

Introduced: 2/18/80
Referred: Resources

1 IN THE HOUSE

BY MCKINNON AND CHATTERTON

2 HOUSE BILL NO. 800

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the unitization of oil and gas
7 leases and to oil and gas conservation; and providing
8 for an effective date."

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

10 * Section 1. AS 38.05.180(h) is amended to read:

11 (h) The commissioner may include terms in any oil and gas lease
12 imposing a minimum work commitment on the lessee. These terms shall be
13 made public before the sale, and may include appropriate penalty pro-
14 visions to take effect in the event the lessee does not fulfill the
15 minimum work commitment. Should it be demonstrated that a lease has
16 been proven unproductive by actions of adjacent lease holders, or if the
17 lease is part of a unit formed under (p) of this section, the commis-
18 sioner may set aside or modify a work commitment.

19 * Sec. 2. AS 38.05.180(m) is amended to read:

20 (m) An oil and gas lease must cover a reasonably compact area not
21 exceeding 5,760 acres, and may be for a maximum period of 10 years,
22 except that the commissioner may issue a lease for a period not less
23 than five years if he finds it to be in the best interests of the state.
24 An oil and gas lease shall be automatically extended if and for so long
25 thereafter as oil or gas is produced in paying quantities from the
26 lease. If [OR IF] the lease is committed to a voluntary unit approved
27 by the commissioner or an involuntary unit approved by the Alaska Oil
28 and Gas Conservation Commission may be extended only as provided in (p)
29 of this section. A lease issued under this section

1 covering land on which there is a well capable of producing oil or gas
2 in paying quantities does not expire because the lessee fails to produce
3 oil or gas unless the lessee is allowed reasonable time to place the
4 well on a producing status. Upon extension, the commissioner may in-
5 crease lease rentals so long as the increased rental rate does not
6 exceed 150 percent of the rate for the preceding year. If drilling has
7 commenced on the expiration date of the primary term of the lease and is
8 continued with reasonable diligence, including such operations as re-
9 drilling, sidetracking, or other means necessary to reach the originally
10 proposed bottom hole location, the lease continues in effect until 90
11 days after drilling has ceased and for so long thereafter as oil or gas
12 is produced in paying quantities. An oil and gas lease issued under
13 this section which is subject to termination by reason of cessation of
14 production does not terminate if, within 60 days after production
15 ceases, reworking or drilling operations are commenced on the land under
16 lease and are thereafter conducted with reasonable diligence during the
17 period of nonproduction. In this subsection "production in paying quan-
18 ties" or "produced in paying quantities" means production in quantities
19 sufficient to yield a return in excess of operating costs, even though
20 drilling and equipment costs may never be repaid and the undertaking
21 considered as a whole may ultimately result in a loss; quantities are
22 considered insufficient to yield a return in excess of operating costs
23 unless, taking into account the costs of transportation to market and
24 the effect of selling those quantities on the market, they will in fact
25 produce sufficient revenue to induce a prudent operator to continue
26 production and marketing.

27 * Sec. 3. AS 38.05.180(p) is amended to read:

28 (p) To conserve the natural resources of all or a part of a po-
29 tential hydrocarbon accumulation which underlies land owned by the state

1 [AN OIL OR GAS POOL, FIELD, OR LIKE AREA], the lessees and their rep-
2 resentatives may unite with each other, or jointly or separately with
3 others, in collectively adopting or operating under a cooperative or a
4 unit plan of exploration, development, and [OR] operation of the poten-
5 tial hydrocarbon accumulation [POOL, FIELD, OR LIKE AREA], or a part of
6 it, if [WHEN DETERMINED AND CERTIFIED BY] the commissioner makes written
7 findings, based on substantial evidence, after a public hearing that the
8 adoption of a plan of exploration, development, and operation is [TO BE]
9 necessary or advisable in the public interest. The lessees of tracts
10 proposed to be subject to a unit plan shall provide the commissioner
11 with geological, geophysical, engineering, and other evidence showing
12 the existence of a potential hydrocarbon accumulation. A unit plan
13 shall describe the boundaries of the unit area which shall be limited
14 to a potential hydrocarbon accumulation. A unit plan shall describe
15 in detail the drilling and other exploration activities that the lessees
16 who are parties to the plan agree to conduct in the unit area. The
17 commissioner may extend a lease of a tract within a unit area for a
18 term not longer than a period of delay if he makes written findings,
19 based on substantial evidence, after a public hearing, that the lessee
20 has diligently conducted exploration activities within the leased tract
21 and that unusually severe climatic, sensitive environmental, or difficult
22 operating conditions or other cause beyond the lessee's reasonable
23 ability to foresee or control have delayed completion of exploration
24 activities intended to be conducted within the unit area. If oil or
25 gas is discovered within a unit area, the commissioner may extend a
26 lease of a tract within the unit area for two years at a time if he
27 makes written findings, based on substantial evidence, after a public
28 hearing, that the lessee has diligently conducted exploration activities
29 within the leased tract and that the leased tract is likely to be

1 included within the participating area. The commissioner shall extend
2 an unexpired lease within a unit area, except portions of a lease
3 severed in accordance with (aa) of this section, if he makes written
4 findings, based on substantial evidence, after public hearing, that oil
5 or gas capable of being produced in paying quantities, as defined in
6 (m) of this section, has been discovered in the unit area and that the
7 lease to be extended is in the participating area or is subject to the
8 provisions of (aa)(1) or (2) of this section. Within six months after
9 completion of an oil or gas well in a unit area which is capable of
10 producing in paying quantities, as defined in (m) of this section, the
11 lessees who are parties to the unit plan shall submit to the commissioner
12 plans for the further development and operation of the unit area which
13 constitute the further drilling and operating obligations of those
14 lessees. The commissioner may approve a plan of further development
15 and operation if he finds that it is necessary or advisable in the
16 public interest. The commissioner shall be a party to a unit operating
17 agreement executed by the lessees of leases located in a unit area if
18 the area includes leases granting to the state a share of the net
19 profits of production from the lease. The commissioner may, with the
20 consent of the holders of leases involved, establish, change, or revoke
21 drilling, producing, and royalty requirements of the leases and adopt
22 regulations with reference to the leases [, WITH LIKE CONSENT ON THE
23 PART OF THE LESSEES,] in connection with the institution and operation
24 of a cooperative or unit plan, with the extension of a lease included
25 within a unit area, or after the discovery of oil or gas within a unit
26 area, as he determines necessary or proper to secure the proper
27 protection of the public interest. The commissioner may require oil and
28 gas leases issued under this section to contain a provision requiring
29 the lessee to operate under a reasonable cooperative or unit plan, and

1 he may prescribe a plan under which the lessee must operate. The plan
2 must adequately protect all parties in interest, including the state.

3 In this subsection

4 (1) "participating area" means an area proven, by subsurface
5 data derived from drilling, to contain oil or gas in amounts capable of
6 production in paying quantities as defined in (m) of this section;

7 (2) "potential hydrocarbon accumulation" means a structural
8 or stratigraphic entrapping mechanism containing one or more intervals,
9 zones, strata, or formations which has the necessary physical charac-
10 teristics to accumulate and prevent the escape of oil or gas;

11 (3) "unit area" means the area subject to a unit plan of
12 exploration, development, and operation;

13 (4) "unit plan" means a unit plan of exploration, develop-
14 ment, and operation for the recovery of oil and gas from the unit area
15 in which the separate leases subject to the plan are explored, developed,
16 and operated as a single unit which provides for the allocation of the
17 costs and benefits of exploration, development, and production and which
18 includes all revisions or amendments to it and all plans for further de-
19 velopment and operation of the unit area.

20 * Sec. 4. AS 38.05.180(q) is amended to read:

21 (q) A plan authorized by (p) of this section [, WHICH INCLUDES
22 LAND OWNED BY THE STATE,] may contain a provision vesting the commis-
23 sioner, or a person, committee, or state agency, with authority to
24 modify from time to time the rate of prospecting and development and the
25 quantity and rate of production under the plan. All leases operated
26 under a plan approved or prescribed by the commissioner are excepted in
27 determining holdings or control under AS 38.05.140. The provisions of
28 this section concerning cooperative or unit plans are in addition to and
29 do not affect AS 31.05. The Alaska Oil and Gas Conservation Commission

1 has the exclusive authority to prevent waste, as defined in AS 31.05,
2 and to protect the correlative rights of the parties to a cooperative or
3 unit plan under this section.

4 * Sec. 5. AS 38.05.180 is amended by adding a new section to read:

5 (aa) A portion of a leased tract not within a participating area,
6 as defined in (p) of this section, or to which actual production in
7 paying quantities, as defined in (m) of this section, has not been
8 allocated under a unit plan shall be severed from the original lease and
9 from the unit area unless (1) a well capable of production in paying
10 quantities is located on the leased tract, or (2) actual drilling
11 operations are being conducted within the unit area, as defined in (p)
12 of this section, in order to delineate the boundaries of the partici-
13 pating area, as defined in (p) of this section, and the leased tract is
14 in that unit area. A portion of a lease severed from an original lease
15 in accordance with this subsection shall be subject to a separate lease
16 having the same effective date and the same terms and conditions as the
17 original lease.

18 * Sec. 6. AS 31.05.110(q) is amended to read:

19 (q) This section applies to all involuntary units formed in the
20 state except that petitions to form an involuntary unit that includes
21 land leased by the state under AS 38.05.180 may be approved if the com-
22 mission, after public hearings, makes written findings based on sub-
23 stantial evidence that actual production from the unit is imminent and
24 waste would occur if the unit is not approved. Subsections (a) and
25 (g) - (p) of this section apply to all voluntary units formed in the
26 state and to a voluntary cooperative or unit plan of development or
27 operation entered into in accordance with AS 38.05.180(p).

28 * Sec. 7. This Act applies to all leases entered into by the state after
29 December 1, 1979.

1 * Sec. 8. This Act takes effect immediately in accordance with AS 01.10.-
2 070(c).

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