

Relating to the taking of state-owned royalty oil or gas in-kind and its disposal by sale.

COMMITTEE REPORT

HOUSE

5/16/76

Mr. Speaker:

Date 5 17 76

The Committee on FINANCE has had SCW 106

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)

recommends it BE REPLACED WITH CS FOR _____ 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:

<u>[Signature]</u>	<u>[Signature]</u>	<u> </u>
<u>[Signature]</u>	<u>[Signature]</u>	<u> </u>
<u>[Signature]</u>	<u> </u>	<u> </u>
<u>[Signature]</u>	<u> </u>	<u> </u>

Members NOT concurring in the Majority report:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

[Signature] Chairman

5 C Res 106

Please see file
H

A Summary of the Case for the Sale
of the State of Alaska's North Cook
Inlet "Royalty Gas" to the
Alaska Pipeline Company ("Anchorage Natural Gas")

Prepared for presentation to the
Resources Committees of the
Ninth Alaska State Legislature

May, 1976

In an effort to meet an immediate need for additional gas reserves for the North Kenai area and to assist in maintaining the long term reserves required to meet the on-going and ever increasing demands of its entire service area, Alaska Pipeline Company ("APC") has reached agreement with the State of Alaska on the terms of a contract whereby APC would purchase the State's one-eighth (1/8th) royalty share of the North Cook Inlet Field. The majority of the gas so obtained would be used to satisfy the needs of the North Kenai area while the balance would be available for use throughout the service area.

Essentially the contract calls for APC to take the gas at the platform on a when and as available basis with no operational burden or financial loss to the State. The pricing features of the contract are such as to prevent any subsidization of Cook Inlet gas and power consumers by the State.

The need for additional reserves for service to the North Kenai area is immediate and is a consequence of the actual exhaustion of the reserves under contract for that area. An extension of the contract for one year has been obtained but with the gas to be taken from "Anchorage" reserves. While such an extension serves well to meet an immediate need, dependance on further such extensions is unwise as it accelerates

"Anchorage" reserve depletion while at the same time it affects deliverability and precludes long range company and customer planning.

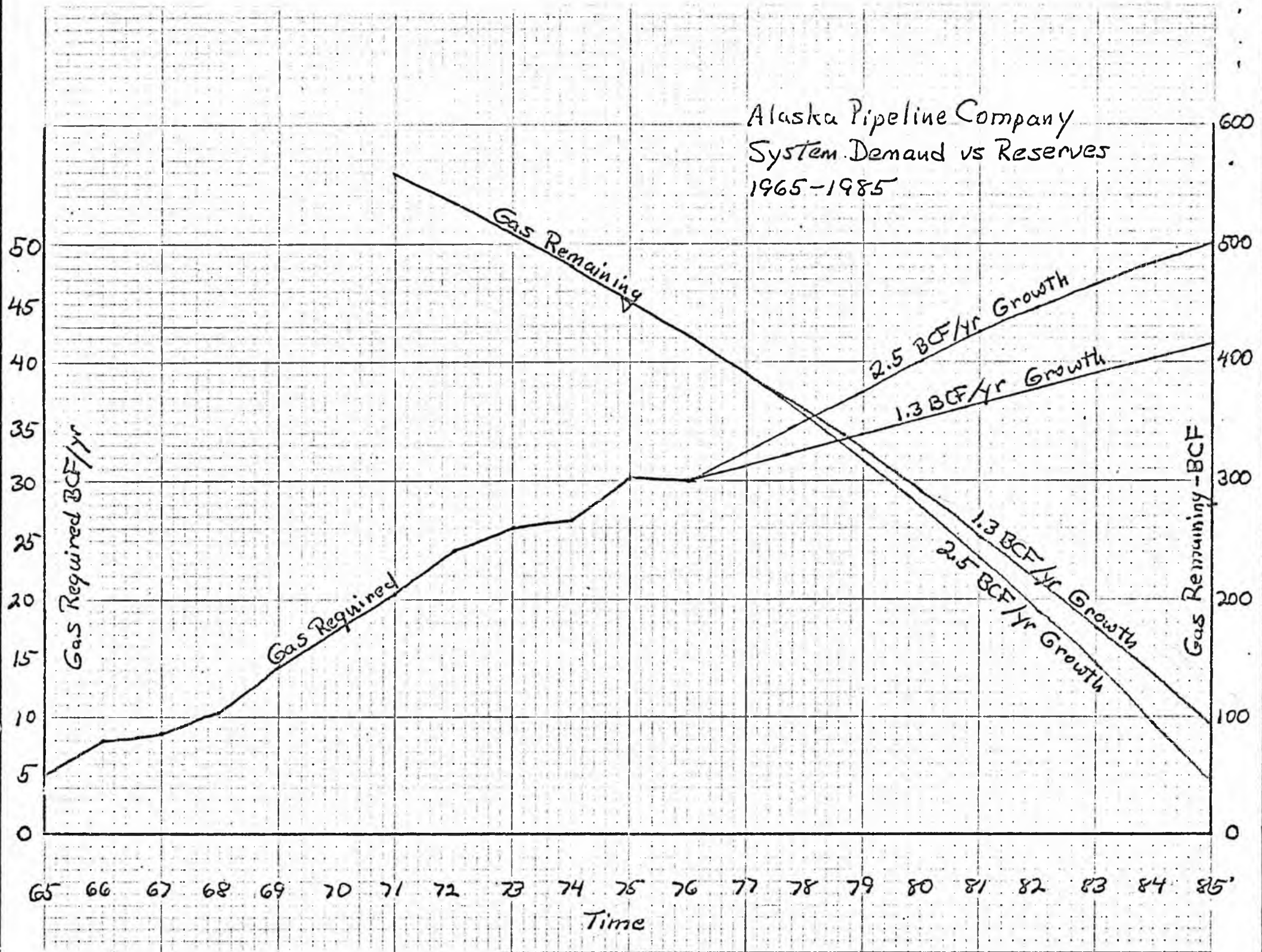
The interrelation of usage and reserve life in a growing market is quite fluid, sometimes misleading and always to an extent subjective. The attached chart provides a graphic presentation of the situation as presently viewed. The lower growth rate assumed is quite conservative and represents the lowest probable condition while the higher growth rate approximates our historical growth and is considered to be realistic. In either case it is evident that a need for additional reserves exists.

Recognizing the need for more reserves, APC had earlier contacted several producers regarding this matter of obtaining reserve commitments. Such negotiations are time consuming and at times frustrating (as can be attested to by others searching for reserve commitments in the same region) and as yet have not been fruitful. In addition, APC has commenced an exploration program on its leases in the Susitna River area but this, too, has not yet been successful.

While APC will continue to explore for gas finds of its own and to negotiate for the commitment of other reserves as they may become available, APC does believe that this contract, and the gas and reserve life that it represents, is essential to the well being of the entire Cook

Inlet area and strongly urges that favorable and timely legislative action be taken.

Alaska Pipeline Company
System Demand vs Reserves
1965-1985



1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE CONCURRENT RESOLUTION NO. 106

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 NINTH LEGISLATURE - SECOND SESSION

5 Relating to the taking of
6 state-owned royalty oil or gas
7 in-kind and its disposal by sale.

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

9 WHEREAS the legislature by enactment of the Alaska Royalty Oil and Gas
10 Development Board statute, AS 38.06. et seq., has established a clear policy
11 of favoring the taking of state-owned royalty oil or gas in-kind and making
12 that royalty available for in-state uses; and

13 WHEREAS the State of Alaska presently receives a one-eighth royalty on
14 gas produced from the North Cook Inlet Gas Field in value, but has the
15 right to receive this royalty in-kind; and

16 WHEREAS the commissioner of natural resources has entered into a
17 contract for the sale and purchase of state-owned royalty gas from the
18 North Cook Inlet Gas Field with Alaska Pipeline Company, an Alaskan corpora-
19 tion which sells natural gas in the Anchorage and North Kenai Road areas; and

20 WHEREAS the contract between the State of Alaska and Alaska Pipeline
21 Company requires as a condition precedent to its becoming effective appro-
22 val by a majority of each house of the Legislature;

23 BE IT RESOLVED by the Alaska State Legislature that approval of
24 Alaska Royalty Gas Sale No. 76-1, the contract for the sale of state
25 royalty gas from the North Cook Inlet Gas Field to Alaska Pipeline Company,
26 is hereby approved.