



# LAWS OF ALASKA

1996

**Source**

HCS CSSB 112(FIN)

**Chapter No.**

—53—

**AN ACT**

Establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool in the Cook Inlet sedimentary basin.

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

THE ACT FOLLOWS ON PAGE 1

**Approved by the Governor:** June 6, 1996

**Actual Effective Date:** September 4, 1996

AN ACT

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

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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 gas  
8 exploration license issued under AS 38.05.132 has been met, the commissioner shall  
9 convert to one or more oil and gas leases all or part, as the licensee may indicate, of the  
10 area described in the exploration license that remains after the relinquishments, removals,  
11 or deletions required by AS 38.05.132(d)(2). A lease issued under this section

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

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1 (3) must be conditioned upon a royalty in amount or value of not less than  
2 12.5 percent of production, except that the lessee who, proceeding under AS 38.05.131  
3 - 38.05.134, under a lease issued in the Cook Inlet sedimentary basin who is the first  
4 to file with the commissioner a nonconfidential sworn statement claiming to be the  
5 first to have drilled a well discovering oil or gas in a previously undiscovered oil or  
6 gas pool and who is certified by the commissioner within one year of completion of  
7 that discovery well to have drilled a well in that pool that is capable of producing  
8 in paying quantities shall pay a royalty of five percent on all production of oil or gas  
9 from that pool attributable to that lease for a period of 10 years following the date  
10 of discovery of that pool, and thereafter the royalty payable on all production of oil  
11 or gas from the pool attributable to that lease shall be determined and payable as  
12 specified in the lease; the payment of the five percent royalty under this paragraph  
13 is authorized only to a holder of a lease who meets the requirements of  
14 AS 38.05.180(f)(4);

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

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

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

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

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

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

1 cleaning, dehydration, gathering, salt water disposal, and preparation for transportation  
2 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 to  
6 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 to  
9 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 the  
20 lease reserved to the state as the bid variable;

21 **(F)** [(6)] a cash bonus bid with a fixed royalty share reserved to  
22 the state based on a sliding scale according to the volume of production or other  
23 factor but in no event less than 12.5 percent in amount or value of the production  
24 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 the  
28 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**

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

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

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

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

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