

HOUSE CS FOR CS FOR SENATE BILL NO. 112(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE RESOURCES COMMITTEE

Offered: 4/29/96
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
3 oil 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 the first to file with the commissioner a nonconfidential sworn statement
5 claiming to be the first to have drilled a well discovering oil or gas in a previously
6 undiscovered oil or gas pool and who is certified by the commissioner within one
7 year of completion of that discovery well to have drilled a well in that pool that
8 is capable of producing in paying quantities, as that term is defined in
9 AS 38.05.180(f)(4), shall pay a royalty of five percent on all production of oil or
10 gas from that pool attributable to that lease for a period of 10 years following the
11 date of completion of the discovery well in that pool, and thereafter the royalty
12 payable on all production of oil or gas from the pool attributable to that lease
13 shall be determined and payable as specified in the lease; the payment of the five
14 percent royalty under this paragraph is authorized only to a holder of a lease who
15 meets the requirements of AS 38.05.180(f)(4);

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

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

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

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

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

30 **(2) whenever** [. WHENEVER], under any of the leasing methods
31 listed in this subsection, a royalty share is reserved to the state, it shall be delivered

1 in pipeline quality and free of all lease or unit expenses, including but not limited to
2 separation, cleaning, dehydration, gathering, salt water disposal, and preparation for
3 transportation off the lease or unit area;

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

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

9 **(B)** [(2)] a cash bonus bid 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 and a fixed share of the net profit derived from
12 the lease of not less than 30 percent reserved to the state;

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

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

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

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

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

30 **(4) notwithstanding a requirement in the leasing method chosen of**
31 **a minimum fixed royalty share, on and after a date that is 180 days following the**

1 effective date of this Act, the lessee under a lease issued in the Cook Inlet
2 sedimentary basin who is the first to file with the commissioner a nonconfidential
3 sworn statement claiming to be the first to have drilled a well discovering oil or
4 gas in a previously undiscovered oil or gas pool and who is certified by the
5 commissioner within one year of completion of that discovery well to have drilled
6 a well in that pool that is capable of producing in paying quantities shall pay a
7 royalty of five percent on all production of oil or gas from that pool attributable
8 to that lease for a period of 10 years following the date of completion of the
9 discovery well in that pool, and thereafter the royalty payable on all production
10 of oil or gas from the pool attributable to that lease shall be determined and
11 payable as specified in the lease; for purposes of this paragraph,

12 (A) the reduced royalty authorized by this paragraph is
13 subject to the following:

14 (i) only one reduction of royalty authorized by this
15 paragraph may be allowed on each lease that qualifies for reduction
16 of royalty under this paragraph;

17 (ii) if, under this paragraph, application is made for
18 a royalty reduction for a lease that was entered into before the date
19 that is 180 days following the effective date of this Act, the
20 commissioner may approve the application only if, on that date, the
21 lease was a nonproducing lease that was not committed to a unit
22 approved by the commissioner under (m) of this section, that is not
23 part of a unit under (p) or (q) of this section, and that has not been
24 made part of a unit under AS 31.05;

25 (iii) if application for a royalty reduction is made
26 under this paragraph for a lease on which a discovery royalty was
27 claimed or may be claimed under the discovery royalty provisions
28 of former AS 38.05.180(a) in effect before May 6, 1969, the
29 commissioner shall disallow the application under this paragraph
30 unless the applicant waives the right to claim the right to a reduced
31 royalty under the discovery royalty provisions of former

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AS 38.05.180(a) in effect before May 6, 1969; and

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

(B) "paying quantities" means quantities sufficient to yield a return in excess of operating costs, even if drilling and equipment costs may never be repaid and the undertaking considered as a whole may ultimately result in a loss; quantities are insufficient to yield a return in excess of operating costs unless those quantities, not considering the costs of transportation and marketing, will produce sufficient revenue to induce a prudent operator to produce those quantities.