

Introduced: 2/16/67  
Referred: Resources  
and Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 115

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to incentive royalty on oil and gas;  
7 and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 38.05.135 is amended to read:

10 Sec. 38.05.135. GENERALLY. Except as otherwise provided, valuable  
11 mineral deposits in lands belonging to the state shall be open to explo-  
12 ration, development, and the extraction of minerals. All lands, together  
13 with tide, submerged, or shorelands, to which the state holds title or  
14 to which the state may become entitled, may be obtained by permit or  
15 lease for the purpose of exploration, development, and the extraction of  
16 minerals. Except as specifically limited by secs. 135 - 180 of this  
17 chapter, lands may be withheld from lease application on a first-come,  
18 first-served basis, and offered only on a competitive bid basis when  
19 determined by the commissioner to be in the best interests of the state.  
20 In unproven [UNPROVED] areas the commissioner may offer additional in-  
21 centives [INCENTIVE], including a reduction of royalty to a minimum of  
22 five per cent in the case of oil and gas, and other terms in granting  
23 permit or lease for exploration and development whenever it appears  
24 to be in the best interests of the state to do so.

25 \* Sec. 2. AS 38.05.180(a) is amended to read:

26 (a) All tide and submerged lands, mental health lands, school  
27 lands, and university lands shall be leased by competitive bidding,  
28 and whenever oil or gas is discovered in commercial quantities, the  
29 commissioner shall determine the extent of the area of lands in

1 addition to tide, submerged, mental health lands, school, or university  
2 lands in the same general area of the discovery well which, by reason  
3 of the discovery, the commissioner reasonably believes to be capable  
4 of producing oil or gas, and the additional lands shall be leased to  
5 the highest responsible qualified bidder by competitive bidding under  
6 general regulations, in units of not exceeding 2,560 acres (except  
7 that tide and submerged lands shall be leased in units of not ex-  
8 ceeding 5,760 acres), which shall be as nearly compact in form as  
9 possible, upon the payment by the lessee of such bonus as may be  
10 accepted by the commissioner and of such royalty as may be fixed in  
11 the lease which shall not be less than 12 1/2 per cent in amount or  
12 value of the production removed or sold from the lease. However, the  
13 holder of a lease who drills and makes the first discovery of oil or  
14 gas in commercial quantities in a geologic structure shall pay a  
15 royalty on all production under the lease of five per cent for 10 years  
16 following the date of discovery and thereafter the royalty rate shall  
17 be not less than 12 1/2 per cent , [.] provided, however, that the  
18 royalty rate for the first discovery in any unproven area of the Cook  
19 Inlet sedimentary basin shall not be less than 12 1/2 per cent unless  
20 the commissioner specifically provides that such royalty shall be less  
21 at the time such lands are offered for lease and in no event shall such  
22 royalty be less than five per cent. All lands other than those above  
23 provided to be leased by competitive bidding may be leased competi-  
24 tively or noncompetitively as determined by the commissioner to be in  
25 the best interests of the state. Noncompetitive leases shall be  
26 issued in units of not exceeding 2,560 acres in any one lease. Non-  
27 competitive leases shall be conditioned upon the payment by the lessee  
28 of a royalty of 12 1/2 per cent in amount or value of the production  
29 removed or sold from the lease. However, the holder of a lease who

1 drills and makes the first discovery of oil or gas in commercial  
2 quantities in a geologic structure shall pay a royalty on all pro-  
3 duction under the lease offive per cent for 10 years following the  
4 date of dis covery and thereafter the royalty rate is 12 1/2 per cent.  
5 Competitive leases issued under this subsection shall be for 10 years  
6 and shall continue so long thereafter as oil or gas is produced in  
7 paying quantities. Noncompetitive leases issued under this sub-  
8 section shall be for a primary term of five years and shall continue  
9 so long thereafter as oil or gas is produced in paying quantities.  
10 If drilling has commenced on the expiration date of the primary term  
11 of the lease and is continued with reasonable diligence, such oper-  
12 ations to include redrilling, side-tracking or other means necessary  
13 to reach the originally proposed bottom hole location, the lease shall  
14 continue in effect until 90 days after drilling has ceased and for so  
15 long thereafter as oil or gas is produced in paying quantities. If  
16 all or part of the lands covered by the lease are lands that have  
17 been selected by the state under laws of the United States granting  
18 lands to the state and a conditional lease was issued thereon, the  
19 term of the lease shall be extended for a period equal to the period  
20 during which the lease was conditional.

21 \* Sec. 3. The provisions of this Act shall not apply to leases issued or to  
22 valid applications filed prior to the effective date of this Act.

23 \* Sec. 4. This Act takes effect on the day after its passage and  
24 approval or on the day it becomes law without approval.  
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