

Original sponsor: Rules/Governor

Offered: 2/10/81
Referred: Rules

Funding Information

General Fund	\$12,836,900
Other Funds	0-
	<u>\$12,836,900</u>

1 IN THE SENATE

BY THE FINANCE COMMITTEE

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CS FOR SENATE BILL NO. 113 (Finance) am

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IN THE LEGISLATURE OF THE STATE OF ALASKA

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TWELFTH LEGISLATURE - FIRST SESSION

5

A BILL

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For an Act entitled: "An Act making supplemental and special appropriations
7 for oil and gas matters; and providing for an effective
8 date."

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

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* Section 1. The sum of \$3,449,000 is appropriated from the general fund
11 to the Department of Law for legal expenses in connection with the interstate
12 and intrastate TAPS tariff proceedings for the fiscal year ending June 30,
13 1981.

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* Sec. 2. The sum of \$7,166,000 is appropriated from the general fund to
15 the Department of Law for legal expenses in connection with the interstate
16 and intrastate TAPS tariff proceedings for the fiscal year ending June 30,
17 1982.

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* Sec. 3. The sum of \$310,000 is appropriated from the general fund to
19 the Alaska Pipeline Commission for the purpose of making the commission
20 staff's presentation in the intrastate TAPS tariff proceedings during the
21 fiscal year ending June 30, 1981.

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* Sec. 4. The sum of \$365,400 is appropriated from the general fund to
23 the Alaska Pipeline Commission for the purpose of making the commission
24 staff's presentation in the intrastate TAPS tariff proceedings during the
25 fiscal year ending June 30, 1982.

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* Sec. 5. The sum of \$1,546,500 is appropriated from the general fund
27 for the fiscal year ending June 30, 1981, and June 30, 1982, for expenses in
28 connection with the pending litigation challenging the corporate oil and gas
29 income tax, to be allocated as follows:

1 Department of Law \$734,200

2 Department of Revenue 812,300

3 * Sec. 6. The unexpended and unobligated portions of the appropriations
4 made in secs. 1 and 3 of this Act lapse into the general fund June 30, 1981.

5 * Sec. 7. The unexpended and unobligated portions of the appropriations
6 made in secs. 2, 4, and 5 of this Act lapse into the general fund June 30,
7 1982.

8 * Sec. 8. This Act takes effect immediately in accordance with AS 01.10.-
9 070(c).

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STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

TO: Hon. Russ Meekins
Chairman
House Finance Committee

DATE: February 7, 1980

FROM: Milt Barker **MB**
Fiscal Analyst

SUBJ: TAPS Tariff Decision

On February 1, 1980, Administrative Law Judge Max Kane of the Federal Energy Regulatory Commission (FERC) issued an "Initial Decision Phase I Issues" which establishes a weighted average interim cost of service and tariff rate for TAPS of \$4.93 for calendar 1979 based on projected throughput of 428 million barrels (roughly 1.2 million barrels per day) and \$5.67 for calendar 1978 based on actual throughput of 396 million barrels. The weighted average for tariffs filed by TAPS owners is \$6.20 which has been effective since February of 1978.

Prior to February 1978, the FERC had suspended the companies \$6.20 average tariffs and imposed lower ones. FERC's ultimate decision on tariffs will not alter the tariffs imposed during the suspension period.

The ruling by the administrative law judge will be suspended until a ruling by the full board of commissioners of FERC which is not expected until 9 months to a year from now. At that time the companies would undoubtedly appeal an unfavorable ruling to the courts. However, the Department of Law feels it is unlikely that the full Commission's ruling would be stayed while the courts consider such an appeal. If so, the state may expect to receive a lump sum payment early in 1981 if the full Commission upholds the administrative law judge. The payment would be based upon the difference in tariffs plus interest accrued at 6.8% (although the state hopes to get the interest rate increased to current levels since the 6.8% provides an incentive to drag the case out as well as being inequitable).

The attached table shows the increased revenues, including interest, the state might receive if the proposed interim tariffs are upheld. The 1979 tariff is adjusted to \$4.50 based on actual production of 468 million barrels for calendar 1979. The tariffs for 1980 and beyond are assumed to be \$3.85 based on production of 1.5 million BPD. The law judge's decision provides for such ready adjustment of tariffs on the basis of production.

Hon. Russ Meekins
February 7, 1980
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There is no increase in severance tax revenue for 1978 because even with the tariff reduction wellhead prices remained below the severance tax floor price of \$6.53 per barrel. There are no increases in royalty or severance for the period of July through December 1979 because the wellhead values were already at the federal ceiling price.

The increases for 1980 and beyond result from the gradual decontrol of Prudhoe oil at the rate of 4.6% per month. On an annual basis once full decontrol is reached, a \$3.85 tariff would mean an increase of \$160 million per year in royalty and \$128 million in severance or a total increase of \$288 million per year. After deducting 25% from royalty for the permanent fund, 5% for renewable resources, and the reduction in corporate income taxes, this would be \$217 million per year to the general fund.

MB:kw

Revenue Effects of TAPS Tariff Decision
(\$ Millions)

<u>Calendar Year</u>	<u>Gross Royalty</u>	<u>Permanent Fund Contribution</u>	<u>Renewable Resources Contribution</u>	<u>Net Royalty</u>	<u>Severance Taxes</u>	<u>Interest</u>	<u>Corporate Income Taxes</u>	<u>Total General Funds</u>
1978	24.7	6.2	1.2	17.3	0	2.4	(2.5)	17.2
1979	46.0	11.5	2.3	32.2	33.3	3.7	(7.8)	61.4
1980	48.0	12.0	2.4	33.6	38.5	2.9	(8.4)	66.6
1981 (6 mon.)	<u>57.1</u>	<u>14.2</u>	<u>2.8</u>	<u>40.1</u>	<u>45.2</u>	<u>0</u>	<u>(9.6)</u>	<u>75.7</u>
Total	175.8	43.9	8.7	123.2	117.0	9.0	(28.3)	220.9

Note: No deductions are made for the Early Development Incentive Credit (EDIC) against severance taxes or for native claims contributions from royalty. The EDIC should be used up by April 1980 and the Governor's PY 81 budget provides for payment of remaining native claims obligations.

Prepared by:
Legislative Finance
February 6, 1980



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 28, 1981

Honorable Jalmar M. Kerttula
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill providing for special appropriations for oil and gas matters. These appropriations would provide funds for the continuation of litigation in two major oil and gas cases: the oil and gas corporate income tax case and the Trans-Alaska Pipeline rate case. The appropriations would not lapse at the end of any fiscal year. The recipients of the appropriations would be the Department of Law, the Department of Revenue, and the Alaska Pipeline Commission.

I am requesting \$2,070,600 for the oil and gas corporate income tax case. This money would be divided between the Department of Law and the Department of Revenue. At the present time the amount is expected to be expended over a three-year time period. The Department of Law is to receive \$1,027,600 broken down as follows: \$526,700 for personal services, \$36,000 travel, \$445,500 for contractual expenses, \$11,300 for commodities; and \$8,100 for equipment. The major portion of this request is for personal services and contractual expenses, which will be spent for litigation personnel, expert witnesses, and expert advice. The personal services portion of the appropriation will be used to fund two attorney V's, one associate attorney II and one legal secretary for the case. The contractual money will be used to provide approximately \$75,000 for assistance from legal experts and law professors, \$75,000 for assistance from specialized state tax practitioners, and \$250,000 for specialized tax and business consultants to be used both for advice and as expert witnesses at trial. The balance of the contractual expenditure is for employee support costs such as telephone and postage. In addition, the Department of Law will be providing between two and five attorneys out of its regular operating budget depending on the particular needs of the case at the time.

The Department of Revenue will receive the balance of the appropriation for the oil and gas corporate income tax case. The amount to be received by the Department of Revenue is \$1,043,000. The amount is expected to be spent as follows: \$457,800 for personal services, \$120,000 for travel, \$462,000 for contractual, \$1,200 for commodities, and \$2,400 for equipment. The amounts requested will cover a three-year time span for a task force from the department to work with the Department of Law on the oil and gas income tax litigation. The task force will consist of three revenue field auditor II's, their commodities, equipment, and travel. The contractual amount of \$462,000 is for consultant services with CPA's and economists.

The purpose of the appropriation concerning the Trans-Alaska Pipeline rate case is to fund the proceeding to its conclusion. The amount requested for the Trans-Alaska Pipeline proceeding is \$25,607,200, with the Department of Law to receive \$24,551,000 and the Alaska Pipeline Commission to receive \$1,056,200.

The appropriation to be received by the Department of Law will be used (1) to pay the state's outside counsel and consultants and (2) to fund an attorney VI position in the Department of Law to serve as project director, and an accounting clerk II position. Present estimates of the time period for the expenditure of this appropriation is to the end of fiscal year 1986. It is reasonable to expect that some portion of the activities will slip into fiscal year 1987; the funds requested, however, will fund those activities.

The purpose of the tariff proceeding is to determine the amount that pipeline owners may charge for the shipment of a barrel of oil through the Trans-Alaska Pipeline from Prudhoe Bay to Valdez. The amount charged for the shipment has a direct relation to the amount the state receives both for royalty oil and for its severance and corporate income tax. Basically, the higher the tariff, the lower the wellhead value of Prudhoe Bay oil and consequently the less the state receives for its royalty share and from taxes. Further, a low tariff will aid in the exploration, discovery, and production of new fields on the North Slope by making marginal fields more economic.

The Trans-Alaska Pipeline proceeding has been divided into two phases: Phase I was to determine the methodology or formula to be used to set oil pipeline tariffs, and Phase II would address the accuracy and appropriateness of the specific numbers reported by the pipeline owners (for example the amounts expended to build the pipeline). Phase I of the case has been decided by the administrative law judge, with the

result generally favorable to the state. That portion of the case is now on appeal to the full commission. It is expected that any decision by the full commission will be appealed to the courts and eventually to the U. S. Supreme Court. \$835,000 of the requested amount is expected to be allocated to the Phase I effort, with \$782,000 expected to be expended for lawyers, and \$53,000 expected to be expended for other disbursements.

Phase II of the case is a more complex and detailed proceeding, requiring extensive discovery and an extensive presentation of facts. The Phase II case has as its major component the attack on the prudence of the costs incurred by the pipeline companies in building the Trans-Alaska Pipeline. It is expected that extensive discovery will continue until the end of 1981, with hearings beginning shortly thereafter and lasting approximately two years. It is expected that briefs will be filed with the administrative law judge in 1984, with an appeal to the commission in 1985, and proceedings in the courts through 1986 and possibly fiscal year 1987. The bulk of the amount requested for the Department of Law is to fund the efforts relating to the cost of construction issues over the next five to six years. The amount for this portion of the litigation is estimated to be \$21,994,000 to be spent as follows: \$7,001,000 for lawyers, \$1,131,000 for investigators, \$3,029,000 for paralegals, and \$2,329,000 for document evaluation and computer analysis of the millions of documents to be reviewed and analysed, \$6,966,000 for consultants and expert testimony, and \$1,538,000 for other expenses such as travel, depositions, printing and copying, and commodities. The issues in Phase II, apart from cost of construction, are expected to require the expenditure of \$4,552,000 over the next five years, with \$1,804,000 to be expended for lawyers, \$81,000 for paralegals, and \$2,667,000 for consultants. Finally, \$750,000 is requested for the Department of Law for administering and overseeing the expenditures of money and the proceeding. The Department of Law money would be to fund an attorney VI position for the duration of the litigation to serve as project director and also to fund an accounting clerk II position for that period.

The amounts requested for the Alaska Pipeline Commission total \$1,056,200. Of that amount, \$902,300 is for professional services, and \$153,900 is for administration and other expenses.

The Alaska Pipeline Commission regulates intra-state oil and gas common carrier pipelines. The commission's staff has, over the last three years, taken substantial responsibility for the presentation of evidence on various issues to the

commission, including issues concerning cost overruns, jurisdiction, the methodology to be used in determining intra-state tariff rates, and issues concerning special carrier rules. Since the state has interests or positions which are different from those of the APC staff, it is necessary to hire other legal and technical experts to aid the APC staff in its TAPS case preparation and investigation.

Funding of this budget request will avoid conflicts of interest between the state and the commission, and it will enable the APC to continue to meet its responsibilities for the intrastate TAPS proceeding. Funding is exclusively to meet costs for the duration of the TAPS proceedings. It does not include on-going operating budget costs for commissioners, staff salaries, and other APC expenses. Funding for these activities will be requested through normal operating budget requests.

Sincerely,

S/SSH

Jay S. Hammond
Governor