

SCOMM

96:14

FISCAL NOTE

STATE OF ALASKA 1996 LEGISLATIVE SESSION

BILL NO. HB 381

Revision Date: Original Dept Affected Natural Resources
 Title: An Act relating to oil and gas conservation BRU: Resource Development
and recovery Component: Oil & Gas Development
 Sponsor: Representative(s) Green, B. Davis
 Requestor: _____ Component Serial No. #439

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

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

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

POSITIONS

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

ANALYSIS:

(Attach a separate page if necessary)

The fiscal impact to DNR of HB 381 would be zero but there appears to be a fiscal impact to AOGCC. For AOGCC to handle the additional work to evaluate DNR decisions proposed under HB 381, at a minimum, AOGCC would need one Petroleum Geophysicist (Range 24), one Petroleum Economist 1 (Range 22), and one Administrative Clerk II (Range 8). Given the increased workload, we believe one additional Petroleum Engineer (Range 26) would also be needed. This assumes sufficient geologic staff is currently available within the AOGCC to handle any additional workload resulting from HB 381 in that area. The Petroleum Engineer, Petroleum Geophysicist, and Petroleum Economist would evaluate complex unit agreement terms, management issues and associated economic issues, rates of exploration and development, proposed plans of development and operations, revisions to such, and other decisions rendered by DNR pursuant to AS 38.05.180 that prevent waste of oil or gas, insure the greater ultimate recovery of oil or gas, or protect correlative rights of persons owning interests in tracts of land affected.

Prepared by: Ken Boyd, Director Phone: 269-8800
 Division: Oil & Gas Date: 25-Jan-96
 Approved by Commissioner: [Signature] Date: 25-Jan-96
 Agency: Natural Resources

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1/25/96

Estimated cost breakdown for AOGCC to implement this legislation:

An Administrative Clerk II would provide general administrative support to assist the Petroleum Engineer, Petroleum Geophysicist and Petroleum Economist.

Cost for these positions (per year) is:

Petroleum Engineer (26A)	92.9
Petroleum Geophysicist (24A)	83.6
Petroleum Economist (22A)	75.2
Admin Clerk (8A)	<u>30.0</u>

Pers Svcs total 281.7

+ 28.0 (office equipment supplies etc.)

= 309.7 estimated need for AOGCC

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

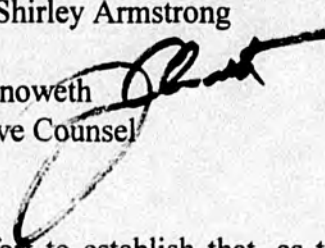
130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

January 25, 1996

SUBJECT: House Bill 381, relating to oil and gas conservation and recovery --
sectional analysis (Work Order No. 9-LS1440\A)

TO: Representative Norm Rokeberg, Chair
House Special Committee on Oil and Gas
ATTN: Shirley Armstrong

FROM: Jack Chenoweth 
Legislative Counsel

The bill was drafted in an effort to establish that, as to matters relating to subsurface development and recovery of oil and gas, decisions and actions of the Alaska Oil and Gas Conservation Commission prevail over decisions and actions of the Department of Natural Resources.

Bill section 1. The bill section, adding a new subsection to AS 31.05.030, authorizes the Alaska Oil and Gas Conservation Commission to modify certain determinations and actions of the commissioner of the Department of Natural Resources if the commissioner's decision or action is taken under one of the subsections of AS 38.05.180 specified in paragraph (1) or is taken generally under AS 38.05.180 for a purpose identified in paragraph (2).

Bill section 2. The bill section adds a new section, AS 31.05.115, establishing that orders of the Alaska Oil and Gas Conservation Commission taken under AS 31.05 prevail over determinations or actions of the commissioner of natural resources under AS 38.05 as to determinations or actions identified in that section.

Bill section 3. The bill section amends AS 38.05.180(q) to confirm that decisions entered by the commissioner of natural resources under AS 38.05.180(p) and (q), relating to cooperative or unit plans applicable to oil and gas development, may be modified by the Alaska Oil and Gas Conservation Commission.

JBC:klb
96-032.klb

(7)

HOUSE COMMITTEE REPC. .T

Date Referred to Committee: January 8, 1996

FURTHER REFERRALS:

Resources

Date of Committee Action: 4/16/96The HOUSE SPECIAL COMMITTEE ON OIL AND GAS Committee considered:HB 381

HOUSE BILL NO. 381

OIL AND GAS CONSERVATION & RECOVERY

"An Act relating to oil and gas conservation and recovery."

recommends it be replaced
with the following committee substituteCSHB381 (016)☒ the same title
☐ a new title☐ additional referral to _____ Committee☐ attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept)

APPROVES PREVIOUS:

(Dept/Date)

☐ fiscal note(s) _____☐ fiscal note(s) _____☒ zero fiscal note(s) DOA, DNE☐ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<u>Scott Egan</u>	✓			
<u>Bruce Danner</u>	✓			
<u>John B. Gail</u>			✓	
<u>Dan & Dan</u>			✓	
<u>Ken R. Kelly</u>			✓	
<u>David Z. Webster</u>		X		
<u>W. F. Williams</u>	✓			

CHAIR'S SIGNATURE

[Signature]4-16-96

Alaska State Legislature

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FINANCE SUBCOMMITTEES:
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DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT
DEPT. OF ENVIRONMENTAL CONSERVATION

Representative Joe Green

District 10

TO: Representative Norman Rokeberg, Chairman
House Special Committee on Oil & Gas

FR: Representative Joe Green *Joe*

RE: HB 381

DATE: April 11, 1996

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Please schedule HB381 for a hearing in the Oil & Gas Committee.

As you'll recall, I previously requested a hearing on this bill, and subsequently requested that the hearing be postponed. I requested postponement to allow me the time to inquire if anyone in the Department of Law is working on an opinion that might clarify some of the questions that HB381 addresses. I have learned that the Department of Law is NOT working to clarify these questions, so I feel that HB381 is needed.

Thank you.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

March 4, 1996

The Honorable Norman Rokeberg, Chairman
House Special Committee on Oil & Gas
Alaska State Legislature
House of Representatives
State Capitol
Juneau, AK 99801-1182

Dear Representative Rokeberg:

You have requested that this office answer the following questions:

Does Section 1 of HB 381 give the Alaska Oil and Gas Conservation Commission (AOGCC) the authority to modify a royalty reduction determination under AS 38.05.180(j) made by the commissioner of the Department of Natural Resources [DNR] if one of the purposes of that determination is to insure a greater ultimate recovery of oil or gas? Or other determinations the commissioner of DNR makes?

The short answer to the questions is yes.

The current statutory scheme authorizes the AOGCC to regulate for conservation purposes, to prevent waste of oil or gas, and to protect correlative rights. Section 1 of HB 381 adds a new subsection to AS 31.05.030 authorizing the AOGCC to modify any determination or action by the commissioner of DNR under AS 38.05.180(p), (q), or (u). It further authorizes the AOGCC to modify a determination or action by the commissioner of DNR under other subsections of AS 38.05.180, *if* the purpose of the determination or action is (1) to prevent waste of oil or gas, (2) to insure a greater ultimate recovery of oil or gas, or (3) to protect correlative rights of persons owning interests in tracts of land affected.

AS 38.05.180(j) authorizes the commissioner of DNR to modify royalty determinations to allow for production that would not otherwise be economically feasible. This subsection was amended by the Legislature in 1995 to "encourage otherwise uneconomic production of oil and gas" and permits the commissioner to modify the royalty (1) on certain oil or gas fields or pools if the field or pool has not previously produced oil or gas for sale; (2) to

MAR 06 1996

TONY KNOWLES, GOVERNOR

PLEASE REPLY TO:

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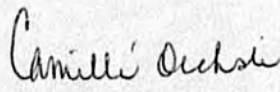
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prolong the economic life of an oil or gas field or pool as costs per barrel or barrel equivalent increase; or (3) to reestablish production of shut-in oil or gas. This language suggests that the purpose of a royalty reduction determination is to "insure a greater ultimate recovery of oil or gas" and such a determination could, therefore, be subject to modification by the AOGCC under this proposed legislation.

Other determinations the commissioner of DNR makes under other subsections of AS 38.05.180 may similarly be subject to AOGCC oversight because AS 38.05.180 contains a specific legislative finding that "the people of Alaska have an interest in the development of the state's oil and gas resources to maximize the economic and physical recovery of the resources." This suggests that maximizing economic and physical recovery of resources may be a consideration in many determinations made by the commissioner of DNR under AS 38.05.180. If the purpose, in fact, of a specific determination by DNR is to insure a greater ultimate recovery of oil or gas, then that determination, by the explicit terms of this proposed legislation, will be subject to modification by the AOGCC.

Very truly yours,

BRUCE M. BOTELHO
ATTORNEY GENERAL

By: 
Camille Oechsli
Assistant Attorney General

CO:lh

cc: Representative Joe Green
Pat Pourchot
Barbara Ritchie
Deborah Behr
Chrystal Smith