

HB

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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?

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✓ 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.

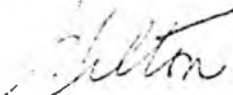
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Meanwhile, please don't hesitate to call or write if we can be of any further help.

With best regards,

Cordially,



Milton Lipton
Executive Vice President

ML:aj