



LAWS OF ALASKA

2024

Source

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Chapter No.

AN ACT

Relating to carbon storage on state land; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to deposits into the permanent fund; establishing the carbon storage closure trust fund and carbon dioxide storage facility administrative fund; relating to geothermal resources; relating to carbon storage exploration licenses; relating to carbon storage leases; relating to carbon storage operator permits; relating to enhanced oil or gas recovery; relating to long-term monitoring and maintenance of storage facilities; relating to carbon oxide sequestration tax credits; relating to the Regulatory Commission of Alaska and regulation of the service of natural gas storage; relating to the regulation of liquefied natural gas import facilities; relating to the oil and gas production tax; relating to the duties of the Department of Natural Resources; relating to carbon dioxide pipelines; relating to reserve-based state loans for oil and gas development projects in the Cook Inlet sedimentary basin; relating to the Alaska Industrial Development and Export Authority; requiring the Alaska Industrial Development and Export Authority to report to the legislature on oil and gas projects with potential to increase oil and gas production from the Cook Inlet sedimentary basin; relating to an audit of carbon storage leases conducted by the legislative audit division; and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1

AN ACT

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2 and Gas Conservation Commission; relating to deposits into the permanent fund; establishing
3 the carbon storage closure trust fund and carbon dioxide storage facility administrative fund;
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5 carbon storage leases; relating to carbon storage operator permits; relating to enhanced oil or
6 gas recovery; relating to long-term monitoring and maintenance of storage facilities; relating
7 to carbon oxide sequestration tax credits; relating to the Regulatory Commission of Alaska
8 and regulation of the service of natural gas storage; relating to the regulation of liquefied
9 natural gas import facilities; relating to the oil and gas production tax; relating to the duties of
10 the Department of Natural Resources; relating to carbon dioxide pipelines; relating to reserve-
11 based state loans for oil and gas development projects in the Cook Inlet sedimentary basin;
12 relating to the Alaska Industrial Development and Export Authority; requiring the Alaska

1 Industrial Development and Export Authority to report to the legislature on oil and gas
2 projects with potential to increase oil and gas production from the Cook Inlet sedimentary
3 basin; relating to an audit of carbon storage leases conducted by the legislative audit division;
4 and providing for an effective date.

5

6 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
7 to read:

8 SHORT TITLE. This Act may be known as the Carbon Capture, Utilization, and
9 Storage Act.

10 * **Sec. 2.** AS 31.05.027 is amended to read:

11 **Sec. 31.05.027. Land subject to commission's authority.** The authority of the
12 commission applies to all land in the state lawfully subject to its police powers,
13 including land of the United States and land subject to the jurisdiction of the United
14 States. The authority of the commission further applies to all land included in a
15 voluntary cooperative or unit plan of development or operation entered into in
16 accordance with AS 38.05.180(p) **or 38.05.725.**

17 * **Sec. 3.** AS 31.05.030(m) is amended to read:

18 (m) The commission has jurisdiction and authority over all persons and
19 property, public and private, necessary to carry out the purposes and intent of
20 AS 41.06, except for provisions in **AS 41.06.005 - 41.06.060 and 41.06.305**
21 [AS 41.06] for which the Department of Natural Resources has jurisdiction.

22 * **Sec. 4.** AS 37.05.146(c) is amended by adding new paragraphs to read:

23 (86) carbon dioxide storage facility administrative fund
24 (AS 41.06.160);

25 (87) carbon storage closure trust fund (AS 37.14.850).

26 * **Sec. 5.** AS 37.13.010(a) is amended to read:

27 (a) Under art. IX, sec. 15, of the state constitution, there is established as a
28 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

29 (1) 25 percent of all mineral lease rentals, royalties, royalty sale

1 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue
2 sharing payments received by the state from mineral leases issued on or before
3 December 1, 1979, and 25 percent of all bonuses received by the state from mineral
4 leases issued on or before February 15, 1980;

5 (2) 50 percent of all mineral lease rentals, royalties, royalty sale
6 proceeds, net profit shares under AS 38.05.180(f) and (g), **carbon storage injection**
7 **royalties required under AS 38.05.705(c)(3)(B)**, and federal mineral revenue sharing
8 payments received by the state from mineral leases issued after December 1, 1979, and
9 50 percent of all bonuses received by the state from mineral leases issued after
10 February 15, 1980; and

11 (3) any other money appropriated to or otherwise allocated by law or
12 former law to the Alaska permanent fund.

13 * **Sec. 6.** AS 37.14 is amended by adding a new section to read:

14 **Article 11. Carbon Storage Closure Trust Fund.**

15 **Sec. 37.14.850. Carbon storage closure trust fund.** (a) The carbon storage
16 closure trust fund is established as a separate trust fund of the state outside and
17 separate from the general fund. The legislature may appropriate the principal and
18 earnings of the fund for the purpose of protecting the public interest in maintaining
19 and closing carbon storage facilities in the state. Money in the fund does not lapse.

20 (b) The carbon storage closure trust fund consists of payments received under
21 AS 41.06.175 and earnings on the fund. The payments received for each storage
22 facility shall be separately accounted for under AS 37.05.142. The commissioner of
23 revenue is a fiduciary of the fund. The commissioner of revenue shall manage and
24 invest the fund assets as provided in AS 37.10.071.

25 (c) The commissioner of natural resources may make expenditures from the
26 carbon storage closure trust fund for the purpose of conducting long-term monitoring
27 and maintenance of a storage facility under AS 41.06.305. If a storage operator is
28 unable to fulfill the storage operator's duties and the financial assurance provided by
29 the storage operator under AS 41.06.110(c)(2) is exhausted or insufficient, the Alaska
30 Oil and Gas Conservation Commission may make expenditures from the fund for the
31 purposes allowed under AS 41.06.105 - 41.06.210.

1 (d) Nothing in this section creates a dedicated fund.

2 (e) In this section,

3 (1) "fund" means the carbon storage closure trust fund;

4 (2) "storage facility" and "storage operator" have the meanings given
5 in AS 41.06.210.

6 * **Sec. 7.** AS 38.05.069(e) is amended to read:

7 (e) Nothing in (c) of this section affects the disposal of minerals under
8 AS 38.05.135 - 38.05.183 **or carbon storage under AS 38.05.700 - 38.05.795.**

9 * **Sec. 8.** AS 38.05.070(a) is amended to read:

10 (a) Land, including tide, submerged, or shoreland, to which the state holds title
11 or to which **the state** [IT] may become entitled, may be leased, except for the
12 extraction of natural resources **and for carbon storage under AS 38.05.700 -**
13 **38.05.795,** in the manner provided in AS 38.05.070 - 38.05.105.

14 * **Sec. 9.** AS 38.05.130 is amended to read:

15 **Sec. 38.05.130. Damages and posting of bond.** Rights may not be exercised
16 by the state, its lessees, successors, or assigns under the reservation as set out in
17 AS 38.05.125 until the state, its lessees, successors, or assigns make provision to pay
18 the owner of the land full payment for all damages sustained by the owner, by reason
19 of entering **onto** [UPON] the land. If the owner for any cause refuses or neglects to
20 settle the damages, the state, its lessees, successors, assigns, or an applicant for a lease
21 or contract from the state for the purpose of prospecting for valuable minerals, or
22 option, contract, or lease for **carbon storage or** mining coal or **a** lease for extracting
23 geothermal resources, petroleum, or natural gas, may enter **onto** [UPON] the land in
24 the exercise of the reserved rights after posting a surety bond determined by the
25 director, after notice and an opportunity to be heard, to be sufficient as to form,
26 amount, and security to secure to the owner payment for damages, and may institute
27 legal proceedings in a court where the land is located, as may be necessary to
28 determine the damages **that** [WHICH] the owner may suffer.

29 * **Sec. 10.** AS 38.05.135(a) is amended to read:

30 (a) Except as otherwise provided, valuable mineral deposits in land belonging
31 to the state shall be open to exploration, development, and the extraction of minerals.

1 All land, together with tide, submerged, or shoreland, to which the state holds title to
2 or to which the state may become entitled, may be obtained by permit or lease for the
3 purpose of exploration, development, and the extraction of minerals. Except as
4 specifically limited by AS 38.05.131 - 38.05.181 and 38.05.700 - 38.05.795, land may
5 be withheld from lease application on a first-come, first-served basis, and offered only
6 on a competitive bid basis when determined by the commissioner to be in the best
7 interests of the state.

8 * **Sec. 11.** AS 38.05.135(c) is amended to read:

9 (c) Payment of a royalty or a net profit share payment to the state under a lease
10 issued under AS 38.05.135 - 38.05.181 or an injection charge under AS 38.05.700 -
11 38.05.795 becomes due on the date and in the manner specified in the lease or in a
12 regulation adopted by the commissioner.

13 * **Sec. 12.** AS 38.05.135(d) is amended to read:

14 (d) If a royalty or net profit share payment to which the state is entitled under
15 AS 38.05.135 - 38.05.181 or an injection charge under AS 38.05.700 - 38.05.795 is
16 not paid or is underpaid when it becomes due under (c) of this section, the unpaid
17 amount of the royalty, [OR] net profit share payment, or injection charge bears
18 interest in a calendar quarter at the rate of five percentage points above the annual rate
19 charged member banks for advances by the 12th Federal Reserve District as of the
20 first day of that calendar quarter, or at the annual rate of 11 percent, whichever is
21 greater, compounded quarterly as of the last day of that quarter.

22 * **Sec. 13.** AS 38.05.135(e) is amended to read:

23 (e) If a royalty or net profit share payment to which the state is entitled under
24 AS 38.05.135 - 38.05.181 or an injection charge under AS 38.05.700 - 38.05.795 is
25 overpaid, interest at the rate and compounded in the manner provided in (d) of this
26 section shall be allowed and paid on the overpayment. The interest allowance is
27 subject to the following:

28 (1) if the state grants a credit against future payments for the
29 overpayment, the state shall pay interest on the overpayment

(A) from the date that is the later of the date the overpayment

31 was

1 (i) due; or
2 (ii) received;
3 (B) to the date that is the earlier of the date
4 (i) of notice to the lessee of the credit; or
5 (ii) on which the lessee actually takes the credit;
6 (2) if the state refunds the overpayment, the state shall pay interest on
7 the overpayment
8 (A) from the date that is the later of the date the overpayment
9 was
10 (i) due; or
11 (ii) received;
12 (B) to the date the state issues the refund.

13 * **Sec. 14.** AS 38.05.140(a) is amended to read:

14 (a) A person may not take or hold coal leases or permits during the life of coal
15 leases on state land exceeding an aggregate of 92,160 acres, except that a person may
16 apply for coal leases or permits for acreage in addition to 92,160 acres, not exceeding
17 a total of 5,120 additional acres of state land. The additional area applied for shall be
18 in multiples of 40 acres, and the application shall contain a statement that the granting
19 of a lease for additional land is necessary for the person to carry on business
20 economically and is in the public interest. On the filing of the application, except as
21 provided by AS 38.05.180(ff)(3) or 38.05.180(gg) **and 38.05.700 - 38.05.795**, the coal
22 deposits in the land covered by the application shall be temporarily set aside and
23 withdrawn from all other forms of disposal provided under AS 38.05.135 - 38.05.181.

24 * **Sec. 15.** AS 38.05.181(a) is amended to read:

25 (a) The commissioner may, under regulations adopted by the commissioner,
26 grant prospecting **licenses** [PERMITS] and leases to a qualified person to explore for,
27 develop, or use geothermal resources. When title to the surface parcel is held by a
28 person other than the state, that person shall have a preferential right to a geothermal
29 prospecting **license** [PERMIT] or lease for the area underlying the surface parcel. The
30 surface owner must exercise the preference right within 30 days after receiving notice
31 of the application for a **license** [PERMIT], or by agreeing to meet the terms of a bid

1 within 60 days after receiving notice of the acceptance of the bid for a lease.

2 * **Sec. 16.** AS 38.05.181(c) is amended to read:

3 (c) On state land that has not been declared a competitive geothermal area or
4 withdrawn from geothermal prospecting, the commissioner may issue a prospecting
5 **license** [PERMIT] to the first qualified applicant. The **license** [PERMIT] conveys an
6 exclusive right, for a period of **five** [TWO] years, to prospect for geothermal resources
7 on state land included under the **license** [PERMIT]. The commissioner has discretion
8 to renew the **license** [PERMIT] for an additional one-year term. A holder of a
9 prospecting **license** [PERMIT] has the right, **after completion of an agreed-on work**
10 **commitment** [UPON THE SHOWING OF A DISCOVERY OF GEOTHERMAL
11 RESOURCES IN COMMERCIAL QUANTITIES] and the submission of **an**
12 **exploration** [A DEVELOPMENT] plan acceptable to the commissioner, to convert
13 the **license** [PERMIT] to a noncompetitive lease at a royalty rate under (g) of this
14 section. The conversion privilege must be exercised not later than 30 days after the
15 expiration of the **license** [PERMIT]. If the land included within the **license** [PERMIT]
16 is designated a competitive geothermal area during the **license** [PERMIT] term, the
17 **licensee** [PERMITTEE] must apply for a noncompetitive lease within 30 days after
18 notification of the designation or forfeit the conversion privileges and the exclusive
19 right to prospect.

20 * **Sec. 17.** AS 38.05.181(d) is amended to read:

21 (d) On state land that is designated a competitive geothermal area and is not
22 subject to an existing prospecting **license** [PERMIT], the commissioner may issue
23 geothermal leases to the highest bidder by competitive bidding procedures established
24 by regulations adopted by the commissioner. At the discretion of the commissioner,
25 competitive lease sales may be by oral or sealed bid, on the basis of a cash bonus,
26 profit share, or royalty share.

27 * **Sec. 18.** AS 38.05.181(e) is amended to read:

28 (e) Prospecting **licenses** [PERMITS] and geothermal leases granted under this
29 section must [, EXCEPT IN THE CASE OF PARCELS SUBJECT TO A
30 PREFERENCE RIGHT UNDER (b) OF THIS SECTION,] be issued for at least 40
31 acres but not more than 2,560 acres. A person may not own, or hold an interest in,

1 geothermal leases covering more than **100,000** [51,200] acres. However, geothermal
2 leases in commercial production, individually or under a unit operation or well spacing
3 or pooling arrangement, do not count against the acreage limitation. All prospecting
4 **licenses** [PERMITS] and geothermal leases are subject to an annual rental **fee**
5 **established by the department in regulation and** [,] payable in advance [, OF \$3
6 PER ACRE]. The rental for a year shall be credited against royalties accruing for that
7 year.

8 * **Sec. 19.** AS 38.05.181(f) is amended to read:

9 (f) A geothermal lease shall be issued for a primary term of 10 years and may
10 be renewed for an additional term of five years if the lessee is actively engaged in
11 drilling operations. A geothermal lease is valid for the duration of commercial
12 production. [BEGINNING 20 YEARS AFTER THE INITIATION OF
13 COMMERCIAL PRODUCTION AND AT 10-YEAR INTERVALS THEREAFTER,
14 THE COMMISSIONER MAY RENEGOTIATE THE RENTALS AND
15 ROYALTIES DUE ON A GEOTHERMAL LEASE.]

16 * **Sec. 20.** AS 38.05.184 is amended by adding a new subsection to read:

17 (h) A department or other state agency may not issue a carbon storage license
18 or lease on state-owned land and water seaward of the mean higher high water line,
19 beginning at Anchor Point; then around the perimeter of Kachemak Bay, to Point
20 Pogibshi; then west to the three mile limit of state land and water; then north to a point
21 three miles west of Anchor Point; then east to the mean higher high water line of
22 Anchor Point, the point of beginning.

23 * **Sec. 21.** AS 38.05 is amended by adding new sections to read:

24 **Article 15A. Carbon Storage Exploration Licenses; Leases.**

25 **Sec. 38.05.700. Applicability; regulations.** (a) The provisions of
26 AS 38.05.700 - 38.05.795 apply to the licensing of state land for carbon storage
27 exploration and the leasing of state land for carbon storage.

28 (b) The commissioner may adopt regulations necessary to implement
29 AS 38.05.700 - 38.05.795.

30 **Sec. 38.05.705. Carbon storage exploration licensing.** (a) The commissioner
31 may issue carbon storage exploration licenses on state land.

1 (b) A carbon storage exploration license gives the licensee
2 (1) the exclusive right to explore, for carbon storage purposes, the state
3 land described in the license for a five-year term; and

4 (2) the option to convert the license for all or part of the state land
5 described in the license into a carbon storage lease after the licensee complies with the
6 lease conversion process described in AS 38.05.715.

7 (c) A carbon storage exploration license must

8 (1) be conditioned on the posting of a bond or other security acceptable
9 to the department and in favor of the state;

10 (2) be conditioned on an obligation by the licensee to fulfill a specified
11 work commitment as set out in the license; the work commitment must include
12 mandatory provisions for

13 (A) an annual fee paid by the licensee to the department in an
14 amount that is at least \$20 an acre, subject to the license; and

15 (B) an annual report describing the licensee's exploration
16 activities in the previous calendar year, which the licensee shall provide to the
17 department; and

18 (3) include proposed commercial terms that apply if the license is
19 converted into a carbon storage lease, which must, at a minimum, provide for

20 (A) an annual rent of at least \$20 an acre; and

21 (B) a charge on injected volumes of carbon dioxide of at least
22 \$2.50 a ton.

23 (d) The commissioner may revoke a carbon storage exploration license before
24 the termination of the five-year term of the license if the licensee fails to comply with
25 the requirements of (c) of this section or applicable regulations.

26 (e) The department may renew a carbon storage exploration license for a term
27 sufficient to determine whether the licensee's permit application will be accepted
28 under AS 41.06.105 - 41.06.210 if the licensee

29 (1) before the expiration of the license, applies for a permit under
30 AS 41.06.120;

31 (2) is in compliance with the conditions of the license;

1 (3) provides documentation acceptable to the department of the
2 pending permit application; and

3 (4) submits to the department an executed renewal form affirming the
4 original terms of the license for the term of the renewed license.

5 (f) A carbon storage exploration license that has been renewed under (e) of
6 this section terminates immediately if the Alaska Oil and Gas Conservation
7 Commission denies the licensee's permit application under AS 41.06.105 - 41.06.210.

8 (g) The dollar amounts in (c) of this section shall increase every five years in
9 proportion to the Consumer Price Index for urban consumers for urban Alaska, as
10 determined by the United States Department of Labor, Bureau of Labor Statistics. The
11 index for January 2024 is the reference base index.

12 (h) A charge on injected volumes of carbon dioxide required under (c)(3)(B)
13 of this section or as altered by the commissioner under AS 38.05.715(c) is a royalty
14 for the purposes of the Alaska permanent fund under AS 37.13.010.

15 **Sec. 38.05.710. License procedures.** (a) To apply for a carbon storage
16 exploration license under AS 38.05.705, an applicant shall submit to the commissioner
17 a proposal that

18 (1) identifies the specific area to be subject to the license;

19 (2) proposes minimum work commitments;

20 (3) proposes commercial terms applicable to a carbon storage lease
21 that satisfy the requirements of AS 38.05.705(c)(3);

22 (4) demonstrates the applicant's ability to assume responsibility of a
23 carbon storage lease;

24 (5) describes how the applicant meets the minimum qualifications for a
25 licensee under applicable regulations; and

26 (6) includes an attestation of the applicant's ability to perform the
27 requirements of (2) - (4) of this subsection.

28 (b) The commissioner shall publish notice of a proposal received under (a) of
29 this section. The notice must include a solicitation for competing proposals. The
30 commissioner shall send a copy of the published notice to each lessee under
31 AS 38.05.135 - 38.05.181 within one-half mile of the area proposed for the

1 exploration license. Any person may submit a competing proposal, including a
2 proposal for the authorization of subsurface storage of oil or gas under
3 AS 38.05.180(u), under the process established by the commissioner in regulation.
4 The regulations must require that a competing proposal be submitted not later than 90
5 days after the commissioner's notice is published.

6 (c) After the period for submission of competing proposals has passed, the
7 commissioner shall issue a written finding determining whether issuance of a carbon
8 storage exploration license is in the best interests of the state. If the commissioner
9 determines that issuance of a carbon storage exploration license is in the best interests
10 of the state, the finding must

11 (1) describe the limitations, stipulations, and conditions of the license
12 and any changes to the conditions detailed in the proposal submitted under (a) of this
13 section, or a competing proposal, that are required before issuance of the exploration
14 license;

15 (2) set out the commercial terms required for the eventual conversion
16 of the exploration license into a carbon storage lease;

17 (3) if there are competing proposals from multiple applicants, identify
18 which applicants are qualified for the issuance of the exploration license and include
19 information about the competitive bid process as set out in (e) of this section; and

20 (4) include a copy of the exploration license to be issued and the form
21 of lease that will be used for any portion of the exploration license area that is later
22 converted to a lease under AS 38.05.715.

23 (d) If the commissioner determines that issuance of a carbon storage
24 exploration license is in the best interests of the state and that only one applicant is
25 qualified for a license, the applicant may accept or reject the exploration license, as
26 limited or conditioned by the terms of the finding made under (c) of this section and in
27 the form of lease attached to the finding, not later than 30 days after the date the
28 finding was issued. The applicant shall accept or reject the issuance of the carbon
29 storage exploration license in writing. If an applicant fails to respond within 30 days
30 after the finding was issued, the commissioner shall consider the applicant's failure to
31 respond as a rejection of the license.

1 (e) If the commissioner determines that issuance of a carbon storage
2 exploration license is in the best interests of the state and that more than one applicant
3 is qualified for a license, the commissioner shall issue a request for competitive sealed
4 bids, under procedures adopted by regulation, to determine which qualified applicants
5 will receive a license. If the commissioner determines that a competitive bid process is
6 necessary, the best interest finding made under (c) of this section must include notice
7 that the commissioner intends to request competitive bids.

8 (f) The commissioner shall establish in regulation the criteria for the
9 assessment of competitive bids under (e) of this section and for the determination of a
10 successful bidder.

11 (g) If a lessee under AS 38.05.135 - 38.05.181 in the area covered by a
12 proposed carbon storage exploration license participates in a competitive bid process
13 under (e) of this section and is not the successful bidder, before issuing the license, the
14 commissioner shall provide the lessee an opportunity to match the successful bid. If
15 the lessee matches the successful bid, the commissioner shall issue a carbon storage
16 exploration license to the lessee.

17 (h) A carbon storage exploration license issued under this section and a carbon
18 storage lease under AS 38.05.715 or 38.05.720 must include

19 (1) a covenant from the licensee or lessee not to unreasonably interfere
20 with the rights of a lessee under AS 38.05.135 - 38.05.181; and

21 (2) a clause by which the licensee or lessee indemnifies the state for
22 any unreasonable interference the licensee or lessee might cause to the rights of a
23 lessee under AS 38.05.135 - 38.05.181.

24 (i) When notice is required under this section, the department shall follow the
25 requirements for notice under AS 38.05.945(b) and (c).

26 **Sec. 38.05.715. Conversion to lease by licensee.** (a) The commissioner may
27 convert a carbon storage exploration license to a carbon storage lease if the licensee
28 complies with (b) of this section.

29 (b) To convert a carbon storage exploration license to a carbon storage lease, a
30 licensee shall provide to the commissioner a copy of the permit obtained under
31 AS 41.06.120. After receiving a copy of the permit, the commissioner may issue a

1 carbon storage lease for those areas of the exploration license approved for carbon
2 storage by the permit if the licensee has

3 (1) fulfilled the work commitments set out in the license;

4 (2) demonstrated the ability to meet the commercial terms for the lease
5 as set out in the license.

6 (c) Notwithstanding (b) of this section, if the commissioner determines that a
7 carbon storage project is in the best interests of the state and would not be
8 economically feasible under the commercial terms set by the license, the
9 commissioner may issue the carbon storage lease under alternative commercial terms.
10 A lease issued under this subsection must be supported by a written finding that
11 contains specific factual details justifying the decision, an explanation of the
12 commissioner's reasons for issuing the lease, and a description of the original terms
13 and the alternative terms of the lease. The finding must be published on the
14 commissioner's publicly available Internet website.

15 (d) A lease issued under this section must include

16 (1) commercial terms for the lease;

17 (2) the agreements required under AS 38.05.710(h); and

18 (3) any other condition or obligation the commissioner considers
19 necessary or that is required by regulation.

20 **Sec. 38.05.720. Transition from enhanced oil recovery operations to**
21 **carbon storage operations.** (a) A lessee under AS 38.05.180 shall acquire a carbon
22 storage lease before engaging in carbon storage activity that is not associated with
23 enhanced oil or gas recovery.

24 (b) At the commissioner's discretion, the commissioner may issue a carbon
25 storage lease to a lessee under AS 38.05.180 if the lessee is in compliance with
26 regulations adopted under AS 41.06.185(b). The commissioner may consider the
27 qualifications and abilities of the lessee to meet the commercial requirements of a
28 carbon storage lease and whether issuance of the lease is in the best interests of the
29 state.

30 (c) A carbon storage lease issued under this section must include

31 (1) commercial terms acceptable to the department that satisfy the

1 requirements of AS 38.05.705(c)(3);

2 (2) the agreements required under AS 38.05.710(h);

3 (3) any other condition or obligation the commissioner considers
4 necessary or that is required by regulation.

5 (d) Before a carbon storage lease issued under this section may be transferred
6 or assigned to an entity that is not the responsible party under the existing oil and gas
7 lease under AS 38.05.180, the assuming party must provide financial assurance
8 acceptable to the department that the obligations of the lease can be met.

9 (e) The department may adopt regulations that allow all or part of a lease
10 issued under AS 38.05.180 to be transitioned to a lease under this section upon the
11 receipt of a permit issued under AS 41.06.185.

12 **Sec. 38.05.725. Plan of development and operations; unitization.** (a) The
13 commissioner shall require the filing and approval of a plan of development and
14 operation for a carbon storage lease.

15 (b) To prevent or assist in preventing waste, and to protect the correlative
16 rights of persons owning interest in the tracts of land affected, with the approval of the
17 commissioner, a group of lessees may validly integrate the lessees' interests to provide
18 for the unitized management, development, and operation of the tracts of land as a
19 unit. The commissioner may suspend or modify a development plan approved under
20 (a) of this section in accordance with the unit agreement. In this subsection, "unit
21 agreement" means an agreement by lessees with an interest in the unit, the state, and
22 any other carbon storage lessor with an interest in the unit.

23 (c) A lease operated under a plan approved or prescribed by the commissioner
24 under this section is excepted from determining holdings or control under
25 AS 38.05.140. The provisions of this section concerning cooperative or unit plans are
26 in addition to and do not affect AS 31.05 and AS 41.06.

27 **Sec. 38.05.730. Payments from carbon storage exploration licenses and**
28 **carbon storage leases.** Except as otherwise provided in AS 38.05.705(h) or under art.
29 IX, sec. 15, Constitution of the State of Alaska, the department shall deposit in the
30 general fund the money it collects under AS 38.05.700 - 38.05.795.

31 **Sec. 38.05.735. Annual report to the legislature.** The commissioner shall

1 prepare an annual report that includes an accounting of the carbon storage closure trust
2 fund established under AS 37.14.850 and information on carbon storage licensing
3 applications and decisions and the issuance of carbon storage leases. The
4 commissioner shall submit the report to the senate secretary and the chief clerk of the
5 house of representatives on or before February 1 of each year and notify the legislature
6 that the report is available.

7 **Sec. 38.05.740. Removal and restoration after termination.** Upon
8 termination of a license under AS 38.05.705 or a lease under AS 38.05.715 or
9 38.05.720, a licensee or lessee shall promptly remove all improvements and
10 equipment, except as otherwise approved in writing by the commissioner, and shall
11 restore the land to a condition that is approved by the commissioner.

12 **Sec. 38.05.795. Definitions.** In AS 38.05.700 - 38.05.795, unless the context
13 requires otherwise,

14 (1) "carbon storage" means the underground storage of carbon dioxide
15 in a carbon storage reservoir;

16 (2) "enhanced oil or gas recovery" has the meaning given in
17 AS 41.06.210;

18 (3) "reservoir" has the meaning given in AS 41.06.210.

19 * **Sec. 22.** AS 38.05.965(6) is amended to read:

20 (6) "geothermal resources" means the natural heat of the earth at
21 temperatures greater than **80** [120] degrees Celsius, measured at the point where the
22 highest-temperature resources encountered enter or contact a well or other resource
23 extraction device, and includes

24 (A) the energy, including pressure, in whatever form present in,
25 resulting from, created by, or that may be extracted from that natural heat;

26 (B) the material medium, including the geothermal fluid
27 naturally present, as well as substances artificially introduced to serve as a heat
28 transfer medium; and

29 (C) all dissolved or entrained minerals and gases that may be
30 obtained from the material medium, but excluding hydrocarbon substances and
31 helium;

1 * **Sec. 23.** AS 38.35.020(a) is amended to read:

2 (a) Rights-of-way on state land, including rights-of-way over, under, along,
3 across, or on [UPON] the right-of-way of a public road or highway or the right-of-way
4 of a railroad or other public utility, or across, on [UPON], over, or under a river or
5 other body of water or land belonging to or administered by the state may be granted
6 by noncompetitive lease by the commissioner for pipeline purposes for the
7 transportation of oil, products, carbon dioxide, or natural gas under those conditions
8 prescribed by law or by administrative regulation. Except to the extent authorized by
9 an oil and gas lease, a gas only lease, or a carbon storage lease, or an oil and gas,
10 [OR] gas only, or carbon storage unit agreement approved by the state, no person
11 may engage in any construction or operation of any part of an oil, products, carbon
12 dioxide, or natural gas pipeline that is or is proposed to be, [WHICH] in whole or in
13 part, [IS OR IS PROPOSED TO BE] on state land unless that person has obtained
14 from the commissioner a right-of-way lease of the land under this chapter.

15 * **Sec. 24.** AS 38.35.020(b) is amended to read:

16 (b) The commissioner may by regulation exempt from the requirement of a
17 right-of-way lease under this chapter the construction or operation of

18 (1) field gathering lines or any reasonable classification of field
19 gathering lines; and

20 (2) a pipeline transporting carbon dioxide within a field for the
21 purpose of an enhanced oil or gas recovery project under AS 41.06.185 or field
22 pressurization measures within that same field [THEM FROM THE
23 REQUIREMENT OF A RIGHT-OF-WAY LEASE UNDER THIS CHAPTER].

24 * **Sec. 25.** AS 38.35.122 is amended to read:

25 **Sec. 38.35.122. Products pipeline and carbon dioxide transportation**
26 **pipeline leases.** The commissioner has discretion to include any or all of the terms set
27 out in AS 38.35.120 in leases of state land for products pipeline right-of-way purposes
28 **or carbon dioxide transportation pipeline right-of-way purposes.**

29 * **Sec. 26.** AS 38.35.230(3) is amended to read:

30 (3) "lease" means the instrument or extension of an instrument issued
31 under this chapter granting a leasehold interest in state land for pipeline right-of-way

1 purposes to a person and authorizing the construction or operation of, or **the**
2 transportation, service, or sale by, a pipeline for crude oil, natural gas, **carbon**
3 **dioxide**, or products;

4 * **Sec. 27.** AS 38.35.230(7) is amended to read:

5 (7) "pipeline" or "pipeline facility" means all the facilities of a total
6 system of pipe, whether owned or operated under a contract, agreement, or lease, used
7 by a carrier for transportation of crude oil, natural gas, **carbon dioxide**, or products for
8 delivery, for storage, or for further transportation, and including all pipe, pump or
9 compressor stations, station equipment, tanks, valves, access roads, bridges, airfields,
10 terminals and terminal facilities, including docks and tanker loading facilities,
11 operations control center for both the upstream part of the pipeline and the terminal,
12 tanker ballast treatment facilities, and fire protection system, communication system,
13 and all other facilities used or necessary for an integral line of pipe, taken as a whole,
14 to **carry out** [EFFECTUATE] transportation, including an extension or enlargement
15 of the line;

16 * **Sec. 28.** AS 38.35.230(10) is amended to read:

17 (10) "transportation" means the shipment or carriage by a pipeline of
18 crude oil, natural gas, **carbon dioxide**, or products from an upstream terminus in one
19 or more fields or points of production or supply of the minerals to a downstream
20 terminus in one or more points for delivery of the minerals to a purchaser or
21 consignee, for storage, or for further carriage or shipment, including shipment or
22 carriage within the state that may be classified as interstate or foreign transportation to
23 the extent that the transportation may constitutionally be subjected to the provisions of
24 this chapter, as well as all services necessary to **carry out** [EFFECTUATE] shipment
25 or carriage, including [, AMONG OTHER THINGS,] the receipt, storage, processing,
26 handling, transfer in transit, forwarding, and delivery of the minerals.

27 * **Sec. 29.** AS 38.35.230 is amended by adding a new paragraph to read:

28 (11) "carbon dioxide" has the meaning given in AS 41.06.210.

29 * **Sec. 30.** AS 41.06.005 is amended to read:

30 **Sec. 41.06.005. Jurisdiction over geothermal resources.** (a) The commission
31 has jurisdiction under **AS 41.06.005 - 41.06.060** [THIS CHAPTER] over geothermal

1 wells to prevent waste, to protect correlative rights, and to ensure public safety.

2 (b) The Department of Natural Resources has jurisdiction under **AS 41.06.005**
3 **- 41.06.060** [THIS CHAPTER] over management of geothermal leases and units in the
4 public interest and to effect development.

5 * **Sec. 31.** AS 41.06.020 is amended to read:

6 **Sec. 41.06.020. Authority of commission; application.** (a) The commission
7 has jurisdiction over all persons and property, public and private, necessary to carry
8 out the purposes and intent of **AS 41.06.005 - 41.06.060** [THIS CHAPTER].

9 (b) The authority of the commission applies to all land in the state lawfully
10 subject to the police power of the state, including private land, municipal land, state
11 land, land of the United States, and land subject to the jurisdiction of the United
12 States, and to all land included in a voluntary cooperative or unit plan of development
13 or operation entered into in accordance with AS 38.05.181. When land that is subject
14 to the commission's authority is committed to a unit agreement involving land subject
15 to federal jurisdiction, the operation of **AS 41.06.005 - 41.06.060** [THIS CHAPTER]
16 or a part of **AS 41.06.005 - 41.06.060** [THIS CHAPTER] may be suspended if

17 (1) the unit operations are regulated by the United States; and

18 (2) the conservation of geothermal resources is accomplished under the
19 unit agreement.

20 (c) **The provisions of AS 41.06.005 - 41.06.060 apply** [THIS CHAPTER
21 APPLIES]

22 (1) to wells drilled in search of, in support of, or for the recovery or
23 production of geothermal resources;

24 (2) when a person engaged in drilling activity not otherwise subject to
25 the provisions of **AS 41.06.005 - 41.06.060** [THIS CHAPTER] encounters geothermal
26 resources, fluid, or water of sufficient heat or pressure to constitute a threat to human
27 life or health unless the drilling operation is subject to oil and gas drilling regulation
28 under AS 31.05;

29 (3) in areas and under conditions in which the commission determines
30 that drilling may encounter geothermal resources, fluid, or water of sufficient heat or
31 pressure to constitute a threat to human life or health.

1 (d) To the extent the provisions of AS 31.05 do not conflict with the
2 provisions of AS 41.06.005 - 41.06.060 [THIS CHAPTER], the provisions of
3 AS 31.05 are applicable to wells drilled in search of, in support of, or for the recovery
4 or production of geothermal resources.

5 (e) Nothing in AS 41.06.005 - 41.06.060 [THIS CHAPTER] limits the
6 authority of the department

7 (1) over geothermal resources under AS 38.05.181; or

8 (2) to approve and manage geothermal units or operations that include
9 state land.

10 * **Sec. 32.** AS 41.06.030(e) is amended to read:

11 (e) The commissioner may adopt regulations under AS 44.62 (**Administrative**
12 **Procedure Act**) to carry out the purposes and intent of AS 41.06.005 - 41.06.060
13 [THIS CHAPTER] for duties assigned to the department, including the promotion of
14 maximum economic recovery.

15 * **Sec. 33.** AS 41.06.035(b) is amended to read:

16 (b) The commission may adopt regulations under AS 44.62 (**Administrative**
17 **Procedure Act**) and issue orders appropriate to carry out the purposes and intent of
18 AS 41.06.005 - 41.06.060 [THIS CHAPTER] for duties assigned to the commission,
19 including orders regarding the establishment of drilling units for pools as set out in
20 AS 31.05.100 and orders regarding unitized operation and integration of interests as
21 set out in AS 31.05.110.

22 * **Sec. 34.** AS 41.06.040(a) is amended to read:

23 (a) The commission shall adopt regulations under AS 44.62 (Administrative
24 Procedure Act), issue orders, and take other appropriate action to carry out the
25 purposes and intent of AS 41.06.005 - 41.06.060 [THIS CHAPTER], including
26 adopting regulations to prevent

27 (1) geothermal resources, water or other fluids, and gases from
28 escaping into strata other than that in which they are found, unless in accordance with
29 an approved reinjection program;

30 (2) contamination of surface and groundwater;

31 (3) premature degradation of a geothermal system by water

1 encroachment or otherwise;

2 (4) blowouts, cavings, and seepage; and

3 (5) unreasonable disturbance or injury to neighboring properties, prior
4 water rights, prior oil or gas rights, human life, health, and the natural environment.

5 * **Sec. 35.** AS 41.06.050(e) is amended to read:

6 (e) In making the determination under (d) of this section, the commission shall
7 consider whether the

8 (1) proposed well will significantly interfere with or substantially
9 impair a prior water, oil, or gas right;

10 (2) proposed well is contrary to a provision of **AS 41.06.005 -**
11 **41.06.060** [THIS CHAPTER], a regulation adopted by the commission, another law,
12 or an order, stipulation, or term of a permit issued by the commission; and

13 (3) applicant is in violation of a provision of **AS 41.06.005 - 41.06.060**
14 [THIS CHAPTER], a regulation adopted by the commission, another law, or an order,
15 stipulation, or term of a permit issued by the commission; the commission shall
16 consider the magnitude of the violation.

17 * **Sec. 36.** AS 41.06.055(c) is amended to read:

18 (c) The commission shall determine the regulatory cost charges levied under
19 this section so that the total amount to be collected approximately equals the
20 appropriations made for the operating costs of the commission that have been incurred
21 under **AS 41.06.005 - 41.06.060** [THIS CHAPTER] for the fiscal year.

22 * **Sec. 37.** AS 41.06.055(d) is amended to read:

23 (d) The commission shall collect the regulatory cost charges imposed under
24 this section. The Department of Administration shall identify the amount of
25 appropriations made for the operating costs of the commission under **AS 41.06.005 -**
26 **41.06.060** [THIS CHAPTER] that lapse into the general fund each year. The
27 legislature may appropriate an amount that is at least equal to the lapsed amount to the
28 commission for its operating costs under **AS 41.06.005 - 41.06.060** [THIS
29 CHAPTER] for the next fiscal year. If the legislature makes an appropriation to the
30 commission under this subsection that is equal to or greater than the lapsed amount,
31 the commission shall reduce the total regulatory cost charge collected for that fiscal

1 year by a comparable amount.

2 * **Sec. 38.** AS 41.06.060 is amended to read:

3 **Sec. 41.06.060. Definitions.** In AS 41.06.005 - 41.06.060 [THIS CHAPTER],
4 unless the context otherwise requires,

5 (1) "commercial use" means the sale of heat or power to a third party;

6 (2) "commission" means the Alaska Oil and Gas Conservation
7 Commission created under AS 31.05.005;

8 (3) "correlative rights" means the right of an owner of each property in
9 a geothermal system to produce without waste the owner's just and equitable share of
10 the geothermal resources in the geothermal system; a just and reasonable share is an
11 amount, so far as can be practically determined and so far as can be practically
12 produced without waste, that is substantially in proportion to the quantity of
13 recoverable geothermal resources under the owner's property relative to the total
14 recoverable geothermal resources in the geothermal system;

15 (4) "geothermal fluid" means liquids and steam at temperatures greater
16 than 120 degrees Celsius or any commercial use of liquids and steam naturally present
17 in a geothermal system at temperatures less than 120 degrees Celsius;

18 (5) "geothermal resources"

19 (A) means the natural heat of the earth at temperatures greater
20 than 120 degrees Celsius, or any use of that heat for commercial purposes,
21 measured at the point **at which** [WHERE] the highest-temperature resources
22 encountered enter or contact a well or other resource extraction device or any
23 commercial use of the natural heat of the earth;

24 (B) includes

25 (i) the energy, including pressure, in whatever form
26 present in, resulting from, created by, or that may be extracted from
27 that natural heat;

28 (ii) the material medium, including steam and other
29 gases, hot water, and hot brines constituting the geothermal fluid
30 naturally present, as well as substances artificially introduced to serve
31 as a heat transfer medium; and

1 (iii) all dissolved or entrained minerals and gases that
2 may be obtained from the material medium, but excluding hydrocarbon
3 substances and helium;

4 (6) "geothermal system" means a stratum, pool, reservoir, or other
5 geologic formation containing geothermal resources;

6 (7) "operator" means a person drilling, maintaining, operating,
7 producing, or in control of a well;

8 (8) "owner" means the person who has the right to drill into or produce
9 from a geothermal system and to appropriate the geothermal resources produced from
10 a geothermal system for that person and others;

11 (9) "waste" means, in addition to its ordinary meaning, physical waste,
12 and includes an inefficient, excessive, or improper production, use, or dissipation of
13 geothermal resources, including

14 (A) drilling, transporting, or storage methods that cause or tend
15 to cause unnecessary surface loss of geothermal resources;

16 (B) locating, spacing, drilling, equipping, operating, producing,
17 or venting of a well in a manner that results or tends to result in reducing the
18 ultimate economic recovery of geothermal resources;

19 (10) "well" means a well drilled, converted, or reactivated for the
20 discovery, testing, production, or subsurface injection of geothermal resources.

21 * **Sec. 39.** AS 41.06 is amended by adding new sections to read:

22 **Article 2. Carbon Storage; Injection.**

23 **Sec. 41.06.105. Jurisdiction over storage facilities.** The commission has
24 jurisdiction under AS 41.06.105 - 41.06.210 over storage facilities to prevent waste,
25 protect correlative rights, and ensure public health and safety.

26 **Sec. 41.06.110. Authority of the commission.** (a) The authority of the
27 commission applies to all land

28 (1) in the state lawfully subject to the police power of the state,
29 including private land, municipal land, state land, federal land, and land subject to the
30 jurisdiction of the United States; and

31 (2) included in a voluntary cooperative or unit plan of development or

1 operation entered into in accordance with AS 38.05.725.

2 (b) When land that is subject to the commission's authority is committed to a
3 unit agreement involving land subject to federal jurisdiction, the operation of
4 AS 41.06.105 - 41.06.210 may be suspended if

5 (1) the unit operations are regulated by the United States; and
6 (2) conservation of resources in the reservoir or pool is accomplished
7 in the agreement.

8 (c) The commission has the authority to

9 (1) regulate activities related to a storage facility, including the
10 construction, operation, and closure of the facility;

11 (2) require that storage operators provide assurance, including bonds,
12 that money is available to fulfill the storage operator's duties;

13 (3) enter, at a reasonable time and in a reasonable manner, a storage
14 facility to

15 (A) inspect equipment and facilities;

16 (B) observe, monitor, and investigate operation; and

17 (C) inspect records required to be maintained at the facility;

18 (4) exercise continuing jurisdiction over storage operators and storage
19 facilities, including the authority, after notice and hearing, to amend provisions in a
20 permit and to revoke a permit; and

21 (5) dissolve or change the boundaries of an oil or gas field or unit
22 established by the commission that is within or near the boundaries of a storage
23 reservoir.

24 (d) To the extent AS 31.05 does not conflict with AS 41.06.105 - 41.06.210,
25 the provisions of AS 31.05 are applicable to wells drilled in search of, in support of,
26 and for carbon storage.

27 (e) Nothing in AS 41.06.105 - 41.06.210 limits the authority of the
28 Department of Natural Resources under AS 38.05.700 - 38.05.795 or AS 41.06.305.

29 **Sec. 41.06.115. Waste prohibited; investigation.** Waste in a storage facility
30 or storage reservoir in the state is prohibited. The commission may investigate to
31 determine whether waste exists or is imminent, or whether other facts exist that justify

1 or require action by the commission to prohibit waste. The injection of carbon dioxide
2 and substances commonly associated with carbon dioxide injection is not considered
3 waste.

4 **Sec. 41.06.120. Storage facility permit.** (a) A storage operator is required to
5 obtain a permit from the commission to operate a storage facility.

6 (b) A permit may not be transferred unless the commission consents.

7 (c) A person applying for a permit shall

8 (1) request a preapplication meeting with the commission staff;

9 (2) comply with application requirements;

10 (3) pay a fee in an amount determined by the commission; and

11 (4) pay the commission the cost the commission incurs in reviewing
12 the person's application, publishing notices for hearings, and holding hearings on the
13 person's permit application.

14 (d) A permit application must include sufficient information to enable the
15 commission to determine whether the storage facility will interfere with or impair an
16 existing water, oil, gas, or other mineral interest.

17 (e) The commission shall set the amount of the fee in (c)(3) of this section
18 based on the anticipated cost to the commission associated with processing
19 applications, including preliminary work in advance of receiving an application. The
20 commission may enter into an agreement with a prospective applicant that requires the
21 applicant to reimburse the commission for reasonable costs of work incurred in
22 preparing for activities before the commission receives an application.

23 (f) The commission shall deposit fees collected under this section in the
24 carbon dioxide storage facility administrative fund established in AS 41.06.160.

25 **Sec. 41.06.125. Hearing on permit application.** (a) Before issuing a permit
26 for a storage facility, the commission shall hold a public hearing.

27 (b) The commission shall provide notice of a public hearing under this section.
28 The commission shall provide notice in the same manner as a notice under
29 AS 31.05.050(b) and shall provide notice to

30 (1) each mineral lessee, mineral owner, and mineral right owner of
31 record within the storage reservoir and within one-half mile of the boundaries of the

1 storage reservoir;

2 (2) each surface owner of land overlying the storage reservoir and
3 within one-half mile of the boundaries of the storage reservoir; and

4 (3) any additional persons that the commission considers necessary.

5 (c) A hearing notice required by this section must comply with deadlines set
6 by the commission.

7 **Sec. 41.06.130. Permit requirements.** (a) The commission shall consult with
8 the Department of Environmental Conservation and the Department of Natural
9 Resources before issuing a permit under AS 41.06.120.

10 (b) Before the commission may approve a permit application submitted under
11 AS 41.06.120, the commission must find

12 (1) that the storage operator has complied with all requirements set by
13 the commission;

14 (2) that the proposed storage facility is suitable and feasible for carbon
15 storage;

16 (3) that the carbon dioxide to be stored is of a quality that allows it to
17 be safely and efficiently stored in the storage reservoir;

18 (4) that the storage operator has made a good faith effort to get the
19 consent of all persons with an ownership interest in the proposed storage reservoir and
20 surface owners of land overlying the proposed storage reservoir;

21 (5) if the proposed storage facility contains commercially valuable
22 minerals, that the interests of the mineral owners or mineral lessees will not be
23 adversely affected or have been addressed in an arrangement entered into by the
24 mineral owners or mineral lessees and the storage operator;

25 (6) that the proposed storage facility will not adversely affect surface
26 water or formations containing fresh water;

27 (7) that carbon dioxide is not reasonably anticipated to escape from the
28 storage reservoir;

29 (8) that substances that compromise the objectives of AS 41.06.105 -
30 41.06.210 or the integrity of a storage reservoir will not enter a storage reservoir;

31 (9) that the proposed storage facility will not endanger human health or

1 unduly endanger the environment;

2 (10) that the proposed storage facility is in the public interest;

3 (11) that the horizontal and vertical boundaries of the proposed storage
4 reservoir are defined and the boundaries include buffer areas to ensure that the storage
5 facility is operated safely and as contemplated;

6 (12) that the storage operator will establish monitoring facilities and
7 protocols to assess the location and migration of carbon dioxide injected for carbon
8 storage and to ensure compliance with all permit, statutory, and administrative
9 requirements;

10 (13) that all nonconsenting landowners or holders of mineral rights are,
11 or will be, equitably compensated; and

12 (14) that the storage operator is not in violation of a provision of
13 AS 41.06.105 - 41.06.210 or regulations adopted by the commission.

14 **Sec. 41.06.135. Permit provisions.** The commission may include in a permit
15 or order any parameters necessary to carry out the objectives of AS 41.06.105 -
16 41.06.210, prevent waste, protect correlative rights, and ensure the health and safety of
17 persons affected by the permit.

18 **Sec. 41.06.140. Amalgamating property interests.** If a storage operator does
19 not obtain the consent of all persons with an ownership interest in the storage
20 reservoir, the commission may order that the pore space rights of nonconsenting
21 owners be included in a storage facility and subject to carbon storage. Before the
22 commission may issue an order forming an amalgamation under this section, the
23 commission shall provide public notice and hold a hearing.

24 **Sec. 41.06.145. Certificate.** When the commission issues a permit under
25 AS 41.06.120, the commission shall also issue a certificate that states that the permit
26 has been issued, describes the area covered, and contains other information the
27 commission considers appropriate. The storage operator may file a copy of the
28 certificate with the office of the recorder in the district in which the storage facility is
29 located.

30 **Sec. 41.06.150. Environmental protection; storage reservoir integrity.** (a)
31 The commission shall take action to ensure that

1 (1) substances that compromise the integrity of a storage reservoir do
2 not enter a storage reservoir; and

3 (2) carbon dioxide does not escape from a storage facility.

4 (b) For the purposes of this section, and in the application of other laws,
5 carbon dioxide that is stored and remains in carbon storage under a permit is not
6 considered a pollutant and does not constitute a nuisance.

7 (c) The commission's authority under (a) of this section does not limit the
8 jurisdiction of the Department of Environmental Conservation.

9 **Sec. 41.06.155. Preservation of rights.** Nothing in AS 41.06.105 - 41.06.210

10 (1) prejudices the rights of a person with a property interest in a
11 storage facility to exercise rights that have not been committed to the storage facility;
12 or

13 (2) prevents a mineral owner or mineral lessee from drilling through or
14 near a storage reservoir to explore for and develop minerals if the drilling, production,
15 and related activities comply with requirements set by the commission to preserve the
16 integrity of the storage facility and protect the objectives of AS 41.06.105 - 41.06.210.

17 **Sec. 41.06.160. Fees; carbon dioxide storage facility administrative fund.**

18 (a) A storage operator shall pay to the commission a fee on each metric ton of carbon
19 dioxide injected for carbon storage. The commission shall set the amount of the fee
20 based on the anticipated expenses the commission will incur in regulating storage
21 facilities during each phase, including the construction, operational, and pre-
22 completion phases. The commission shall deposit a fee collected under this subsection
23 in the carbon dioxide storage facility administrative fund established in (b) of this
24 section.

25 (b) The carbon dioxide storage facility administrative fund is established in
26 the general fund. The fund consists of

27 (1) fees received under (a) of this section;

28 (2) fees received under AS 41.06.120 and 41.06.195; and

29 (3) interest earned on money in the fund.

30 (c) Money in the carbon dioxide storage facility administrative fund shall be
31 separately accounted for under AS 37.05.142. The legislature may appropriate the

1 money in the fund to the commission to carry out the purposes of AS 41.06.105 -
2 41.06.210.

3 **Sec. 41.06.165. Title to carbon dioxide.** The storage operator has title to the
4 carbon dioxide injected into and stored in a storage reservoir and holds title until the
5 commission issues a certificate of completion under AS 41.06.170. While the storage
6 operator holds title, the operator is liable for any damage the carbon dioxide may
7 cause, including damage caused by carbon dioxide that escapes from the storage
8 facility. When a certificate of completion is issued under AS 41.06.170, title to carbon
9 dioxide injected into and stored in a storage reservoir is transferred to the owner of the
10 pore space, unless the storage operator and the owner of the pore space have a
11 contrary agreement.

12 **Sec. 41.06.170. Certificate of completion.** (a) Once a storage operator
13 discontinues carbon dioxide injections into a storage reservoir, and upon application
14 by the storage operator, the commission may issue a certificate of completion

15 (1) only after public notice and hearing; the commission shall establish
16 notice requirements for a hearing under this paragraph;

17 (2) only after the commission consults with the Department of
18 Environmental Conservation, the Department of Natural Resources, and all persons
19 with an ownership interest in the storage reservoir; and

20 (3) after a period of at least 50 years, or another period approved by
21 the commission for the storage reservoir based on requirements established in
22 regulation, has elapsed since the last carbon dioxide injection into the storage
23 reservoir.

24 (b) The commission may issue a certificate of completion only if the storage
25 operator

26 (1) has fully complied with all laws governing the storage facility;

27 (2) shows that the operator has addressed all pending claims regarding
28 the operation of the storage facility;

29 (3) shows that the underground place or pore space in which the
30 injected carbon dioxide is stored is not expected to pose a threat to human health,
31 human safety, the environment, or underground sources of drinking water;

1 (4) shows that the stored or injected carbon dioxide is unlikely to cross
2 an underground or pore space boundary and is not expected to endanger an
3 underground source of drinking water or otherwise endanger human health, human
4 safety, or the environment;

5 (5) shows that all wells, equipment, and facilities allowed to remain in
6 place following post-injection site care and site closure are in good condition and
7 retain mechanical integrity;

8 (6) shows that the operator has plugged wells, removed equipment and
9 facilities, and completed reclamation work as required by the commission and the
10 Department of Natural Resources;

11 (7) has paid all fees and surcharges owed for the storage facility; and

12 (8) meets any other regulatory requirements established by the state.

13 (c) Once a certificate of completion is issued, the department assumes primary
14 responsibility for long-term monitoring and maintenance of the storage facility, as
15 provided in AS 41.06.305. The storage operator and all persons who generated
16 injected carbon dioxide are released from liability to the state associated with the
17 storage facility in an amount equal to the amount attributed to the storage facility in
18 the carbon storage closure trust fund established in AS 37.14.850. The state, the
19 department, or the commission is not liable for damages arising out of, or in any
20 manner connected with, long-term monitoring and maintenance of a storage facility if
21 the amount for the storage facility separately accounted for in the carbon storage
22 closure trust fund established in AS 37.14.850 is unavailable or insufficient. A bond
23 posted by the storage operator under AS 41.06.110(c)(2) must be released. In this
24 subsection, "long-term monitoring and maintenance" has the meaning given in
25 AS 41.06.305(e).

26 **Sec. 41.06.175. Carbon storage facility injection surcharge.** (a) A storage
27 operator injecting carbon dioxide at a storage facility shall pay to the commission a
28 surcharge each year for the first 12 years that carbon dioxide is injected at the storage
29 facility. The commission shall deposit the surcharge into the general fund. The
30 legislature may appropriate a surcharge collected under this subsection into the carbon
31 storage closure trust fund established in AS 37.14.850.

1 (b) The annual surcharge in this section is determined by the following
2 formula: $S = (7,500,000 \times (I/261.78)) / 12$, where

3 (1) S is the dollar amount of the annual surcharge for a storage facility;

4 (2) I is equal to the Consumer Price Index for urban consumers for
5 urban Alaska, as determined by the United States Department of Labor, Bureau of
6 Labor Statistics, without seasonal adjustment, for December of the calendar year
7 immediately preceding the year of issuance of the storage facility permit.

8 **Sec. 41.06.180. Penalties.** (a) In addition to the penalties in (b) - (d) of this
9 section, a person who violates a provision of AS 41.06.105 - 41.06.210, a regulation
10 adopted under AS 41.06.105 - 41.06.210, or an order or term of a permit issued by the
11 commission under AS 41.06.105 - 41.06.210 is liable for a civil penalty of not more
12 than \$100,000 for the initial violation and not more than \$10,000 for each day
13 thereafter on which the violation continues.

14 (b) A person who knowingly commits an act specified in AS 11.46.630(a) for
15 the purpose of evading a provision of AS 41.06.105 - 41.06.210, a regulation adopted
16 under AS 41.06.105 - 41.06.210, or an order, stipulation, or term of a permit issued by
17 the commission is guilty of a class A misdemeanor.

18 (c) A person who knowingly violates a provision of AS 41.06.105 - 41.06.210,
19 a regulation adopted under AS 41.06.105 - 41.06.210, or an order, stipulation, or term
20 of a permit issued by the commission is guilty of a class A misdemeanor punishable
21 by a fine of not more than \$10,000 a day for each day of violation.

22 (d) A person who knowingly aids or abets another person in the violation of a
23 provision of AS 41.06.105 - 41.06.210, a regulation adopted under AS 41.06.105 -
24 41.06.210, or an order, stipulation, or term of a permit issued by the commission is
25 subject to the same penalty as that prescribed in this section for the violation by the
26 other person.

27 (e) The commission may assess the civil penalties provided in this section,
28 and, if not paid, the penalties are recoverable by suit filed by the attorney general in
29 the name and on behalf of the commission in the superior court. The payment of a
30 penalty does not relieve a person on whom the penalty is imposed from liability to any
31 other person for damages arising out of the violation.

1 (f) In determining the amount of a penalty assessed under (a) of this section,
2 the commission shall consider

3 (1) the extent to which the person committing the violation was acting
4 in good faith in attempting to comply;

5 (2) the extent to which the person committing the violation acted in a
6 wilful or knowing manner;

7 (3) the extent and seriousness of the violation and the actual or
8 potential threat to public health or the environment;

9 (4) the economic or environmental harm or injury to the public caused
10 by the violation;

11 (5) the economic value or other benefits derived by the person
12 committing the violation from the commission of the violation;

13 (6) any history of previous violations by the person committing the
14 violation;

15 (7) the need to deter similar behavior by the person committing the
16 violation and others similarly situated at the time of the violation or in the future;

17 (8) the effort made by the person committing the violation to correct
18 the violation and prevent future violations; and

19 (9) other matters justice requires.

20 **Sec. 41.06.185. Enhanced oil or gas recovery.** (a) Except as provided in (b)
21 of this section, the provisions of AS 41.06.105 - 41.06.210 do not apply to
22 applications filed with the commission proposing to use carbon dioxide for enhanced
23 oil or gas recovery.

24 (b) The commission may adopt regulations that allow enhanced oil or gas
25 recovery and related well activities to be converted to a storage facility. The
26 regulations must require that, in considering whether to approve a conversion, and
27 upon conversion, the provisions of AS 41.06.105 - 41.06.210 apply. The regulations
28 may impose additional requirements to AS 41.06.105 - 41.06.210, or describe specific
29 situations in which the requirements of AS 41.06.105 - 41.06.210 are waived, to
30 ensure that the objectives of AS 41.06.105 - 41.06.210 are met.

31 **Sec. 41.06.190. Cooperative agreements and contracts.** (a) The commission

1 may enter into agreements with other governments, government entities, and state
2 agencies for the purpose of carrying out the objectives of AS 41.06.105 - 41.06.210.

3 (b) The commission may enter into contracts with private persons to assist in
4 carrying out the objectives of AS 41.06.105 - 41.06.210. If an emergency exists, the
5 commission may enter into contracts without public notice and without competitive
6 bidding.

7 **Sec. 41.06.195. Determining capacity of storage reservoir; carbon credits;
8 fees.** (a) The commission may adopt a written policy establishing procedures and
9 criteria that the commission will use to determine the carbon storage capacity of a
10 storage reservoir, including for the purpose of enhanced oil or gas recovery.

11 (b) The purpose of determining the carbon storage capacity of a storage
12 reservoir is to facilitate calculating the amount of stored carbon dioxide for matters
13 including carbon credits, allowances, trading, emissions allocations, and offsets. The
14 commission may charge a reasonable fee to a person requesting a capacity
15 determination. The commission shall set the fee by regulation. The commission shall
16 deposit fees received under this subsection in the carbon dioxide storage facility
17 administrative fund established in AS 41.06.160.

18 (c) In this section, "carbon storage capacity of a storage reservoir" means the
19 maximum injected volume in a storage reservoir at which the pressure in the reservoir
20 does not pose a risk to the integrity of the reservoir or its ability to maintain carbon
21 storage.

22 **Sec. 41.06.210. Definitions.** In AS 41.06.105 - 41.06.210, unless the context
23 requires otherwise,

24 (1) "carbon dioxide" means carbon dioxide of a quality that will not
25 compromise

26 (A) the safety of carbon storage; and

27 (B) the properties of a storage reservoir that allow the reservoir
28 to effectively enclose and contain a stored gas or stored supercritical fluid;

29 (2) "carbon storage" means the underground storage of carbon dioxide
30 in a storage reservoir;

31 (3) "commission" means the Alaska Oil and Gas Conservation

1 Commission created under AS 31.05.005;

2 (4) "enhanced oil or gas recovery" means the increased recovery of
3 hydrocarbons, including oil and gas, from a common source of supply achieved by
4 artificial means or by the application of energy extrinsic to the common source of
5 supply, including pressuring, cycling, pressure maintenance or injection of a substance
6 or form of energy, including injection of water, gas, carbon dioxide, or both gas and
7 carbon dioxide, including immiscible and miscible floods, as long as the enhanced oil
8 or gas recovery does not include injection of a substance or form of energy for the sole
9 purpose of

10 (A) aiding in the lifting of fluids in the well; or

11 (B) stimulation of the reservoir at or near the well by
12 mechanical, chemical, thermal, or explosive means;

13 (5) "permit" means a storage facility permit issued under
14 AS 41.06.120;

15 (6) "pore space" means a cavity or void in a subsurface sedimentary
16 stratum;

17 (7) "reservoir" means a subsurface sedimentary stratum, formation,
18 aquifer, cavity, or void, including pore space, oil and gas reservoirs, saline formations,
19 and coal seams that are suitable, or capable of being made suitable, for injection and
20 carbon storage;

21 (8) "storage facility" means the storage reservoir, underground
22 equipment, well, and surface facilities and equipment used in accordance with a
23 permit; "storage facility" does not include pipelines, compressors, surface facilities,
24 and equipment used to transport carbon dioxide to the storage facility that are
25 unrelated to well safety and metering;

26 (9) "storage operator" means a person holding or applying for a permit;

27 (10) "storage reservoir" means a reservoir proposed, authorized, or
28 used for carbon storage;

29 (11) "supercritical fluid" means a substance at or above its critical
30 temperature and critical pressure that is neither a liquid nor a gas but that has
31 properties of both;

1 (12) "waste" means, in addition to its ordinary meaning, physical
2 waste, and includes inefficient, excessive, or improper operation of a storage facility
3 or well;

4 (13) "well" means a well that is drilled, converted, or reactivated for
5 discovery, testing, or subsurface injection into a reservoir.

6 **Article 3. Long-Term Monitoring and Maintenance of Carbon Storage Facilities.**

7 **Sec. 41.06.305. Long-term monitoring and maintenance.** (a) The
8 department shall conduct long-term monitoring and maintenance of a storage facility
9 that has been issued a certificate of completion under AS 41.06.170.

10 (b) Under this section, the authority of the department applies to all land in the
11 state lawfully subject to the police power of the state, including private land,
12 municipal land, state land, land of the United States, and land subject to the
13 jurisdiction of the United States. The department may enter, at a reasonable time and
14 in a reasonable manner, the site of a storage facility that has been issued a certificate
15 of completion under AS 41.06.170.

16 (c) The state, the department, and the commission have no obligation to pay
17 costs associated with long-term monitoring and maintenance of a storage facility in an
18 amount greater than the amount attributable to that storage facility and separately
19 accounted for under AS 37.14.850.

20 (d) The department may adopt regulations under AS 44.62 (Administrative
21 Procedure Act) to carry out the purposes of this section.

22 (e) In this section,

23 (1) "commission" means the Alaska Oil and Gas Conservation
24 Commission created under AS 31.05.005;

25 (2) "long-term monitoring and maintenance" means an activity
26 associated with monitoring and maintenance of a storage facility that has been issued a
27 certificate of completion under AS 41.06.170 and may include

28 (A) operational and long-term inspecting, testing, and
29 monitoring of the storage facility site, wells, and remaining facilities;

30 (B) remediation measures arising from the storage facility site,
31 including remediation of property and mechanical problems associated with

- 1 wells and remaining facilities;
- 2 (C) repairing mechanical leaks at the storage facility site;
- 3 (D) plugging and abandoning wells;
- 4 (E) converting wells for use as observation wells;
- 5 (F) purchasing or paying insurance costs for a storage facility,
- 6 whether commercially or through government funding;
- 7 (3) "storage facility" has the meaning given in AS 41.06.210.

8 * **Sec. 40.** AS 41.21.167(a) is amended to read:

9 (a) The land and water areas described in AS 41.21.161 are not open to

10 mineral entry under AS 38.05.135 - 38.05.275 **or 38.05.700 - 38.05.795.**

11 * **Sec. 41.** AS 41.21.491(d) is amended to read:

12 (d) Except for oil and gas leasing under AS 38.05.180 **and carbon storage**

13 **licensing and leasing under AS 38.05.700 - 38.05.795,** the mineral estate in the state-

14 owned land and water described in (a) of this section is closed to mineral entry under

15 AS 38.05.181 - 38.05.275.

16 * **Sec. 42.** AS 41.21.502(c) is amended to read:

17 (c) The mineral estate in the state-owned land and water described in (a) of

18 this section is open to oil and gas leasing under AS 38.05.180 **and carbon storage**

19 **licensing and leasing under AS 38.05.700 - 38.05.795.** The mineral estate in the

20 state-owned land and water described in (a) of this section is closed to mineral entry

21 under AS 38.05.181 - 38.05.275.

22 * **Sec. 43.** AS 41.21.617 is amended to read:

23 **Sec. 41.21.617. Other uses generally.** The state land and water described in

24 AS 41.21.611(b) is closed to mineral entry under AS 38.05.135 - 38.05.275 **and**

25 **38.05.700 - 38.05.795,** to commercial harvest of timber, and to sale under state land

26 disposal laws. The commissioner may lease the land described in AS 41.21.611(b)

27 under AS 38.05.070 - 38.05.105 for a purpose consistent with AS 41.21.610(a) and

28 (b). A municipality may select land within the Alaska Chilkat Bald Eagle Preserve

29 under law.

30 * **Sec. 44.** AS 42.05.141 is amended by adding new subsections to read:

31 (g) The commission shall, as required under AS 44.88.850(b), determine

1 whether the sale price in a gas sales agreement for gas produced through a project
2 partially or fully funded by a loan under AS 44.88.850 constitutes a just and
3 reasonable immediate delivery price for gas.

4 (h) Except as provided in AS 42.05.711(q) and (s), the commission shall
5 regulate under this chapter the service of natural gas storage and the service of
6 liquefied natural gas storage, including storage furnished by operating a natural gas
7 storage facility that is part of a

8 (1) pipeline facility operated by a pipeline carrier; or

9 (2) natural gas pipeline facility operated by a natural gas pipeline
10 carrier.

11 (i) In (h) of this section, "natural gas pipeline carrier," "natural gas pipeline
12 facility," "pipeline carrier," and "pipeline facility" have the meanings given in
13 AS 42.06.630.

14 * **Sec. 45.** AS 42.05.381(k) is amended to read:

15 (k) The cost to the utility of storing gas in a gas storage facility or storing
16 liquefied natural gas in a liquefied natural gas storage facility that is allowed in
17 determining a just and reasonable rate shall reflect the

18 **(1)** reduction in cost attributable to any exemption from a payment due
19 under AS 38.05.096 or 38.05.180(u), as applicable, and the value of a tax credit that
20 the owner of the gas storage facility received under AS 43.20.046 or 43.20.047, as
21 applicable; ~~the~~ [THE] commission may request the

22 **(A)** [(1)] commissioner of natural resources to report the value
23 of the exemption from a payment due under AS 38.05.096 or 38.05.180(u), as
24 applicable, that the gas storage facility received; and

25 **(B)** [(2)] commissioner of revenue to report information on the
26 amount of tax credits claimed under AS 43.20.046 and 43.20.047, as
27 applicable, for the gas storage facility or liquefied natural gas storage facility;

28 **(2) fair market value of oil and gas fields, drilling rigs, production**
29 **platforms, wells, and similar assets used for gas storage or liquefied natural gas**
30 **storage and a fair return on the fair market value of those assets;**

31 **(3) costs related to the dismantlement, removal, and restoration of**

1 **a gas storage facility or liquefied natural gas storage facility** [. IN THIS
2 SUBSECTION, "GAS STORAGE FACILITY" HAS THE MEANING GIVEN IN
3 AS 31.05.032].

4 * **Sec. 46.** AS 42.05.381 is amended by adding a new subsection to read:

5 (p) In (k) of this section, "gas storage facility" has the meaning given in
6 AS 31.05.032(e).

7 * **Sec. 47.** AS 42.05 is amended by adding a new section to article 5 to read:

8 **Sec. 42.05.505. Records of gas storage facilities.** Records held by the
9 commission related to the finances of a gas storage facility, a liquefied natural gas
10 storage facility, or a public utility providing the service of natural gas storage,
11 including financial statements and financial assurance agreements, are confidential
12 and are not public records under AS 40.25.100 - 40.25.295 (Alaska Public Records
13 Act). The commission may disclose information from a record subject to this section
14 only to a state or federal agency if the commission determines that disclosure of the
15 information is necessary for the commission to complete its duties.

16 * **Sec. 48.** AS 42.05.711(q) is amended to read:

17 (q) The service of natural gas storage furnished by operating a natural gas
18 storage facility that is [(1) PART OF A PIPELINE FACILITY OPERATED BY A
19 PIPELINE CARRIER, (2) PART OF A NATURAL GAS PIPELINE FACILITY
20 OPERATED BY A NATURAL GAS PIPELINE CARRIER, OR (3)] part of a North
21 Slope natural gas pipeline facility operated by a North Slope natural gas pipeline
22 carrier is exempt from this chapter. In this subsection, ["NATURAL GAS PIPELINE
23 CARRIER," "NATURAL GAS PIPELINE FACILITY,"] "North Slope natural gas
24 pipeline carrier [,]" **and** "North Slope natural gas pipeline facility [,]" ["PIPELINE
25 CARRIER," AND "PIPELINE FACILITY"] have the meanings given in
26 AS 42.06.630.

27 * **Sec. 49.** AS 42.05.711 is amended by adding a new subsection read:

28 (w) A liquefied natural gas import facility under the jurisdiction of the Federal
29 Energy Regulatory Commission is exempt from this chapter.

30 * **Sec. 50.** AS 42.06.140 is amended by adding new subsections to read:

31 (c) The commission shall regulate under AS 42.05 the service of natural gas

1 and liquefied natural gas storage, including storage furnished by operating a natural
2 gas storage facility that is part of a

3 (1) pipeline facility operated by a pipeline carrier; or

4 (2) natural gas pipeline facility operated by a natural gas pipeline
5 carrier.

6 (d) In this section,

7 (1) "service of liquefied natural gas storage" means the operation of a
8 liquefied natural gas storage facility; "service of liquefied natural gas storage" does
9 not include the storage of liquefied natural gas

10 (A) owned by or contractually obligated to the owner, operator,
11 or manager of the liquefied natural gas storage facility; or

12 (B) for which the price of storage is not separately itemized;

13 (2) "service of natural gas storage" means the operation of a natural
14 gas storage facility primarily or exclusively for the benefit of third-party customers,
15 and not for the benefit of the owner, operator, or manager of the natural gas storage
16 facility; "service of natural gas storage" does not include the storage of natural gas

17 (A) owned by or contractually obligated to the owner, operator,
18 or manager of the natural gas storage facility; or

19 (B) for which the price of storage is not separately itemized.

20 * **Sec. 51.** AS 43.20.036 is amended by adding a new subsection to read:

21 (k) For purposes of calculating the income tax payable under this chapter, the
22 taxpayer may not apply as a credit against tax liability the carbon oxide sequestration
23 credit allowed as to federal taxes under 26 U.S.C. 45Q (Internal Revenue Code).

24 * **Sec. 52.** AS 43.55.165(e) is amended to read:

25 (e) For purposes of this section, lease expenditures do not include

26 (1) depreciation, depletion, or amortization;

27 (2) oil or gas royalty payments, production payments, lease profit
28 shares, or other payments or distributions of a share of oil or gas production, profit, or
29 revenue, except that a producer's lease expenditures applicable to oil and gas produced
30 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
31 profit paid to the state under that lease;

- 1 (3) taxes based on or measured by net income;
- 2 (4) interest or other financing charges or costs of raising equity or debt
- 3 capital;
- 4 (5) acquisition costs for a lease or property or exploration license;
- 5 (6) costs arising from fraud, wilful misconduct, gross negligence,
- 6 violation of law, or failure to comply with an obligation under a lease, permit, or
- 7 license issued by the state or federal government;
- 8 (7) fines or penalties imposed by law;
- 9 (8) costs of arbitration, litigation, or other dispute resolution activities
- 10 that involve the state or concern the rights or obligations among owners of interests in,
- 11 or rights to production from, one or more leases or properties or a unit;
- 12 (9) costs incurred in organizing a partnership, joint venture, or other
- 13 business entity or arrangement;
- 14 (10) amounts paid to indemnify the state; the exclusion provided by
- 15 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
- 16 a third-party insurer or surety;
- 17 (11) surcharges levied under AS 43.55.201 or 43.55.300;
- 18 (12) an expenditure otherwise deductible under (b) of this section that
- 19 is a result of an internal transfer, a transaction with an affiliate, or a transaction
- 20 between related parties, or is otherwise not an arm's length transaction, unless the
- 21 producer establishes to the satisfaction of the department that the amount of the
- 22 expenditure does not exceed the fair market value of the expenditure;
- 23 (13) an expenditure incurred to purchase an interest in any corporation,
- 24 partnership, limited liability company, business trust, or any other business entity,
- 25 whether or not the transaction is treated as an asset sale for federal income tax
- 26 purposes;
- 27 (14) a tax levied under AS 43.55.011 or 43.55.014;
- 28 (15) costs incurred for dismantlement, removal, surrender, or
- 29 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
- 30 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
- 31 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not

1 excluded under this paragraph if the dismantlement, removal, surrender, or
2 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
3 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

4 (16) costs incurred for containment, control, cleanup, or removal in
5 connection with any unpermitted release of oil or a hazardous substance and any
6 liability for damages imposed on the producer or explorer for that unpermitted release;
7 this paragraph does not apply to the cost of developing and maintaining an oil
8 discharge prevention and contingency plan under AS 46.04.030;

9 (17) costs incurred to satisfy a work commitment under an exploration
10 license under AS 38.05.132;

11 (18) that portion of expenditures, that would otherwise be qualified
12 capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that
13 are less than the product of \$0.30 multiplied by the total taxable production from each
14 lease or property, in BTU equivalent barrels, during that calendar year, except that,
15 when a portion of a calendar year is subject to this provision, the expenditures and
16 volumes shall be prorated within that calendar year;

17 (19) costs incurred for repair, replacement, or deferred maintenance of
18 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
19 undertaken in response to a failure, problem, or event that results in an unscheduled
20 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
21 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
22 equipment, other than a well, that is undertaken in response to, or is otherwise
23 associated with, an unpermitted release of a hazardous substance or of gas; however,
24 costs under this paragraph that would otherwise constitute lease expenditures under (a)
25 and (b) of this section may be treated as lease expenditures if the department
26 determines that the repair or replacement is solely necessitated by an act of war, by an
27 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
28 inevitable, and irresistible character, the effects of which could not have been
29 prevented or avoided by the exercise of due care or foresight, or by an intentional or
30 negligent act or omission of a third party, other than a party or its agents in privity of
31 contract with, or employed by, the producer or an operator acting for the producer, but

1 only if the producer or operator, as applicable, exercised due care in operating and
2 maintaining the facility, pipeline, structure, or equipment, and took reasonable
3 precautions against the act or omission of the third party and against the consequences
4 of the act or omission; in this paragraph,

5 (A) "costs incurred for repair, replacement, or deferred
6 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
7 to dismantle and remove the facility, pipeline, structure, or equipment that is
8 being replaced;

9 (B) "hazardous substance" has the meaning given in
10 AS 46.03.826;

11 (C) "replacement" includes renovation or improvement;

12 (20) costs incurred to construct, acquire, or operate a refinery or crude
13 oil topping plant, regardless of whether the products of the refinery or topping plant
14 are used in oil or gas exploration, development, or production operations; however, if
15 a producer owns a refinery or crude oil topping plant that is located on or near the
16 premises of the producer's lease or property in the state and that processes the
17 producer's oil produced from that lease or property into a product that the producer
18 uses in the operation of the lease or property in drilling for or producing oil or gas, the
19 producer's lease expenditures include the amount calculated by subtracting from the
20 fair market value of the product used the prevailing value, as determined under
21 AS 43.55.020(f), of the oil that is processed;

22 (21) costs of lobbying, public relations, public relations advertising, or
23 policy advocacy;

24 (22) costs incurred as part of a capital expenditure or other action taken
25 for a carbon management purpose under AS 38.05.081 or a carbon offset project under
26 AS 38.95.400 - 38.95.499;

27 **(23) costs incurred for carbon capture or carbon storage,**
28 **including fees incurred under AS 41.06.160, surcharges incurred under**
29 **AS 41.06.175, or costs associated with obtaining, operating, or maintaining a**
30 **license or lease under AS 38.05.700 - 38.05.795; in this paragraph,**

31 **(A) "carbon capture" means the process of capturing**

1 carbon dioxide from a chemical, mechanical, or industrial process, or
2 directly from the ambient atmosphere, and reducing the carbon dioxide to
3 a concentrated form, including a supercritical fluid; "carbon capture"
4 does not include gas processing or gas treatment;

5 (B) "carbon storage" means the long-term geologic storage
6 of carbon dioxide in a carbon storage facility permitted under
7 AS 41.06.120 or a Class VI injection well, as defined in 40 C.F.R. 146.5(f).

8 * **Sec. 53.** AS 44.25.020 is amended to read:

9 **Sec. 44.25.020. Duties of department.** The Department of Revenue shall

10 (1) enforce the tax laws of the state;

11 (2) collect, account for, have custody of, invest, and manage all state
12 funds and all revenues of the state except revenues incidental to a program of licensing
13 and regulation carried on by another state department, funds managed and invested by
14 the Alaska Retirement Management Board, and as otherwise provided by law;

15 (3) invest and manage the balance of the power development fund in
16 accordance with AS 44.83.386;

17 (4) administer the surety bond program for licensure as a fish
18 processor or primary fish buyer;

19 (5) provide reasonable assistance to the Alaska Industrial
20 Development and Export Authority under AS 44.88.850(c).

21 * **Sec. 54.** AS 44.37.020 is amended by adding a new subsection to read:

22 (d) The Department of Natural Resources shall provide reasonable assistance
23 to the Alaska Industrial Development and Export Authority under AS 44.88.850(c).

24 * **Sec. 55.** AS 44.88 is amended by adding new sections to read:

25 **Article 10A. Cook Inlet Reserve-Based Lending.**

26 **Sec. 44.88.850. Cook Inlet reserve-based lending account.** (a) The Cook
27 Inlet reserve-based lending account is established in the revolving fund. The account
28 consists of money or assets deposited into the account by the authority and
29 contributions from other sources.

30 (b) The authority may use money in the account to make one or more reserve-
31 based loans to fund oil and gas development projects the authority considers necessary

1 to increase oil and gas production from the Cook Inlet sedimentary basin. The
2 authority may, as a term of the loan, accept an ownership share in the project funded
3 by the loan. If the authority accepts an ownership share as a term of the loan, the
4 ownership share must be in the form of a carried interest that does not obligate the
5 authority to contribute to the development costs of the project. The authority may
6 make a loan under this section only

7 (1) to a legal entity in compliance with state and federal laws;

8 (2) if the loan applicant provides a written waiver permitting the
9 authority to access or obtain copies of the loan applicant's confidential records that are
10 in possession of the Department of Natural Resources or the Department of Revenue;
11 information provided to the authority under this section shall be kept confidential by
12 the authority unless disclosure is authorized by the loan applicant or borrower;

13 (3) if the authority obtains an independent study performed by an
14 experienced, qualified expert that confirms the valuation of the loan security and the
15 capacity of the loan to support the oil and gas development project and to cause or
16 increase the commercial production of oil or gas from the Cook Inlet sedimentary
17 basin;

18 (4) if the Regulatory Commission of Alaska determines, under
19 AS 42.05.141(g), that the sale price in a gas sales agreement for gas produced through
20 a project partially or fully funded by a loan under this section does not exceed a just
21 and reasonable immediate delivery price for gas;

22 (5) if the authority determines that the sales price for oil and gas
23 produced through a project partially or fully funded by a loan under this section is
24 reasonable and in the best interests of residents of the state.

25 (c) The authority may request assistance from the Department of Revenue
26 under AS 44.25.020(a)(5) or the Department of Natural Resources under
27 AS 44.37.020(d) to execute this section.

28 (d) The authority may accept an overriding royalty interest in a lease for
29 which a loan has been extended under (b) of this section if, as a term of the loan, the
30 overriding royalty interest is subject to prior approval by the Department of Natural
31 Resources. The authority may only have the overriding royalty interest transferred to

1 the authority if the borrower defaults.

2 **Sec. 44.88.855. Report to the legislature on Cook Inlet oil and gas**
3 **development projects.** (a) The authority shall evaluate oil and gas development
4 projects the authority believes have reasonable potential to increase oil and gas
5 production from the Cook Inlet sedimentary basin. Each year, the authority shall
6 prepare a report related to those oil and gas development projects and shall, by the first
7 day of each regular session of the legislature, deliver the report to the senate secretary
8 and the chief clerk of the house of representatives and notify the legislature that the
9 report is available. At the request of a legislative committee, a representative of the
10 authority shall appear in that committee to review the report. For each oil and gas
11 development project, the report must include

12 (1) a cost estimate for the project;
13 (2) the potential recoverable gas from the project;
14 (3) the projected rate of return for the project;
15 (4) if the authority recommends a reserve-based loan for the project,
16 the amount of funds necessary for deposit into the Cook Inlet reserve-based lending
17 account to provide a loan for the project and the recommended source of funds for the
18 deposit.

19 (b) Notwithstanding AS 44.88.215, 44.88.850(b)(2), or any other law, a
20 borrower's information shall be subject to the public reporting requirements under this
21 section. Each year, the authority shall prepare a report related to Cook Inlet reserve-
22 based loans made under AS 44.88.850 and shall, by the first day of each regular
23 session of the legislature, deliver the report to the senate secretary and the chief clerk
24 of the house of representatives and notify the legislature that the report is available. At
25 the request of a legislative committee, a representative of the authority shall appear in
26 that committee to review the report. The report must

27 (1) identify each entity borrowing funds under AS 44.88.850;
28 (2) list the amount borrowed by each borrower and the date each loan
29 was approved;
30 (3) include a summary of the terms of the lending agreement with each
31 borrower;

1 (4) summarize each project for which a loan was made, including the
2 status of the project and the volume of oil and gas produced and expected to be
3 produced from the project;

4 (5) list the status of payments made on the loan, including whether the
5 loan is or ever was in default.

6 * **Sec. 56.** AS 44.88.900 is amended by adding new paragraphs to read:

7 (20) "oil and gas development project" means a development project to
8 produce proven oil or gas reserves;

9 (21) "reserve-based loan" means a loan made against and fully secured
10 by an oil and gas field, proven undeveloped or developed oil and gas reserves, or other
11 assets of the entity receiving the loan.

12 * **Sec. 57.** AS 46.03.020 is amended to read:

13 **Sec. 46.03.020. Powers of the department.** The department may

14 (1) enter into contracts and compliance agreements necessary or
15 convenient to carry out the functions, powers, and duties of the department;

16 (2) review and appraise programs and activities of state departments
17 and agencies in light of the policy set out in AS 46.03.010 for the purpose of
18 determining the extent to which the programs and activities are contributing to the
19 achievement of that policy and to make recommendations to the departments and
20 agencies, including environmental guidelines;

21 (3) consult with and cooperate with

22 (A) officials and representatives of any nonprofit corporation or
23 organization in the state;

24 (B) persons, organizations, and groups, public and private,
25 using, served by, interested in, or concerned with the environment of the state;

26 (4) appear and participate in proceedings before any state or federal
27 regulatory agency involving or affecting the purposes of the department;

28 (5) undertake studies, inquiries, surveys, or analyses it may consider
29 essential to the accomplishment of the purposes of the department; these activities
30 may be carried out by the personnel of the department or in cooperation with public or
31 private agencies, including educational, civic, and research organizations, colleges,

1 universities, institutes, and foundations;

2 (6) at reasonable times, enter and inspect with the consent of the owner
3 or occupier any property or premises to investigate either actual or suspected sources
4 of pollution or contamination or to ascertain compliance or noncompliance with a
5 regulation that may be adopted under AS 46.03.020 - 46.03.040; information relating
6 to secret processes or methods of manufacture discovered during investigation is
7 confidential;

8 (7) conduct investigations and hold hearings and compel the
9 attendance of witnesses and the production of accounts, books, and documents by the
10 issuance of a subpoena;

11 (8) advise and cooperate with municipal, regional, and other local
12 agencies and officials in the state, to carry out the purposes of this chapter;

13 (9) act as the official agency of the state in all matters affecting the
14 purposes of the department under federal laws now or hereafter enacted;

15 (10) adopt regulations necessary to carry out the purposes of this
16 chapter, including regulations providing for

17 (A) control, prevention, and abatement of air, water, or land or
18 subsurface land pollution;

19 (B) safeguard standards for carbon dioxide, petroleum, and
20 natural gas pipeline construction, operation, modification, or alteration;

21 (C) protection of public water supplies by establishing
22 minimum drinking water standards, and standards for the construction,
23 improvement, and maintenance of public water supply systems;

24 (D) collection and disposal of sewage and industrial waste;

25 (E) collection and disposal of garbage, refuse, and other
26 discarded solid materials from industrial, commercial, agricultural, and
27 community activities or operations;

28 (F) control of pesticides;

29 (G) other purposes as may be required for the implementation
30 of the policy declared in AS 46.03.010;

31 (H) handling, transportation, treatment, storage, and disposal of

1 hazardous wastes;

2 (11) inspect the premises of sellers and suppliers of paint, vessels, and
3 marine and boating supplies, and take other actions necessary to enforce
4 AS 46.03.715;

5 (12) notwithstanding any other provision of law, take all actions
6 necessary to receive authorization from the administrator of the United States
7 Environmental Protection Agency to administer and enforce a National Pollutant
8 Discharge Elimination System program in accordance with 33 U.S.C. 1342 (sec. 402,
9 Clean Water Act), 33 U.S.C. 1345 (sec. 405, Clean Water Act), 40 C.F.R. Part 123,
10 and 40 C.F.R. Part 403, as amended;

11 (13) require the owner or operator of a facility to undertake
12 monitoring, sampling, and reporting activities described in 33 U.S.C. 1318 (sec. 308,
13 Clean Water Act);

14 (14) notwithstanding any other provision of law, take all actions
15 necessary to receive federal authorization of a state program for the department and
16 the Department of Natural Resources to administer and enforce a dredge and fill
17 permitting program allowed under 33 U.S.C. 1344 (sec. 404, Clean Water Act) and to
18 implement the program, if authorized.

19 * **Sec. 58.** AS 42.05.990(10)(B) and 42.05.990(11)(B) are repealed.

20 * **Sec. 59.** The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 LEGISLATIVE AUDIT DIVISION REPORT TO THE LEGISLATURE. The
23 legislative audit division shall conduct an audit of carbon storage leases in the state under
24 AS 38.05.700 - 38.05.795 and submit the audit to the senate secretary and the chief clerk of
25 the house of representatives on or before January 1, 2033, and notify the legislature that the
26 audit is available. The audit must include detailed fiscal information from each fiscal year,
27 beginning with the fiscal year ending June 30, 2025, total revenues and costs to the state
28 associated with carbon storage leases in each fiscal year, and recommendations to improve the
29 carbon storage program.

30 * **Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section to
31 read:

1 TRANSITION: CONVERSION OF EXISTING PROSPECTING PERMIT
2 APPLICATIONS AND PROSPECTING PERMITS. (a) The commissioner of natural
3 resources shall convert an application for a prospecting permit made under AS 38.05.181(c),
4 as that subsection read on the day before the effective date of sec. 16 of this Act, that is
5 pending with the Department of Natural Resources on the effective date of sec. 16 of this Act,
6 to an application for a prospecting license under AS 38.05.181(c), as amended by sec. 16 of
7 this Act.

8 (b) A person with a valid permit issued under AS 38.05.181(c), as that subsection
9 read on the day before the effective date of sec. 16 of this Act, may request in writing that the
10 commissioner of natural resources convert the prospecting permit into a prospecting license
11 under AS 38.05.181, as amended by secs. 15 - 19 of this Act. The Department of Natural
12 Resources shall provide public notice of a request for the conversion of a prospecting permit
13 into a prospecting license under this section.

14 (c) Upon request of a person qualified under (b) of this section, the commissioner of
15 natural resources shall convert a prospecting permit issued under AS 38.05.181(c), as that
16 subsection read on the day before the effective date of sec. 16 of this Act, into a prospecting
17 license under AS 38.05.181, as amended by secs. 15 - 19 of this Act. Notwithstanding
18 AS 38.05.035(e), the director of the division of lands is not required to make a written finding
19 and the commissioner of natural resources is not required to expressly approve the conversion
20 of a prospecting permit into a prospecting license under this section. Notwithstanding
21 AS 38.05.181(c), as amended by sec. 16 of this Act, a prospecting permit converted into a
22 prospecting license under this section may not expire later than five years from the date the
23 permit was issued under AS 38.05.181(c), as that subsection read on the day before the
24 effective date of sec. 16 of this Act.

25 * **Sec. 61.** The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 TRANSITION: REGULATIONS. The Department of Natural Resources, the
28 Department of Revenue, and the Alaska Oil and Gas Conservation Commission may adopt
29 regulations necessary to implement the changes made by this Act. The regulations take effect
30 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the law
31 implemented by the regulation.

1 * **Sec. 62.** The uncodified law of the State of Alaska is amended by adding a new section to
2 read:

3 REVISOR'S INSTRUCTION. The revisor of statutes is requested to change the
4 chapter heading for AS 41.06 from "Geothermal Resources" to "Geothermal Resources and
5 Carbon Storage."

6 * **Sec. 63.** Section 61 of this Act takes effect immediately under AS 01.10.070(c).