

SENATE CS FOR CS FOR HOUSE BILL NO. 325(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 4/23/96
Referred: Finance

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

1 well, the royalty value of which does not exceed \$15 per barrel as estimated at
2 the lease automatic custody transfer meter at which custody is first transferred
3 into a common carrier pipeline;

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

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

13 (D) for a well only if the lessee

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

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

31 (E) only if the deepest producing perforation of the well from
32 which heavy oil is produced is shallower than 5,000 feet;

1 (2) by taking a reduction in the payment of royalty under this
2 subsection, the lessee waives any right that the lessee might otherwise have under its
3 lease, unit agreement, or other agreement with the state to deduct, against royalty due
4 the state, any field costs associated with the production of the heavy oil for which the
5 reduction is taken;

6 (3) when a reduction in payment of royalty is obtained on the
7 production of heavy oil under this subsection, for a period of 20 years after the last
8 day on which a royalty payment reduction is taken under this subsection, the lessee
9 may not apply for further adjustment of royalty, whether through contract or a
10 provision of law authorizing a royalty modification, on the production of oil from the
11 well for which a reduced royalty was taken under this subsection;

12 (4) for purposes of calculating the first 450 barrels per day of daily
13 production of heavy oil from a well, the production from dual completions and other
14 forms of multiple completions in a well is to be added together and counted as
15 production from a single well;

16 (5) in this subsection,

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

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

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