

**HOUSE BILL NO. 308**

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - SECOND SESSION

**BY REPRESENTATIVES FATE, Coghill, Whitaker, Green, Hayes, Davies**

**Introduced: 1/14/02**

**Referred: House Special Committee on Oil and Gas, Resources, Finance**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act extending to discoveries of oil or gas in the Tanana River drainage basin the**  
2 **discovery royalty credits that are authorized for lessees of state land drilling exploratory**  
3 **wells and making the first discovery of oil or gas in an oil or gas pool and for licensees**  
4 **under oil and gas exploration licenses making the first discovery of oil or gas in an oil or**  
5 **gas pool that convert those licenses to oil and gas leases."**

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

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

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

1 section

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

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

4 (3) must be conditioned upon a royalty in amount or value of not less  
5 than 12.5 percent of production, except that the lessee who, proceeding under  
6 AS 38.05.131 - 38.05.134, under a lease issued in the Cook Inlet sedimentary basin **or**  
7 **under a lease issued in the Tanana River drainage basin** who is the first to file with  
8 the commissioner a nonconfidential sworn statement claiming to be the first to have  
9 drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and  
10 who is certified by the commissioner within one year of completion of that discovery  
11 well to have drilled a well in that pool that is capable of producing in paying quantities  
12 shall pay a royalty of five percent on all production of oil or gas from that pool  
13 attributable to that lease for a period of 10 years following the date of discovery of that  
14 pool, and thereafter the royalty payable on all production of oil or gas from the pool  
15 attributable to that lease shall be determined and payable as specified in the lease; the  
16 payment of the five percent royalty under this paragraph is authorized only to a holder  
17 of a lease who meets the requirements of AS 38.05.180(f)(4);

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

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

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

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

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

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

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

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

11                   (B) a cash bonus bid with a fixed royalty share reserved to the  
 12 state of not less than 12.5 percent in amount or value of the production  
 13 removed or sold from the lease and a fixed share of the net profit derived from  
 14 the lease of not less than 30 percent reserved to the state;

15                   (C) a fixed cash bonus with a royalty share reserved to the state  
 16 as the bid variable but **not** [NO] less than 12.5 percent in amount or value of  
 17 the production removed or sold from the lease;

18                   (D) a fixed cash bonus with the share of the net profit derived  
 19 from the lease reserved to the state as the bid variable;

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

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

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

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

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

18 (B) if, under this paragraph, application is made for a royalty  
 19 reduction for a lease that was entered into **in the Cook Inlet sedimentary**  
 20 **basin** before March 3, 1997, **or in the Tanana River drainage basin before**  
 21 **the effective date of this Act,** the commissioner may approve the application  
 22 only if, on that date, the lease was a nonproducing lease that was not  
 23 committed to a unit approved by the commissioner under (m) of this section,  
 24 that is not part of a unit under (p) or (q) of this section, and that has not been  
 25 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

1 AS 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 in  
9 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of  
10 an oil or gas field identified in this section that has been granted approval of a written  
11 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 at  
18 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.