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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 plicati. 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 OP] 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;

(9) "unit plan" or "unit" means an agreement providing for  
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].

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

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

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).

Amendments on pages 3, 4, 5, 6, 7, 9, 10, 12, and 19.

Original sponsors: McKinnon and Chatterton

Offered: 5/2/80  
Referred: Finance

1 IN THE HOUSE BY THE RESOURCES COMMITTEE  
2 CS FOR 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 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 (aa) 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 <sup>direct</sup> cause  
10 beyond the lessee's reasonable ability to foresee or control, including  
11 delays caused by <sup>a</sup> permit procedures of the federal or state governments or  
12 of a municipality or political subdivision, or ~~delays caused by~~ <sup>a</sup> judicial  
13 decisions or other legal actions, ~~including, but not limited to, litiga-~~

not the result of actionable  
conduct of the lessee, which is a direct cause in preventing the lessee  
from conducting drilling operations or from producing, transporting or  
marketing oil or gas from the lease;

14 ~~then~~ a lease extended under this paragraph continues in effect beyond  
15 the date the lease would otherwise expire for a period, as determined by  
16 the commissioner, in which the ability to conduct operations or produc-  
17 tion or to comply with the term, condition or provision <sup>is</sup> prevented if  
18 the ability to conduct or continue operations or production or to comply  
19 with the term, condition or provision would have had the effect of pre-  
20 venting the expiration of the lease; this paragraph <sup>(A)</sup> does not invalidate  
21 an obligation of a lessee under the lease; ~~and may not be construed to~~

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

(C) may not be construed to

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

22 (ii) suspend the obligation of the lessee to pay rentals to the state; or ~~to~~  
23 (iii) suspend the obligation of the lessee to pay royalties or other production  
24 or profit-based payments to the state from unaffected operations or pro-  
25 duction on the lease.

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

26 (p) To promote timely and efficient exploration, evaluation and  
27 operation of land leased under this section, including avoidance of du-  
28 plicative facilities and the drilling of unnecessary wells, and to  
29

1 conserve [THE] natural resources [OF ALL OR A PART OF AN OIL OR GAS  
2 POOL, FIELD, OR LIKE AREA], the lessees [AND THEIR REPRESENTATIVES] may  
3 unite with each other [, OR JOINTLY OR SEPARATELY WITH OTHERS,] in  
4 collectively adopting [OR OPERATING UNDER A COOPERATIVE OR] a unit plan  
5 for their leases if [OF DEVELOPMENT, OR OPERATION OF THE POOL, FIELD, OR  
6 LIKE AREA, OR A PART OF IT, WHEN DETERMINED AND CERTIFIED BY] the commis-  
7 sioner finds, after public notice and opportunity for public comment,  
8 that the adoption of a unit plan is [TO BE] necessary, [OR] advisable  
9 or proper to protect [IN] the public interest. The commissioner may,  
10 with the consent of the <sup>lessees</sup> [holders of leases] involved, modify the terms and  
11 conditions [ESTABLISH, CHANGE, OR REVOKE DRILLING, PRODUCING, AND ROYAL-  
12 TY REQUIREMENTS] of <sup>state</sup> [the] leases [AND ADOPT REGULATIONS WITH REFERENCE TO  
13 THE LEASES, WITH LIKE CONSENT ON THE PART OF THE LESSEES,] in connection  
14 with the institution and operation of ~~the~~ a [COOPERATIVE OR] unit [plan]  
15 and for any extension of a lease contained within a unit plan which [AS]  
16 he determines necessary or proper to secure the [PROPER] protection of  
17 the public interest.

The commissioner may modify the terms and conditions of a state lease  
included in a unit ordered under AS 31.05.110(b) at the time of any  
extension of the lease under (aa)(2) of this section which he deter-  
mines necessary or proper to secure the protection of the public interest.

Land leased under this section may be included in  
a unit plan with land owned or leased by others if the commissioner finds  
it necessary, advisable, or proper, and in the public interest. The  
18 commissioner may require oil and gas leases issued under this section to  
19 contain a provision requiring the lessee to operate under a reasonable  
20 [COOPERATIVE OR] unit plan, and he may prescribe a plan under which the  
21 lessee must operate. A unit [THE] plan must adequately protect all  
22 parties in interest, including the state, and be accepted by all parties  
23 in interest, including the state.

24  
25 However, the commissioner may approve a unit plan which has not been  
accepted by all parties in interest if he finds that the plan has  
been accepted by parties holding sufficient interests in the unit  
area to give reasonably effective control of operations in the unit  
area; the commissioner's approval shall not bind a non-accepting  
party and shall be without prejudice to the non-accepting party's rights.

A unit plan shall be limited to a  
reasonably compact area and include all leases which the commissioner  
26 reasonably believes overlie a potential hydrocarbon accumulation or an  
27 oil or gas pool or pools. The lessees in interest under a unit plan  
28 formed under this section shall designate an operator or operators for  
29

1 leases on land included within the unit area. The operator or operators  
2 shall submit to the commissioner <sup>an initial</sup> ~~an~~ plan of operation for the unit ~~for~~  
3 ~~the first year~~ and a ~~revised annual~~ <sup>sufficiently detailed comprehensive report on the progress of the</sup> plan of operation no later than each  
4 anniversary date. The operator or operators may submit <sup>revisions or</sup> supplements to  
5 ~~the~~ <sup>for the unit</sup> ~~an annual~~ plan of operation, <sup>of operation,</sup> or to a revised annual plan. A plan of  
6 operation, <sup>for the unit</sup> ~~a revised annual plan,~~ and any <sup>revisions or</sup> supplements, <sup>to the plan of operation or to a revised plan</sup> may not take effect  
7 until approved by the commissioner. Approval of the unit plan of opera-  
8 tion by the commissioner does not exempt the operator from compliance  
9 with the requirements of AS 31.05.030 and 31.05.035.

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

11 (q) A unit plan authorized by [(p) of] this section shall [, WHICH  
12 INCLUDES LAND OWNED BY THE STATE, MAY] contain a provision vesting the  
13 commissioner [, OR A PERSON, COMMITTEE, OR STATE AGENCY,] with authority  
14 to modify from time to time the rate of exploration [PROSPECTING] and  
15 development under the unit plan if the commissioner finds that modifica-  
16 tion of the rate of exploration or development is necessary to protect  
17 the public interest. A unit plan authorized by this section shall con-  
18 tain a provision vesting the Alaska Oil and Gas Conservation Commission  
19 with authority to modify from time to time, for conservation purposes,  
20 [AND] the quantity and rate of production under the plan. All leases  
21 operated under a unit plan approved or prescribed by the commissioner  
22 are excepted in determining holdings or control under AS 38.05.140. The  
23 provisions of this section concerning [COOPERATIVE OR] unit plans are in  
24 addition to and do not affect AS 31.05.

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

26 (aa) A state lease included in a unit ~~plan~~ <sup>or under AS 31.05.110</sup> formed under this sec- <sup>expire at the end</sup>  
27 tion ~~does not terminate upon the expiration~~ of its primary term

28 (1) if the lease meets one of the requirements set out in (m)  
29 or (ff) of this section; or

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

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

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

7 (bb) When, within a unit formed under this section, an operator  
8 encounters and confirms a hydrocarbon accumulation and completes a well  
9 capable of producing oil or gas in commercial quantities, the lessees in  
10 interest shall, upon request of the commissioner, delineate the boundary  
11 of the participating area. The boundary which the lessees delineate  
12 shall be based on an interpretation of all available geologic and petro-  
13 leum engineering data, and is subject to approval by the commissioner.

14 (cc) Lessees may adopt one or more agreements to provide for the  
15 unitized management, development and operation of a discovered oil or  
16 gas pool or pools. When the lessees have adopted an agreement or agree-  
17 ments under this subsection, they shall secure integration of their  
18 interests in accordance with AS 31.05.110 within a participating area.  
19 All parties in interest, including the state, shall sign these agree-  
20 ments. If the parties fail or refuse to voluntarily integrate their  
21 interests, the commissioner may designate a participating area and shall  
22 petition the Alaska Oil and Gas Conservation Commission under AS 31.05.-  
23 110 to secure integration.

24 (dd) The operator or operators designated by the lessees in in-  
25 terest in the participating area shall submit to the commissioner <sup>an initial</sup> a plan  
26 of operation for the participating area <sup>(sufficiently detailed comprehensive report on the progress of the</sup> ~~for the first year and a revised~~  
27 ~~annual~~ plan of operation no later than each anniversary date. The  
28 operator or operators may submit <sup>revisions of</sup> supplements to <sup>the</sup> ~~an annual~~ plan of opera-  
29 <sup>for the participating area</sup> ~~tion~~ or to a revised annual plan for the participating area. A plan of

1 operation, <sup>for the participating area</sup> ~~a revised annual plan of operation~~, and any <sup>(revisions of)</sup> supplements may  
2 ~~to the plan of operation or to a revised plan may~~ not take effect until approved by the commissioner.

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

25 (ff) A lease included in a participating area,  
whether part of a unit formed voluntarily or by order of the Alaska  
Oil and Gas Conservation Commission under AS 31.05.110,  
does not <sup>expire</sup> terminate as  
26 long as oil or gas is produced from the participating area or as long as  
27 the operator or operators conduct operations in a participating area  
28 under a plan of operation approved by the commissioner.

29 (gg) A lease or portion of a lease which is not included in a par-

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

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

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

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

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

23 (kk) In this section,

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

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

1 (3) "participating area" means an area <sup>reasonably</sup> proven, by subsurface  
2 data derived from drilling, production, and other geologic and geo-  
3 physical information, to overlie an oil or gas pool or pools capable of  
4 production <sup>of oil or gas</sup> in commercial quantities;

5 (4) "plan of operation" means

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

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

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

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

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

29 (8) "unit area" or "unitized area" means the land subject to

1 a unit plan;

2 (9) "unit plan" or "unit" means an agreement providing for  
3 the unitized management of leases overlying a potential hydrocarbon  
4 accumulation or an oil or gas pool or pools, in which separate leases  
5 subject to the plan are explored, developed and operated as a single  
6 consolidated entity without regard to separate ownership; the term  
7 includes allocations of hydrocarbons produced from the unit and all  
8 revisions or amendments to it and all plans of operation of the unit  
9 area.

10 \* Sec. 6. AS 31.05.027 is amended to read:

11 Sec. 31.05.027. APPLICATION. The authority of the commission  
12 applies to all land in the state lawfully subject to its police powers.  
13 It applies to land of the United States or to land subject to the juris-  
14 diction of the United States only to the extent that control and super-  
15 vision of conservation of oil and gas and prevention of waste by the  
16 United States on its land fails to carry out the intent and purposes of  
17 this chapter, and otherwise applies to federal land so far as an officer  
18 of the United States having jurisdiction, or his authorized representa-  
19 tive, shall approve any of the provisions of this chapter or orders of  
20 the commission which affect land. [THE AUTHORITY OF THE COMMISSION  
21 FURTHER APPLIES TO ALL LAND INCLUDED IN A VOLUNTARY COOPERATIVE OR UNIT  
22 PLAN OF DEVELOPMENT OR OPERATION ENTERED INTO IN ACCORDANCE WITH AS 38.-  
23 05.18)(m).]

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

25 (c) The reports and information required in (a) of this section  
26 shall be kept confidential for 24 months following the 30-day filing  
27 period unless the owner of the well gives written permission to the com-  
28 mission to release the reports and information at an earlier date. How-  
29 ever, if (1) [IF THE COMMISSIONER FINDS THAT] the required reports and

1 information were derived from a well drilled within 18 miles of un-  
2 leased land which has been scheduled for an oil and gas lease sale  
3 and for which notice of the sale has been given under AS 38.05.345/ or

under <sup>the</sup> notice provisions/ of sec. 205(a) of the Outer Continental Shelf  
Lands Act Amendments of 1978, P.L. 95-372 (43 U.S.C. sec. 1337(a)(8)),

4 (2) the sale is not held on the date specified in the notice of sale  
5 given under AS 38.05.345/ or

under <sup>the</sup> notice provisions/ of sec. 205(a) of the Outer Continental Shelf  
Lands Act Amendments of 1978, P.L. 95-372 (43 U.S.C. sec. 1337(a)(8)),

and (3) the commissioner of natural resources  
6 determines in writing that extension of the period of confidentiality  
7 is in the best interests of the state, the commissioner of natural  
8 resources shall request the commission to [CONTAIN SIGNIFICANT INFORMA-  
9 TION RELATING TO THE VALUATION OF UNLEASED LAND IN THE SAME VICINITY,  
10 HE SHALL] keep the reports and information confidential until the sale  
11 is actually held or for a total of not more than 48 months beyond the  
12 30-day filing period, whichever occurs earlier. If the period of  
13 confidentiality is extended under this subsection, [REASONABLE TIME  
14 AFTER THE DISPOSITION OF ALL AFFECTED UNLEASED LAND, UNLESS] the owner  
15 of the well may give [GIVES] written permission to the commission to  
16 release the reports and information at an earlier date. Well location,  
17 depth, status and production data and production reports required by the  
18 commission to be filed subsequent to the 30-day filing period shall be  
19 considered public information and may [SHALL] not be classified confi-  
20 dential. Production data, as used in this subsection, means volume,  
21 gravity and gas-oil ratio of all production of oil or gas after the well  
22 begins regular production.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17 (2) the division of interest or formula for the apportionment  
18 and allocation of the unit production, among and to the several sepa-  
19 rately owned tracts within the unit area which [SUCH AS] will reasonably  
20 permit a person [PERSONS] otherwise entitled to share in or benefit by  
21 the production from the [SUCH] separately owned tracts to produce and  
22 receive, instead of the share or benefit from the tracts [THEREOF], his  
23 [THEIR] fair, equitable and reasonable share of the unit production or  
24 other benefits of it; a separately owned tract's fair, equitable, and  
25 reasonable share of the unit production shall be measured by the value  
26 of each such tract for oil and gas purposes and its contributing value  
27 to the unit in relation to like values of other tracts in the unit,  
28 taking into account acreage, the quantity of oil and gas recoverable  
29 from it, location on the structure, its probable productivity of oil and

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

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

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

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

1 sary, proper or convenient in the efficient management of the unit, de-  
2 fining the powers and duties of all the committees, boards and officers,  
3 and prescribing their tenure and time and method for their selection;

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

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

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

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

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

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

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

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

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

8 Sec. 31.05.112. LIMITATIONS ON INVOLUNTARY UNITIZATION. (a) The  
9 commission may not order involuntary unitization of land ~~leased by the~~  
10 ~~state under AS 38.05.180 unless~~ →

11 ~~(1) (the commission makes written findings that waste would~~  
12 ~~occur and correlative rights would be violated if the unit is not or-~~  
13 ~~dered, and~~

14 ~~(2) the commissioner of natural resources consents in writing~~  
15 ~~to the involuntary unitization; the commissioner may withhold consent~~  
16 ~~under this paragraph only for reasons which are consistent with provi-~~  
17 ~~sions of the Constitution of the United States and the Constitution of~~  
18 ~~the State of Alaska~~

DELETE

19 (b) The interests of a lessee in a unit area may not be subjected  
20 to a unit agreement under AS 31.05.110 if the unit agreement allocates  
21 unit production to the interest of the lessee under a formula based  
22 solely on the surface acreage of the separate tracts within the unit  
23 area.

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

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

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

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

6 (15) "unit area" or "unitized area" means the land subject to  
7 a unit.

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

9 (4) AS 38.05.180(jj)

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

14 \* Sec. 21. This Act takes effect immediately in accordance with AS 01.10.-  
15 070(c).

# STATE OF ALASKA

## ALASKA OIL AND GAS CONSERVATION COMMISSION

JAY S. HAMMOND, GOVERNOR

3001 PORCUPINE DRIVE ANCHORAGE, ALASKA 99501

May 12, 1980

Hon. Russ Meekins, Chairman  
House Finance Committee  
Alaska House of Representatives  
Pouch V  
Juneau, Alaska 99811

Dear Representative Meekins:

The following comments are offered on the CS for Sponsor Substitute for House Bill No. 800.

The sponsors of this bill and almost everyone that testified at the hearing in the House Resources Committee regarding this bill agreed that there should be complete separation between management and regulation, in other words the Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. The existing statutes accomplish this and make this separation very clear.

In two sections of the proposed bill there is language that would seriously jepordize this separation. We strongly recommend that the following language that appears in Sec. 5 and Sec. 16 of the Bill be deleted.

Sec. 5. AS 38.05.190

(ii) The commissioner shall review and approve all plans of operation, the formation and revision of participating areas, and other actions affecting the lease interests of the state under a unit, whether formed voluntarily or by order of the Alaska Oil and Gas Conservation Commission under AS 31.05.110.

Sec. 16. AS 31.05.112

(a)(2) the commissioner of natural resources consents in writing to the involuntary unitization; the commissioner may withhold consent under this paragraph only for reasons which

AGO 750712 +

Hon. Russ Meekins

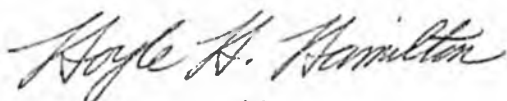
-2-

May 12, 1980

are consistent with provisions of the Constitution of the United States and the Constitution of the State of Alaska.

Additional changes that we recommend are noted on the copy of this bill that is attached.

Sincerely yours,



Hoyle H. Hamilton  
Chairman/Commissioner

Enclosure

HHH:be

AGO 750713

# CORRECTION

THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY

Hon. Russ Meekins

-2-

May 12, 1980

are consistent with provisions of the Constitution of the United States and the Constitution of the State of Alaska.

Additional changes that we recommend are noted on the copy of this bill that is attached.

Sincerely yours,



Hoyle H. Hamilton  
Chairman/Commissioner

Enclosure

HHH:be

AGO 750713

Original sponsors: McKinnon and Chatterton

Offered: 5/2/80  
Referred: Finance

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR 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 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 (aa) 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 cause  
10 beyond the lessee's reasonable ability to foresee or control, including  
11 delays caused by permit procedures of the federal or state governments or  
12 of a municipality or political subdivision, or delays caused by judicial  
13 decisions or other legal actions including, but not limited to, litiga-  
14 tion; a lease extended under this paragraph continues in effect beyond  
15 the date the lease would otherwise expire for a period, as determined by  
16 the commissioner, in which the ability to conduct operations or produc-  
17 tion or to comply with the term, condition or provision was prevented if  
18 the ability to conduct or continue operations or production or to comply  
19 with the term, condition or provision would have had the effect of pre-  
20 venting the expiration of the lease; this paragraph does not invalidate  
21 an obligation of a lessee under the lease, and may not be construed to  
22 suspend the obligation of the lessee to pay rentals to the state, or to  
23 suspend the obligation of the lessee to pay royalties or other production  
24 or profit-based payments to the state from unaffected operations or pro-  
25 duction on the lease.

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

27 (p) To promote timely and efficient exploration, evaluation and  
28 operation of land leased under this section, including avoidance of du-  
29 plicative facilities and the drilling of unnecessary wells, and to

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

1 leases on land included within the unit area. The operator or operators  
2 shall submit to the commissioner a plan of operation for the unit for  
3 the first year and a revised annual plan of operation no later than each  
4 anniversary date. The operator or operators may submit supplements to  
5 an annual plan of operation or to a revised annual plan. A plan of  
6 operation, a revised annual plan, and any supplements may not take effect  
7 until approved by the commissioner. Approval of the unit plan of opera-  
8 tion by the commissioner does not exempt the operator from compliance  
9 with the requirements of AS 31.05.030 and 31.05.035.

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

11 (q) A unit plan authorized by [(p) of] this section shall [, WHICH  
12 INCLUDES LAND OWNED BY THE STATE, MAY] contain a provision vesting the  
13 commissioner [, OR A PERSON, COMMITTEE, OR STATE AGENCY,] with authority  
14 to modify from time to time the rate of exploration [PROSPECTING] and  
15 development under the unit plan if the commissioner finds that modifica-  
16 tion of the rate of exploration or development is necessary to protect  
17 the public interest. A unit plan authorized by this section shall con-  
18 tain a provision vesting the Alaska Oil and Gas Conservation Commission  
19 with authority to modify from time to time, for conservation purposes,  
20 [AND] the quantity and rate of production under the plan. All leases  
21 operated under a unit plan approved or prescribed by the commissioner  
22 are excepted in determining holdings or control under AS 38.05.140. The  
23 provisions of this section concerning [COOPERATIVE OR] unit plans are in  
24 addition to and do not affect AS 31.05.

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

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

28 (1) if the lease meets one of the requirements set out in (m)  
29 or (ff) of this section; or

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

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

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

7 (bb) When, within a unit formed under this section, an operator  
8 encounters and confirms a hydrocarbon accumulation and completes a well  
9 capable of producing oil or gas in commercial quantities, the lessees in  
10 interest shall, upon request of the commissioner, delineate the boundary  
11 of the participating area. The boundary which the lessees delineate  
12 shall be based on an interpretation of all available geologic and petro-  
13 leum engineering data, and is subject to approval by the commissioner.

14 (cc) Lessees may adopt one or more agreements to provide for the  
15 unitized management, development and operation of a discovered oil or  
16 gas pool or pools. When the lessees have adopted an agreement or agree-  
17 ments under this subsection, they shall secure integration of their  
18 interests in accordance with AS 31.05.110 within a participating area.  
19 All parties in interest, including the state, shall sign these agree-  
20 ments. If the parties fail or refuse to voluntarily integrate their  
21 interests, the commissioner may designate a participating area and shall  
22 petition the Alaska Oil and Gas Conservation Commission under AS 31.05.-  
23 110 to secure integration.

24 (dd) The operator or operators designated by the lessees in in-  
25 terest in the participating area shall submit to the commissioner a plan  
26 of operation for the participating area for the first year and a revised  
27 annual plan of operation no later than each anniversary date. The  
28 operator or operators may submit supplements to an annual plan of opera-  
29 tion or to a revised annual plan for the participating area. A plan of  
30

1 operation, a revised annual plan of operation, and any supplements may  
2 not take effect until approved by the commissioner.

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

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

29 (gg) A lease or portion of a lease which is not included in a par-

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

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

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

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

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

23 (kk) In this section,

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

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

1 (3) "participating area" means an area proven, by subsurface  
2 data derived from drilling, production, and other geologic and geo-  
3 physical information, to overlie an oil or gas pool or pools capable of  
4 production in commercial quantities;

5 (4) "plan of operation" means

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

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

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

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

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

29 (8) "unit area" or "unitized area" means the land subject to

1 a unit plan;

2 (9) "unit plan" or "unit" means an agreement providing for  
3 the unitized management of leases overlying a potential hydrocarbon  
4 accumulation or an oil or gas pool or pools, in which separate leases  
5 subject to the plan are explored, developed and operated as a single  
6 consolidated entity without regard to separate ownership; the term  
7 includes allocations of hydrocarbons produced from the unit and all  
8 revisions or amendments to it and all plans of operation of the unit  
9 area.

10 \* Sec. 6. AS 31.05.027 is amended to read:

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

24 \* Sec. 7. AS 31.05.035(e) is amended to read:

25 (c) The reports and information required in (a) of this section  
26 shall be kept confidential for 24 months following the 30-day filing  
27 period unless the owner of the well gives written permission to the com-  
28 mission to release the reports and information at an earlier date. How-  
29 ever, if (1) [IF THE COMMISSIONER FINDS THAT] the required reports and

1 information were derived from a well drilled within 18 miles of un-  
2 leased land which has been scheduled for an oil and gas lease sale  
3 and for which notice of the sale has been given under AS 38.05.345,  
4 (2) the sale is not held on the date specified in the notice of sale  
5 given under AS 38.05.345, and (3) the commissioner of natural resources  
6 determines in writing that extension of the period of confidentiality  
7 is in the best interests of the state, the commissioner of natural  
8 resources shall request the commission to [CONTAIN SIGNIFICANT INFORMA-  
9 TION RELATING TO THE VALUATION OF UNLEASED LAND IN THE SAME VICINITY,  
10 HE SHALL] keep the reports and information confidential until the sale  
11 is actually held or for a total of not more than 48 months beyond the  
12 30-day filing period, whichever occurs earlier. If the period of  
13 confidentiality is extended under this subsection, [REASONABLE TIME  
14 AFTER THE DISPOSITION OF ALL AFFECTED UNLEASED LAND, UNLESS] the owner  
15 of the well may give [GIVES] written permission to the commission to  
16 release the reports and information at an earlier date. Well location,  
17 depth, status and production data and production reports required by the  
18 commission to be filed subsequent to the 30-day filing period shall be  
19 considered public information and may [SHALL] not be classified confi-  
20 dential. Production data, as used in this subsection, means volume,  
21 gravity and gas-oil ratio of all production of oil or gas after the well  
22 begins regular production.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17 (2) the division of interest or formula for the apportionment  
18 and allocation of the unit production, among and to the several sepa-  
19 rately owned tracts within the unit area which [SUCH AS] will reasonably  
20 permit a person [PERSONS] otherwise entitled to share in or benefit by  
21 the production from the [SUCH] separately owned tracts to produce and  
22 receive, instead of the share or benefit from the tracts [THEREOF], his  
23 [THEIR] fair, equitable and reasonable share of the unit production or  
24 other benefits of it; a separately owned tract's fair, equitable, and  
25 reasonable share of the unit production shall be measured by the value  
26 of each such tract for oil and gas purposes and its contributing value  
27 to the unit in relation to like values of other tracts in the unit,  
28 taking into account acreage, the quantity of oil and gas recoverable  
29 from it, location on the structure, its probable productivity of oil and

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

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

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

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

1 sary, proper or convenient in the efficient management of the unit, de-  
2 fining the powers and duties of all the committees, boards and officers,  
3 and prescribing their tenure and time and method for their selection;

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

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

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

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

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

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

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

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

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

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

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

14           (2) the commissioner of natural resources consents in writing  
15 to the involuntary unitization; the commissioner may withhold consent  
16 under this paragraph only for reasons which are consistent with provi-  
17 sions of the Constitution of the United States and the Constitution of  
18 the State of Alaska.

19           (b) The interests of a lessee in a unit area may not be subjected  
20 to a unit agreement under AS 31.05.110 if the unit agreement allocates  
21 unit production to the interest of the lessee under a formula based  
22 solely on the surface acreage of the separate tracts within the unit  
23 area.

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

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

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

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

6 (15) "unit area" or "unitized area" means the land subject to  
7 a unit.

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

9 (4) AS 38.05.180(jj)

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

14 \* Sec. 21. This Act takes effect immediately in accordance with AS 01.10.-  
15 070(c).

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 OR 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 applicatio-

1 shall be performed in accordance with the Administrative Procedure Act  
2 (AS 44.52). 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), (e) 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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