

CS FOR HOUSE BILL NO. 325(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 1/24/96

Referred: Resources, Finance

Sponsor(s): REPRESENTATIVE GREEN

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing exemption from payment of royalty for initial production of
2 a portion of the heavy oil produced from wells on the Arctic Slope; and
3 providing for an effective date."

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

5 * **Section 1.** AS 38.05.180 is amended by adding a new subsection to read:

6 (dd) Notwithstanding any other provision of this section or any provision in
7 a lease, unit agreement, or other agreement between a lessee and the state that
8 establishes an obligation to pay royalty on production, royalty is not payable, under the
9 conditions and to the extent described in this subsection, for the production of heavy
10 oil that is removed or sold from a lease or leases located north of the Umiat baseline.
11 For purposes of this subsection, "heavy oil" means oil having a weighted average equal
12 to or less than 20 degrees API gravity as the term "API gravity" is defined in
13 AS 43.55.900. Under this subsection, the exemption from payment of royalty applies

14 (1) only to the portion of the value at the wellhead, net of eligible field

1 cost deductions, as calculated for the month of production, for the first 500 barrels of
2 daily production of heavy oil from the well, that, for the period beginning on

3 (A) the effective date of this section and until December 31,
4 1996, does not exceed \$15 per barrel; and

5 (B) the first day of the calendar year during each calendar year
6 beginning January 1, 1997, does not exceed the amount specified under (A) of
7 this paragraph as adjusted for inflation or deflation; in making the adjustment, the
8 department shall, not later than February 15 of each calendar year, calculate and
9 apply to the amount set out in (A) of this paragraph a change in the dollar
10 amount to the extent of the change in the producer price index for finished goods
11 compiled by the United States Department of Labor; the index for January 1996
12 is the reference base index;

13 (2) only if the actual drilling of the well from which the heavy oil is
14 produced began on or after July 1, 1996, and before July 1, 2006;

15 (3) only to heavy oil produced during the first 1,825 days of well
16 operation after the start of production of oil from the well, as reported to the Alaska Oil
17 and Gas Conservation Commission; and

18 (4) for a well only if the lessee

19 (A) submits with its royalty report for the first month for which
20 the exemption from royalty payment under (1) - (3) of this subsection is claimed
21 and with subsequent royalty reports at quarterly intervals for so long as the
22 exemption continues, oil gravity test results performed during the period for
23 which the royalty report is filed demonstrating that the oil tested is heavy oil; the
24 report must be in accordance with the standards for measurement and testing set
25 out in the regulations of the Alaska Oil and Gas Conservation Commission; and

26 (B) maintains, for a period of at least two years after the last day
27 of the royalty payment exemption authorized by this subsection, records of
28 production that show the actual date that drilling of the well started, the daily
29 production from the well, and the API degree gravity data, and allows the
30 department to inspect the records during regular business hours.

31 * **Sec. 2.** This Act takes effect immediately under AS 01.10.070(c).