

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 198(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 4/28/03

Referred: Resources, Finance

Sponsor(s): REPRESENTATIVES KOHRING, Rokeberg, Chenault, Wolf, Holm, McGuire, Foster

A BILL

FOR AN ACT ENTITLED

1 **"An Act providing for a reduction of royalty on certain oil produced from Cook Inlet**
2 **submerged land."**

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

4 *** Section 1.** AS 38.05.180(f) is amended by adding a new paragraph to read:

5 (6) notwithstanding and in lieu of a requirement in the leasing method
6 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
7 unitized as described in (p) of this section, leases subject to an agreement described in
8 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of
9 an oil field located offshore in Cook Inlet on which an oil production platform
10 specified in (A) or (C) of this paragraph operates, or the lessee of all or part of the
11 field located offshore in Cook Inlet and described in (E) of this paragraph,

12 (A) shall pay a royalty of five percent on oil produced from the
13 platform if oil production that equaled or exceeded a volume of 1,200 barrels a
14 day declines to less than that amount for a period of at least one calendar

1 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
 2 as long as the volume of oil produced from the platform remains less than
 3 1,200 barrels a day; the provisions of this subparagraph apply to

- 4 (i) Dolly;
- 5 (ii) Grayling;
- 6 (iii) King Salmon;
- 7 (iv) Steelhead; and
- 8 (v) Monopod;

9 (B) shall pay a royalty calculated under this subparagraph if the
 10 volume of oil produced from the platform that was certified by the Alaska Oil
 11 and Gas Conservation Commission under (A) of this paragraph later increases
 12 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a
 13 period of at least one calendar quarter; until the royalty rate determined under
 14 this subparagraph applies, the royalty continues to be calculated under (A) of
 15 this paragraph; on and after the day the increased production exceeds the
 16 period specified in this paragraph, the royalty payable under this subparagraph
 17 is

- 18 (i) for production of at least 1,200 barrels a day but not
 19 more than 1,300 barrels a day - seven percent;
- 20 (ii) for production of more than 1,300 barrels a day but
 21 not more than 1,400 barrels a day - 8.5 percent;
- 22 (iii) for production of more than 1,400 barrels a day but
 23 not more than 1,500 barrels a day - 10 percent; and
- 24 (iv) for production of more than 1,500 barrels a day -
 25 12.5 percent;

26 (C) shall pay a royalty of five percent on oil produced from the
 27 platform if oil production that equaled or exceeded a volume of 750 barrels a
 28 day declines to less than that amount for a period of at least one calendar
 29 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
 30 as long as the volume of oil produced from the platform remains less than 750
 31 barrels a day; the provisions of this subparagraph apply to

- 1 (i) Granite Point;
- 2 (ii) Anna;
- 3 (iii) Bruce;
- 4 (iv) Baker;
- 5 (v) Dillon;
- 6 (vi) XTO.A; and
- 7 (vii) XTO.C;

8 (D) shall pay a royalty calculated under this subparagraph if the
 9 volume of oil produced from the platform that was certified by the Alaska Oil
 10 and Gas Conservation Commission under (C) of this paragraph later increases
 11 to 750 or more barrels a day and remains at 750 or more barrels a day for a
 12 period of at least one calendar quarter; until the royalty rate determined under
 13 this subparagraph applies, the royalty continues to be calculated under (C) of
 14 this paragraph; on and after the day the increased production exceeds the
 15 period specified in this paragraph, the royalty payable under this subparagraph
 16 is

- 17 (i) for production of at least 750 barrels a day but not
 18 more than 850 barrels a day - seven percent;
- 19 (ii) for production of more than 850 barrels a day but
 20 not more than 1,000 barrels a day - 8.5 percent;
- 21 (iii) for production of more than 1,000 barrels a day but
 22 not more than 1,200 barrels a day - 10 percent; and
- 23 (iv) for production of more than 1,200 barrels a day -
 24 12.5 percent;

25 (E) shall pay a royalty of five percent on oil produced from the
 26 field if oil production that equaled or exceeded a volume of 750 barrels a day
 27 declines to less than that amount for a period of at least one calendar quarter,
 28 as certified by the Alaska Oil and Gas Conservation Commission, for as long
 29 as the volume of oil produced from the field remains less than 750 barrels a
 30 day; the provisions of this subparagraph apply to the West McArthur River
 31 field;

1 (F) shall pay a royalty calculated under this subparagraph if the
2 volume of oil produced from the field that was certified by the Alaska Oil and
3 Gas Conservation Commission under (E) of this paragraph later increases to
4 750 or more barrels a day and remains at 750 or more barrels a day for a period
5 of at least one calendar quarter; until the royalty rate determined under this
6 subparagraph applies, the royalty continues to be calculated under (E) of this
7 paragraph; on and after the day the increased production exceeds the period
8 specified in this paragraph, the royalty payable under this subparagraph is

9 (i) for production of at least 750 barrels a day but not
10 more than 850 barrels a day - seven percent;

11 (ii) for production of more than 850 barrels a day but
12 not more than 1,000 barrels a day - 8.5 percent;

13 (iii) for production of more than 1,000 barrels a day but
14 not more than 1,200 barrels a day - 10 percent; and

15 (iv) for production of more than 1,200 barrels a day -
16 12.5 percent; and

17 (G) may obtain the benefits of the royalty adjustments set out
18 in (A) - (D) of this paragraph only if the reduction in production from the
19 platform, or as set out in (E) and (F) of this paragraph only if the reduction of
20 production from the field, is calculated

21 (i) based on the average daily production during the
22 calendar quarter based on reservoir conditions; and

23 (ii) without consideration of short-term production
24 declines due to mechanical or other choke-back factor, temporary
25 shutdowns or decreased production due to environmental or facility
26 constraints, or market conditions.