

**Senator Hawj from the Committee on Environment, Climate, and Legacy, to which was referred**

**S.F. No. 5048:** A bill for an act relating to natural resources; facilitating carbon sequestration and oil and gas exploration and production leases on state-owned land; authorizing rulemaking; appropriating money; amending Minnesota Statutes 2022, sections 92.50, subdivision 1; 93.25, subdivisions 1, 2; proposing coding for new law in Minnesota Statutes, chapters 92; 93.

Reports the same back with the recommendation that the bill be amended as follows:

Delete everything after the enacting clause and insert:

"Section 1. Minnesota Statutes 2022, section 93.25, subdivision 1, is amended to read:

Subdivision 1. **Leases.** The commissioner may issue leases to prospect for, mine, and remove or extract gas, oil, and minerals other than iron ore ~~upon~~ from any lands owned by the state, including trust fund lands, lands forfeited for nonpayment of taxes whether held in trust or otherwise, and lands otherwise acquired, and the beds of any waters belonging to the state. For purposes of this section, iron ore means iron-bearing material where the primary product is iron metal. For purposes of this section, "gas" includes both hydrocarbon and nonhydrocarbon gases.

Sec. 2. Minnesota Statutes 2022, section 93.25, subdivision 2, is amended to read:

Subd. 2. **Lease requirements.** All leases for nonferrous metallic minerals ~~or petroleum,~~ gas, or oil must be approved by the Executive Council, and any other mineral lease issued pursuant to this section that covers 160 or more acres must be approved by the Executive Council. The rents, royalties, terms, conditions, and covenants of all such leases ~~shall~~ must be fixed by the commissioner according to rules adopted by the commissioner, but no lease shall be for a longer term than 50 years, and all rents, royalties, terms, conditions, and covenants ~~shall~~ must be fully set forth in each lease issued. No nonferrous metallic mineral lease shall be canceled by the state for failure to meet production requirements prior to the 36th year of the lease. The rents and royalties ~~shall~~ must be credited to the funds as provided in section 93.22. For purposes of this section, "gas" includes both hydrocarbon and nonhydrocarbon gases.

Sec. 3. **[93.513] PROHIBITION ON PRODUCTION OF GAS OR OIL WITHOUT PERMIT.**

Except as provided in section 103I.681, a person must not engage in or carry out production of gas or oil from consolidated or unconsolidated formations in the state unless the person has first obtained a permit for the production of gas or oil from the commissioner

of natural resources. Any permit under this section must be protective of natural resources and require a demonstration of control of the extraction area through ownership, lease, or agreement. For purposes of this section, "gas" includes both hydrocarbon and nonhydrocarbon gases. For purposes of this section, "Production" includes extraction and beneficiation of gas or oil.

Sec. 4. **[93.514] GAS AND OIL PRODUCTION RULEMAKING.**

(a) The following agencies may adopt rules governing gas and oil exploration or production, as applicable:

(1) the commissioner of the Pollution Control Agency may adopt or amend rules regulating air emissions; water discharges, including stormwater management; and storage tanks as it pertains to gas and oil production;

(2) the commissioner of health may adopt or amend rules on groundwater and surface water protection, exploratory boring construction, drilling registration and licensure, and inspections as it pertains to the exploration and appraisal of gas and oil resources;

(3) the Environmental Quality Board may adopt or amend rules to establish mandatory categories for environmental review as it pertains to gas and oil production; and

(4) the commissioner of natural resources must adopt or amend rules pertaining to the conversion of an exploratory boring to a production well, pooling, spacing, unitization, well abandonment, siting, financial assurance, and reclamation for the production of gas and oil.

(b) An agency adopting rules under this section must use the expedited procedure in section 14.389. Rules adopted or amended under this authority are exempt from the provisions of section 14.125. The agency must publish notice of intent to adopt expedited rules within 24 months of the effective date of this act.

(c) For purposes of this section, "gas" includes both hydrocarbon and nonhydrocarbon gases. "Production" includes extraction and beneficiation of gas or oil from consolidated or unconsolidated formations in the state.

(d) Any grant of rulemaking authority in this section is in addition to existing rulemaking authority and does not replace, impair, or interfere with any existing rulemaking authority.

Sec. 5. **[93.516] GAS AND OIL LEASING.**

Subdivision 1. Authority to lease. With the approval of the Executive Council, the commissioner of natural resources may enter into leases for gas or oil exploration and

production from lands belonging to the state or in which the state has an interest. For purposes of this section, gas or oil exploration and production includes the exploration and production of both hydrocarbon and nonhydrocarbon gases. "Production" includes extraction and beneficiation of gas or oil from consolidated or unconsolidated formations in the state.

Subd. 2. **Application.** An application for a lease under this section must be submitted to the commissioner of natural resources. The commissioner must prescribe the information to be included in the application. The applicant must submit with the application a certified check, cashier's check, or bank money order payable to the Department of Natural Resources in the sum of \$100 as a fee for filing the application. The application fee must not be refunded under any circumstances. The right is reserved to the state to reject any or all applications for an oil or gas lease.

Subd. 3. **Lease terms.** (a) The commissioner must negotiate the terms of each lease entered into under this section on a case-by-case basis, taking into account the unique geological and environmental aspects of each proposal, control of adjacent lands, and the best interests of the state. A lease entered into under this section must be consistent with the following:

(1) the primary term of the lease may not exceed five years plus the unexpired portion of the calendar year in which the lease is issued. The commissioner and applicant may negotiate the conditions by which the lease may be extended beyond the primary term, in whole or in part;

(2) a bonus consideration of not less than \$15 per acre must be paid by the applicant to the Department of Natural Resources before the lease is executed;

(3) the commissioner of natural resources may require an applicant to provide financial assurance to ensure payment of any damages resulting from the production of gas or oil;

(4) the rental rates must not be less than \$5 per acre per year for the unexpired portion of the calendar year in which the lease is issued and in years thereafter; and

(5) on gas and oil produced and sold by the lessee from the lease area, the lessee must pay a production royalty to the Department of Natural Resources of not less than 18.75 percent of the gross sales price of the product sold free on board at the delivery point, and the royalty must be credited as provided in section 93.22. For purposes of this section, "gross sales price" means the total consideration paid by the first purchaser that is not an affiliate of the lessee for gas or oil produced from the leased premises.

4.1      Sec. 6. **GAS PRODUCTION TECHNICAL ADVISORY COMMITTEE.**

4.2      (a) The commissioner of natural resources must appoint a Gas Production Technical  
4.3 Advisory Committee to develop recommendations according to paragraph (c). The  
4.4 commissioner may appoint representatives from the following entities to the technical  
4.5 advisory committee:

4.6      (1) the Pollution Control Agency;

4.7      (2) the Environmental Quality Board;

4.8      (3) the Department of Health;

4.9      (4) the Department of Revenue;

4.10     (5) the University of Minnesota; and

4.11     (6) federal agencies.

4.12     (b) A majority of the committee members must be from state agencies, and all members  
4.13 must have expertise in at least one of the following areas: environmental review; air quality;  
4.14 water quality; taxation; mine permitting; mineral, gas, or oil exploration and development;  
4.15 well construction; or other areas related to gas or oil production.

4.16     (c) The technical advisory committee must make recommendations to the commissioner  
4.17 relating to the production of gas and oil in the state to guide the creation of a temporary  
4.18 regulatory framework that will govern permitting before the rules authorized in Minnesota  
4.19 Statutes, section 93.514, are adopted. The temporary framework must include  
4.20 recommendations on statutory and policy changes that govern permitting requirements and  
4.21 processes, financial assurance, taxation, boring monitoring and inspection protocols,  
4.22 environmental review, and other topics that provide for gas and oil production to be  
4.23 conducted in a manner that will reduce environmental impacts to the extent practicable,  
4.24 mitigate unavoidable impacts, and ensure that the production area is left in a condition that  
4.25 protects natural resources and minimizes the need for maintenance. The temporary framework  
4.26 must consider input from stakeholders and Tribes. Recommendations must include draft  
4.27 legislative language.

4.28     (d) By January 15, 2025, the commissioner must submit to the chairs and ranking minority  
4.29 members of the legislative committees and divisions with jurisdiction over environment  
4.30 recommendations for statutory and policy changes to facilitate gas and oil exploration and  
4.31 production in this state to support the issuance of temporary permits in a manner that benefits  
4.32 the people of Minnesota while adequately protecting the state's natural resources.

(e) For purposes of this section, "gas" includes both hydrocarbon and nonhydrocarbon gases. For purposes of this section, "Production" includes extraction and beneficiation from consolidated or unconsolidated formations in the state.

Sec. 7. **REPORT ON GEOLOGIC CARBON SEQUESTRATION.**

(a) The commissioner of natural resources must prepare a report on geologic carbon sequestration within the state to guide future decision-making and legislation that will assist in achieving goals for carbon neutrality by 2050 as established in Minnesota's Climate Action Framework. The report must identify geologic carbon sequestration opportunities and include recommendations on statutory and policy changes that govern any geologic carbon sequestration activity while benefiting the people of Minnesota and adequately protecting the state's natural resources.

(b) The commissioner of natural resources must appoint a Geologic Carbon Sequestration Technical Advisory Committee to advise on the preparation of the report required by paragraph (a). The commissioner may appoint representatives from the following entities to the technical advisory committee:

(1) the Pollution Control Agency;

(2) the Environmental Quality Board;

(3) the Department of Health;

(4) the Department of Revenue;

(5) the University of Minnesota; and

(6) federal agencies.

(c) A majority of the committee members must be from state agencies and all members must have expertise in at least one of the following areas: geology, hydrogeology, mineralogy, air emissions, well and boring construction and monitoring, direct air capture technology, mineral carbonization, Underground Injection Control class VI permitting and primacy programming, environmental review, property law, and taxation. The committee must hold a meeting to gather and consider input from industry, environmental groups, other stakeholders, and Tribes.

(d) By January 15, 2025, the commissioner must submit the report to the chairs and ranking minority members of the legislative committees and divisions with jurisdiction over the environment. The report must include recommendations for draft legislative language.

6.1      **Sec. 8. APPROPRIATIONS; NONPETROLEUM GAS REGULATORY**

6.2      **FRAMEWORK.**

6.3 (a) \$750,000 in fiscal year 2024 is appropriated from the minerals management account  
6.4 in the natural resources fund to the commissioner of natural resources for the Gas Production  
6.5 Technical Advisory Committee in section 6 of this act. This is a onetime appropriation and  
6.6 is available until spent.

6.7 (b) \$1,252,800 in fiscal year 2024 is appropriated from the minerals management account  
6.8 in the natural resources fund to the commissioner of natural resources to adopt a regulatory  
6.9 framework for gas and oil production in Minnesota and for rulemaking and is available until  
6.10 spent. The base amount for this appropriation is \$0 in fiscal year 2027 and thereafter.

6.11      **Sec. 9. APPROPRIATION; LEGISLATIVE REPORT ON GEOLOGIC CARBON**  
6.12      **SEQUESTRATION.**

6.13 (c) \$300,000 in fiscal year 2024 is appropriated from the minerals management account  
6.14 in the natural resources fund to the commissioner of natural resources to develop a geologic  
6.15 carbon sequestration report and chair the Geologic Carbon Sequestration Technical Advisory  
6.16 Committee in section 7 of this act. This is a onetime appropriation and is available until  
6.17 spent.

6.18 **Sec. 10. EFFECTIVE DATE.**

6.19 Sections 1 to 9 are effective the day following final enactment."

6.20 Delete the title and insert:

6.21 "A bill for an act

6.22 relating to natural resources; facilitating oil and gas exploration and production  
6.23 leases on state-owned land; authorizing rulemaking; developing recommendations  
6.24 to the legislature for gas and oil regulatory framework; requiring a report on  
6.25 geologic carbon sequestration within the state; appropriating money; amending  
6.26 Minnesota Statutes 2022, section 93.25, subdivisions 1, 2; proposing coding for  
6.27 new law in Minnesota Statutes, chapter 93."

6.28 And when so amended the bill do pass and be re-referred to the Committee on State and  
6.29 Local Government and Veterans. Amendments adopted. Report adopted.

6.30 \_\_\_\_\_  
6.31 (Committee Chair)

6.32 April 5, 2024.....

6.33 (Date of Committee recommendation)