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COMMITTEE REPORT

HOUSE

4/7

(7)

FURTHER: FINANCE

3/29/82

Date: 4-7-82

Mr. Speaker:

The Committee on SPECIAL GAS PIPELINE COMMITTEE has had HB 888

"An Act relating to the sale of royalty oil by the State of Alaska to the Tesoro Alaska Petroleum Company; and providing for an effective date."

under consideration and ~~(a majority of the committee)~~ ~~(the committee)~~ ----- reports it back with the following recommendations:

do pass [] do not pass

[] do pass with attached amendments(s)

[] replace with CS for _____ same title

and recommends _____ new title

[] AND attaches a "Letter of Intent" New Fiscal Note

[] reports it back without recommendation *20% cost analysis, Supp. # 38 + memo*

[] referred to the _____ Committee

MEMBERS SIGNING
DO PASS

MEMBERS HAVING
OTHER RECOMMENDATIONS:

Rick Halford
John Lundberg
Don Kay
Bobby Loman
Anthony Vacka

Rick Halford
CHAIRMAN



HB 888
f
HB 889

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 29, 1982

The Honorable Joe L. Hayes
Speaker of the House
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. Speaker:

Under the authority of art. III, sec. 18 of the Alaska Constitution, I am transmitting two bills which provide legislative approval of royalty oil contracts. One bill covers the contract between the state and Tesoro Alaska Petroleum Company, and the other bill covers the contract between the state and Doyon, Ltd.

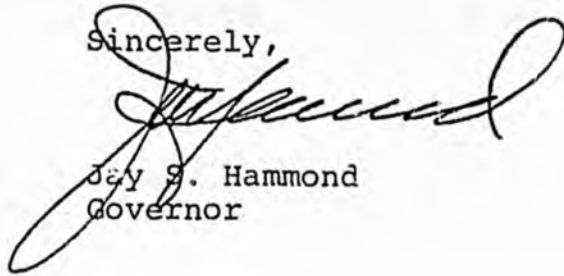
These contracts are described in great detail in the 238-page "Review of Alaska Royalty Oil Policy and Findings for Proposed Disposition of Royalty Oil," issued by the Department of Natural Resources on February 26, 1982. Copies of these findings and a 14-page summary of these findings have previously been made available to the legislature and individual legislators for review. The Doyon contract submitted for approval is a contract referred to in the findings as "Doyon I."

These contracts are being submitted for legislative approval for two reasons. First, although this administration has always taken the position that the statutory requirement of legislative approval of royalty oil contracts is unconstitutional (AS 38.06.055), as a matter of comity I have always respected the legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, these contracts contain provisions requiring approval by the legislature before they become effective. Second, these bills would ratify the agreements for the sale of oil. This ratification would cure any procedural defect that may have occurred in the process of entering into these contracts.

Although we believe that all necessary steps have been taken, the statutes and regulations governing the disposal of royalty oil represent often conflicting desires and goals, both procedural and substantive. For example, even

if statutorily requiring legislative approval were constitutional, the present statutes provide, on the one hand, that the legislature is to approve the contract by enacting legislation (AS 38.06.055(a)), but, on the other hand, they also provide that a report of the Royalty Board "shall be submitted for legislative review at the time of (sic) resolution for legislative approval of a proposed disposition of royalty oil and gas is introduced in the legislature" (AS 38.06.070(c)). Since legislative approval is required anyway as a matter of contract, I believe it only prudent to present these contracts for legislative approval and ratification at this time.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jay S. Hammond". The signature is written in dark ink and is positioned above the typed name and title.

Jay S. Hammond
Governor



Official Business

Alaska State Legislature

House of Representatives

Office of The Majority Leader

Pouch V
State Capitol
Juneau, Alaska 99811

April 7, 1982

MEMORANDUM

TO: Al Adams
Finance Committee Chairman

FROM: Rick Halford
House Special Gas Pipeline Committee Chairman

SUBJECT: 0 Fiscal Note for HB 888

A handwritten signature in cursive script that reads "Rick Halford".

The House Special Gas Pipeline Committee has moved HB 888 "An Act relating to the sale of royalty oil by the state of Alaska to the Tesoro Alaska Petroleum Company: and providing for an effective date." - with a 0 Fiscal Note.

However, the Commissioner of Natural Resources has assured this Committee that he will forward to your Committee, an extensive detailed fiscal analysis to accompany the 0 Fiscal Note, for your review and consideration.

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST
 Bill/Resolution No. HB 888
 Title Act relating to sale of royalty oil to Tesoro Alaska Petroleum
 Requested by House Resources Date 4/7/82

II. FISCAL DETAIL
 Agency Affected Natural Resources/Revenue
 Program Category Affected Royalty Payments/Severance Tax Payments
 BRU. Program, Or Subprogram(s) Affected _____
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87 - FY 95
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
Revenues Lost	0	0	0	0	0	0
TOTAL						

FUNDING (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

[See Attachment]

IV. DATE April 7, 1982 PREPARED BY Jeff Haynes, Deputy Commissioner
 AGENCY DNR
 Original: Legislative Finance PHONE 465-2400
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)
 33-001 (Rev. 12/81)

An assessment of the fiscal impacts of consummation of the royalty oil contract with Tesoro Alaska Petroleum is necessarily speculative for the following reasons:

1. The potential losses to the State in royalty and severance tax payments because of existing characteristics of the West Coast and Gulf Coast crude oil markets may approach \$4 million annually for the reasons stated in the Commissioner's Findings. However, such losses are contingent on the persistence of those characteristics and the degree to which they remain in effect, which requires predicting the behavior of the domestic and foreign crude oil and products markets over the next 12 years. Moreover, there are conceivable conditions in which the reverse would be true, and the State would actually gain in royalty and severance tax payments through an in-kind taking and sale to Tesoro.
2. Any losses incurred by the State in royalty and severance tax payments from a sale to Tesoro must be weighed against the quantifiable and intangible benefits provided by the existing Tesoro refinery as well as possible expansions thereof. Current revenues provided to the State and its political subdivisions by the Tesoro operation through taxes amount to over \$8 million annually. Direct economic benefits total \$25 million per year. There are also secondary and intangible benefits, including security of supply and competition, which cannot be accurately calculated. Against these benefits must be considered the extent to which a State royalty contract will be likely to contribute to their continuation over the next 12 years.

Again, the actual effect on State revenues and interests is highly speculative and cannot be predicted with much accuracy. Nevertheless, given the comparable magnitude of the potential positive and negative effects, a zero fiscal note is reasonable.

PROPOSED TITLE:
AN ACT RELATING TO THE SALE OF ROYALTY OIL BY THE STATE
OF ALASKA TO THE TESORO ALASKA PETROLEUM COMPANY;
AND PROVIDING FOR AN EFFECTIVE DATE

PRIME SPONSOR: HOUSE RULES COMMITTEE.

CO-SPONSORS:

CURRENT STATUS: 4/07/82 IN (H) FINANCE

DATE	SEQ	PAGE	LEGISLATIVE ACTION
3/29/82	01	0954	FIRST READING -- COMMITTEE REPORTS
3/29/82	02	0954	GOV TRANSMITTAL LETTER
3/29/82	03	0954	CONTRACT JOINT SUPPL #7
4/07/82	04	1177	GAS -- DPGE
4/07/82	05	1177	ZERG F/NOTE W/ANALYSIS HSE SUPPL #38
			FINANCE
			RULES

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