

HB

58

Memorandum on authority over interconnections to facilitate the purchase of crude oil by the State, its political subdivisions or private parties in the vicinity of the pipeline.

Under the provisions of current statutes and the State Right-of-Way Lease, authority exists to permit the installation of inter-connections for the purpose of transporting crude oil from the pipeline to purchasers located adjacent to the pipeline route. Such potential purchasers would include the State of Alaska, its political subdivisions and private individuals or entities. In order to energize this process, there must be a potential buyer of crude oil in commercial quantities. This buyer can be the State, a political subdivision or private individual or entity. Once a potential buyer of crude oil offers to purchase, discussions would be held between the purchaser, Alyeska Pipeline Service Company and the owners of the oil being transported in the pipeline. Generally, such meetings would lead to an agreement to install an interconnection at an appropriate point with a capacity sufficient to transport the amount of oil which will be purchased by the buyer and to apportion the costs of such an installation. However, if such an agreement cannot be negotiated among the parties, the Alaska Pipeline Commission upon petition of any interested person has the requisite authority to compel the installation of the interconnection and to apportion the costs of installation.

In addition, the State of Alaska can compel the installation of interconnections and interchange facilities at State expense at such places it considers necessary if the State determines to take all or a portion of its royalty oil in kind rather than selling it.

The State Right-of-Way Leasing Act under the provisions of AS 38.35.120 (10) provides as follows:

It (the lessee carrier) will provide, where economically feasible and consistent with the primary function of the line, connections and facilities on the pipeline subject to the lease, both on State land and other land in the State, for the purpose of delivering crude oil or natural gas, depending upon the kind of pipeline involved, to persons desiring to purchase who are located in municipalities in the vicinity of the pipeline:

The Alaska Pipeline Commission, described in Title 42 of the Alaska Statutes, was created for the purpose of regulating the operations and activities of oil and gas pipelines. The Pipeline Commission has the authority to order interconnections for the transportation of oil from the pipeline to adjacent purchasers. A.S. 42.06.340 provides as follows:

Order for Joint Use or Connection. When there is failure to agree upon the joint use or interconnection of oil or gas pipeline facilities or the conditions or compensation for joint use or interconnections, any interested person may apply to the Commission for an order requiring the interconnection. If, after investigation and opportunity for hearing, the Commission finds that public convenience and necessity require the joint use or connection, and that the use or connection will not result in substantial injury to the oil or gas pipeline facility or its customers, or in substantial detriment to the services furnished by the oil or gas pipeline facility, or in the creation of safety hazards, it shall (1) order that the use be permitted; (2) describe reasonable conditions and compensation for the joint use; (3) order the interconnection to be made; (4) determine the time and manner of the interconnection; (5) determine apportionment of costs and responsibility for operation and maintenance of the interconnection.

This authority found in Title 38 and 42 to compel interconnections under certain circumstances for the transfer of oil from the line to purchasers in the vicinity of the line has been made an express condition of the State Right-of-Way Lease currently held by the owner companies of the Trans-Alaska Pipeline.

Section 7 of the State Right-of-Way Lease provides as follows:

Connections for Delivery

Lessees shall provide connections as determined by the Alaska Pipeline Commission, under AS 42.06.340, to facilities on the pipeline subject to the lease both on State land and on other land in the State, for the purpose of delivering crude oil to persons (including the State and its political subdivisions) contracting for the purchase at wholesale of crude oil transported by the pipeline when required by the public interest.

Section 8 of the Right-of-Way Lease provides as follows:

Connections for State Owned Oil

Lessees shall, notwithstanding any other provisions, provide connections and interchange facilities at State expense at such places the State considers necessary if the the State determines to take a portion of its royalty or taxes in oil.

Section 9 of the Right-of-Way Lease requires the lessees to construct and operate the pipeline in accordance with applicable State laws and lawful regulations and orders of the Alaska Pipeline Commission.

Therefore, the public interest in obtaining access to commercially reasonable quantities of crude oil transported through the pipeline is protected by the State statutes and the terms of the State Right-of-Way Lease granted to the owners of the Trans-Alaska pipeline. In addition, the Alaska Pipeline Commission has the clear authority to compel connections upon application of an interested party if the potential oil purchaser, Alyeska Pipeline Service Company and the owner companies are unable to reach a mutual agreement concerning the terms and conditions of the interconnection.

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February 24, 1975

Representative Nels A. Anderson, Jr.
Chairman, House Resources Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99801

Dear Nels:

As you requested, I am setting down some comments on the various bills before your Committee.

House Bill No. 30

It is our feeling that the proposed Bill is probably too restrictive insofar as it would be mandatory upon the Board to require that royalty oil or gas be processed within the state as a condition of sale by the State. It is impossible to anticipate the various circumstances under which the State may want to use its control over royalty oil or gas and the disposition thereof in order to effect the interests of the State. It might be better to leave some considerable discretion with the Board.

House Bill No. 34

This really goes beyond our area of competence. It involves questions of administrative practice, the realistic limits and costs of insurance, etc. Given the purpose of the Bill, its administration ought not to be overwhelmed with impracticabilities.

✓ House Bill No. 58

We have no way of judging the significance of this particular location for a pipeline connection and interchange facility. Presumably Fairbanks will be served by Alyeska, and in any event the Alaska Pipeline Commission does have authority in this matter. Is there specific reason to legislate such a requirement? Or should the whole question of pipeline connections be left to your regulatory commission?

House Bill No. 60

We feel that the basic intent of this Bill is good, but the specific requirement for "checkerboarding" would be too restrictive. This subject is discussed in our Report on Leasing Policy (February, 1970). On page 10, for example, we recommend that "first-round leasing of exploratory acreage should be spaced in such a manner, while not necessarily according to checkerboard pattern as usually defined, such that substantial and varied acreage which may appreciate in value as knowledge develops will continue to be held by the State for future leasing." You may want to have a look at that Report for the discussion of the amount of acreage that would have to be offered in order to provide a reasonable basis for an exploration effort, while not so extensive that it undercuts the State's opportunity for subsequent leasing.

House Bill No. 102

I believe the "Oil in Place" bills were discussed fairly thoroughly before your and other Committees, so I will not go into it at length at this time. I would call your attention, however, to two specific matters in this particular Bill.

First, Sec. 15 refers to both oil and gas leases, but it is unclear in the Bill itself whether the ad valorem tax will be assessed against oil reserves alone or also against gas reserves. You will recall our concerns that the problems of assessment become magnified to the extent that more oil fields than Prudhoe would be encompassed, and even more so when gas fields as well have also to be assessed on an equitable basis. But in equity, why should gas fields not be covered?

Second, the Bill provides that the ad valorem tax is abated when the production tax becomes applicable. On this basis the ad valorem tax becomes a net addition to the companies' aggregate tax burden. The alternative would be for the ad valorem tax to carry forward as a credit against the companies' subsequent production tax liability.

I suspect that your legislative calendar is moving ahead, compared with its status when I was with you in Juneau. We had looked upon that as a preliminary visit, and will be quite prepared to review further the legislation that comes before your Committee as things shape up more concretely.

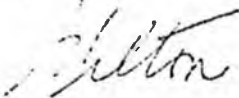
Representative Nels A. Anderson, Jr.
February 24, 1975

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Meanwhile, please don't hesitate to call or write if we can be of any further help.

With best regards,

Cordially,



Milton Lipton
Executive Vice President

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