

SB

274

COMMITTEE REPORT

SENATE

3/23/77

Date

3/28/77

Mr. President:

The Committee on Resources has had SP 274 taking oil, oil & gas royalty-in-kind 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
- AND attaches a report of its intent
- (other) \_\_\_\_\_

MEMBERS SIGNING THE MAJORITY REPORT:

<u>John Stinger</u>	<u>Do Pass</u>	_____
<u>McLean</u>	<u>Do Pass</u>	_____
<u>John Stinger</u>	<u>Do Pass</u>	_____
<u>Walter</u>	<u>Do Pass</u>	_____

MEMBERS NOT CONCURRING IN THE MAJORITY REPORT:

<u>Tullian</u>	recommends:	<u>No Rec</u>
<u>Colette</u>	recommends:	<u>Do Pass</u>
_____	recommends:	_____

R. Poland  
Chairman

A M E N D M E N T

OFFERED IN THE SENATE:

By: POLAND

To: \_\_\_\_\_ SENATE BILL No. 274

HOUSE BILL No. \_\_\_\_\_

PAGE: 1

LINE: 23

ADD NEW SECTION 2

A purchase of royalty oil on a one year non-renewable basis remains eligible to negotiate a long term purchase agreement in accordance with all the other provision of AS 38.06.182, AS 38.05.183, and AS 38.06.055

Number Section 3 accordingly

(1 p)

Original sponsor: Resources Committee

Offered: 3/19/75  
Referred: Rules

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2

CS FOR SENATE BILL NO. 174

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

NINTH LEGISLATURE - FIRST SESSION

5

A BILL

6

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

8

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9

\* Section 1. AS 38.05.182 is amended to read:

10

11 Sec. 38.05.182. ROYALTY ON NATURAL RESOURCES. Any royalty provided  
12 for in secs. 135 - 181 of this chapter shall [MAY] be taken in kind  
13 rather than in money unless [IF] the commissioner, with the consent of  
14 the board, determines that the taking in money [KIND] would be in the  
15 best interest of the state. The consent of the board is required only  
16 with respect to oil and gas royalty-in-kind under sec. 183 of this  
17 chapter. The action of the commissioner and the board with respect to  
18 oil and gas royalty-in-kind under sec. 183 of this chapter is subject to  
19 the prior approval of the legislature in accordance with AS 38.06.055,  
20 except for nonrenewable contracts not exceeding one year in duration  
21 which may be entered into to relieve a shortage of storage capacity.

22

\* Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-  
23 070(c).

24

Re: attached

25

CS SB174 Passed Senate 18-2

26

27

Died in the House because  
28 of vigorous opposition by  
29 Guy Martin.

29

AGO 785682

Resource Dept. wants flexibility

# State seeks pledge on its royalty oil

JUNEAU (AP)—State officials are seeking an unusual written pledge from Prudhoe Bay producers to guarantee Alaska's right to switch from taking its North Slope royalty oil in-value to in-kind, the Royalty Oil and Gas Advisory Board was told Tuesday.

In a memo to the board, outgoing Natural Resources Commissioner Guy Martin said he has written to all North Slope leaseholders, asking them to sign an agreement by March 15 to give the state advance written permission to take back its royalty oil with one month's notice.

The action was prompted by the recent revelation that Federal Energy Administration regulations prevent any producer from terminating contracts for the sale of their oil without the consent of the purchasers.

Since taking its oil in value through cash royalty payments is interpreted by the FEA as a contract sale, the state would not be able to later take its oil in-kind unless the purchasers concur.

Alaska's congressional delegation also dispatched letters to the board urging that the state take all of its royalty oil in-kind as soon as production begins.

Sen. Mike Gravel said he has analyzed the federal energy law and has "concluded that state control of its royalty oil may be lost if the state at any time elect to take its royalty oil in value, rather than in-kind."

Sen. Ted Stevens said that his reading of the federal Mandatory Petroleum Allocation Act indicates "a great threat to Alaska's future welfare exists."

Rep. Don Young joined Stevens and Gravel in urging the board to make a quick decision on what to do with the state's royalty oil.

"Our best hope," Stevens said, "resides in taking our oil in-kind from the initial drop pumped" and selling it to bidders who will give the state "maximum assurances that we can withdraw our oil without opposition from them or the Federal Energy Administration."

Oil production from Prudhoe Bay is scheduled to begin upon completion of the trans-Alaska pipeline in July.

And since the state is required under its oil leases to give the leaseholders six months notice prior to taking its royalty oil or gas in-kind, the opportunity to take oil in-kind from initial North Slope production already has been lost unless the producers agree to sign the pledge proposed by Martin.

In a related issue, the board received a revised proposal for a \$400 million petroleum refinery in Alaska based on a commitment for the sale of Alaska's royalty oil, the second such offer the board has received in as many weeks.

The proposal by Alaska Petroleum Co. was submitted in competition with a similar deal offered by Alaska Consolidated Shipping, Inc., a Native corporation-backed firm.

Officials of Alaska Consolidated also appeared before the board to modify their deal, and representatives for both firms exchanged verbal blows over the relative merits of the competing proposals.

The Alaska Petroleum proposal would call for the purchase of 150,000 barrels a day of the state's royalty share of Prudhoe Bay crude to use in a "world-scale refinery," which would take five years to plan and develop, company officials said.

Alaska Petroleum is a Houston-based subsidiary of the Coastal States Gas Corp., which owns three refineries with production capacity of nearly 300,000 barrels of oil a day.

A key to the Alaska Petroleum proposal is a provision to purchase all of the state's royalty oil for the first month or two that it flows, countering

worries about the adverse FEA regulations.

George H. Shipley, a director and consultant for Alaska Petroleum, declined to say where the proposed refinery might be located, but added that his company has examined "six to eight" sites, including Valdez, Point MacKenzie near Anchorage and Tyonek on Cook Inlet.

Shipley attacked the refinery proposal offered last month by Alaska Consolidated, saying the company had underestimated its costs and overestimated its benefits.

But Alaska Consolidated Vice President Jim Stupp disputed Shipley's claims and said he would present a point-by-point rebuttal to the board later.

In its revised proposal, Stupp said he was "75 to 80 per cent certain" his company's plans for a \$225 million refinery would prove economically feasible.

The Alaska Consolidated proposal calls for a refinery which would use 150,000 barrels of state royalty oil per day. It also calls for the state to sell the firm 100,000 barrels of royalty oil a day during the three to five-year period before the refinery would be operational.