

Original sponsor: Fink, Bradner, Kay  
and Moses

Offered: 3/20/69  
Referred: Finance

CS Finance

1 IN THE HOUSE

BY THE JUDICIARY COMMITTEE

2 CS FOR HOUSE BILL NO. 75

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to revenues from oil and gas  
7 properties."

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

9 \* Section 1. AS 43.55.010(a) is repealed and re-enacted to read:

10 (a) There is levied upon every person producing oil and gas a  
11 tax on (1) each barrel of oil produced and not consumed within the  
12 state and (2) the gross value at the well of all gas produced and not  
13 consumed within the state, less any part or the value of any part the  
14 ownership or right to which is exempt from taxation. The tax is upon  
15 the whole production, including what is commonly known as the royalty  
16 interest. The rates of taxation are as follows:

17 (A) on oil from a basin which has not yielded an  
18 average of 100,000 barrels of oil a day for any quarter, the tax  
19 shall be nine cents per barrel for that quarter;

20 (B) on gas from a basin which has not yielded an  
21 average of 100,000 MCF of gas a day for any quarter, the tax  
22 shall be three per cent for that quarter;

23 (C) on oil from a basin which has yielded an average  
24 of 100,000 barrels of oil a day for any quarter, the tax shall be  
25 30 cents per barrel or 10 per cent, whichever is greater, for that  
26 quarter; however, the tax on oil substantially processed within  
27 the state, as provided in regulations of the Department of  
28 Natural Resources, is 15 cents per barrel or five per cent, which-  
29 ever is greater;

1 (D) on gas from a basin which has yielded an average  
2 of 100,000 MCF of gas a day for any quarter, the tax shall be  
3 10 per cent for that quarter; however, the tax on gas substan-  
4 tially processed within the state, as provided in regulations of  
5 the Department of Natural Resources, is five per cent.

6 \* Sec. 2. AS 43.55.010(b) is amended to read:

7 (b) Payment of the tax is in lieu of all ad valorem taxes now or  
8 hereafter imposed by the state and cities or organized boroughs of any  
9 class, whether home rule or otherwise. [CITIES, TOWNS, SCHOOL DISTRICTS,  
10 AND OTHER LOCAL GOVERNMENT UNITS] upon (1) property rights attached to  
11 or inherent in the right to producing oil or gas, (2) producing oil or  
12 gas leases, (3) machinery, appliances and equipment used in and around  
13 a well producing oil or gas and actually used in the operation of the  
14 well, (4) oil and gas produced in the state upon which gross production  
15 taxes are paid, and (5) an investment in property described in this  
16 section.

17 \* Sec. 3. AS 43.55.010 is amended by adding new subsections to read:

18 (e) If the tax provided for under (a) of this section is found to  
19 be unconstitutional by the supreme court of the state, there is levied  
20 upon every person producing oil and gas a tax of 10 per cent of the  
21 gross value at the well of gas produced in the state and 30 cents per  
22 barrel of oil or 10 per cent of its value, whichever is greater, less  
23 the value of any part, the ownership or right to which is exempt from  
24 taxation. The tax is upon the whole production, including what is  
25 commonly known as the royalty interest.

26 (f) In (a) of this section, "consumed" means produced, processed  
27 and used up within the state; processing in any form, or use as an  
28 ingredient of a manufactured product, does not by itself constitute  
29 being consumed under (a) of this section.

1 \* Sec. 4. AS 38.05.180(a) is amended to read:

2 (a) All tide and submerged lands, mental health lands, school  
3 lands, and university lands shall be leased by competitive bidding,  
4 and whenever oil or gas is discovered in commercial quantities, the  
5 commissioner shall determine the extent of the area of lands in addi-  
6 tion to tide, submerged, mental health lands, school, or university  
7 lands in the same general area of the discovery well which, by reason  
8 of the discovery, the commissioner reasonably believes to be capable  
9 of producing oil or gas, and the additional lands shall be leased to  
10 the highest responsible qualified bidder by competitive bidding under  
11 general regulations, in units of not exceeding 2,560 acres (except  
12 that tide and submerged lands shall be leased in units of not exceeding  
13 5,760 acres), which shall be as nearly compact in form as possible,  
14 upon the payment by the lessee of such bonus as may be accepted by the  
15 commissioner and of such royalty as may be fixed in the lease which  
16 shall not be less than 12 1/2 per cent in amount or value of gas, and  
17 37.5 cents or 12 1/2 per cent, whichever is greater, per barrel of oil,  
18 [THE] production removed or sold from the lease. However, the holder  
19 of a lease who drills and makes the first discovery of oil or gas in  
20 commercial quantities in a geologic structure shall pay a royalty on  
21 all production under the lease of five per cent for gas, and 15 cents  
22 or five per cent, whichever is greater, per barrel of oil, for 10 years  
23 following the date of discovery and thereafter the royalty rate shall  
24 be not less than 12 1/2 per cent for gas, and 37.5 cents or 12 1/2 per  
25 cent, whichever is greater, per barrel of oil, provided, however, that  
26 the royalty rate for the first discovery in any unproven area of the  
27 Cook Inlet sedimentary basin shall not be less than 12 1/2 per cent  
28 for gas, and 37.5 cents or 12 1/2 per cent, whichever is greater, per  
29 barrel of oil, unless the commissioner specifically provides that such

1 royalty shall be less at the time such lands are offered for lease and  
2 in no event shall such royalty be less than five per cent for gas and  
3 15 cents or five per cent, whichever is greater, per barrel of oil. All  
4 lands other than those above provided to be leased by competitive bidding  
5 may be leased competitively or noncompetitively as determined by the  
6 commissioner to be in the best interests of the state. Noncompetitive  
7 leases shall be issued in units of not exceeding 2,560 acres in any  
8 one lease. Noncompetitive leases shall be conditioned upon the payment  
9 by the lessee of a royalty of 12 1/2 per cent in amount or value of  
10 gas, and 37.5 cents or 12 1/2 per cent, whichever is greater, per barrel  
11 of oil. [THE] production removed or sold from the lease. However, the  
12 holder of a lease who drills and makes the first discovery of oil or  
13 gas in commercial quantities in a geologic structure shall pay a royalty  
14 on all production under the lease of five per cent for gas, and 15 cents  
15 or five per cent, whichever is greater, per barrel of oil, for 10 years  
16 following the date of discovery and thereafter the royalty rate is 12  
17 1/2 per cent for gas and 37.5 cents or 12 1/2 per cent, whichever is  
18 greater, per barrel of oil. Competitive leases issued under this sub-  
19 section shall be for 10 years and shall continue so long thereafter as  
20 oil or gas is produced in paying quantities. Noncompetitive leases  
21 issued under this subsection shall be for a primary term of five years  
22 and shall continue so long thereafter as oil or gas is produced in pay-  
23 ing quantities. If drilling has commenced on the expiration date of the  
24 primary term of the lease and is continued with reasonable diligence,  
25 such operations to include redrilling, sidetracking or other means neces-  
26 sary to reach the originally proposed bottom hole location, the lease  
27 shall continue in effect until 90 days after drilling has ceased and  
28 for so long thereafter as oil or gas is produced in paying quantities.  
29 If all or part of the lands covered by the lease are lands that have

1           been selected by the state under laws of the United States granting  
2           lands to the state and a conditional lease was issued thereon, the  
3           term of the lease shall be extended for a period equal to the period  
4           during which the lease was conditional.

5           \* Sec. 5. AS 38.05 is amended by adding a new subsection to read:

6                   (s) In (a) of this section "barrel of oil" means 42 United States  
7           gallons of 231 cubic inches a gallon computed at a temperature of 60  
8           degrees Fahrenheit.

9           \* Sec. 6. Secs. 5 and 6 of this Act apply to royalties on leases issued  
10          after the effective date of this Act.

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