

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2282 SCOMM 94: SENATE SPECIAL COMMITTEE ON OIL & GAS, 1993-94

1 exploration expenditures of the licensee as of the last day of the most recent
2 project-year, divided by the number of years remaining in the term of the
3 exploration license;

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

7 (6) must be conditioned upon the licensee's payment to the state of a
8 nonrefundable oil and gas exploration license fee in an amount determined by the
9 commissioner, not to exceed \$1 for each acre of land or fraction of each acre that is
10 subject to the exploration license; and

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

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

15 (1) the licensee has not completed at least 25 percent of the licensee's
16 total specified work commitment, as measured by the licensee's direct exploration
17 expenditures, the exploration license terminates;

18 (2) the licensee has completed at least 25 percent but has not
19 completed at least 50 percent of the licensee's total specified work commitment, as
20 measured by the licensee's direct exploration expenditure, the commissioner shall
21 remove or delete or shall require the licensee to relinquish a portion of the area within
22 the exploration license; relinquishment, removal, or deletion of an area from the state
23 land described in the exploration license terminates the licensee's rights under
24 AS 38.05.131 - 38.05.134 in the area that is relinquished, removed, or deleted; a
25 relinquishment, removal, or deletion of a portion of the area described in the
26 exploration license must be in areas that are reasonably compact and contiguous; the
27 areas relinquished from the state land described in the exploration license must be
28 areas identified by the licensee but, if the licensee fails to identify sufficient area, the
29 commissioner may identify any additional acreage required to be removed or deleted
30 from the area under license to meet the requirements of this paragraph; within the area
31 described in the exploration license issued under (a) - (c) of this section,

32 (A) 25 percent must be relinquished, removed, or deleted not

1 later than the fourth anniversary of the effective date of the issuance of the
2 exploration license;

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

8 (C) the cumulative total of the acreage relinquished, removed,
9 or deleted under (A) and (B) of this paragraph may not be required to exceed
10 50 percent of the area awarded within the original exploration license area.

11 (e) If, immediately before the beginning of the period for annual renewal of
12 the bond or other security under (c)(4)(A) of this section, the licensee fails to provide
13 or maintain in effect the bond or other security required by (c) of this section for the
14 period covered by the annual renewal and the commissioner revokes the exploration
15 license, the bond or other security then in effect for the licensee's obligations under
16 the exploration license is forfeited to the state.

17 (f) In this section,

18 (1) "direct exploration expenditure" means cash expenses undertaken
19 in performance of a specified work commitment under the provisions of AS 38.05.131
20 - 38.05.134 and necessarily incurred by the licensee in the permitting, mobilization,
21 conducting, demobilization, and evaluation of geophysical and geological surveys, or
22 the drilling, logging, coring, testing, and evaluation of oil and gas wells; the term

23 (A) includes direct labor costs, including the cost of benefits,
24 for employees directly associated with the work commitment programs, the
25 cost of renting or leasing equipment from parties not affiliated with the
26 licensee, the reasonable costs of maintaining and operating equipment,
27 payments to consultants and independent contractors not affiliated with the
28 licensee, and costs of materials and supplies;

29 (B) does not include noncash expenses such as depreciation and
30 reserves, interest or other costs of borrowed funds, return on investment,
31 overhead, insurance or bond premiums, or any other expense that is
32 unreasonable or that the licensee has not incurred to satisfy the licensee's work

1 commitment;

2 (2) "work commitment" includes the drilling of one or more
3 exploration wells or the gathering of data from activities described in (1) of this
4 subsection, or both.

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

8 (b) The licensing process is initiated by the commissioner preparing, or a
9 prospective licensee submitting to the commissioner, a proposal that identifies a
10 specific area to be subject to the exploration license, proposes specific minimum work
11 commitments, and states that the licensee has met the minimum qualifications as
12 established by regulations adopted by the commissioner. A prospective licensee may
13 initiate a proposal only in response to a call for proposals by the commissioner or
14 during a period specified in regulations adopted by the commissioner. The regulations
15 must provide for at least one period for that purpose during each calendar year.

16 (c) If the commissioner initiates the licensing process under (b) of this section,
17 the commissioner shall publish notice of the commissioner's proposal in order to
18 solicit comments and competing proposals.

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

24 (e) The commissioner may make a written request to a prospective licensee
25 for additional information on the prospective licensee's proposal. The commissioner
26 shall keep confidential information described in AS 38.05.035(a)(9) that is voluntarily
27 provided if the prospective licensee has made a written request that the information
28 remain confidential.

29 (f) After considering proposals not rejected under (d) of this section and
30 public comment on those proposals, the commissioner shall issue a written finding
31 addressing all matters set out in AS 38.05.035(e) and (g), except for
32 AS 38.05.035(g)(1)(K). If the finding concludes that the state's best interests would

1 be served by issuing an oil and gas exploration license, the finding must (1) describe
2 the limitations, stipulations, conditions, or changes from the initiating proposal or
3 competing proposals that are required to make the issuance of the exploration license
4 conform to the best interests of the state, and (2) if only one proposal was submitted,
5 identify the prospective licensee whom the commissioner finds should be issued the
6 exploration license. The commissioner shall attach to the finding a copy of the
7 exploration license to be issued and the form of lease that will be used for any portion
8 of the exploration license area subsequently converted to an oil and gas lease under
9 AS 38.05.134.

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

16 (h) If competing proposals are submitted, and the commissioner's finding
17 under (f) of this section concludes that an oil and gas exploration license should be
18 issued, the commissioner shall issue a request for competitive sealed bids, under
19 procedures adopted by the commissioner by regulation, to determine which
20 prospective licensee should be issued the exploration license. The finding provided
21 to the prospective licensees under (f) of this section must contain notice that (1) the
22 commissioner intends to request competitive sealed bids, (2) a prospective licensee
23 who intends to participate in the bidding must notify the commissioner in writing by
24 the date specified in the notice, and (3) a prospective licensee's notice of intent to
25 participate in the bidding constitutes acceptance of issuance of the exploration license,
26 as limited or conditioned by the terms contained in the finding and by the exploration
27 license to be issued and the form of lease to be used that have been attached to that
28 finding, if the prospective licensee is the successful bidder. The successful bidder is
29 the prospective licensee who submits the highest bid in terms of the minimum work
30 commitment dollar amount.

31 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the
32 commissioner determines that the work commitment obligation set out in an oil and

gas exploration license issued under AS 38.05.132 has been met, the commissioner shall convert to one or more oil and gas leases all or part, as the licensee may indicate, of the area described in the exploration license that remains after the relinquishments, removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this section

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

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

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

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

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

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

(a) Except as otherwise provided, valuable mineral deposits in land belonging to the state shall be open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title to or to which the state may become entitled, may be obtained by permit or lease for the purpose of exploration, development, and the extraction of minerals. Except as specifically limited by AS 38.05.131 - 38.05.181 [AS 38.05.135 - 38.05.181], land may be withheld from lease application on a first-come, first-served basis, and offered only on a competitive bid basis when determined by the commissioner to be in the best interests of the state. 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.

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

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

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

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

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

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

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

18 * Sec. 5. AS 38.05.180(f) is amended to read:

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

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

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

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

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

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

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

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

* **Sec. 6.** AS 38.05.945(a) is amended to read:

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

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

(2) zoning of land under applicable law;

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

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

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

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

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

13 * **Sec. 8. REGULATIONS.** The commissioner of natural resources may proceed to adopt
14 regulations necessary to implement AS 38.05.131 - 38.05.134, added by sec. 2 of this Act.
15 The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before
16 the effective date of secs. 2 - 7 of this Act.

17 * **Sec. 9.** Section 8 of this Act takes effect immediately under AS 01.10.070(c)."

1:48 PM 1/22/94

OFFERED IN THE SENATE:

BY: **Senate Special Committee on Oil and Gas**
(LEMAN et al)

FOR: CS SB150(Fin)am

Page 2, Lines 23-27: DELETE

[(1) FOR UNLEASED STATE LAND FOR WHICH INSUFFICIENT OR UNDOCUMENTED GEOLOGICAL AND GEOPHYSICAL INFORMATION EXISTS CONCERNING THE OIL AND GAS POTENTIAL OF THAT LAND; OR

(2) FOR STATE LAND THAT WAS SUBJECT TO A COMPETITIVE LEASE SALE UNDER AS 38.05.180 BUT FOR WHICH AN OIL AND GAS LEASE HAS NOT BEEN ISSUED.]

Rationale: With geographic exclusion, this language is superfluous and is difficult to quantify. "Insufficient or undocumented" are undefined terms and would supply fertile legal ground for lawsuits by dissatisfied program participants.

Page 3, Line 10: INSERT

(2) Except as described in (a) below, may cover an area of not less than 20,000 acres nor more than 500,000 acres, that must be reasonably compact and contiguous;

(a) however, the Commissioner may, under guidelines established in regulation, grant licenses to areas of less than 20,000 acres.

Rationale: State feels that although the Commissioner can deny any application for license area, it is best to set a limit since it costs the state to do best interest findings in the licensing process. However, the Commissioner can decide to license less than 20,000 acres under certain terms and conditions set out in regulation.

Page 3, Lines 12-14: DELETE

(3) must be conditioned upon an obligation to perform a specified work commitment, in total [AND] for [EACH YEAR OF] the term of the license, expressed in dollars of direct exploration expenditures; [FOR PURPOSES OF THIS PARAGRAPH,]

Rationale: Work Commitment, Relinquishment and Bonding are integrated throughout SB 150. Consensus on this amended language was obtained by meshing all three of these issues in the bill. This section removes the necessity for the Division of Oil and Gas to annually monitor a licensee's compliance with a work commitment. This was deleted in favor of the language below.

Page 3, Line15: INSERT:

(4) must require that a minimum of 25 percent of the specified work commitment be completed on or before the fourth anniversary of the effective date of the issuance of the exploration license. Failure to meet this requirement shall result in forfeiture of the license.

For the purpose of conditioning a license as required by paragraph (3),

Page 3, Lines 19-20: DELETE:

geophysical and geological surveys [INCLUDING SEISMIC, MAGNETIC, AND GRAVITY SURVEYS] or the drilling, logging, coring, testing, and evaluation of oil and gas wells; the term

Page 4, Lines 3-4: DELETE AND INSERT

(B) "work commitment" includes the drilling of one or more exploration wells or the gathering of [GEOPHYSICAL DATA] as described in 4(A) or both;

Rationale: Technology is changing. Listing this in the statute is inappropriate, because it is impossible to predict future possible technology advances. Also, in conjunction with the change on Page 3, 19-20. Gathering geophysical data and drilling an exploration well are not the sum of the work commitment.

Page 4, Lines 5-6: DELETE:

[(4) MUST BE CONDITIONED UPON AN OBLIGATION TO PERFORM AN ANNUAL WORK COMMITMENT;]

Rationale: With the requirement above that 25% of the work commitment be completed within the first four years, the state's interests are served. The obligation to perform an annual work commitment would mean that the Division of Oil and Gas would have to be funded to oversee all work commitments annually.

Page 4, Lines 7-11: DELETE:

**(5) [IS SUBJECT TO AN ANNUAL REVIEW AND REVOCATION IF THE COMMISSIONER DETERMINES THAT THE LICENSEE HAS FAILED TO
(A) PERFORM THE PREVIOUS YEAR'S ANNUAL WORK COMMITMENT; OR
(B) PROVIDE OR MAINTAIN IN EFFECT THE BOND OR OTHER SECURITY REQUIRED BY (6) OF THIS SUBSECTION;**

(6)]

Page 4, Lines 16-17: DELETE:

(B) [THE BOND OR OTHER SECURITY MUST BE IN THE AMOUNT OF 10 PERCENT OF THE LICENSEE'S ANNUAL WORK COMMITMENT;]

Page 4, Lines 16-17: INSERT:

(B) the annual bond or other security shall be 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 number of years remaining in the term of the exploration license;

Rationale: It is difficult to establish a bonding formula which satisfies the small and larger exploration companies. However, the working group agreed to the inserted language.

Page 4, Beginning at Line 18 INSERT:

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

Rationale: Only the wording about performing the previous year's annual work commitment is deleted. Again, because 25% of the entire work commitment must be performed within four years, this is enough incentive to get companies to work. This was section 38.05.132(c)(5).

Page 4, Lines 18-20: DELETE AND INSERT:

(7) must be conditioned upon payment [TO THE COMMISSIONER] of a nonrefundable oil and gas exploration license fee, [OF] the amount of which may be set by the commissioner, provided, however, such fee may not be more than \$1 per acre or fraction thereof for each acre of land that is subject to the exploration license;

Rationale: Makes this language parallel in structure to \$3/acre fee in Sec. 38.05.134. Also, recognizes the sliding fee scale available to the Commissioner.

Page 5, Lines 2-3: DELETE:

subsection. **[WITHIN THE AREA DESCRIBED IN THE EXPLORATION LICENSE ISSUED UNDER (a) - (c) OF THIS SECTION,]**

Page 5, Beginning at Line 2: INSERT:

subsection. **Unless, on or before the fourth anniversary of the effective date of the issuance of the exploration license, 50 percent of the approved work commitment, expressed in dollars of expenditure, has been completed, then,**

Page 5, Lines 4-5: DELETE and INSERT:

(1) 25 percent must be relinquished, removed, or deleted **[NOT LATER THAN]** **on** the fourth anniversary of the effective date of the issuance of the exploration license;

Page 5, Lines 6-7: INSERT:

(2) an additional 10 percent **of the remaining acreage** must be removed or deleted on each of the succeeding anniversaries of the effective date of the issuance of the exploration license **[.] to a maximum of 50 percent of the original license acreage.**

Rationale: The relinquishment provision is revised in conjunction with the work commitment language. Fifty percent of the work commitment must be accomplished in four years or 25 percent of the license area must be relinquished. The explorer loses an additional 10 percent per year of the remaining acreage for up to 50 percent of the area originally licensed. If 50 percent of the approved work commitment is completed before four years, there is no relinquishment.

Page 5, Line 9: DELETE:

the bond or other security under (c)(5)~~[(A)]~~ of this section, the licensee fails to provide

Rationale: See previous amendment (c)(5)(A) was deleted.

Page 5, Line 19: INSERT:

commitments, and states **that the licensee** has met the minimum qualifications for a licensee as established by

Page 6, Line 4: INSERT:

provided[.] and for which the applicant has made a written request that such information remain confidential.

Page 6, Lines 16-19: DELETE:

subsequently converted to an oil and gas lease under AS 38.05.134. **[THE COMMISSIONER SHALL PROMPTLY PROVIDE A COPY OF THE FINDING AND REQUIRED ATTACHMENTS TO ALL PROSPECTIVE LICENSEES WHOSE PROPOSALS WERE CONSIDERED BEFORE THE COMMISSIONER'S ISSUANCE OF THE FINDING.]**

Page 6, Lines 25-27: DELETE:

and the form of lease that will be used must be attached to that finding. **[THE PROSPECTIVE LICENSEE MUST ACCEPT OR REJECT THE ISSUANCE OF THE EXPLORATION LICENSE IN WRITING.]**

Page 7, Lines 8-9: DELETE:

license to be issued and the form of lease to be used **[THAT HAVE BEEN ATTACHED TO THAT FINDING,]** if the prospective licensee is the successful bidder.

Rationale: This language serves no purpose, and part of it is redundant.

Page 8, Lines 10-25: DELETE

Renumber following Sections.

Rationale: 90-Day provision will be dealt with in other legislation.

Page 8, Line 26 *Sec. **3[4]**

Page 9, Line 16: *Sec. **4 [5]**

Page 10, Line 21: *Sec **5 [6]**

Page 11, Lines 3-31; and Page 12, Lines 1-19: DELETE:

Renumber following Sections.

Rationale: AS 46.04 Financial Responsibility will be dealt with in separate legislation.

Page 12, Line 20: *Sec **6 [9]**

Page 12, Line 23: DELETE:

Lease Sales [57, 77,] 80, 87, and 88, as the area to be offered in each of those proposed

Rationale: Sales have already happened.

Page 13, Line 30: *Sec. 7 [10]

Page 13, Line 2: DELETE:

effective date of [SECS. 1-9] this Act.

Page 13, Line 3: INSERT:

*Sec. 8. AS 38.05.020(b)(5) is amended to read:

(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, lease or sale of state land, minerals, or materials may be made, including payment of rental and royalties, on a finding that compliance with the requirements is or was prevented by reason or war, riots, or acts of God;

Page 13, Line 17: *Sec. 9 [8]

EXPLORATION LICENSING

Senate Bill No. 150

CSSB150 (Fin)

October 25 Draft

Geographical Restrictions	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.
Relinquishment	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.
Bonding	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.
Competitive Bidding	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.
Acreage Chargeability	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). \$3 acre annual rental.	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). \$3 acre annual rental.	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). \$3 acre annual rental.

Application Fee	\$1 acre	Not more than \$1 acre.	Not more than \$1 acre as set by the commissioner.
Minimum Work Commitments	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.
Title & Financial Responsibility	Not addressed.	Lowers financial responsibility for onshore exploration facilities from \$5-million to \$1-million.	Prefer to remove.
90-Day Provision	Not addressed.	Allows DNR to delay an oil & gas lease sale beyond 90-days of scheduled sale date.	Not addressed (but will address in separate legislation).
Lease Rental	\$3 Acre.	\$3 Acre.	\$3 Acre.

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

DRAFT October 25, 1993

**ABILL
FOR AN ACT 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 providing for an effective date."

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

1 Section 1. AS 38 is amended by adding new sections to read:

2
3 **ARTICLE 5A. OIL AND GAS EXPLORATION LICENSES; LEASES.**

4
5 **Sec. 38.05.131. APPLICABILITY; DETERMINATION;**
6 **REGULATIONS.** (a) Unless specifically provided otherwise in AS
7 38.05.132 - 38.05.134, the provisions of AS 38.05.005 - 38.05.040,
8 38.05.180, 38.05.182 - 38.05.184, and 38.05.920 - 38.05.990 apply to the
9 issuance of oil and gas exploration licenses and leases under AS
10 38.05.132 - 38.05.134.

11
12 (b) The provisions of AS 38.05.131 - 38.05.134 do not apply to land

13
14 (1) north of the Umiat baseline; and

15
16 (2) in the vicinity of Cook Inlet that is within the area bounded
17 by

18
19 (A) the north boundary of Township 17 North, Seward
20 Meridian;

21
22 (B) the Seward Meridian;

23
24 (C) the south boundary of Township 7 South, Seward

1 Meridian; and

2
3 (D) the west boundary of Range 19 West, Seward
4 Meridian.

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

13
14 (d) The commissioner may adopt regulations necessary to implement
15 AS 38.05.131 - 38.05.134.

16
17
18 Sec. 38.05.132. OIL AND GAS EXPLORATION LICENSE. (a)
19 To encourage exploration for oil and gas on state land, the
20 commissioner may issue oil and gas exploration licenses.

21
22 (b) An oil and gas exploration license issued under this section
23 gives the licensee:

24
25 (1) the exclusive right to explore, for a term not to exceed
26 10 years, for deposits of oil and gas on unleased state land described
27 in the exploration license unless the land is earlier relinquished,
28 removed, or deleted under (d) of this section; and

29
30 (2) the option to convert the exploration license for all or
31 part of the state land, except the land that is deleted or removed
32 from the land described in the exploration license under (d) of this
33 section, into an oil and gas lease upon fulfillment of the work
34 commitments contained in the exploration license.

35
36 (c) An exploration license awarded under this section

37
38 (1) is not subject to the acreage limitations imposed by AS
39 38.05.140(c) or 38.05.180(m);

1 (2) may cover an area of not less than 20,000 acres nor
2 contain more than 500,000 acres, that must be reasonably compact
3 and contiguous;
4

5 (3) must be conditioned upon an obligation to perform a
6 specified work commitment, in total for the term of the license,
7 expressed in dollars of direct exploration expenditures;
8

9 (4) must require that a minimum of 25-percent of the
10 specified work commitment must be completed on or before the
11 fourth anniversary of the effective date of the issuance of the
12 exploration license. Failure to meet this requirement shall result in
13 forfeiture of the license.
14

15 For the purpose conditioning a license as required by paragraph (3),
16

17 (A) "direct exploration expenditure" means cash
18 expenses undertaken in performance of a specified work
19 commitment under the provisions of AS 38.05.131 - 38.05.134
20 and necessarily incurred by the licensee in the permitting,
21 mobilization, conducting, demobilization, and evaluation of
22 geophysical and geological surveys, or the drilling, logging,
23 coring, testing, and evaluation of exploratory oil and gas
24 wells, the term:
25

26 (i) includes direct labor costs, including the cost of
27 benefits for employees directly associated with the work
28 commitment programs, the cost of renting or leasing
29 equipment from parties not affiliated with the licensee,
30 the reasonable costs of maintaining and operating
31 equipment, payments to consultants and independent
32 contractors not affiliated with the licensee, and costs of
33 materials and supplies;
34

35 (ii) does not include noncash expenses such as
36 depreciation and reserves, interest or other costs of
37 borrowed funds, return on investment, overhead
38 insurance or bond premiums, or any other expense that is
39 unreasonable or that the licensee has not incurred to
40 satisfy the licensee's work commitment;

1
2 (B) "work commitment" includes the drilling of one or
3 more exploration wells or the gathering of data as described in
4 4(A), or both;
5

6 (5) must be conditioned upon the posting of a bond or
7 other security acceptable to the commissioner in favor of the state
8 and subject to the following requirements:
9

10 (A) the bond or other security must be renewed annually;
11

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

18 (6) is subject to an annual review and revocation if the
19 commissioner determines that the licensee has failed to provide or
20 maintain in effect the bond or other surety required by (5) of this
21 subsection;
22

23 (7) must be conditioned upon payment of a nonrefundable
24 oil and gas exploration license fee, the amount of which may be set
25 by the commissioner, provided, however, such fee may not be more
26 than \$1 per acre or fraction thereof for each acre of land that is
27 subject to the exploration license;
28

29 (8) must be conditioned upon an agreement that
30 exploration expenditures are subject to audit by the commissioner.
31

32 (d) The area within an exploration license awarded under this
33 section may be relinquished, removed, or deleted from the license.
34 Relinquishment, removal, or deletion of any area from the state land
35 described in the exploration license terminates the licensee's rights
36 under AS 38.05.131 - 38.05.134 in the area that is relinquished,
37 removed or deleted. A relinquishment, removal, or deletion of a
38 portion of the area described in the exploration license must be in
39 areas that are reasonably compact and contiguous. The areas
40 relinquished from the state land described in the exploration license

1 shall be areas identified by the licensee but, if the licensee fails to
2 identify sufficient area, the commissioner may identify any
3 additional acreage required to be removed or deleted from the area
4 then under license to meet the requirements of this subsection.
5 Unless, on or before the fourth anniversary of the effective date of
6 the issuance of the exploration license, 50-percent of the approved
7 work commitment, expressed in dollars of expenditure, has been
8 completed, then,
9

10 (1) 25 percent of the area must be relinquished, removed,
11 or deleted on the fourth anniversary of the effective date of the
12 issuance of the exploration license;
13

14 (2) an additional 10 percent of the remaining acreage
15 must be removed or deleted on each of the succeeding anniversaries
16 of the effective date of the issuance of the exploration license to a
17 maximum of 50% of the original license acreage.
18

19 (e) If, immediately before the beginning of the period for
20 annual review of the bond or other security under (c)(5) of this
21 section, the licensee fails to provide or maintain in effect the bond or
22 other security required by (c) of this section for the period covered by
23 the annual renewal and the commissioner revokes the exploration
24 license, the bond or other security then in effect for the licensee's
25 obligations under the exploration license is forfeited to the state.
26

27 Sec. 38.05.133. LICENSE PROCEDURES. (a) The procedures
28 in this section apply to the issuance of an oil and gas exploration
29 license under AS 38.05.132.
30

31 (b) The licensing process is initiated by the commissioner
32 preparing, or a prospective licensee submitting to the commissioner,
33 a proposal that identifies a specific area to be subject to the
34 exploration license, proposes specific minimum work commitments,
35 and states that the licensee has met the minimum qualifications for a
36 licensee as established by regulations adopted by the commissioner. A
37 prospective licensee may initiate a proposal only in response to a call
38 for proposals by the commissioner or during a period specified in
39 regulation adopted by the commissioner. The regulations must
40 provide for at least one period for that purpose during each calendar

1 year.

2
3 (c) If the commissioner initiates the licensing process under (b)
4 of this section, the commissioner shall publish notice of the
5 commissioner's proposal in order to solicit comments and competing
6 proposals.

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

15
16 (e) The commissioner may make a written request to a
17 prospective licensee for additional information on the prospective
18 licensee's proposal. The commissioner shall keep confidential
19 information described in AS 38.05.035(a)(9) that is voluntarily
20 provided, and for which the applicant has made a written request
21 that such information remain confidential.

22
23 (f) After considering proposals not rejected under (d) of this
24 section and public comment on those proposals, the commissioner
25 shall issue a written finding addressing all matters set out in AS
26 38.05.035(e) and (g), except for AS 38.05.035(g)(1)(K). If the finding
27 concludes that the state's best interests would be served by issuing an
28 oil and gas exploration license, the finding must (1) describe the
29 limitations, stipulations, conditions, or changes from the initiating
30 proposal or competing proposals that are required to make the
31 issuance of the exploration license conform to the best interests of
32 the state, and (2) if only one proposal was submitted, identify the
33 prospective licensee whom the commissioner finds should be issued
34 the exploration license. The commissioner shall attach to the finding
35 a copy of the exploration license to be issued and the form of lease
36 that will be used for any portion of the exploration license area
37 subsequently converted to an oil and gas lease under AS 38.05.134.

38
39 (g) If only one prospective licensee submits a proposal and the
40 finding under (f) of this section concludes that an exploration license

1 should be issued to that prospective licensee, the prospective licensee
2 has 30 days after issuance of the finding within which to accept or
3 reject the issuance of the exploration license, as limited or
4 conditioned by the terms contained in the finding. The exploration
5 license to be issued and the form of lease that will be used must be
6 attached to that finding.
7

8 (h) If competing proposals are submitted, and the
9 commissioner's finding under (f) of this section concludes that an oil
10 and gas exploration license should be issued, the commissioner shall
11 issue a request for competitive sealed bids, under procedures
12 adopted by the commissioner by regulation, to determine which
13 prospective licensee should be issued the exploration license. The
14 finding provided to the prospective licensees under (f) of this section
15 must contain notice that (1) the commissioner intends to request
16 competitive sealed bids, (2) a prospective licensee who intends to
17 participate in the bidding must notify the commissioner in writing by
18 the date specified in the notice, and (3) a prospective licensee's notice
19 of intent to participate in the bidding constitutes acceptance of
20 issuance of the exploration license, as limited or conditioned by the
21 terms contained in the finding and by the exploration license to be
22 issued and the form of lease to be used if the prospective licensee is
23 the successful bidder. The successful bidder is the prospective
24 licensee who submits the highest bid in terms of the minimum work
25 commitment dollar amount.
26
27

28 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee
29 requests and the commissioner determines that the work
30 commitment obligation set out in an oil and gas exploration license
31 issued under AS 38.05.132 has been met, the commissioner shall
32 convert to one or more oil and gas leases all or part, as the licensee
33 may indicate, of the area described in the exploration license that
34 remains after relinquishments, removals, or deletions required by AS
35 38.05.132(d). A lease issued under this section
36

37 (1) is subject to the acreage limitations imposed by AS
38 38.05.140(c);
39

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

1
2 (3) must be conditioned upon a royalty in amount or value
3 of not less than 12.5 percent of production;
4

5 (4) must include an annual rent of \$3 per acre or fraction
6 of an acre initially paid to the state at inception of the lease and
7 payable annually after that until the income to the state from royalty
8 under that lease exceeds the rental income to the state under that
9 lease for that year; and
10

11 (5) is subject to other conditions and obligations that are
12 specified in the lease.
13
14

15 * Sec. 1. AS 38.05.135(a) is amended to read:
16

17 (a) Except as otherwise provided, valuable mineral deposits in
18 land belonging to the state shall be open to exploration,
19 development, and the extraction of minerals. All land together with
20 tide, submerged, or shoreland, to which the state holds title to or to
21 which the state may become entitled, may be obtained by permit or
22 lease for the purpose of exploration, development, and the
23 extraction of minerals. Except as specifically limited by AS 38.05.131
24 - 38.05.181 land may be withheld from lease application on a first-
25 come, first-served basis, and offered only on a competitive basis
26 when determined by the commissioner to be in the best interests of
27 the state. In unproved areas, the commissioner may offer additional
28 incentives, including a reduction of royalty to a minimum of five
29 percent in the case of oil and gas, and other terms in and granting a
30 permit or lease for exploration and development whenever it
31 appears to be in the best interests of the state to do so.
32
33
34
35

36 * Sec. 2 AS 38.05.180(d) is amended to read:
37

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

1
2 (1) was previously subject to a valid state or federal oil
3 and gas lease;
4

5 (2) is contiguous to land already under state, federal or
6 private lease and the commissioner makes a written finding, after
7 hearing, that leasing of the land would result in a substantial
8 probability of early evaluation and development of the land to be
9 leased;
10

11 (3) is adjacent to land owned or controlled by another
12 party on which a discovery of commercial quantities of oil or gas has
13 been made, and the commissioner finds, after hearing, that there is a
14 reasonable probability that the land to be leased contains oil or gas in
15 communication with oil or gas discovered on the land of the other
16 party;
17

18 (4) is adjacent to land included in the federal five-year
19 Outer Continental Shelf leasing program under 43 U.S.C. 1344, and
20 the commissioner makes a written finding, after hearing, that
21 coordinated or simultaneous leasing with the federal government is
22 in the public interest; or
23

24 (5) is the subject of an oil and gas exploration license
25 under AS 38.05.131 - 38.05.134.
26

27
28 * Sec. 3. AS 38.05.180(f) is amended to read:
29

30 (f) Except as provided by AS 38.05.131 - 38.05.134 the
31 commissioner may issue oil and gas leases on state land to the
32 highest responsible qualified bidder determined by competitive
33 bidding under regulations adopted by the commissioner. Bidding
34 may be by sealed bid or according to any other bidding procedure the
35 commissioner determines is in the best interests of the state.
36 Whenever, under any of the leasing methods listed in this subsection,
37 a royalty share is reserved to the state, it shall be delivered in
38 pipeline quality and free of all lease or unit expenses, including but
39 not limited to separation, cleaning, dehydration, gathering, salt
40 water disposal, and preparation for transportation off the lease or

1 unit area. Following a pre-sale analysis, the commissioner may
2 choose one of the following leasing methods:

3
4 (1) a cash bonus bid with a fixed royalty share reserved to
5 the state of not less than 12.5 [12 1/2] percent in amount or value of
6 the production removed or sold from the lease;

7
8 (2) a cash bonus bid with a fixed royalty share reserved to
9 the state of not less than 12.5 [12 1/2] percent in amount or value of
10 the production removed or sold from the lease and a fixed share of
11 the net profit derived from the lease of not less than 30 percent
12 reserved to the state;

13
14 (3) a fixed cash bonus with a royalty share reserved to the
15 state as the bid variable but no less than 12.5 [12 1/2] percent in
16 amount or value of the production removed or sold from the lease;

17
18 (4) a fixed cash bonus with a share of the net profit
19 derived from the lease reserved to the state as the bid variable;

20
21
22 (5) a fixed cash bonus with a fixed royalty share reserved
23 to the state on not less than 12.5 [12 1/2] percent in amount or value
24 of the production removed or sold from the lease with the share of
25 the net profit derived from the lease reserved to the state as a bid
26 variable;

27
28 (6) a cash bonus bid with a fixed royalty share reserved to
29 the state based on a sliding scale according to the volume of
30 production or other factor but in no event less than 12.5 [12 1/2]
31 percent in amount or value of the production removed or sold from
32 the lease;

33
34 (7) a fixed cash bonus with a royalty share reserved to the
35 state based on a sliding scale according to the volume of production
36 or other factor as the bid variable but not less than 12.5 [12 1/2]
37 percent in amount or value of the production removed or sold from
38 the lease.

39
40 * Sec. 4. AS 38.05.945(a) is amended to read:

1
2 (a) This section establishes the requirements for notice given by
3 the department for the following actions:
4

5 (1) classification or reclassification of state land under AS
6 38.05.300 and the closing of land to mineral leasing or entry under AS
7 38.05.185;
8

9 (2) zoning of land under applicable law;
10

11 (3) a decision under AS 38.05.035(e) or 38.05.132
12 -38.05.134 regarding the sale, lease or disposal of an interest in state
13 land or resources;
14

15 (4) a competitive disposal of an interest in state land or
16 resources after final decision under AS 38.05.035(e);
17

18 (5) a public hearing under AS 38.05.856(b);
19

20 (6) a preliminary finding under AS 38.05.035(e) and
21 38.05.855(c) concerning sites for aquatic farms and related
22 hatcheries.
23
24
25

26 *Sec. 5. ADDITIONAL EXCLUDED AREA. In addition to the area
27 designated in AS 38.05.131(b), added by sec.1 of this Act, the provisions of
28 AS 38.05.131 - 38.05.134, added by sec.1 of this Act do not apply to land
29 within proposed Competitive Oil and Gas Lease Sales 80, 87, and 88, as
30 the area to be offered in each of those proposed competitive oil and gas
31 lease sales was delineated in the Five-Year Oil and Gas Leasing Program
32 prepared by the Department of Natural Resources and dated January
33 1993. However, the exclusion of the land is any one of those lease sales
34 that is required by this section ceases on the date the land described in the
35 lease sale is first offered for competitive oil and gas leasing under AS
36 38.05.180, and that the land is thereafter subject to the provisions of AS
37 38.05.131 -38.05.134, added by sec. 1 of this Act.
38

39
40 * Sec. 6. REGULATIONS. The commissioner of natural resources may

1 proceed to adopt regulations necessary to implement AS 38.05.131
2 -38.05.134, added by sec.1 of this Act. The regulations take effect under AS
3 44.62 (Administrative Procedure Act), but not before the effective date of
4 secs. 1 - 9 of this Act.

5
6 * Sec. 7. AS 38.05.020(b)(5) is amended to read:

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

14
15
16
17 * Sec. 8. Section 6 of this Act takes effect immediately under AS
18 01.10.070(c).

Provision

CSSB150 (O&G) CSSB150(Fin)

Geographic Restriction	Umiat Baseline North, pending lease sales: 57, 77, 80, 87 & 88, and portions of Cook Inlet excluded.	same
Relinquishment	Relinquish 25% of total license by 4th year; 10% of remaining land each year thereafter.	p5/ln6 delete "of remaining land"
Bonding	Annual bond, 10% of that year's work commitment. Bonds overlap in regulation.	p3/ln13 "in total and for each year of the term of the license"
Competitive Bids	Sealed competitive bids. Define direct exploration expenditures allowed.	same
Acreage Chargeability	Leases are applied against 1 million aggregate acre limit; no larger than 5,760 acres/lease; no limit on number of leases; royalty 12.5%; annual rental \$3/acre.	same
License Rental Fee	Up to \$1/acre.	same
Proof of Financial Responsibility	Breaks out financial requirements by amount of production; lowers onshore exploration requirement.	sect7 Defines "offshore exploration facility"; modifies proof of financial responsibility for OTHER THAN AN OFFSHORE facility based on amount of production; lowers proof of financial responsibility for OTHER THAN AN OFFSHORE EXPLORATION FACILITY.
Title		sect8 Gives direction to the departments and persons submitting proof of financial ability with respect to section (b)(2). Adds "related hydrocarbons"; removes "onshore" from proof of financial responsibility portion of the title; language which extends 5-yr oil & gas lease sale deadline.
Five-Year Lease Sale		allows DNR to delay a 5-yr oil & gas lease sale beyond 90 days (Camden Bay decision).
Prepared by Senate Special Committee on Oil and Gas Committee Staff		

Provision	SB150	CSSB150 (O&G)
Restriction	None, all state lands available.	Umiat Baseline North, pending lease sales: 57, 77, 80, 87 & 88, and portions of Cook Inlet excluded.
Relinquishment	Keep licensed land entire term of license.	Relinquish 25% of total license by 4th year; 10% of remaining land each year thereafter.
Bonding	Total amount of work commitment up front; forfeit difference between work done and work bid.	Annual bond, 10% of that year's work commitment. Bonds overlap in regulation.
Competitive Bids	Oral outcry auction; highest work commitment dollar amount.	Sealed competitive bids. Define direct exploration expenditures allowed.
Acreage Chargeability	Up to 30,000 acre leases; 5,760 acres current max. lease; more than 1 million aggregate acres presently allowed in statute; royalty 12.5%; annual rental \$3/acre.	Leases are applied against 1 million aggregate acre limit; no larger than 5,760 acres/lease; no limit on number of leases; royalty 12.5%; annual rental \$3/acre.
License Rental Fee	\$1/acre.	Up to \$1/acre.
Proof of Financial Responsibility	Not addressed.	Breaks out production requirements by amount of production; lowers onshore exploration to \$1,000,000 per incident.
	Prepared by Senate Special Committee on Oil and Gas	
	Committee Staff	

Provision	SB150	CSSB150 (O&G)
Restriction	None, all state lands available.	Umiat Baseline North, pending lease sales: 57, 77, 80, 87 & 88, and portions of Cook Inlet excluded.
Relinquishment	Keep licensed land entire term of license.	Relinquish 25% of total license by 4th year; 10% thereafter.
Bonding	Total amount of work commitment up front; forfeit difference between work done and work bid.	Annual bond, 10% of that year's work commitment. Bonds overlap in regulation.
Competitive Bids	Oral outcry auction; highest work commitment dollar amount.	Sealed competitive bids. Define direct exploration expenditures allowed.
Acreage Chargeability	Up to 30,000 acre leases; 5,760 acres current max. lease; more than 1 million aggregate acres presently allowed in statute; royalty 12.5%; annual rental \$3/acre.	Leases are applied against 1 million aggregate acre limit; no larger than 5,760 acres/lease; no limit on number of leases; royalty 12.5%; annual rental \$3/acre.
License Rental Fee	\$1/acre.	Up to \$1/acre.
Proof of Financial Responsibility	Not addressed.	Breaks out production requirements by amount of production; lowers onshore exploration to \$1,000,000 per incident.
	Prepared by Senate Special Committee on Oil and Gas	
	Committee Staff	

STATE OF ALASKA

DEPT. OF NATURAL RESOURCES

DIVISION OF OIL AND GAS

WALTER J. HICKEL, GOVERNOR

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April 14, 1993

The Honorable Loren Leman, Chairman
Senate Special Committee on Oil and Gas
Alaska State Legislature
State Capitol, Room 113
Juneau, Alaska 99801

Dear Senator Leman:

At last night's hearing on SB 150 a question was raised by Senator Adams regarding any additional costs that might be incurred as a result of the amendments the committee was considering (and eventually adopted). The short answer is that the fiscal note will remain at zero, with one proviso.

The Division of Oil and Gas has the primary responsibility for the administration of the current Five Year Oil and Gas Leasing program. We will have similar responsibility for the implementation and administration of the exploration licensing program. We have pledged to the Commissioner that we will be able to furnish this additional service provided our funding (and thus staff levels, since our budget is 85% personal service) is kept at the level requested in our FY'94 budget. The budget we have requested does not add any staff, but merely allows us to stay "whole."

I look at the implementation of this legislation the way I would look at starting a new business venture. New businesses tend to start small and grow as demand for their product or service warrants. If this new program proves to be very popular (which we all hope it will be), then I can imagine that more staff may be necessary to meet the increased demand. I simply cannot predict this, but I hope you and other members of the Legislature will view this as I do—it's a problem I would like to have! If the program is popular it simply means more money and many new jobs for Alaska—because of the work commitment provisions of the Bill this is not speculation, this is certainty. Any additional funding that might be necessary as a result of increased demand will be minuscule compared to the benefits received.

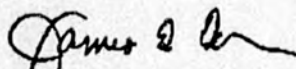
As a result of the hard work by your committee and staff, SB 150, as it passed out of your committee last night, is a better Bill than that which was presented to you initially. It provides the basis for the responsible exploration of new areas of the State.

The Honorable Loren Leman, Chairman
Senate Special Committee on Oil and Gas
April 14, 1993
Page 2

The gloomy pall which has shrouded the oil industry in Alaska for several years is beginning to lift. Announcements of new discoveries in several areas of the state have, and will continue, to encourage industry participation in new ventures. I see passage of this Legislation as another piece of "good news."

I trust this answers the question; please call if you need additional information.

Sincerely,



James E. Eason
Director



SENATOR LOREN LEMAN

Northwest Anchorage

3111 "C" Street Anchorage, AK 99503 561-7614 During Session: State Capitol Juneau, AK 99801 465-2095

ANALYSIS OF CHANGES FROM INITIAL SB 150 TO CS SB150 4/13/93 By: A. Kreitzer, Staff

With the exception of an amendment offered by Senator Sharp (Section 6, Page 9-10), all of the changes to the bill are the result of conversations with ARCO, BP, Texaco, Unocal, Stewart Petroleum, Amoco, Division of Oil and Gas and public testimony.

TITLE CHANGE

Title was changed to reflect Section 6 amendment - proof of financial responsibility. Adopted by the Committee 4/1/93.

GEOGRAPHIC DESCRIPTION

In the original bill, there was NO limitation of lands available to license.

CSSB 150: Lands north of the Umiat baseline and portions of Cook Inlet are unavailable for licensing. (Sec. 38.05.131 (b)) Also, because of these defined boundaries pending lease sales in the 5-year oil and gas leasing plan have been specifically excluded. (Section 7, Page 10). Sales 57, 77, 80, 87 and 88.

RELINQUISHMENT LANGUAGE

Concern about "warehousing of land" prompted the inclusion of language to prompt companies to adhere to the intent of the legislation which is incentive to explore.

CSSB 150: Sec. 38.05.132(a)(1)(2) and Sec. 38.05.134, reference this and the authority is in Sec. 38.05.132(d). This requires the licensee to relinquish 25% of land issued under the exploration license after the 4th year, and 10% each year thereafter.

BONDING

Sec. 38.05.132(5) No one appears happy with the bonding language in SB 150. Proposals from zero bonding to the SB 150 language were considered. AS OF 4/13/93: Remove language and table and replace with language which allows bonding on 10% of the amount of the work to be done in that year. Still renewable annually.

COMPETITIVE BIDS

Sec. 38.05.133(h) originally called for an oral outcry auction. The committee amended this 4/1/93 to issue requests for competitive sealed bids.

The smaller companies didn't like the last line of this section which says: "The successful bidder is the prospective licensee who submits the highest bid in terms of the minimum work commitment DOLLAR AMOUNT." They felt they were disadvantaged because bigger companies can add in overhead (e.g., 10% admin costs for out of state offices).

CSSB 150: Inserted in SEC 38.05.132(c)(3) the word "direct" in front of exploration expenditures and added a definition of DIRECT EXPLORATION EXPENDITURES: "the cash expenses necessarily incurred by the licensee in the permitting, mobilization, conducting, demobilization and evaluation of geophysical and geological surveys, including seismic, magnetic and gravity surveys or the drilling, logging, coring, testing and evaluation of oil and gas wells, undertaken in performance of a specified work commitment under the provisions of AS 38.05.131-AS 38.05.134. These expenses include direct labor costs, including the cost of benefits, for employees directly associated with the work commitment programs, the cost of renting or leasing equipment from parties not affiliated with the licensee, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the licensee, and costs of materials and supplies. These expenses do not include non-cash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the licensee is not compelled to incur to satisfy his work commitment."

ACREAGE CHARGEABILITY

SB 150 made restricted leases to 30,000 acres; not subject to the acreage chargeability of AS 38.05.140(c) (1 million aggregate acres); or to AS 38.05.180(m) (5,760 acres).

CSSB 150: after conversion to lease, the leases ARE subject to the 1 million aggregate acreage limitation; the leases ARE subject to the 5,760 acre limitation per lease. And the leases are subject to the provisions of AS 38.05.180(j) - (m), (o) - (u), and (x) - (z).



Texaco

2550 Denali St
Suite 1510
Anchorage AK 99503
907 278 9611
Facsimile 907 274 7813

April 9, 1993

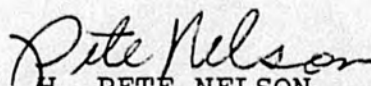
APR 13 1993

Senator Loren Leman
Room 113
State Capital
Juneau, AK 99801-1182

Dear Senator Leman:

I can appreciate the confusion regarding the use of the word "proposal" in the manner used in the Bill. To most of us the word "proposal" means a proposed work commitment. However, in section 38.05.133(b) it means a proposed area for licensing purposes. The attached language was written in an effort to clarify the intent and I believe would be better suited for the Bill.

Sincerely,


E.H. PETE NELSON
Land Manager, Alaska Region

EHN:bjs

Attachment

cc: Senator Bert Sharp

A-P360

considered, not adopted

(b) The licensing process is initiated by the commissioner, on his own motion, or at the request of a prospective licensee, by designating a specific area to be made subject to licensing. A prospective licensee may submit a request for designation of area for licensing only in response to a call for designations by the commissioner or during a period specified in regulations adopted by the commissioner. The regulations shall provide for at least one period each calendar year. With each call for designation of licensing areas, the commissioner shall define minimum work commitments for the license and minimum qualifications for a licensee.



SENATOR LOREN LEMAN

Northwest Anchorage

3111 "C" Street Anchorage, AK 99503 561-7614 During Session: State Capitol Juneau, AK 99801 465-2095

ANALYSIS OF CHANGES FROM INITIAL SB 150 TO CS SB150
4/8/93 By: A. Kreitzer, Staff

With the exception of an amendment offered by Senator Sharp (Section 6, Page 9-10), all of the changes to the bill are the result of conversations with ARCO, BP, Texaco, Unocal, Stewart Petroleum, Amoco, Division of Oil and Gas and public testimony.

TITLE CHANGE

Title was changed to reflect Section 6 amendment - proof of financial responsibility. Adopted by the Committee 4/1/93.

GEOGRAPHIC DESCRIPTION

In the original bill, there was NO limitation of lands available to license.

CSSB 150: Lands north of the Umiat baseline and portions of Cook Inlet are unavailable for licensing. (Sec. 38.05.131 (b)) Also, because of these defined boundaries pending lease sales in the 5-year oil and gas leasing plan have been specifically excluded. (Section 7, Page 10). Sales 57, 77, 80, 87 and 88.

RELINQUISHMENT LANGUAGE

Concern about "warehousing of land" prompted the inclusion of language to prompt companies to adhere to the intent of the legislation which is incentive to explore.

CSSB 150: Sec. 38.05.132(a)(1)(2) and Sec. 38.05.134, reference this and the authority is in Sec. 38.05.132(d). This requires the licensee to relinquish 25% of land issued under the exploration license after the 4th year, and 10% each year thereafter.

BONDING

Sec. 38.05.132(5) No one appears happy with the bonding language in SB 150. Proposals from zero bonding to the SB 150 language were considered. The replacement language is the best available compromise. (See attached Table A for easy reference.) This allows the bond to be spread out over the life of the work commitment.

COMPETITIVE BIDS

Sec. 38.05.133(h) originally called for an oral outcry auction. The committee amended this 4/1/93 to issue requests for competitive sealed bids.

The smaller companies didn't like the last line of this section which says: "The successful bidder is the prospective licensee who submits the highest bid in terms of the minimum work commitment DOLLAR AMOUNT." They felt they were disadvantaged because bigger companies can add in overhead (e.g., 10% admin costs for out of state offices).

CSSB 150: Inserted in SEC 38.05.132(c)(3) the word "direct" in front of exploration expenditures and added a definition of DIRECT EXPLORATION EXPENDITURES: "the cash expenses necessarily incurred by the licensee in the permitting, mobilization, conducting, demobilization and evaluation of geophysical and geological surveys, including seismic, magnetic and gravity surveys or the drilling, logging, coring, testing and evaluation of oil and gas wells, undertaken in performance of a specified work commitment under the provisions of AS 38.05.131-AS 38.05.134. These expenses include direct labor costs, including the cost of benefits, for employees directly associated with the work commitment programs, the cost of renting or leasing equipment from parties not affiliated with the licensee, the reasonable costs of maintaining and operating equipment, payments to consultants and independent contractors not affiliated with the licensee, and costs of materials and supplies. These expenses do not include non-cash expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, insurance or bond premiums, or any other expense that is unreasonable or that the licensee is not compelled to incur to satisfy his work commitment."

ACREAGE CHARGEABILITY

SB 150 made restricted leases to 30,000 acres; not subject to the acreage chargeability of AS 38.05.140(c) (1 million aggregate acres); or to AS 38.05.180(m) (5,760 acres).

CSSB 150: after conversion to lease, the leases ARE subject to the 1 million aggregate acreage limitation; the leases ARE subject to the 5,760 acre limitation per lease. And the leases are subject to the provisions of AS 38.05.180(j) - (m), (o) - (u), and (x) - (z).

TABLE A

Year	Work Commitment	Current Year Expense	Cumulative Expense	Years Remaining	Bond
1	\$50 Million	\$0	\$0	5	\$10 Million
2	\$50 Million	\$2 Million	\$2 Million	4	\$12 Million
3	\$50 Million	\$12 Million	\$14 Million	3	\$12 Million
4	\$50 Million	\$18 Million	\$32 Million	2	\$9 Million
5	\$50 Million	\$18 Million	\$50 Million	1	\$0

Notes: Suppose the licensee decides to "go to Columbia" after year 2 and before posting the third year's bond. He pays a "penalty" of \$12 million. The same decision at the end of year 3 would cost him \$12 million. While this may sound extreme, remember he has had an exclusive "option" for 3 years for virtually no cost. It's only fair that the state get something more in return plus the forfeited license.

Year 1 $[(\$50 \text{ Million}) - (\$0)]/5 = \$10 \text{ Million}$

Year 2 $[(\$50 \text{ Million}) - (\$2 \text{ Million})]/4 = \$12 \text{ Million}$

Year 3 $[(\$50 \text{ Million}) - (\$14 \text{ Million})]/3 = \$12 \text{ Million}$

Year 4 $[(\$50 \text{ Million}) - (\$32 \text{ Million})]/2 = \$9 \text{ Million}$

Year 5 $[(\$50 \text{ Million}) - (\$50 \text{ Million})]/1 = \$0 \text{ Million}$

Post-It™ brand fax transmittal memo 7671		# of pages > 1
To Annette Kvietzev	From Jim Eason	
Co. Senate Oil & Gas	Co.	
Dept.	Phone # 762-2547	
Fax # 465-3810	Fax # 562-3852	

8-GS10120

Chenoweth

4/8/93

CS FOR SENATE BILL NO. 150()

IN THE LEGISLATURE OF THE STATE OF ALASKA

EIGHTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:

Referred:

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

A BILL

FOR AN ACT ENTITLED

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

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

7 * Section 1. AS 38 is amended by adding new sections to read:

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

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

10 Unless specifically provided otherwise in AS 38.05.132 - 38.05.134, the provisions of
11 AS 38.05.005 - 38.05.040, 38.05.180, 38.05.182 - 38.05.184, and 38.05.920 -
12 38.05.990 apply to the issuance of oil and gas exploration licenses and leases under
13 AS 38.05.132 - 38.05.134.

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

(1) north of the Umiat baseline; and

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

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

(B) the Seward Meridian;

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

and

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

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

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

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

(1) for unleased state land for which insufficient or undocumented geological and geophysical information exists concerning the oil and gas potential of that land; or

(2) for state land that was subject to a competitive lease sale under AS 38.05.180 but for which an oil and gas lease has not been issued.

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

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

and

split
out

re-arranged

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

(c) An exploration license awarded under this section

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

(2) may cover an area of not more than 500,000 acres, that must be reasonably compact and contiguous;

(3) must be conditioned upon an obligation to perform a specified minimum work commitment, expressed in dollars of direct exploration expenditures; for purposes of this paragraph,

(A) "direct exploration expenditure" means cash expenses undertaken in performance of a specified work commitment under the provisions of AS 38.05.131 - 38.05.134 and necessarily incurred by the licensee in the permitting, mobilization, conducting, demobilization, and evaluation of geophysical and geological surveys, including seismic, magnetic, and gravity surveys or the drilling, logging, coring, testing, and evaluation of oil and gas wells; the term

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

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

(B) "work commitment" includes the drilling of one or more exploration wells or the gathering of geophysical data, or both;

(4) is subject to revocation if the commissioner determines that the licensee has failed to

(A) perform the minimum work commitment; or

(B) provide or maintain in effect the bond or other security required by (5) of this subsection;

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

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

(B) the bond or other security must be in an amount calculated as the difference between the total amount of the licensee's work commitment and the cumulative expenses incurred by the licensee to fulfill that work commitment divided by the number of years remaining during the term of the exploration license;

(6) must be conditioned upon payment to the commissioner of a nonrefundable oil and gas exploration license fee of \$1 for each acre of land that is subject to the exploration license; and

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

(d) The area within an exploration license awarded under this section may be relinquished, removed, or deleted from the license. Relinquishment, removal, or deletion of an area from the state land described in the exploration license terminates the licensee's rights under AS 38.05.131 - 38.05.134 in the area that is relinquished, removed, or deleted. A relinquishment, removal, or deletion of a portion of the area described in the exploration license must be in areas that are reasonably compact and contiguous. The areas relinquished from the state land described in the exploration license shall be areas identified by the licensee but, if the licensee fails to identify sufficient area, the commissioner may identify any additional acreage required to be removed or deleted from the area under license to meet the requirements of this

subsection. Within the area described in the exploration license issued under (a) - (c) of this section,

(1) 25 percent must be relinquished, removed, or deleted not later than the fourth anniversary of the effective date of the issuance of the exploration license;

(2) an additional 10 percent must be removed or deleted on each of the succeeding anniversaries of the effective date of the issuance of the exploration license.

(e) If, immediately before the beginning of the period for annual renewal of the bond or other security under (c)(5)(A) of this section, the licensee fails to provide or maintain in effect the bond or other security required by (c) of this section for the period covered by the annual renewal and the commissioner revokes the exploration license, the bond or other security then in effect for the licensee's obligations under the exploration license is forfeited to the state.

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

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

(c) If the commissioner initiates the licensing process under (b) of this section, the commissioner shall publish notice of the commissioner's proposal in order to solicit comments and competing proposals.

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

(e) The commissioner may make a written request to a prospective licensee for

1 additional information on the prospective licensee's proposal. The commissioner shall
2 keep confidential information described in AS 38.05.035(a)(9) that is voluntarily
3 provided.

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

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

27 (h) If competing proposals are submitted, and the commissioner's finding
28 under (f) of this section concludes that an oil and gas exploration license should be
29 issued, the commissioner shall issue a request for competitive sealed bids, under
30 procedures adopted by the commissioner by regulation, to determine which prospective
31 licensee should be issued the exploration license. The finding provided to the

prospective licensees under (f) of this section must contain notice that (1) the commissioner intends to request competitive sealed bids, (2) a prospective licensee who intends to participate in the bidding must notify the commissioner in writing by the date specified in the notice, and (3) a prospective licensee's notice of intent to participate in the bidding constitutes acceptance of issuance of the exploration license, as limited or conditioned by the terms contained in the finding and by the exploration license to be issued and the form of lease to be used that have been attached to that finding, if the prospective licensee is the successful bidder. The successful bidder is the prospective licensee who submits the highest bid in terms of the minimum work commitment dollar amount.

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

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

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

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

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

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

* Sec. 2. AS 38.05.135(a) is amended to read:

(a) Except as otherwise provided, valuable mineral deposits in land belonging to the state shall be open to exploration, development, and the extraction of minerals. All land, together with tide, submerged, or shoreland, to which the state holds title to

1 or to which the state may become entitled, may be obtained by permit or lease for the
2 purpose of exploration, development, and the extraction of minerals. Except as
3 specifically limited by AS 38.05.131 - 38.05.181 ^{skt} [AS 38.05.135 - 38.05.181], land may
4 be withheld from lease application on a first-come, first-served basis, and offered only
5 on a competitive bid basis when determined by the commissioner to be in the best
6 interests of the state. In unproven areas the commissioner may offer additional
7 incentives, including a reduction of royalty to a minimum of five percent in the case
8 of oil and gas, and other terms in and granting permit or lease for exploration and
9 development whenever it appears to be in the best interests of the state to do so.

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

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

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

16 (2) [THE LAND TO BE LEASED] is contiguous to land already under
17 state, federal or private lease and the commissioner makes a written finding, after
18 hearing, that leasing of the land would result in a substantial probability of early
19 evaluation and development of the land to be leased; [OR]

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

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

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

31 * Sec. 4. AS 38.05.180(f) is amended to read:

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

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

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

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

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

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

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

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

* Sec. 5. AS 38.05.945(a) is amended to read:

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

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

(2) zoning of land under applicable law;

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

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

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

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

* Sec. 6. AS 46.04.040(b) is amended to read:

(b) A person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless the person has furnished to the department, and the department has approved, proof of financial ability to respond in damages. Proof of financial responsibility required

(1) for a pipeline or an offshore exploration or production facility is \$50,000,000 per incident;

(2) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for an onshore production facility is

(A) \$1,000,000 per incident for a facility that produces not more than 2,500 barrels of crude oil per day;

(B) \$5,000,000 per incident for a facility that produces more than 2,500 barrels of crude oil but not more than 5,000 barrels of crude oil per day;

1 (C) \$10,000,000 per incident for a facility that produces
2 more than 5,000 barrels of crude oil but not more than 10,000 barrels of
3 crude oil per day; and

4 (D) \$20,000,000 per incident for a facility that produces more
5 than 10,000 barrels of crude oil per day; and

6 (3) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for
7 an onshore exploration facility is \$5,000,000 per incident.

8 * **Sec. 7. ADDITIONAL EXCLUDED AREA.** In addition to the area designated in
9 AS 38.05.131(b), added by sec. 1 of this Act, the provisions of AS 38.05.131 - 38.05.134,
10 added by sec. 1 of this Act, do not apply to land within proposed Competitive Oil and Gas
11 Lease Sales 57, 77, 80, 87, and 88, as the area to be offered in each of those proposed
12 competitive oil and gas lease sales was delineated in the Five-Year Oil and Gas Leasing
13 Program prepared by the Department of Natural Resources and dated January 1993. However,
14 the exclusion of the land in any one of those lease sales that is required by this section ceases
15 on the date the land described in the lease sale is first offered for competitive oil and gas
16 leasing under AS 38.05.180, and that land is thereafter subject to the provisions of
17 AS 38.05.131 - 38.05.134, added by sec. 1 of this Act.

18 * **Sec. 8. REGULATIONS.** The commissioner of natural resources may proceed to adopt
19 regulations necessary to implement AS 38.05.131 - 38.05.134, added by sec. 1 of this Act. *more*
20 The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the *specific*
21 effective date of secs. 1 - 7 of this Act.

22 * **Sec. 9.** Section 8 of this Act takes effect immediately under AS 01.10.070(c).

8-GS1012E✓
Chenoweth
4/3/93

CS FOR SENATE BILL NO. 150()
IN THE LEGISLATURE OF THE STATE OF ALASKA
EIGHTEENTH LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

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

A BILL

FOR AN ACT ENTITLED

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11 AS 38.05.005 - 38.05.040, 38.05.180, 38.05.182 - 38.05.184, and 38.05.920 -
12 38.05.990 apply to the issuance of oil and gas exploration licenses and leases under
13 AS 38.05.132 - 38.05.134.

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

(1) north of the Umiat baseline; and

(2) in the vicinity of Cook Inlet, as the commissioner may determine, that is within the area bounded by

(A) the north boundary of Township 18 North, Seward Meridian;

(B) the Seward Meridian;

(C) the south boundary of Township 7 North, Seward Meridian;

and

(D) the west boundary of Range 20 West, Seward Meridian.

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

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

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

(1) for unleased state land for which insufficient or undocumented ^{geological} geologic and geophysical information exists concerning the oil and gas potential of that land; or

(2) for state land that was subject to a competitive lease sale under AS 38.05.180 but for which an oil and gas lease has not been issued.

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

(1) the exclusive right to explore for deposits of oil and gas in unleased state land described in the exploration license, for a term not to exceed 10 years; and

(2) the option to convert the exploration license for all or part of the

1 state land into an oil and gas lease upon fulfillment of the work commitments
2 contained in the exploration license.

3 (c) An exploration license awarded under this section

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

6 (2) may cover an area of not more than 500,000 acres, that must be
7 reasonably compact and contiguous;

8 (3) must be conditioned upon an obligation to perform a specified
9 minimum work commitment, expressed in dollars of exploration expenditures; "work
10 commitment" includes the drilling of one or more exploration wells or the gathering
11 of geophysical data, or both;

12 (4) is subject to revocation if the commissioner determines that the
13 licensee has failed to perform the minimum work commitment;

14 (5) must be conditioned upon the posting of an annual work
15 commitment performance bond or other security in favor of the state in an amount that
16 is not less than the amount of the work commitment for that year; the bond or other
17 security must be subject to forfeiture to the state upon revocation of the exploration
18 license to the extent of the difference between the dollar amount of the minimum work
19 commitment specified in the exploration license and the dollar amount of the minimum
20 work commitment that was fulfilled to the satisfaction of the commissioner as of the
21 date of the revocation of the license;

22 (6) must be conditioned upon payment to the commissioner of a
23 nonrefundable oil and gas exploration license fee of \$1 for each acre of land that is
24 subject to the exploration license; and

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

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

29 (b) The licensing process is initiated by the commissioner preparing, or a
30 prospective licensee submitting to the commissioner, a proposal that identifies a
31 specific area to be subject to the exploration license, proposes specific minimum work

1 commitments, and states the minimum qualifications for a licensee as established by
2 regulations adopted by the commissioner. A prospective licensee may initiate a
3 proposal only in response to a call for proposals by the commissioner or during a
4 period specified in regulations adopted by the commissioner. The regulations must
5 provide for at least one period for that purpose during each calendar year.

6 (c) If the commissioner initiates the licensing process under (b) of this section,
7 the commissioner shall publish notice of the commissioner's proposal in order to solicit
8 comments and competing proposals.

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

14 (e) The commissioner may make a written request to a prospective licensee for
15 additional information on the prospective licensee's proposal. The commissioner shall
16 keep confidential information described in AS 38.05.035(a)(9) that is voluntarily
17 provided.

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

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

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

Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the commissioner determines that the minimum work commitment obligation set out in an oil and gas exploration license issued under AS 38.05.132 has been met, the commissioner shall convert all or part of the area described in the exploration license, as the licensee may indicate, to one or more oil and gas leases. A lease issued under this section

- ~~(1) may not exceed 30,000 acres;~~
- (2) is subject to the acreage limitations imposed by AS 38.05.140(c);
- (3) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);
- (4) must be conditioned upon a royalty in amount or value of not less

1 than 12.5 percent of production;

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

6 (6) is subject to other conditions and obligations that are specified in
7 the lease.

8 * Sec. 2. AS 38.05.135(a) is amended to read:

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

21 * Sec. 3. AS 38.05.140(c) is amended to read:

22 (c) A person may not take or hold at one time phosphate leases on state land
23 exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases
24 or permits during the life of sodium leases on state land exceeding in the aggregate
25 acreage 5,120 acres, except that the commissioner may, where it is necessary in order
26 to secure the economic mining of sodium compounds, permit a person to take or hold
27 sodium leases or permits for up to 15,360 acres. Except as provided in AS 38.05.131
28 - 38.05.134, a [A] person may not take or hold at any one time oil or gas leases
29 exceeding in the aggregate 500,000 acres granted on tide and submerged land and
30 500,000 acres on all land other than tide and submerged land, including leases held
31 both as lessee and under option or operating agreement from others. Where more than

1 a single person holds an interest in an oil or gas lease, each person shall be charged
2 only with that percentage of the total acreage that [WHICH] corresponds to its
3 percentage share of the total beneficial interest in the lease.

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

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

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

10 (2) [THE LAND TO BE LEASED] is contiguous to land already under
11 state, federal or private lease and the commissioner makes a written finding, after
12 hearing, that leasing of the land would result in a substantial probability of early
13 evaluation and development of the land to be leased; [OR]

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

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

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

25 * Sec. 5. AS 38.05.180(f) is amended to read:

26 (f) Except as provided by AS 38.05.131 - 38.05.134, the [THE]
27 commissioner may issue oil and gas leases on state land to the highest responsible
28 qualified bidder determined by competitive bidding under regulations adopted by the
29 commissioner. Bidding may be by sealed bid or according to any other bidding
30 procedure the commissioner determines is in the best interests of the state. Whenever,
31 under any of the leasing methods listed in this subsection, a royalty share is reserved

1 to the state, it shall be delivered in pipeline quality and free of all lease or unit
2 expenses, including but not limited to separation, cleaning, dehydration, gathering, salt
3 water disposal, and preparation for transportation off the lease or unit area. Following
4 a pre-sale analysis, the commissioner may choose at least one of the following leasing
5 methods:

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

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

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

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

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

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

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

30 * Sec. 6. AS 38.05.180(m) is amended to read:

31 (m) An oil and gas lease must cover a reasonably compact area that may not

1 exceed [EXCEEDING] 5,760 acres unless entered into under AS 38.05.131 -
2 38.05.134, and may be for a maximum period of 10 years, except that the
3 commissioner may issue a lease for a period of not less than five years upon a finding
4 that it is in the best interests of the state. An oil and gas lease shall be automatically
5 extended if and for so long thereafter as oil or gas is produced in paying quantities
6 from the lease or if the lease is committed to a unit approved by the commissioner.
7 A lease issued under this section covering land on which there is a well capable of
8 producing oil or gas in paying quantities does not expire because the lessee fails to
9 produce oil or gas unless the lessee is allowed reasonable time to place the well on a
10 producing status. Upon extension, the commissioner may increase lease rentals so long
11 as the increased rental rate does not exceed 150 percent of the rate for the preceding
12 year. If drilling has commenced on the expiration date of the primary term of the
13 lease and is continued with reasonable diligence, including such operations as
14 redrilling, sidetracking, or other means necessary to reach the originally proposed
15 bottom hole location, the lease continues in effect until 90 days after drilling has
16 ceased and for so long thereafter as oil or gas is produced in paying quantities. An
17 oil and gas lease issued under this section that [WHICH] is subject to termination by
18 reason of cessation of production does not terminate if, within 60 days after production
19 ceases, reworking or drilling operations are commenced on the land under lease and
20 are thereafter conducted with reasonable diligence during the period of nonproduction.

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

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

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

26 (2) zoning of land under applicable law;

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

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

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

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

* Sec. 8. AS 46.04.040(b) is amended to read:

(b) A person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless the person has furnished to the department, and the department has approved, proof of financial ability to respond in damages. Proof of financial responsibility required

(1) for a pipeline or an offshore exploration or production facility is \$50,000,000 per incident;

(2) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for an onshore production facility is

(A) \$1,000,000 per incident for a facility that produces not more than 2,500 barrels of crude oil per day;

(B) \$5,000,000 per incident for a facility that produces more than 2,500 barrels of crude oil but not more than 5,000 barrels of crude oil per day;

(C) \$10,000,000 per incident for a facility that produces more than 5,000 barrels of crude oil but not more than 10,000 barrels of crude oil per day; and

(D) \$20,000,000 per incident for a facility that produces more than 10,000 barrels of crude oil per day; and

(3) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for an onshore exploration facility is \$5,000,000 per incident.

* Sec. 9. ADDITIONAL EXCLUDED AREA. In addition to the area designated in AS 38.05.131(b), added by sec. 1 of this Act, the provisions of AS 38.05.131 - 38.05.134, added by sec. 1 of this Act, do not apply to land within proposed Competitive Oil and Gas Lease Sales 57, 80, 87, and 88, as the area to be offered in each of those proposed competitive oil and gas lease sales was delineated in the Five-Year Oil and Gas Leasing Program prepared by the Department of Natural Resources and dated January 1993. However, the exclusion of the land in any one of those lease sales that is required by this section ceases on the date the land described in the lease sale is first offered for competitive oil and gas leasing under

1 AS 38.05.180, and that land is thereafter subject to the provisions of AS 38.05.131 -
2 38.05.134, added by sec. 1 of this Act.

3 * **Sec. 10.** REGULATIONS. The commissioner of natural resources may proceed to adopt
4 regulations necessary to implement AS 38.05.131 - 38.05.134, added by sec. 1 of this Act.
5 The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the
6 effective date of secs. 1 - 9 of this Act.

7 * **Sec. 11.** Section 10 of this Act takes effect immediately under AS 01.10.070(c).

AMENDMENT #1

*adopted
a amended*

OFFERED IN THE SENATE

BY SENATOR SHARP

TO: SB 150

Page 1, line 1, after "Act"

Delete "providing for"

Insert "relating to"

After "licenses"

Delete "and"

Insert "to"

Page 1, line 2, after "state"

Insert ", 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"

Page 8, following line 7

Insert a new bill section to read:

"* Sec. 8. AS 46.04.040(b) is amended to read:

(b) A person may not cause or permit the operation of a pipeline or an exploration or production facility in the state unless the person has furnished to the department, and the department has approved, proof of financial ability to respond in damages. Proof of financial responsibility required

(1) for a pipeline or an offshore exploration or production facility is \$50,000,000 per incident;

(2) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for an onshore production facility is

(A) \$1,000,000 per incident for a facility that produces not more than 2,500 barrels of crude oil per day;

(B) \$5,000,000 per incident for a facility that produces more than 2,500 barrels of crude oil but not more than 5,000 barrels of crude oil per day;

(C) \$10,000,000 per incident for a facility that produces more than 5,000 barrels of crude oil but not more than 10,000 barrels of crude oil per day; and

(D) \$20,000,000 per incident for a facility that produces more than 10,000 barrels of crude oil per day; and

(3) [. PROOF OF FINANCIAL RESPONSIBILITY REQUIRED] for an onshore exploration facility is \$100,000 ~~(\$5,000,000)~~ per incident."

Renumber the following bill sections accordingly.

Page 8, line 10:

Delete "secs. 1 - 6"

Insert "secs. 1 - 7"

Page 8, line 12:

Delete "Section 7"

Insert "Section 8"

AMENDMENT #2

tabled

OFFERED IN THE SENATE

TO: SB 150

Page 1, after line 10:

Insert a new subsection to read:

"(b) The provisions of AS 38.05.131 - 38.05.134 do not apply

(1) to land north of 68 degrees, 30 minutes north latitude; or

(2) to the Cook Inlet sedimentary basin; the department shall, by regulation, provide a legal description for the basin."

Reletter following subsections accordingly.

AMENDMENT #3

adopted

OFFERED IN THE SENATE

TO: SB 150

Page 2, line 28:

Delete "a"

Insert "an annual"

Page 2, line 30, after "commitment":

Insert "for that year"

AMENDMENT #4

OFFERED IN THE SENATE

TO: SB 150

Page 2, line 18:

Delete "not"

Page 5, line 4:

Delete "will"

Insert "shall"

Page 5, line 8:

Delete "not"

Page 5, line 8, after "AS 38.05.140(c)":

Insert ";

Page 5, line 9:

Delete all material and insert:

"(3) is subject to AS 38.05.180(i) - (u) and (x) - (z);"

Renumber following paragraphs accordingly.

THIS:

- reduce each lease to 5,760 acres
- \$1/acre & 13/acre after 5 yrs.
- reduction of royalty after 2 years

AMENDMENT #5

OFFERED IN THE SENATE

TO: SB 150

Page 4, line 21:

Delete "conduct an oral outcry auction"

Insert "issue a request for competitive sealed bids"

Page 4, line 24:

Delete "shall"

Insert "must"

Page 4, lines 24 - 25:

Delete "conduct an oral outcry auction"

Insert "request competitive sealed bids"

Page 4, line 25, after "the":

Delete "auction"

Insert "bidding"

Page 4, line 27:

Delete "auction"

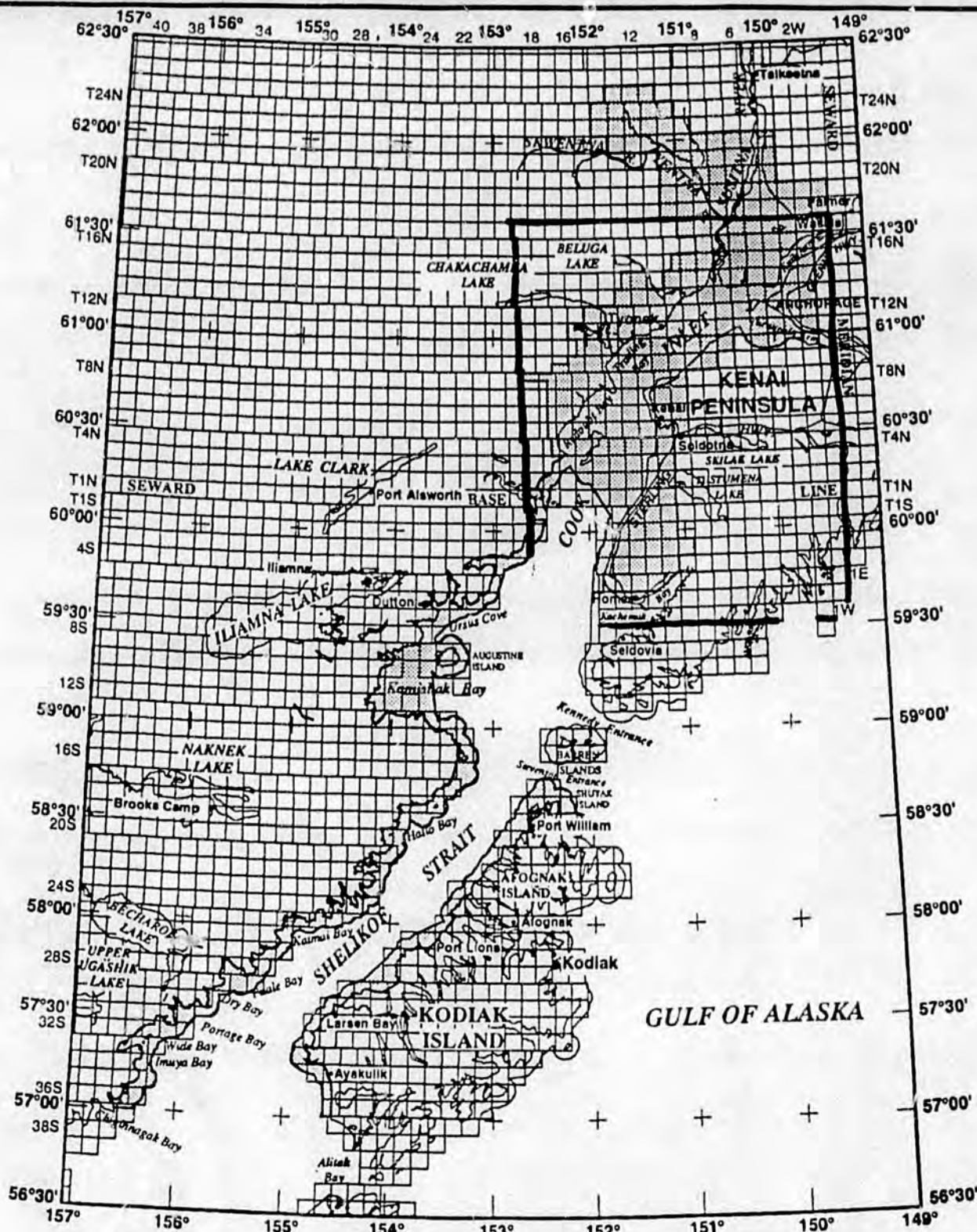
Insert "bidding"

Page 4, line 30:

Delete "at the auction"

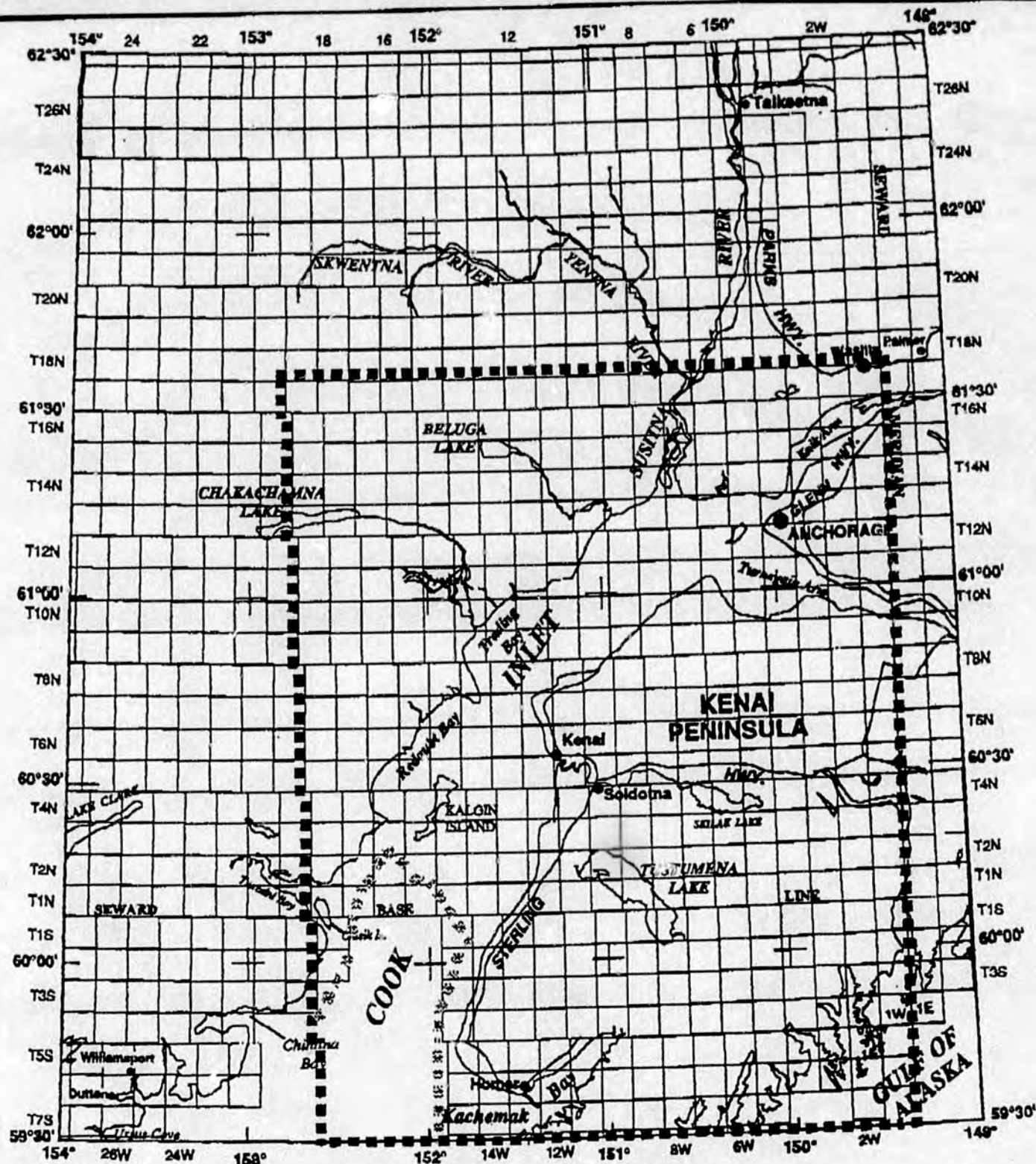
Page 4, lines 30 - 31:

Delete "at the auction"



STATE OF ALASKA DEPARTMENT OF NATURAL RESOURCES DIVISION OF OIL AND GAS		
PROPOSED OIL AND GAS LEASE SALE 85 COOK INLET / SHELIKOF STRAIT		
SCALE 1:3,500,000 ONE INCH = 56 MILES approx.		
0 50 100 200 Miles		
DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i>	DRAWN BY: M.P. & O.D.S.	DATE APPROVED 12-21-92
PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i>	CHECKED BY: <i>[Signature]</i>	BASE MAP: TRANSPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.

NOTE : NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.



CS FOR SENATE BILL NO. 150(FIN) am
The provisions of AS 38.05.131 - 38.05.134 do
not apply to land outlined above.

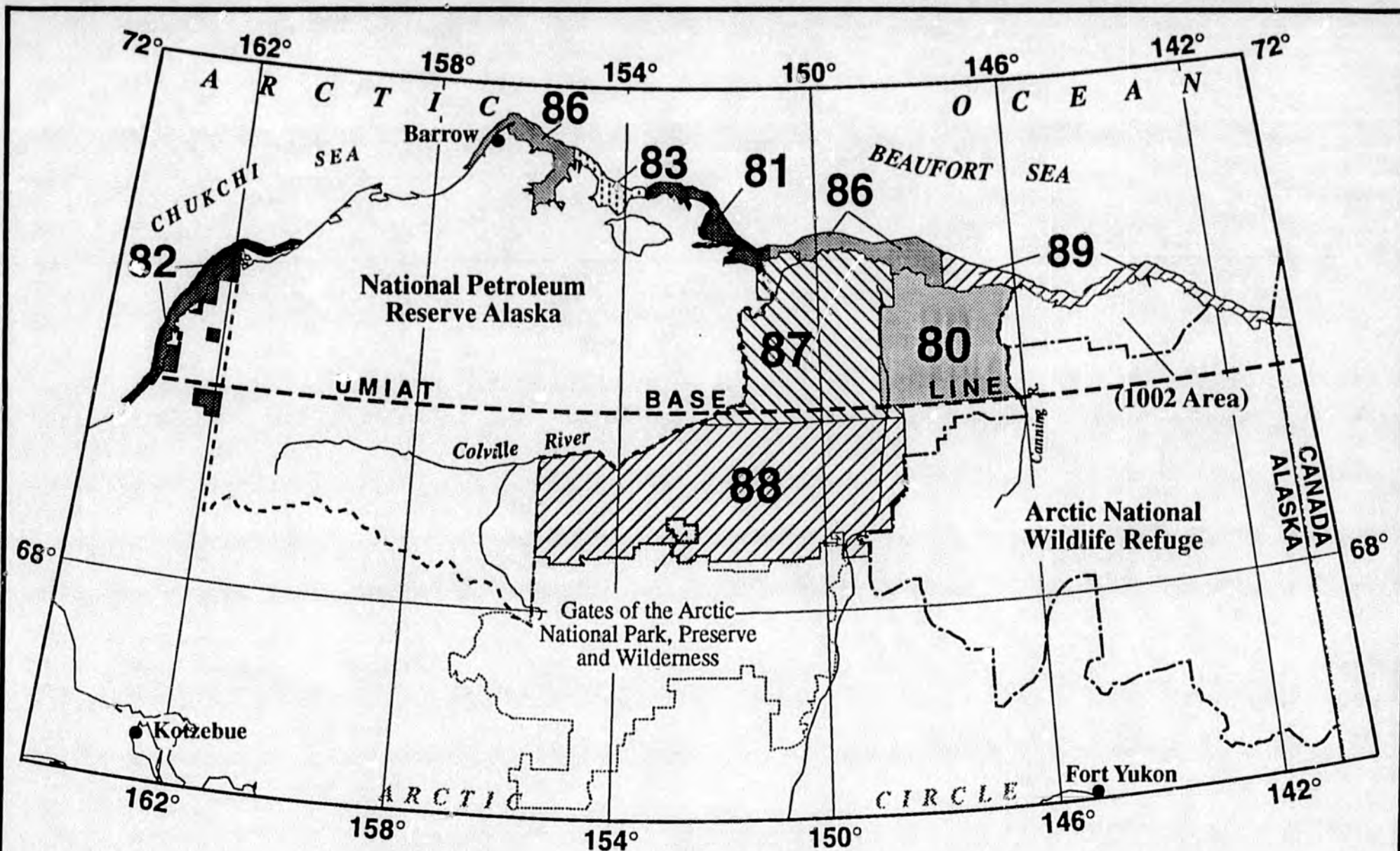


SCALE 1: 1,800,000 ONE INCH = 28 MILES APPROX.

0 10 20 30 40 50 100 STATUTE MILES

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**



North Slope Areas Proposed For Leasing

Sale	Date
80	11-94

Sale	Date
81	4-95
82	7-95
83	11-95

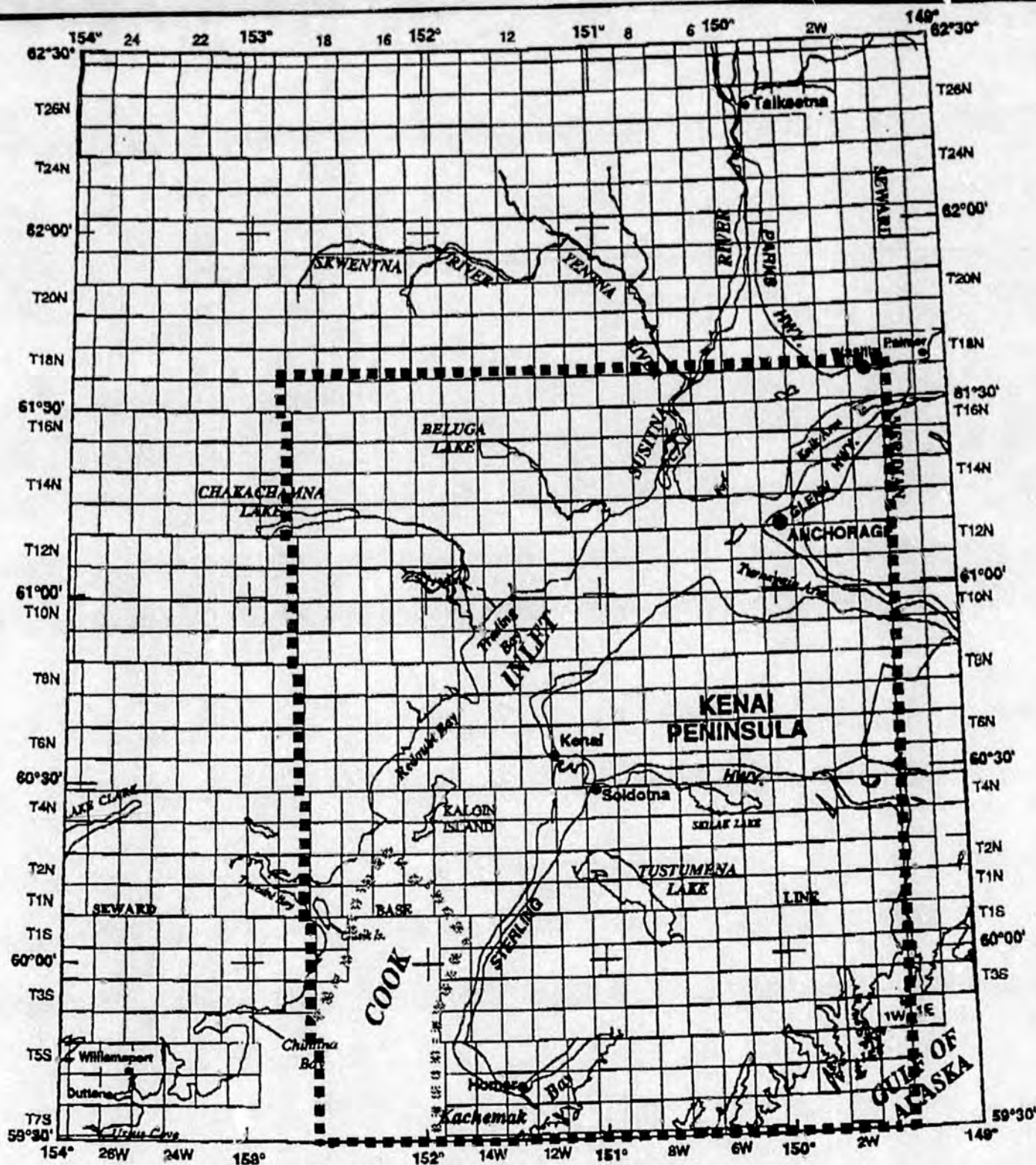
86	11-96
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Sale	Date
87	4-97
88	7-97
89	11-97

Scale 1: 5,000,000 Approx.

0 100 200 Miles

11/93

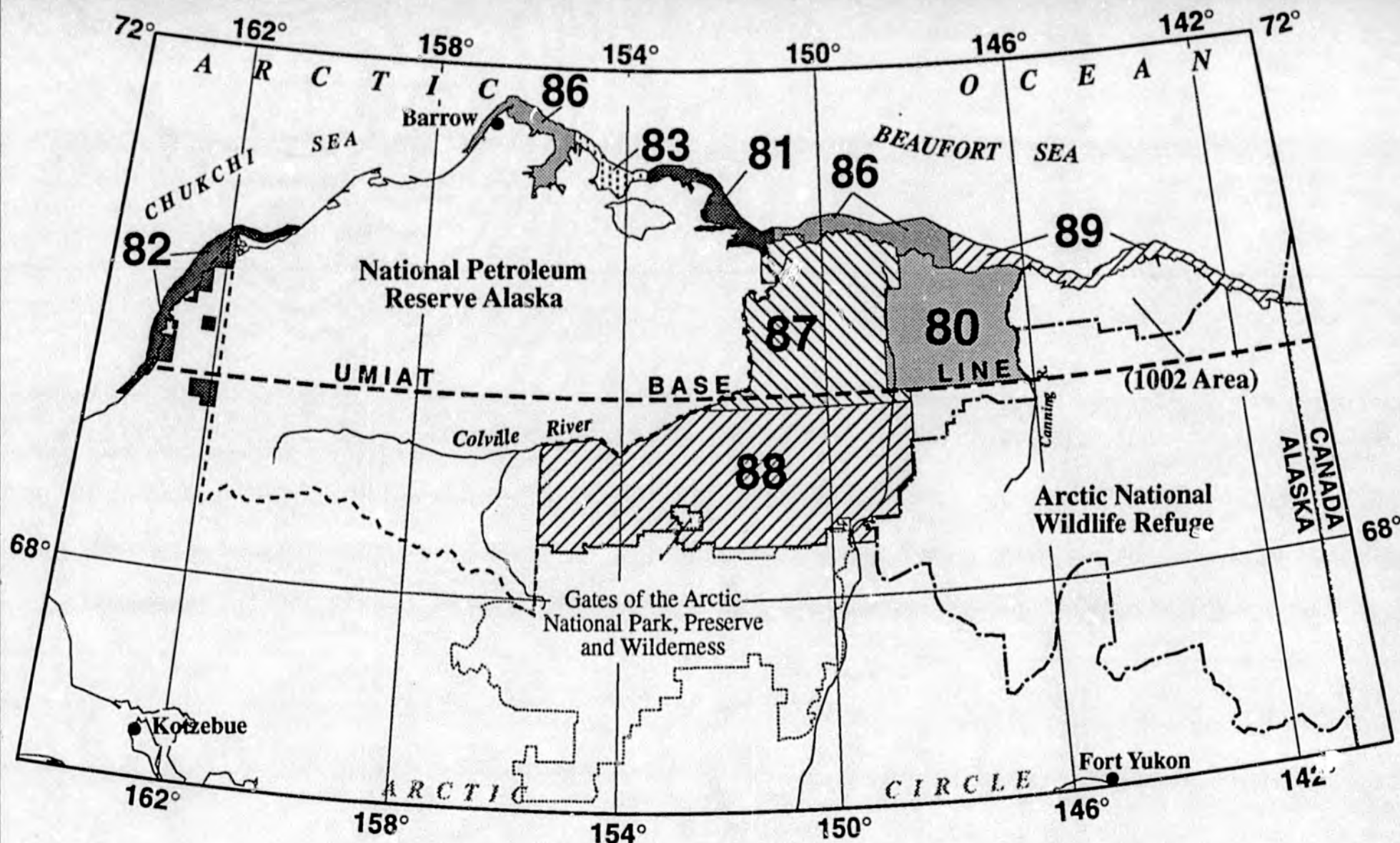


CS FOR SENATE BILL NO. 150(FIN) am
The provisions of AS 38.05.131 - 38.05.134 do
not apply to land outlined above.



SCALE 1: 1,800,000 ONE INCH = 28 MILES APPROX.

0 10 20 30 40 50 60 70 80 90 100 STATUTE MILES



North Slope Areas Proposed For Leasing

Sale	Date
80	11-94



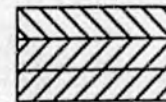
Sale	Date
81	4-95
82	7-95
83	11-95



86	11-96
----	-------



Sale	Date
87	4-97
88	7-97
89	11-97



Scale 1: 5,000,000 Approx.

0 100 200 Miles

11/93

12/22/92

ALASKA OIL AND GAS LEASING PROGRAM



ALASKA
DEPARTMENT OF
NATURAL RESOURCES
DIVISION OF OIL AND GAS
 JAMES E. EASON, DIRECTOR

1993 SALES

76	Cook Inlet	1-93
67A-W	Cook Inlet	1-93
77	Nanushuk	5-93
70A-W	Kuparuk Uplands	5-93
57	North Slope Foothills	9-93

1994 SALES

78	Cook Inlet	1-94
79	Cape Yakataga	7-94
80	Shaviovik	11-94

1995 SALES

81	Beaufort Sea	4-95
82	Icy Cape	7-95
83	Western Beaufort Sea	11-95

1996 SALES

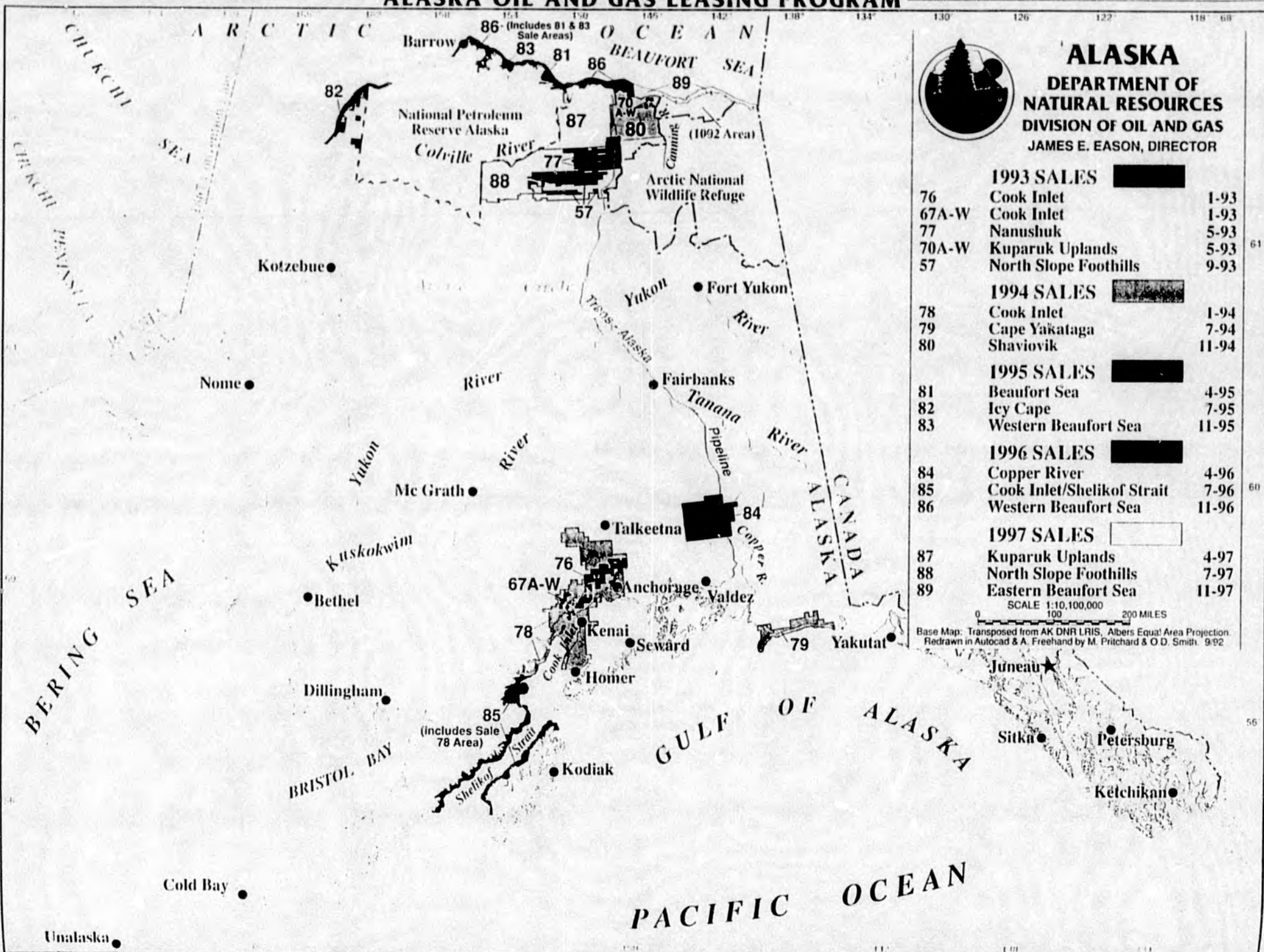
84	Copper River	4-96
85	Cook Inlet/Shelikof Strait	7-96
86	Western Beaufort Sea	11-96

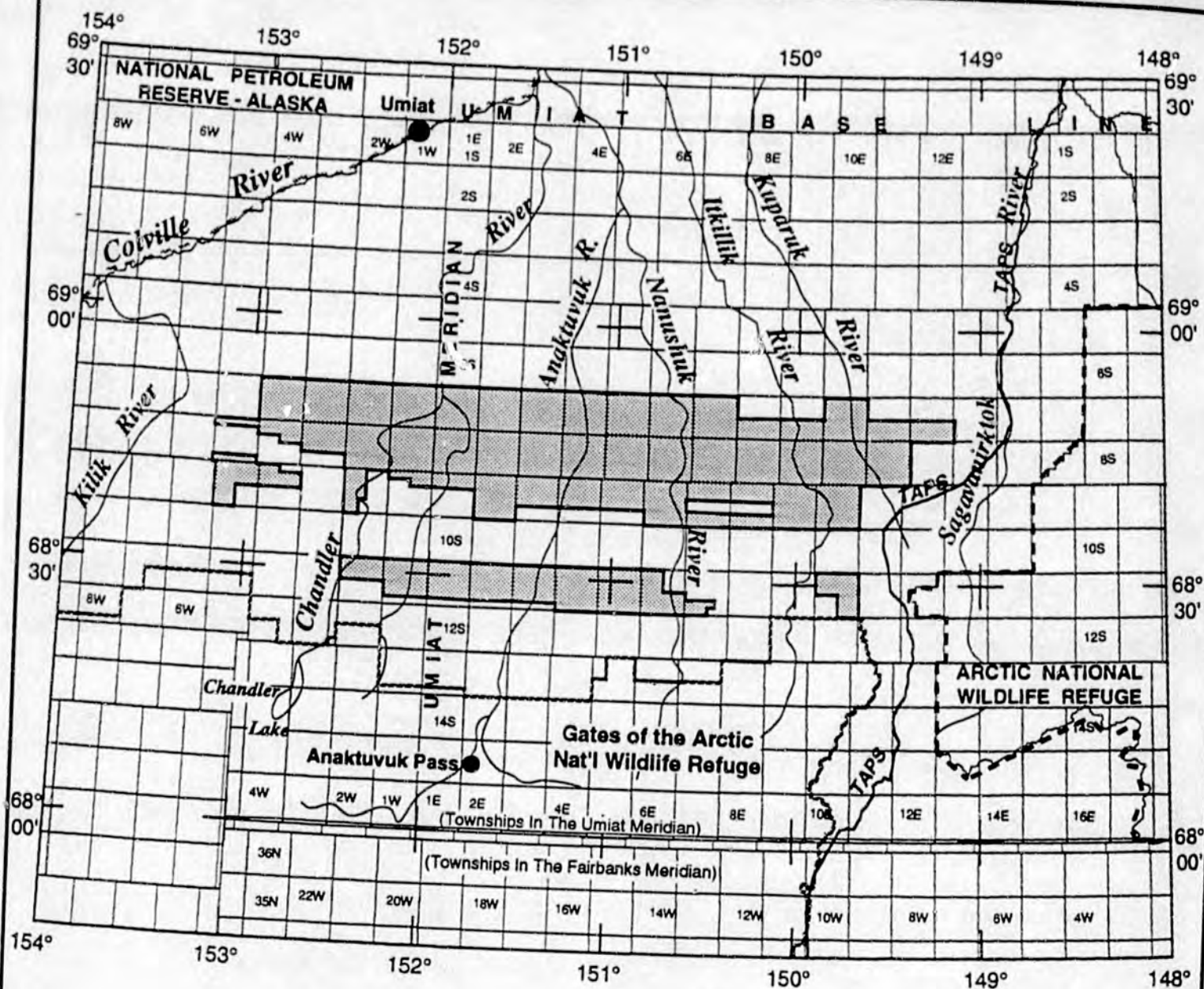
1997 SALES

87	Kuparuk Uplands	4-97
88	North Slope Foothills	7-97
89	Eastern Beaufort Sea	11-97

SCALE 1:10,100,000
 0 100 200 MILES

Base Map: Transposed from AK DNR LRIS, Albers Equal Area Projection.
 Redrawn in Autocad & A. Freehand by M. Pritchard & O.D. Smith. 9/92





PROPOSED SALE AREA

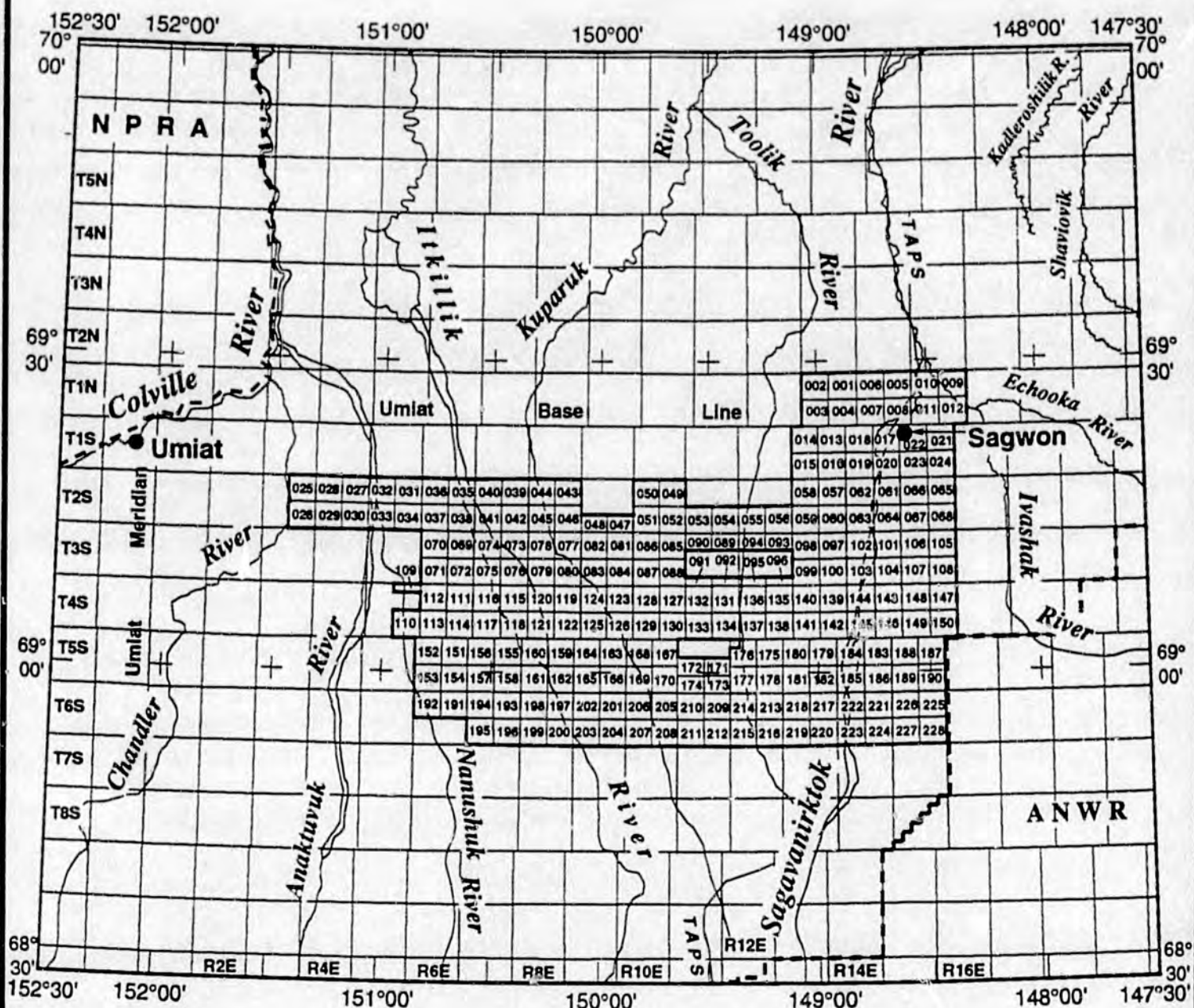
STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

PROPOSED OIL AND GAS LEASE SALE 57
NORTH SLOPE FOOTHILLS

SCALE 1:1,400,000 ONE INCH = 22 MILES approx.
 0 10 20 30 40 50 Miles

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i> PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i>	DRAWN BY: M.P. & O.D.S. CHECKED BY: <i>[Signature]</i> DATE APPROVED 12-23-92 BASE MAP: TRANSPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.
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NOTE : NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

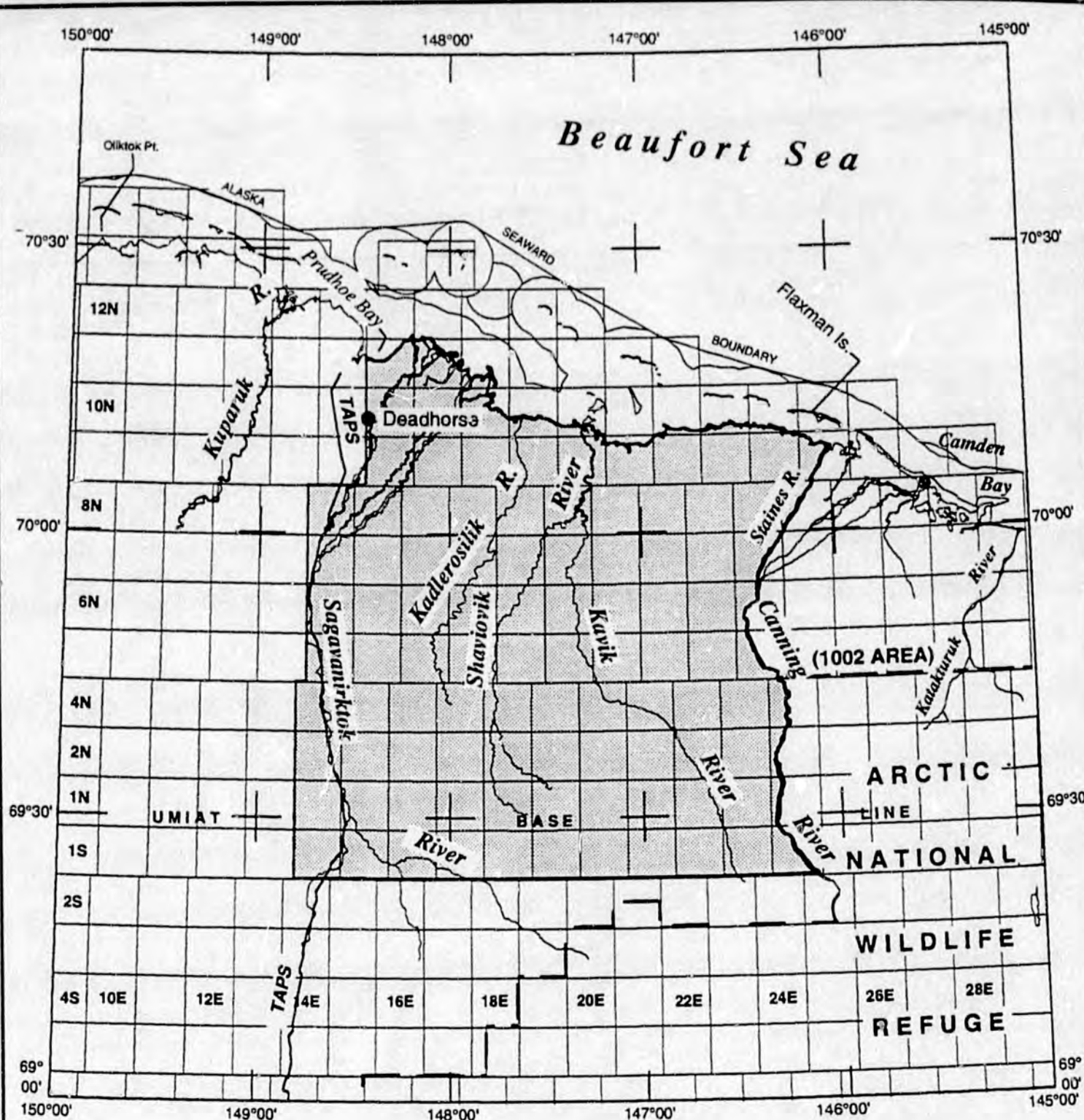
**PROPOSED OIL AND GAS LEASE SALE 77
NANUSHUK PRELIMINARY TRACT MAP**

SCALE 1:1,100,000 ONE INCH = 17.5 MILES approx.

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i> PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i>	DRAWN BY: M.P. & O.D.S. DATE APPROVED 12-23-92 BASE MAP: TRANPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD. CHECKED BY: <i>[Signature]</i>
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NOTE : NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.

NOTE : THIS MAP IS NOT THE OFFICIAL TRACT MAP. A SET OF OFFICIAL TRACT MAPS ARE AVAILABLE AT THE DEPARTMENT OF NATURAL RESOURCES, DIVISION OF OIL AND GAS, 3801 C ST., SUITE 1308, P.O. BOX 107034, ANCHORAGE, ALASKA 99510-7034 PHONE (907) 762-2587



PROPOSED SALE AREA

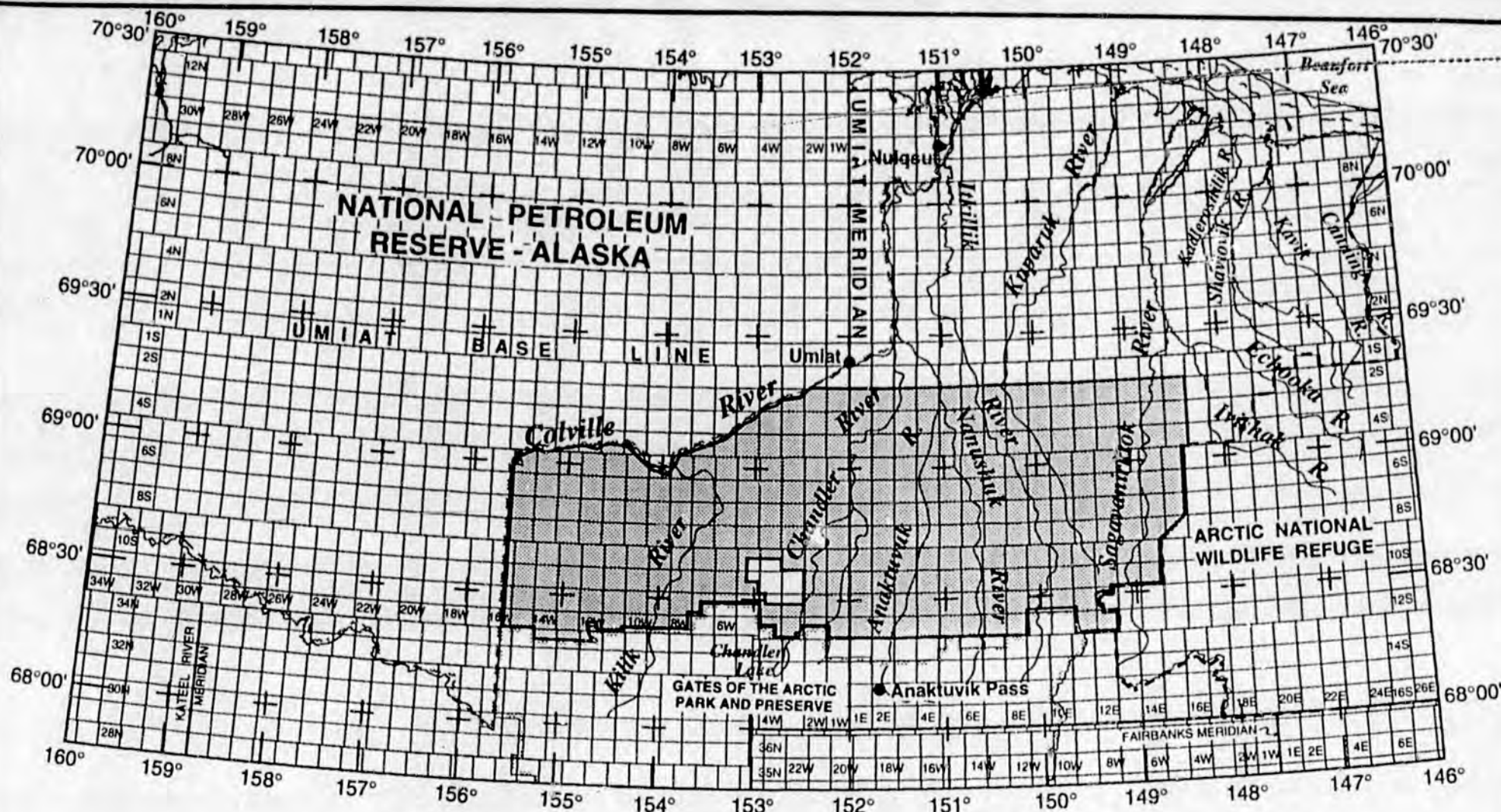
STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

**PROPOSED OIL AND GAS LEASE SALE 80
SHAVIOVIK**

SCALE 1:1,100,000 ONE INCH = 18 MILES approx.

DIRECTOR, DIVISION OF OIL AND GAS JAMES E. EASON <i>[Signature]</i>	DRAWN BY: M.P. & O.D.S. DATE APPROVED 12-07-92
PETRO. GEOPHYSICIST, JAMES HANSEN <i>[Signature]</i>	CHECKED BY: <i>[Signature]</i> BASE MAP: TRANSPOSED FROM U.T.M. PROJECTIONS BY U.S.G.S. REDRAWN IN AUTOCAD AND CLARIS CAD.

NOTE: NO DECISION HAS YET BEEN MADE ON WHETHER THE STATE WILL HOLD THIS LEASE SALE. THE STATE IS GATHERING SOCIAL ENVIRONMENTAL & ECONOMIC INFORMATION ON WHICH TO BASE A DECISION.



PROPOSED SALE AREA

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

PROPOSED OIL AND GAS LEASE SALE 88 NORTH SLOPE FOOTHILLS

SCALE 1:2,500,000 ONE INCH = 40 MILES approx.

0 10 20 30 40 50 100 MILES

DIRECTOR, DIVISION OF OIL AND GAS

JAMES E. EASON *James E. Eason*

PETRO. GEOPHYSICIST,
JAMES HANSEN *James Hansen*

DRAWN
BY: M.P. &
O.D.S.

CHECKED
BY: *Jim*

DATE APPROVED 12-23-92

BASE MAP: TRANSPOSED FROM
U.T.M. PROJECTIONS BY U.S.G.S
REDRAWN IN AUTOCAD AND
CLARIS CAD.

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