

CS FOR HOUSE BILL NO. 325(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 3/25/96

Referred: Rules

Sponsor(s): REPRESENTATIVE GREEN

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing exemption from payment of royalty for initial production
2 of 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 as follows:

12 (1) under this subsection, the exemption from payment of royalty applies
13 (A) only to the portion of the lessee's reported royalty, as may
14 be later adjusted, before any field cost deduction, as calculated for the month of

1 production, for the first 500 barrels of daily production of heavy oil from the
2 well, that, for the period beginning on

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

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

14 (B) only if the initial drilling of the well from which the heavy
15 oil is produced began on or after July 1, 1996, and before July 1, 2006; for
16 purposes of this subparagraph, "actual initial drilling" does not include plug-
17 backs of existing wells, sidetracks from existing wells, multi-lateral or dual
18 completions of existing wells, or sidetracks of redrilled wells;

19 (C) only to heavy oil produced during the first 1,825 days of well
20 operation after the initial production of oil from the well, as reported to the
21 Alaska Oil and Gas Conservation Commission; for purposes of this
22 subparagraph, "initial production" means production following initial drilling;
23 and

24 (D) for a well only if the lessee

25 (i) submits with its royalty report for the first month for
26 which the exemption from royalty payment under (A) - (C) of this
27 paragraph is claimed and with subsequent royalty reports for so long as
28 the exemption continues, oil gravity test results performed during the
29 period for which the royalty report is filed demonstrating that the oil
30 tested is heavy oil; the royalty report must be in accordance with the
31 standards for measurement and testing set out in the regulations of the
32 Alaska Oil and Gas Conservation Commission; the royalty report must be

1 prepared at quarterly intervals except that, for oil that, when tested, has
2 a weighted average of 19 degrees API gravity or greater, the royalty
3 report must be prepared not less often than monthly; and

4 (ii) maintains, for a period of at least two years after the
5 last day of the royalty payment exemption authorized by this subsection,
6 records of production that show the actual date that drilling of the well
7 started, the daily production from the well, and the API degree gravity
8 data, and allows the department to inspect the records during regular
9 business hours;

10 (2) by taking an exemption from the payment of royalty under this
11 subsection, the lessee waives any right that the lessee might otherwise have under its
12 lease, unit agreement, or other agreement with the state to deduct, against royalty due
13 the state, any field costs associated with the production of the heavy oil for which the
14 exemption is taken;

15 (3) when an exemption from payment of royalty is obtained on the
16 production of heavy oil under this subsection, for a period of 20 years after the last
17 day on which a royalty payment exemption is allowed under this subsection, the lessee
18 may not claim or obtain the benefit of an adjustment of royalty on the production of
19 oil under contract or any other provision of law authorizing a royalty modification;

20 (4) for purposes of calculating the first 500 barrels per day of daily
21 production of heavy oil from a well, the production from dual completions and other
22 forms of multiple completions in a well is to be added together and counted as
23 production from a single well;

24 (5) in this subsection,

25 (A) "field costs" includes the lease or unit expenses identified
26 in (f) of this section;

27 (B) "heavy oil" means oil having a weighted average equal to
28 or less than 20 degrees API gravity as the term "API gravity" is defined in
29 AS 43.55.900.

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