scomm

#11:4

February 27, 1976

Mr. Michael Tanzer
Tanzer Economic Associates
202 West 86th Street
New York, New York 10024

Dear Mike:

Enclosed, for your information, is the most recent bill filed in the Legislature concerning oil taxation. It is known as the Cowper bill.

Sincerely,

John Huber

Enclosure

ALASKA HOUSE OF REPRESENTATIVES

REPRESENTATIVE
STEVE COWPER
CHAIRMAN

POUCH V
JUNEAU, ALASKA
99811
PHONE
(907) 465-3795

SUBCOMMITTEE ON REVENUE SOURCES

20 February 1976

Senator John Huber, Chairman
Subcommittee on Taxation and Revenue
Legislative Council
Alaska State Legislature

Dear Senator Huber:

We received the final report of Tanzer Economic Associates, New York, on 26 January 1976 and the $5,000 balance under the original contract is due and payable.

The contractor will submit a billing for out-of-pocket expenses not yet reimbursed.

Sincerely,

Steve Cowper

jb

OK TO PAY

John Huber

AGO 513555

ALASKA STATE LEGISLATURE

MEMORANDUM

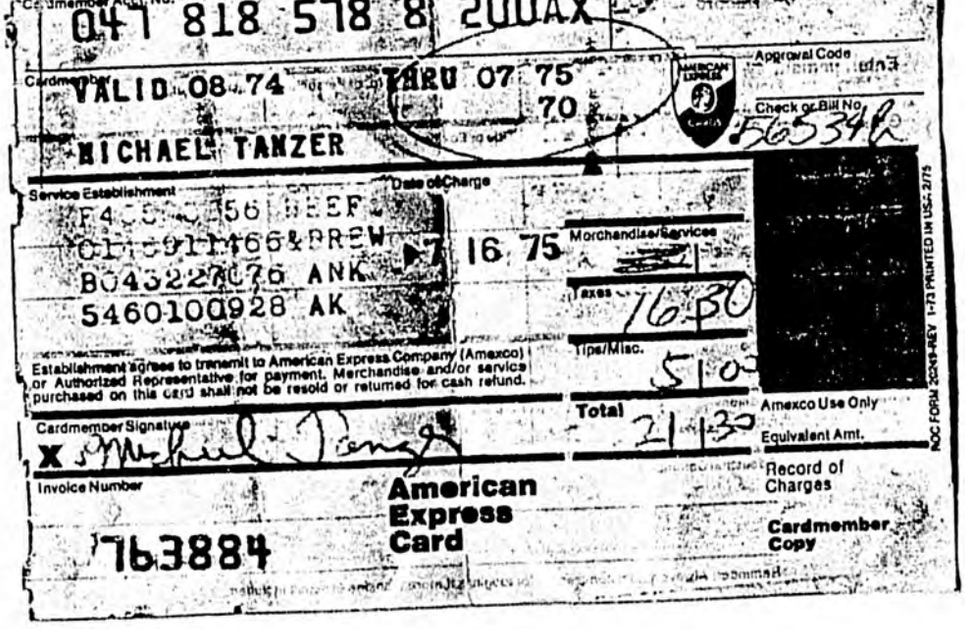
TO: Senator John Huber, Chairman
Subcommittee on Taxation and Revenue

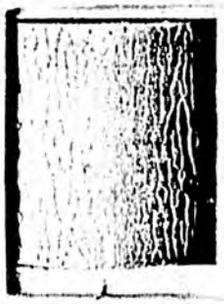
FROM: Joan Bailey
House Finance Committee DATE: 2/17/76

Mr. Tanzer enclosed this receipt for $21.30 from his previous trip to Alaska which, through an oversight, he did not enclose on that billing. I checked with Pat Costello in Administrative Services, and it definitely has not been paid. If you would approve it, I could forward it to Legislative Affairs for payment.

Thank you.

OK to PAY/APPROVED: John Huber
Senator John Huber





AGO 513556

C O N T R A C T

The Legislative Council, Alaska State Legislature, on behalf of Representative Steve Cowper, Chairman of the Oil and Gas Subcommittee of the Interim Subcommittee on Taxation, contracts with MR. MICHAEL TANZER of Tanzer Economic Associates, Inc., 302 West 86th Street, New York City, New York 10024, for professional consulting services in accord with the proposal of Tanzer Associates dated 13 May 1975.

Period of performance shall commence on the date that both parties have signed this contract and expire on 15 November 1975.

In consideration of services to be rendered, the Legislative Council shall pay the contractor the sum of Ten Thousand Dollars ($10,000), one-half to be paid no later than ten days after both parties have signed this contract and the balance to be paid upon delivery of the completed study on 15 November 1975. Out of pocket expenses for this study, such as for air fare, subsistence, and communications shall be charged as separate items and billed.

This contract shall be governed by the applicable laws of the State of Alaska.

Genie Chance

Senator Genie Chance
Chairperson
Legislative Council
310 K St., Suite 701
Anchorage, Alaska 99501

Date: 7-14-75

N. Spencer Hammond

N. Spencer Hammond
Administrator
Legislative Affairs Agency
Certifying Officer

Date: 7-14-75

Michael Tanzer

Michael Tanzer
Tanzer Economic Associates, Inc.
302 West 86th Street
New York City, New York 10024

Date: 7/14/75

cc: Representative Steve Cowper
Mr. Michael Tanzer
File

AGO 513557

LA11 0011 16.44 LA11 0020 16.44 07/28/75

SHARON MITCHELL: BUDGET, OIL & GAS SUBCOMMITTEE
INTERIM TAXATION SUBCOMMITTEE

TANZER CONTRACT		$10,000
"ACTUAL EXPENSES"		
AIR FARES (N.Y.-ANCH-DILLINGHAM-JUNEAU-SEATTLE-N.Y. AND N.Y.-ANCH-FBKS-PRUDHOE-BARROW-ANCH-SEATTLE-N.Y.)		1,352
SUBSISTENCE (350, 410)		760
COMMUNICATIONS (8 CALLS @ $46)		368
		2,480
REP. COWPER		
AIR FARE (FBKS-ANCH-FBKS AND FBKS-PRUDHOE-BARROW-FBKS)		341
PER DIEM		144
SEN. HUBER		
AIR FARE (FBKS-PRUDHOE-BARROW-FBKS)		183
PER DIEM		48
REP. ANDERSON		
AIR FARE (DILLINGHAM-ANCH-DILL-ANCH-DILL)		234
PER DIEM		96
		1,046
CONTINGENCY (10%)		353
TOTAL		/3,879
	R.	/3,900

LA11 0012 16.48 LA11 0021 16.48 07/28/75

OIL & GAS SUBCOMMITTEE BUDGET TOTAL SHOULD READ 13,900.
J. RHODE

AGO 513558

TANZER ECONOMIC ASSOCIATES, INC.
ECONOMIC CONSULTANTS
302 WEST 86TH STREET
NEW YORK, N.Y. 10024
(212) 421-1950
CABLE "TANZECON" NEW YORK

February 13, 1976

Senator John Huber
Chairman,
Special Committee on Taxation and Revenue
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear John:

Thank you for sending me a copy of the Rush Moody report on "Legal Analysis of Issues Relating to Natural Gas Transportation." I did indeed find it quite interesting and informative. While I am not competent to comment on the legal issues analyzed, I am happy to respond to your request for comments or recommendations on the report, as it may touch on economic questions. This letter represents my initial reaction to some of these matters:

1. As I understand the Moody report, a key legal conclusion is that the State should take royalty gas in kind rather than in value; otherwise, it may lose control in the future of this royalty gas because it will come under FPC regulation, and thus it would be possible that none of Alaska's natural gas would be available for consumption within the State.

2. From an economic point of view, I think the State would also be wise to take royalty gas (and maybe royalty oil also) in kind, so as not to lose the future option on having the royalty gas. This is particularly true because the real value of the royalty gas to the State may be much higher than its market value, for the following reasons.

3. First, at present the price of FPC regulated natural gas moving in interstate commerce is about one-fourth its real market value, as measured by prices on intra-state sales (50¢ versus $2.00 per MCF). While natural gas prices may be deregulated in a few years, there is no present certainty on this.

4. More important, in the long run I think it is generally agreed that the use of natural gas for its heat content as a fuel is a waste of a valuable resource, since its greatest value would be as a petrochemical feedstock. This suggests among other

things that over the long run natural gas prices will rise as it increasingly is reserved for its more valuable use.

5. But, because of the high profit rates the oil companies use in their DCF calculations (as discussed at length in my report), their decisions will tend to be made on short run profit considerations, which may not be best for the State. By way of hypothetical illustration, I constructed a case to show where it might be better for the State to have the gas stay in the ground until it became more valuable, while for the companies it would be more profitable to produce quickly. The hypothetical assumptions were that natural gas would sell at $2 per MCF in the 1980s, $6 per MCF in the 1990s, and $18 per MCF thereafter. Assuming a time value of money, or discount rate, for the companies of 20% per year and for the State of 10% per year, it turns out that if a gas field has a 20 year life, the companies would be best off producing all the gas in the 1981-2000 period, while the State would be better off with the gas produced in the 1991-2010 period. (See attached table.)

6. The problem of the State having a lower discount factor, and hence a longer time horizon, than the companies is of course a general one which may lead to conflicts of interest in many oil and gas areas. Thus, for example, it may be better for the State if all oil and gas were produced at a slower rate than the companies would like, and it is possible that this could be handled under conservation regulations. Specifically, however, with regard to its royalty gas, if the State decides it would be better off with gas production at a slower rate than the companies want, perhaps a way could be worked out to require the companies to leave the royalty gas in the ground until the State requests it, either for its own use or for resale. Alternatively, the State could perhaps exchange the royalty gas with companies for "future gas" to be delivered by them when desired by the State.

7. Another factor favoring taking of royalty gas in kind is that market prices of gas may not reflect the full economic cost to the State of not having the gas. In the short run, a lack of gas could mean costly shutdowns of industry and great consumer inconvenience. In the long run, the absence of an assured supply of gas might hinder the whole economic development of the State. Thus, the question of royalty gas cannot be divorced from questions of planning long-run economic development. But, at least keeping the option to take gas in kind does not foreclose future industrial development opportunities.

8. Also, I think taking royalty gas in kind would have the advantage that it will help the State learn more about the oil and gas business, from practical experience. With oil companies fully integrated from the raw material through petrochemicals, and with the allocation of costs between oil and gas production,

and between raw material production and other functions, often being arbitrary, it is important for the State to have a good grasp of the practical economics of the gas business as well as the oil business. This is vital for the State even if it is to simply maximize its benefits as a tax collector.

9. Finally, I certainly agree with the Moody Report's general recommendations that State leasing policies and taxation on natural gas should be reconsidered. In my opinion both of these questions call for detailed study of possible alternatives. Here I would only observe that tax rates in Texas and Louisiana, where the oil companies have widespread political support from small producers, would not normally be an adequate yardstick as to what rates of taxation could be imposed.

I hope these general comments will be of use to you. My thanks also for your kind words about my report.

Yours sincerely,

Michael Tanzer

Dr. Michael Tanzer,
President

P.S. As requested I have forwarded my expense bills, to Jim Rhode.

MT:lah

ALASKAN NATURAL GAS PRODUCTION: HYPOTHETICAL EXAMPLE ILLUSTRATING POSSIBLE CONFLICT OF INTEREST BETWEEN THE STATE AND THE COMPANIES OVER TIMING OF PRODUCTION

Assumptions:

(1) Prices of natural gas ($ per MCF): 1981-90, $2; 1991-2000, $6; 2001-2020, $18.

(2) Ignore in all cases investment and operating costs (Alternative interpretation: Prices are net of costs).

(3) Potential production = 1 MCF per year for 20 years.

(4) Discount factors for computing present value in 1980 of future income from gas: companies, 20% per year; State, 10% per year.

TOTAL VALUE OF INCOME FROM
20 YEARS OF GAS PRODUCTION ($):

		1981-2000	1991-2010	2001-2020
A.	Gross Value (undiscounted)			
	(a) First 10 years	20	60	180
	(b) Next 10 years	60	180	180
	(c) Total 20 years	80	240	360
B.	1980 Present Value, Discounted at 20% per year (company rate)			
	(a) First 10 years	8.39	4.06	1.96
	(b) Next 10 years	4.06	1.96	.32
	(c) Total 20 years	12.45**	6.02	2.28
C.	1980 Present Value, Discounted at 10% per year (State rate)			
	(a) First 10 years	12.29	14.22	16.43
	(b) Next 10 years	14.22	16.43	6.32
	(c) Total 20 years	27.51	30.65**	22.75

** = Most profitable production period

ALASKA HOUSE OF REPRESENTATIVES

REPRESENTATIVE
STEVE COWPER
CHAIRMAN

POUCH V
JUNEAU, ALASKA
99811
PHONE
(907) 465-3795

SUBCOMMITTEE ON REVENUE SOURCES

3 February 1976

Mr. Myrt Charney, Director
Division of Administrative Services
Legislative Affairs Agency

Dear Mr. Charney:

We received the final report of Tanzer Economic Associates, New York, on 26 January 1976 and the $5,000 balance under the contract is due and payable.

The contractor will submit a billing for out-of-pocket expenses not yet reimbursed.

Sincerely,

Steve Cowper

jb

AGO 513564

January 30, 1976

Mr. Michael Tanzer
Tanzer Economic Associates
302 West 86th Street
New York, New York 10024

Dear Michael:

I am enclosing a copy of the Rush Moody report which was accomplished under a contract with our Gas Pipeline Impact Committee of which I am a member. I think you might find it interesting.

Any comments or recommendations you might have would be greatly appreciated. I wish to express my pleasure with the quality of work which you have done for this committee.

Sincerely yours,

John Huber

Enclosures

P. S. Because of budgetary considerations would you please submit your final billing as soon as possible.

ITINERARY

Tanzer Economic Associates
302 West 86th Street
New York City, NY 10024

Tel. (212) 362-0564 (2-5 p.m.) N.Y. time
(212) 799-7699 (After 6 pm)

MICHAEL TANZER

October 6	depart New York (JFK)	8:15am	Northwest
	arrive Anchorage	2:12pm	
	Overnight - Westward Hotel/Anchorage		
October 7	depart Anchorage	9:00am	Alaska
	arrive Prudoe Bay	10:35am	
	depart Prudoe Bay	9:00pm	Wien
	arrive Fairbanks	10:05pm	
	Overnight - Traveler's Inn/Fairbanks		
October 8	Conference/Fairbanks		
	Overnight - Traveler's Inn/Fairbanks		
October 9	depart Fairbanks	10:25pm	Pan Am
	arrive New York	10:45am	
October 13	Meeting in New York, 10:00am - Senator Huber		

HUGH MALONE

October 6	Kenai - Anchorage	traveler's convenience	
October 7	depart Anchorage	9:00am	Alaska
	arrive Prudoe Bay	10:35am	
	depart Prudoe Bay	9:00pm	Wien
	arrive Fairbanks	10:05pm	
	Overnight - Traveler's Inn/Fairbanks		
October 8	Conference/Fairbanks		
	Overnight - Traveler's Inn/Fairbanks		
October 9	depart Fairbanks	8:05pm	Alaska
	arrive Anchorage	8:55pm	
October 10	depart Anchorage	9:15am	Wien
	arrive Bethel	10:25am	

AGO 513566

JIM RHODE & NORMAN BAILEY

October 7	depart Anchorage	9:00am	Alaska
	arrive Prudoe Bay	10:35am	
	depart Prudoe Bay	9:00pm	Wien
	arrive Fairbanks	10:05pm	
	Overnight - Traveler's Inn/Fairbanks		
October 8	Conference/Fairbanks		
	Overnight - Traveler's Inn/Fairbanks		
October 9	depart Fairbanks	10:50pm	Wien
	arrive Anchorage	11:40pm	

STEVE COWPER

October 6	depart Fairbanks	5:25pm	Alaska
	arrive Anchorage	6:10pm	
October 7	depart Anchorage	9:00am	Alaska
	arrive Prudoe Bay	10:35am	
	depart Prudoe Bay	9:00pm	Wien
	arrive Fairbanks	10:05pm	
	Overnight - Traveler's Inn/Fairbanks		
October 8	Conference/Fairbanks		
	Overnight - Traveler's Inn/Fairbanks		
October 9	depart Fairbanks	10:50pm	Wien
	arrive Anchorage	11:40pm	
October 10	depart Anchorage	9:15am	Wien
	arrive Bethel	10:25am	

CLARK GRUENING

October 7	depart Anchorage	9:00am	Alaska
	arrive Prudoe Bay	10:35am	
	depart Prudoe Bay	9:00pm	Wien
	arrive Fairbanks	10:05pm	
	Overnight - Traveler's Inn/Fairbanks		
October 8	depart Fairbanks	7:00am	Alaska
	arrive Anchorage	7:50am	
	depart Anchorage	8:40am	Northwest
	arrive Chicago	6:24pm	
	depart Chicago	7:25pm	United
	arrive Washington D.C.	10:00pm	
October 12	depart Washington D.C.		
	arrive Seattle		
October 13	depart Seattle		
	arrive Juneau		
	depart Juneau		
	arrive Anchorage		

PAM: PLEASE SEND TWENTY (20) COPIES OF "SUMMARY OF ALASKA LEGIS-
LATION 1975" REBECCA

LATT 0012 19.07 LA01 0027 19.07 07/28/75

SHARON MITCHEL
TENATIVE WORK SCHEDULE FOR REP. COWPER

30 JUL-6 AUG	FBKS
6-8 AUG	KODIAK
9-14 AUG	FBKS
30 AUG-7 SEP	FBKS
10-20	FBKS

ALL DATES IN-BETWEEN ARE FOR PRIVATE BUSINESS

NOTE: REP. COWPER'S WORK FOR LEGISLATIVE BUDGET & AUDIT AND FOR HOUSE FINANCE MAY ALLOW HIM TO CHARGE TANZER RELATED TRAVEL TO OTHER ACCOUNTS.

J. RHODE

AGO 513569

C O N T R A C T

The Legislative Council, Alaska State Legislature, on behalf of Representative Steve Cowper, Chairman of the Oil and Gas Subcommittee of the Interim Subcommittee on Taxation, contracts with MR. MICHAEL TANZER of Tanzer Economic Associates, Inc., 302 West 86th Street, New York City, New York 10024, for professional consulting services in accord with the proposal of Tanzer Associates dated 13 May 1975.

Period of performance shall commence on the date that both parties have signed this contract and expire on 15 November 1975.

In consideration of services to be rendered, the Legislative Council shall pay the contractor the sum of Ten Thousand Dollars ($10,000), one-half to be paid no later than ten days after both parties have signed this contract and the balance to be paid upon delivery of the completed study on 15 November 1975. Out of pocket expenses for this study, such as for air fare, subsistence, and communications shall be charged as separate items and billed.

This contract shall be governed by the applicable laws of the State of Alaska.

Genie Chance

Senator Genie Chance
Chairperson
Legislative Council
310 K St., Suite 701
Anchorage, Alaska 99501

Date: 7-14-75

N. Spencer Hammond

N. Spencer Hammond
Administrator
Legislative Affairs Agency
Certifying Officer

Date: 7-14-75

Michael Tanzer

Michael Tanzer
Tanzer Economic Associates, Inc.
302 West 86th Street
New York City, New York 10024

Date: 7/14/75

cc: Representative Steve Cowper
Mr. Michael Tanzer
File

AGO 513570

LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

POUCH Y — STATE CAPITOL
JUNEAU, ALASKA 99811

TO: Jim Rhode
Administrative Assistant

DATE: July 14, 1975

FROM: Helen Gowdy
Administrative Secy

SUBJECT: Contracts

Mr. Hammond had the Tanzer contract re-typed per the attached. Sending you the original and sufficient copies for whatever distribution you care to make.

In the future, Mr. Hammond would like all contracts to be signed first by the party under contract and then returned to this office for the remaining signatures.

So glad you are happy with your new office. Many changes being made here as you probably know.

James B. Rhode

James B. Rhode
AA to Rep. Malone, Chairman
House Finance Committee

cc: File

AGO 513571