

CS FOR SENATE BILL NO. 112(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 3/20/96
Referred: Finance

Sponsor(s): SENATE RESOURCES COMMITTEE

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 an oil
3 or gas pool in the Cook Inlet sedimentary basin."

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, under a lease issued in the Cook Inlet sedimentary basin
4 who is certified by the commissioner to be the first to drill a well discovering oil
5 or gas in a previously undiscovered oil or gas pool shall pay a royalty of five
6 percent on all production of oil or gas from that pool attributable to that lease for
7 a period of 10 years following the date of discovery of that pool, and thereafter
8 the royalty payable on all production of oil or gas from the pool attributable to
9 that lease shall be determined and payable as specified in the lease; the payment
10 of the five percent royalty under this paragraph is authorized only to a holder of
11 a lease who meets the requirements of AS 38.05.180(f)(4);

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

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

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

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

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

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

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

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

4 (B) [(2)] a cash bonus bid with a fixed royalty share reserved to
5 the state of not less than 12.5 percent in amount or value of the production
6 removed or sold from the lease and a fixed share of the net profit derived from
7 the lease of not less than 30 percent reserved to the state;

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

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

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

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

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

25 **(4) notwithstanding a requirement in the leasing method chosen of**
26 **a minimum fixed royalty share, on and after a date that is 180 days following the**
27 **effective date of this Act, the lessee under a lease issued in the Cook Inlet**
28 **sedimentary basin who is certified by the commissioner to be the first to drill a well**
29 **discovering oil or gas in a previously undiscovered oil or gas pool shall pay a**
30 **royalty of five percent on all production of oil or gas from that pool attributable to**
31 **that lease for a period of 10 years following the date of discovery of that pool, and**
32 **thereafter the royalty payable on all production of oil or gas from the pool**

1 attributable to that lease shall be determined and payable as specified in the lease;
2 the reduced royalty authorized by this paragraph is subject to the following:

3 (A) a lessee is eligible to pay the reduced royalty authorized
4 by this paragraph only if the lessee is the first to drill a well discovering oil
5 or gas in a previously undiscovered oil or gas pool;

6 (B) only one reduction of royalty authorized by this
7 paragraph may be allowed on each lease that qualifies for reduction of
8 royalty under this paragraph;

9 (C) if, under this paragraph, application is made for a royalty
10 reduction for a lease that was entered into before the date that is 180 days
11 following the effective date of this Act, the commissioner may approve the
12 application only if, on the date referred to in this subparagraph, the lease
13 was a nonproducing lease that was not committed to a unit approved by the
14 commissioner under (m) of this section, that is not part of a unit under (p)
15 or (q) of this section, and that has not been made part of a unit under
16 AS 31.05;

17 (D) if application for a royalty reduction is made under this
18 paragraph for a lease on which a discovery royalty was claimed or may be
19 claimed under the discovery royalty provisions of former AS 38.05.180(a) in
20 effect before May 6, 1969, the commissioner shall disallow the application
21 under this paragraph unless the applicant waives the right to claim the right
22 to a reduced royalty under the discovery royalty provisions of former
23 AS 38.05.180(a) in effect before May 6, 1969; and

24 (E) the commissioner shall adopt regulations setting out the
25 standards, criteria, and definitions of terms that apply to implement the
26 filing of applications for, and the review and certification of, discovery oil
27 and gas royalty certifications under this paragraph.