

Offered: 4/21/86  
Referred: Resources and  
Finance

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1 IN THE SENATE BY THE HOUSE SPECIAL COMMITTEE  
ON OIL AND GAS  
2 HOUSE CS FOR CS FOR SENATE BILL NO. 309 (O&G)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - SECOND SESSION  
5 A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. The legislature finds that the best interest of  
10 the state will be served if the commissioner of natural resources is au-  
11 thorized to establish the in-value royalty for gas sold to a gas or elec-  
12 tric utility by using the contract price between the lessee of the state  
13 and the utility, whether or not the gas lease establishes a different stan-  
14 dard for the valuation and if the lessee and the utility are not related to  
15 each other. The legislature finds that this authorization should apply  
16 prospectively and does not intend the authorization to apply to the val-  
17 uation for royalty purposes of gas sold by a lessee under a gas sales  
18 contract entered into before the effective date of this Act. The legisla-  
19 ture does not intend this Act to apply to the policies of the state regard-  
20 ing the sale of royalty oil.

21 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

22 (aa) Within 90 days after the written request of a lessee of a  
23 lease issued under this section, the commissioner shall enter into an  
24 agreement with the lessee to use the price for the gas established in  
25 the contract between the lessee and a gas or electric utility as the  
26 value of the state's royalty share of gas production sold by the  
27 lessee under the contract unless the commissioner makes a written  
28 finding that

29 (1) the contract price is unreasonably low;

1 (2) the prospective reduction in royalty receipts would not  
2 be balanced by increased benefits to in-state gas and electric con-  
3 sumers;

4 (3) the lessee and the utility are not related in manage-  
5 ment, ownership, or other aspect; and

6 (4) the contract price is not in the best interest of the  
7 state.

8 (bb) In (aa) of this section

9 (1) "gas or electric utility" includes an electric coopera-  
10 tive organized under AS 10.25, a municipal utility, and a gas or  
11 electric utility regulated under AS 42.05; provided that if the con-  
12 tract gas is transmitted to consumers through a pipeline and the gas  
13 utility either owns the pipeline or is related in ownership to the  
14 owner of the pipeline, then the gas utility qualifies as a "gas or  
15 electric utility" within the meaning of this paragraph only if it is  
16 bound or agrees to be bound by the covenants set out in AS 38.35.120;

17 (2) "price for the gas established in the contract" in-  
18 cludes tax reimbursement amounts, deliverability and other charges,  
19 and other forms of consideration paid by the gas or electric utility  
20 under the contract;

21 (3) "state's royalty share of gas production" does not  
22 include the state's royalty share of gas production from land patented  
23 to the state under

24 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
25 Enabling Act);

26 (B) 38 Stat. 1214 (Act of March 4, 1915); or

27 (C) 43 U.S.C. 1635 in settlement of the claims of the  
28 state under 38 Stat. 1214.

29 \* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

1 (h) The commissioner may enter into a contract to sell royalty  
2 gas taken in kind by the state to a gas or electric utility at less  
3 than the market value of the royalty gas if the commissioner makes a  
4 written finding that the sale is in the best interest of the state.  
5 The commissioner shall consider the consumer benefits, other benefits,  
6 and detriments of the sale. In this subsection,

7 (1) "gas or electric utility" has the meaning given in  
8 AS 38.05.180(bb);

9 (2) "royalty gas taken in kind by the state" does not  
10 include royalty gas taken in kind by the state from gas production on  
11 land patented to the state under

12 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
13 Enabling Act);

14 (B) 38 Stat. 1214 (Act of March 4, 1915); or

15 (C) 43 U.S.C. 1635 in settlement of the claims of the  
16 state under 38 Stat. 1214.

17 \* Sec. 4. AS 38.05.810(a) is amended to read:

18 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]  
19 lease, sale, or other disposal of state land or resources may be made  
20 to a state or federal agency or political subdivision, or the lease,  
21 sale, or disposal of coal deposits suitable for mining may be made to  
22 a utility owned and operated by a government agency or nonprofit  
23 cooperative association organized to participate under the Federal  
24 Rural Electrification Act for the purpose of generating electric power  
25 and energy or the production of process steam, or both, for less than  
26 the appraised value as determined by the director and approved by the  
27 commissioner to be fair and proper and in the best interests of the  
28 public, with due consideration given to the nature of the public  
29 services or function rendered by the agency, subdivision, or utility

1 making application, and of the terms of the grant under which the land  
2 was acquired by the state.

3 \* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
4 agreements to establish for a lease issued under AS 38.05.180 the in-value  
5 royalties on gas production that is sold under a contract entered into on  
6 or after the effective date of this Act between the state's lessee and a  
7 gas or electric utility.

8 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
9 10.070(c).