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STATE OF ALASKA

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JUNEAU, ALASKA 99811
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HOUSE LABOR AND COMMERCE COMMITTEE

*intention of
CHAIR!*

January 19, 1984

TO: Representative Rick Uehling, Vice-Chairman
House Labor and Commerce Committee

FROM: Ken Johnson *[Signature]*
Professional Assistant

RE: House Bill 25

Kay Brown, Director of the Division of Minerals and Energy Management, had hoped to testify today on HB 25. However, due to change in the Committee Calendar and prior commitment, Miss Brown could not be present today. She has asked the committee be briefed on the Division's position on HB 25.

As Director of the Division of Minerals and Energy Management, Kay Brown stated she was in opposition to HB 25 on the following points:

1. Technical difficulties in the bills drafting.
 - A. Definition of State Crude
 - B. Definition of State Coal
2. Existing priorities have served the state well. She asks "Why should coal purchasers be given preference over in-state refiners"?
3. Will the bill be effective in promoting coal development? Because of the export ban, oil cannot be sold to Pacific Rim nations, so there is no incentive for such countries to purchase coal.
4. Such package deals could be made now without passing legislation.
5. If companies were forced to enter into an interruptible sales contracts, referring to Section G, the result could be devalued resources.



1 IN THE HOUSE

BY LINDAUER

2

HOUSE BILL NO. 25

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

THIRTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act providing for preferences and reservations in
7 sale or purchase of state royalty oil to companies
8 purchasing state coal."

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

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* Section 1. AS 38.05.183 is amended by adding new subsections to read:

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(f) Notwithstanding other provisions in this chapter, the com-
12 missioner of natural resources shall ^(GIVE PRIORITY in) first offer sale of state crude
13 oil to companies purchasing state coal. { largest amount of state

13

14

(g) A contract for sale of state oil is subject to the ^{to instate Refiner's Coal} reserva-
15 tion of a state right to purchase refined products for offer to com-
16 panies purchasing state coal.

15

16

- UPWARD/DOWNWARD PRICES
- FURTHER 1710 ON GOING
- COAL PRODUCTIONS DIFF.
CONDITIONS MARKETING
- FORM OF SUBSIDY; REMOVES
MARKET UNCERTAINTY -
A. ADMINISTRATION; CONTRACTS
SUBSIDY; MEDIUM VALUE
DIFFERENT

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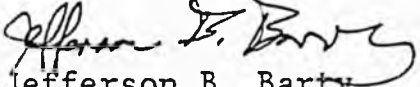


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HOUSE LABOR AND COMMERCE COMMITTEE

April 4, 1983

To: Representative Walt Furnace, Chairman
House Labor and Commerce Committee

From: 
Jefferson B. Barty
Professional Aide

Re: House Bill 25

Introductory Analysis

HB25 purports to provide a preference and reservation in the sale or purchase of state royalty oil to companies purchasing state coal. Without knowing the intended definition of the term "purchasing state coal" as used in this bill, it is difficult to analyze the effect of the legislation. Nonetheless, under any definition, the bill raises some questions. First, HB25 would appear to mix two separate categories of natural resources into one for the purpose of state action.

The provisions relating to the lease of coal are found under AS 38.05.150. Unlike oil, coal is not required to be competitively bid and there is no statement that the state will take coal "in kind" unless it is determined to be in the best interest of the state to sell it. The lessee of coal "shall pay to the state the royalties". [AS 38.05.150(c)] No mention is made for the extraction of any

royalty coal for the use of, processing within, or ownership by the state.

On the other hand, AS 38.05.183 provides for competitively bidding on the sale of state royalty oil. Sections (a) - (e) provide for the terms and conditions of the sale and usage of state royalty oil. Section 1 of HB25 would supercede these sections and give an absolute right to the use, marketing, and distribution of state royalty to "companies purchasing state coal". HB25 would not require the price to be competitively bid, that the use of the oil be in state for the benefit of Alaska, or any of the other express purposes set forth by the constitution or established law.

Under Section 1, paragraph (g) of HB25, there is a reservation of a state right to purchase refined productis "for offer to companies purchasing state coal." Since there is no restriction on the companies which would receive the refined product on resale, it is conceivable that the products would be funneled through them (as a middleman before reaching the market. There is no requirement that the refined product even be made available to the people and communities of Alaska or even that it be consumed by the beneficiary in its Alaskan operations.

Implementation of Section (g) would probably negatively impact the ability of the state to receive top dollar for the sale of royalty oil. If a purchaser and/or refiner could not be free to establish long term relationships with consuming groups, i.e. guaranteed delivery for guaranteed acceptance, then their bids on the use of royalty oil would become one of a risk venture rather than normal business. Also, there would be less incentive to bid if the state were to take their price and then offer the oil to a "purchaser" of state coal.

Finally, HB25 raises the policy question of deciding for whose benefit state royalty oil should be given. The legislature has previously interpreted the constitutional

requirements regarding natural resources to mean that ways of achieving maximum benefit to all of the people and communities of Alaska be found and implemented. HB25 would require that the benefits of royalty oil accrue to "companies purchasing state coal." Such a finding of need and attendant statement of public policy by the legislature would be appropriate if HB25 is adopted.

Alaska State Legislature

Representative John Lindauer
District 10-A
3933 Geneva Place
Anchorage, AK 99508



While in Juneau
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House of Representatives

April 4, 1983

TO: House Labor and Commerce Committee

FROM: Representative John Lindauer *JLm*

RE: House Bill #25: "An Act providing for preferences and reservations in sale or purchase of state royalty oil to companies purchasing state coal."

The buyers of coal, typically major industrial companies and public utilities, tend to also be the major users of other energy sources such as oil and oil products.

The purpose of House Bill 25 is to encourage the development of coal production within the state of Alaska without losing one cent of oil revenues.