

Original sponsors: McKinnon and Chatterton

Offered: 5/16/80
Referred: Rules

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 800 (Finance)

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 oil and gas leases and their unit-
7 ization, 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 the lessee or adjacent lease
18 holders, or if the lease is part of a unit formed under this section,
19 the commissioner may set aside 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 (bb) of this section;

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

11 (4) if [. IF] drilling has commenced as of [ON] the [EXPIRA-
12 TION] date [OF THE PRIMARY TERM OF] the lease would otherwise expire and
13 is continued with reasonable diligence on the well or on any other well
14 on the lease; a [, INCLUDING SUCH OPERATIONS AS REDRILLING, SIDETRACKING,
15 OR OTHER MEANS NECESSARY TO REACH THE ORIGINALLY PROPOSED BOTTOM HOLE
16 LOCATION, THE] lease extended under this paragraph continues in effect
17 until 90 days after cessation of drilling [HAS CEASED] and for so long
18 thereafter as oil or gas is produced in paying quantities; in deter-
19 mining the period of a lease extension under this paragraph, any day in
20 which drilling is prohibited by a condition of the lease or by a law,
21 regulation or condition affecting the lease may not be counted in deter-
22 mining the 90-day extension period allowed after cessation of drilling;

23 (5) if, within six months after production ceases at any time
24 on a [. AN OIL AND GAS] lease [ISSUED UNDER THIS SECTION] which has pro-
25 duced oil or gas in paying quantities [IS SUBJECT TO TERMINATION BY
26 REASON OF CESSATION OF PRODUCTION DOES NOT TERMINATE IF, WITHIN 60 DAYS
27 AFTER PRODUCTION CEASES], reworking or drilling operations are commenced
28 on the land under lease and are thereafter conducted with reasonable
29 diligence during the period of nonproduction; a lease extended under this

1 paragraph continues in effect if the reworking or drilling operations
2 result in production of oil or gas and for so long thereafter as oil or
3 gas is produced in paying quantities; or

4 (6) if the commissioner finds, after public notice and oppor-
5 tunity for public comment, that the lessee has been prevented, after
6 efforts made in good faith, from conducting drilling operations or from
7 producing, transporting or marketing oil or gas from the lease or from
8 complying with any term, condition or provision of the lease, by reason
9 of war, riots, acts of God, unusually severe weather, or any other
10 direct cause beyond the lessee's reasonable ability to foresee or con-
11 trol, including delays caused by a permit procedure of the federal or
12 state government or of a municipality or political subdivision, or by a
13 judicial decision or other legal action, not the result of actionable
14 conduct of the lessee, which is a direct cause in preventing the lessee
15 from conducting drilling operations or from producing, transporting or
16 marketing oil or gas from the lease; a lease extended under this para-
17 graph continues in effect beyond the date the lease would otherwise ex-
18 pire for a period, as determined by the commissioner, in which the abil-
19 ity to conduct operations or production or to comply with the term, con-
20 dition or provision was prevented if the ability to conduct or continue
21 operations or production or to comply with the term, condition or provi-
22 sion would have had the effect of preventing the expiration of the lease
23 this paragraph

24 (A) does not invalidate an obligation of a lessee under
25 the lease;

26 (B) does not authorize an extension of a lease when the
27 lessee's inability to conduct drilling operations or to produce,
28 transport or market oil or gas from the lease or from complying
29 with a term, condition or provision of the lease is caused by a

1 lack of financial capacity by the lessee or the lack of a market
2 for the oil or gas from the lease;

3 (C) may not be construed to

4 (i) allow actionable, wrongful, or illegal conduct
5 of a lessee to result in extension of the lease;

6 (ii) suspend the obligation of the lessee to pay
7 rentals to the state; or

8 (iii) suspend the obligation of the lessee to pay
9 royalties or other production or profit-based payments to the
10 state from unaffected operations or production on the lease.

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

12 (p) To promote timely and efficient exploration, evaluation and
13 operation of land leased under this section, including avoidance of du-
14 plicative facilities and the drilling of unnecessary wells, and to
15 conserve [THE] natural resources [OF ALL OR A PART OF AN OIL OR GAS
16 POOL, FIELD, OR LIKE AREA], the lessees [AND THEIR REPRESENTATIVES] may
17 unite with each other [, OR JOINTLY OR SEPARATELY WITH OTHERS,] in
18 collectively adopting [OR OPERATING UNDER A COOPERATIVE OR] a unit plan
19 for their leases if [OF DEVELOPMENT, OR OPERATION OF THE POOL, FIELD, OR
20 LIKE AREA, OR A PART OF IT, WHEN DETERMINED AND CERTIFIED BY] the commis-
21 sioner finds, after public notice and opportunity for public comment,
22 that the adoption of a unit plan is [TO BE] necessary, [OR] advisable
23 or proper to protect [IN] the public interest. The commissioner may,
24 with the consent of the lessees [HOLDERS OF LEASES] involved, modify the
25 terms and conditions [ESTABLISH, CHANGE, OR REVOKE DRILLING, PRODUCING,
26 AND ROYALTY REQUIREMENTS] of state [THE] leases [AND ADOPT REGULATIONS
27 WITH REFERENCE TO THE LEASES, WITH LIKE CONSENT ON THE PART OF THE
28 LESSEES,] in connection with the institution and operation of a [COOPERA-
29 TIVE OR] unit and for any extension of a lease contained within a unit

1 which [PLAN AS] he determines necessary or proper to secure the [PROPER]
2 protection of the public interest. Land leased under this section may
3 be included in a unit plan with land owned or leased by others if the
4 commissioner finds it necessary, advisable, or proper, and in the public
5 interest. The commissioner may require oil and gas leases issued under
6 this section to contain a provision requiring the lessee to operate
7 under a reasonable [COOPERATIVE OR] unit plan, and he may prescribe a
8 plan under which the lessee must operate. A unit [THE] plan must ade-
9 quately protect all parties in interest, including the state, and be ac-
10 cepted by all parties in interest, including the state. A unit plan
11 shall be limited to a reasonably compact area and include all leases
12 which the commissioner reasonably believes overlie a potential hydro-
13 carbon accumulation or an oil or gas pool or pools. The lessees in
14 interest under a unit plan formed under this section shall designate an
15 operator or operators for leases on land included within the unit area.
16 The operator or operators shall submit to the commissioner a plan of
17 operation for the unit, and shall submit a comprehensive report de-
18 scribing work performed under the plan of operation no later than each
19 anniversary date. The operator or operators may submit revisions or
20 supplements to the plan of operation for the unit or to a revised plan
21 of operation. A plan of operation for the unit and any revisions or
22 supplements to the plan of operation or to a revised plan may not take
23 effect until approved by the commissioner. Approval of the unit plan of
24 operation by the commissioner does not exempt the operator from compli-
25 ance with the requirements of AS 31.05.030 and 31.05.035.

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

27 (q) A unit plan authorized by [(p) OF] this section shall [, WHICH
28 INCLUDES LAND OWNED BY THE STATE, MAY] contain a provision vesting the
29 commissioner [, OR A PERSON, COMMITTEE, OR STATE AGENCY,] with authority

1 to modify from time to time the rate of exploration [PROSPECTING] and
2 development under the unit plan if the commissioner finds that modifica-
3 tion of the rate of exploration or development is necessary to protect
4 the public interest. A unit plan authorized by this section shall con-
5 tain a provision vesting the Alaska Oil and Gas Conservation Commission
6 with authority to modify from time to time, for conservation purposes,
7 [AND] the quantity and rate of production under the plan. All leases
8 operated under a unit plan approved or prescribed by the commissioner
9 are excepted in determining holdings or control under AS 38.05.140. The
10 provisions of this section concerning [COOPERATIVE OR] unit plans are in
11 addition to and do not affect AS 31.05.

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

13 (aa) Notwithstanding the requirement of acceptance of a unit plan
14 by all parties in interest under (p) of this section, the commissioner
15 may accept, on behalf of the state, a unit plan which has not been
16 accepted by all parties in interest if he finds that the unit plan has
17 been accepted by parties holding sufficient interests in the proposed
18 unit area to provide for reasonably effective control of operations
19 within the unit area. The approval of the commissioner under this
20 subsection does not bind a party in interest which has not consented to
21 the provisions of the unit plan, and is without prejudice to the
22 rights of a party in interest which has not consented to the unit.

23 (bb) A state lease included in a unit formed under this section does
24 not expire at the end of its primary term

25 (1) if the lease meets one of the requirements set out in (m)
26 or (gg) of this section; or

27 (2) if the commissioner, after public hearing, finds that

28 (A) the public interest will be served by lease exten-
29 sion; and

1 (B) drilling, exploration, or confirmation activities
2 have been and will be diligently conducted within the unit area
3 under a plan of operation which has been approved by him.

4 (cc) 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 in
7 interest shall, upon request of the commissioner, delineate the boundary
8 of the participating area. The boundary which the lessees delineate
9 shall be based on an interpretation of all available geologic and petro-
10 leum engineering data, and is subject to approval by the commissioner.

11 (dd) Lessees may adopt one or more agreements to provide for the
12 unitized management, development and operation of a discovered oil or
13 gas pool or pools. When the lessees have adopted an agreement or agree-
14 ments under this subsection, they shall secure integration of their
15 interests in accordance with AS 31.05.110 within a participating area.
16 All parties in interest, including the state, shall sign these agree-
17 ments. If the parties fail or refuse to voluntarily integrate their
18 interests, the commissioner may designate a participating area and shall
19 petition the Alaska Oil and Gas Conservation Commission under AS 31.05.-
20 110 to secure integration.

21 (ee) The operator or operators designated by the lessees in in-
22 terest in the participating area shall submit to the commissioner a plan
23 of operation for the participating area, and shall submit a comprehensive
24 report describing work performed under the plan of operation no later
25 than each anniversary date. The operator or operators may submit revi-
26 sions or supplements to the plan of operation for the participating area
27 or to a revised plan of operation. A plan of operation for the partici-
28 pating area and any revisions or supplements to the plan of operation or
29 to a revised plan may not take effect until approved by the commissioner.

1 (ff) If a lease in the unit contains a royalty provision based on a
2 sliding scale formula or reserves to the state a share of the net pro-
3 fits of production from the lease, or if one or more leases in the unit
4 have two or more different royalty rates or provisions, the unit opera-
5 tor or operators shall secure written approval from the commissioner for
6 (1) the division of interest or the formula for the apportionment and
7 allocation of hydrocarbons produced from the unit, and costs incident to
8 unit operations among and ascribable to all separately owned tracts
9 within the unit area, and (2) any proposed revision of an approved
10 division of interest or the formula for the apportionment and allocation
11 of hydrocarbons produced from the unit, and costs incident to unit
12 operations among and ascribable to all separately owned tracts within
13 the unit area. The unit operator or operators shall secure the written
14 approval of the commissioner before implementing the proposed or revised
15 division of interest or the formula for the apportionment and allocation
16 of hydrocarbons produced from the unit, and costs incident to unit
17 operations. When requested by the commissioner, the unit operator or
18 operators shall promptly file with the commissioner all data which
19 supports the proposed or revised division of interest or the formula for
20 the apportionment and allocation of hydrocarbons produced from the unit,
21 and costs incident to unit operations among and ascribable to all
22 separately owned tracts within the unit area.

23 (gg) A lease included in a participating area does not expire as
24 long as oil or gas is produced from the participating area or as long as
25 the operator or operators conduct operations in a participating area
26 under a plan of operation approved by the commissioner.

27 (hh) A lease or portion of a lease which is not included in a par-
28 ticipating area is not affected by operations in the participating area.
29 A lease or portion of a lease which is eliminated by contraction of the

1 unit area under (ii) of this section remains subject to the terms and
2 conditions of the original lease and any modification of the terms and
3 conditions of the original lease, and is not affected by the unitization
4 of any other portion of the leased area or by operations in a unit.
5 However, the commissioner may extend a lease with an aliquot part in-
6 cluded in a participating area for not more than three years beyond the
7 date it would otherwise expire, at which time the portion of the lease
8 which is not included within an approved participating area shall be
9 surrendered unless extended under (bb) of this section.

10 (ii) The commissioner may, after notice and opportunity for comment
11 by lessees affected by a proposed change in the boundary of a unit,
12 require contraction or expansion of the boundary of the unit to include
13 and reasonably protect only the land capable of contributing to the pro-
14 duction of oil or gas in commercial quantities.

15 (jj) The commissioner shall review and approve all plans of opera-
16 tion, the formation and revision of participating areas, and other ac-
17 tions affecting the lease interests of the state under a unit, whether
18 formed voluntarily or by order of the Alaska Oil and Gas Conservation
19 Commission under AS 31.05.110. A request for approval of a determina-
20 tion, decision or other action affecting the interest of a state lease
21 included in a unit shall be submitted to the commissioner and shall be
22 supported by copies of all data necessary for the commissioner to make
23 an informed decision. If the commissioner determines (1) that action
24 affecting the interest of a state lease has been undertaken or withheld
25 without his consent, (2) that a lessee has failed to comply with the ap-
26 proved terms of any agreement or has failed to comply with a term, con-
27 dition or provision of the lease, or (3) that state land has not been
28 allocated an equitable share of production from the unit or an equitable
29 share of costs incurred by unit operations, the commissioner shall

1 notify the unit operator and lessees of his determination, and specify
2 the remedial action which is necessary. The commissioner shall provide
3 the unit operator or lessee a reasonable opportunity to take the
4 remedial action specified. If the remedial action specified is not
5 taken within a reasonable period, after providing opportunity for
6 hearing to the unit operator and all lessees who may be affected by his
7 determination that remedial action is necessary, the commissioner may
8 determine that the unit or any lease subject to the unit is in default.
9 Following determination of default, the commissioner may terminate the
10 unit as to all state leases within the unit, or may terminate the unit
11 as to any state lease or leases which are subject to the unit, and may
12 enforce the lessee's obligation under the lease in the same manner as if
13 the land had never been subject to the unit.

14 (kk) A unit plan for the exploration of a potential hydrocarbon
15 accumulation or for the development or operation of an oil or gas pool
16 or pools, which has been approved by the commissioner, does not violate
17 any statute of the state prohibiting monopolies or acts, arrangements,
18 agreements, contracts, combinations or conspiracies in restraint of
19 trade or commerce.

20 (ll) In this section,

21 (1) "anniversary date" means that date during each year which
22 corresponds to the date of approval of the first plan of operation for a
23 unit or a participating area;

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

27 (3) "participating area" means an area reasonably proven, by
28 subsurface data derived from drilling, production, and other geologic
29 and geophysical information, to overlie an oil or gas pool or pools

1 capable of production of oil or gas in commercial quantities;

2 (4) "plan of operation" means

3 (A) a schedule of the approximate dates, locations and
4 depths of wells to be drilled and other exploration, development
5 and production activities which lessees agree to conduct in a unit
6 area or in a participating area; and

7 (B) a description of anticipated effects that would
8 occur on surface lands and waters from proposed activities, and the
9 measures to mitigate any adverse effects;

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

14 (6) "potential hydrocarbon accumulation" means a structural
15 or stratigraphic entrapping mechanism which is likely to have the neces-
16 sary physical characteristics to accumulate and prevent the escape of
17 oil or gas;

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

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

28 (9) "unit plan" or "unit" means an agreement providing for
29 the unitized management of leases overlying a potential hydrocarbon

1 accumulation or an oil or gas pool or pools, in which separate leases
2 subject to the plan are explored, developed and operated as a single
3 consolidated entity without regard to separate ownership; the term
4 includes allocations of hydrocarbons produced from the unit and all
5 revisions or amendments to it and all plans of operation of the unit
6 area.

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

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

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

22 (c) The reports and information required in (a) of this section
23 shall be kept confidential for 24 months following the 30-day filing
24 period unless the owner of the well gives written permission to the com-
25 mission to release the reports and information at an earlier date. How-
26 ever, if (1) [IF THE COMMISSIONER FINDS THAT] the required reports and
27 information were derived from a well drilled within 18 miles of un-
28 leased land which has been scheduled for an oil and gas lease sale
29 and for which notice of the sale has been given under AS 38.05.345 or

1 under the notice provision of sec. 205(a) of the Outer Continental Shelf
2 Lands Act Amendments of 1978, P.L. 95-372 (43 U.S.C. sec. 1337(a)(8)),
3 (2) the sale is not held on the date specified in the notice of sale
4 given under AS 38.05.345 or under the notice provision of sec. 205(a) of
5 the Outer Continental Shelf Lands Act Amendments of 1978, P.L. 95-372
6 (43 U.S.C. sec. 1337(a)(8)), and (3) the commissioner of natural re-
7 sources determines in writing that extension of the period of confiden-
8 tiality is in the best interests of the state, the commissioner of
9 natural resources shall request the commission to [CONTAIN SIGNIFICANT
10 INFORMATION RELATING TO THE VALUATION OF UNLEASED LAND IN THE SAME
11 VICINITY, HE SHALL] keep the reports and information confidential until
12 the sale is actually held or for a total of not more than 48 months
13 beyond the 30-day filing period, whichever occurs earlier. If the period
14 of confidentiality is extended under this subsection, [REASONABLE TIME
15 AFTER THE DISPOSITION OF ALL AFFECTED UNLEASED LAND, UNLESS] the owner
16 of the well may give [GIVES] written permission to the commission to
17 release the reports and information at an earlier date. Well location,
18 depth, status and production data and production reports required by the
19 commission to be filed subsequent to the 30-day filing period shall be
20 considered public information and may [SHALL] not be classified confi-
21 dential. Production data, as used in this subsection, means volume,
22 gravity and gas-oil ratio of all production of oil or gas after the well
23 begins regular production.

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

25 (e) Reports and information on state land kept confidential under
26 this section may be examined by persons designated by the commissioner
27 of natural resources who are employees of the state if an examination of
28 the reports and information is required to evaluate the state's re-
29 sources. A person authorized to examine a report or information under

1 this subsection shall keep the material which he examines confidential.

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

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

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

14 (a) To prevent, or to assist in preventing waste, to ensure [IN-
15 SURE] a greater ultimate recovery of oil and gas, and to protect the
16 correlative rights of persons owning interests in the tracts of land
17 affected, these persons may validly integrate their interests to provide
18 for the unitized management, development, and operation of such tracts
19 of land as a unit. The commission shall

20 (1) review all units which are formed voluntarily, including
21 units formed under AS 38.05.180, before oil or gas is produced under the
22 terms of the unit agreement;

23 (2) approve the formation of units examined under (1) of this
24 subsection if the commission makes written findings that waste will not
25 occur and correlative rights are protected [WHERE, HOWEVER, THEY HAVE
26 NOT AGREED TO INTEGRATE THEIR INTERESTS, THE COMMISSION, UPON PROPER
27 PETITION, AFTER NOTICE AND HEARING, HAS JURISDICTION, POWER AND AUTHOR-
28 ITY, AND IT IS ITS DUTY TO MAKE AND ENFORCE ORDERS AND DO THE THINGS
29 NECESSARY OR PROPER TO CARRY OUT THE PURPOSES OF THIS SECTION].

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

2 (b) When the owners of interests in land overlying an oil or gas
3 pool have not agreed to integrate their interests, [IF UPON THE FILING
4 OF A PETITION BY OR WITH THE COMMISSION AND AFTER NOTICE AND HEARING,
5 ALL IN THE FORM AND MANNER AND IN ACCORDANCE WITH THE PROCEDURE AND
6 REQUIREMENTS PROVIDED IN THIS SECTION,] the commission, acting on its own
7 motion or on petition of another party, shall order involuntary unitiza-
8 tion if it makes written findings, after notice and public hearing,
9 [FINDS] that [(1)] the unitized management, operation and further de-
10 velopment of a pool or pools or any portion of a pool or pools is reason-
11 ably necessary in order to prevent waste, maximize ultimate recovery and
12 protect correlative rights. When the commission makes an order requiring
13 involuntary unitization [EFFECTIVELY CARRY ON PRESSURE CONTROL, PRESSURE-
14 MAINTENANCE OR REPRESSURING OPERATIONS, CYCLING OPERATIONS, WATER FLOOD-
15 ING OPERATIONS, OR ANY COMBINATION OF THESE, OR ANY OTHER FORM OF JOINT
16 EFFORT CALCULATED TO SUBSTANTIALLY INCREASE THE ULTIMATE RECOVERY OF OIL
17 AND GAS FROM THE POOL; (2) ONE OR MORE OF THE UNITIZED METHODS OF OPERA-
18 TION AS APPLIED TO THE POOL OR PORTION OF IT IS FEASIBLE, AND WILL
19 PREVENT WASTE AND WILL WITH REASONABLE PROBABILITY RESULT IN THE IN-
20 CREASED RECOVERY OF SUBSTANTIALLY MORE OIL AND GAS FROM THE POOL THAN
21 WOULD OTHERWISE BE RECOVERED; (3) THE ESTIMATED ADDITIONAL COST, IF ANY,
22 OF CONDUCTING SUCH OPERATIONS WILL NOT EXCEED THE VALUE OF THE ADDITIONAL
23 OIL AND GAS SO RECOVERED; AND (4) THE UNITIZATION AND ADOPTION OF ONE OR
24 MORE OF THE UNITIZED METHODS OF OPERATION IS FOR THE COMMON GOOD], it
25 shall create [MAKE A FINDING TO THAT EFFECT AND MAKE AN ORDER CREATING]
26 the unit and provide [PROVIDING] for the unitization and unitized opera-
27 tion of the pool or pools or portion of the pool or pools [IT] described
28 in the order, upon the terms and conditions, as may be shown by the
29 evidence to be fair, reasonable, equitable, and which are necessary or

1 proper to protect, safeguard and adjust the respective rights and obliga-
2 tions of the several persons affected, including royalty owner, owners
3 of overriding royalties, owners of net profit share interests, oil and
4 gas payments, carried interests, mortgages, lien claimants and others,
5 as well as the lessees. The petition shall set out a description of the
6 proposed unit area with a map or plat of it attached, shall allege the
7 existence of the facts required to be found by the commission as provided
8 in this subsection [PARAGRAPH] and shall have attached to it a recom-
9 mended plan of unitization applicable to the proposed unit area and
10 which the petitioner considers to be fair, reasonable and equitable.
11 The order of the commission for involuntary unitization shall define the
12 boundary of the area and the vertical limits to be included within the
13 unit area and prescribe with reasonable detail the plan of unitization
14 applicable to it.

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

16 (c) [THE ORDER OF THE COMMISSION SHALL DEFINE THE BOUNDARY OF THE
17 AREA TO BE INCLUDED WITHIN THE UNIT AREA AND PRESCRIBE WITH REASONABLE
18 DETAIL THE PLAN OF UNITIZATION APPLICABLE TO IT.] Each unit and unit
19 area may be limited to all or a portion of a single pool. Only so much
20 of a pool or pools as has been defined and determined to be reasonably
21 capable of contributing to the production of oil or gas [PRODUCTIVE ON
22 THE BASIS OF INFORMATION AVAILABLE TO THE COMMISSION] may be so included
23 within the unit area. A unit may be created to embrace less than the
24 whole of a pool only where it is shown by the evidence that the area to
25 be so included within the unit area is of a size and shape as may be
26 reasonably required for the successful and efficient conduct of the
27 unitized method of operation for which the unit is created, and that the
28 conduct of it will have no material adverse effect upon the remainder of
29 the pool. The plan of unitization for each unit and unit area shall be

1 one suited to the needs and requirements of the particular unit depen-
2 dent upon the facts and conditions found to exist with respect to it.
3 In addition to other terms, provisions, conditions and requirements
4 found by the commission to be reasonably necessary or proper to carry
5 out the purpose of this chapter, and subject to the further requirements
6 of this section, each plan of unitization shall contain fair, reasonable
7 and equitable provisions for

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

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 which [SUCH AS] will reasonably
21 permit a person [PERSONS] otherwise entitled to share in or benefit by
22 the production from the [SUCH] separately owned tracts to produce and
23 receive, instead of the share or benefit from the tracts [THEREOF], his
24 [THEIR] fair, equitable and reasonable share of the unit production or
25 other benefits of it; a separately owned tract's fair, equitable, and
26 reasonable share of the unit production shall be measured by the value
27 of each such tract for oil and gas purposes and its contributing value
28 to the unit in relation to like values of other tracts in the unit,
29 taking into account acreage, the quantity of oil and gas recoverable

1 from it, location on the structure, its probable productivity of oil and
2 gas in the absence of unit operations, the burden of operations to which
3 the tract will or is likely to be subjected, or so many of these factors,
4 or such other pertinent engineering, geological or operating factors as
5 may be reasonably susceptible of determination; unit production as that
6 term is used in this chapter means all oil and gas produced from a unit
7 area from the effective date of the order of the commission creating
8 or approving the unit regardless of the well or tract within the unit
9 area from which the same is produced;

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

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

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

1 function under the authority of the operating committee as may be neces-
2 sary, proper or convenient in the efficient management of the unit, de-
3 fining the powers and duties of all the committees, boards and officers,
4 and prescribing their tenure and time and method for their selection;

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

7 (7) [THE TIME WHEN AND] the conditions under which and the
8 method by which the unit shall or may be dissolved [AND ITS AFFAIRS
9 WOUND UP].

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

11 (f) From the effective date of an order of the commission creating
12 a unit and prescribing the plan of unitization applicable to it, or of
13 an order of the commission approving a unit, the production of oil or
14 gas from [OPERATION OF] a well [PRODUCING FROM THE POOL OR PORTION OF
15 IT] within the unit area defined in the order by persons other than the
16 unit or persons acting under its authority or except in the manner and
17 to the extent provided in the plan of unitization is unlawful and is
18 prohibited.

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

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

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

2 (q) Subsections (b) - (p) of this [THIS] section apply [APPLIES]
3 to all involuntary units formed in the state. Subsections (a) and
4 (e) - (p) [(g) - (p)] of this section apply to all voluntary units
5 formed in the state and to a [VOLUNTARY COOPERATIVE OR] unit plan [OF
6 DEVELOPMENT OR OPERATION] entered into in accordance with AS 38.05.180
7 [AS 38.05.180(p)].

8 * Sec. 16. AS 31.05 is amended by adding new sections to read:

9 Sec. 31.05.112. LIMITATIONS ON INVOLUNTARY UNITIZATION. (a) The
10 commission may not order involuntary unitization of land unless the
11 commission makes written findings that waste would occur and correlative
12 rights would be violated if the unit is not ordered.

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

18 Sec. 31.05.114. EFFECT OF UNITIZATION ON STATE LEASES. (a) A
19 state lease entered into under AS 38.05.180 included in a unit formed
20 under AS 31.05.110 does not expire at the end of its primary term

21 (1) if the lease meets one of the requirements set out in
22 AS 38.05.180(m) or (gg); or

23 (2) if the commissioner of natural resources, after public
24 hearing, finds that

25 (A) the public interest will be served by lease exten-
26 sion; and

27 (B) drilling, exploration, or confirmation activities
28 have been and will be diligently conducted within the unit area
29 under a plan of operation which has been approved by him.

1 (b) At the time of an extension of a lease under (a)(2) of this
2 section, the commissioner of natural resources may modify the terms and
3 conditions of a state lease which is included in a unit ordered by the
4 commission under AS 31.05.110(b) if he determines that modification of
5 the terms and conditions is necessary or proper to secure the protection
6 of the public interest.

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

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

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

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

18 (15) "unit area" or "unitized area" means the land subject to
19 a unit.

20 * Sec. 19. AS 45.52.060(b) is amended by adding a new paragraph to read:

21 (4) AS 38.05.180(kk)

22 * Sec. 20. Sections 1 - 6 and 10 - 19 of this Act are retroactive to
23 December 1, 1979, and apply to the extent constitutionally permissible to all
24 leases entered into by the state and all units created under AS 38.05 or
25 AS 31.05 after December 1, 1979.

26 * Sec. 21. This Act takes effect immediately in accordance with AS 01.10.-
27 070(c).

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