CS FOR SENATE BILL NO. 194(RES)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered: 5/10/24
Referred: Finance

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

"An Act relating to temporary reduced royalty on oil and gas from pools in the Cook Inlet sedimentary basin without previous commercial sales and to reports related to the royalty rates; requiring the Alaska Oil and Gas Conservation Commission to publish a report related to oil and gas waste; and providing for an effective date."

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

* **Section 1.** AS 31.05.030 is amended by adding a new subsection to read:

(o) Each year, the commission shall

(1) prepare a report documenting each case of oil and gas waste in the state during the preceding calendar year and the actions taken by the commission in response to the waste; and

(2) by the first day of each regular session of the legislature, deliver the report prepared under this subsection to the senate secretary and the chief clerk of the house of representatives and notify the legislature that the report is available.

* **Sec. 2.** AS 38.05.180(f) is amended to read:

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

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

(2) whenever, under any of the leasing methods listed in this subsection, a royalty share is reserved to the state, it shall be delivered in pipeline quality and free of all lease or unit expenses, including but not limited to separation, cleaning, dehydration, gathering, salt water disposal, and preparation for transportation off the lease or unit area;

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

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

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

(C) a fixed cash bonus with a royalty share reserved to the state as the bid variable but **<u>not</u>** [NO] less than 12.5 percent in amount or value of the production removed or sold from the lease;

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

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

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

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

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

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

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

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

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

(5) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil or gas **pool in the Cook Inlet sedimentary basin that, as determined by the commissioner, has not previously produced oil or gas for commercial sale shall** [FIELD IDENTIFIED IN THIS SECTION THAT HAS BEEN GRANTED APPROVAL OF A WRITTEN PLAN SUBMITTED TO THE ALASKA OIL AND GAS CONSERVATION COMMISSION UNDER AS 31.05.030(i) SHALL, SUBJECT TO (dd) OF THIS SECTION,] pay **the** [A] royalty **percentage set out in this paragraph on oil or** [OF FIVE PERCENT ON THE FIRST 25,000,000 BARRELS OF OIL AND THE FIRST 35,000,000,000 CUBIC FEET OF] gas produced for sale from that **pool; for the purposes of this paragraph, the requirement to pay a royalty percentage described in this paragraph does not apply to a lease without a royalty share reserved to the state or a royalty rate payable of at least the applicable percentage of the amount or value of production removed or sold from the lease; a lessee may decline to accept the royalty rate under this paragraph by notifying the commissioner in writing before payment of a royalty to the state for oil or gas eligible for the royalty rate under this paragraph; the royalty rate under this paragraph is**

(A) 0.1 percent for gas produced and five percent for oil

produced on and after January 1, 2025, and before January 1, 2028;

(B) 0.1 percent for gas produced and 6.25 percent for oil produced on and after January 1, 2028, and before January 1, 2031;

(C) five percent for gas produced and 6.25 percent for oil produced on and after January 1, 2031, and before January 1, 2036 [FIELD THAT OCCURS IN THE 10 YEARS FOLLOWING THE DATE ON WHICH THE PRODUCTION FOR SALE COMMENCES; THE FIELDS ELIGIBLE FOR ROYALTY REDUCTION UNDER THIS PARAGRAPH, ALL OF WHICH ARE LOCATED WITHIN THE COOK INLET SEDIMENTARY BASIN, WERE DISCOVERED BEFORE JANUARY 1, 1988, AND HAVE BEEN UNDEVELOPED OR SHUT IN FROM AT LEAST JANUARY 1, 1988, THROUGH DECEMBER 31, 1997, ARE

(A) FALLS CREEK;

(B) NICOLAI CREEK;

(C) NORTH FORK;

(D) POINT STARICHKOF;

(E) REDOUBT SHOAL; AND

(F) WEST FORELAND];

(6) notwithstanding and in lieu of a requirement in the leasing method chosen of a minimum fixed royalty share, or the royalty provision of a lease, for leases unitized as described in (p) of this section, leases subject to an agreement described in (s) or (t) of this section, or interests unitized under AS 31.05, the lessee of all or part of an oil field located offshore in Cook Inlet on which an oil production platform specified in (A), (C), or (E) of this paragraph operates, or the lessee of all or part of the field located offshore in Cook Inlet and described in (G) of this paragraph,

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

(i) Dolly;

(ii) Grayling;

(iii) King Salmon;

(iv) Steelhead; and

(v) Monopod;

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

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

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

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

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

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

(i) Baker;

(ii) Dillon;

(iii) XTO.A; and

(iv) XTO.C;

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

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

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

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

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

(E) shall pay a royalty of five percent on oil produced from the platform if oil production that equaled or exceeded a volume of 750 barrels a day declines to less than that amount for a period of at least one calendar quarter, as certified by the Alaska Oil and Gas Conservation Commission, for as long as the volume of oil produced from the platform remains less than 750 barrels a day; the provisions of this subparagraph apply to

(i) Granite Point;

(ii) Anna; and

(iii) Bruce;

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

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

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

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

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

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

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

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

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

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

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

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

(i) <u>**is**</u> based on the average daily production during the calendar quarter based on reservoir conditions; and

(ii) <u>**is**</u> not the result of short-term production declines due to mechanical or other choke-back factors, temporary shutdowns or decreased production due to environmental or facility constraints, or market conditions.

*** Sec. 3.** AS 38.05.180 is amended by adding new subsections to read:

(mm) Notwithstanding the requirement that information be kept confidential under AS 38.05.035(a), 38.05.133(e), or any other law, the commissioner shall prepare a report related to royalty reductions under (f)(5) of this section and shall, by February 1 of each year, deliver the report to the senate secretary and the chief clerk of the house of representatives, notify the legislature that the report is available, and publish the report on the department's Internet website. A lessee receiving a royalty reduction under (f)(5) of this section shall provide the department with the information necessary for the department to produce the report. At the request of a legislative committee, a representative of the department shall appear in that committee to review the report. The commissioner may aggregate information in the report by project or by area if lease areas are in reasonably close proximity and the information reported is materially accurate. Upon request, the commissioner shall provide information aggregated in the report, broken down by lessee or lease, at the option of the requester. The report must include,

(1) for each lease area or project producing oil or gas receiving a royalty reduction under (f)(5) of this section,

(A) the name of each lessee receiving a royalty reduction;

(B) the starting date of the royalty reduction;

(C) the name of each lessee named on the lease;

(D) the name of each person with an ownership interest in the lease or in the lessee or, if more than 10 people have an ownership interest in the lease or lessee, the 10 persons with the highest percentage of ownership interest in the lease or lessee;

(E) the lease identification number;

(F) a description of the location of the lease;

(G) the total lease acreage;

(H) a summary of the project producing the oil or gas receiving the royalty reduction;

(I) the number of firm gas sales contracts the lessee currently holds with utilities regulated under AS 42.05;

(J) the volume of gas receiving the royalty reduction produced by the lessee

(i) in the preceding calendar year; and

(ii) cumulatively, beginning the calendar year the lessee first received the royalty reduction;

(K) the volume of oil receiving the royalty reduction produced by the lessee

(i) in the preceding calendar year; and

(ii) cumulatively, beginning the calendar year the lessee first received the royalty reduction;

(L) for each lessee that produced gas that received the royalty reduction, the royalty payments for that gas received by the state

(i) in the preceding calendar year;

(ii) cumulatively, beginning the calendar year the lessee first received the royalty reduction;

(M) for each lessee that produced oil that received the royalty reduction, the royalty payments for that oil received by the state

(i) in the preceding calendar year;

(ii) cumulatively, beginning the calendar year the lessee first received the royalty reduction;

(N) a summary of the exploration work performed by the lessee during the period for which the lessee received the royalty rate under (f)(5) of this section, and the results of the exploration work;

(O) whether the royalty rate under (f)(5) of this section has expired or been terminated; and

(2) for each lessee declining to receive the royalty rate under (f)(5) of this section, the name of the lessee and the lease identification number of the lease for which the royalty rate has been declined.

(nn) The commissioner shall provide adequate notice, in writing, of the royalty reduction under (f)(5) of this section and the reporting requirements of (mm) of this section to a lessee that is or may become eligible for the royalty reduction under (f)(5) of this section.

* **Sec. 4.** AS 31.05.030(i) and AS 38.05.180(dd) are repealed.

* **Sec. 5.** AS 38.05.180(mm) and 38.05.180(nn) are repealed February 2, 2040.

* **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).