; renumber sections accordingly.

*Sec. 3. AS 38.05.177(d) is amended to read:

(d) A lease

(1) shall be automatically extended if and for so long thereafter as gas is produced in paying quantities from the lease and the lessee continues to meet all requirements of the lease; a [. A] lease issued under this section covering land on which there is a well capable of producing gas in paying quantities does not expire because the lessee fails to produce gas unless the lessee is allowed reasonable time to place the well on a producing status; if [. IF] drilling has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence, including such operations as redrilling, sidetracking, or other means necessary to reach the originally proposed bottom hole location, the lease is extended for one year and for so long thereafter as gas is produced in paying quantities; a [. A] gas lease issued under this section that is subject to termination by reason of cessation of production does not terminate if, within 90 days after production ceases or a longer period determined at the discretion of the director, reworking or drilling operations are commenced on the land under lease and are thereafter conducted with reasonable diligence during the period of nonproduction;

(2) issued under (c) of this section before January 1, 2004, may be extended at the discretion of the director; a lease may be extended under this paragraph [. IN ADDITION,] upon application by the lessee; [.] the director may once extend the [A] lease [ISSUED UNDER (c) OF THIS SECTION] for a period of not more than three years; in exercising discretion to extend a lease under this paragraph, the director may not extend the lease unless the director considers

(A) the extent of the shallow natural gas exploration activity already conducted on the lease and on adjacent areas;

(B) the probability that further shallow natural gas exploration activity will occur on the lease and will lead to shallow natural gas development and production; and

(C) whether extension of the lease's primary term will accelerate the eventual production of shallow natural gas from the lease.