

**SENATE BILL NO. 112**

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Introduced: 3/7/95

Referred: RES, FIN

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act establishing a discovery royalty credit for the lessees of state land  
2 drilling exploratory wells and making the first discovery of oil or gas in  
3 commercial quantities."

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

5 \* **Section 1.** AS 38.05.134 is amended to read:

6           Sec. 38.05.134. **CONVERSION TO LEASE.** If the licensee requests and the  
7 commissioner determines that the work commitment obligation set out in an oil and  
8 gas exploration license issued under AS 38.05.132 has been met, the commissioner  
9 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,  
10 of the area described in the exploration license that remains after the relinquishments,  
11 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this  
12 section

13                           (1) is subject to the acreage limitations imposed by AS 38.05.140(c);

14                           (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);

1 (3) must be conditioned upon a royalty in amount or value of not less  
2 than 12.5 percent of production, except that the lessee who, proceeding under  
3 AS 38.05.131 - 38.05.134, makes the first discovery of oil or gas in commercial  
4 quantities in a geologic structure shall pay a royalty on all production under the  
5 lease of five percent for the first 10 years following the date of discovery and  
6 thereafter the royalty shall be as determined under this paragraph;

7 (4) must include an annual rent of \$3 per acre or fraction of an acre  
8 initially paid to the state at inception of the lease and payable annually after that until  
9 the income to the state from royalty under that lease exceeds the rental income to the  
10 state under that lease for that year; and

11 (5) is subject to other conditions and obligations that are specified in  
12 the lease.

13 \* **Sec. 2.** AS 38.05.180(f) is amended to read:

14 (f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may  
15 issue oil and gas leases on state land to the highest responsible qualified bidder **as**  
16 **follows:**

17 (1) the commissioner shall issue an oil and gas lease to the  
18 successful bidder determined by competitive bidding under regulations adopted by the  
19 commissioner; **bidding** [. BIDDING] may be by sealed bid or according to any other  
20 bidding procedure the commissioner determines is in the best interests of the state;

21 (2) whenever [. WHENEVER], under any of the leasing methods  
22 listed in this subsection, a royalty share is reserved to the state, it shall be delivered  
23 in pipeline quality and free of all lease or unit expenses, including but not limited to  
24 separation, cleaning, dehydration, gathering, salt water disposal, and preparation for  
25 transportation off the lease or unit area;

26 (3) following [. FOLLOWING] a pre-sale analysis, the commissioner  
27 may choose at least one of the following leasing methods:

28 (A) [(1)] a cash bonus bid with a fixed royalty share reserved  
29 to the state of not less than 12.5 percent in amount or value of the production  
30 removed or sold from the lease;

31 (B) [(2)] a cash bonus bid with a fixed royalty share reserved

1 to the state of not less than 12.5 percent in amount or value of the production  
2 removed or sold from the lease and a fixed share of the net profit derived from  
3 the lease of not less than 30 percent reserved to the state;

4 (C) [(3)] a fixed cash bonus with a royalty share reserved to the  
5 state as the bid variable but no less than 12.5 percent in amount or value of the  
6 production removed or sold from the lease;

7 (D) [(4)] a fixed cash bonus with the share of the net profit  
8 derived from the lease reserved to the state as the bid variable;

9 (E) [(5)] a fixed cash bonus with a fixed royalty share reserved  
10 to the state of not less than 12.5 percent in amount or value of the production  
11 removed or sold from the lease with the share of the net profit derived from  
12 the lease reserved to the state as the bid variable;

13 (F) [(6)] a cash bonus bid with a fixed royalty share reserved  
14 to the state based on a sliding scale according to the volume of production or  
15 other factor but in no event less than 12.5 percent in amount or value of the  
16 production removed or sold from the lease;

17 (G) [(7)] a fixed cash bonus with a royalty share reserved to the  
18 state based on a sliding scale according to the volume of production or other  
19 factor as the bid variable but not less than 12.5 percent in amount or value of  
20 the production removed or sold from the lease;

21 **(4) notwithstanding a requirement, in the leasing method chosen,**  
22 **of a minimum fixed royalty share, the holder of a lease who makes the first**  
23 **discovery of oil or gas in commercial quantities in a geologic structure shall pay**  
24 **a royalty on all production under the lease of five percent for the first 10 years**  
25 **following the date of discovery and thereafter the royalty shall be determined and**  
26 **payable under (3) of this subsection.**