SENATE CS FOR CS FOR HOUSE BILL NO. 325(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 4/23/96
Referred: Finance

Sponsor(s): REPRESENTATIVE GREEN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to modification of royalty to encourage production from an oil pool containing heavy oil; and providing for an effective date."

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

* Section 1. AS 38.05.180 is amended by adding a new subsection to read:

(dd) Notwithstanding any other provision of this section or any provision in a lease, unit agreement, or other agreement between a lessee and the state that establishes an obligation to pay royalty on production, royalty is payable at a rate of two percent, under the conditions and to the extent described in this subsection, for the production of heavy oil that is removed or sold from a lease or leases located north of the Umiat baseline, as follows:

(1) under this subsection, the reduction in payment of royalty applies (A) only to the portion of the lessee’s reported royalty, as may be later adjusted, before any field cost deduction, as calculated for the month of production, for the first 450 barrels of daily production of heavy oil from the
well, the royalty value of which does not exceed $15 per barrel as estimated at
the lease automatic custody transfer meter at which custody is first transferred
into a common carrier pipeline;

(B) only if the initial drilling of the well from which the heavy
oil is produced began on or after July 1, 1996, and before July 1, 2006; for
purposes of this subparagraph, "initial drilling" does not include plug-backs of
existing wells, sidetracks from existing wells, multi-lateral or dual completions
of existing wells, or sidetracks of redrilled wells;

(C) only to heavy oil produced during the first 1,825 days of well
operation after the initial production of oil from the well, as reported to the
Alaska Oil and Gas Conservation Commission; for purposes of this
subparagraph, "initial production" means production following initial drilling;

(D) for a well only if the lessee

(i) submits with its royalty report for the first month for
which the reduction in royalty payment under (A) - (C) of this paragraph
is claimed and with subsequent royalty reports for so long as the
reduction continues, oil gravity test results performed during the period
for which the royalty report is filed demonstrating that the oil tested is
heavy oil; the oil gravity test must be in accordance with the standards
for measurement and testing set out in the regulations of the Alaska Oil
and Gas Conservation Commission; the oil gravity test must be conducted
at quarterly intervals except that, for oil that, when tested, has a weighted
average of 19 degrees API gravity or greater, the oil gravity test must be
conducted not less often than monthly; and

(ii) maintains, for a period of at least six years after the
last day of the royalty payment reduction authorized by this subsection,
records of production that show the actual date that drilling of the well
started, the daily production from the well, and the API degree gravity
data, and allows the department to inspect the records during regular
business hours; and

(E) only if the deepest producing perforation of the well from
which heavy oil is produced is shallower than 5,000 feet;
(2) by taking a reduction in the payment of royalty under this subsection, the lessee waives any right that the lessee might otherwise have under its lease, unit agreement, or other agreement with the state to deduct, against royalty due the state, any field costs associated with the production of the heavy oil for which the reduction is taken;

(3) when a reduction in payment of royalty is obtained on the production of heavy oil under this subsection, for a period of 20 years after the last day on which a royalty payment reduction is taken under this subsection, the lessee may not apply for further adjustment of royalty, whether through contract or a provision of law authorizing a royalty modification, on the production of oil from the well for which a reduced royalty was taken under this subsection;

(4) for purposes of calculating the first 450 barrels per day of daily production of heavy oil from a well, the production from dual completions and other forms of multiple completions in a well is to be added together and counted as production from a single well;

(5) in this subsection,

(A) "field costs" includes the lease or unit expenses identified in (f) of this section;

(B) "heavy oil" means oil having a weighted average equal to or less than 20 degrees API gravity as the term "API gravity" is defined in AS 43.55.900.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).