

**HOUSE BILL NO. 207**

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 2/27/95

Referred: House Special Committee on Oil and Gas, Resources, Finance

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to adjustments to royalty reserved to the state to encourage  
2 otherwise uneconomic production of oil and gas; relating to the depositing of  
3 royalties and royalty sale proceeds in the Alaska permanent fund; and providing  
4 for an effective date."

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

6 \* **Section 1.** AS 37.13.010(a) is amended to read:

7 (a) Under art. IX, sec. 15 of the state constitution, there is established as a  
8 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

9 (1) 25 percent of

10 (A) all mineral lease rentals, royalties, royalty sale proceeds, net  
11 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue  
12 sharing payments received by the state from mineral leases issued on or before  
13 December 1, 1979, except that, regarding royalties and royalty sale  
14 proceeds, for leases for which the royalty is reduced or modified under

1 AS 38.05.180(j), the permanent fund shall receive the greater of

2 (i) the royalties and royalty sale proceeds that the  
3 fund would have received if a reduction under AS 38.05.180(j) had  
4 not been granted; or

5 (ii) 25 percent of the royalties and royalty sale  
6 proceeds received by the state under a modified royalty under  
7 AS 38.05.180(j); and [25 PERCENT OF]

8 (B) all bonuses received by the state from mineral leases issued  
9 on or before February 15, 1980;

10 (2) 50 percent of

11 (A) all mineral lease rentals, royalties, royalty sale proceeds, net  
12 profit shares under AS 38.05.180(f) and (g), and federal mineral revenue  
13 sharing payments received by the state from mineral leases issued after  
14 December 1, 1979, except that, regarding royalties and royalty sale  
15 proceeds, for leases for which the royalty is reduced or modified under  
16 AS 38.05.180(j), the permanent fund shall receive the greater of

17 (i) the royalties and royalty sale proceeds that the  
18 fund would have received if a reduction under AS 38.05.180(j) had  
19 not been granted; or

20 (ii) 50 percent of the royalties and royalty sale  
21 proceeds received by the state under a modified royalty under  
22 AS 38.05.180(j); and [50 PERCENT OF]

23 (B) all bonuses received by the state from mineral leases issued  
24 after February 15, 1980;

25 (3) any other money appropriated to or otherwise allocated by law  
26 to the Alaska permanent fund.

27 \* Sec. 2. AS 38.05.180(j) is amended to read:

28 (j) To allow for production from a delineated but not previously produced  
29 field that would not otherwise be economically feasible, to [TO] prolong the  
30 economic life of an oil and gas field as per barrel or barrel equivalent costs  
31 increase in the later stages of production decline, or to reestablish commercial

1 production of shut-in oil or gas that would not otherwise be economically feasible,  
2 the commissioner may [SHALL ADOPT REGULATIONS TO] allow reduction  
3 of royalty on individual leases or leases unitized as described in (p) of this  
4 section. As part of an application for a reduction under this subsection, the  
5 commissioner shall require the lessee requesting the reduction of royalty to  
6 disclose financial and technical data that demonstrate that the requirements of  
7 this subsection for a reduction are met. Such data shall be kept confidential  
8 upon the lessee's request. As a condition of evaluating an application and data,  
9 the commissioner may require the lessee to pay the costs of contractors selected  
10 by the commissioner to assist in the evaluation. The commissioner may not grant  
11 a reduction of royalty unless the lessee requesting the reduction makes a clear and  
12 convincing showing that a reduction meets the requirements of this subsection and  
13 is in the best interests of the state [THE REVENUE FROM THE LESSEE'S  
14 SHARE OF ALL HYDROCARBONS PRODUCED FROM THE FIELD IS  
15 AND IS LIKELY TO CONTINUE TO BE INSUFFICIENT TO PRODUCE A  
16 REASONABLE RATE OF RETURN WITH RESPECT TO THE LESSEE'S TOTAL  
17 INVESTMENT IN THE FIELD]. The commissioner may not grant a reduction  
18 that exceeds 75 percent of the royalty originally specified in a lease issued on or  
19 before December 1, 1979 under the provisions of (f) of this section, or 50 percent  
20 of the royalty originally specified in a lease issued after December 1, 1979 under  
21 the provisions of (f) of this section or AS 38.05.134. The commissioner may  
22 condition a royalty reduction granted under this subsection in any way necessary to  
23 protect the state's best interests [INTEREST], including increasing or otherwise  
24 modifying [RESTORATION OF] the state's royalty share if any relevant factor, such  
25 as [IN THE EVENT OF AN INCREASE IN] the price of oil or gas, changes. Before  
26 approving a royalty reduction, the commissioner shall make public a written finding  
27 that the reduction meets the requirements of this subsection and is in the best  
28 interests of the state [THE STATE HAS OBTAINED THE MAXIMUM POSSIBLE  
29 ECONOMIC RETURN THAT IS COMPATIBLE WITH ALLOWING A  
30 REASONABLE RATE OF ECONOMIC RETURN FOR THE LESSEE], and send  
31 copies of the finding to all members of the legislature. The commissioner's decision

1 regarding a request for reduction under this subsection is final and not appealable  
2 to the court. The provisions of this subsection are not limited by the provisions  
3 of (f) of this section or AS 38.05.134(3).

4 \* Sec. 3. AS 38.05.180(p) is amended to read:

5 (p) To conserve the natural resources of all or a part of an oil or gas pool,  
6 field, or like area, the lessees and their representatives may unite with each other, or  
7 jointly or separately with others, in collectively adopting or operating under a  
8 cooperative or a unit plan of development or operation of the pool, field, or like area,  
9 or a part of it, when determined and certified by the commissioner to be necessary or  
10 advisable in the public interest. The commissioner may, with the consent of the  
11 holders of leases involved, establish, change, or revoke drilling, producing, and royalty  
12 requirements of the leases and adopt regulations with reference to the leases, with like  
13 consent on the part of the lessees, in connection with the institution and operation of  
14 a cooperative or unit plan as the commissioner determines necessary or proper to  
15 secure the proper protection of the public interest. The commissioner may not  
16 reduce royalty on leases in connection with a cooperative or unit plan except as  
17 provided in (j) of this section. The commissioner may require oil and gas leases  
18 issued under this section to contain a provision requiring the lessee to operate under  
19 a reasonable cooperative or unit plan, and may prescribe a plan under which the lessee  
20 must operate. The plan must adequately protect all parties in interest, including the  
21 state.

22 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).