

HCR

43



Alaska State Legislature  
House

HOUSE RESOURCES COMMITTEE

Alvin Osterback, Chairman

Pouch V, State Capitol  
Juneau, Alaska 99811  
(907) 465-3715

20 April 1977

Bob LeResche, Commissioner  
Department of Natural Resources  
Pouch M  
Juneau, Alaska 99811

ATTENTION: Pat Conheady

Dear Commissioner,

The House Resources Committee will be reviewing HCR 43 Approving the extension of the Tesoro-Alaskan Petroleum Company agreement to purchase royalty crude oil taken in-kind on Tuesday April 26, 1977 at 1:15 p.m. in room 118 of the Capitol Building.

Please supply us with a position paper or material you have on this bill by the time of the meeting. If you have any information pertinent to this topic, the Committee would appreciate receiving that, too. If you know of other interested groups, please contact them.

If you have suggested amendments, please supply the staff with copies of that prior to the meeting.

If there is a fiscal implication and a note is necessary, please prepare it and submit it to the Committee -- preferably prior to the meeting.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Al Osterback".

Al Osterback, Chairman  
House Resources Committee

AO:ts

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Alaska State Legislature  
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HOUSE RESOURCES COMMITTEE

Alvin Osterback, Chairman

Pouch V, State Capitol  
Juneau, Alaska 99811  
(907) 465-3715

21 April 1977

Sterling Gallagher, Commissioner  
Department of Revenue  
Pouch S  
Juneau, Alaska 99811

ATTENTION: John Messenger

Dear Commissioner,

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Sincerely,

A handwritten signature in cursive script that reads "Al Osterback".

Al Osterback, Chairman  
House Resources Committee

AO:ts

TO: The Senate and House Resources  
Committees

April 6, 1977

FROM: George C. Silides, P. E.

*Yes*

Notes on SCR 37 and HCR 43 - approving the extension of the Tesoro agreement to purchase royalty crude oil taken in kind.

1. Article XII of the contract between the State and Alaska Oil and Refining Company, to which Tesoro is the legal successor, indicates that the construction and operation of a refinery in Alaska is a pertinent part of the contract. Had the refinery not been built, State reserved the right to cancel the contract to deliver oil.

2. Notwithstanding any FEA mandatory allocation regulations, it can be argued that, in view of the foregoing requirement to construct a refinery as a condition to purchase oil, the State has an obligation to supply an in-state refinery built to process royalty oil - availability of royalty being sufficient and price equal to that of other in-state purchasers.

3. The original contract granted Tesoro the right to extend the contract for two successive three year periods, subject to any new terms and conditions mutually agreed upon by Tesoro and the State.

4. While Tesoro is not willing to give up its allocation rights, it is willing to enter into a temporary, one year, extension until the State gets its act together.

5. The price continues to be the highest average price currently allowed and paid for like oil throughout the field plus 2 cents a barrel for quantities over 15,000 barrels/day. In addition, the State secured an adjustment of 3 cents a barrel instead of 5 cents for each degree API gravity below 40; a net gain of 2 cents/bbl for each degree.

In the event of price deregulation, the price paid to the State under this contract will rise to meet the deregulated price.

6. There is no competing proposal to refine the royalty oil requested.

7. Considering all of the information available and different factors involved, it appears that approving a one year extension of the Tesoro contract is in the best interests of the State.

8. With direct reference to the original contract and manner in which it was entered into, I have found upon examination that, while former Commissioner Tom Kelly might have created

a favored status purchaser, he also drove a hard bargain in favor of the State. The State is well protected in the matter of price, default, and in the matter of the purchaser being required to take, at the option of the State, all royalty taken in kind and surplus to the internal needs of the State, regardless of the available amount.

March 22, 1977

The Honorable Hugh Malone  
Speaker of the House  
Alaska State Legislature  
Juneau, Alaska 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting a resolution giving legislative approval to a one-year extension of the agreement between Tesoro-Alaskan Petroleum Company for the purchase of royalty crude oil from the Cook Inlet area. AS 38.06.055(a) provides that no sale of state-owned royalty oil may be made unless approved by concurrent resolution of the legislature.

The Alaska Royalty Oil and Gas Development and Advisory Board has reviewed the extension and granted its approval on March 8, 1977. The Board's declarations and findings are included in the material submitted to each legislator today. We would be pleased to assist you with any additional information which you request.

The present agreement between the state and Tesoro-Alaskan will expire on December 31, 1977. Tesoro-Alaskan has expressed its desire to continue purchasing state royalty oil from Cook Inlet, and I believe it is in the best interests of the state to continue to sell that oil to Tesoro-Alaskan. Tesoro-Alaskan is the largest refiner in the state and supplies a large portion of the Alaskan petroleum market. It supplies a larger quantity of petroleum products to Alaskan consumers than royalty oil purchased.

As you know, the Federal Energy Administration currently controls the ceiling price of all domestic crude oil, including that produced in the Cook Inlet. This Extension Agreement provides for the state to receive the maximum known price for the oil which can be obtained under these regulations.