

HOUSE BILL NO. 276

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-THIRD LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/18/24

Referred: Resources, Finance

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to temporarily reduced royalty on oil and gas from pools without**
2 **previous commercial sales in the Cook Inlet sedimentary basin; and providing for an**
3 **effective date."**

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

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

6 (f) Except as provided by AS 38.05.131 - 38.05.134, the commissioner may
7 issue oil and gas leases or leases for gas only on state land to the highest responsible
8 qualified bidder as follows:

9 (1) the commissioner shall issue an oil and gas lease or a gas only
10 lease, as appropriate, to the successful bidder determined by competitive bidding
11 under regulations adopted by the commissioner; bidding may be by sealed bid or
12 according to any other bidding procedure the commissioner determines is in the best
13 interests of the state;

14 (2) whenever, under any of the leasing methods listed in this

1 subsection, a royalty share is reserved to the state, it shall be delivered in pipeline
2 quality and free of all lease or unit expenses, including but not limited to separation,
3 cleaning, dehydration, gathering, salt water disposal, and preparation for transportation
4 off the lease or unit area;

5 (3) following a pre-sale analysis, the commissioner may choose at least
6 one of the following leasing methods:

7 (A) a cash bonus bid with a fixed royalty share reserved to the
8 state of not less than 12.5 percent in amount or value of the production
9 removed or sold from the lease;

10 (B) a cash bonus bid with a fixed royalty share reserved to the
11 state of not less than 12.5 percent in amount or value of the production
12 removed or sold from the lease and a fixed share of the net profit derived from
13 the lease of not less than 30 percent reserved to the state;

14 (C) a fixed cash bonus with a royalty share reserved to the state
15 as the bid variable but no less than 12.5 percent in amount or value of the
16 production removed or sold from the lease;

17 (D) a fixed cash bonus with the share of the net profit derived
18 from the lease reserved to the state as the bid variable;

19 (E) a fixed cash bonus with a fixed royalty share reserved to the
20 state of not less than 12.5 percent in amount or value of the production
21 removed or sold from the lease with the share of the net profit derived from the
22 lease reserved to the state as the bid variable;

23 (F) a cash bonus bid with a fixed royalty share reserved to the
24 state based on a sliding scale according to the volume of production or other
25 factor but in no event less than 12.5 percent in amount or value of the
26 production removed or sold from the lease;

27 (G) a fixed cash bonus with a royalty share reserved to the state
28 based on a sliding scale according to the volume of production or other factor
29 as the bid variable but not less than 12.5 percent in amount or value of the
30 production removed or sold from the lease;

31 (4) notwithstanding a requirement in the leasing method chosen of a

1 minimum fixed royalty share, on and after March 3, 1997, the lessee under a lease
2 issued in the Cook Inlet sedimentary basin who is the first to file with the
3 commissioner a nonconfidential sworn statement claiming to be the first to have
4 drilled a well discovering oil or gas in a previously undiscovered oil or gas pool and
5 who is certified by the commissioner within one year of completion of that discovery
6 well to have drilled a well in that pool that is capable of producing in paying quantities
7 shall pay a royalty of five percent on all production of oil or gas from that pool
8 attributable to that lease for a period of 10 years following the date of discovery of that
9 pool, and thereafter the royalty payable on all production of oil or gas from the pool
10 attributable to that lease shall be determined and payable as specified in the lease; for
11 purposes of this paragraph, the reduced royalty authorized by this paragraph is subject
12 to the following:

13 (A) only one reduction of royalty authorized by this paragraph
14 may be allowed on each lease that qualifies for reduction of royalty under this
15 paragraph;

16 (B) if, under this paragraph, application is made for a royalty
17 reduction for a lease that was entered into before March 3, 1997, the
18 commissioner may approve the application only if, on that date, the lease was a
19 nonproducing lease that was not committed to a unit approved by the
20 commissioner under (m) of this section, that is not part of a unit under (p) or
21 (q) of this section, and that has not been made part of a unit under AS 31.05;

22 (C) if application for a royalty reduction is made under this
23 paragraph for a lease on which a discovery royalty was claimed or may be
24 claimed under the discovery royalty provisions of former AS 38.05.180(a) in
25 effect before May 6, 1969, the commissioner shall disallow the application
26 under this paragraph unless the applicant waives the right to claim the right to
27 a reduced royalty under the discovery royalty provisions of former
28 AS 38.05.180(a) in effect before May 6, 1969; and

29 (D) the commissioner shall adopt regulations setting out the
30 standards, criteria, and definitions of terms that apply to implement the filing
31 of applications for, and the review and certification of, discovery certifications

1 under this paragraph;

2 (5) notwithstanding and in lieu of a requirement in the leasing method
 3 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases
 4 unitized as described in (p) of this section, leases subject to an agreement described in
 5 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of
 6 an oil or gas **pool in the Cook Inlet sedimentary basin that, subject to**
 7 **determination by the commissioner, has not previously produced for commercial**
 8 **sale oil or gas** [FIELD IDENTIFIED IN THIS SECTION THAT HAS BEEN
 9 GRANTED APPROVAL OF A WRITTEN PLAN SUBMITTED TO THE ALASKA
 10 OIL AND GAS CONSERVATION COMMISSION UNDER AS 31.05.030(i)] shall [,
 11 SUBJECT TO (dd) OF THIS SECTION,] pay a royalty of five percent on [THE
 12 FIRST 25,000,000 BARRELS OF] oil **or** [AND THE FIRST 35,000,000,000 CUBIC
 13 FEET OF] gas produced for sale from that **pool for** [FIELD THAT OCCURS IN
 14 THE] 10 years following the date on which the production for **commercial** sale
 15 commences; **for the purposes of this paragraph, the requirement to pay a royalty**
 16 **of five percent may not apply to a lease without a royalty share reserved to the**
 17 **state or a royalty rate payable of at least five percent in the amount or value of**
 18 **production removed or sold from the lease** [THE FIELDS ELIGIBLE FOR
 19 ROYALTY REDUCTION UNDER THIS PARAGRAPH, ALL OF WHICH ARE
 20 LOCATED WITHIN THE COOK INLET SEDIMENTARY BASIN, WERE
 21 DISCOVERED BEFORE JANUARY 1, 1988, AND HAVE BEEN UNDEVELOPED
 22 OR SHUT IN FROM AT LEAST JANUARY 1, 1988, THROUGH DECEMBER 31,
 23 1997, ARE

- 24 (A) FALLS CREEK;
 25 (B) NICOLAI CREEK;
 26 (C) NORTH FORK;
 27 (D) POINT STARICHKOF;
 28 (E) REDOUBT SHOAL; AND
 29 (F) WEST FORELAND];

30 (6) notwithstanding and in lieu of a requirement in the leasing method
 31 chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases

1 unitized as described in (p) of this section, leases subject to an agreement described in
2 (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of
3 an oil field located offshore in Cook Inlet on which an oil production platform
4 specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the
5 field located offshore in Cook Inlet and described in (G) of this paragraph,

6 (A) shall pay a royalty of five percent on oil produced from the
7 platform if oil production that equaled or exceeded a volume of 1,200 barrels a
8 day declines to less than that amount for a period of at least one calendar
9 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
10 as long as the volume of oil produced from the platform remains less than
11 1,200 barrels a day; the provisions of this subparagraph apply to

12 (i) Dolly;

13 (ii) Grayling;

14 (iii) King Salmon;

15 (iv) Steelhead; and

16 (v) Monopod;

17 (B) shall pay a royalty calculated under this subparagraph if the
18 volume of oil produced from the platform that was certified by the Alaska Oil
19 and Gas Conservation Commission under (A) of this paragraph later increases
20 to 1,200 or more barrels a day and remains at 1,200 or more barrels a day for a
21 period of at least one calendar quarter; until the royalty rate determined under
22 this subparagraph applies, the royalty continues to be calculated under (A) of
23 this paragraph; on and after the first day of the month following the month the
24 increased production exceeds the period specified in this subparagraph, the
25 royalty payable under this subparagraph is

26 (i) for production of at least 1,200 barrels a day but not
27 more than 1,300 barrels a day - seven percent;

28 (ii) for production of more than 1,300 barrels a day but
29 not more than 1,400 barrels a day - 8.5 percent;

30 (iii) for production of more than 1,400 barrels a day but
31 not more than 1,500 barrels a day - 10 percent; and

1 (iv) for production of more than 1,500 barrels a day -
2 12.5 percent;

3 (C) shall pay a royalty of five percent on oil produced from the
4 platform if oil production that equaled or exceeded a volume of 975 barrels a
5 day declines to less than that amount for a period of at least one calendar
6 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
7 as long as the volume of oil produced from the platform remains less than 975
8 barrels a day; the provisions of this subparagraph apply to

9 (i) Baker;

10 (ii) Dillon;

11 (iii) XTO.A; and

12 (iv) XTO.C;

13 (D) shall pay a royalty calculated under this subparagraph if the
14 volume of oil produced from the platform that was certified by the Alaska Oil
15 and Gas Conservation Commission under (C) of this paragraph later increases
16 to 975 or more barrels a day and remains at 975 or more barrels a day for a
17 period of at least one calendar quarter; until the royalty rate determined under
18 this subparagraph applies, the royalty continues to be calculated under (C) of
19 this paragraph; on and after the first day of the month following the month the
20 increased production exceeds the period specified in this subparagraph, the
21 royalty payable under this subparagraph is

22 (i) for production of at least 975 barrels a day but not
23 more than 1,100 barrels a day - seven percent;

24 (ii) for production of more than 1,100 barrels a day but
25 not more than 1,200 barrels a day - 8.5 percent;

26 (iii) for production of more than 1,200 barrels a day but
27 not more than 1,350 barrels a day - 10 percent; and

28 (iv) for production of more than 1,350 barrels a day -
29 12.5 percent;

30 (E) shall pay a royalty of five percent on oil produced from the
31 platform if oil production that equaled or exceeded a volume of 750 barrels a

1 day declines to less than that amount for a period of at least one calendar
2 quarter, as certified by the Alaska Oil and Gas Conservation Commission, for
3 as long as the volume of oil produced from the platform remains less than 750
4 barrels a day; the provisions of this subparagraph apply to

5 (i) Granite Point;

6 (ii) Anna; and

7 (iii) Bruce;

8 (F) shall pay a royalty calculated under this subparagraph if the
9 volume of oil produced from the platform that was certified by the Alaska Oil
10 and Gas Conservation Commission under (E) of this paragraph later increases
11 to 750 or more barrels a day and remains at 750 or more barrels a day for a
12 period of at least one calendar quarter; until the royalty rate determined under
13 this subparagraph applies, the royalty continues to be calculated under (E) of
14 this paragraph; on and after the first day of the month following the month the
15 increased production exceeds the period specified in this subparagraph, the
16 royalty payable under this subparagraph is

17 (i) for production of at least 750 barrels a day but not
18 more than 850 barrels a day - seven percent;

19 (ii) for production of more than 850 barrels a day but
20 not more than 1,000 barrels a day - 8.5 percent;

21 (iii) for production of more than 1,000 barrels a day but
22 not more than 1,200 barrels a day - 10 percent; and

23 (iv) for production of more than 1,200 barrels a day -
24 12.5 percent;

25 (G) shall pay a royalty of five percent on oil produced from the
26 field if oil production that equaled or exceeded a volume of 750 barrels a day
27 declines to less than that amount for a period of at least one calendar quarter,
28 as certified by the Alaska Oil and Gas Conservation Commission, for as long
29 as the volume of oil produced from the field remains less than 750 barrels a
30 day; the provisions of this subparagraph apply to the West McArthur River
31 field;

1 (H) shall pay a royalty calculated under this subparagraph if the
 2 volume of oil produced from the field that was certified by the Alaska Oil and
 3 Gas Conservation Commission under (G) of this paragraph later increases to
 4 750 or more barrels a day and remains at 750 or more barrels a day for a period
 5 of at least one calendar quarter; until the royalty rate determined under this
 6 subparagraph applies, the royalty continues to be calculated under (G) of this
 7 paragraph; on and after the first day of the month following the month the
 8 increased production exceeds the period specified in this subparagraph, the
 9 royalty payable under this subparagraph is

10 (i) for production of at least 750 barrels a day but not
 11 more than 850 barrels a day - seven percent;

12 (ii) for production of more than 850 barrels a day but
 13 not more than 1,000 barrels a day - 8.5 percent;

14 (iii) for production of more than 1,000 barrels a day but
 15 not more than 1,200 barrels a day - 10 percent; and

16 (iv) for production of more than 1,200 barrels a day -
 17 12.5 percent; and

18 (I) may obtain the benefits of the royalty adjustments set out in
 19 (A) - (H) of this paragraph only if the commissioner determines that the
 20 reduction in production from the platform or the field is

21 (i) based on the average daily production during the
 22 calendar quarter based on reservoir conditions; and

23 (ii) not the result of short-term production declines due
 24 to mechanical or other choke-back factors, temporary shutdowns or
 25 decreased production due to environmental or facility constraints, or
 26 market conditions.

27 * **Sec. 2.** AS 31.05.030(i) and AS 38.05.180(dd) are repealed.

28 * **Sec. 3.** This Act takes effect immediately under AS 01.10.070(c).