

HOUSE CS FOR CS FOR SENATE BILL NO. 112(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 5/1/96

Referred: Today's Calendar

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing a discovery royalty credit for the lessees of state land
2 drilling exploratory wells and making the first discovery of oil or gas in an
3 oil or gas pool in the Cook Inlet sedimentary basin."

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

5 * **Section 1.** AS 38.05.134 is amended to read:

6 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the
7 commissioner determines that the work commitment obligation set out in an oil and
8 gas exploration license issued under AS 38.05.132 has been met, the commissioner
9 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,
10 of the area described in the exploration license that remains after the relinquishments,
11 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this
12 section

13 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);
14 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

(3) must be conditioned upon a royalty in amount or value of not less than 12.5 percent of production, except that the lessee who, proceeding under AS 38.05.131 - 38.05.134, under a lease issued in the Cook Inlet sedimentary basin who is the first to file with the commissioner a nonconfidential sworn statement claiming to be the first to have drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and who is certified by the commissioner within one year of completion of that discovery well to have drilled a well in that pool that is capable of producing in paying quantities shall pay a royalty of five percent on all production of oil or gas from that pool attributable to that lease for a period of 10 years following the date of discovery of that pool, and thereafter the royalty payable on all production of oil or gas from the pool attributable to that lease shall be determined and payable as specified in the lease; the payment of the five percent royalty under this paragraph is authorized only to a holder of a lease who meets the requirements of AS 38.05.180(f)(4);

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

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

* **Sec. 2.** AS 38.05.180(f) is amended to read:

(f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may issue oil and gas leases on state land to the highest responsible qualified bidder **as follows:**

(1) the commissioner shall issue an oil and gas lease to the successful bidder determined by competitive bidding under regulations adopted by the commissioner; bidding [. BIDDING] may be by sealed bid or according to any other bidding procedure the commissioner determines is in the best interests of the state;

(2) whenever [. WHENEVER], under any of the leasing methods listed in this subsection, a royalty share is reserved to the state, it shall be delivered in pipeline quality and free of all lease or unit expenses, including but not limited to

1 separation, cleaning, dehydration, gathering, salt water disposal, and preparation for
2 transportation off the lease or unit area;

3 **(3) following** [. FOLLOWING] a pre-sale analysis, the commissioner
4 may choose at least one of the following leasing methods:

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

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

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

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

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

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

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

29 **(4) notwithstanding a requirement in the leasing method chosen of**
30 **a minimum fixed royalty share, on and after a date that is 180 days following the**
31 **effective date of this Act, the lessee under a lease issued in the Cook Inlet**

sedimentary basin who is the first to file with the commissioner a nonconfidential sworn statement claiming to be the first to have drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and who is certified by the commissioner within one year of completion of that discovery well to have drilled a well in that pool that is capable of producing in paying quantities shall pay a royalty of five percent on all production of oil or gas from that pool attributable to that lease for a period of 10 years following the date of discovery of that pool, and thereafter the royalty payable on all production of oil or gas from the pool attributable to that lease shall be determined and payable as specified in the lease; for purposes of this paragraph, the reduced royalty authorized by this paragraph is subject to the following:

(A) only one reduction of royalty authorized by this paragraph may be allowed on each lease that qualifies for reduction of royalty under this paragraph;

(B) if, under this paragraph, application is made for a royalty reduction for a lease that was entered into before the date that is 180 days following the effective date of this Act, the commissioner may approve the application only if, on that date, the lease was a nonproducing lease that was not committed to a unit approved by the commissioner under (m) of this section, that is not part of a unit under (p) or (q) of this section, and that has not been made part of a unit under AS 31.05;

(C) if application for a royalty reduction is made under this paragraph for a lease on which a discovery royalty was claimed or may be claimed under the discovery royalty provisions of former AS 38.05.180(a) in effect before May 6, 1969, the commissioner shall disallow the application under this paragraph unless the applicant waives the right to claim the right to a reduced royalty under the discovery royalty provisions of former AS 38.05.180(a) in effect before May 6, 1969; and

(D) the commissioner shall adopt regulations setting out the standards, criteria, and definitions of terms that apply to implement the filing of applications for, and the review and certification of, discovery oil and gas royalty certifications under this paragraph.