

Introduced: 4/17/80
Referred: Resources

1 IN THE HOUSE

BY MCKINNON AND CHATTERTON

2 SPONSOR SUBSTITUTE FOR 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, to oil and gas conservation, and to reports of
8 oil and gas under state lease; and providing for an
9 effective date."

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

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

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

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

21 (m) An oil and gas lease must cover a reasonably compact area not
22 exceeding 5,760 acres, and may be for a maximum period of 10 years,
23 except that the commissioner may issue a lease for a period of not less
24 than five years if he finds it to be in the best interests of the state.
25 However, an [AN] oil and gas lease entered into under this section does
26 not expire [SHALL BE AUTOMATICALLY EXTENDED]

27 (1) if and for so long [THEREAFTER] as oil or gas is produced
28 in paying quantities from the lease;

29 (2) [OR] if the lease is committed to a unit plan approved by

1 the commissioner and the lease is extended under (aa) of this section;

2 (3) if the land under lease contains [. A LEASE ISSUED UNDER
3 THIS SECTION COVERING LAND ON WHICH THERE IS] a well capable of pro-
4 ducing oil or gas in paying quantities and [DOES NOT EXPIRE BECAUSE] the
5 lessee fails to produce oil or gas, unless the lessee has been [IS]
6 allowed reasonable time to place the well on a producing status; when a
7 lease is extended under this paragraph [. UPON EXTENSION], the commis-
8 sioner may increase lease rentals so long as the increased rental rate
9 does not exceed 150 percent of the rate for the preceding year;

10 (4) if [. IF] drilling has commenced on the expiration date
11 of the primary term of the lease and is continued with reasonable dili-
12 gence, including such operations as redrilling, sidetracking, or other
13 means necessary to reach the originally proposed bottom hole location; a
14 [, THE] lease extended under this paragraph continues in effect until 90
15 days after drilling has ceased and for so long thereafter as oil or gas
16 is produced in paying quantities; or

17 (5) if, within 60 days after production ceases on a [. AN
18 OIL AND GAS] lease [ISSUED UNDER THIS SECTION] which is subject to
19 termination by reason of cessation of production [DOES NOT TERMINATE IF,
20 WITHIN 60 DAYS AFTER PRODUCTION CEASES], reworking or drilling opera-
21 tions are commenced on the land under lease and are thereafter conducted
22 with reasonable diligence during the period of nonproduction.

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

24 (p) To promote timely and efficient exploration, evaluation and
25 operation of land leased under this section, including avoidance of du-
26 PLICATIVE FACILITIES AND THE DRILLING OF UNNECESSARY WELLS [CONSERVE THE
27 NATURAL RESOURCES OF ALL OR A PART OF AN OIL OR GAS POOL, FIELD, OR LIKE
28 AREA], the lessees [AND THEIR REPRESENTATIVES] may unite with each other
29 [, OR JOINTLY OF SEPARATELY WITH OTHERS,] in collectively adopting [OR

1 OPERATING UNDER A COOPERATIVE OR] a unit plan for their leases if [OF
2 DEVELOPMENT, OR OPERATION OF THE POOL, FIELD, OR LIKE AREA, OR A PART OF
3 IT, WHEN DETERMINED AND CERTIFIED BY] the commissioner finds after public
4 hearing, that the adoption of a unit plan is [TO BE] necessary, [OR]
5 advisable or proper to protect [IN] the public interest. The commis-
6 sioner may, with the consent of the holders of leases involved, modify
7 the terms and conditions [ESTABLISH, CHANGE, OR REVOKE DRILLING,
8 PRODUCING, AND ROYALTY REQUIREMENTS] of the leases, and adopt regu-
9 lations with reference to the leases [, WITH LIKE CONSENT ON THE PART OF
10 THE LESSEES,] in connection with the institution and operation of the [A
11 COOPERATIVE OR] unit plan and for any extension of a lease contained
12 within a unit plan which [AS] he determines necessary or proper to
13 secure the [PROPER] protection of the public interest. Land leased
14 under this section may be included in a unit plan with land owned or
15 leased by others if the commissioner finds it necessary, advisable, or
16 proper, and in the public interest. The commissioner may require oil
17 and gas leases issued under this section to contain a provision
18 requiring the lessee to operate under a reasonable [COOPERATIVE OR] unit
19 plan, and he may prescribe a plan under which the lessee must operate.
20 A unit [THE] plan must adequately protect all parties in interest,
21 including the state, and be accepted by all parties in interest, in-
22 cluding the state. A unit plan shall be limited to a reasonably compact
23 area and include all leases which the commissioner reasonably believes
24 overlie a potential hydrocarbon accumulation or an oil or gas pool.
25 The lessees in interest under a unit plan formed under this section shall
26 designate an operator or operators for leases on land included within the
27 unit area. Designation of the operator or operators shall be by vote of
28 the lessees of interest in the unit plan. The operator or operators
29 shall submit to the commissioner an annual plan of operation for the

1 unit and a revised annual plan of operation on each anniversary date.
2 The annual plan of operation and revised annual plan shall take effect
3 when approved by the commissioner. Approval of the unit plan of opera-
4 tion by the commissioner does not exempt the operator from compliance
5 with the requirements of AS 31.05.030 and 31.05.035.

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

7 (q) A unit plan authorized by [(p) of] this section shall [, WHICH
8 INCLUDES LAND OWNED BY THE STATE, MAY] contain a provision vesting the
9 [COMMISSIONER, OR A PERSON, COMMITTEE, OR] state [AGENCY,] with autho-
10 rity to modify from time to time the rate of exploration [PROSPECTING]
11 and development and the quantity and rate of production under the plan.
12 All leases operated under a unit plan approved or prescribed by the
13 commissioner are excepted in determining holdings or control under
14 AS 38.05.140. The provisions of this section concerning [COOPERATIVE
15 OR] unit plans are in addition to and do not affect AS 31.05.

16 * Sec. 5. AS 38.05.180 is amended by adding new subsections to read:

17 (aa) A state lease included in a unit plan formed under this sec-
18 tion does not terminate upon the expiration of its primary term

19 (1) if the lease meets one of the requirements set out in (m)
20 of this section; or

21 (2) if the commissioner finds, after public notice and oppor-
22 tunity for public comment, that the public interest will be served by
23 lease extension and also finds that

24 (A) drilling or other exploration and confirmation
25 activities are being diligently conducted within the unit area;

26 (B) unusual climatic, environmental or other conditions
27 beyond the unit operator's reasonable ability to foresee or control
28 have delayed evaluation of leases within the unit area; or

29 (C) drilling or other exploration and confirmation

1 activities are delayed because of permit procedures of the federal
2 or state governments or of a municipality, or because of other
3 legal actions including, but not limited to, litigation.

4 (bb) When, within a unit formed under this section, an operator
5 encounters and confirms a hydrocarbon accumulation and completes a well
6 capable of producing oil or gas in commercial quantities, the lessees of
7 interest shall, upon request of the commissioner, immediately delineate
8 the boundary of the participating area. The boundary which the lessees
9 delineate shall be based on an interpretation of all available geologic
10 and petroleum engineering data, and is subject to approval by the com-
11 missioner. When the commissioner approves the boundary of the partici-
12 pating area, the lessees may adopt one or more agreements to provide for
13 the unitized management, development and operation of the discovered
14 hydrocarbon accumulation or oil or gas pool, or to secure integration in
15 accordance with AS 31.05.110 within the participating area. All parties
16 in interest, including the state, shall sign these agreements. If the
17 parties fail or refuse to voluntarily integrate their interests, the
18 commissioner may designate a participating area and initiate proceedings
19 under AS 31.05.110 to secure integration.

20 (cc) The operator or operators elected by the lessees of interest
21 in the participating area shall submit to the commissioner an annual
22 plan of operation and a revised annual plan of operation on each anni-
23 versary date. The annual plan of operation shall be approved by the
24 commissioner.

25 (dd) If one or more of the leases in the unit reserves to the state
26 a share of the net profits of production from the lease or if state
27 leases in the participating area have two or more different royalty
28 rates or provisions, the state shall be a party to the unit operating
29 agreement executed by lessees of interest in a participating area.

1 (ee) A lease included in a participating area does not terminate as
2 long as oil or gas is produced from the participating area or for so
3 long as the lessees fulfill the requirements of a plan of operation
4 approved by the commissioner.

5 (ff) A portion of the leased area which is not included in a par-
6 ticipating area, or a portion of the leased area which is eliminated by
7 contraction of the unit area, remains subject to the terms and con-
8 ditions of the original lease and is not affected by the unitization of
9 any other portion of the leased area or by operations in a unit. How-
10 ever, the commissioner may extend a lease with an aliquot part included
11 in a participating area for not more than three years after the primary
12 term of the lease, at which time the boundary of the unit shall be
13 contracted to conform to the boundary of the participating area, and the
14 portion of the lease which is not included within an approved partici-
15 pating area shall be terminated unless one of the requirements of (m) of
16 this section is satisfied.

17 (gg) Notwithstanding any other provisions of this section, the
18 commissioner may require contraction or expansion of the boundary of the
19 unit to include and reasonably protect only the land capable of pro-
20 ducing oil or gas in commercial quantities.

21 (hh) The commissioner shall review and approve all plans of
22 operation, formation and revision of participating areas, and other
23 actions affecting the lease interests of the state under a unit, whether
24 formed voluntarily or by order of the Alaska Oil and Gas Conservation
25 Commission under AS 31.05.110. A request for approval of a determi-
26 nation, decision or other action affecting the interest of a state lease
27 included in a unit shall be submitted to the commissioner and shall be
28 supported by copies of all data necessary for the commissioner to make
29 an informed decision. If the commissioner determines that action af-

1 fecting the interest of a state lease has been undertaken without his
2 consent, or if a lessee has failed to comply with the approved terms of
3 a unit agreement, the commissioner may enforce the lessee's obligation
4 under a state lease in the same manner as if the land had never been
5 subject to the unit.

6 (ii) The commissioner

7 (1) may give a notice of default to a unit operator and to
8 lessees if he finds that

9 (A) state land has not been adequately explored or
10 developed

11 (i) because wells have not been timely drilled;

12 (ii) because wells have not been drilled at the
13 proper locations; or

14 (iii) because wells have not been drilled in suffi-
15 cient numbers; or

16 (B) state land has not been allocated

17 (i) a just and equitable share of unitized sub-
18 stances produced from the unit; or

19 (ii) an equitable share of costs incurred by unit
20 operations;

21 (2) shall provide the holder of a lease in default a reason-
22 able opportunity to correct the default.

23 (jj) When a state lease is terminated under (ii) of this section,
24 the lease remains subject to the unit unless the commissioner specific-
25 ally deletes the terminated state lease from the unit.

26 (kk) In this section,

27 (1) "anniversary date" means that date during each year which
28 corresponds to the date of approval of the unitization agreement under
29 which a field is operated;

1 (2) "commercial quantities" means quantities sufficient to
2 repay the costs of drilling, development, production, transportation and
3 marketing, with a reasonable profit to lessees;

4 (3) "participating area" means an area proven, by subsurface
5 data derived from drilling, production, and other geologic and geo-
6 physical information, to contain oil or gas in amounts capable of pro-
7 duction in commercial quantities;

8 (4) "plan of operation" means

9 (A) a schedule of the dates, locations and proposed
10 depths of wells to be drilled and other exploration, development
11 and production activities which lessees agree to conduct in a unit
12 area or in a participating area; and

13 (B) a description of anticipated effects that would
14 occur on surface lands and waters from proposed lease activities,
15 and the measures to mitigate any adverse environmental effects;

16 (5) "pool" means an underground reservoir containing a common
17 accumulation of oil or gas; each zone of a general structure which is
18 completely separated from any other zone in the structure is covered by
19 the term "pool";

20 (6) "potential hydrocarbon accumulation" means a structural
21 or stratigraphic entrapping mechanism which has the necessary physical
22 characteristics to accumulate and prevent the escape of oil or gas;

23 (7) "production in paying quantities" or "produced in paying
24 quantities" means production in quantities sufficient to yield a return
25 in excess of operating costs, even if drilling and equipment costs may
26 never be repaid and the undertaking considered as a whole may ultimately
27 result in a loss; quantities are insufficient to yield a return in
28 excess of operating costs unless those quantities, less the costs of
29 transportation and marketing, will produce sufficient revenue to induce

1 a prudent operator to produce and market those quantities;

2 (8) "unit area" or "unitized area" means the land subject to
3 a unit plan;

4 (9) "unit operating agreement" means the agreement defining
5 the division of interest or the formula for the apportionment and allo-
6 cation of hydrocarbons produced from the unit, and costs incident to
7 unit operations among and ascribable to the several separately owned
8 tracts within the unit area;

9 (10) "unit plan" or "unit" means an agreement providing for
10 the unitized management of leases overlying a potential hydrocarbon
11 accumulation or an oil or gas pool, in which separate leases subject to
12 the plan are explored, developed and operated as a single consolidated
13 entity without regard to separate ownership; the term includes alloca-
14 tions of hydrocarbons produced from the unit and all revisions or amend-
15 ments to it and all plans of operation of the unit area.

16 * Sec. 6. AS 31.05.027 is amended to read:

17 Sec. 31.05.027. APPLICATION. The authority of the commission
18 applies to all land in the state lawfully subject to its police powers.
19 It applies to land of the United States or to land subject to the juris-
20 diction of the United States only to the extent that control and super-
21 vision of conservation of oil and gas and prevention of waste by the
22 United States on its land fails to carry out the intent and purposes of
23 this chapter, and otherwise applies to federal land so far as an officer
24 of the United States having jurisdiction, or his authorized representa-
25 tive, shall approve any of the provisions of this chapter or orders of
26 the commission which affect land. [THE AUTHORITY OF THE COMMISSION
27 FURTHER APPLIES TO ALL LAND INCLUDED IN A VOLUNTARY COOPERATIVE OR UNIT
28 PLAN OF DEVELOPMENT OR OPERATION ENTERED INTO IN ACCORDANCE WITH AS 38.-
29 05.180(m).]

1 * Sec. 7. AS 31.05.035(c) is amended to read:

2 (c) The reports and information required in (a) of this section
3 shall be kept confidential for 24 months following the 30-day filing
4 period unless the owner of the well gives written permission to the
5 commission to release the reports and information at an earlier date.
6 If the commissioner of natural resources finds that the required reports
7 and information contain significant information relating to the
8 valuation of unleased state land in the same vicinity, he shall advise
9 the commission to keep the reports and information confidential for a
10 reasonable time after the disposition of all affected unleased state
11 land, unless the owner of the well gives written permission to the
12 commissioner of natural resources to release the reports and information
13 at an earlier date. Well location, depth, status and production data
14 and production reports required by the commission to be filed subsequent
15 to the 30-day filing period shall be considered public information and
16 shall not be classified confidential. Production data, as used in this
17 subsection, means volume, gravity and gas-oil ratio of all production of
18 oil or gas after the well begins regular production.

19 * Sec. 8. AS 31.05.035 is amended by adding a new subsection to read:

20 (e) Reports and information kept confidential under this section
21 may be examined by persons designated by the commissioner of natural
22 resources who are employees of the Department of Natural Resources if an
23 examination of the reports and information is required to evaluate the
24 state's resources. A person authorized to examine a report or informa-
25 tion under this subsection shall keep the material which he examines
26 confidential.

27 * Sec. 9. AS 31.05.060(b) is amended to read:

28 (b) Except as provided in this subsection, any action by the
29 commission under this chapter that has statewide or general application

1 shall be performed in accordance with the Administrative Procedure Act
2 (AS 44.62). Any action by the commission under this chapter that has
3 application to a single well or single field need not comply with the
4 provisions of AS 44.62.330 - 44.62.630, but, when an exception from the
5 commission's regulations or orders is requested, the commission shall
6 provide [SHALL BE PERFORMED IN ACCORDANCE WITH REGULATIONS OF THE COM-
7 MISSION DESIGNED TO AFFORD] persons affected by the action notice and an
8 opportunity to be heard.

9 * Sec. 10. AS 31.05.110(a) is amended to read:

10 (a) To prevent, or to assist in preventing waste, to insure a
11 greater ultimate recovery of oil and gas, and to protect the correlative
12 rights of persons owning interests in the tracts of land affected, these
13 persons may validly integrate their interests to provide for the uni-
14 tized management, development, and operation of such tracts of land as a
15 unit. The commission shall

16 (1) review all units which are formed voluntarily, including
17 units formed under AS 38.05.180, before oil or gas is produced from the
18 unit;

19 (2) approve the formation of units examined under (1) of this
20 subsection if the commission makes written findings that the require-
21 ments of (c) of this section are satisfied [WHERE, HOWEVER, THEY HAVE
22 NOT AGREED TO INTEGRATE THEIR INTERESTS, THE COMMISSION, UPON PROPER
23 PETITION, AFTER NOTICE AND HEARING, HAS JURISDICTION, POWER AND AUTHO-
24 RITY, AND IT IS ITS DUTY TO MAKE AND ENFORCE ORDERS AND DO THE THINGS
25 NECESSARY OR PROPER TO CARRY OUT THE PURPOSES OF THIS SECTION].

26 * Sec. 11. AS 31.05.110(b) is amended to read:

27 (b) When the owners of interests in land overlying an oil or gas
28 pool have not agreed to integrate their interests, [IF UPON THE FILING
29 OF A PETITION BY OR WITH THE COMMISSION AND AFTER NOTICE AND HEARING,

1 ALL IN THE FORM AND MANNER AND IN ACCORDANCE WITH THE PROCEDURE AND
2 REQUIREMENTS PROVIDED IN THIS SECTION,) the commission, acting on its own
3 motion or on petition of another party, shall order involuntary unitiza-
4 tion if it makes written findings, after notice and public hearing,
5 [FINDS] that (1) the unitized management, operation and further develop-
6 ment of a pool or portion of a pool is reasonably necessary in order to
7 effectively carry on pressure control, pressure-maintenance or re-
8 pressuring operations, cycling operations, water flooding operations, or
9 any combination of these, or any other form of joint effort calculated
10 to substantially increase the ultimate recovery of oil and gas from the
11 pool; (2) one or more of the unitized methods of operation as applied to
12 the pool or portion of it is feasible, and will prevent waste and will
13 with reasonable probability result in the increased recovery of substan-
14 tially more oil and gas from the pool than would otherwise be recovered;
15 (3) the estimated additional cost, if any, of conducting such operations
16 will not exceed the value of the additional oil and gas so recovered;
17 and (4) the unitization and adoption of one or more of the unitized
18 methods of operation is for the common good. When the commission makes
19 an order requiring involuntary unitization, it shall create [MAKE A
20 FINDING TO THAT EFFECT AND MAKE AN ORDER CREATING] the unit and provide
21 [PROVIDING] for the unitization and unitized operation of the pool or
22 portion of it described in the order, upon the terms and conditions, as
23 may be shown by the evidence to be fair, reasonable, equitable, and
24 which are necessary or proper to protect, safeguard and adjust the
25 respective rights and obligations of the several persons affected,
26 including royalty owner, owners of overriding royalties, owners of net
27 profit share interests, oil and gas payments, carried interests, mort-
28 gages, lien claimants and others, as well as the lessees. The petition
29 shall set out a description of the proposed unit area with a map or plat

1 of it attached, shall allege the existence of the facts required to be
2 found by the commission as provided in this subsection [PARAGRAPH] and
3 shall have attached to it a recommended plan of unitization applicable
4 to the proposed unit area and which the petitioner considers to be fair,
5 reasonable and equitable. The order of the commission for involuntary
6 unitization shall define the boundary of the area and the vertical
7 limits to be included within the unit area and prescribe with reasonable
8 detail the plan of unitization applicable to it.

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

10 (c) [THE ORDER OF THE COMMISSION SHALL DEFINE THE BOUNDARY OF THE
11 AREA TO BE INCLUDED WITHIN THE UNIT AREA AND PRESCRIBE WITH REASONABLE
12 DETAIL THE PLAN OF UNITIZATION APPLICABLE TO IT.] Each unit and unit
13 area may be limited to all or a portion of a single pool. Only so much
14 of a pool or pools as has been defined and determined to be reasonably
15 capable of contributing to the production of oil or gas [PRODUCTIVE ON
16 THE BASIS OF INFORMATION AVAILABLE TO THE COMMISSION] may be so included
17 within the unit area. A unit may be created to embrace less than the
18 whole of a pool only where it is shown by the evidence that the area to
19 be so included within the unit area is of a size and shape as may be
20 reasonably required for the successful and efficient conduct of the
21 unitized method of operation for which the unit is created, and that the
22 conduct of it will have no material adverse effect upon the remainder of
23 the pool. The plan of unitization for each unit and unit area shall be
24 one suited to the needs and requirements of the particular unit depen-
25 dent upon the facts and conditions found to exist with respect to it.
26 In addition to other terms, provisions, conditions and requirements
27 found by the commission to be reasonably necessary or proper to carry
28 out the purpose of this chapter, and subject to the further requirements
29 of this section, each plan of unitization shall contain fair, reasonable

1 and equitable provisions for

2 (1) the efficient unitized management or control of the
3 further development and operation of the unit area for the recovery of
4 oil and gas from the pool affected; under such a plan the actual
5 operations within the unit area may be carried on in whole or in part by
6 the unit itself, or by one or more of the lessees within the unit area
7 as the unit operator subject to the supervision and direction of the
8 unit, dependent upon what is most beneficial or expedient; the designa-
9 tion of the unit operator shall be by vote of the lessees in the unit in
10 a manner provided in the plan of unitization and not by the commission;

11 (2) the division of interest or formula for the apportionment
12 and allocation of the unit production, among and to the several
13 separately owned tracts within the unit area such as will reasonably
14 permit persons otherwise entitled to share in or benefit by the
15 production from such separately owned tracts to produce and receive,
16 instead thereof, their fair, equitable and reasonable share of the unit
17 production or other benefits of it; a separately owned tract's fair,
18 equitable, and reasonable share of the unit production shall be measured
19 by the value of each such tract for oil and gas purposes and its
20 contributing value to the unit in relation to like values of other
21 tracts in the unit, taking into account acreage, the quantity of oil and
22 gas recoverable from it, location on the structure, its probable
23 productivity of oil and gas in the absence of unit operations, the
24 burden of operations to which the tract will or is likely to be sub-
25 jected, or so many of these factors, or such other pertinent engineer-
26 ing, geological or operating factors as may be reasonably susceptible of
27 determination; unit production as that term is used in this chapter
28 means all oil and gas produced from a unit area from the effective date
29 of the order of the commission creating or approving the unit regardless

1 of the well or tract within the unit area from which the same is
2 produced;

3 (3) the manner in which the unit and the further development
4 and operation of the unit area shall or may be financed and the basis,
5 terms and conditions on which the cost and expense of it shall be
6 apportioned among and assessed against the tracts and interests made
7 chargeable with it, including a detailed accounting procedure governing
8 all charges and credits incident to such operations; upon terms and
9 conditions as to time and rate of interest as may be fair to all
10 concerned, reasonable provision shall be made in the plan of unitization
11 for carrying or otherwise financing lessees who are unable to promptly
12 meet their financial obligations in connection with the unit;

13 (4) the procedure and basis upon which wells, equipment and
14 other properties of the several lessees within the unit area are to be
15 taken over and used for unit operations, including the method of
16 arriving at the compensation for it, or of otherwise proportionately
17 equalizing or adjusting the investment of the several lessees in the
18 project as of the effective date of unit operation;

19 (5) the creation of an operating committee to have general
20 overall management and control of the unit and the conduct of its
21 business and affairs and the operations carried on by it, together with
22 the creation or designation of other subcommittees, boards or officers
23 to function under the authority of the operating committee as may be
24 necessary, proper or convenient in the efficient management of the unit,
25 defining the powers and duties of all the committees, boards and
26 officers, and prescribing their tenure and time and method for their
27 selection;

28 (6) the effective date of [TIME WHEN] the plan of unitization
29 [BECOMES EFFECTIVE];

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

4 * Sec. 13. AS 31.05.110(f) is amended to read:

5 (f) From the effective date of an order of the commission creating
6 a unit and prescribing the plan of unitization applicable to it, or of
7 an order of the commission approving a unit, the operation of a well
8 producing from the pool or portion of it within the unit area defined in
9 the order by persons other than the unit or persons acting under its
10 authority or except in the manner and to the extent provided in the plan
11 of unitization is unlawful and is prohibited.

12 * Sec. 14. AS 31.05.110(p) is amended to read:

13 (p) An aliquot of unit production may be underlifted or overlifted
14 from a unit established under this chapter or AS 38.05.180 [AS 38.05.-
15 180(m)] only when it does not create waste, except the commission
16 [COMMISSIONER] may permit underlifting or overlifting for temporary
17 periods for the purpose of accommodating extraordinary disruptions to an
18 interest owner's production disposal system. Underlifted oil may be
19 recovered by an interest owner or royalty owner at a daily rate not to
20 exceed 10 percent of his working or royalty interest share of daily
21 production at the time of underlift recovery. This subsection applies to
22 all units created after June 30, 1978.

23 * Sec. 15. AS 31.05.110(q) is amended to read:

24 (q) Subsections (b), (c), and (e) - (p) of this [THIS] section
25 apply [APPLIES] to all involuntary units formed in the state. Sub-
26 sections (a), (c) and (e) - (p) [(g) - (p)] of this section apply to
27 all voluntary units formed in the state and to a [VOLUNTARY COOPERATIVE
28 OR] unit plan [OF DEVELOPMENT OR OPERATION] entered into in accordance
29 with AS 38.05.180 [AS 38.05.180(p)].

1 * Sec. 16. AS 31.05 is amended by adding a new section to read:

2 Sec. 31.05.112. LIMITATIONS ON INVOLUNTARY UNITIZATION. (a) The
3 commission may not order involuntary unitization of land leased by the
4 state under AS 38.05.180 unless

5 (1) the commission makes written findings that waste would
6 occur and correlative rights would be violated if the unit is not or-
7 dered; and

8 (2) the commissioner of natural resources consents in writing
9 to the involuntary unitization order.

10 (b) The interests of a lessee in a unit area may not be subjected
11 to a unit agreement under AS 31.05.110 if the unit agreement allocates
12 unit production to the interest of the lessee under a formula based
13 solely on the surface acreage of the separate tracts within the unit
14 area.

15 * Sec. 17. AS 31.05.170(9) is amended to read:

16 (9) "pool" means an underground reservoir containing [, OR
17 APPEARING TO CONTAIN,] a common accumulation of oil or gas; each [.
18 EACH] zone of a general structure which is completely separated from any
19 other zone in the structure is covered by the term "pool";

20 * Sec. 18. AS 31.05.170 is amended by adding new paragraphs to read:

21 (14) "unit" or "unitization" or "plan of unitization" means an
22 agreement or plan of development and operation for the recovery of oil
23 or gas from leases where the leases are operated as a single consoli-
24 dated entity without regard to separate ownerships, for which an alloca-
25 tion of costs and benefits is defined in the agreement or plan;

26 (15) "unit area" or "unitized area" means the land subject to
27 a unit.

28 * Sec. 19. Sections 1 - 6 and 10 - 18 of this Act are retroactive to
29 December 1, 1979, and apply to the extent constitutionally permissible to all

1 leases entered into by the state and all units created under AS 38.05 or
2 AS 31.05 after December 1, 1979.

3 * Sec. 20. Sections 7 - 9 of this Act are retroactive to January 1, 1979.

4 * Sec. 21. This Act takes effect immediately in accordance with AS 01.10.-
5 070(c).

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