

CS FOR HOUSE BILL NO. 325(FIN) am
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Amended: 3/29/96

Offered: 3/25/96

Sponsor(s): REPRESENTATIVE GREEN

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to modification of royalty to encourage production from an
2 oil pool containing heavy oil; and providing for an effective date."

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

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

5 (dd) Notwithstanding any other provision of this section or any provision in
6 a lease, unit agreement, or other agreement between a lessee and the state that
7 establishes an obligation to pay royalty on production, royalty is payable at a rate of
8 two percent, under the conditions and to the extent described in this subsection, for the
9 production of heavy oil that is removed or sold from a lease or leases located north
10 of the Umiat baseline, as follows:

11 (1) under this subsection, the reduction in payment of royalty applies
12 (A) only to the portion of the lessee's reported royalty, as may
13 be later adjusted, before any field cost deduction, as calculated for the month of
14 production, for the first 450 barrels of daily production of heavy oil from the
15 well that does not exceed \$15 per barrel;

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

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

10 (D) for a well only if the lessee

11 (i) submits with its royalty report for the first month for
12 which the reduction in royalty payment under (A) - (C) of this paragraph
13 is claimed and with subsequent royalty reports for so long as the
14 reduction continues, oil gravity test results performed during the period
15 for which the royalty report is filed demonstrating that the oil tested is
16 heavy oil; the oil gravity test must be in accordance with the standards
17 for measurement and testing set out in the regulations of the Alaska Oil
18 and Gas Conservation Commission; the oil gravity test must be conducted
19 at quarterly intervals except that, for oil that, when tested, has a weighted
20 average of 19 degrees API gravity or greater, the oil gravity test must be
21 conducted not less often than monthly; and

22 (ii) maintains, for a period of at least two years after the
23 last day of the royalty payment reduction authorized by this subsection,
24 records of production that show the actual date that drilling of the well
25 started, the daily production from the well, and the API degree gravity
26 data, and allows the department to inspect the records during regular
27 business hours; and

28 (E) only to heavy oil production located at depths of less than
29 5,000 feet;

30 (2) by taking a reduction in the payment of royalty under this
31 subsection, the lessee waives any right that the lessee might otherwise have under its
32 lease, unit agreement, or other agreement with the state to deduct, against royalty due

1 the state, any field costs associated with the production of the heavy oil for which the
2 reduction is taken;

3 (3) when a reduction in payment of royalty is obtained on the
4 production of heavy oil under this subsection, for a period of 20 years after the last
5 day on which a royalty payment reduction is allowed under this subsection, the lessee
6 may not claim or obtain the benefit of an adjustment of royalty on the production of
7 oil under contract or any other provision of law authorizing a royalty modification;

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

12 (5) in this subsection,

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

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

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