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Referred: Resources and
Finance

1 IN THE HOUSE

BY CHATTERTON AND MALONE

2 *FCS SCS CS* HOUSE BILL NO. 815 (*FINANCE*)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to oil and gas conservation; and pro-
7 viding for an effective date."

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

9 * Section 1. AS 31.05.030(d) is amended by adding a new paragraph to
10 read:

11 (8) the measuring and monitoring of oil and gas pool pres-
12 sures.

13 * Sec. 2. AS 31.05.030(e) is amended by adding a new paragraph to read:

14 (6) the production rate of oil and gas from a well or pro-
15 perty.

16 * Sec. 3. AS 31.05.035(a)(1) is amended to read:

17 (1) the making and filing of flow test information, reports,
18 well logs, drilling logs, electric logs, lithologic logs, directional
19 surveys, and all other subsurface information on a well drilled for oil
20 or gas, or for the discovery of oil or gas, or for geologic information;
21 and

22 * Sec. 4. AS 31.05.035(c) is amended to read:

23 (c) The reports and information marked confidential by the opera-
24 tor shall be kept confidential for 24 months following the 30-day filing
25 period unless the owner of the well gives written permission to release
26 the reports and information at an earlier date. Well location, depth,
27 status and production data and production reports required by the de-
28 partment to be filed subsequent to the 30-day filing period shall be
29 considered public information and shall not be classified confidential.

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1 Production data, as used in this subsection, means volume, gravity and
2 gas-oil ratio of all production of oil or gas after the well begins
3 regular production.

4 * Sec. 5. AS 31.05.060 is amended by adding a subsection to read:

5 (b) Any action by the department under this chapter that has
6 statewide or general application shall be performed in accordance with
7 the Administrative Procedure Act (AS 44.62). Any action by the depart-
8 ment under this chapter that has application to a single well or single
9 field shall be performed in accordance with regulations of the depart-
10 ment designed to afford persons affected by the action notice and an
11 opportunity to be heard.

12 * Sec. 6. AS 31.05.110(b) is amended to read:

13 (b) If upon the filing of a petition by the department and after
14 notice and hearing, all in the form and manner and in accordance with
15 the procedure and requirements provided in this section, the department
16 finds that (1) the unitized management, operation and further develop-
17 ment of a pool or portion of a pool is reasonably necessary in order to
18 effectively carry on pressure control, pressure-maintenance or repres-
19 suring operations, cycling operations, water flooding operations, or any
20 combination of these, or any other form of joint effort calculated to
21 substantially increase the ultimate recovery of oil and gas from the
22 pool; (2) one or more of the unitized methods of operation as applied to
23 the pool or portion of it is feasible, and will prevent waste and will
24 with reasonable probability result in the increased recovery of sub-
25 stantially more oil and gas from the pool than would otherwise be re-
26 covered; (3) the estimated additional cost, if any, of conducting such
27 operations will not exceed the value of the additional oil and gas so
28 recovered; and (4) the unitization and adoption of one or more of the
29 unitized methods of operation is for the common good [AND WILL RESULT IN

1 THE GENERAL ADVANTAGE OF THE OWNERS OF THE OIL AND GAS RIGHTS WITHIN THE
2 POOL OR PORTION OF IT DIRECTLY AFFECTED], it shall make a finding to
3 that effect and make an order creating the unit and providing for the
4 unitization and unitized operation of the pool or portion of it de-
5 scribed in the order, upon the terms and conditions, as may be shown by
6 the evidence to be fair, reasonable, equitable, and which are necessary
7 or proper to protect, safeguard and adjust the respective rights and
8 obligations of the several persons affected, including royalty owner,
9 owners of overriding royalties, oil and gas payments, carried interests,
10 mortgages, lien claimants and others, as well as the lessees. The
11 petition shall set out a description of the proposed unit area with a
12 map or plat of it attached, shall allege the existence of the facts
13 required to be found by the department as provided in this paragraph and
14 shall have attached to it a recommended plan of unitization applicable
15 to the proposed unit area and which the petitioner considers to be fair,
16 reasonable and equitable.

17 * Sec. 7. AS 31.05.110(c) is amended to read:

18 (c) The order of the department may [SHALL] define the boundary of
19 the area [OF THE POOL OR PORTION OF IT] to be included within the unit
20 area and prescribe with reasonable detail the plan of unitization appli-
21 cable to it. Each unit and unit area may [SHALL] be limited to all or a
22 portion of a single pool. [ONLY SO MUCH OF A POOL AS HAS BEEN DEFINED
23 AND DETERMINED TO BE PRODUCTIVE OF OIL AND GAS BY ACTUAL DRILLING OPERA-
24 TIONS MAY BE SO INCLUDED WITHIN THE UNIT AREA.] A unit may be created
25 to embrace less than the whole of a pool only where it is shown by the
26 evidence that the area to be so included within the unit area is of a
27 size and shape as may be reasonably required for the successful and
28 efficient conduct of the unitized method of operation for which the unit
29 is created, and that the conduct of it will have no material adverse

1 effect upon the remainder of the pool. The plan of unitization for each
2 unit and unit area shall be one suited to the needs and requirements of
3 the particular unit dependent upon the facts and conditions found to
4 exist with respect to it. In addition to other terms, provisions,
5 conditions and requirements found by the department to be reasonably
6 necessary or proper to carry out the purpose of this chapter, and sub-
7 ject to the further requirements of this section, each plan of unitiza-
8 tion shall contain fair, reasonable and equitable provisions for

9 (1) the efficient unitized management or control of the
10 further development and operation of the unit area for the recovery of
11 oil and gas from the pool affected; under such a plan the actual opera-
12 tions within the unit area may be carried on in whole or in part by the
13 unit itself, or by one or more of the lessees within the unit area as
14 the unit operator subject to the supervision and direction of the unit,
15 dependent upon what is most beneficial or expedient; the designation of
16 the unit operator shall be by vote of the lessees in the unit in a
17 manner provided in the plan of unitization and not by the department;

18 (2) the division of interest or formula for the apportionment
19 and allocation of the unit production, among and to the several sepa-
20 rately owned tracts within the unit area such as will reasonably permit
21 persons otherwise entitled to share in or benefit by the production from
22 such separately owned tracts to produce and receive, instead thereof,
23 their fair, equitable and reasonable share of the unit production or
24 other benefits of it; a separately owned tract's fair, equitable, and
25 reasonable share of the unit production shall be measured by the value
26 of each such tract for oil and gas purposes and its contributing value
27 to the unit in relation to like values of other tracts in the unit,
28 taking into account acreage, the quantity of oil and gas recoverable
29 from it, location on the structure, its probable productivity of oil and

1 gas in the absence of unit operations, the burden of operations to which
2 the tract will or is likely to be subjected, or so many of these fac-
3 tors, or such other pertinent engineering, geological or operating
4 factors as may be reasonably susceptible of determination; unit produc-
5 tion as that term is used in this chapter means all oil and gas produced
6 from a unit area from the effective date of the order of the department
7 creating the unit regardless of the well or tract within the unit area
8 from which the same is produced;

9 (3) the manner in which the unit and the further development
10 and operation of the unit area shall or may be financed and the basis,
11 terms and conditions on which the cost and expense of it shall be appor-
12 tioned among and assessed against the tracts and interests made charge-
13 able with it, including a detailed accounting procedure governing all
14 charges and credits incident to such operations; upon terms and condi-
15 tions as to time and rate of interest as may be fair to all concerned,
16 reasonable provision shall be made in the plan of unitization for
17 carrying or otherwise financing lessees who are unable to promptly meet
18 their financial obligations in connection with the unit;

19 (4) the procedure and basis upon which wells, equipment and
20 other properties of the several lessees within the unit area are to be
21 taken over and used for unit operations, including the method of arriv-
22 ing at the compensation for it, or of otherwise proportionately equal-
23 izing or adjusting the investment of the several lessees in the project
24 as of the effective date of unit operation;

25 (5) the creation of an operating committee to have general
26 overall management and control of the unit and the conduct of its busi-
27 ness and affairs and the operations carried on by it, together with the
28 creation or designation of other subcommittees, boards or officers to
29 function under the authority of the operating committee as may be neces-

1 sary, proper or convenient in the efficient management of the unit,
2 defining the powers and duties of all the committees, boards and offi-
3 cers, and prescribing their tenure and time and method for their selec-
4 tion;

5 (6) the time when the plan of unitization becomes effective;

6 (7) the time when and the conditions under which and the
7 method by which the unit shall or may be dissolved and its affairs wound
8 up.

9 * Sec. 8. AS 31.05.110(h) is amended to read:

10 (h) Subject to such reasonable limitations as may be set out in
11 the plan of unitization, the unit has a first and prior lien upon the
12 leasehold estate and all other oil and gas rights (exclusive of a [ONE-
13 EIGHTH] landowners' royalty interest) in and to each separately owned
14 tract, the interest of the owners in and to the unit production and all
15 equipment in the possession of the unit, to secure the payment of the
16 amount of the unit expense charged to and assessed against such sepa-
17 rately owned tract. The interest of the lessee or other persons who by
18 lease, contract or otherwise are obligated or responsible for the cost
19 and expense of developing and operating a separately owned tract for oil
20 and gas in the absence of unitization shall, however, be primarily
21 responsible for and charged with any assessment for unit expense made
22 against the tract and resort may be had to overriding royalties, oil and
23 gas payments, [ROYALTY INTERESTS IN EXCESS OF ONE-EIGHTH OF THE PRODUC-
24 TION,] or other interests which otherwise are not chargeable with these
25 costs, only in the event the owner of interest primarily responsible
26 fails to pay the assessment of the production to the credit thereof, or
27 production is insufficient for that purpose. If the owner of any royal-
28 ty interest, overriding royalty, oil or gas payment, or any other in-
29 terest which under the plan of unitization is not primarily responsible

1 for it pays in whole or in part the amount of an assessment for unit
2 expense for the purpose of protecting such interest, or the amount of
3 the assessment in whole or in part is deducted from the unit production
4 to the credit of such interest, the owner of it is to the extent of the
5 payment or deduction subrogated to all the rights of the unit with
6 respect to the interest or interests primarily responsible for the
7 assessment. The landowners' share [A ONE-EIGHTH PART] of the unit
8 production allocated to each separately owned tract shall be regarded as
9 royalty to be distributed to and among, or the proceeds of it paid to,
10 them, [THE ROYALTY OWNERS] free and clear of all unit expense and free
11 of any lien for it.

12 * Sec. 9. AS 31.05.110(i) is amended to read:

13 (i) Property rights, leases, contracts and all other rights and
14 obligations shall be regarded as amended and modified to the extent
15 necessary to conform to the provisions and requirements of this chapter
16 and to any valid and applicable plan of unitization or order of the
17 department made and adopted under this chapter, but otherwise remain in
18 effect. No unitized operation may permit the underlifting or overlift-
19 ing of an aliquot of unit production unless an emergency order is
20 approved by the department.

21 * Sec. 10. AS 31.05.170(11) is amended by adding a new subparagraph to
22 read:

23 (J) the drilling of wells unnecessary to carry out the
24 purpose or intent of this chapter;

25 * Sec. 11. AS 31.05.170(12) is amended to read:

26 (12) "cubic foot["] of natural gas" means the volume of gas
27 contained in one cubic foot of space measured at a pressure base of
28 14.73 [14.65] pounds per square inch absolute and a temperature base of
29 60 degrees Fahrenheit.

1 * Sec. 12. AS 38.05.180 is amended by adding a new subsection to read:

2 (t) No leases may be issued under this section without the inclu-
3 sion of the language of AS 31.05.110(h) as part of the lease. Leases
4 issued in violation of this subsection shall, for all purposes, be con-
5 strued as containing the language of AS 31.05.110(h).

6 * Sec. 13. AS 43.55.140(2) is amended to read:

7 (2) "cubic foot of gas" means the volume of gas contained in
8 one cubic foot of space measured at a pressure base of 14.73 [14.65]
9 pounds per square inch absolute and a temperature base of 60 degrees
10 Fahrenheit;

11 * Sec. 14. This Act takes effect July 1, 1978.
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