

Original sponsors: Chatterton and Malone

Offered: 5/3/78  
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR 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 quantity and rate of the production of oil and gas  
15 from a well or property; this authority shall also apply to a well or  
16 property in a voluntary cooperative or unit plan of development or  
17 operation entered into in accordance with AS 38.05.180(m).

18 \* Sec. 3. AS 31.05.035(a)(2) is amended to read:

19 (2) the filing of flow test information and all logs, except  
20 experimental logs [, DIPMETER SURVEYS,] and velocity surveys run on a  
21 well and not required by (1) of this subsection.

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

23 (c) The reports and information required in (a) of this section  
24 [MARKED CONFIDENTIAL] shall be kept confidential for 24 months following  
25 the 30-day filing period unless the owner of the well gives written  
26 permission to release the reports and information at an earlier date.  
27 If the commissioner finds that the required reports and information  
28 contain significant information relating to the valuation of unleased  
29 land in the same vicinity, he shall keep the reports and information

1 confidential for a reasonable time after the disposition of all affected  
2 unleased land, unless the owner of the well gives written permission to  
3 release the reports and information at an earlier date. Well location,  
4 depth, status and production data and production reports required by the  
5 department to be filed subsequent to the 30-day filing period shall be  
6 considered public information and shall not be classified confidential.  
7 Production data, as used in this subsection, means volume, gravity and  
8 gas-oil ratio of all production of oil or gas after the well begins  
9 regular production.

10 \* Sec. 5. AS 31.05.035 is amended by adding a new subsection to read:

11 (d) Engineering, geological, and other information not required by  
12 (a) of this section but voluntarily filed with the department shall be  
13 kept confidential if the person filing the information so requests.

14 \* Sec. 6. AS 31.05.060 is amended by adding a new subsection to read:

15 (b) Except as provided in this subsection, any action by the  
16 department under this chapter that has statewide or general application  
17 shall be performed in accordance with the Administrative Procedure Act  
18 (AS 44.62). Any action by the department under this chapter that has  
19 application to a single well or single field shall be performed in  
20 accordance with regulations of the department designed to afford persons  
21 affected by the action notice and an opportunity to be heard.

22 \* Sec. 7. AS 31.05.110(b) is amended to read:

23 (b) If upon the filing of a petition by the department or a person  
24 owning an interest in the tracts affected and after notice and hearing,  
25 all in the form and manner and in accordance with the procedure and  
26 requirements provided in this section, the department finds that (1) the  
27 unitized management, operation and further development of a pool or  
28 portion of a pool is reasonably necessary in order to effectively carry  
29 on pressure control, pressure-maintenance or repressuring operations,

1 cycling operations, water flooding operations, or any combination of  
2 these, or any other form of joint effort calculated to substantially  
3 increase the ultimate recovery of oil and gas from the pool; (2) one or  
4 more of the unitized methods of operation as applied to the pool or  
5 portion of it is feasible, and will prevent waste and will with reason-  
6 able probability result in the increased recovery of substantially more  
7 oil and gas from the pool than would otherwise be recovered; (3) the  
8 estimated additional cost, if any, of conducting such operations will  
9 not exceed the value of the additional oil and gas so recovered; and (4)  
10 the unitization and adoption of one or more of the unitized methods of  
11 operation is for the common good [AND WILL RESULT IN THE GENERAL ADVAN-  
12 TAGE OF THE OWNERS OF THE OIL AND GAS RIGHTS WITHIN THE POOL OR PORTION  
13 OF IT DIRECTLY AFFECTED], it shall make a finding to that effect and  
14 make an order creating the unit and providing for the unitization and  
15 unitized operation of the pool or portion of it described in the order,  
16 upon the terms and conditions, as may be shown by the evidence to be  
17 fair, reasonable, equitable, and which are necessary or proper to pro-  
18 tect, safeguard and adjust the respective rights and obligations of the  
19 several persons affected, including royalty owner, owners of overriding  
20 royalties, oil and gas payments, carried interests, mortgages, lien  
21 claimants and others, as well as the lessees. The petition shall set  
22 out a description of the proposed unit area with a map or plat of it  
23 attached, shall allege the existence of the facts required to be found  
24 by the department as provided in this paragraph and shall have attached  
25 to it a recommended plan of unitization applicable to the proposed unit  
26 area and which the petitioner considers to be fair, reasonable and  
27 equitable.

28 \* Sec. 8. AS 31.05.110(c) is amended to read:

29 (c) The order of the department shall define the boundary of the

1 area [OF THE POOL OR PORTION OF IT] to be included within the unit area  
2 and prescribe with reasonable detail the plan of unitization applicable  
3 to it. Each unit and unit area may [SHALL] be limited to all or a  
4 portion of a single pool. Only so much of a pool or pools as has been  
5 defined and determined to be productive on the basis of information  
6 available to the department [OF OIL AND GAS BY ACTUAL DRILLING OPERA-  
7 TIONS] may be so included within the unit area. A unit may be created  
8 to embrace less than the whole of a pool only where it is shown by the  
9 evidence that the area to be so included within the unit area is of a  
10 size and shape as may be reasonably required for the successful and  
11 efficient conduct of the unitized method of operation for which the unit  
12 is created, and that the conduct of it will have no material adverse  
13 effect upon the remainder of the pool. The plan of unitization for each  
14 unit and unit area shall be one suited to the needs and requirements of  
15 the particular unit dependent upon the facts and conditions found to  
16 exist with respect to it. In addition to other terms, provisions,  
17 conditions and requirements found by the department to be reasonably  
18 necessary or proper to carry out the purpose of this chapter, and sub-  
19 ject to the further requirements of this section, each plan of unitiza-  
20 tion shall contain fair, reasonable and equitable provisions for

21 (1) the efficient unitized management or control of the  
22 further development and operation of the unit area for the recovery of  
23 oil and gas from the pool affected; under such a plan the actual opera-  
24 tions within the unit area may be carried on in whole or in part by the  
25 unit itself, or by one or more of the lessees within the unit area as  
26 the unit operator subject to the supervision and direction of the unit,  
27 dependent upon what is most beneficial or expedient; the designation of  
28 the unit operator shall be by vote of the lessees in the unit in a  
29 manner provided in the plan of unitization and not by the department;

1           (2) the division of interest or formula for the apportionment  
2 and allocation of the unit production, among and to the several sepa-  
3 rately owned tracts within the unit area such as will reasonably permit  
4 persons otherwise entitled to share in or benefit by the production from  
5 such separately owned tracts to produce and receive, instead thereof,  
6 their fair, equitable and reasonable share of the unit production or  
7 other benefits of it; a separately owned tract's fair, equitable, and  
8 reasonable share of the unit production shall be measured by the value  
9 of each such tract for oil and gas purposes and its contributing value  
10 to the unit in relation to like values of other tracts in the unit,  
11 taking into account acreage, the quantity of oil and gas recoverable  
12 from it, location on the structure, its probable productivity of oil and  
13 gas in the absence of unit operations, the burden of operations to which  
14 the tract will or is likely to be subjected, or so many of these fac-  
15 tors, or such other pertinent engineering, geological or operating  
16 factors as may be reasonably susceptible of determination; unit produc-  
17 tion as that term is used in this chapter means all oil and gas produced  
18 from a unit area from the effective date of the order of the department  
19 creating the unit regardless of the well or tract within the unit area  
20 from which the same is produced;

21           (3) the manner in which the unit and the further development  
22 and operation of the unit area shall or may be financed and the basis,  
23 terms and conditions on which the cost and expense of it shall be appor-  
24 tioned among and assessed against the tracts and interests made charge-  
25 able with it, including a detailed accounting procedure governing all  
26 charges and credits incident to such operations; upon terms and condi-  
27 tions as to time and rate of interest as may be fair to all concerned,  
28 reasonable provision shall be made in the plan of unitization for carry-  
29 ing or otherwise financing lessees who are unable to promptly meet their

1 financial obligations in connection with the unit;

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

8 (5) the creation of an operating committee to have general  
9 overall management and control of the unit and the conduct of its busi-  
10 ness and affairs and the operations carried on by it, together with the  
11 creation or designation of other subcommittees, boards or officers to  
12 function under the authority of the operating committee as may be neces-  
13 sary, proper or convenient in the efficient management of the unit,  
14 defining the powers and duties of all the committees, boards and offi-  
15 cers, and prescribing their tenure and time and method for their selec-  
16 tion;

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

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

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

22 (h) Subject to such reasonable limitations as may be set out in  
23 the plan of unitization, the unit has a first and prior lien upon the  
24 leasehold estate and all other oil and gas rights (exclusive of a [ONE-  
25 EIGHTH] landowners' royalty interest) in and to each separately owned  
26 tract, the interest of the owners in and to the unit production and all  
27 equipment in the possession of the unit, to secure the payment of the  
28 amount of the unit expense charged to and assessed against such sepa-  
29 rately owned tract. The interest of the lessee or other persons who by

1 lease, contract or otherwise are obligated or responsible for the cost  
2 and expense of developing and operating a separately owned tract for oil  
3 and gas in the absence of unitization shall, however, be primarily  
4 responsible for and charged with any assessment for unit expense made  
5 against the tract and resort may be had to overriding royalties, oil and  
6 gas payments, [ROYALTY INTERESTS IN EXCESS OF ONE-EIGHTH OF THE PRODUC-  
7 TION,] or other interests, except royalty interests, which otherwise are  
8 not chargeable with these costs, only in the event the owner of interest  
9 primarily responsible fails to pay the assessment of the production to  
10 the credit thereof, or production is insufficient for that purpose. If  
11 the owner of any royalty interest, overriding royalty, oil or gas pay-  
12 ment, or any other interest which under the plan of unitization is not  
13 primarily responsible for it pays in whole or in part the amount of an  
14 assessment for unit expense for the purpose of protecting such interest,  
15 or the amount of the assessment in whole or in part is deducted from the  
16 unit production to the credit of such interest, the owner of it is to  
17 the extent of the payment or deduction subrogated to all the rights of  
18 the unit with respect to the interest or interests primarily responsible  
19 for the assessment. The landowners' royalty share [A ONE-EIGHTH PART]  
20 of the unit production allocated to each separately owned tract shall be  
21 regarded as royalty to be distributed to and among, or the proceeds of  
22 it paid to, the landowners, [THE ROYALTY OWNERS] free and clear of all  
23 unit expense and free of any lien for it.

24 \* Sec. 10. AS 31.05.110 is amended by adding a new subsection to read:

25 (p) An aliquot of unit production may be underlifted or overlifted  
26 from a unit established under this chapter or AS 38.05.180(m) only when  
27 it does not create waste, except the commissioner may permit underlift-  
28 ing or overlifting for temporary periods for the purpose of accommodat-  
29 ing extraordinary disruptions to an interest owner's production disposal

1 system. Underlifted oil may be recovered by an interest owner at a  
2 daily rate not to exceed 10 per cent of his working or royalty interest  
3 share of daily production at the time of underlift recovery. This  
4 subsection applies to all units created after June 30, 1978.

5 \* Sec. 11. AS 31.05.110(o) is amended to read:

6 (o) The unit area of a unit may be enlarged to include adjoining  
7 portions of the same pool, including the unit area of another unit, and  
8 a new unit created for the unitized management, operation and further  
9 development of the enlarged unit area, or the plan of unitization may be  
10 otherwise amended, or the unit area contracted, all in the same manner,  
11 upon the same conditions and subject to the same limitations as provided  
12 with respect to the creation of a unit in the first instance [; EXCEPT  
13 THAT WHERE THE AMENDMENT TO THE PLAN OF UNITIZATION RELATES ONLY TO THE  
14 RIGHTS AND OBLIGATIONS AS BETWEEN LESSEES THE REQUIREMENT THAT IT BE  
15 SIGNED, RATIFIED, AND APPROVED BY ROYALTY OWNERS OF RECORD OF NOT LESS  
16 THAN 62.5 PER CENT OF THE UNIT AREA DOES NOT APPLY].

17 \* Sec. 12. AS 31.05.110 is amended by adding a new subsection to read:

18 (q) This section applies to all involuntary units formed in the  
19 state. Subsections (a) and (g) - (p) of this section apply to all  
20 voluntary units formed in the state and to a voluntary cooperative or  
21 unit plan of development or operation entered into in accordance with AS  
22 38.05.180(m).

23 \* Sec. 13. AS 31.05.170(11) is amended by adding a new subparagraph to  
24 read:

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

27 \* Sec. 14. AS 31.05.170 is amended by adding a new paragraph to read:

28 (13) "landowner" means the owner of the subsurface estate of  
29 the tract affected.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29

\* Sec. 15. AS 38.05.180 is amended by adding a new subsection to read:

(t) No leases may be issued under this section without the inclusion of the following language: "The landowners' royalty share of the unit production allocated to each separately owned tract shall be regarded as royalty to be distributed to and among, or the proceeds of it paid to, the landowners, free and clear of all unit expense and free of any lien for it." Leases issued in violation of this subsection shall, for all purposes, be construed as containing the language required by this subsection.

\* Sec. 16. AS 31.05.110(d) is repealed.

\* Sec. 17. This Act takes effect July 1, 1978.

#