

COMMITTEE REPORT HOUSE

FURTHER:

2/4/83

Date: 2/11/83

Mr. Speaker:

The Committee on FINANCE has had HB 166

An Act making special and supplemental appropriations for oil and gas matters; and providing for an effective date.

under consideration and reports it back as follows:

- 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 Zero Fiscal Note Attached
- referred to the _____ Committee

**MEMBERS SIGNING
DO PASS**

[Signature] Flood

[Signature] Gussendorf

[Signature] Adams

[Signature] Ward

[Signature] Hestinger

[Signature] Lippard

[Signature] Hurlbert

[Signature] Martin

**MEMBERS HAVING
OTHER RECOMMENDATIONS:**

[Signature] Zharoff

[Signature] Duncan

[Signature]

CHAIRMAN

Introduced: 2/4/83
Referred: Finance

<u>Funding Information</u>	
General Fund	\$43,425,200
Other Funds	-0-
	<u>\$43,425,200</u>

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2

HOUSE BILL NO. 166

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act making special and supplemental appro-
priations for oil and gas matters; and providing for
an effective 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 \$38,000,000 is appropriated from the general
fund to the Department of Natural Resources to pay the settlement amount
arrived at between the Department of Law and the Union Oil Company of
California and Marathon Oil Company in the discovery royalty dispute.

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* Sec. 2. The sum of \$3,985,000 is appropriated from the general fund
to the Department of Law to fund proceedings before the Federal Energy
Regulatory Commission establishing tariffs on transporting oil through the
Trans-Alaska Pipeline System for FY 83 and succeeding fiscal years.

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* Sec. 3. The sum of \$1,440,200 is appropriated from the general fund
to the Department of Law to fund legal proceedings concerning North Slope
oil pricing, including litigation against the Alaska Oil Company and State
v. Amerada Hess for FY 83 and succeeding fiscal years.

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* Sec. 4. This Act takes effect immediately in accordance with AS 01.-
10.070(c).

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THE FOLLOWING INDIVIDUALS ARE EXPECTED TO TESTIFY ON HB 166:

Bob Maynard, Assistant Attorney General--- chief in-state
counsel for oil and gas litigation

AVAILABLE FOR QUESTIONS ON SECTION 1 OF THE BILL:

Larry Vavra, representing Union Oil Company of California

Dan Hinkle, representing Marathon Oil Company

BILL SHEFFIELD
GOVERNOR



HB 166

ce

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 4, 1983

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

Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill making special and supplemental appropriations for oil and gas matters.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

OPENING REMARKS FOR HB 166

TODAY, WE WILL TAKE UP HB 166, AN ACT MAKING SPECIAL AND SUPPLEMENTAL APPROPRIATIONS FOR OIL AND GAS MATTERS.

SPECIFICALLY, SECTION 1 WOULD APPROPRIATE \$38 MILLION TO THE DEPARTMENT OF NATURAL RESOURCES TO PAY FOR THE SETTLEMENT BETWEEN THE STATE AND UNION AND MARATHON OIL COMPANIES IN THE DISCOVERY ROYALTY DISPUTE.

SECTIONS 2 AND 3 WOULD APPROPRIATE APPROXIMATELY \$5.3 MILLION TO THE DEPARTMENT OF LAW TO PAY THE COSTS OF PROCEEDINGS BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION REGARDING TAPS TARIFFS, AND TO PAY THE COST OF LITIGATION INVOLVING NORTH SLOPE OIL PRICING.

MEMORANDUM

State of Alaska

TO: Louisiana Cutler
Professional Assistant
House Finance Committee

DATE: February 8, 1983

FILE NO:

TELEPHONE NO: 465-3600

FROM: NORMAN C. GORSUCH
ATTORNEY GENERAL

SUBJECT: FY 83 supplemental
appropriations for
oil and gas matters
HB 166

By: Robert M. Maynard *RMM*
Assistant Attorney General

Union Marathon Discovery Royalty - \$38,000,000

This amount is to pay a judgment in favor of Union and Marathon oil companies to refund overpayments of royalty for oil produced from Cook Inlet since the mid 1960's. After lengthy litigation and administrative hearings, it was determined that these companies should only have paid a royalty of 5%, rather than the 12.5% that they did pay. The amount due is \$36,904,000, with interest of 10.5% per year from the date of judgment (about \$10,000 per day). The supplemental request for \$38,000,00 will pay the interest that will accrue up to February 17, 1983.

North Slope Pricing Litigation - Alaska Oil Company, State v. Amerada Hess - \$1,440,200

The State is in ongoing litigation with Alaska Oil Company to recover up to \$62,000,000 for underpayment for deliveries of state royalty oil to that company. The state attempted to shortcut the recovery process by putting Alaska Oil into involuntary bankruptcy, but that attempt has failed. Now the state must take the normal route of getting a judgment in state superior court prior to returning to bankruptcy court to use that court's jurisdiction to trace the money to Alaska Oil's affiliates and parent. In addition, the Alaska Oil case raises many issues similar to those being litigated in the North Slope royalty case, State v. Amerada Hess. That litigation challenges the amounts paid and the methods used by the oil companies in making payment to the state for royalty oil. The amounts at stake in Amerada Hess are worth approximately \$200,000,000 for past royalties, and about \$50,000,000 per year prospectively. Alaska Oil is presently attempting to intervene in Amerada Hess. Vigorously pursuing these cases at this time is the only practical way to protect the state's interest in the recoverable assets remaining in Alaska Oil and to overcome the Alaska Oil Company's delaying tactics that we have experienced in the past. This supplemental is needed not only to pay past unpaid litigation bills, but also to continue to pursue these matters.

TAPS Tariff Proceedings - \$3,985,000

The supplemental request for the TAPS tariff proceedings before the Federal Energy Regulatory Commission represents funding that is necessary to continue this case beyond February of 1983. The funding of this case for FY 83 (SLA 1982, ch. 101, § 42) was intentionally underfunded with the concurrence of the legislature while the 1982 legislature considered a possible settlement of the case. The proposed settlement terms were subsequently rejected by the legislature, and this case has continued uninterrupted. Further complicating the litigation schedule is a recent decision by the FERC commissioners to remand Phase I of the proceedings to an administrative law judge. The state earlier received a favorable ruling on Phase I from the administrative law judge hearing the case. However, this earlier ruling has now been rejected by the FERC. Because Phase I will now be reheard, the department's additional costs in this matter, first projected at \$2,982,000 for the balance of FY 83, must be increased to \$3,985,000.

The TAPS tariff proceeding is the largest single ratemaking case in the history of the United States. At stake is the potential for up \$200,000,000 per year in increased oil revenues over the life of the Prudhoe Bay oil field. Benefits will also accrue to the state when new oil fields in the North Slope and Beaufort Sea areas are brought into production if favorable ratemaking rules are established.

RMM:mr

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A M E N D M E N T

OFFERED IN THE SENATE:

By: BENNETT

To: _____ SENATE BILL No. _____

HOUSE BILL No. SCSHB 166 (Rls)

PAGE: -1-

LINE: 25-27

Please delete Lines 25 through 27 (Section 5) of SCSHB 166 (Rls) and re-number remaining lines and sections as appropriate.