

HOUSE BILL NO. 325

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE GREEN

Introduced: 4/28/95

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

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing suspension of payment of a portion of the royalty due the
2 state for initial production of heavy oil from wells on the Arctic Slope."

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

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

5 (j) The provisions of this subsection apply to modify the payment of
6 royalty on oil and gas produced from oil and gas leases:

7 (1) To prolong the economic life of an oil and gas field or to
8 reestablish commercial production of shut-in oil or gas that would not otherwise be
9 economically feasible, the commissioner shall adopt regulations to allow reduction of
10 royalty on leases. The commissioner may not grant a reduction of royalty unless the
11 lessee requesting the reduction makes a clear showing that the revenue from the
12 lessee's share of all hydrocarbons produced from the field is and is likely to continue
13 to be insufficient to produce a reasonable rate of return with respect to the lessee's
14 total investment in the field. The commissioner may condition a royalty reduction

1 granted under this **paragraph** [SUBSECTION] in any way necessary to protect the
2 state's interest, including restoration of the state's royalty share in the event of an
3 increase in the price of oil or gas. Before approving a royalty reduction, the
4 commissioner shall make a written finding that the state has obtained the maximum
5 possible economic return that is compatible with allowing a reasonable rate of
6 economic return for the lessee, and send copies of the finding to all members of the
7 legislature.

8 **(2) Notwithstanding any other provision of this section or any**
9 **provision in a lease, unit agreement, or other agreement between a lessee and the**
10 **state that establishes an obligation to pay royalty on the production of oil, the**
11 **obligation to pay a royalty on the amount or value of the production removed or**
12 **sold from an oil well on a lease or leases located north of the Umiat baseline is**
13 **suspended for the production of the first 500 barrels of daily production from a**
14 **well producing heavy oil. The suspension of payment of royalty under this**
15 **paragraph is available only if the actual drilling of the well on which the royalty**
16 **payment may be suspended began on or after July 1, 1995, and only for the first**
17 **1,825 days of production after the start of production of oil from the well. For**
18 **each well for which a lessee claims the benefit of suspension of the royalty under**
19 **this paragraph, the lessee shall maintain records of production that show the**
20 **actual date that drilling of the well started, the daily production from the well,**
21 **and the API degree gravity well test data that the commissioner may, by**
22 **regulation, require, shall retain the records for a period of at least two years after**
23 **the last day of royalty suspension authorized by this paragraph, and shall allow**
24 **the department to inspect the data and records during regular business hours.**
25 **In this paragraph, "heavy oil" means oil having a weighted average API gravity**
26 **that meets the definition of heavy oil in 26 U.S.C. 613A(c)(6)(F).**

27 * **Sec. 2.** If this Act takes effect after July 1, 1995, it is retroactive to July 1, 1995.