



CSHB 81 (RES)
Oil/Gas Lease: DNR Modify Net Profit Share
Sectional Analysis, March 24, 2021

Section 1 – Amends AS 36.30.850(b)(32) to make AS 36.30 (State Procurement Code) not applicable to certain contracts between the Department of Natural Resources and a contractor hired to assist the department in evaluating applications to modify net profit share oil and gas leases under AS 38.05.180(j) (as amended by Section 2 of the bill).

Section 2 – Amends AS 38.05.180(j) to expand the DNR commissioner's authority to modify royalty rates for a field or pool to also allow the commissioner to modify net profit share leases. It prohibits such modification under subsection (1) if it would reduce the state's share to less than 10 percent of the lease net profit and prohibits such modification unless the modification agreement requires the lessee(s) to make the capital investments necessary to make production economically feasible which the commissioner determines are sufficient to maximize production. It extends the requirement that lessee(s) applying for royalty reduction under AS 38.05.108(j)(1)(A) must pay an independent contractor to assist in evaluating the request to apply as well to lessee(s) applying for net profit share reduction under AS 38.05.180(j)(1)(D). Changes adopted by the committee arbitrarily limit the application of the new condition for modification adopted under AS 38.05.180(j)(1)(D) to only net profit share modification.

Section 3 – Amends AS 38.05.180(p) to extend provisions granting the commissioner authority to reduce the royalty for lessees operating under a cooperative or unit plan of development as provided in AS 38.05.180(j) to likewise grant the commissioner authority to reduce a net profit share as provided in AS 38.05.180(j).

Section 4 – Amends AS 38.05.180(s) to extend provisions granting the commissioner authority to reduce the royalty for lessees operating under a communitized or apportioned drilling agreement only as provided in AS 38.05.180(j) to likewise grant the commissioner authority to reduce a net profit share as provided in AS 38.05.180(j).

Section 5 – Amends AS 38.05.180(t), which grants the commissioner authority to prescribe conditions on a drilling or development contract, to specify the commissioner may also reduce the net profit share as provided in AS 38.05.180(j).