COMMITTEE REPORT

SENATE

3/18/86

FURTHER:

Date 4/1/86

Mr. President

The Committee on FINANCE considered SS SB 430 authorizing the commissioner of the Department of Natural Resources under certain circumstances to reduce or revoke royalty oil or gas obligation increases made in connection with the institution or operation of a cooperative or unit plan; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

[ ] do pass

[ ] do pass with attached amendment(s)

[✓] replace with/or adopt CS for SS SB 430 (FIN)
[✓] new title
[ ] ~~same title~~ and recommends "DO PASS"

[ ] and attached a "LETTER OF INTENT" [✓] NEW FISCAL NOTE

[ ] reports it back without recommendation

[ ] recommends referral to ______ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS
Rick Halford	J Kerttula Do Not pass
Carl Thiele	
Fergusun	
Fischer	

Co- Chairman Jan Faiks

Chairman recommendation do pass

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 03-21-86

REQUEST

Bill/Resolution No. CSSSSB 430 (Fin)
Title : Revoke/Reduce Royalty Increase

Sponsor : Fahrenkamp
Requestor : Senate Finance
Date of Request : 03-21-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE	(2260.0)	(2150.0)	(1900.0)	(1660.0)	(1460.0)	

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

See Attached Explanation

Revenue reduction figures are based on a calendar year, not a fiscal year.

Prepared by : Kay Brown Phone : 762-4241
Division : Oil and Gas Date : 03-21-86

Approved by Commissioner : Norman D Zimmel, Deputy Date : 03-21-86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

Attachment Fiscal Note for SSSB 430

This amended fiscal note is necessary because CONOCO last week revised downward their projected rate of production. This fiscal impact (Revenue) is estimated on the basis of several assumptions:

... The bill would affect only Milne Point unit production;

... Milne Point Unit production at:

1986	18,500 bpd
1987	17,600 bpd
1988	15,500 bpd
1989	13,600 bpd
1990	11,900 bpd

... Royalty reduction from 20§5 to 12.5% under SSSB 430;

... Wellhead price is assumed to be $5.45/barrel

Bannister
3/28/86

Original sponsor: Fahrenkamp

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 430 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the reduction or revocation by the commissioner of the Department of Natural Resources of oil or gas royalty obligation increases made in connection with the institution or operation of a cooperative or unit plan; and providing for an effective date."

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

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

(p) To conserve the natural resources of all or a part of an oil or gas pool, field, or like area, the lessees and their representatives may unite with each other, or jointly or separately with others, in collectively adopting or operating under a cooperative or a unit plan of development or operation of the pool, field, or like area, or a part of it, when determined and certified by the commissioner to be necessary or advisable in the public interest. The commissioner may, with the consent of the holders of leases involved, establish, change, or revoke drilling, producing, and royalty requirements of the leases and adopt regulations with reference to the leases, with like consent on the part of the lessees, in connection with the institution and operation of a cooperative or unit plan as the commissioner determines necessary or proper to secure the proper protection of the public interest. The commissioner may require oil and gas leases issued under this section to contain a provision requiring the lessee to operate under a reasonable cooperative or unit plan, and may prescribe a plan under which the lessee must operate. The plan must adequately protect all parties in interest, including the state. Notwithstanding (j) of this section, if the commissioner determines that the public interest warrants the reduction or revocation, the commissioner may reduce or revoke a royalty obligation increase that was made by the commissioner in connection with the institution or operation of a cooperative or unit plan; if a lessee's market conditions improve or the profitability of a lessee's operations increases after the commissioner makes the reduction or revocation, the commissioner shall ~~may~~ increase the royalty obligation of the lessee, but the increase may not exceed the amount of the royalty obligation increase that the commissioner reduced or revoked.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

page 2, line 9

DELETE "may" INSERT "shall"

March 26, 1986

SENATE FINANCE COMMITTEE

LETTER OF INTENT

CS SB 430

It is the intent of the Senate Finance Committee that the Commissioner of Natural Resources shall determine whether the public interest warrants reduction of a royalty obligation increase made in connection with the institution of a unit agreement.

The Commissioner shall include in that decision a mechanism providing for adjustment of the royalty obligation should market conditions or the profitability of the lessees' operations change in the future.

5/07/86
H (Rules)

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 5-1-86

REQUEST

Bill/Resolution No. : CSSSSB 430 (RES)
Title : Revoke/Reduce Royalty Increase

Sponsor : Senator Fahrenkamp
Requestor : House Finance
Date of Request : 4-28-86

FISCAL DETAIL

Agency Affected : Natural Resources
BRU : Petroleum Management

Components :

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						
CAPITAL						
REVENUE	(34.0)*	(404.0)*	(370.0)*	(328.0)*	(285.0)*	(258.0)*

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

Prepared by : Kay Brown
Phone : 762-4241
Division : Oil and Gas
Date : 5-1-86

Approved by Commissioner : [signature]
Date : 5/1/86
Agency : Natural Resources

Distribution (by Agency preparing fiscal note) :
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

*This revision, requested by the House Finance Committee, is necessary to incorporate a wellhead oil price of $1 per barrel (versus $5.45 per barrel) to reflect further deterioration in crude oil prices that has occurred recently. The revision also displays the numbers by fiscal year, rather than by calendar year.

The projected $1 per barrel wellhead value reflects a West Coast sales price of about $12 per barrel, and is based on Conoco's estimated costs and sales prices in the month of April, 1986.

The losses shown assume a royalty reduction from 20 percent to 12½ percent for leases in the Milne Point Unit that currently have a 20 percent royalty. This would affect 82 percent of Milne Point Unit production. The remaining 18 percent of production comes from leases that already have a 12½ percent royalty.

Without a royalty reduction it is likely that production from the unit will be shut in if crude prices remain at current levels for an extended period. A royalty reduction would provide an incentive to eventually develop and produce additional oil reserves (the "Shallow Sands") in the unit area.

It is assumed that a royalty reduction would take effect June 1, 1986. The FY86 figure reflects a single month effect.

A/B

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: ________

REQUEST

Bill/Resolution No.: SSSB 430
Title: Revoke/Reduce Royalty Increase

Sponsor: Fahrenkamp
Requestor: Senate Resources
Date of Request: ________

FISCAL DETAIL

Agency Affected: Natural Resources
BRU: Petroleum Management

Components: ________

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE	(4500.0)*	(4500.0)*	(4500.[illegible])*	(4500.0)*	(4500.0)*	(4500.0)*

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

* - This revenue loss would occur if production continues at current levels. The department has proposed an administrative resolution with similar fiscal impact in the short-term. If the bill is not enacted and production stops because the unit is not economic, revenue losses would be higher. See attached page for assumptions.

Prepared by: Kay Brown
Phone: 762-4241
Division: Oil and Gas
Date: 3/13/86

Approved by Commissioner: Norman D Arnold, Deputy
Date: 3/16/86
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

Attachment to fiscal note for SSSB 430

The fiscal impact (revenue) is estimated on the basis of several assumptions:

The bill would affect only Milne Point unit production;

Milne Point Unit production at 30,000 bpd;

Royalty reduction from 20% to 12.5% under SSSB 430;

Gulf price of $15/barrel.

SPONSOR ANALYSIS OF SB 430

Relating to the reduction or revocation of royalty oil and gas obligation increases under certain circumstances.

PURPOSE

The purpose of SB 430 is to remove a perceived ambiguity in Alaska's oil and gas laws that is impairing the Commissioner of the Department of Natural Resources' ("DNR") ability to encourage oil production from marginal oil and gas units.

BACKGROUND

In 1979, DNR adopted a short-lived policy of requiring a royalty surcharge as a condition of approval of certain oil or gas units. For example, when the working interest owners of the Milne Point Unit sought unit approval in September, 1979, they were required to accept an increase in their royalty from 12½% to 20%.

This 7½% royalty surcharge was imposed at a time when DNR believed that, in 1985, the wellhead price of Milne Point oil would be approximately $34/barrel. In fact, the current wellhead price has plummeted to the point where continued development of the Milne Point Unit has been suspended.

THE PROBLEM

DNR recognizes the dramatic difference between the predictions of 1979, and the facts of 1986. From the industry's perspective, DNR should reconsider the desirability of its royalty surcharge because of these changes. That agency is concerned, however, that the legislature may have unintentionally limited DNR's authority to adjust the terms of unit agreements as circumstances change.

The 1979 royalty surcharge was imposed under AS 38.05.180 (p), which broadly authorizes the commissioner to "change or revoke . . . royalty requirements of the leases . . . . in connection with the institution and operation of a . . . unit plan." Under the plain words of that section, the commissioner may increase royalties at the time of unit "institution," and she may also reduce them at the time of unit "operation." As a result, that subsection empowers the commissioner to change the royalty stipulations of a unit agreement whenever the public interest demands it.

DNR, however, has also pointed to AS 38.05.180(j), which requires two years of production from the field before a royalty may be reduced on "leases." Since DNR believes that two year's production has not occurred from the Milne Point "field," the agency is concerned that the two year limitation of subsection (j) may imply a limit to the commissioner's very different authority to change royalty requirements in conjunction with unitization under subsection (p).

LEGISLATIVE HISTORY

A review of the legislative history of subsection (j) shows that this was never the legislature's intent. In 1978, "when subsection (j) was created," the legislature authorized royalty and net profit share bidding. With the royalty as a bid variable, the legislature was concerned that a company might bid an artificially high royalty to obtain the lease, and then immediately seek a royalty reduction. As a result, the legislature enacted subsection (j) in order to limit the circumstances under which a lessee could reduce its royalty below that bid upon or agreed to at the competitive sale.

On the other hand, it was never the legislature's intention to prevent the commissioner from reassessing her own, unilateral royalty increases made in connection with unitization. In fact, an amendment which would have made the commissioner's unitization authority under subsection (p) subject to the limitations of subsection (j) was rejected by the legislature.

What the Bill Does

Despite the clear legislative intent behind these statutes, this perceived uncertainty has nonetheless detered DNR from reconsidering its royalty surcharge. Accordingly, SB 430 would remove any question about the commissioner's authority to change the special royalty stipulations of a unit agreement whenever the public interest warrants. The bill is very narrowly drawn. For example, it would not authorize royalty reductions below the amount agreed to at the competitive sale; rather, it would only authorize reconsideration of special royalty stipulations in the unit agreement itself.

3/27/86
SFC-86

M E M O R A N D U M

TO: Senator John C. Sackett
Co-Chair, Senate Finance Committee

FROM: Tom Smythe

RE: SS for SB 430 - Revocation or reduction of royalty surcharges

DATE: March 24, 1986

Recommendations:

1. SS for SB 430 is recommended to be promptly considered and supported to allow the Commissioner of the Department of Natural Resources the authority to reduce or revoke a royalty obligation increase assessed to an institution or operator of a cooperative or unit plan.

2. Apart from the above consideration and support of SS for SB 430, it is recommended that the Commissioner of the Department of Natural Resources be requested to investigate royalty payments which would fluctuate with the wellhead price of oil and gas in future unitization of marginal fields as a means of stimulating development and production during periods of low oil and gas prices and recovering royalties during periods of high oil and gas prices.

In 1979, the Department of Natural Resources instituted a short-lived policy of applying a royalty surcharge as a condition of approval on certain oil and gas units. One such unit was Milne Point. In September of that year, the Milne Point working interest owners sought approval to form a production unit. As a condition of the unit, they were required to accept an increase in their royalty from 12 1/2 to 20 percent.

This 7 1/2 percent royalty surcharge was imposed when the wellhead price of Milne Point oil was forecast to have been $34 per barrel in 1985. At the present time, the price has fallen to a point where field development has been curtailed. The present wellhead price is estimated to be $5.45 per barrel.

There is no question that Milne Point is a marginal unit. It was conceived to be a small producing unit of approximately 30,000 barrels per day (unlike Prudhoe Bay at 1.5 million bpd and Kuparuk at 260,000 bpd), but is currently producing only 18,500 barrels per day. However, there has been a great deal of industry interest in the Milne Point unit since it offered the promise of demonstrating commercial small field development on the North Slope. This is still of great interest and it is still a demonstration in progress.

Under the state law which existed in 1979 and still exists, it is debatable whether any royalty surcharge should have been required of this particular unit. A demonstration of the Milne Point unit's success is important to the overall process and strategy of petroleum development on the North Slope.

The fiscal note shows a decline in revenue or a cost of $2,260,000 in 1986 decreasing to $1,460,000 in 1990. The decline over this five year period is based upon a decline in production from 18,500 bpd in 1986 to 11,900 bpd in 1990 (see attachment to Fiscal Note for SSSB 430). No further field development is assumed.

This is deceiving, however, because the monitary figures cited are based solely on the 7 1/2 percent royalty surcharge. The state is still receiving its 12 1/2 percent royalty, severance and other revenues from the unit. The option of not removing the royalty surcharge may be the shutting down of this marginal unit which would result in a much greater decline of revenue to the state. On the optimistic side, the removal of the surcharge could stimulate field development at an earlier time, thus recapturing revenues which might otherwise be lost.

The Department of Natural Resources supports this bill and believes that recinding the royalty increase would encourage continued production and further development of oil reservoirs within the Milne Point Unit. And the Commissioner desires and in fact needs the flexibility to reduce or revoke royalty surcharges in marginal units to stimulate such production and development.

As a long range strategy in assisting the commercial development of marginal units, it may be of great worth to consider royalty payments which would fluctuate with the wellhead price of oil and gas in the future unitization of marginal fields. This could provide a means of stimulating production and development during periods of low oil and gas prices. Lower or conceivably zero royalty payments could be made during extremely depressed conditions. On the other hand, during periods of high petroleum prices the deferred royalty payments could be recaptured.

A program of royalty payments based upon wellhead prices is not a simple undertaking. It requires considerable study and thought since the state must be assured of capturing the basic royalty which is a part of the lease sale package bid on by the producers, to do otherwise would be unfair to both the producers and the state. A well conceived process or formula, however, could be advantageous to both the producers and the state. It is an option worthy of DNR study.

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

OFFICE OF THE COMMISSIONER

March 17, 1986

The Honorable Arliss Sturgulewski
Chair, Senate Resources Committee
P.O. Box V
Juneau, AK 99811

Dear Senator Sturgulewski:

The Department of Natural Resources supports SS SB 430, which is scheduled for a hearing today in the Senate Resources Committee. The bill would authorize the commissioner of the Department of Natural Resources under certain circumstances to reduce or revoke oil or gas royalty obligation increases made in connection with the institution or operation of a cooperative or unit plan.

The bill primarily would affect the Milne Point Unit, a small North Slope oil field which began production last fall.

Conoco, Inc., the Milne Point Unit operator, has been seeking for several years to roll back a 20% royalty on certain Milne Point leases. The royalty obligation on those leases was increased from 12.5% to 20% under an agreement required by the department in 1979 as a condition of approval of the Milne Point Unit.

As a result of an application for royalty relief filed last fall by Conoco and Milne Point Unit working interest owners Reading and Bates Petroleum Company, Champlin Petroleum Company and Cities Oil and Gas Corporation, the department has examined confidential economic, geological, geophysical and engineering data supplied by the companies. Based upon that review, the department believes that rescinding the royalty increase would encourage continued production and further development of oil reservoirs within the Milne Point Unit.

Under existing and forecasted economic conditions, there is a high likelihood that both the economic and physical recovery of oil and gas at Milne Point will not be maximized for either the companies or the state at a royalty rate of 20%. Production of oil and gas from the developed reservoir (i.e., the Kuparuk River formation) will not be maximized, and development and production of oil and gas from yet to be developed reservoirs (i.e., the Shallow Sands - heavy oil and gas reservoirs, geologically equivalent to ARCO's West Sak-Ugnu reservoirs at Kuparuk Unit) likely will not occur at all. The companies have made a persuasive case that they cannot be reasonably assured an adequate rate of return on any future or incremental investment under the existing 20% royalty. Given the further erosion of crude oil prices since the application was filed with the state last October, it is possible that current production will be halted if the royalty rate on the leases remains at 20 percent.

A careful review by staff of the data and analyses supplied by the companies confirms that, under current and expected market conditions, the companies likely will not receive an adequate rate of return on their current investments, and that future investments in the Milne Point Unit also would yield a less than satisfactory return. It is also very likely that if current conditions persist (or get worse), the field will be shut-in if the royalty remains at 20%. In addition, future development of the Milne Point Unit Shallow Sands is almost certain not to occur at a 20% royalty.

A reduction in the royalty rate from 20% to 12.5% would result in a revenue decrease to the State of approximately $4.5 million a year from the Milne Point Unit. (See attached fiscal note.)

The department has tried to address the need for royalty relief within the current statutory framework, and earlier this year proposed that the royalty obligation be changed (not reduced) to a 12.5% royalty and a 35% Net Profit Share in lieu of the current 20% royalty. The companies have not accepted this proposal, even though it would have the effect of an immediate reduction in the royalty obligation, and would leave open the opportunity for the companies to apply for further relief after two years of field production based on the facts and circumstances at that time.

The department has been constrained from considering an outright royalty reduction by AS 38.05.180(j), which precludes the commissioner from granting a reduction of a lease royalty "until two years' initial production from the field has occurred and each lessee requesting the reduction has made a clear showing that the revenue from all hydrocarbons produced from the field is insufficient to produce a reasonable rate of return with respect to that lessee's total investment in that field."

The department's proposal to change the existing royalty rate was based on the authority of AS 38.05.180(p), which authorizes the commissioner to change royalty requirements of unitized leases "as the commissioner determines necessary or proper to secure the proper protection of the public interest." Under the department's proposal, the state likely would have been compensated for the near-term revenue losses resulting from a reduction to a 12.5% royalty rate by the further receipt of revenues from the development of the Shallow Sands reservoirs at Milne Point and the application of the 35% Net Profit Share and the 12.5% royalty to that production. Revenues to the state over time likely would have been equivalent or greater under the department's proposal, but the income would have been delayed.

The department believes that it is not authorized to reduce the royalty obligation under AS 38.05.180(p), because of the limitation AS 38.05.180(j) appears to place on the commissioner's powers. If AS 38.05.180(j) applied only to leases that had not yet been unitized, AS 38.05.180(j) would be a nullity because, as a practical matter, unitization always precedes production. Related statutes should not be construed to make one statute a nullity.

Further, the general rule of statutory construction is that specific provisions control general provisions. Under this rule, the specific royalty reduction provisions of AS 38.05.180(j) would control the general provisions of AS 38.05.180(p).

Further, the legislative history of AS 38.05.180(j) argues against using AS 38.05.180(p) to circumvent the royalty reduction limitations stated in AS 38.05.180(j).

Testimony before the Legislature in 1978 focused on royalty reductions in conjunction with the increased flexibility given to the commissioner to select bidding methods. A prime concern was to prevent royalty bid manipulation, where a bidder obtains a tract by bidding an unreasonably high royalty counting on a subsequent royalty reduction to make the lease profitable. Although the companies obtained their leases at a fixed royalty sale, the policy against royalty bidding is arguably still applicable. The companies' leases were about to expire, causing the companies to agree to increase royalties in order to keep from losing the leases which were about to expire.

The bill that created AS 38.05.180(j) went through several committee substitutes. One committee, the House Resources Committee, voted to place an express limit on the commissioner's powers under AS 38.05.180(p) by adding the language: "however, the commissioner may not reduce the state's royalty within any unit except as provided in [j] of this section." A subsequent committee reviewing the bill, the Senate Resources Committee, deleted that language, but its sole motive was that the language was unnecessary since that committee had already decided to delete AS 38.05.180(j) altogether.

Later in the Senate Resources hearing, DNR pointed out that AS 38.05.180(j) granted the commissioner less power to reduce royalties than existed at that time under AS 38.05.140. The committee then voted to amend AS 38.05.140 to delete the commissioner's royalty reduction powers for oil and gas, and voted to reinstate AS 38.05.180(j). The committee immediately adjourned, without taking up the question of whether the previous committee's limitation of AS 38.05.180(p) should be retained.

In view of this legislative history, the department concluded that the specific royalty reduction limitations stated in AS 38.05.180(j) control the general royalty reduction powers granted in AS 38.05.180(p).

Thank you for the opportunity to comment on SS SB 430.

Sincerely,

Esther C Wunnicke

Esther C. Wunnicke
Commissioner

Attachment

cc: Senator Bettye Fahrenkamp

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:

REQUEST

Bill/Resolution No.: SSSB 430
Title: Revoke/Reduce Royalty Increase

Sponsor: Fahrenkamp
Requestor: Senate Resources
Date of Request:

FISCAL DETAIL

Agency Affected: Natural Resources
BRU: Petroleum Management

Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE	(4500.0) *	(4500.0) *	(4500.0) *	(4500.0) *	(4500.0) *	(4500.0) *

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

* - This revenue loss would occur if production continues at current levels. The department has proposed an administrative resolution with similar fiscal impact in the short-term. If the bill is not enacted and production stops because the unit is not economic, revenue losses would be higher. See attached page for assumptions.

Prepared by: Kay Brown
Phone: 762-4241
Division: Oil and Gas
Date: 3/13/86

Approved by Commissioner: Robert D Arnold, Deputy
Date: 3/16/86
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

10/25/85

Attachment to fiscal note for SSSB 430

The fiscal impact (revenue) is estimated on the basis of several assumptions:

The bill would affect only Milne Point unit production;

Milne Point Unit production at 30,000 bpd;

Royalty reduction from 20% to 12.5% under SSSB 430;

Gulf price of $15/barrel.

COMMITTEE REPORT
SENATE

FURTHER: FINANCE

2/~~14~~ 26/86

Date 3/17/86

Mr. President

The Committee on RESOURCES considered SSSB 430
authorizing the commissioner of the Department of Natural Resources under certain circumstances to reduce or revoke royalty oil or gas obligation increases made in connection with the institution or operation of a cooperative or unit plan; efd.
and (a majority of the committee) (the committee) reports it back with the following recommendations:

[ ] do pass

[ ] do pass with attached amendment(s)

[ ] replace with/or adopt CS for ____
[ ] new title
[ ] same title and recommends ____

[ ] and attached a "LETTER OF INTENT" [X] ~~NEG~~ FISCAL NOTE

[ ] reports it back without recommendation

[ ] recommends referral to ____ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS
1 [signature]	2 [signature] No Rec
1 [signature]	2 [signature] " "
1 [signature]	

1 [signature]
Chairman

Do Pass
Chairman recommendation

Introduced: 2/26/86
Referred: Resources and Finance

IN THE SENATE BY FAHRENKAMP

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 430

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the commissioner of the Department of Natural Resources under certain circumstances to reduce or revoke royalty oil or gas obligation increases made in connection with the institution or operation of a cooperative or unit plan; and providing for an effective date."

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

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

(p) To conserve the natural resources of all or a part of an oil or gas pool, field, or like area, the lessees and their representatives may unite with each other, or jointly or separately with others, in collectively adopting or operating under a cooperative or a unit plan of development or operation of the pool, field, or like area, or a part of it, when determined and certified by the commissioner to be necessary or advisable in the public interest. The commissioner may, with the consent of the holders of leases involved, establish, change, or revoke drilling, producing, and royalty requirements of the leases and adopt regulations with reference to the leases, with like consent on the part of the lessees, in connection with the institution and operation of a cooperative or unit plan as the commissioner determines necessary or proper to secure the proper protection of the public interest. The commissioner may require oil and gas leases issued under this section to contain a provision requiring the lessee to operate under a reasonable cooperative or unit plan, and may prescribe a plan under which the lessee must operate. The plan must adequately protect all parties in interest, including the state. Notwithstanding (j) of this section, if the commissioner determines that the public interest warrants the reduction or revocation, the commissioner may reduce or revoke a royalty obligation increase that was made by the commissioner in connection with the institution or operation of a co-operative or unit plan.

* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.070(c).