

**CS FOR HOUSE BILL NO. 207(O&G)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 3/22/95

Referred: Resources, Finance

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

**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; and providing for an effective  
3 date."

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

5 \* **Section 1.** AS 38.05.180(j) is amended to read:

6 (j) **The** [TO PROLONG THE ECONOMIC LIFE OF AN OIL AND GAS  
7 FIELD OR TO REESTABLISH COMMERCIAL PRODUCTION OF SHUT-IN OIL  
8 OR GAS THAT WOULD NOT OTHERWISE BE ECONOMICALLY FEASIBLE,  
9 THE] commissioner

10 (1) **may** [SHALL ADOPT REGULATIONS TO] allow reduction of  
11 royalty on **individual** leases **or leases unitized as described in (p) of this section**

12 **(A) to allow for production from an oil or gas field, pool, or**  
13 **portion of a field or pool if**

14 **(i) the oil or gas field, pool, or portion of the field or**

1 pool has been sufficiently delineated to the satisfaction of the  
2 commissioner;

3 (ii) the field, pool, or portion of the field or pool has  
4 not previously produced oil or gas; and

5 (iii) production from the field, pool, or portion of the  
6 field or pool would not otherwise be economically feasible;

7 (B) to prolong the economic life of an oil or gas field, pool,  
8 or portion of a field or pool, as per barrel or barrel equivalent costs  
9 increase in the later stages of production decline; or

10 (C) to reestablish commercial production of shut-in oil or  
11 gas that would not otherwise be economically feasible;

12 (2) [. THE COMMISSIONER] may not grant a reduction of royalty  
13 unless the lessee or lessees requesting the reduction make [MAKES] a clear and  
14 convincing showing that a reduction of royalty meets the requirements of this  
15 subsection and is in the best interests of the state;

16 (3) shall, if the royalty reduction agreement is approved, in the  
17 royalty reduction agreement, [THE REVENUE FROM THE LESSEE'S SHARE OF  
18 ALL HYDROCARBONS PRODUCED FROM THE FIELD IS AND IS LIKELY TO  
19 CONTINUE TO BE INSUFFICIENT TO PRODUCE A REASONABLE RATE OF  
20 RETURN WITH RESPECT TO THE LESSEE'S TOTAL INVESTMENT IN THE  
21 FIELD. THE COMMISSIONER MAY] condition a royalty reduction granted under  
22 this subsection in any way necessary to protect the state's best interests; under this  
23 subsection, the commissioner shall include provisions to increase or otherwise  
24 modify the state's royalty share by a sliding scale royalty or other mechanism  
25 upon the occurrence of a change [INTEREST, INCLUDING RESTORATION OF  
26 THE STATE'S ROYALTY SHARE IN THE EVENT OF AN INCREASE] in the price  
27 of oil or gas, and may consider other relevant factors, such as proved reserves,  
28 well productivity, or capital investment in the oil or gas field, pool, or portion of  
29 the field or pool;

30 (4) may not grant a royalty reduction for a field, pool, or portion  
31 of a field or pool under (1)(A) of this subsection that exceeds 75 percent of the

1 royalty originally specified in a lease entered into under the provisions of (f) of  
2 this section or AS 38.05.134;

3 (5) shall, as part of the royalty reduction application process,  
4 require the lessee or lessees to submit, with the application for the royalty  
5 reduction, financial and technical data that demonstrates that the requirements  
6 of this subsection are met; the financial and technical data required by the  
7 commissioner

8 (A) may not require disclosure of data relating to  
9 production before the lessee or lessees obtained ownership of the lease if  
10 the reduction application involves a lease described in (1)(B) or (C) of this  
11 subsection; and

12 (B) shall be kept confidential under AS 38.05.035(a)(9) upon  
13 the lessee's request;

14 (6) shall give notice of the written findings and determination to the  
15 lessee and to any other person who has filed a written request for it; subject to  
16 (8) of this subsection, the commissioner's determination is final and not appealable  
17 to the court;

18 (7) may require the lessee or lessees making application for the  
19 royalty reduction to retain and pay for the services of a contractor, selected by  
20 the lessee or lessees from a list provided by the commissioner, to assist the  
21 commissioner in evaluating the application and financial and technical data; when  
22 the commissioner requires the lessee or lessees to retain the services of a  
23 contractor under this paragraph, the commissioner shall determine the relevant  
24 scope of the work to be performed by the contractor;

25 (8) may not make a determination that gives final approval to an  
26 application for a royalty reduction under this subsection unless the commissioner  
27 first

28 (A) submits the proposed royalty reduction decision to and  
29 obtains the approval of at least three of the five members of the Alaska  
30 Royalty Oil and Gas Development Advisory Board other than the  
31 commissioner of natural resources; for purposes of this subparagraph,

1 after submission of the proposed royalty reduction under this  
2 subparagraph, the Alaska Royalty Oil and Gas Development Advisory  
3 Board has 30 days in which to evaluate the commissioner's submission and  
4 to determine that the proposed royalty reduction meets the requirements  
5 of this subsection and is in the best interests of the state;

6 (B) transmits copies of the determination made by the  
7 Alaska Royalty Oil and Gas Development Advisory Board to

8 (i) the presiding officer of each house [. BEFORE  
9 APPROVING A ROYALTY REDUCTION, THE COMMISSIONER  
10 SHALL MAKE A WRITTEN FINDING THAT THE STATE HAS  
11 OBTAINED THE MAXIMUM POSSIBLE ECONOMIC RETURN  
12 THAT IS COMPATIBLE WITH ALLOWING A REASONABLE  
13 RATE OF ECONOMIC RETURN FOR THE LESSEE, AND SEND  
14 COPIES OF THE FINDING TO ALL MEMBERS] of the legislature;

15 (ii) the chairs of the legislature's standing committees  
16 on resources; and

17 (iii) the chairs of the legislature's special committees  
18 on oil and gas, if any;

19 (9) is not limited by the provisions of AS 38.05.134(3) or (f) of this  
20 section in the commissioner's determination under this subsection.

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

22 (p) To conserve the natural resources of all or a part of an oil or gas pool,  
23 field, or like area, the lessees and their representatives may unite with each other, or  
24 jointly or separately with others, in collectively adopting or operating under a  
25 cooperative or a unit plan of development or operation of the pool, field, or like area,  
26 or a part of it, when determined and certified by the commissioner to be necessary or  
27 advisable in the public interest. The commissioner may, with the consent of the  
28 holders of leases involved, establish, change, or revoke drilling, producing, and royalty  
29 requirements of the leases and adopt regulations with reference to the leases, with like  
30 consent on the part of the lessees, in connection with the institution and operation of  
31 a cooperative or unit plan as the commissioner determines necessary or proper to

1 secure the proper protection of the public interest. **The commissioner may not**  
2 **reduce royalty on leases in connection with a cooperative or unit plan except as**  
3 **provided in (j) of this section.** The commissioner may require oil and gas leases  
4 issued under this section to contain a provision requiring the lessee to operate under  
5 a reasonable cooperative or unit plan, and may prescribe a plan under which the lessee  
6 must operate. The plan must adequately protect all parties in interest, including the  
7 state.

8 \* **Sec. 3.** This Act takes effect immediately under AS 01.10.070(c).