

(RUB)

5/8/75

Dear Ned,

Please spring SB131, the split fish & game board bill from your committee and send it over to rules.

I think that bill will give us better management of both fish and game. For instance those interested in game or the present board do not tend to be too attentive to fishing problems. Also I think a seven man board will be more efficient in both areas.

Hope you are having lots of fun!

Best regards

Jack Anderson

SB

174

"An Act relating to the taking of oil and gas royalty-in-kind; and providing for an effective date."

COMMITTEE REPORT

3/25/75

HOUSE

FINANCE

Mr. Speaker:

Date 4-21-76

The Committee on Resources has had CSB 174

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" as follows

Members signing the Majority report:

Walter Anderson Do Pass

Walter Anderson

Members NOT concurring in the Majority report:

Walter Anderson recommends: No Fee

_____ recommends:

_____ recommends:

_____ recommends:

_____ recommends:

Walter Anderson Chairman

~~CS~~ CSSB 174.

Puts the state at a tremendous disadvantage with their backs against the wall.

Is definitely not in the state interest.

Reduces all the states options. —

Brown - Sub-committee to find out

Whether Senate Resources Committee still wants CS174

to go through. —

Bristol
Bay
Native
Corporation

445 E. 5TH STREET / ANCHORAGE / ALASKA 99501 / PH. (907) 277-9511

rec'd
4/9/76

April 7, 1976

PERSONAL

The Honorable Nels A. Anderson, Jr.
Alaska State House of Representatives
Pouch "V"
Juneau, Alaska 99801

Dear Nels:

You asked me for my comments on CSSB 174 before you held hearings on April 14. Since BBNC has opposed several bills this year, I think we should reserve our ammunition for bigger issues such as increased taxes. Therefore these comments are for your personal guidance, in fact, being a Legislator you may not agree with me at all.

State oil and gas leases have a provision for the State to take its royalty in kind and this has been done in the past by the Commissioner of Natural Resources, no doubt with the approval of the Governor. Since then we have set up an Oil and Gas Royalty Board and their consent is required. Now this bill would require approval of the Legislature which to me is absolutely absurd and suggests the desire for year-round employment or special sessions.

You have always said the Legislature is a very deliberative body and it takes time to do things right. In this case a willing buyer may not have a market by the time the various consents and approvals are obtained. You should consider that Alaska's oil production is only a small part of the world wide production which is controlled by supply and demand, not to mention more or less daily problems of transportation and storage all requiring immediate decision to keep the wheels of progress oiled. Gas production is an entirely different, unrelated problem as sales by necessity must be long term. I would suggest you bury this bill.

One other general comment, I don't think the 9th Legislature can anticipate or solve all of Alaska's as yet undefined future problems.

Keep up the good work and best regards.

Sincerely,

W. Bishop
W. Bishop

cc: Directors
Legislative Task Force

STATE
of ALASKA

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
Division of Oil and GasTO: Guy R. Martin
Commissioner

DATE: April 13, 1976

FROM: O. K. Gilbreth, Jr. *OKG*
Director

SUBJECT: CSSB174

This bill would make it virtually impossible to secure the best sales prices for oil and gas. Though we are sympathetic and favor the State controlling the disposition of royalty oil and gas, this bill leaves insufficient flexibility for the Commissioner to operate to secure the best prices. The bill makes it virtually impossible to obtain what is best for the State, then get Royalty Board approval, then get legislative approval and still function in a timely manner and not get caught in distress sale conditions.

It is our opinion that we cannot secure maximum income or contract terms in the sale of oil or gas where the State is boxed in to a mandatory sale and yet has no control over operation of the well or lease. A prospective buyer can easily see that the State will be in a distress condition to sell.

The Committee substitute provides that the Commissioner with the consent of the Board can enter into oil and gas sales contracts for one year or less to relieve a shortage of storage capacity. Any sale over one year presumably requires legislative approval. In the case of oil, long term sale contracts may not be advisable because of the anticipated increases in value in the future. Consequently each contract for two or three years must be approved by the Legislature. This will ultimately result in the Legislature having to pass on many contracts each year --- perhaps as many as 100 contracts. In the meantime, a distress sale must be made to "tide the State over until legislative approval is obtained." The companies, knowing this, would be foolish to pay top prices when they can buy under distress conditions. Consequently we can anticipate some losses on our short term sales. Also, since it will be mandatory that the State sell the oil, a crude oil and gas sales section must be established to handle these affairs. A fiscal note is attached showing the estimated cost of this section.

Guy R. Martin
O. K. Gilbreth, Jr.

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April 11, 1976
CSSBI74

For gas, we cannot trade our royalty volumes as easily as we can trade oil. Since the legislature must approve any sale, beyond one year, we must be able to market the first year's production between contracts. It is virtually impossible to sell gas under a one year contract. The net result will probably be that we will have to give the production to anyone who will take it or, in the worst case, pay someone to take it off our hands. We can't flare it nor can we stop the operator from producing simply because we don't have a market for our royalty gas. The operator can readily make long term contracts in order to produce the well at the earliest possible time. It must be borne in mind that facilities have to be installed to transport gas to the ultimate user and this requires financing which requires long term contracts. No one is willing to install facilities to a new source without a long term contract. Thus it is likely that since we can't make long term commitments until the Legislature acts, nor let the operator sell for us until we do, we will find ourselves in quite a dilemma in every new lease where oil or gas is found

If the Legislature feels that the State should sell its royalty oil and gas, then to provide more flexibility, we recommend that they consider leaving the "may" on Line 11 as is in present law and have the Commissioner report within two years after first production on his efforts and results in attempting to sell the royalty in-kind. The Legislature could mandate through resolution or other means at that time if it was not satisfied in the effort that the Commissioner had made. This span would give the Commissioner adequate time to get the best deal for the State, would give him the option to have the company market the oil or gas production while he negotiated if he didn't have an instant buyer, and would not create the climate of a distress sale.

Attachment