

Introduced: 3/3/69
Referred: Resources, State
Affairs and Finance

1 IN THE HOUSE

BY KERTTULA

2 HOUSE BILL NO. 245

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 discovery royalties on oil and gas
7 production."

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 minerals deposits in lands belonging to the state shall be open to ex-
12 ploration, development, and the extraction of minerals. All lands,
13 together with tide, submerged, or shorelands, to which the state holds
14 title or to which the state may become entitled, may be obtained by
15 permit or lease for the purpose of exploration, development, and the
16 extraction of minerals. Except as specifically limited by secs. 135 -
17 180 of this chapter, lands may be withheld from lease application on a
18 first-come, first-served basis, and offered only on a competitive bid
19 basis when determined by the commissioner to be in the best interests
20 of the state. In unproven areas the commissioner may offer additional
21 incentives [, INCLUDING A REDUCTION OF ROYALTY TO A MINIMUM OF FIVE
22 PER CENT IN THE CASE OF OIL AND GAS,] and other terms in granting permit
23 or lease for exploration and development whenever it appears to be in
24 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 addition

1 to tide, submerged, mental health lands, school, or university lands in
2 the same general area of the discovery well which, by reason of the
3 discovery, the commissioner reasonably believes to be capable of pro-
4 ducing oil or gas, and the additional lands shall be leased to the
5 highest responsible qualified bidder by competitive bidding under
6 general regulations, in units of not exceeding 2,560 acres (except that
7 tide and submerged lands shall be leased in units of not exceeding
8 5,760 acres), which shall be as nearly compact in form as possible,
9 upon the payment by the lessee of such bonus as may be accepted by the
10 commissioner and of such royalty as may be fixed in the lease which
11 shall not be less than 12 1/2 per cent in amount or value of the pro-
12 duction removed or sold from the lease. [HOWEVER, THE HOLDER OF A
13 LEASE WHO DRILLS AND MAKES THE FIRST DISCOVERY OF OIL OR GAS IN COM-
14 Mercial quantities in a geologic structure shall pay a royalty on all
15 production under the lease of five per cent for 10 years following the
16 date of discovery and thereafter the royalty rate shall be not less
17 than 12 1/2 per cent, provided, however, that the royalty rate for the
18 first discovery in any unproven area of the Cook Inlet Sedimentary
19 Basin shall not be less than 12 1/2 per cent unless the commissioner
20 specifically provides that such royalty shall be less at the time such
21 lands are offered for lease and in no event shall such royalty be less
22 than five per cent.] All lands other than those above provided to be
23 leased by competitive bidding may be leased competitively or non-
24 competitively as determined by the commissioner to be in the best
25 interests of the state. Noncompetitive leases shall be issued in units
26 of not exceeding 2,560 acres in any one lease. Noncompetitive leases
27 shall be conditioned upon the payment by the lessee of a royalty of
28 12 1/2 per cent in amount or value of the production removed or sold
29 from the lease. [HOWEVER, THE HOLDER OF A LEASE WHO DRILLS AND MAKES

1 THE FIRST DISCOVERY OF OIL OR GAS IN COMMERCIAL QUANTITIES IN A GEO-
2 LOGIC STRUCTURE SHALL PAY A ROYALTY ON ALL PRODUCTION UNDER THE LEASE
3 OF FIVE PER CENT FOR 10 YEARS FOLLOWING THE DATE OF DISCOVERY AND
4 THEREAFTER THE ROYALTY RATE IS 12 1/2 PER CENT.] Competitive leases
5 issued under this subsection shall be for 10 years and shall continue
6 so long thereafter as oil or gas is produced in paying quantities. Non-
7 competitive leases issued under this subsection shall be for a primary
8 term of five years and shall continue so long thereafter as oil or gas
9 is produced in paying quantities. If drilling has commenced on the
10 expiration date of the primary term of the lease and is continued with
11 reasonable diligence, such operations to include redrilling, side-
12 tracking or other means necessary to reach the originally proposed
13 bottom hole location, the lease shall continue in effect until 90 days
14 after drilling has ceased and for so long thereafter as oil or gas is
15 produced in paying quantities. If all or part of the lands covered by
16 the lease are lands that have been selected by the state under laws of
17 the United States granting lands to the state and a conditional lease
18 was issued thereon, the term of the lease shall be extended for a
19 period equal to the period during which the lease was conditional.
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