

**SENATE BILL NO. 181**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY SENATOR TAYLOR

Introduced: 5/19/99

Referred: Resources, Finance

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act amending the authorized methods for competitive leasing of oil and gas  
2 leases on state land to eliminate the option of a cash bonus bid variable and to  
3 limit bids with a bid variable other than the cash bonus to require only the  
4 payment of a nominal fixed cash bonus."

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

6 \* **Section 1.** AS 38.05.180(f) is amended to read:

7 (f) Except as provided by AS 38.05.131 - 38.05.134 and 38.05.177, the  
8 commissioner may issue oil and gas leases on state land to the highest responsible  
9 qualified bidder as follows:

10 (1) the commissioner shall issue an oil and gas lease to the successful  
11 bidder determined by competitive bidding under regulations adopted by the  
12 commissioner; bidding may be by sealed bid or according to any other bidding  
13 procedure the commissioner determines is in the best interests of the state;

14 (2) whenever, under any of the leasing methods listed in this

1 subsection, a royalty share is reserved to the state, it shall be delivered in pipeline  
2 quality and free of all lease or unit expenses, including but not limited to separation,  
3 cleaning, dehydration, gathering, salt water disposal, and preparation for transportation  
4 off the lease or unit area;

5 (3) following a pre-sale analysis, the commissioner may choose at least  
6 one of the following leasing methods:

7 (A) [A CASH BONUS BID WITH A FIXED ROYALTY  
8 SHARE RESERVED TO THE STATE OF NOT LESS THAN 12.5 PERCENT  
9 IN AMOUNT OR VALUE OF THE PRODUCTION REMOVED OR SOLD  
10 FROM THE LEASE;

11 (B) A CASH BONUS BID WITH A FIXED ROYALTY  
12 SHARE RESERVED TO THE STATE OF NOT LESS THAN 12.5 PERCENT  
13 IN AMOUNT OR VALUE OF THE PRODUCTION REMOVED OR SOLD  
14 FROM THE LEASE AND A FIXED SHARE OF THE NET PROFIT  
15 DERIVED FROM THE LEASE OF NOT LESS THAN 30 PERCENT  
16 RESERVED TO THE STATE;

17 (C) a nominal fixed cash bonus with a royalty share reserved  
18 to the state as the bid variable but no less than 12.5 percent in amount or value  
19 of the production removed or sold from the lease;

20 (B) [(D)] a nominal fixed cash bonus with the share of the net  
21 profit derived from the lease reserved to the state as the bid variable;

22 (C) [(E)] a nominal fixed cash bonus with a fixed royalty share  
23 reserved to the state of not less than 12.5 percent in amount or value of the  
24 production removed or sold from the lease with the share of the net profit  
25 derived from the lease reserved to the state as the bid variable;

26 (D) [(F)] A CASH BONUS BID WITH A FIXED ROYALTY  
27 SHARE RESERVED TO THE STATE BASED ON A SLIDING SCALE  
28 ACCORDING TO THE VOLUME OF PRODUCTION OR OTHER FACTOR  
29 BUT IN NO EVENT LESS THAN 12.5 PERCENT IN AMOUNT OR VALUE  
30 OF THE PRODUCTION REMOVED OR SOLD FROM THE LEASE;

31 (G) a nominal fixed cash bonus with a royalty share reserved

1 to the state based on a sliding scale according to the volume of production or  
2 other factor as the bid variable but not less than 12.5 percent in amount or  
3 value of the production removed or sold from the lease;

4 (4) notwithstanding a requirement in the leasing method chosen of a  
5 minimum fixed royalty share, on and after March 3, 1997, the lessee under a lease  
6 issued in the Cook Inlet sedimentary basin who is the first to file with the  
7 commissioner a nonconfidential sworn statement claiming to be the first to have drilled  
8 a well discovering oil or gas in a previously undiscovered oil or gas pool and who is  
9 certified by the commissioner within one year of completion of that discovery well to  
10 have drilled a well in that pool that is capable of producing in paying quantities shall  
11 pay a royalty of five percent on all production of oil or gas from that pool attributable  
12 to that lease for a period of 10 years following the date of discovery of that pool, and  
13 thereafter the royalty payable on all production of oil or gas from the pool attributable  
14 to that lease shall be determined and payable as specified in the lease; for purposes of  
15 this paragraph, the reduced royalty authorized by this paragraph is subject to the  
16 following:

17 (A) only one reduction of royalty authorized by this paragraph  
18 may be allowed on each lease that qualifies for reduction of royalty under this  
19 paragraph;

20 (B) if, under this paragraph, application is made for a royalty  
21 reduction for a lease that was entered into before March 3, 1997, the  
22 commissioner may approve the application only if, on that date, the lease was  
23 a nonproducing lease that was not committed to a unit approved by the  
24 commissioner under (m) of this section, that is not part of a unit under (p) or  
25 (q) of this section, and that has not been made part of a unit under AS 31.05;

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

1 38.05.180(a) in effect before May 6, 1969; and

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

6 (5) notwithstanding and in lieu of a requirement in the leasing method  
7 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases  
8 unitized as described in (p) of this section, leases subject to an agreement described  
9 in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or  
10 part of an oil or gas field identified in this section that has been granted approval of  
11 a written plan submitted to the Alaska Oil and Gas Conservation Commission under  
12 AS 31.05.030(i) shall, subject to (dd) of this section, pay a royalty of five percent on  
13 the first 25,000,000 barrels of oil and the first 35,000,000,000 cubic feet of gas  
14 produced for sale from that field that occurs in the 10 years following the date on  
15 which the production for sale commences; the fields eligible for royalty reduction  
16 under this paragraph, all of which are located within the Cook Inlet sedimentary basin,  
17 were discovered before January 1, 1988, and have been undeveloped or shut in from  
18 at least January 1, 1988, through December 31, 1997, are

19 (A) Falls Creek;

20 (B) Nicolai Creek;

21 (C) North Fork;

22 (D) Point Starichkof;

23 (E) Redoubt Shoal; and

24 (F) West Foreland.