

ALASKA LEGISLATURE

1503

HOUSE and SENATE FINANCE COMMITTEE FILES, 1995-1996

Fiscal Note Analysis
CSSB 112 (RES)

This bill would grant a discovery royalty rate of 5% for production from a previously undiscovered oil or gas pool attributed to and under a lease in the Cook Inlet sedimentary basin for 10 years following the date of discovery of that pool. This would apply to oil discovered in the Cook Inlet 180 days following the enactment of the bill.

The revenue impact would depend on the size of the discovery and the timing of development of the discovered oil and gas accumulation. The following hypothetical Cook Inlet example would be indicative of the cost of the lower discovery royalty rate.

Oil = 2 wells * 250 bbl/day/well * 365 * \$15/bbl * (.125 - .05) = \$205,000 per year

Gas = 1 well * 10,000 mcf/well * 365 * \$2.25/mcf * (.125 - .05) = \$616,000 per year

SENATE FINANCE COMMITTEE REPORT

SFC _____

DATE: 3/20/96

DATE TURNED INTO OFFICE: 3/27/96

The Finance Committee considered SENATE BILL NO. 112

Establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in commercial quantities.

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS SB 112 (RES)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical change
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>David Wiley</i>	✓	<i>Steve Rabin</i>	✓		
<i>Paul G. Hantz</i>	✓	<i>Bill F. Hays</i>	✓		
<i>Bob W. Hays</i>	✓				
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			
Co-Chair: <i>Rick Helford</i>	✓	Co-Chair:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

Nat. Resources	3/22/96		91.0

APPROPRIATION -- no fiscal note

*Include fiscal notes accompanying Governor's bill

FISCAL NOTE

REPORT TO THE GOVERNOR
SFC 3/24/96 #3

STATE OF ALASKA 1996 LEGISLATIVE SESSION

BILL NO. CSSB112(RES)

Revision Date: Original Dept Affected: Natural Resources
 Title: An Act establishing a discovery royalty credit BRU: Resource Development
 for the lessees of state land drilling exploratory wells and... Component: Oil & Gas Development
 Sponsor: Senate Resources
 Requestor: Senate Finance Component Serial No. 439

Expenditures/Revenues	(Thousands of Dollars)					
	FY97	FY98	FY99	FY00	FY01	FY02
OPERATING EXPENDITURES						
PERSONAL SERVICES	91.0	91.0	91.0	91.0	91.0	91.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	91.0	91.0	91.0	91.0	91.0	91.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (I)						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF	91.0	91.0	91.0	91.0	91.0	91.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	91.0	91.0	91.0	91.0	91.0	91.0

Estimate of any current year (FY96) cost: \$ none

POSITIONS						
FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

This bill reinstates Discovery Royalty (which was repealed in 1969) as a means to reduce royalty payments under certain conditions for leases in Cook Inlet Sedimentary Basin.

It is apparent that the discovery royalty incentive has previously been geared toward frontier exploration. In frontier areas, the geologic risk of drilling an unsuccessful well is high, since little geological information is available to the operator prior to drilling. The element of risk was used by the state as an important yard stick for determining eligibility in some previous discovery royalty decisions in Cook Inlet. Cook Inlet was a frontier basin in the 1950's and 1960's. However, today, due to a long history of exploration and production, geologists consider Cook Inlet a mature petroleum province. Almost all wells drilled on state land in Cook Inlet are drilled in close proximity to other wells containing known oil or gas and should be considered step-out wells and not wildcat exploration wells. Step-out wells have relatively low exploration risk when compared to wildcat exploration wells.

Prepared by: Ken Boyd, Director Phone: 269-8800
 Division: Oil & Gas Date: 22-Mar-98
 Approved by Commissioner: [Signature] Date: 22-Mar-98
 Agency: Natural Resources

Based on past experience, SB 112 will be very difficult to administer. Due to the issuance of pre-1970 conditional leases and the holding of other pre-1970 leases by unitization, the state has many current leases that still have a contractual right to a discovery royalty under the repealed program. As of January 1995, the state has 340 active leases that currently retain the discovery royalty provision, and the Division of Oil and Gas still actively manages the program. Under the previous discovery royalty program, thirteen applications were made for wells in Cook Inlet Basin, eight of which were granted and five were denied. Many of these applications were granted or denied only after years of litigation.

Although SB 112 attempts to eliminate many of the administrative problems with the old discovery royalty program, certain significant problems are inherent with both the repealed program and SB 112. These problems were recognized as far back as 1962 and remain today. It is doubtful that new regulations could eliminate the problems faced in the earlier program.

It is unlikely that the Division can draft regulations under the time constraints imposed by the bill.

Analysis of discovery royalty applications is a very time consuming process and will require the addition of one Petroleum Geologist.

FISCAL NOTE

No. 2
 Bill Version: SB112
 (S) Publish Date: 3-20-96

STATE OF ALASKA
 1995 LEGISLATIVE SESSION

Revision Date: 3/14/95 Dept. Affected: Revenue
 Title: Discovery Royalty Credit BRU: Revenue Operations
 Component: Oil & Gas Audit
 Sponsor: (4) Resources
 Requester: (4) Resources COMPONENT SERIAL NO. 115

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES: ()See Analysis.....

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	.	.	.	.	.	.

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This Bill would grant a royalty rate of 5 percent to all oil and gas produced from the lease from which a discovery was made for a period of ten years following the date of discovery.

The revenue impact would depend on the size of the discovery and the timing of the development of the discovered oil and gas accumulation.

Prepared by: Chuck Logsdon Phone: 277-5627
 Division: Oil and Gas Audit Division Date: 3/14/95
 Approved by Commissioner: Deborah Voigt Date: 3/15/95
 Agency: Revenue

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FISCAL NOTE

No. 1

Bill Version: SB112

(S) Publish Date: 3-20-96

STATE OF ALASKA
1995 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources
 Title: An Act establishing a discovery royalty credit for the BRU: Resource Development
lessees of state land drilling exploratory wells and making first discover Component: Oil & Gas Development
 Sponsor: Senato Resources
 Requestor: _____ Component Serial No. 439

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	91.0	91.0	91.0	91.0	91.0	91.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	91.0	91.0	91.0	91.0	91.0	91.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	100.0	100.0	100.0	100.0	100.0	100.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF	91.0	91.0	91.0	91.0	91.0	91.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	91.0	91.0	91.0	91.0	91.0	91.0

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

This bill reinstates Discovery Royalty (which was repealed in 1969) as a means to reduce royalty payments under certain conditions.

This is accomplished by stipulating that a lessee who makes the first discovery of oil or gas in commercial quantities in a particular geologic structure will pay a royalty of 5% for the first ten years of production.

While this bill appears simple there are problems with some of its provisions. Terms such as "first discovery" and "geologic structure" are not always easily determined. There may be unintended conflicts with AS 38.05180(f)(3)(D) which provides for a fixed cash bonus and a variable Net Profit Share as bid variables for a lease sale. This bill would potentially create a 5% royalty burden where none was contemplated through the lease sale process.

Fiscal impacts as to revenue are difficult to predict because of the speculative nature of the increased activity that this bill may generate. Presumably this new legislation will encourage the discovery of new fields that would not have been otherwise developed. The additional work load and analysis of the Discovery Royalty applications would be time consuming and require an additional Petroleum Geologist.

Prepared by: Ken Boyd, Acting Director Phone: 762-2547
 Division: Oil & Gas Date: 14-Mar-95
 Approved by Commissioner: *Michael J. Donohue* Date: 3-14-95
 Agency: Natural Resources

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ENATE COMMITTEE REPORT
First Committee of Referral

FN FORTHCOMING
FOR CS

DATE: 3/7/95

FURTHER: Finance

Date of 5-Day Notice: 3-15-95
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3-20-96

Resources Committee considered SB 112

Establishing a discovery royalty credit for the lessees of state land drilling exploratory wells and making the first discovery of oil or gas in commercial quantities.

FN's

and recommends:

- be replaced with CS SB 112 (RES)
- adopt previous CS ()
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

Senate Bill:
| same title
| new title
House Bill:
| same title
| technical title
| new: SCR# _____

SIGNING/DIPASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Chris C. Taylor</i>	<input checked="" type="checkbox"/>				
<i>Tom Huffer</i>	<input checked="" type="checkbox"/>				
<i>Fred Frank</i>	<input checked="" type="checkbox"/>				
CHAIR: <i>me</i>					

TO SB only

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
DNE/D+G			<input checked="" type="checkbox"/>
Revenue-Dig Audit		<i>indeterminate</i>	

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
Oil & Gas			
Revenue			

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

3120195
 (S)RES,
 FIN #2

FISCAL NOTE

STATE OF ALASKA
 1995 LEGISLATIVE SESSION

BILL NO. SB 112

Revision Date: 3/14/95 Dept. Affected: Revenue
 Title: Discovery Royalty Credit BRU: Revenue Operations
 Component: Oil & Gas Audit
 Sponsor: (S)Resources
 Requester: (S)Resources COMPONENT SERIAL NO. 115

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()**See Analysis**.....

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	.	.	.	.	.	.

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This Bill would grant a royalty rate of 5 percent to all oil and gas produced from the lease from which a discovery was made for a period of ten years following the date of discovery.

The revenue impact would depend on the size of the discovery and the timing of the development of the discovered oil and gas accumulation.

old '95 F/N.

Prepared by: Chuck Logsdon Phone: 277-5627
 Division: Oil and Gas Audit Division Date: 3/14/95
 Approved by Commissioner: Deborah Vogt Date: 3/15/95
 Agency: Revenue

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FISCAL NOTE

3/16/95
(S) RES, FIN

STATE OF ALASKA

BILL NO. SB112

1995 LEGISLATIVE SESSION

Revision Date: Original Dept Affected: Natural Resources
 Title: An Act establishing a discovery royalty credit for the BRU: Resource Development
lessees of state land drilling exploratory wells and making first discover Component: Oil & Gas Development
 Sponsor: Senate Resources
 Requestor: _____ Component Serial No. 439

Expenditures/Revenues	(Thousands of Dollars)					
OPERATING EXPENDITURES	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	91.0	91.0	91.0	91.0	91.0	91.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	91.0	91.0	91.0	91.0	91.0	91.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	100.0	100.0	100.0	100.0	100.0	100.0

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF	91.0	91.0	91.0	91.0	91.0	91.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	91.0	91.0	91.0	91.0	91.0	91.0

Estimate of any current year (FY95) cost: \$ _____

POSITIONS

FULL-TIME	1	1	1	1	1	1
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS:

(Attach a separate page if necessary)

This bill reinstates Discovery Royalty (which was repealed in 1969) as a means to reduce royalty payments under certain conditions.

This is accomplished by stipulating that a lessee who makes the first discovery of oil or gas in commercial quantities in a particular geologic structure will pay a royalty of 5% for the first ten years of production.

While this bill appears simple there are problems with some of its provisions. Terms such as "first discovery" and "geologic structure" are not always easily determined. There may be unintended conflicts with AS 38.05180(1)(3)(D) which provides for a fixed cash bonus and a variable Net Profit Share as bid variables for a lease sale. This bill would potentially create a 5% royalty burden where none was contemplated through the lease sale process.

Fiscal impacts as to revenue are difficult to predict because of the speculative nature of the increased activity that this bill may generate. Presumably this new legislation will encourage the discovery of new fields that would not have been otherwise developed.

The additional work load and analysis of the Discovery Royalty applications would be time consuming and require an additional Petroleum Geologist.

Prepared by: Ken Boyd, Acting Director Phone: 762-2547
 Division: Oil & Gas Date: 14-Mar-95
 Approved by Commission: [Signature] Date: 3-14-95
 Agency: Natural Resources

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DEPARTMENT OF NATURAL RESOURCES

3601 C STREET, SUITE 1380
ANCHORAGE, ALASKA 99503-5948
PHONE: (907) 762-2549

March 20, 1995

DIVISION OF OIL AND GAS

The Honorable Loren Leman
Alaska State Legislature
Room 113 Capitol Building
Juneau, Alaska 99801-1182
MAIL STOP 3101

Dear Senator Leman:

Thank you for the opportunity to testify on SB 112 last Friday. I'm sorry for all the confusion, but I was trying to do two hearings at once. I hope both you and the Committee found this testimony useful as an introduction to the history of discovery royalty.

Virtually all my testimony is contained in a discovery royalty decision prepared for Union Oil and Marathon Oil in 1982. This has already been submitted to the Committee through Annette.

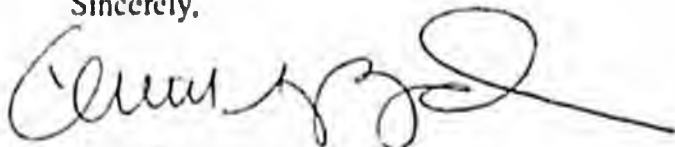
I made three other points regarding my reasoning for the Discovery Royalty provisions being repealed in 1969:

- All major Cook Inlet fields were in production
- Prudhoe bay had been discovered
- Lease sale 23 was to be held in September of 1969. This sale contained acreage that surrounded Prudhoe Bay.

I have no "proof" that these three things were going through the minds of the Legislature in early 1969, but I suspect they were. The reason to repeal Discovery Royalty was fairly simple—Alaska didn't need such a provision any more. Lots of companies were bidding lots of money without any extra incentives. Lease sale 23 brought in over \$900 million in bonuses—the richest sale in State history—without any incentives.

Things are different in the Alaska oil patch now and maybe some sort of incentives are warranted. Whether it should be Discovery Royalty—or something else—I expect will be debated as the hearings progress.

Sincerely,



Kenneth A. Boyd
Acting Director

Senator Loren Leman
SB 112
Senate Resources Committee

This is additional information for SB 112: Discovery Royalty Credit.

Please put this information in your committee packet for SB 112.

Stewart Petroleum Company

Denali Towers North, Suite 1300
2550 Denali Street, Anchorage, Alaska 99503
(907) 277-4004 • FAX (907) 274-0424

TESTIMONY

of

WILLIAM R. STEWART

before the

SENATE RESOURCES COMMITTEE

19TH ALASKA LEGISLATURE

MARCH 6, 1996

Chairman Leman and members of the Senate Resources Committee, my name is Bill Stewart, President of Stewart Petroleum Company. I have 26 years of oil and gas industry experience in Alaska. Our company is a small Alaska-based independent exploration and production company active in Alaska and seven other states. Our primary area of interest within Alaska is Cook Inlet Basin. In late 1991, we were fortunate in discovering the West McArthur River Oil Field, a field of significant size on the west side of Cook Inlet. We are in the development stage at the present time and, with a pipeline system in place, production from three wells is underway. Our current production averages about 5000 BOPD which, due to the advanced age of Cook Inlet's other fields, makes us the second biggest producer in the basin at this point. Total production since start up in 1993 has exceeded 2,000,000 bbls.

By industry standards here in Alaska, our project is small. It would be sizeable almost anywhere else. Investment to date exceeds \$50 million. Taxes and royalties paid thus far to the State of Alaska total approximately \$3.2 million. We employ between 15 and 60 Alaskans depending on activity and we do business at all times possible with Alaskan vendors and services companies who employ Alaskans. Having said all that, the operation is on the marginal side due to its remoteness and high operating costs per barrel.

According to available information, we were the first independent to establish commercial oil production in Alaska in modern times. (I say "modern times" because oil production was established by independents much earlier at Katalla (near Cordova) in 1902. The field produced low gravity crude until their on-site refinery burned in 1933.) In fact, it may interest you to know that about 60 wells have been drilled here by independents, including the first well in Alaska. That well was drilled by a group of independents in 1898 on the Iniskin Peninsula utilizing cable tools and undoubtedly following up on natural oil seeps that still exist there today.

Back to modern times, I was asked to testify today on SB 112 which, if enacted, would re-establish a discovery royalty program. As each of you are probably aware, the State of Alaska had a discovery royalty program in effect throughout the 1960's and until its repeal in the 1970's. Under the program, royalty burden (on the discovery lease only) was reduced from 12.5% to 5% for a period of ten years commencing with date of discovery.

Most of the Cook Inlet discoveries made during the 1960's were made on State leases which provided for discovery royalty benefit. I was there at the time just getting started and, in my opinion, the discovery royalty program resulted in

implementation of more aggressive development schedules by operators than otherwise would have taken place. Assuming overall field economics were positive, pipelines and platforms were built without delay in order that the discovery royalty benefit could be realized. Equally as important as aggressive development, new prospects were drilled by the operating companies which led to other discoveries. Activity led to more activity. The bottom line was the discovery of 7 major oil fields totalling 1.3 billion bbls of recoverable oil and 15 gas fields totalling 6.4 trillion cubic feet of gas. From those fields the State of Alaska has realized taxes and royalties far in excess of the benefit granted to industry by discovery royalty. (Remember that the discovery royalty was a temporary benefit which applied only to the discovery lease and not to the surrounding acreage). Equally important were the jobs that were created by industry activity.

On December 19, 1967, Arco's Prudhoe Bay State #1 discovered hydrocarbons in commercial quantities, also on a discovery royalty lease (ADL - 28303) and, as the extent of the giant Prudhoe Bay field became known, industry focus shifted from Cook Inlet to the North Slope. The "first wave" of exploration in Cook Inlet Basin, therefore, ended early despite substantial remaining potential. Arco's discovery at Sunfish along with our discovery at West McArthur River (both in 1991) could mark the beginning of a "second wave" of exploration in Cook Inlet. Regional geology tells us that there could be another 1.3 billion bbls of oil and 6.4 trillion cubic feet of gas yet to be discovered in the basin. On the up side, we have 1960's potential with 1990's technology. On the down side, we have both natural and man made obstacles. The natural obstacles include weather conditions and remoteness. The man made obstacles include a regulatory system which is improving, but is still filled with roadblocks to development. The man made obstacles are tougher. Both result in high costs. Each operating company, large

or small, has to weigh those factors prior to exploration and encouragement from state government is needed at this time.

I believe that SB 112 with certain modifications would provide at least part of the needed encouragement for renewed industry activity in Cook Inlet Basin. I know that my own company's activities at West McArthur River and elsewhere in the basin would accelerate. I can't speak for the majors, but I suspect that other independents would take a new look at Cook Inlet Basin with discovery royalty in place. (As an independent producer, we are in touch with many other independent producers. There are roughly 10,000 members in IPAA, the Independent Petroleum Association of America. Most of the IPAA members will never venture to Alaska, but in the wake of our success, we are beginning to hear cautious expressions of interest from quite a few.) Independents can function in Alaska, despite the obstacles that we have here, but incentives are necessary.

With respect to the specific language of SB 112, much of the bill deals with leasing matters not related to discovery royalty. The language that does relate to discovery royalty, in my opinion, falls short in a couple of respects:

1. Reduced royalty for the primary term only is not much a benefit. Recent leases in Cook Inlet have been issued for a primary term of seven years rather than the usual ten. Finding oil takes time. Geological studies, geophysical field work (which is often seasonal), integration of geological and geophysical data for prospect delineation, selection of bottom hole objective, well planning, permitting activities, drilling rig arrangements, acquisition of supplies and actual drilling are among the myriad activities involved (not to mention huge amounts of money and luck) in finding oil. I don't have a precise study at hand, but I suspect most of the actual discoveries in Alaska were made in the last few years of the primary term of the oil and gas lease involved, or more often, during a term extended by

unitization. While SB 112 is a good concept, the time limitation in large part removes the benefit.

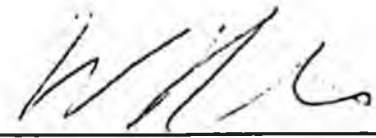
2. Unless the Act is retroactive as to effective date, the applicability provision will exclude all currently issued leases. Those leases which are the most ready for development will not receive the benefit of reduced royalty. Operators can only look to future leases in lease sales, which may or may not occur, leases which they may or may not be successful in acquiring. At the risk of obvious self service, it is appropriate to have an effective date of January 1, 1991. Both West McArthur River and Sunfish would benefit. In the case of West McArthur River, development would definitely continue at a more rapid pace. Also, our other projects in Cook Inlet Basin would commence earlier. These items translate into jobs and long term benefit for the state.

In other words, I propose reinstatement of the original 10 year program which would apply to discoveries made after January 1, 1991 effective upon date of discovery. Previous royalty payments paid subsequent to such discovery date which are in excess of five percent royalty would constitute a credit against future royalty payments. Suggested language is attached. (Please note that the suggested language applies only to Cook Inlet Basin as a means of revitalizing Alaska's oldest petroleum producing province.)

Enactment of SB 112 with these modifications could help continue the fledgling "second wave" of exploration in Cook Inlet. It is my sincere hope that, by the upcoming new millennium "5000 bbls" will be an insignificant number in Cook Inlet Basin rather than the daily production of the second biggest producer (whomever that might be by that time).

Thank you for inviting me today. I'll try to answer any questions you may have.

STEWART PETROLEUM COMPANY

By:  _____

W. R. Stewart, President

SENATE BILL NO. 112

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Introduced: 3/7/95

Referred: RES. FIN

A BILL

FOR AN ACT ENTITLED

"An Act establishing a discovery royalty for the lessees of state land located in Cook Inlet Basin, Alaska's oldest petroleum producing province, who drill exploratory wells and make the first discovery of oil and/or gas in commercial quantities."

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

***Section 1. AS 38.05.180 is amended by addition of a new section (cc) to read:**

(cc) The holder of a lease who drills and makes the first discovery of oil and/or gas in commercial quantities in a geologic structure shall pay a royalty on all production under the lease of five percent for the first 10 years following the date of discovery and thereafter the royalty shall be payable as originally provided in such lease at date of issue; provided, however, that such lease shall not upon expiration of said 10 year period be disqualified from benefit under other available royalty reduction or incentive programs, if any, for which it may qualify.

The provisions of this section shall apply only to discoveries made after January 1, 1991 within the Cook Inlet sedimentary basin, effective upon date of discovery. Any previous royalty payments paid subsequent to such discovery date which are in excess of the five percent royalty provided hereunder, shall constitute a credit against future royalty payments under this section.

SBO112A

SB 112

Original sponsor: The Rules Committee
request of the Governor

Offered: 5/10/69

THE SENATE

BY THE COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 81
IN THE LEGISLATURE OF THE STATE OF ALASKA
SIXTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to oil and gas leases; and providing
for an effective date."

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

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

(a) All tide and submerged lands, mental health lands, school lands, and university lands shall be leased by competitive bidding, and whenever oil or gas is discovered in commercial quantities, the commissioner shall determine the extent of the area of lands in addition to tide, submerged, mental health lands, school, or university lands in the same general area of the discovery well which, by reason of the discovery, the commissioner reasonably believes to be capable of producing oil or gas, and the additional lands shall be leased to the highest responsible qualified bidder by competitive bidding under general regulations, in units of not exceeding 2,560 acres (except that tide and submerged lands shall be leased in units of not exceeding 5,760 acres), which shall be as nearly compact in form as possible, upon the payment by the lessee of such bonus as may be accepted by the commissioner and of such royalty as may be fixed in the lease which shall not be less than 12 1/2 per cent in amount or value of the production removed or sold from the lease. [HOWEVER, THE HOLDER OF A LEASE WHO DRILLS AND MAKES THE FIRST DISCOVERY OF OIL OR GAS IN COMMERCIAL QUANTITIES IN A GEOLOGIC STRUCTURE SHALL PAY A ROYALTY ON ALL PRODUCTION UNDER THE LEASE OF FIVE PER CENT FOR 10 YEARS FOLLOWING THE DATE OF DISCOVERY AND THEREAFTER THE ROYALTY RATE SHALL BE NOT

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From to: Annette % Sen. Lemna

1 LESS THAN 12 1/2 PER CENT, PROVIDED, HOWEVER, THAT THE ROYALTY RATE
2 FOR THE FIRST DISCOVERY IN ANY UNPROVEN AREA OF THE COOK INLET SEDI-
3 MENTARY BASIN SHALL NOT BE LESS THAN 12 1/2 PER CENT UNLESS THE COM-
4 MISSIONER SPECIFICALLY PROVIDES THAT SUCH ROYALTY SHALL BE LESS AT THE
5 TIME SUCH LANDS ARE OFFERED FOR LEASE AND IN NO EVENT SHALL SUCH
6 ROYALTY BE LESS THAN FIVE PER CENT.] All lands other than those above
7 provided to be leased by competitive bidding may be leased competitive
8 or noncompetitively as determined by the commissioner to be in the best
9 interests of the state. Noncompetitive leases shall be issued in units
10 of not exceeding 2,560 acres in any one lease. Noncompetitive leases
11 shall be conditioned upon the payment by the lessee of a royalty of
12 12 1/2 per cent in amount or value of the production removed or sold
13 from the lease. [HOWEVER, THE HOLDER OF A LEASE WHO DRILLS AND MAKES
14 THE FIRST DISCOVERY OF OIL OR GAS IN COMMERCIAL QUANTITIES IN A GEOLOG-
15 IC STRUCTURE SHALL PAY A ROYALTY ON ALL PRODUCTION UNDER THE LEASE OF
16 FIVE PER CENT FOR 10 YEARS FOLLOWING THE DATE OF DISCOVERY AND THERE-
17 AFTER THE ROYALTY RATE IS 12 1/2 PER CENT.] Competitive leases issued
18 under this subsection shall be for 10 years except that in the Cook
19 Inlet sedimentary basin, leases shall be for a primary term of not more
20 than 10 years and not less than five years at the discretion of the
21 commissioner, and shall continue so long thereafter as oil or gas is
22 produced in paying quantities. Noncompetitive leases issued under this
23 subsection shall be for a primary term of five years and shall continue
24 so long thereafter as oil or gas is produced in paying quantities. If
25 drilling has commenced on the expiration date of the primary term of
26 the lease and is continued with reasonable diligence, such operations
27 to include redrilling, sidetracking or other means necessary to reach
28 the originally proposed bottom hole location, the lease shall continue
29 in effect until 90 days after drilling has ceased and for so long

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thereafter as oil or gas is produced in paying quantities. If all or part of the lands covered by the lease are lands that have been selected by the state under laws of the United States granting lands to the state and a patent has not been issued thereon, a conditional lease may be issued. However, no term extension may be granted for the period during which the lease was conditional. (CONDITIONAL LEASE WAS ISSUED THEREON, THE TERM OF THE LEASE SHALL BE EXTENDED FOR A PERIOD EQUAL TO THE PERIOD DURING WHICH THE LEASE WAS CONDITIONAL)

* Sec. 2. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.

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Dept.		Phone #	3808
Fax #	3810 3810	Fax #	4844



LAWS OF ALASKA

1969

Source

CS SB 81 am H

Chapter No.

65

AN ACT

Relating to oil and gas leases; and providing for an effective date.

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

Section 1. AS 38.05.100(a) is amended to read:

(a) All tide and submerged lands, mental health lands, school lands, and university lands shall be leased by competitive bidding, and whenever oil or gas is discovered in commercial quantities, the commissioner shall determine the extent of the area of lands in addition to tide, submerged, mental health lands, school, or university lands in the same general area of the discovery well which, by reason of the discovery, the commissioner reasonably believes to be capable of producing oil or gas, and the additional lands shall be leased to the highest responsible qualified bidder by competitive bidding under general regulations, in units of not exceeding 2,560 acres (except that tide and submerged lands shall be leased in units of not exceeding 5,760 acres), which shall be as nearly compact in form as possible, upon the payment by the lessee of such bonus as may be accepted by the commissioner and of such royalty as may be fixed in the lease which shall not be less than 12 1/2 per cent in amount or value of the production removed or sold from the lease. All lands other than those above provided to be leased by competitive bidding may be leased competitively or noncompetitively as determined by the commissioner to be in the best interests of the state. Noncompetitive leases shall be issued in units of not exceeding 2,560 acres in any one lease. Noncompetitive leases shall be conditioned upon the payment by the lessee of a royalty of 12 1/2 per cent in amount or value of the production removed or sold from the lease. Competitive leases issued under this subsection shall be for 10 years except that in the Cook Inlet sedimentary

basin, leases shall be for a primary term of not more than 10 years and not less than five years at the discretion of the commissioner, and shall continue so long thereafter as oil or gas is produced in paying quantities. Noncompetitive leases issued under this subsection shall be for a primary term of five years and shall continue so long thereafter as oil or gas is produced in paying quantities. If drilling has commenced on the expiration date of the primary term of the lease and is continued with reasonable diligence, such operations to include redrilling, sidetracking or other means necessary to reach the originally proposed bottom hole location, the lease shall continue in effect until 90 days after drilling has ceased and for so long thereafter as oil or gas is produced in paying quantities. If all or part of the lands covered by the lease are lands that have been selected by the state under laws of the United States granting lands to the state and a patent has not been issued thereon, a conditional lease may be issued. However, no term extension may be granted for the period during which the lease was conditional.

* Sec. 2. This Act takes effect on the day after its passage and approval or on the day it becomes law without approval.



LAWS OF ALASKA

1969

Source

Chapter No.

HB 233

66

AN ACT

Relating to sale of timber and materials.

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

* Section 1. AS 38.05.115 is amended to read:

Sec. 38.05.115. LIMITATIONS AND CONDITIONS OF SALE.
 (a) The commissioner, upon recommendation of the director, shall determine the timber and other materials to be sold, and the limitations, conditions and terms of sale. The limitations, conditions and terms shall include the utilization, development and maintenance of the sustained yield principle, subject to preference among other beneficial uses. The director may negotiate sales of timber or materials without advertisement and on the limitations, conditions, and terms which he considers are in the best interests of the state, subject to the approval of the commissioner. However, not more than 500 M.B.M. of timber or more than \$2,500 of materials may be sold by nonadvertised, negotiated sale to the same purchaser within a one-year period.

(b) Negotiated sales for timber or materials not exceeding a value of \$250 are exempt from the provisions of AS 34.15.150.

Approved by governor: May 5, 1969
 Actual effective date: August 3, 1969

The House was called to order at 11:25 a.m.

CSHB 332 Mr. Pink withdrew his objection. There being no further objection, amendment No. 3 was adopted.

amendment No. 4 by Beirne:

Page 2, line 5: Strike "period" and add "provided the applicant shall have complied with AS 08.80.110(5)"

Mrs. Beirne moved and asked unanimous consent that amendment No. 4 be adopted. Mr. Guess objected. Mr. Guess withdrew his objection. Mr. Sweet objected. Mr. Sweet withdrew his objection. There being no further objection, amendment No. 4 was adopted.

Mrs. Beirne moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 332 amended be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 332 amended was read the third time.

The question being: "Shall COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 332 amended pass the House?" The roll was called with the following result:

Yeas: 32 - Anderson, Banfield, Beirne, Boardman, Borer, Bradner, Bronson, Cornelius, Croft, Deveau, Eliason, Guess, Harris, Haugen, Hensley, Hillstrand, Hohman, Holm, Jackson, Kay, McGill, McVeigh, Miller, Orbeck, Paukan, Reeves, Rettig, Sackett, Schwamm, Sweet, Tillion, Young.

Nays: 5 - Pink, Kerttula, Metcalf, Ray, Sarsara.

Excused: 3 - Chance, Moses, Peratrovich.

And so, COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 332 amended passed the House and was referred to the Chief Clerk for engrossment.

Mr. Guess moved and asked unanimous consent that the House revert to Reports of Standing Committees. There being no objection, the House reverted to

REPORTS OF STANDING COMMITTEES

CSHB 81 The Finance Committee has had COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 (relating to oil and gas leases) under consideration and a majority of the members of the committee recommends it do pass with the following amendment:

amendment No. 1 by the Finance Committee:

Page 3, lines 1 through 4: Feature deleted material on lines 1 through 4 ending with the word AND.

Page 3, line 4: Insert following material after AND:
"patent has not been issued thereon, a conditional lease may be issued."

However, no term extension may be granted for the period during which the lease was conditional."

CSHB
81

The report was signed by Mr. Ray, Chairman, and concurred in by Ray, Croft, Bradner, Sackett, Haugen and Borer.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 was referred to the Rules Committee for placement on the calendar.

CONSIDERATION OF DAILY CALENDAR (continued)

SECOND READING OF SENATE BILLS

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 191 (relating to property exempt from execution) was read the second time with the Judiciary Committee report (pages 718 - 719 of the Journal).

CSHB
191

amendment No. 1 by the Judiciary Committee:

Page 1, lines 14, 17 and 18: Delete "a single person" and insert in its place "he is not the head of a family."

Mr. Cornelius moved and asked unanimous consent that amendment No. 1 be adopted. There being no objection, amendment No. 1 was adopted.

CSHB
191
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Mr. Cornelius moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 191 amended by the House be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 191 amended by the House was read the third time.

The question being: "Shall COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 191 amended by the House pass the House?" The roll was called with the following result:

Yeas: 29 - Anderson, Banfield, Beirne, Boardman, Bronson, Cornelius, Croft, Deveau, Pink, Guess, Haugen, Hensley, Hohman, Holm, Jackson, Kay, Kerttula, Metcalf, Miller, Moses, Orbeck, Paukan, Reeves, Rettig, Sackett, Sarsara, Schwamm, Sweet, Young.

Nays: 6 - Borer, Bradner, Eliason, Harris, Hillstrand, Tillion.

Excused: 5 - Chance, McGill, McVeigh, Peratrovich, Ray.

Mr. Eliason changed his vote from yea to nay.

And so, COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 191 amended by the House passed the House and was referred to the Chief Clerk for engrossment.

SENATE BILL NO. 86 (relating to the rights of initiative, referendum and recall reserved to the people of the

SD
86

HB 341 And so, HOUSE BILL NO. 341 passed the House.
Mr. Ray moved and asked unanimous consent that the roll call on the passage of HOUSE BILL NO. 341 be considered the roll call on the effective date clause. There being no objection, it was so ordered.

HOUSE BILL NO. 341 was referred to the Chief Clerk for engrossment.

HB 273 HOUSE BILL NO. 273 (relating to the examination for communicable diseases of persons in custody) was read the second time with the Health, Welfare and Education Committee report (page 333 of the Journal) and the Judiciary Committee report (pages 745 - 746 of the Journal).

CSHD 273 Mr. Cornelius moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 273 be adopted in lieu of HOUSE BILL NO. 273. Mr. Guess objected. Mr. Guess withdrew his objection. There being no further objection, COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 273 was adopted.

Mr. Cornelius moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 273 be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 273 was read the third time.

The question being: "Shall COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 273 pass the House?" The roll was called with the following result:

Yeas: 20 - Anderson, Banfield, Beirne, Boardman, Bronson, Cornelius, Deveau, Fink, Guess, Harris, Haugen, Hillstrand, Hohman, Holm, Kay, Kerttula, McGill, Metcalf, Miller, Moses, Orbeck, Peratrovich, Ray, Rettig, Sackett, Schwann, Sweet, Tillion, Young.

Nays: 0 - Borer, Bradner, Croft, Eliason, Reeves.

Excused: 6 - Chance, Hensley, Jackson, McVeigh, Paukan, Saccara.

And so, COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 273 passed the House and was referred to the Chief Clerk for engrossment.

THIRD READING OF SENATE BILLS

CSHD 81 COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 (relating to oil and gas leases; and providing for an effective date) was read the second time with the Resources Committee report (page 571 of the Journal) and the Finance Committee report (pages 794 - 795 of the Journal).

amendment No. 1 by the Finance Committee:

Page 3, lines 1 through 4: Texture deleted material on lines 1 through 4 ending with the word AND.

Page 3, line 4: Insert the following material after AND: "patent has not been issued thereon, a conditional lease may be issued. However, no term extension may be granted for the period during which the lease was conditional."

CSHD 81

Mr. Croft moved and asked unanimous consent that amendment No. 1 be adopted. Mr. Kay objected. Mr. Kay withdrew his objection. There being no further objection, amendment No. 1 was adopted.

CSHD 81 am II

Mr. Croft moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House be considered engrossed, advanced to third reading and placed on final passage. Mr. Fink objected. Mr. Fink withdrew his objection. Mr. McGill objected. Mr. McGill withdrew his objection. There being no further objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House was read the third time.

The question being: "Shall COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House pass the House?" The roll was called with the following result:

Yeas: 37 - Anderson, Banfield, Beirne, Boardman, Borer, Bradner, Bronson, Cornelius, Croft, Deveau, Eliason, Fink, Guess, Harris, Haugen, Hillstrand, Holm, Kay, Kerttula, McGill, Metcalf, Moses, Orbeck, Peratrovich, Ray, Reeves, Rettig, Sackett, Schwann, Sweet, Tillion, Young.

Nays: 1 - Miller.

Excused: 7 - Chance, Hensley, Hohman, Jackson, McVeigh, Paukan, Saccara.

And so, COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House passed the House.

Mr. Guess moved and asked unanimous consent that the roll call on the passage of COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House be considered the roll call on the effective date clause. There being no objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House was referred to the Chief Clerk for engrossment.

Mr. McGill gave notice of reconsideration of his vote on COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House.

Mr. Cornelius gave notice of reconsideration of his vote on COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 amended by the House.

SENATE BILL NO. 142 amended (relating to Physical Therapists; and providing for an effective date) was read the second time with the Health, Welfare and Education Committee report (page 673 of the Journal) and the Commerce Committee report

CSHD 142

January 30.

Also, if it is agreeable with the members of the House and Senate, I would suggest 3 p.m., this same date, as the time for presentation of the budget message and 1969-1970 budget appropriation bill to a joint session of the Legislature.

I join with all Alaskans in wishing the members of the First Session of the Sixth State Legislature a productive and rewarding session.

Best personal regards.

Sincerely yours,

s/ Keith H. Miller
Keith H. Miller
Governor"

MESSAGES FROM THE HOUSE

A message dated January 30, 1969, was read requesting the Senate meet in joint session January 30, 1969, at 11:00 a.m. to hear the Governor's State of Affairs message, and at 3:00 p.m. to receive the Governor's budget message.

Senator Hammond moved and asked unanimous consent that a message be transmitted to the House accepting their invitation. There being no objection, it was so ordered.

Senator Hammond moved and asked unanimous consent that a message be sent to the House asking it to join with the Senate in inviting Congressman Howard W. Pollock to address a joint session of the Legislature February 10, 1969. There being no objection, it was so ordered.

• • •

Senator Blighett requested permission to be excused from a call of the Senate from today until Monday, February 2. There being no objection, it was so ordered.

ENGROSSMENT

108 The Secretary reported that SENATE CONCURRENT RESOLUTION No. 2 (honoring the late E. L. "Bob" Bartlett) had been correctly engrossed, signed by the President and Secretary and transmitted to the House for their consideration.

INTRODUCTION AND REFERENCE OF SENATE RESOLUTIONS

109 SENATE CONCURRENT RESOLUTION NO. 1 by Senator Begich,

expressing concern of the Legislature for sound oil and gas conservation practices in Alaska and directing that a study be made, was read the first time and referred to the Resources Committee. SCR 3

INTRODUCTION AND REFERENCE OF SENATE BILLS

SENATE BILL NO. 80 by Senator B. Phillips, entitled: SB 80

"An Act relating to the state museum."

was read the first time and referred to the State Affairs Committee.

SENATE BILL NO. 81 by the Rules Committee by request of the Governor, entitled: SB 81

"An Act relating to oil and gas leases; and providing for an effective date."

was read the first time and referred to the Resources Committee.

The Governor's transmittal letter covering SENATE BILL NO. 81 is as follows:

"January 29, 1969

The Honorable Jay S. Hammond
Chairman, Senate Rules Committee
Alaska State Legislature
Juneau, Alaska 99801

Dear Mr. Chairman:

Pursuant to State Law and the Uniform Rules of the Legislature, I am transmitting herewith a bill entitled 'An Act relating to oil and gas leases; and providing for an effective date.'

This amendment eliminates the extension of term on the lease for lands on which the State has only tentative approval at the time of leasing. A conditional lease has often been considered by most companies as drillable title and the fact of conditionality is no detriment to development of the leases. Some leases have extended to 15 years. I feel that the State did not contemplate nor intend for a lessee to be entitled to hold a lease beyond a ten year primary term. This bill also reverts to a minimum five year term oil and gas lease, at the discretion of the Department. The shorter term will hasten development and drilling activities in many areas and will open up more opportunities for smaller companies and independents not presently active in Alaska, by causing the land to be released at an earlier date.

Sincerely yours,

HOUSE JOINT RESOLUTION NO. 14 was referred to the Rules Committee for placement on the calendar.

HJR
14

The State Affairs Committee has had HOUSE CONCURRENT RESOLUTION NO. 6 (commending Senator Gruening) under consideration and the committee recommends it do pass. The report was signed by Senator Engstrom, Chairman, and concurred in by Senators Koslosky, Merdes and Butrovich. Not concurring was Senator Blodgett, who had no recommendation.

HC
6

HOUSE CONCURRENT RESOLUTION NO. 6 was referred to the Rules Committee for placement on the calendar.

The Finance Committee has had SENATE BILL NO. 70 (appropriating for Legislative Affairs Agency) under consideration and the committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 70, with the same title, and that the Committee Substitute do pass. The report was signed by Senator V. Phillips, Chairman, and concurred in by Senators Lewis, Bradshaw and Haggland. Not concurring was Senator Miller who had no recommendation.

SB
70

SENATE BILL NO. 70 was referred to the Rules Committee for placement on the calendar.

The Resources Committee has had SENATE BILL NO. 81 (oil and gas leases) under consideration and the committee recommends it do pass with the following amendment:

SB
81

- Page 2, line 4: "and the area north of the crest of the Brooks Range between the Arctic Ocean and the Alaska-Canada border, and all state-owned lands seaward of this area."
- Page 2, line 5: Place period after "12 1/2 per cent." and delete remainder of sentence which ends on line 8 with the words, "less than five per cent."
- Page 3, line 21: after word "leases," insert "in the Cook Inlet Basin"

The report was signed by Senator Palmer, Chairman, and concurred in by Senators Thomas, Butrovich, Koslosky, Hammond and Poland. Not concurring was Senator Christensen, who had no recommendation.

SENATE BILL NO. 81 was referred to the Commerce Committee.

Senator Engstrom moved and asked unanimous consent that the Judiciary Committee report be adopted. There being no objection, the report was adopted thus adopting the amendment offered by the Judiciary Committee (page 303 of the Journal).

There being no further amendments, Senator Hammond moved and asked unanimous consent that SENATE BILL NO. 73, am, be considered engrossed, advanced to third reading and placed on final passage. There being no objection, it was so ordered.

SENATE BILL NO. 73, am, was read the third time.

The question being: "Shall SENATE BILL NO. 73, am, (national forest income) pass the Senate?" The roll was taken with the following result:

Yeas:	18	Begich, Blodgett, Butrovich, Christiansen, Engstrom, Haggland, Hammond, Josephson, Koslosky, Merdes, Miller, Palmer, V. Phillips, Poland, Rader, Thomas, Ziegler and B. Phillips.
Nays:	1	Bradshaw.
Absent:	1	Lewis.

And so, SENATE BILL NO. 73, am, passed the Senate.

SENATE BILL NO. 73, am, was referred to the Secretary for engrossment.

SENATE BILL NO. 81 (oil and gas leases) was read the second time.

Senator Haggland moved and asked unanimous consent that the Commerce Committee report be adopted, thus adopting COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81. Senator Miller objected. Senator Miller withdrew his objection. There being no further objection, the Commerce Committee report was adopted, thus adopting COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81.

There being no amendments, Senator Hammond moved and asked unanimous consent that COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 was read the third time.

The question being: "Shall COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 (oil and gas leases) pass the Senate?" The roll was taken with the following result:

Yeas:	19	Begich, Blodgett, Bradshaw, Butrovich, Christiansen, Engstrom, Haggland, Hammond, Josephson, Koslosky, Merdes, Miller, Palmer, V. Phillips, Poland, Rader, Thomas, Ziegler and B. Phillips.
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Ayes: 0

CS

Absent: 1

Lewis.

SB

81

And so, COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 passed the Senate.

Senator Hammond moved and asked unanimous consent that the roll call on the passage of COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 be considered the roll call on the effective date clause. Without objection, it was so ordered.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 was referred to the Secretary for engrossment.

SENATE BILL NO. 208 (search warrants) was read the second time.

SB

208

There being no amendments, Senator Hammond moved and asked unanimous consent that SENATE BILL NO. 208 be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

SENATE BILL NO. 208 was read the third time.

The question being: "Shall SENATE BILL NO. 208 (search warrants) pass the Senate?" The roll was taken with the following result:

Yeas: 19

Bejlich, Blodgett, Bradshaw, Butrovich, Christiansen, Engstrom, Haggland, Hammond, Josephson, Koslosky, Merdes, Miller, Palmer, V. Phillips, Poland, Rader, Thomas, Ziegler and B. Phillips.

Ayes: 0

Absent: 1

Lewis.

And so, SENATE BILL NO. 208 passed the Senate.

SENATE BILL NO. 208 was referred to the Secretary for engrossment.

SENATE BILL NO. 218 (single judicial ballot in each judicial district) was read the second time.

SB

218

There being no amendments, Senator Hammond moved and asked unanimous consent that SENATE BILL NO. 218 be considered engrossed, advanced to third reading and placed on final passage. Without objection, it was so ordered.

SENATE BILL NO. 218 was read the third time.

The question being: "Shall SENATE BILL NO. 218 (single judicial ballot in each judicial district) pass the Senate?" The roll was taken with the following result:

SR 275 A message dated April 19, 1969, was read, stating the House has passed SENATE BILL NO. 275, SENATE JOINT RESOLUTION NO. 36 and SENATE CONCURRENT RESOLUTION NO. 38 and returning same.

SJR 36 SENATE BILL NO. 275, SENATE JOINT RESOLUTION NO. 36 and SENATE CONCURRENT RESOLUTION NO. 38 were referred to the Secretary for enrollment.

CSRB 81 A message dated April 19, 1969, was read, stating the House has passed COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 (relating to oil and gas leases) with the following amendment and returning same.

Page 3, Lines 1 through 4: Restore deleted material on lines 1 through 4 ending with AND.

Page 3, Line 4: Insert the following material after AND: "patent has not been issued thereon, a conditional lease may be issued. However, no term extension may be granted for the period during which the lease was conditional."

Senator Palmer moved that the Senate concur in the House amendment to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81. Senator Ingstrom objected.

Senator Petrovich moved and asked unanimous consent that the House message relating to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81 be held one legislative day for action by the Senate. There being no objection, it was so ordered and the Secretary was instructed to reproduce the amendments for distribution to all Senators.

CSRB 136 A message dated April 19, 1969, stating the House had passed COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 136 (Rules) (Rules) (Interest allowed on judgments) with the following amendment and returning same, was read:

HOUSE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 136.

Senator Hammond moved and asked unanimous consent that the Senate concur in the House amendment to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 136 (Rules). Senator V. Phillips objected, and then withdrew his objection. Senator Ingstrom objected.

The question being: "Shall the Senate concur in the House amendment to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 136 (Rules)?" On voice vote, the Senate concurred, and the Secretary was instructed to so inform the House.

HCR 136 HOUSE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 136 was referred to the Secretary for enrollment.

A message dated April 19, 1969, was read, stating the House has passed COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 14, amended, (electrical safety) with the following amendment and returning same:

HOUSE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 14

Senator Thomas moved that the Senate concur in the House amendment.

The question being: "Shall the Senate concur in the House amendment to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 14, am?" On voice vote, the Senate failed to concur in the House amendments.

The Secretary was instructed to so inform the House and request that the House recede from its amendment.

A message dated April 19, 1969, was read, stating the House has passed COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 174 (state manpower training program) with the following amendment, and returning same:

Page 2, line 9: Change one to three

Page 2, line 10: Change one to three

Page 2, line 11: Add s to number (twice in line)

Page 2, line 12: Change one to three

Senator Hammond moved that the Senate concur in the House amendments to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 174.

The question being: "Shall the Senate concur in the House amendments to COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 174?" On voice vote, the Senate concurred, and the Secretary was instructed to so notify the House.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 174, as amended, was referred to the Secretary for enrollment.

A message dated April 19, 1969, was read, stating the House has passed the following resolutions, and they are herewith transmitted for consideration:

HOUSE CONCURRENT RESOLUTION NO. 54

HOUSE JOINT RESOLUTION NO. 53

HOUSE CONCURRENT RESOLUTION NO. 56 amended

FIRST READING AND REFERENCE OF HOUSE RESOLUTIONS

HOUSE CONCURRENT RESOLUTION NO. 52 by Messrs. Kerttula and Paukan, directing the Legislative Council to conduct a study on the reindeer industry, was read the first time and referred to the Resources Committee.

CSRB
14

CSRB
174

CSRB
174
as H

HCR
52

SENATE JOURNAL

ALASKA STATE LEGISLATURE
SIXTH LEGISLATURE - FIRST SESSION

Juneau, Alaska

April 22, 1969

Eighty-Sixth Day

Pursuant to adjournment the was called to order
by President Phillips at 2:

Roll call showed all members present.

The prayer, offered by the Chaplain, the Reverend Ralph
Wegener, follows:

"Our heavenly Father, the Author of all freedom,
we in this hour do thank Thee for the Great
Land in which we live and for all its basic free-
doms. May this freedom mean for us that we are
a responsible people, each having special interests,
and yet living in the hope that a better tomorrow
is actually possible. May it mean that varying
opinions may grow and live side by side and also
flow freely.

We ask Thy divine blessings on this Senate.
Cause the members of this body to deliberate,
to debate, and to decide as individualistic,
self-reliant, property-owning citizens . . .
who are enlightened and aroused as they live in
this atmosphere of freedom to seek to solve our
common problems and to provide for our common
good.

We ask this, humbly grateful for Thy many blessings
we do even now enjoy, in the blessed Savior's
precious name. Amen."

The Secretary certified as to the correctness of the
Journal for the eighty-fifth legislative day in
accordance with the rules. Senator Hammond moved and
asked unanimous consent that the Journal be approved
as submitted. Without objection, it was so ordered.

MESSAGES FROM THE HOUSE

The message dated April 19, 1969 relating to COMMITTEE
SUBSTITUTE FOR SENATE BILL NO. 81 (page 76 of the
Journal) was read again with the House amendments.
This message had been held one legislative day for
study.

CSSD
81

Senator Falser moved and asked unanimous consent that
the Senate concur in the House amendments to COMMITTEE

CSCH SUBSTITUTE FOR SENATE BILL NO. 81 (relating to oil
81 and gas leases). There being no objection, it was
am H so ordered; and the Secretary was instructed to so
inform the House.

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 81, am H,
was referred to the Secretary for enrollment.

SJR A message dated April 21, 1969, was read, stating the
45 House has passed SENATE JOINT RESOLUTION NO. 45
and SENATE BILL NO. 235 and returning same.

SD
235 SENATE JOINT RESOLUTION NO. 45 and SENATE BILL NO.
235 were referred to the Secretary for enrollment.

A message, dated April 21, 1969, was read, transmitting
the enrolled copies of the following resolutions
for the signatures of the President and Secretary:

HOUSE JOINT RESOLUTION NO. 5

HOUSE JOINT RESOLUTION NO. 6

HOUSE JOINT RESOLUTION NO. 54 am

HOUSE JOINT RESOLUTION NO. 44

HOUSE JOINT RESOLUTION NO. 45

HOUSE JOINT RESOLUTION NO. 3.

The enrolled copies of the above resolutions were
signed by the President and Secretary and returned
to the House.

CSNB A message dated April 21, 1969, was read, stating
23 the House has passed COMMITTEE SUBSTITUTE FOR
(Jud.) SENATE BILL NO. 23 (Judiciary), amended, with the
am following amendment, and returning same:

HOUSE COMMITTEE SUBSTITUTE FOR COMMITTEE SUBSTITUTE
FOR SENATE BILL NO. 23 as amended by the House:
the amendments follow:

Page 1, line 11: Insert after "operates",
the words: "or drives".

Page 1, lines 16, 19 and 20: Insert
"operating or" before the
word "driving". Delete
"or in actual physical
control of".

Senator Thomas moved that the Senate concur in the
House amendments to COMMITTEE SUBSTITUTE FOR SENATE
BILL NO. 23 (Judiciary). On voice vote, the Senate
did not concur in the House amendments. The
Secretary was instructed to so inform the House
and ask it to recede from its amendment.

A message dated April 21, 1969, was read, stating
the House has passed HOUSE JOINT RESOLUTION NO. 57,
am, and transmitting same.

FIRST READING AND REFERENCE OF HOUSE RESOLUTIONS

HOUSE JOINT RESOLUTION NO. 57, am, by Messrs. Metcalf
and Rettig requesting the construction of two additional
sea-train slip facilities at the Port of Seward, was
read the first time and referred to the State Affairs
Committee.

HJR
57
am

COMMUNICATIONS

"April 19, 1969

The Honorable Brad Phillips
President of the Senate
Alaska State Senate
Juneau, Alaska

Dear Brad:

I wish to express my appreciation and thanks to
you and all my friends in the Senate. I have
spent many happy birthdays, but the Senate
birthday party on Tuesday topped them all.

Again, many thanks to you, the other senators
and the Senate staff members who made the
celebration possible.

Sincerely,

s/ Mark Jacobs, Sr.
Mark Jacobs, Sr.

Senator Hammond moved and asked unanimous consent
that the Secretary send a message to the House
requesting the members to meet in joint session with
the Senate members at 3:00 p.m. Thursday, April 24,
1969, to consider the confirmation of recent appointments
by the Governor. There being no objection, it was so
ordered; the Secretary was instructed to transmit the
message.

REPORTS OF STANDING COMMITTEES

ENCLOSURE 24

COOK INLET DISCOVERY ROYALTY APPLICATIONS

Name of Well	Lessee (present name)	ADL Number	Date of Discovery	First Affidavit or claim of discovery	Date of written decision granting discovery royalty	Effective date of the 10-year discovery royalty	Commencement of commercial production	Date 12 1/2% royalty replaced 5% discovery royalty rate	Period royalty actually reduced
Falls Creek Unit No. 1	Chevron ARCO	00590	4/10/61	12/3/63	2/18/64	5/1/61	None	No royalty ever paid	Never used
Middle Ground Shoal No. 1	AMOCO Getty Phillips	17595	6/10/62	11/12/62	1/15/63	6/10/62	5/66	6/10/72	6 years 1 month
Cook Inlet State No. 1	Phillips	17589	8/21/62	11/12/62	11/24/64	9/1/62	3/69	9/72	3 years 6 months
Beluga River Unit No. 1	Chevron ARCO Shell	17599	12/1/62	9/17/63	12/19/62	1/1/63	3/68	1/73	4 years 10 months
Granite Point No. 1	Mobil Union	18761	5/16/65	5/21/65	9/14/65	6/1/65	5/67	6/75	8 years 1 month
Trading Bay No. 1-A	Union Marathon	18731	5/23/65	6/18/65	8/27/65	6/1/65	1/67	6/75	8 years 5 months
Orrising No. 1-A	Union Marathon	17594	9/29/65	10/28/65	1/19/66	10/1/65	10/67	10/75	8 years 1 month
Nicholas Creek State No. 1	Texaco Superior	17598	4/28/66	5/23/66	8/19/66	5/1/66	10/68	No production after 1972	About 4 years

APPLICATIONS DENIED

Name of Well	ADL Number
Trading Bay No. 1 and No. 2	17597
Shoal Middle Ground Shoal	18754
W. Forland Unit No. 3	18777
Redoubt Shoal No. 2	29690
Trading Bay State No. 1	35431

ENCLOSURE 25

**NORTH SLOPE
DISCOVERY ROYALTY APPLICATIONS**

<u>Lease ADL</u>	<u>Well Name</u>	<u>Field Name</u>	<u>Applicant</u>	<u>Date of Application</u>	<u>Status of Application</u>
28303	Prudhoe Bay State #1	Prudhoe Bay	ARCO	3/12/68	Granted
25633	Ugnu #1	Kuparuk	ARCO-BP	4/7/69	Granted
34633	Sag Delta #4	Endicott	BP	2/14/78	Granted
34635	Niakuk #5	Niakuk	BP	4/7/85	Granted
28297	Pt. McIntyre #3	Pt. McIntyre	ARCO	5/12/89	Granted
25906	Milne Point G-1	Milne Point	Conoco	12/7/89	Denied

Note:

Between 1968 and 1977 nine additional notice of discovery applications were filed, but the applicants never completed the full application procedure. Those nine applications are now expired.

ENCLOSURE 26



Tom Painter
Division Manager

Conoco Inc.
3201 C Street
Suite 200
Anchorage, AK 99503

September 7, 1989

Mr. James Eason
Director, Division of Oil and Gas
Department of Natural Resources
P. O. Box 7034
Anchorage, AK 99510-7034

RECEIVED
SEP 08 1989
DIV. OF OIL & GAS
DIRECTOR'S OFFICE

Dear Mr. Eason:

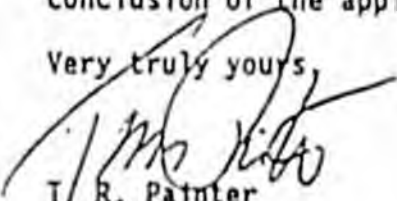
Pursuant to paragraph 12 of lease ADL 25906 and 11 AAC 83.210(a), Conoco Inc. is submitting the attached Statement of First Discovery of Oil and Gas in Commercial Quantities in a Geologic Structure precedent to filing an application for discovery royalty for ADL 25906.

As indicated in the attached Statement and Exhibits, oil and gas has been encountered in sufficient showing in well no. G-1 to cause Conoco, a reasonable and prudent operator, to conduct further operations to complete said well in the discovery zone so that the well can be tested for potential oil or gas production in commercial quantities.

As required in 11 AAC 83.210(b), Conoco will undertake production tests in well no G-1 to establish that oil and gas has been discovered in commercial quantities. This testing will take place in the latter half of September, 1989, and we will furnish you sufficient notice and transportation (if requested) for a representative of your department to witness the testing. The geologic data required in 11 AAC 83.210(c) will be furnished in a timely manner.

If you need additional information concerning this Statement, please contact Al Hastings at 564-7650. Conoco respectfully requests that the information contained in the Statement and attached Exhibits remain confidential until the conclusion of the application and certification process.

Very truly yours,


T. R. Painter
Division Manager

AEH(jr)
File 500.58.08

Enclosure 26

ENCLOSURE 27

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



RS 678

Central Microfilm Services
Department of Education
State of Alaska



Tom Painter
Division Manager

Conoco Inc.
3201 C Street
Suite 200
Anchorage, AK 99503

September 7, 1989

Mr. James Eason
Director, Division of Oil and Gas
Department of Natural Resources
P. O. Box 7034
Anchorage, AK 99510-7034

RECEIVED

SEP 08 1989

DIV. OF OIL & GAS
DIRECTOR'S OFFICE

Dear Mr. Eason:

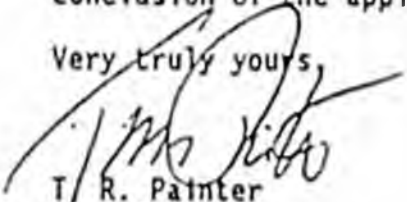
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As required in 11 AAC 83.210(b), Conoco will undertake production tests in well no G-1 to establish that oil and gas has been discovered in commercial quantities. This testing will take place in the latter half of September, 1989, and we will furnish you sufficient notice and transportation (if requested) for a representative of your department to witness the testing. The geologic data required in 11 AAC 83.210(c) will be furnished in a timely manner.

If you need additional information concerning this Statement, please contact Al Hastings at 564-7650. Conoco respectfully requests that the information contained in the Statement and attached Exhibits remain confidential until the conclusion of the application and certification process.

Very truly yours,


T. R. Painter
Division Manager

AEH(jr)
File 500.58.08

Enclosure 26



Conoco Inc.
Suite 200
3201 C Street
Anchorage, AK 99503
(907) 584-7600

December 7, 1989

RECEIVED

DEC 11 1989

DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

Mr. James Eason
Director, Division of Oil and Gas
Department of Natural Resources
P. O. Box 7034
Anchorage, Alaska 99510-7034

Dear Mr. Eason:

Pursuant to 11 AAC 83.215, Conoco Inc., as Operator of the Milne Point Unit and the sole Working Interest Owner of ADL 25906, requests discovery well certification for Well No. G-1. Conoco is in compliance with the filing provisions of 11 AAC 83.210.

It is my understanding that the Division of Oil and Gas will publish the appropriate notice of this application for discovery royalty. If you need additional information concerning this discovery royalty application, please contact me at 564-7601.

Attached to this application is a brief discussion of the Pre-Drilling Expectation and the Post-Drilling Verification for Well No. G-1. This discussion summarizes the other criteria that have been used in the more recent discovery royalty decisions.

Very truly yours,


David L. Bowler
Division Manager

AEH(jr)
Attachment
File 500.58.08

ENCLOSURE 27

DEPARTMENT OF NATURAL RESOURCES

PO BOX 7034
ANCHORAGE, ALASKA 99510-7034
PHONE: (907) 762-2553

DIVISION OF OIL AND GAS

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

April 4, 1991

DECISION

Conoco, Inc.	:	Oil and Gas Lease
Suite 200	:	ADL 28297
3201 C Street	:	Milne Point Unit
Anchorage, Alaska 99503	:	

MILNE POINT UNIT G-1 WELL DENIED CERTIFICATION
AS A DISCOVERY WELL

The Division of Oil and Gas (division) hereby denies certification of the Milne Point Unit G-1 well (G-1) as a discovery well. As discussed in greater detail below, this denial is based on the determination that overwhelming evidence, including that submitted by Conoco, Inc. (Conoco), clearly establishes that the G-1 well fails the essential "first discovery" requirement. The Shallow Oil Sands (SOS) and the larger structure of which it is a part was clearly discovered by previous exploration, and was publicly known.

Previous discovery is evidenced by: (1) several hundred earlier exploratory, Kuparuk River Unit and Milne Point Unit well penetrations which yield substantial electric log and/or core data to recognize the accumulation, and (2) previous successful flow tests of the accumulation from at least five other wells in the Milne Point Unit, and a pilot project within the Kuparuk River Unit. The division's evaluation is supported by the geological, geophysical, and engineering information submitted by Conoco, as well as by in-house data.

THE HISTORICAL BACKGROUND

The legal basis for the discovery royalty

The statute that authorized the granting of a reduced royalty rate for a discovery of a separate geologic structure was the former AS 38.05.180(a), which stated in part:

the holder of a lease who drills and makes the first discovery of oil or gas in commercial quantities in a geologic structure shall pay a royalty on all production under the lease of five percent for ten years following the date of discovery and thereafter the royalty rate of twelve and one half percent.

Although this provision was subsequently repealed, it was in effect when ADL 25906 was issued. Paragraph 12 of the lease describes the discovery royalty provision as follows:

If Lessee shall drill on said land and make the first discovery of oil or gas in commercial quantities in any geological structure, the royalty rate under this lease shall, instead of the rates prescribed in Paragraph 11, be five percent for a period of ten years following the date of such discovery, and thereafter the royalty rates shall be those prescribed in Paragraph 11. If this lease is committed to a unit agreement approved or prescribed by Lessor as provided in the regulations, the five percent royalty rate shall not apply to all, but only, the production allocated to this lease under such agreement.

Regulations implementing the discovery royalty statute were initially adopted in August 1963 and were published at 11 AAC 505.74 - 11 AAC 505.748. They were subsequently amended and renumbered as 11 AAC 83.200 - 11 AAC 83.230. In January 1980, these regulations were repealed. In adjudicating the Conoco request for discovery royalty, the department has used the repealed regulations as a reference only, and does not consider them to be controlling.

Lease History

Humble Oil and Refining Company and Richfield Oil Corporation, in a 50-50 partnership, purchased Oil and Gas Lease ADL 25906 on December 9, 1964 at Competitive Oil and Gas Lease Sale 13.

The lease was issued as a conditional lease effective March 1, 1965, with a ten-year primary term and a fixed royalty rate of twelve and one half percent. Humble later became Exxon Corporation (Exxon), and Richfield became ARCO Alaska Inc. (ARCO). ADL 25906 was added to the Milne Point Unit during the second expansion of the Unit, effective June 1, 1983. Conoco acquired Exxon's interest in the lease on July 28, 1987 and ARCO's interest on November 2, 1988. Conoco currently retains 100 percent working interest and ownership in ADL 25906.

Drilling History

Four wells have been drilled on ADL 25906. The first well drilled on the lease was the Milne Point Unit G-1, which was spudded on August 10, 1989 and completed on August 22, 1989. The well was drilled to a measured depth of 4745 feet. The operator logged, cored, and tested the Shallow Oil Sands (SOS), which were, as anticipated, productive. Subsequently, three additional development wells have been drilled on G pad and four well each on H, I, and J pads.

Discovery Royalty Application History

Conoco submitted a Statement of First Discovery on September 7, 1989. The statement claimed to have discovered oil in "Upper Cretaceous Formation sandstones" in the Milne Point Unit G-1 well, located on ADL 25906, on August 15, 1989. On December 7, 1989 Conoco tendered an application for discovery well certification for the G-1 well based upon well tests conducted on October 31, 1989. In the discussion attached to and made part of the application, Conoco characterized the claimed discovery in terms of the "Shallow Oil Sands." On December 14, 1989 Conoco submitted "geologic data to establish the geologic structure from which the G-1 well produced oil in commercial quantities." That document also directed itself to the Shallow Oil Sands, and expressly equated intervals within the sands with what ARCO Alaska, Inc. calls the "West Sak" and the "upper Ugnu."

Division staff met with Conoco representatives on January 24 and February 6, 1990 to discuss the application. On November 1990, Conoco submitted additional geological and geophysical data in support of its claim. On December 10, 1990, after division technical staff determined that the application was complete, the division published notice and separately mailed notice of the discovery royalty application to known potentially interested parties.

The division received no responses during the thirty day comment period. Therefore, the application stands unopposed

by any third party. No one has requested a public hearing, and the division has not requested a hearing in light of the vast amount of available data and the fact that the applicant has had a full opportunity to make both formal and informal presentations of its technical and legal positions.

DISCUSSION

The G-1 well did not make a first discovery.

The fatal deficiency of the application, demonstrated unequivocally by materials submitted by Conoco itself, is the absence of any "first discovery." The location and distribution of the SOS have been known for almost two decades. Published maps of the geologic structure and the oil accumulation for the SOS existed prior to the drilling of the Milne Point G-1 well. The application itself makes clear that the operator of the G-1 well had a pre-drilling expectation that the well would in fact penetrate a productive pool within the same geologic structure and interval as had been penetrated by hundreds of other wells within the Milne Point and Kuparuk River Units. In light of the amount of available information prior to drilling, it is clear that the G-1 well can best be described as Conoco's first planned production well within the SOS. Below are listed a few of the facts demonstrating that the structure containing the SOS was discovered long before the G-1 well.

O The East Ugnu No. 1 Well

In 1969, twenty years before the G-1 well was drilled, the East Ugnu No. 1 well discovered¹ two structures containing hydrocarbons: the deeper Kuparuk Formation (which forms the basis of production from both the Kuparuk River Unit and the initial participating area of the Milne Point Unit), and a shallower structure (which contains the intervals Conoco refers to as the SOS). The shallower structure was tested and flowed heavy oil at a rate of 20 barrels per day.

The East Ugnu No. 1 well is located four and three-fourths miles to the southwest of the G-1 well. The geologic isopach and structure maps, cross sections and interpreted seismic data supplied by Conoco show that the SOS, present in both the

¹ Based upon this discovery by the East Ugnu No. 1 Well, the owners of ADL 25633 were granted discovery royalty rights for any production of oil and gas and associated hydrocarbons attributed to that lease from any zone of production, including the shallow sands, during the first ten years after the date of discovery, i.e., for the period from May 1, 1969 through April 30, 1979.

G-1 and East Ugnu wells, are contained within the same geologic structure. Furthermore, the sands present within the Shallow Sands Interval in both the G-1 and East Ugnu No. 1 well are part of the same reservoir. These sands are part of a large Late Cretaceous and Paleogene deltaic system, and are interpreted as being deposited in shelf, delta front, delta plain and fluvial environments.

Reservoirs found in these environments typically contain multiple stacked and partially isolated sands. The individual sand bodies which make up the SOS clearly demonstrate this reservoir heterogeneity. However, geological, geophysical, and engineering data indicate that, disregarding localized reservoir discontinuities and small faults, the SOS reservoir is continuous between East Ugnu No. 1 and Milne Point G-1.

○ Conoco's discovery royalty certification application

On December 7, 1989, Conoco filed its application for discovery royalty certification. Attached to and made part of that application was a discussion of pre-drilling expectations for the G-1 well. That documents admits

The risk of geologic nonsuccess for the shallow sands at Milne Point is small. Sufficient regional data in existence before the drilling of Well No. G-1 minimized the risk of not finding the geologic structure.

The next paragraph of the document generally discusses the SOS in the Milne Point Unit and the West Sak in the Kuparuk River Unit as the same structure, and estimates that in excess of \$150 million had been expended in drilling, testing and pilot project work. The document bluntly characterizes the difficulty with establishing sustained production from the SOS prior to the G-1 well as a "completion and production problem, and not a question of finding sufficient in-place hydrocarbons."

The attachment to the application goes on to state that pre-drilling expectations were confirmed:

The post drilling confirmed that the basic geologic structural definition before drilling commenced was correct. Minor changes in sand thickness and fluid content slightly altered oil in place values.

This proves beyond any doubt that Conoco did not discover the structure. It knew to a high degree of confidence and specificity what it would encounter.

O The application for a participating area for production from the SOS

On November 16, 1989, Conoco applied to the Division of Oil and Gas for establishment of a participating area within the Milne Point Unit for purposes of production of hydrocarbons from the SOS. That application states that "The Shallow Oil Sands have been tested by six wells within the Milne Point Unit." The G-1 well was drilled in 1989. Of the other five, one, the A-1 well, was drilled in 1980, and the four others were drilled in 1982.

Nothing suggests that the SOS tested in the Milne Point G-1 well contains oil or reservoir rock of significantly better quality or quantity than revealed in the five previously tested wells within the Milne Point Unit. Thus, even without any consideration of the many wells drilled into and testing the SOS in the Kuparuk River Unit, Conoco's own submissions reveal the fact that five prior wells within the Milne Point Unit drilled into and tested the SOS many years prior to Conoco's claimed "first discovery."

O Geologic analysis submitted on December 14, 1989 and in November 1990.

That the SOS was discovered well before the G-1 well is further proven by Conoco's geologic interpretations submitted on December 14, 1989 and in November 1990. The December 14, 1989 document, entitled "Geologic Evidence in Support of the Discovery Royalty for the Shallow Oil Sands" states:

The Shallow Oil Sands (SOS) of Milne Point comprise 17 individual beds that are readily traced between 78 wells in and around the Milne Point Unit. The type log for the SOS at Milne Point is Conoco's A-1 well. ... Although these sands were originally found in 1969 by the SOCAL Kavearak 12-25 well, the nearby A-1 well was chosen as the type well because of its modern (1981) [sic] well log suite.

Emphasis added. This statement admits that the SOS was originally discovered in 1969, and that 78 wells predating the G-1 had explored it to the extent that it could be "readily traced." Indeed, Figure 3 to the document, entitled "SOS Regional Structure," includes a large area of the Kuparuk River Unit within its mapping of the SOS, and traces between four wells within the Milne Point Unit and five wells within the Kuparuk River Unit.

This quotation is also significant because of its use of the A-1 well as the type well. Although well logs from 1989 G-1 well (the claimed discovery well) were available, Conoco chose well logs from the nearby 1982 A-1 well for purposes of discussion of the geology.

The December 14, 1989 submission also correlates the nomenclature used by Conoco in describing the SOS with the nomenclature used by ARCO in describing the West Sak and the upper Ugnu in the Kuparuk River Unit. See second paragraph of the first page, and Figure 2.

The November 1990 submission also correctly encompasses the entire SOS, including West Sak, in its discussion of the geologic structure for which the discovery is claimed. While both the December 14, 1989 and the November 1990 submissions lend support to the conclusion that the SOS is separate from the Kuparuk Formation and the Prudhoe Bay field, they do not support the conclusion that the SOS in the Milne Point Unit are part of a geologic structure that is separate from the previously drilled and tested West Sak or the other SOS intervals previously drilled and tested within the Milne Point Unit.

O Information submitted in support of royalty reduction

In support of its efforts to obtain a royalty reduction for production from the Milne Point Unit (separate from this discovery royalty application), Conoco previously submitted to the Division a copy of a Conoco document entitled "Initial Development Plan for the Shallow Oil Sands in the Milne Point Unit." This document, prepared in 1985 (four years before the G-1 well was drilled), described the "wealth of information" that had been compiled and analyzed about the SOS. Page IV-1. While the document concluded that there was a need for further delineation, it nonetheless described the geology, made estimates of oil in place, and described production methods and scenarios. See, e.g., pages II-1 and II-2.

Tellingly, four years before the G-1 well made what Conoco claims is the "first discovery" of the Shallow Oil Sands, Conoco had developed a "Shallow Oil Sands Development Philosophy":

The shallow oil sands have always been targeted for development after the Kuparuk zone was fully developed and excess facility capacity became available.

Conoco misapprehends the "commerciality" issue.

In the "Pre-drilling Expectation and Post-drilling Verification" discussion submitted with the December 7, 1989 application for discovery royalty certification, Conoco appears to suggest that risks relating to "completion and producing techniques, and crude price and perceived price stability" are somehow pertinent to the issue of whether Conoco's G-1 well made the "first discovery of oil or gas in commercial quantities in a geologic structure." I disagree for the following reasons.

First, the statute and lease term speak in terms of commercial quantities. The basic information about the quantity and quality of hydrocarbons was known before the G-1 well was drilled. As noted above, the well only resulted in "minor" or "slight" adjustments to Conoco's pre-drilling estimates. In short, there is nothing about the drilling of the asserted discovery well that could be characterized as a discovery of a heretofore unknown quantity of oil.

Second, Conoco argues that no well has been certified as capable of producing in "paying quantities" prior to the G-1 well. This argument is irrelevant. There is no evidence that any other party has ever sought a "paying quantities" determination for a well targeted for the SOS. Moreover, the "paying quantities" determination is made only for particular purposes, unrelated to the discovery royalty issue. See, e.g., Pan American Petroleum Corp. v. Shell Oil Co., 455 P.2d 12, 23-24 (Alaska 1969).

Third, the risks Conoco faces in putting the SOS into production are production related, not discovery-related risks. Conoco stresses the "costs of continued experimentation with completions, the risks concerning oil prices and transportation costs." While these are genuine risks, they are not discovery risks, were not unique to this well, and the G-1 well did not resolve those risks.² These

² Conoco explicitly states that the "[p]roduction history also verified that the completion technique utilized in G-1 will not provide the long term completion needed for full scale development. Additional experimentation with completions will be required before economic development is a reality." Thus the G-1 well, besides not being the discovery well for the SOS, did not resolve all production-related impediments either. It is just as clear that there is no nexus between the G-1 well and the resolution of other risks. Nothing about the drilling of the well could possibly affect future taxes, oil prices, and the like.

kinds of risks are common to all development projects. The discovery royalty was designed as a reward for undertaking discovery risks, not development risks. Conoco's 1985 "Initial Development Plan for the Shallow Oil Sands in the Milne Point Unit" and attachment to its December 7, 1989 discovery royalty application demonstrate that the development decision was a matter of timing (in relationship to the production from the Kuparuk Formation), oil prices, transportation prices, taxes, completion and production techniques and other such issues. In other words, actual development was determined by factors unrelated to any discovery efforts made by means of the G-1 well.

The statute was changed to explicitly focus on discovery rather than commercial production.

The Territorial Legislature enacted royalty provisions in 1955 that provided for issuance of oil and gas leases

with a royalty fixed by the Commissioner, with the approval of the Attorney General and the Commissioner of Mines, at not less than five percentum (5%) the first ten years of new production, and twelve and one-half percentum (12½) each year thereafter

Sec.3, ch.189 SLA 1955. Emphasis added.

In 1957, the incentive was limited to the first producer in a new area. The statute provided, as a general rule, for a floor of 12 1/2%, with the following proviso:

provided that a royalty of not less than five percentum (5%) for the first ten years will be allowed the first producer in a new area.

Art. IX, sec. 2, Ch 184 SLA 1957.

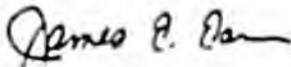
In 1959, the legislature rejected the earlier incentives triggered by commencement of production, and restricted the five percent royalty to the lease upon which a "first discovery of oil and gas in commercial quantities in a separate geologic structure" is made. Section 7, ch. 169 SLA 1959. This leaves no room to award a discovery royalty in this case. The risks and costs of commencing production (whether "new production" generally or as the "first producer in a new area") were rejected by the legislature as a basis for a reduced royalty. The legislature replaced an incentive

tied to commencement of production with an incentive tied to "first discovery." The division has no authority to attempt to circumvent that clear intent.

CONCLUSION

The intent of the repealed statute was clearly to provide an incentive to discover and place on production new fields in previously untested structures. The statute foremost required the holder of the lease to "drill and make the first discovery" in a geologic structure (AS 38.05.180 repealed). Conoco exposed the fact that the G-1 well is not a discovery well in the attachment to its December 7, 1989 application by stating "The risk of geologic nonsuccess for the shallow oil sands at Milne Point is small."

Accordingly, the Milne Point G-1 well clearly does not meet the criteria for a discovery well. This well penetrated the Shallow Oil Sands in a geologic structure that had been discovered and determined to be productive over 20 years ago. Since 1969, the SOS has been penetrated and been found to be a hydrocarbon reservoir by hundreds of wells in the same geologic structure. Therefore, it is clear that the Milne Point G-1 fails to meet either the requirements or the intent of the repealed discovery royalty statute.



James E. Eason
Director

WALTER J. HICKEL, GOVERNOR

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

PO BOX 107005
ANCHORAGE, ALASKA 99510-7005
PHONE: (907) 782-2483

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

January 16, 1992

DECISION

Conoco, Inc.
Suite 200
3201 C Street
Anchorage, Alaska 99503

:
:
:
:

Oil and Gas Lease
ADL 25906
Milne Point Unit

**DECISION AFFIRMING DIRECTOR'S DENIAL OF DISCOVERY
CERTIFICATION BASED ON MILNE POINT UNIT G-1 WELL**

I have carefully reviewed the decision ("Decision") of the Director of the Division of Oil and Gas denying a "discovery royalty" to Conoco, Inc. ("Conoco"). The Decision concludes that Conoco's G-1 well in the Milne Point Unit did not qualify the lease for an award of the reduced "discovery royalty" rate because the well did not make a "first discovery of oil or gas in commercial quantities in any geologic structure." In essence, the Decision concludes that both the existence of the geologic structure (referred to variously as the "Schrader Bluff Formation" the "West Sak," and the "Shallow Oil Sands" ("SOS")) and the quantities of oil accumulated in the structure were known prior to the drilling of the well. The Decision determined that it was most accurate to describe the G-1 Well as "Conoco's first planned production well within the SOS" (Decision at 4, emphasis added), not as a "discovery well."

I have also carefully reviewed Conoco's appellate brief. Conoco does not deny that the structure had previously been discovered through the drilling of other wells, and that prior exploration had yielded confirmation that the structure contained a large accumulation of oil. Brief of Appellant ("Br.") at 1-2, and 3 at n.1. See also Affidavit of Alan Hastings, paragraph 10 ("Hastings Aff."), where it admitted that in 1985, four years before the G-1 Well was drilled, a study by the Milne Point Unit had estimated that there were "over 366 million barrels of oil in place" on the lease at issue alone. In light of this admission that the G-1 Well broke no new exploration ground, it is not surprising that Conoco tries to diminish the significance and common sense meaning of the "discovery" requirement. Thus, Conoco argues that the key requirement is not a discovery at all, but rather the mere drilling of the first well that establishes "commercial quantities." The term "commercial quantities" is, in turn, equated with actual

Decision Affirming Director's Denial of Discovery
Certification Based on Milne Point Unit G-1 Well
January 16, 1992

"commerciality" (Br. at 4, 1.1) and "capability of commercial production" (Br. at 2, 11.14-15, emphasis added).

My review of the record of this appeal, and a common sense application of former AS 38.05.180(a) and the lease to the facts, compel me to affirm the Decision of the Director.

The former statute and regulations intended to encourage the discovery of new oil bearing structures and once a new discovery is made, to encourage rapid development of and production from the structure.

The plain language of AS 38.05.180(a) shows that the legislature intended to encourage drilling to discovery previously unknown oil bearing structures and once a discovery is made, to encourage rapid development of and production from the structure. "Discover" means to "be the first to find, learn of, or observe." Am. Her. Dictionary 376 (1970). In this instance, it means to find an oil bearing structure, not previously known. This requirement is emphasized by the term "first discovery." Importantly, the statute ties the finding with "drill(ing)". Thus, the statute obviously seeks to encourage exploratory drilling. The statute also plainly encourages rapid production by limiting the reduced rate to a ten year period following the date of discovery.

The Alaska Supreme Court has stated that the former regulations implementing the statute specified the three elements required by the statute for discovery well certification: date of discovery, commercial quantities, and geologic structure. See Union Oil Co. v. State, 574 P.2d 1266, 1269 (Alaska 1978). The regulations suggest that these elements are separate and distinct, and can be established at different times. When read as a whole these regulations foster the dual purposes of the statute--to encourage exploratory drilling and rapid production.

The regulations define the date of discovery element as the date that an operator first finds oil or, in the exact of language of the regulations, "first encounters sufficient evidence of oil or gas in a particular geologic structure". 11 AAC 83.200. This event starts the running of the ten year reduced rate period. 11 AAC 83.215. At this point, the operator is not required to show that the evidence is sufficient to prove production in commercial quantities, only that the evidence is enough to cause the reasonable operator to continue operations. In order to preserve his priority, he must provide a sworn statement of the first encounter within thirty days of the encounter.

Decision Affirming Director's Denial of Discovery
Certification Based on Milne Point Unit G-1 Well
January 16, 1992

The regulations do not require the operator to provide evidence of the second element, commerciality, until later. This is consistent with the reality that an operator first encounters or discovers oil, and then tests or evaluates a find to determine whether it is commercial. See Shoni Uranium Corp. v. Federal-Radrock Gas Hill Partners, 407 P.2d, 712 (Wyo. 1965) ("Upon the discovery . . . there was an implied obligation on the part of the lessee to do whatever was necessary under the circumstances (1) to ascertain whether the deposit existed in commercial quantities; and (2) thereafter to reasonably develop") (deletions in original). The regulations provide that the operator must continue to work diligently to "complete a well in the discovery zone . . . that can be tested for . . . commercial quantities." 11 AAC 83.210. The second event occurs when the operator establishes commercial quantities. 11 AAC 83.210(b)(1).

The third event occurs when the operator establishes that the discovery is in a separate geologic structure. This can occur up to ninety days after the date of the commercial quantities potential test.

Conoco's argument equating the "first to drill and discover oil" with the "first to produce oil" is inconsistent with the statute's plain language and would frustrate its purposes.

The director denied Conoco's application because he found that the G-1 well was not the first well to discover oil in the SOS structure. Both the East Ugnu No. 1 well and the A-1 well had encountered oil long before the G-1 well. Conoco argues that the discovery requirement and the commercial requirement should be collapsed into one test. It asserts that who discovered the oil is irrelevant. Br. 8. According to Conoco, in order to be the discovery well, the well itself must be shown to be "capable of production in commercial quantities." Br. 8.¹ Thus, discovery

¹ I need not address whether the repealed regulations are binding or not. Conoco's argument, which is premised on the regulations continued validity and on Conoco's interpretation of former 11 AAC 83.205(1) which defined "discovery," ignores the entire context of the regulations and is nonsensical. Under the regulations, the first or initial discovery of a discovery zone in a structure is the first encounter. 11 AAC 83.210. The commercial quantities test of the zone may be demonstrated in the first encounter well or a later well in the same structure. 11 AAC 83.200-.215. By misinterpreting 11 AAC 83.205(1), Conoco would
(continued...)

Decision Affirming Director's Denial of Discovery
Certification Based on Milne Point Unit G-1 Well
January 16, 1992

depends not upon new knowledge of an oil-bearing structure acquired through drilling, but upon technological improvements, new tax benefits, projected oil price, and the operator's internal economics. See App. Br. 3; Affidavit of Harold D. Haley at 3, paragraph 6.

Conoco's interpretation would change the statutory language whoever "drills and makes the first discovery" to whoever "first completes a production well." The Decision pointed out, this would in essence make the statute read as it formerly did in the territorial days. It would reward purely production risks as opposed to discovery and production risks. As discussed in the preceding section, discovery royalty was intended to reward those who successfully undertook the geologic and economic risks associated with exploration tied to rapid development. While oil prices, cost of production, and efficiency of production influence when an accumulation of oil may be brought into production and what level

¹(...continued)

require that both discovery and commercial quantities be proved in the same well. Br. 8-9.

Conoco's incorrect reading of 11 AAC 83.205 ignores the provisions of 11 AAC 83.200, .210, and .215, all of which contemplate that discovery and commercial quantities may be shown at different times and in different wells. Reading 11 AAC 83.205(1) consistently with these other provisions, "first acceptable evidence in a drilling well of the existence of oil or gas" refers to the first encounter while the modifying clause "which can be produced in commercial quantities after well completion" refers to the requirement that a well in the structure must meet the commercial quantities test. It is noteworthy that 11 AAC 83.205 does not require that the well which provides the first acceptable evidence be tested or produced. 11 AAC 83.205(1) refers to whether the structure can be produced in commercial quantities and refers to a future test in some well, not necessarily the well providing the first acceptable evidence of oil. The commercial quantities test only confirms that the first encounter has met the statutory requirement of a "discovery of oil or gas in any geologic structure." AS 38.05.180(a) (emphasis added). This is consistent with the division's and industry's twenty year history with discovery royalty that "discovery occurs upon the first encounterment of oil and gas, not upon the date of a drill stem test confirming the extent of the discovery of oil and gas." See Niakuk 34635 No. 5 Certified as Discovery Well ADL 34635 Conditionally Granted Five Percent Discovery Royalty (September 2, 1988) at 5.

Decision Affirming Director's Denial of Discovery
Certification Based on Milna Point Unit G-1 Well
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of profits or loss the producer may enjoy, they do not determine when a "discovery" has taken place, or change the quantity of oil that has been discovered. Conoco's interpretation would frustrate the statute's dual purposes.

Conoco's interpretation would allow the operator to choose his discovery well and thereby manipulate the date of discovery to frustrate the rapid production intent of the statute. Since the ten year reduced rate commences on the date of discovery, an operator, who encountered a good show of oil, could delay the commencement of the period by delaying completion of testing of commerciality to coincide as closely as possible with the initiation of actual production.

Conoco's interpretation would also lead to absurd results as illustrated by a hypothetical example. Assume that lessees A and B purchased adjoining leases over the same prospect. However, only lessee A undertook the costs and risks of exploration, discovering a large accumulation. Assume, however, that the low quality of the oil and the high cost of production rendered it uneconomic to produce the accumulation at forecasted oil prices. Further, assume that after the results of lessee A's discovery efforts became public, a war in the mideast caused large price increases. Finally, assume this causes both lessee A and lessee B to commence drilling in order to produce oil from this known accumulation. Under Conoco's theory, lessee B would be credited with making the "first discovery of oil in commercial quantities in a geologic structure" if it were first in completing its well, despite the fact that lessee A had actually undertaken the discovery risks some years earlier, and lessee B did nothing except more quickly respond to a changed economic opportunity. This makes no sense.

The decision in Joseph I. O'Neill, Jr., 77 Interior Dec. 181, IBLA 70-39 (1970), supports my interpretation. In that case an argument similar to Conoco's argument that "discovery of oil and gas in commercial quantities" means "a well that is capable of production in commercial quantities" was rejected by the federal Board of Land Appeals. The Mineral Leasing Act provided that leases segregated from a primary lease would be extended for two years from the date of "discovery of oil or gas in paying quantities" upon any other segregated portion of the lease. The Board of Appeals rejected an argument that a well capable of producing oil or gas in paying quantities was required before an extension would be granted. After stating that "discovery" means "to find something not known before" the Board refused to read into the statute a predicate of a well capable of producing in paying quantities. Id. at 61. It

Decision Affirming Director's Denial of Discovery
Certification Based on Milne Point Unit G-1 Well
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stated that if Congress wanted to impose such a requirement, "it could have easily so provided. It did not." *Id.* at 62.

Likewise, had the legislature intended to reward only production, it could have easily awarded a reduced royalty to the first producer in the structure like the Territorial legislature did. But, it did not. I will not equate discovery with production.

As explained in detail in the Decision, the G-1 well did not make the first discovery of oil and gas in the SOS structure.¹ Conoco knew not only of the existence of oil bearing structure, but also the supergiant size of the accumulation, before it drilled. It did not bear any exploratory risk.

Even if Conoco's argument was correct, it would not be entitled to discovery royalty because previous wells demonstrated commercial quantities.

The G-1 well was hardly the first well into the SOS that yielded "acceptable evidence" of commercial quantities in the discovery zone. As explained in the Decision, many wells, including Conoco's own A-1, B-2, A-3, and N-1B wells, drilled and tested earlier in the SOS yielded that evidence. I find that the flow rates from potential tests in several of Conoco's earlier wells yielded acceptable evidence that oil could "be produced in commercial quantities." Furthermore, Arco's pilot program in the SOS structure demonstrated that the structure was currently commercial,

¹ Conoco cites two other discovery royalty applications in support of its idea that "first discovery" is different from "first encounter." Neither of the cited cases assist Conoco. It is true that Point McIntyre No. 3 was certified despite the fact that earlier wells had penetrated the structure. However, it is clear that merely penetrating the structure does not constitute a first discovery. In the case of Point McIntyre, the operators of the wells making those earlier penetrations (the Point McIntyre No. 1 and No. 2 wells) failed to acquire sufficient evidence of a discovery before abandoning the wells as dry holes. Such corroborative data might have included open-hole logs, tests, or core data from the discovery intervals. This sharply contrasts with the circumstances extant with Conoco's knowledge regarding the SOS, where over a billion barrels of oil were known to exist from prior exploratory drilling.

In the case of the Sag Delta No. 3 well, it encountered no productive interval at all.

**Decision Affirming Director's Denial of Discovery
Certification Based on Milne Point Unit G-1 Well
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albeit only marginal. See DeRuiter, Nash & Wyrick, Solubility and Displacement Behavior of Carbon Dioxide and Hydrocarbon Gases with a Viscous Crude Oil, SPE 20523 (1990).³

Conoco argues the failure of any previous owner to undertake commercial development demonstrates that the previous wells did not discovery commercial quantities. First, the fact that no earlier lessee applied for certification is irrelevant. Br. at 7-8. The issue is not whether others could have qualified, but whether Conoco does. Second, the other's failure to develop is not surprising, given that the owners' decision to develop the underlying more economic Kuparuk structure first for their own internal reasons.

Even under Conoco's interpretation of "discovery" any benefit from discovery royalty would have expired before the drilling of the G-1 well.

I have previously stated my opinion that the first encounter well is the discovery well. Even if I accepted Conoco's argument that the first well to produce was the discovery well, the first encounter would nevertheless start the running of the ten year reduced royalty period.

Both regulations 11 AAC 83.200 & 210 refer to the first encounter of oil and gas. 11 AAC 83.210 states

to establish priority as to the time and date of discovery, an operator must furnish the committee with a sworn statement and substantiating evidence acceptable to the committee that oil or gas has been encountered in sufficient showing to cause a reasonable and prudent operator to conduct further operations in an effort to complete a well in the discovery zone so that the well can be tested for potential oil or gas production in commercial quantities. The statement must include the time and date of first discovery . . .

³ Conoco misunderstands the commerciality test as defined in the regulations. Conoco would require actual commercial development as the only method of satisfying the commercial quantities test. Br. 5. The regulations only require a potential test which would in the future lead to one additional well with a reasonable profit if a market existed. 11 AAC 83.205. No actual development is required.

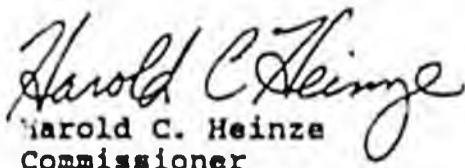
Decision Affirming Director's Denial of Discovery
Certification Based on Milne Point Unit G-1 Well
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It is clear that "first discovery" refers to first encounter in this regulation.

Regulation 11 AAC 83.215 states that "the date of commencement of the 10 year-5 percent discovery royalty term shall be the first of the next month after the established date of initial discovery." It is clear that "initial discovery" in this regulation refers to the same event referred to in 11 AAC 83.210 as "first discovery," namely first encounter of the discovery zone. 11 AAC 83.215 bases the date of initiation of the 10 year reduced royalty on this date, which is distinct from the date in which a well establishes oil in commercial quantities. Both the division and the industry have consistently accepted that the ten year period begins to run from the date of first encounter, not confirmation or establishment of commercial quantities. See Niakuk, supra at 5. Therefore, even if I were to accept Conoco's claim that the G-1 well established commercial quantities in the SOS structure (which I do not), the date of commencement of reduced royalty would be controlled by the date of first encounter. Indisputably the date of first encounter or initial discovery of the SOS occurred more than ten years prior to the drilling of the G-1 well and subsequent initiation of SOS production ADL 25906. Therefore, none of the production from this lease would be entitled to a reduced royalty.

Conclusion

The discovery royalty expressly rewards the one who makes a "first discovery," not the one who is "first into production." I know the difference between discovery and production. Conoco knew when it drilled the G-1 well what the structure was, and, to a high degree of precision, the quantity and quality of the oil accumulation that would be encountered. Conoco faced not the risks of a dry exploration hole, but the economic risks associated with taking someone else's discovery into production. It is not my role as lease manager on behalf of the citizens of the state to transform the discovery incentive into solely a production incentive. Therefore, I affirm the Decision of the director.


Harold C. Heinze
Commissioner

ENCLOSURE 28

MONTHLY SAVINGS ATTRIBUTABLE TO THE DISCOVERY ROYALTY PROVISION

Example Month: JULY 1994

<u>Field</u>	<u>Savings</u>
Niakuk/Lisburne	\$198,768.00
Point McIntyre	\$534,118.00
North Prudhoe Bay	<u>\$ 51,587.00</u>
TOTAL	\$784,473.00

SB 112 -- Witnesses Before the Senate Resources Committee

Chenoweth, Jack	Leg. Affairs Attorney	3-8-95
Boyd, Ken	Div. of Oil & Gas, Acting Dir.	3-16-95
Boyd, Ken	Div. of Oil & Gas	3-27-95
Van Dyke, Bill	Div. of Oil & Gas	3-16-95
Tabler, Kevin	Mgr. Union Oil Company	3-27-95

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Copies of minutes listed below were originally included in this file. The minutes are available on the legislative computer database. In order to save space copies of minutes have not been left in the files.

Mary Pagenkopf

Senate Resources Committee
March 8, 1995
3:45 p.m.

March 17, 1995
3:55 p.m.

March 27, 1995
3:40 p.m.

SB

115

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: May 4, 1995

FURTHER REFERRALS:

Date of Committee Action: 5/7/95

The FINANCE Committee considered:

CSSB 115(FIN) am

CS FOR SENATE BILL NO. 115(FIN) am

UNIFORM INTERSTATE FAMILY SUPPORT ACT

"An Act repealing the Uniform Reciprocal Enforcement of Support Act; enacting the Uniform Interstate Family Support Act; relating to administrative establishment and disestablishment of paternity and establishing paternity by affidavit; relating to child support enforcement; amending Alaska Rules of Civil Procedure 79, 82, and 90.3(h)(2); and providing for an effective date."

recommends it be replaced with the following committee substitute 115 CSSB (FIN) am the same title a new title

additional referral to _____ Committee

attached amendment(s)

ADOPTS: Senate Finance Committee Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept, Date)

fiscal note(s) _____

fiscal note(s) DHSS 3/7/95

Revenue 3/7/95

zero fiscal note(s) _____

zero fiscal note(s) DCRA 3/7/95

Law 3/7/95

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Richard J. Foster</i>	Foster	X			
<i>Mark Hanley</i>	Hanley	X			
<i>John Mulder</i>	Mulder	X			
<i>Terry Martin</i>	Martin	X			
<i>Paul Parnell</i>	Parnell	X			
<i>Ben Sanderson</i>	Kohring			X	
<i>Mike Yvonne</i>	Jussendant			X	
<i>Angie Brown</i>	Nauvoo			X	
<i>John Kelly</i>	Brown			X	
<i>Tom Theriault</i>	Kelly			✓	
	Theriault			X	

CHAIR'S SIGNATURE

Mark Hanley
Hanley

Richard J. Foster
Foster



Alaska State Senate

Senate Finance Committee

Montgomery
State Capitol
Juneau, Alaska 99801-1502

SENATE FINANCE COMMITTEE
LETTER OF INTENT
TO ACCOMPANY CSSB 115 (FIN)

IT IS THE INTENT OF THE LEGISLATURE THAT THE CHILD SUPPORT ENFORCEMENT DIVISION ORGANIZE ITS PERSONNEL IN A WAY WHICH WILL ENSURE THAT THE PERSONNEL WHO DEAL WITH OBLIGORS WHO ARE NOT DELINQUENT OR IN ARREARS ARE NOT THE SAME PERSONNEL WHO DEAL WITH OBLIGORS WHO ARE DELINQUENT OR IN ARREARS.

Senate adopted: 5/3/95

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

Bill No. 4
Bill Version: SB 115
To Publish Date: 3/7/95

Revision Date: _____ Dept. Affected: Health and Social Services
Title: Uniform Interstate Family Support Act BRU: Assistance Payments
Component: AFDC
Sponsor: Rules
Requestor: Governor COMPONENT SERIAL NO: 120

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY96	FY97	FY98	FY99	FY00	FY01
PERSONAL SERVICES	00	00	00	00	00	00
TRAVEL	00	00	00	00	00	00
CONTRACTUAL	00	00	00	00	00	00
SUPPLIES	00	00	00	00	00	00
EQUIPMENT	00	00	00	00	00	00
LAND & STRUCTURES	00	00	00	00	00	00
GRANTS CLAIMS	00	00	00	00	00	00
MISCELLANEOUS						
TOTAL OPERATING	00	00	00	00	00	00
CAPITAL EXPENDITURES	00	00	00	00	00	00
CHANGES IN REVENUES	0	0	0	0	0	0

FUND SOURCE (Thousands of Dollars)

	FY96	FY97	FY98	FY99	FY00	FY01
1002 Federal Receipts	00	00	00	00	00	00
1003 OF MAFR	(170.0)	(340.0)	(340.0)	(340.0)	(340.0)	(340.0)
1004 GF	00	00	00	00	00	00
1005 GF Program Receipts	170.0	340.0	340.0	340.0	340.0	340.0
1006 GF MHTA	00	00	00	00	00	00
Other	00	00	00	00	00	00
TOTAL	00	00	00	00	00	00

POSITIONS:

	FY96	FY97	FY98	FY99	FY00	FY01
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of any current year (FY95) cost: \$ NONE

ANALYSIS: (Attach a separate page if necessary)

The Child Support Enforcement Division projects increased collections on behalf of AFDC children to result from this legislation. This analysis is based on CSED's projections in their fiscal note on this legislation.

Fifty percent of child support collected on behalf of AFDC children is retained by the state. These revenues are transferred as GF Program Receipts to the AFDC component of the Assistance Payments BRU. These GF Program Receipts are used in place of GF Match funds.

Approved by: [Signature] Title: Director, Division of Public Assistance Phone: 451-2440
Date: 3/3/95

Approved by Com: [Signature] Title: Commissioner Date: _____
Agency: Department of Health & Social Services

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FISCAL NOTE

No. 3

Bill Version: SB 115

(S) Publish Date: 3/7/95

Revision Date: 3/3/95 Dept. Affected: Community & Regional Affairs
 Title: An Act relating to the establishment, modification and enforcement of support orders BRU: none
 Component: none
 Sponsor: Governor
 Requestor: Governor COMPONENT SERIAL NO. _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
REVENUE FUND SOURCE:						

FUNDING (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1006 GF MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

Estimate of current (FY94) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

There is no fiscal impact on DCRA from this bill

Prepared by: Remond Henderson Director *Remond Henderson* Phone: 465-4708
 Division: Division of Administrative Services Date: 3/3/95
 Approved by: Commissioner *Mike W. ...* Date: 3/3/95
 Agency: Community & Regional Affairs

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

No. 2
Bill Version: SB 115
(S) Publish Date: 3/7/95

Revision Date: _____
Title: Uniform Interstate Support Act (UIFSA)
Sponsor: Rules
Requestor: Governor

Department Affected: Revenue
SRU: Child Support Enforcement Division
Component: Child Support Enforcement Division
COMPONENT SERIAL NO. 111

EXPENDITURES/REVENUES:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	00	00	00	00	00	00
CAPITAL EXPENDITURES	00	00	00	00	00	00
CHANGE IN REVENUES ()	340.0	340.0	340.0	340.0	340.0	340.0

FUND SOURCE:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1006 GF MHTIA						
OTHER						
TOTAL	00	00	00	00	00	00

Estimate of any current year (FY 95) cost: \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

UIFSA applies to those actions relating to establishment, modification, and enforcement of support orders and the determining of parentage in situations where the parties reside in more than one state. The passage of this bill will improve service to case parties involved in interstate enforcement of child support orders by clarifying which state has jurisdiction. It authorizes the movement to a one order system for child support obligations that is honored by all states which pass UIFSA. UIFSA reduces agency response time in some areas in an effort to provide support collections sooner. AFDC collections will be increased by \$680,000 per year of which the state retains 30% or \$340,000. Since the effective date of the legislation in January, 1996 it would provide only \$170,000 for that fiscal year.

Prepared by: Glenda Straube
Division: Child Support Enforcement
Approved by Commissioner: Deborah Vogt
Agency: Department of Revenue

Phone: 269-6801
Date: March 3, 1995
Date: March 3, 1995

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FISCAL NOTE

No. 1
 Bill Version: SB 115
 (S) Publish Date: 3/7/95

STATE OF ALASKA
 1995 LEGISLATIVE SESSION

BILL (S) Publish Date: 3/7/95

Revision Date: _____	Dept. Affected: <u>Department of Law</u>
Title: <u>establishment, modification, and enforcement</u>	BRU: <u>Legal Services</u>
of support orders in situations involving more than one state	Component: <u>Operations</u>
Sponsor: <u>Rules by Request of the Governor</u>	
Requester: <u>Office of the Governor OMB</u>	COMPONENT SERIAL NO. <u>0093</u>

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANECUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF Program Receipts						
1006 GF MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY95) cost: \$ 0.0

POSITIONS

POSITIONS	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
FULL-TIME	0.0	0.0	0.0	0.0	0.0	0.0
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This bill repeals the Uniform Reciprocal Enforcement of Support Act (URESAs), under AS 25.25, and replaces it with a new uniform Act known as the Uniform Interstate Family Support Act (UIFSA). First adopted by the National Conference of Commissioners on Uniform State Laws in 1992, the new Act has already been enacted by 21 states, and it may be introduced in as many as eight states this year, including Alaska.

The Uniform Interstate Family Support Act was drafted to update USERA. UIFSA, like USERA, applies to those actions relating to the establishment, modification, and enforcement of support orders and the determination of parentage in situations in which the parties reside in more than one state.

A major feature of UIFSA is that it does not require reciprocity of laws between states in order to take action under its provisions. The new Act also contains its own long-arm jurisdiction provision providing the home state of a supported family the maximum possible opportunity to secure personal jurisdiction over an absent parent.

The bill promotes, to the extent possible, the premise of continuing exclusive jurisdiction over support orders. Under the law as it exists under URESA, multiple orders for child support often result. UIFSA seeks

Prepared by: <u>Richard J. Pegues, Director</u>	Phone: <u>465-3672</u>
Division: <u>Administrative Services Division</u>	Date: <u>3/3/95</u>
Approved by Commissioner: <u>Bruce M. Boreho, Attorney General</u>	Date: <u>3/3/95</u>
Agency: <u>Department of Law</u>	

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. _____

ANALYSIS CONTINUATION

to limit the existence of multiple support orders by limiting the circumstances under which subsequent support orders may be entered in states other than the initiating state.

The bill also recognizes the growing use of administrative procedures in addition to or in place of judicial proceedings in the establishment of paternity and the establishment and enforcement of support orders.

The Uniform Interstate Family Support Act has been endorsed by the United States Commission on Interstate Child Support, the American Bar Association, and the Conference of Chief Justices.

The Department of Law is substantially involved in child support matters on behalf of the Child Support Enforcement Division, and the department provides all of the legal assistance required by the division. It is anticipated the department will have to provide additional legal advice and guidance to the division in implementing the provisions of UIFSA at the early stage. However, because the new Act provides several new efficiencies, this additional work will be easily offset by those efficiencies. Consequently, no fiscal impact is expected for the Department of Law.

5/6/95



State of Alaska
ombudsman
A Legislative Service Agency

Reply to:

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(907) 451-2880
(800) 478-3257
(FAX) 451-2957

May 5, 1995

The Honorable Steve Rieger
Member of the Senate
Alaska Legislature
State Capitol, Room 516
Juneau, Alaska 99811

RECEIVED MAY 05 1995

Re: Child Support Enforcement Division (CSED) Organization

Dear Senator Rieger:

With apologies for the delay in responding, at our recent meeting you inquired whether, on the basis of its experience in dealing with the Child Support Enforcement Division (CSED), the Ombudsman's Office thought there would be merit in splitting CSED into two sections or groups dealing with: (1) obligors 60 days in arrears and more and (2) obligors who are current and remain current in child support payments.

You asked this office for an opinion on the advantages and disadvantages of reorganizing CSED operations as you outlined. Typically, the Office of the Ombudsman only makes recommendations following a formal investigation and as a part of the report of that investigation. We have not specifically reviewed the organizational framework you propose in any investigations conducted concerning CSED. Indeed, to date, there has been no such investigation of CSED's internal management structure, and we have not specifically discussed this organizational format with CSED administrators. Moreover, we understand it, CSED is in the process of reorganization; the issue on which you asked us to comment may be addressed in that reorganization. Nonetheless, I asked my staff to review your proposal in light of their experience in dealing with CSED. Permit me to share their comments with you:

An Anchorage investigator observed that splitting the collections caseload into two groups could have some merit. The group of current obligors would need less intensive oversight, freeing up case workers for more intensive collection activity relating to those in arrears. Rather than a 60-day limit, 90 or 120 days might be more realistic, and more in line with the time frames used by other state and private collection agencies. Perhaps having an 'intensive' group would lead to greater predictability in collection efforts. Two recent examples illustrate sometimes unpredictable collections efforts: One obligor voluntarily used CSED as the collection agency for his child support debt. CSED was three months behind in setting up this case so it treated the obligor as if he hadn't been paying. CSED put a lien on his property and reported him to the credit bureaus. We heard from him when he couldn't sell his house. Another obligor has not made child support payments in three years because the case has not been properly set up. There have been no adverse consequences for this obligor whose ex-spouse and children are now on public assistance.

A Fairbanks investigator commented that establishing a friendlier process for those in voluntary compliance would be well-received. CSED, he observed, might even offer incentives, such as greater access to case workers and suggested that perhaps CSED should consider a 'cradle-to-the-grave' case handling process for those in compliance, instead of the "team" approach. (Indeed, as we understand it, the new CSED Director is phasing in just such a case management approach.)

Therapist
provided

NOT

discuss self

Our Fairbanks staff director noted that CSED well may need to employ tough collection procedures with uncooperative obligors, but should consider a different approach for cooperative obligors. For example, she suggests that:

(1) CSED provide written notice and careful file review before taking such harsh collection measures on cooperative obligors who haven't been in arrears for one year as, e.g., garnishing bank accounts and placing liens on property. A one-year period shows stability and establishes a payment history, whereas 60 days current is too brief a period in which to demonstrate an obligor's reliability; a one-year period would be one way to distinguish between reliable and unreliable obligors.

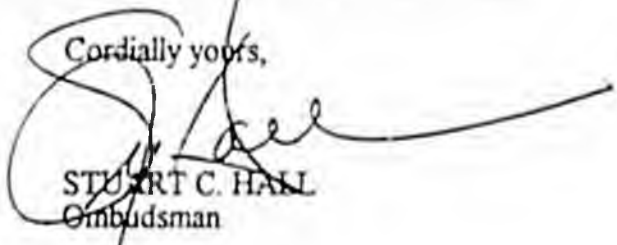
(2) CSED revise its form letters; they could be "threatening" for uncooperative obligors and "business-like" for cooperative obligors. Several staff members observe that many obligors object most to the tone of the form letters CSED currently uses because these letters seem to suggest the obligor is "bad" or uncooperative from the start.

Other than these two types of complaints, "unreasonable delay" is the complaint most frequently lodged with the Ombudsman's office. Investigators conclude that a great deal of the delay is caused because one CSED team hands off the file to another team and the receiving team doesn't pick it up in a timely manner; the absence of timely communication appears to be the main factor in creating that delay.

As you will note in reviewing the enclosed briefing paper we prepared on CSED-related issues, this office long has been concerned that CSED appears to treat the cooperative obligor the same way it treats the uncooperative obligor. We think that is inappropriate. It is a problem that clearly merits attention from CSED's new management. A letter from a complainant who contacted our Fairbanks office is illustrative. A copy of Fairbanks attorney Kenneth Coveil's letter is attached to the briefing paper; he authorized its release both to the agency and to anyone with whom we discussed this problem. The "Letter of Intent" you offered in the Senate Finance Committee Tuesday, May 2, to accompany CSSB 115 (Finance) speaks to the need for CSED to address this problem. In listening to the discussion before the committee, I sensed no disagreement with the objective you stated. Absent a formal investigation, however, the Ombudsman cannot support a specific CSED reorganization proposal; nevertheless, on the basis of its experience with the agency, the Ombudsman believes that CSED should handle the cooperative obligor differently from the uncooperative obligor.

For your information, the enclosed briefing paper was prepared following discussions between the undersigned and the Commissioner of Revenue. It was intended to be of assistance to the new administration, alerting the Commissioner and his staff to issues revealed either in investigations conducted by this office or in the pattern of complaints we had observed over time. This briefing paper also will be shared with interested members of the Legislature. If you have further questions, or if my staff and I can be of further assistance, please contact me at 465-4970 in Juneau.

Cordially yours,


STUART C. HALL
Ombudsman

SCH:mcm

Enclosure.

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY

STATE OF ALASKA

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130 Seward Street, Suite 409

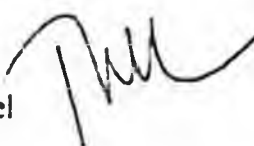
Juneau, Alaska 99801-2105

MEMORANDUM

April 7, 1995

SUBJECT: The Child Support Enforcement Agency
(Work Order No. 9-LS0868A)

TO: Senator Steve Rieger
Attn: Ann

FROM: Terri Lauterbach 
Legislative Counsel

Enclosed is a work draft attempting to implement your wish that obligors who are not current with their child support payments be treated separately from other persons dealt with by CSED.

I realize that the work draft does not completely implement your wish that there be two separate agencies, but provides only for two offices within one agency. The reason I have written the draft this way is because federal law requires that a "single and separate organizational unit" (42 U.S.C. 654 (3)) be designated for establishing, administering, and enforcing child support orders. I think even having two "offices" within CSED might violate this requirement, so I have added provisos to the draft about being "allowed by federal law." I assumed that you did not want to jeopardize federal funding of CSED since approximately 90% of its administrative funds come from the federal government and, additionally, Alaska must have an approved child support plan in order to get full federal financial participation in the AFDC program.

I apologize for not bringing up the "single" requirement earlier in our other conversations on this topic. Please let me know if I can be of further assistance.

TML:lmb:klb

95-161.lmb

Enclosure

9-LS0868VA ✓
Lauterbach
4/6/95

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY SENATOR RIEGER

Introduced:
Referred:

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the functions of the child support enforcement agency."

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

3 * Section 1. AS 25.27.010 is amended to read:

4 Sec. 25.27.010. CREATION OF CHILD SUPPORT ENFORCEMENT
5 AGENCY. There is created in the Department of Revenue the child support
6 enforcement agency. If allowed under applicable federal law, the agency shall
7 consist of a child support office and a child support enforcement office.

8 * Sec. 2. AS 25.27.010 is amended by adding new subsections to read:

9 (b) If created under (a) of this section, the child support office shall establish
10 paternity and child support obligations under this chapter and administer a child
11 support order under this chapter when no arrears are owed under the order. If arrears
12 accrue under an order being administered by the child support office, the child support
13 office shall transfer the administration of the order to the child support enforcement
14 office.

15 (c) If created under (a) of this section, the child support enforcement office

1 shall perform the duties of the agency under AS 25.25, seek enforcement of child
2 support orders under this chapter, and administer child support orders under which
3 arrears are owed. Upon payment of all the arrears under a child support order, the
4 child support enforcement office shall transfer the administration of the order to the
5 child support office.

6 (d) The commissioner of revenue shall, by regulation, determine whether the
7 child support office or child support enforcement office, if they are established under
8 (a) of this section, shall perform the functions described in this chapter that are not
9 clearly ascribed under (b) or (c) of this section. When making the determination
10 required under this subsection, the commissioner shall implement the legislature's
11 intent that, to the extent allowed by federal law, the cases of potential obligors for
12 whom a support order has not yet been issued and obligors who owe no arrears should
13 be handled separately from the cases of obligors who owe arrears.

AMENDMENT 1

Failed 2-7

OFFERED IN THE HOUSE

BY REPRESENTATIVE BROWN

TO: CSSB 115(FIN)

Page 30, line 29:

Delete "shall"
Insert "may"

Page 31, line 6:

Delete "three years"
Insert "one year"

Page 31, line 10:

Delete "shall"
Insert "may"

TONY KNOWLES
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

P.O. Box 110001
Juneau, Alaska 99811-0001
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Fax (907) 465-3532

115

March 6, 1995

The Honorable Drue Pearce
President of the Senate
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear President Pearce,

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the Uniform Interstate Family Support Act and the repeal of the Uniform Reciprocal Enforcement of Support Act.

The bill would repeal the laws currently found in AS 25.25, the Uniform Reciprocal Enforcement of Support Act (URESAs), and replace them with a new Uniform Act, the Uniform Interstate Family Support Act (UIFSA), with minor modifications. The bill also has the effect of amending Alaska Rules of Civil Procedure 79 and 82, and Alaska Rule of Administration 9. See secs. 6 and 7 of the bill. Under art. IV, sec. 15, of the Alaska Constitution, the legislature may change a court rule governing "practice and procedure." Although the bill has the effect of amending a court rule relating to filing fees that is designated as an "administrative" rule, I believe that the rule affects individuals' substantive rights regarding access to our justice system and, therefore, is one that the legislature is authorized to change. Additionally, the provision that has the effect of amending the administrative rule is an integral part of UIFSA.

The Uniform Interstate Family Support Act was drafted to update URESAs. The bill, like URESAs, applies to those actions relating to the establishment, modification, and enforcement of support orders and the determination of parentage in situations in which the parties reside in more than one state.

A major feature of UIFSA is that it does not require reciprocity of laws between states in order to take action under its provisions. In order to ease the transition between URESAs and UIFSA, the bill recognizes substantially similar state laws as equivalent to UIFSA for

The Honorable Drue Pearce

March 6, 1995

Page 2

purposes of interstate actions. See proposed AS 25.25.101(7) and (16) in sec. 1 of the bill. The bill also contains its own long-arm jurisdiction provision providing the home state of a supported family the maximum possible opportunity to secure personal jurisdiction over an absent parent.

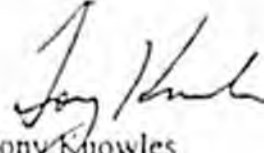
The bill promotes, to the extent possible, the premise of continuing exclusive jurisdiction over support orders. Under the law as it exists under URESA, multiple orders for child support often result. UIFSA seeks to limit the existence of multiple support orders by limiting the circumstances under which subsequent support orders may be entered in states other than the initiating state.

The bill also recognizes the growing use of administrative procedures in addition to or in place of judicial proceedings in the establishment of paternity and the establishment and enforcement of support orders.

UIFSA was prepared by the National Conference of Commissioners on Uniform State Laws, which has approved and recommended it for enactment in all the states. Although it was first adopted by that conference in the summer of 1992, it has already been enacted in 21 states. There are indications that it will be introduced in as many as eight states this year. It has been endorsed by the United States Commission on Interstate Child Support, the American Bar Association, and the Conference of Chief Justices, and the bill has the support of Alaska's child support enforcement agency. Additional information from the National Conference of Commissioners on Uniform State Laws is available from my staff.

I urge your prompt consideration and passage of this bill.

Sincerely,



Tony Knowles
Governor

HOUSE CONCURRENT RESOLUTION NO.
IN THE LEGISLATURE OF THE STATE OF ALASKA
NINETEENTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVE BROWN

Introduced:

Referred:

A RESOLUTION

1 Suspending Uniform Rules 24(c), 35, 41(b), and 42(e) of the Alaska State
2 Legislature concerning Senate Bill No. 115, relating to child support and paternity
3 determinations.

4 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 That under Rule 54 of the Uniform Rules of the Alaska State Legislature, the
6 provisions of Rules 24(c), 35, 41(b), and 42(e) of the Uniform Rules, regarding changes to the
7 title of a bill, are suspended in consideration of Senate Bill No. 115, relating to child support
8 and paternity determinations.

NOT
MOVED
OR
DISCUSSED
YIP