



**CSHB 81(RES)am,
Modification of a Royalty or Net Profit Share
Sectional Analysis, Version I.A, 2/7/22**

Section 1 of the bill amends AS 36.30.850(b)(32) to make AS 36.30 not applicable to certain contracts between the Department and contractors hired to assist in evaluating royalty modification applications to the net profit share of oil and gas leases.

Section 2 of the bill makes the following changes to current law: First, it allows the DNR commissioner to provide royalty modification of net profit share rates. Second, it inserts the qualifier “commercial” before “sale” in AS 38.05.180(j)(1)(A)(ii). Third, it allows net profit share modification, but not royalty modification, to be granted in circumstances in which capital expenditures are required to extend the economic life of an oil or gas field or pool. Fourth, it allows fixed royalty and net profit share to be used as mechanisms for providing royalty modification, so long as the overall modification mechanism is subject to a sliding scale. Fifth, it requires lessees that submit a royalty modification application to include a non-confidential cover letter containing information that can be used to publish preliminary and final findings and determinations.

Section 3 of the bill amends AS 38.05.180(p) to prohibit reducing net profit share rates when unitizing leases unless a lessee otherwise applies and qualifies for a reduction under AS 38.05.180(j), mirroring an existing provision for royalty rate reductions.

Section 4 of the bill amends AS 38.05.180(s) to prohibit reducing net profit share rates when leases are subject to a communitization or drilling agreement unless a lessee otherwise applies and qualifies for a reduction under AS 38.05.180(j), mirroring an existing provision for royalty rate reductions.

Section 5 of the bill amends AS 38.05.180(t) to prohibit reducing net profit share rates when leases are subject to a drilling or development contract unless a lessee otherwise applies and qualifies for a reduction under AS 38.05.180(j), mirroring an existing provision for royalty rate reductions. This section also makes technical corrections to some language regarding contracts which is not intended to alter the meaning of this section.

Section 6 of the bill adds a new statutory section AS 38.05.180(mm) which requires that any royalty or net profit share modification under AS 38.05.180(j) be approved by the Alaska Royalty Oil and Gas Development Advisory Board.

Section 7 of the bill amends AS 38.06.040(a) to provide the Alaska Royalty Oil and Gas Development Advisory Board with the authority to review and approve royalty and net profit share modifications proposed by the Commissioner of Natural Resources.