

HB

963

To: Sen. Sumner

From: Ray Brown

Re: questions you raised on HB 963 in Sen. Resources meeting 6/9

Before any oil that is transported through the TAPS could be exported/exchanged, a number of provisions in five separate federal statutes would have to be satisfied. One of these statutes, Export Administration Amendments of 1977, would require the President to make five specific findings and submit them to Congress, which has one-house veto authority. The President would specifically have to find that such exports of Alaska oil "will not diminish the total quantity or quality of petroleum available in the United States; will have a positive effect on consumer oil prices by decreasing the average crude oil acquisition costs of refiners; will be made only pursuant to contracts which may be terminated if the petroleum supplies of the United States are interrupted or seriously threatened; are in the national interest; and are in accordance with the provisions of the act."

The Exports Administration Amendments are not the only restrictions on export of Alaska crude, but they seem to be the most restrictive.

Now, as this relates to the state statute that would be amended by HB 963, it has been pointed out by the administration that arranging a Japanese swap would be facilitated if the administration had the authority to do this (on a short-term basis) without legislative approval.

I outlined some of the reasons for this proposed change in a memo to Hugh Malone, which is attached. After this matter was brought to Malone's attention, he proposed the addition of Sec. 1 (a) to his original bill, and it was adopted by the House Resources Committee.

(Malone wanted more restrictive language than I proposed in memo.)

Another reason pointed out by Arlon Tussing is that export/exchange of state royalty oil might be more acceptable politically to the Carter administration than export of the producers' oil, given all the hostility toward the producers in Congress. Tussing has suggested that the state administration might negotiate a specific deal with a Japanese refiner and request that Carter make his require findings on this particular contract. That would focus the national attention and debate on the state, rather than on the producers.

I have some fairly detailed information on the federal restrictions on exports, if you'd like to see it.



Alaska State Legislature

Senate

JUNEAU, ALASKA

May 23, 1978

TO: Hugh Malone, Speaker of the House

FROM: Kay Brown

RE: Legislative approval for short-term royalty oil sales

Proposed language for addition to HB 963:

* Section 1. AS 38.06.055 is amended to read:

(a) In addition to the approval by the board required under §50 of this chapter, no sale, exchange or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas may be made by the Commissioner of Natural Resources under AS 38.05.183 without the prior approval of the legislature by a concurrent resolution concurred in by a majority of the members of each house except for sales, exchanges, or other dispositions made for a term of no more than one year [WHICH MAY BE ENTERED INTO TO RELIEVE A SHORTAGE OF STORAGE CAPACITY]. Any short-term sale, exchange or other disposition entered into pursuant to the authority of this subsection shall not be renewed without the prior approval of the legislature by a concurrent resolution concurred in by a majority of the members of each house.

Re-number sections and leave (b) and (c) as they are in HB 963.

AGO 566535

It has been pointed out by administration spokesmen working on the West Coast surplus problem, that current state law requiring legislative approval for royalty oil sales could make it difficult for state royalty oil to be used as the oil proposed for exchange.

Timing is the major problem. For example, if a swap package (which included export of Alaska royalty oil to Japan) were to be approved by President Carter and the Congress over the interim, the state administration would not be able to move forward with the deal until legislative approval was granted. Six months' notice will be required to switch from in-value to in-kind taking, and Fred Boness says the administration would not give this notice to the producers without first getting legislative approval. Even if legislative approval came as early as next January, the oil could not actually be exported until next summer. Further, if the Alpetco contract is approved, the Prudhoe Bay royalty oil will be available for exchange for only 25 months, which also increases the urgency for expeditious action. (Boness disagrees that Alpetco is a significant problem. If a deal were arranged, he says, it would probably be in Alpetco's interest and they would probably agree to continue the sale should it extend into their contract.)

Another problem is credibility. Boness believes it will be difficult for the administration to negotiate a deal with the Japanese

refiners and participate in working out the total swap package if it must be presented to the legislature for approval. Further, he thinks it is unlikely that the Carter Administration would consider favorably the export of state royalty oil given these legislative roadblocks.

I discussed this problem briefly with Arlon Tussing this morning and he agreed with Boness that some waiver of legislative approval would make a conditional sale or swap much easier to accomplish. I will discuss this with Tussing in more detail at the meeting in Seattle on Wednesday. It is not clear to me whether failure to change the statute would be a significant obstacle.

I have also spoken briefly to Rader, Chatterton, Miles and Gardner about this proposed change. They all agreed that such a change might be needed to accommodate this particular problem, but Miles expressed some reservations.

Practically, it seems apparent it is going to be quite difficult to get something through the legislature this session. However, since almost \$300 thousand has been appropriated to work on this problem, it would be a shame to see a swap aborted because the legislature failed to amend this statute.

COMMITTEE REPORT

SENATE

6/3/78

FURTHER: NONE

Date: 6/12/78

Mr. President:

The Committee on RESOURCES has had CSHB 963 (Jud) an
slaes of royalty oil and gas

under consideration and (a majority of the committee) (the committee
reports it back as follows)

- recommends it do pass recommends it do not pass
- recommends it do pass with attached amendment(s)
- recommends it be replaced with SCS for CSHB 963 (Jud)

and _____ new title same title

- AND attaches a Letter of Intent New Fiscal Note
- reports it back without recommendation
- and recommends it be referred to the _____ Committee

MEMBERS SIGNING DO PASS:

OTHER RECOMMENDATIONS:

[Signature]
[Signature]
[Signature]

AGO 566538

[Signature]
 Chairman