"An Act relating to the sale of oil or gas obtained by the state as a royalty."

COMMITTEE REPORT

4/24/75

HOUSE

Mr. Speaker: Date ____________

The Committee on FINANCE has had HB 410 under consideration. A Majority of the members of the Committee

( ) recommends it DO PASS

( ) recommends it DO NOT PASS

( ) recommends it DO PASS WITH ATTACHED AMENDMENT(S)

(X) recommends it BE REPLACED WITH CS FOR HB 410 AND THAT CS FOR ____________ DO PASS

( ) "and" recommends it BE REFERRED TO THE ____________ COMMITTEE

( ) reports it back WITHOUT RECOMMENDATION

( ) "other"

Members signing the Majority report:

Members NOT concurring in the Majority report:

____________ recommends:

____________ recommends:

____________ recommends:

____________ recommends:

____________ recommends:

____________ Chairman

Original sponsors: Swanson, Anderson, Bowman, et al

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 410

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the sale of oil or gas obtained by the state as a royalty."

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

* Section 1. AS 38.06.070(b) is amended to read:

(b) When it is economically feasible, the board <u>shall</u> [MAY] require, as a condition of the sale of oil or gas obtained by the state as royalty, that the oil or gas be refined or processed in the state [AND MAY, WHEN IT IS FEASIBLE AND IN THE BEST INTERESTS OF THE STATE TO DO SO, PROVIDE FOR PROCESSING OR REFINING OF THE OIL OR GAS] under a contract entered into by competitive bidding before the sale of the oil or gas.

By THE FINANCE COMMITTEE

IN THE HOUSE

CS For HOUSE BILL NO. 410

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the sale of oil or gas obtained by the state as a royalty."

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

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02-001B

STATE
of ALASKA

MEMORANDUM

TO: Division of Legal Services
Legislative Affairs Agency

DATE: 3/4/76

FROM: Pat Williams
Legislative Finance Division
Mail Station 3301
Ph: 3795 Rm. 411 Capitol

SUBJECT: CSHB 410 and
CSHB 743

Attached are two committee substitutes we would like to have typed up and returned to our office. We will need these by early tomorrow morning so we can give them to the Chief Clerk before 10:00 a.m.

Hughes HB 410

STATE OF ALASKA

JAY S. HAMMOND, Governor

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER / POUCH S — JUNEAU 99801

April 25, 1975

The Honorable Hugh Malone
Chairman
House Finance Committee
Alaska State Legislature
State Capitol
Juneau, Alaska

Re: House Bill No. 410

Dear Mr. Malone:

House Bill No. 410, an act relating to the sale of oil or gas obtained by the State as a royalty was introduced in the House on April 11, 1975 and was referred to the House Resources and Finance Committees. On April 24, 1975 the House Resources Committee referred the bill to the House Finance Committee.

For the consideration of the House Finance Committee, I am enclosing a copy of a memorandum dated April 22, 1975 from Mr. O. K. Gilbreth, Jr., Director, Oil and Gas Division, Department of Natural Resources, Anchorage to Guy R. Martin, Commissioner, Department of Natural Resources advising of problems and costs of administration.

Mr. Gilbreth may be contacted by letter to Oil and Gas Division, Department of Natural Resources, 3001 Porcupine Drive, Anchorage, Alaska 99504 or by telephone in Anchorage at 279-1433.

Very truly yours,

R. D. Stevenson

R. D. Stevenson
Special Assistant

cc: O. K. Gilbreth, Jr.
Director, Oil and Gas Division
Department of Natural Resources

Rec'd by Telecopier 8/24 10:15 a.m.

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS

TO: Guy R. Martin
Commissioner

DATE: April 22, 1975

FILE NO:

TELEPHONE NO:

FROM: O. K. Gilbreth, Jr.
Director

SUBJECT: House Bill #410

The following comments are offered for your consideration with regard to the subject bill.

The proposed bill is in direct conflict with Section 38.06.050 (6).

The proposed bill could prevent the state from receiving the highest dollar value for its oil or gas.

The bill may result in "distress oil sales" by requiring refining in-state when the closest refinery may be hundreds of miles away or when the volume is very small. For example, production from a new discovery 200 miles from existing transportation and refining facilities or near a sea-port, would have to be refined in Alaska if sold. Transportation to an existing Alaskan refinery might cost more than the oil is worth. On the other hand, if the oil is not sold by the state it would be sold by the operator and may not bring the highest price. Some refiner in the South "48" might pay a premium because of its qualities and proximity to ocean transportation but under this proposal the state would be prohibited from selling the oil - obviously under the most favorable conditions to the state.

This bill would necessitate several refineries in the state to refine state royalty oil. This carries the implication that the refineries shall be built. This may not be desirable in all areas of operations and the implication should be considered seriously.

Because oil cannot be refined everywhere and refineries are constructed to handle certain types of crudes, it may be necessary to execute long term sales contracts to induce a refiner to refine the royalty oil in Alaska. Long term contracts may or may not be best in the public interest. Based on the present volatile price of crude, long term contracts may be undesirable.

The requirements severely limit the number of competitive bidders which would serve to defeat the purpose of competitive bidding and may not result in highest values being realized.

A new discovery may produce oil for which no Alaskan refineries exist capable of processing that crude. The state could not even sell the oil unless someone was willing to construct a refinery to handle that type of crude. This would occur if a field is discovered which produces "sour" crude (high sulphur content).

In the Prudhoe Bay Field, the volume of royalty oil that will be available far exceeds any refining or processing capacity in Alaska. Since the total Alaska market would only absorb about 10 to 15 percent of the

Prudhoe Bay Royalty Oil, at least 65 percent would have to be shipped out as refined products or petrochemicals. Because labor in the South "48" is much cheaper than in Alaska, oil going south would command a higher price than oil to be refined in the state. Thus the benefits must be evaluated, whether it is better to receive a higher price and have the refineries located outside the state, or have the refineries located in the state and receive a lower value for the oil. The only way this can be evaluated is for the board to require bids both ways and accept the one with the most benefits to the state.

We do not know what is meant by "processed" as used on line 12 with regard to gas. Does this mean stripping the components from casinghead gas or does it require liquefaction of dry gas?

Dry gas from all the dry gas fields in Alaska does not require any processing as it is ready for sale and use when it leaves the lease. To require some additional "processing", regardless of what this means, will reduce the value of an already marketable product.

Casinghead gas must be stripped of its liquid components before it is capable of being transported over long distances to prevent the liquids from dropping out in the lines. Consequently, any provision requiring processing of this gas is moot because it is already an operational necessity. About the only conditions under which sales could be made are for lease fuel or fuel nearby where transportation distances are very short so that liquid drop-out is not a problem.

About four years ago the Tyonek Indians lost their gas source for generating electricity for the Tyonek village. They needed gas to run the generators. Unfortunately, there was no gas available close enough to be economical and they had to convert to diesel fuel. If under similar circumstances in the future there should be some royalty gas available and this law is in effect, they would have to agree to "process" it before we could sell it to them.

At this time the only advance gas payments of any magnitude, (at least 100 million dollars) that can be made are through interstate sales which probably would not require processing. Operators gas (7/8ths) will be ready for interstate sales as it enters the sales line. If the "processing" in this law requires additional handling, we would receive less than we could otherwise.

Due to the magnitude of Prudhoe Bay oil and gas volumes, inclusion of the "processing" requirement may cost the state many tens or hundreds of millions of dollars. There would be no way of knowing what the magnitude of these differences would be unless the board has the authority to evaluate the differences then decide which is the best way for the state.

Fiscal Information

We believe that adoption of this bill will require the additional services of one person experienced in oil and gas refining and processing in the Department of Natural Resources for preparation and evaluation of bids and the time of a contract attorney for bid and contract preparation. Also it may be necessary to employ consultant specialists to interpret and advise on contractual terms and conditions of sale. For example if petrochemicals are involved, contracts can be very complicated and outside expertise would be required.

	FY 75	76	77	78	79	80
100 Personal Services	0	59	62	78	69	73
200 Travel	0	4	4	5	5	5
300 Contractual	0	20	21	22	23	24
400 Commodities	0	1	1	1	1	1
500 Equipment	0	2	0	1	0	1
600 Land & Structures	0	0	0	0	0	0
700 Grants, Claims, etc.	0	0	0	0	0	0
Totals	0	86	88	94	98	104

cc: R. D. Stevenson
Special Assistant
Department of Revenue

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER — POUCH S - JUNEAU 99811

May 10, 1976

The Honorable Kathryn Poland
Chairman
Senate Resources Committee
Alaska State Legislature
State Capitol Building
Juneau, Alaska

Re: Committee Substitute for House Bill No. 410 am

Dear Senator Poland:

Committee Substitute for House Bill No. 410 am, an Act relating to the sale of oil or gas obtained by the state as a royalty, was introduced in the Senate on March 16, 1976 and was referred to the Senate Resources and Finance Committees.

For the consideration of the Senate Resources Committee, I am enclosing a copy of a memorandum prepared by Thomas K. Williams, Director, Petroleum Revenue Division, Department of Revenue, Anchorage, Alaska concerning the proposed legislation.

If you or any members of the Senate Resources Committee have any questions on the material submitted, please telephone the writer at 465-2397 and I will contact Mr. Williams in Anchorage for further information.

Very truly yours,

R. D. Stevenson
Special Assistant

cc: The Honorable Bill Ray
Chairman
Senate Finance Committee

Thomas K. Williams
Director, Petroleum Revenue Division
Department of Revenue
Anchorage, Alaska

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

"1776-A TRIBUTE FROM OUR STATE TO OUR NATION-1976"

THE SEAL OF THE STATE OF ALASKA

02-001B (REV. 08-73)

MEMORANDUM State of Alaska

TO: R. D. Stevenson
Special Assistant
Department of Revenue

DATE: April 30, 1976

FILE NO:

TELEPHONE NO:

FROM: Thomas K. Williams/
Director
Petroleum Revenue Division

SUBJECT: CSHB 410 am

In response to your research request concerning Committee Substitute for HB 410, amended, the following is offered:

The Department of Natural Resources still holds to its objections to the change from permissive ("may") to mandatory language ("shall") under the Bill.

It seems to me that with the amendment to the Committee Substitute, the Bill seems to be primarily a semantic exercise and I see nothing substantive that it would achieve that the present statute doesn't accomplish already.

I concur with Mr. Gilbreth's memorandum regarding the earlier versions (HB 410 and CSHB 410) of the Bill.

Effects on Treasury, if any, are speculative and problematic at this time. The requirement to refine or process State royalties in Alaska would tend to reduce the number of would-be purchasers, but no one can state exactly what it would or might do to the price the remaining purchasers might offer.

TKW:dh

Original sponsors: Swanson, Anderson, Bowman, et al

Offered: 3/5/76
Referred: Rules

IN THE HOUSE

BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 410 am

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the sale of oil or gas obtained by the state as a royalty."

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