

H B

371

COMMITTEE REPORT  
HOUSE

*Rule*

(9)

FURTHER:

4/19/83

Date: 1-19-1984

Mr. Speaker:

The Committee on RESOURCES has had HB 371

"An Act relating to the sale of Prudhoe Bay royalty oil by the State of Alaska to the Tesoro Alaska Petroleum Company; 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 HB 371  same title  
 new title
- and recommends DO PASS
- AND attaches a "Letter of Intent"  New Fiscal Note  
 Zero Fiscal Note Attached
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING  
DO PASS

MEMBERS HAVING  
OTHER RECOMMENDATIONS:

*[Signature]* GAULTZ

*[Signature]* LARSON

*[Signature]* BUSSELL

*[Signature]* LISKA

*[Signature]* UELLEN

*[Signature]* KILGUSTAD

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

*[Signature]* SALL

\_\_\_\_\_

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\_\_\_\_\_

*[Signature]*  
CHAIRMAN

LETTER OF INTENT  
FOR CSHE 371  
January 19, 1984


The House Resources Committee has considered CSHE 371, providing for approval of the Agreement between the State of Alaska and Tesoro Alaska Petroleum Company for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

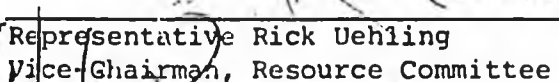
Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

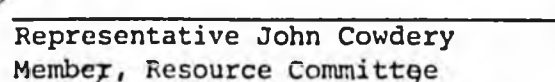
The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

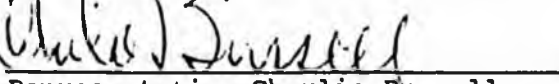
It is the intent of the Committee that it be understood that approval of CSHE 271 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

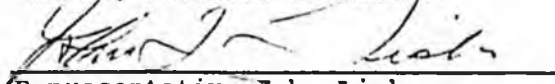
  
Representative John Ringstad  
Co-Chairman, Resource Committee

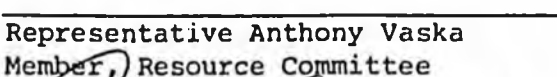
  
Representative Dick Shultz  
Co-Chairman, Resource Committee

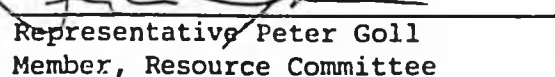
  
Representative Rick Uehling  
Vice-Chairman, Resource Committee

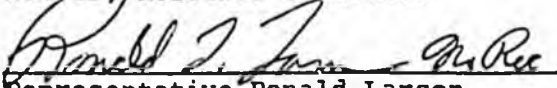
  
Representative John Cowdery  
Member, Resource Committee

  
Representative Charlie Bussell  
Member, Resource Committee

  
Representative John Liska  
Member, Resource Committee

  
Representative Anthony Vaska  
Member, Resource Committee

  
Representative Peter Goll  
Member, Resource Committee

  
Representative Ronald Larson  
Member, Resource Committee



# Alaska State Legislature

HOUSE OF REPRESENTATIVES  
COMMITTEE ON RESOURCES

JOHN RINGSTAD, CO-CHAIRMAN  
RICHARD SHULTZ, CO-CHAIRMAN  
POUCH V  
JUNEAU, ALASKA 99811  
(907) 465-3715

## M E M O R A N D U M

To: All Members, House Resources Committee,  
Senate Resources Committee and  
Joint Committee on Oil and Gas

From: House Resources Committee Staff

Date: January 16, 1984

Re: Royalty oil contract changes

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Major contract differences between those contracts submitted to the 1983 Legislative session and those which will be presented to the 1984 session are as follows:

Section 2.13 has been deleted. In the old contracts, section 2.13 read:

2.13. Future Dispositions of Royalty Oil. Seller recognizes that AS 38.05.183, which governs disposition of royalty oil by the State of Alaska, establishes a statutory preference for dispositions proposing (1) in-state processing of royalty oil and (2) in-state supply of products generated from processing of royalty oil, in that order. Seller represents that, in conjunction with future dispositions of royalty oil, Purchaser will be afforded the consideration contemplated by AS 38.05.183.

The Purchasers' needs originally addressed in Section 2.13 have been met by other contract terms, and this provision will no longer be a standard contract term.

2. A second change to the contracts is that they and future contracts will no longer require legislative approval for any amendments.
3. Changes to specific contracts are as follows:
  - a. Tesoro Alaska Petroleum Company, Prudhoe Bay  
The previous Tesoro/Prudhoe contract outlined a

provision in the price term that would allow the premium paid by Tesoro to be applied against the Amerada Hess settlement if the State prevails in that dispute. The new contract does not contain this provision. Translated into dollars to the State, this negotiated provision means an additional \$24.9 million in revenue.

An additional five cents has been added to the premium of the new contract. Translated over the life of the contract at the estimated number of barrels to be taken, this means an additional \$3.6 million in revenue to the State.

The new contract contains a six year price reopener term with reopeners at two year intervals thereafter.

b. Chevron, USA

The Chevron contract now differs from the previous contract in that it now contains provisions for a price reopener every two years.

Revision Date: \_\_\_\_\_

**REQUEST**

Bill/Resolution No.: SB 269  
 Title: sale of royalty oil to Chevron, U.S.A., Inc.  
 Sponsor: Rules Committee  
 Requestor: Governor  
 Date of Request: 4-19-83

**FISCAL DETAIL**

Agency Affected: Natural Resources  
 Program Category Affected: Management of Energy Resources  
 BRU, Program or Subprogram(s) Affected: Oil and Gas Management

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<b>OPERATING</b>						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>CAPITAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>
<b>REVENUE</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:**

**ANALYSIS:** Attach a separate page for analysis

Prepared By: Sharon L. Barton Phone: 465-2400  
 Division: Commissioner's Office Date: 1-12-83

Approved by Commissioner: Wm D Arnold Deputy Date: 1/12/83  
 Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

12/1/83

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

**REQUEST**

Bill/Resolution No.: HB 371  
 Title: sale of Prudhoe Bay  
royalty oil to Tesoro  
 Sponsor: Rules Committee  
 Requestor: Governor  
 Date of Request: 4-19-83

**FISCAL DETAIL**

Agency Affected: Natural Resources  
 Program Category Affected: Management of Energy Resources  
 BRU, Program or Subprogram(s) Affected: Oil and Gas Management

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
<b>OPERATING</b>						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
<b>TOTAL OPERATING</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>CAPITAL</b>	-0-	-0-	-0-	-0-	-0-	-0-
<b>REVENUE</b>						

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	-0-	-0-	-0-	-0-	-0-	-0-

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:**

**ANALYSIS:** Attach a separate page for analysis

Prepared By: Sharon L. Barton Phone: 465-2400  
 Division: Commissioner's Office Date: 1-12-84

Approved by Commissioner: Mrs. D. Anna, Deputy Date: 1/12/84  
 Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

AGO 786777

STATE OF ALASKA 1984 LEGISLATIVE SESSION  
FISCAL NOTE

Revision Date: \_\_\_\_\_

REQUEST

Bill/Resolution No.: HB 320  
 Title: sale of royalty oil  
to Tesoro Alaska Pet. Co.  
 Sponsor: Rules Committee  
 Requestor: Governor  
 Date of Request: 4-4-83

FISCAL DETAIL

Agency Affected: Natural Resources  
 Program Category Affected: Management of Energy Resources  
 BRU, Program or Subprogram(s) Affected: Oil and Gas Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: Attach a separate page for analysis

Prepared By: Sharon L. Barton Phone: 465-2400  
 Division: Commissioner's Office Date: 1-12-89

Approved by Commissioner: Wm D Arnold, Deputy Date: 1/21/89  
 Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

AGO 786778

provision in the price term that would allow the premium paid by Tesoro to be applied against the Amerada Hess settlement if the State prevails in that dispute. The raw contract does not contain this provision. Translated into dollars to the State, this negotiated provision means an additional \$24.9 million in revenue.

An additional five cents has been added to the premium of the new contract. Translated over the life of the contract at the estimated number of barrels to be taken, this means an additional \$3.6 million in revenue to the State.

The new contract contains a six year price reopener term with reopeners at two year intervals thereafter.

b. Chevron, USA

The Chevron contract now differs from the previous contract in that it now contains provisions for a price reopener every two years.

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF MINERALS & ENERGY MANAGEMENT

Contracts which will be presented to the 1984 legislature:

1. Long-term sale of Cook Inlet crude.

Purchaser: Tesoro Alaska Petroleum Company  
Quantity : 100% royalty crude from Cook Inlet  
Term : January 1, 1985 to January 1, 1995. (This contract commences upon the termination of the one-year emergency contract (1/1/84-12/31/84)).  
Price : Volume-weighted average of the producers in the Cook Inlet area. (What the state would have received had it taken the oil in-value).

2. Long-term sales of Prudhoe Bay Royalty Oil:

- A. Purchaser: Chevron U.S.A., Inc.  
Quantity : 09.60% of the State's daily royalty share of crude. (Approximately 18,000 bpd).  
Term : May 31, 1984 to January 1, 1995. (The expiration date of the emergency one-year contract is May 30, 1984).  
Price : Volume-weighted average of all producer prices, 30 cents premium, plus field costs, to be adjusted upon settlement of the Amerada Hess litigation. Price reopener two years after date of first delivery and every two years thereafter.

Option contract: In the event that the above contract for the sale of approximately 18,000 bpd of royalty crude is not approved by the Alaska State Legislature, Shell Oil Company will purchase the 18,000 bpd of nominated crude commencing May 31, 1984. This contract will contain all of the standard State contract terms with a price term equalling volume-weighted average producer's field price, plus \$1.00 premium, plus field costs, to be adjusted upon settlement of the Amerada Hess litigation.

- B. Purchaser: Tesoro Alaska Petroleum Company  
Quantity : 13.867% of the State's daily royalty crude (approximately 26,000 bpd).  
Term : January 1, 1985 is the estimated date of first delivery with January 1, 1995 the date of termination.  
Price : Volume-weighted average of all producer prices, plus 35 cents premium, plus field costs, to be adjusted upon settlement of Amerada Hess. Price reopener after six years from date of first delivery and at two year intervals thereafter.

## ROYALTY OIL INFORMATION

### I. Existing Agreements

A. Cook Inlet - Tesoro takes all royalty oil under 1969 contract; expires in 1983; a ten-year renewal is now before the Legislature (HB 320).

### B. Prudhoe Bay

1. Golden Valley Electric Association - may take up to 5,000 barrels a day (b/d) under their 1977 agreement which expires in 1984. Currently working with Department on renewal.
2. North Pole Refining (Mapco) - entitled to 15 percent, or up to 35,000 b/d under their 1978 agreement, which expires in 2003.
3. Tesoro - entitled to 24.5 percent, or up to 46,000 b/d under their 1982 agreement, which expires in 1994.

All of the existing Prudhoe Bay agreements were approved by the Alaska Legislature. Two other long-term proposals, by Alpetco and Doyon, were approved by the Legislature in 1973 and 1982, respectively, but have since been terminated.

**DEPARTMENT OF NATURAL RESOURCES**

MINERALS AND ENERGY MANAGEMENT

Pouch 7-034  
Anchorage, Alaska 99510

Prudhoe Bay Oil:

Nominations as of August 1, 1983

<u>Contracts</u>	<u>% of Daily Royalty</u>	<u>BPD</u>	<u>Term</u>
North Pole Refinery (MAPCO)	.186667	35000	12/2003
Golden Valley Electric Assn	.026667	5000	6/30/84
Tesoro Alaska Petroleum Co.	.206178	38658	1/1/95
Chevron U.S.A., Inc.	.096	18000	5/31/84
Royalties taken in-value	<u>.484488</u>	<u>90842</u>	
	100%	<u>187500</u>	

Nominations as of January 23, 1984

MAPCO	.186667	35000	
GVEA	.026667	5000	
Tesoro	.21208	39765	
Chevron	.096	18000	
Royalties taken in-value	<u>.478586</u>	<u>89735</u>	
	100%	<u>187500</u>	

Nominations if the new contracts pass

MAPCO	.186667	35000	
GVEA	.026667	5000	6/94
Tesoro Alaska (old)	.21208	39765	
Tesoro Alaska (new)	.13867	26000	1/1/95
Chevron (new)	.096	18000	1/1/95
Royalties taken in-value	<u>.339916</u>	<u>63735</u>	
	100%	<u>187500</u>	

STATE OF ALASKA  
DEPARTMENT OF NATURAL RESOURCES  
AVAILABILITY OF ROYALTY OIL FOR SALE

YEAR	ESTIMATED TOTAL PRODUCTION PER DAY			ESTIMATED ROYALTY BARRELS PER DAY			ESTIMATED SALES OF ROYALTY OIL						ROYALTY IN VALUE	
	PRUDHOE	KUFARUK	TOTAL	PRUDHOE ROYALTY BRLS PER DAY	KUFARUK ROYALTY BRLS PER DAY	TOTAL ROYALTY BRLS PER DAY	MAPCO PRODUCTION COMPANY (1)	GVEA (OLD) (2)	GVEA (NEW) (3)	TESORO (OLD) (4)	TESORO .13867 (NEW) (5)	CHEVRON (OLD) (6)	CHEVRON .096 (NEW) (7)	RIV (8)
1983	1500000	120000	1620000	187500	15000	202500								
1984	1500000	120000	1620000	187500	15000	202500	35000	5000		38650		18000		105842
1985	1500000	120000	1620000	187500	15000	202500	35000	5000		39765		18000		104735
1986	1500000	200000	1620000	187500	15000	202500	35000		5001	39765	26001		18000	78734
1987	1475000	200000	1675000	187500	15000	202500	35000		5001	39765	26001		18000	78734
1988	1325000	200000	1525000	165675	25000	209375	35000		4917	39102	25567		17700	87008
1989	1175000	200000	1375000	144875	25000	171875	35000		4417	38094	22967		15900	74247
1990	1025000	200000	1250000	131250	25000	156250	35000		3917	33781	20367		14100	64709
1991	950000	200000	1150000	118750	25000	143750	35000		3500	32200	18200		12600	54750
1992	850000	200000	1050000	106250	25000	131250	35000		3167	29133	16467		11400	48583
1993	750000	200000	950000	93750	25000	118750	35000		2834	26066	14734		10200	42416
1994	650000	170000	820000	81250	21250	102500	35000		2500	23000	13000		9000	36750
1995	575000	145000	720000	71875	18125	90000	35000		2167	19933	11267		7800	26333
1996	510000	120000	630000	63750	15000	78750	35000			17633	9967		6900	20500
1997	460000	100000	560000	52500	12500	70000	35000							43750
1998	420000	80000	500000	52500	10000	62500	35000							35000
1999	380000	75000	455000	47500	9375	56875	35000							27500
2000	340000	65000	405000	42500	8125	50625	35000							21875
2001	300000	55000	355000	37500	6875	44375	35000							15675
2002	270000	50000	320000	33750	6250	40000	35000							15000
2003	240000	40000	280000	30000	5000	35000	20000							15000
2004	210000	35000	245000	26250	4375	30625								15000
2005	180000	25000	205000	22500	3125	25625								30675
2006	160000	25000	185000	20000	3125	23125								25675
2007	140000	20000	160000	17500	2500	20000								23125
2008	110000	20000	130000	13750	2500	16250								20000
2009	80000	10000	90000	10000	1250	11250								16250
2010	50000	10000	60000	6250	1250	7500								11250

NOTES: (1) Mapco's daily quantity is not to exceed 15% of Seller's royalty oil minus that minimum quantity of oil which must be taken in-value for pricing purposes. Mapco may purchase up to 35,000 bpd from Prudhoe and other state leases if the oil is available and unobligated. This contract expires December, 2003.

(2) GVEA's current contract expires June 30, 1984.

(3) GVEA's proposed contract would commence July 1, 1981 and expire June 30, 1974. Quantity is 2.667% of daily royalty crude.

(4) Tesoro's current contract calls for a maximum quantity of 24,533% of daily royalty crude less Enol net royalty production. Cook Inlet production is expected to be at a minimal level in 1990. This contract expires December, 1995.

(5) Tesoro's proposed contract calls for a maximum quantity of 13.867% of daily royalty production. The contract is anticipated to commence January, 1985. The expiration date of this proposed contract is January 1, 1995.

(6) Chevron is currently taking royalty oil on a one-year emergency contract which expires May 31, 1984.

(7) Chevron's proposed contract calls for a maximum quantity of 9.6% of daily royalty production. It would commence on June 1, 1984 and expire January 1, 1995.

(8) Some minimum amount of oil must be retained for contract pricing purposes. Currently, that amount is 15,000 bpd.

## Shell Oil Announces Buying Price for Crude From Prudhoe Bay

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*A WALL STREET JOURNAL NEWS Roundup*

Shell Oil Co. announced a buying price of \$18.75 a barrel for Alaskan North Slope crude oil at Prudhoe Bay, the first time an oil company has posted a price for this crude.

When transportation costs to West Coast markets of about \$7.50 a barrel are added, the price would be about \$26.25 for the crude, which Houston-based Shell said represents about a dollar-a-barrel premium over the average current value reported by some producers for the oil at the pumping station.

The move, some analysts believe, reflects a long simmering controversy surrounding the North Slope oil. Critics in Congress and elsewhere have charged that Los Angeles-based Atlantic Richfield Co., which produces oil at Prudhoe Bay, has set too low a price on the Alaskan oil its exploration units sell to its own refineries.

Oil industry sources said this arrangement has the effect of reducing windfall profit taxes on Arco's Alaskan crude. This tax saving allows Arco to undercut gasoline competitors on the West Coast, these critics allege.

In October, the Internal Revenue Service rejected Arco's method of computing its windfall tax on Alaskan crude. Arco has denied any wrongdoing.

A source close to Shell said the company is posting a price for Alaskan crude "because we feel they (Arco) have an advantage."

A Shell spokesman said the company posted the price because it has an "urgent need" for Alaskan oil, primarily for its West Coast refineries.

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STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

December 19, 1983

SUBJECT: HB 370 & HB 371  
TO: Representative Ringstad  
FROM: Thomas A. Sofo *TAS*  
Legislative Counsel

You have asked whether HB 370 and HB 371, the pending bills for ratification of the Chevron and Tesoro royalty oil contracts, can be used as vehicles for the ratification of the more recently negotiated contracts with the same firms. Since the subject matter of the latter agreements is nearly identical, the only change necessary would be the removal of the March 16, 1983 reference and the insertion of the date of the new contracts in its place.

TAS:csh  
c2/120

AGO 786761

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 371 (Resources)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the sale of Prudhoe Bay royalty  
7 oil by the State of Alaska to the Tesoro Alaska  
8 Petroleum Company; and providing for an effective  
9 date."

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

11 \* Section 1. The "Agreement for the Sale and Purchase of Royalty Oil  
12 between the State of Alaska and Tesoro Alaska Petroleum Company," dated  
13 December 9, 1983, for the sale of Prudhoe Bay royalty oil, is hereby  
14 approved and ratified.

15 \* Sec. 2. This Act takes effect immediately in accordance with  
16 AS 01.10.070(c).

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 CS FOR HOUSE BILL NO. 320 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 THIRTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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

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

10 \* Section 1. The "Agreement for the Sale and Purchase of Royalty Oil  
11 between the State of Alaska and Tesoro Alaska Petroleum Company," dated  
12 December 9, 1983, is hereby approved and ratified.

13 \* Sec. 2. This Act takes effect immediately in accordance with  
14 AS 01.10.070(c).

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IN THE SENATE

BY THE RESOURCES  
COMMITTEE

HOUSE CS FOR SENATE BILL NO. 269 (Resources)

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the sale of royalty oil by the State of Alaska to Chevron, U.S.A., Inc.; and providing for an effective date."

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

\* Section 1. The "Agreement for the Sale and Purchase of Royalty Oil between the State of Alaska and Chevron, U.S.A., Inc.," dated December 9, 1983, for the sale of Prudhoe Bay royalty oil, is hereby approved and ratified.

\* Sec. 2. This Act takes effect immediately in accordance with AS 01.-10.070(c).

HB 320 HOUSE ACTION

DATE	SEQ	PAGE	LEGISLATIVE ACTION
04/04/83	01	0722	FIRST READING -- COMMITTEE REPORTS
04/04/83	02	0722	GOV TRANSMITTAL LETTER
04/04/83	03	0722	F/NOTE EQUALS ZERO
06/14/83	04	1715	FIN COMM REFERRAL ADDED BY UNAN CONSENT
06/21/83	05	1851	NOT MOVED FROM RES COMM BY DIV 16-23-01
06/25/83	06	2016	NOT MOVED FROM RES COMM BY DIV 18-22-00 RESOURCES FINANCE RULES

HB 371 HOUSE ACTION

DATE	SEQ	PAGE	LEGISLATIVE ACTION
04/19/83	01	0919	FIRST READING -- COMMITTEE REPORTS
04/19/83	02	0919	GOV TRANSMITTAL LETTER
04/19/83	03	0919	F/NOTE EQUALS ZERO
06/14/83	04	1715	FIN COMM REFERRAL ADDED BY UNAN CONSENT
06/21/83	05	1851	NOT MOVED FROM RES COMM BY DIV 16-23-01
06/25/83	06	2016	NOT MOVED FROM RES COMM BY DIV 18-22-00
			RESOURCES
			FINANCE
			RULES

SB 269 SENATE ACTION

DATE	SEQ	PAGE	LEGISLATIVE ACTION
04/19/83	01	0747	FIRST READING -- COMMITTEE REPORTS
04/19/83	02	0748	GOV TRANSMITTAL LETTER
04/19/83	03	0747	F/NOTE EQUALS ZERO
05/10/83	04	0934	RES -- DP06, NR01
06/01/83	05	1159	FIN -- DP06
06/15/83	06	1317	RLS -- OTHER04 TAKEN UP IMMEDIATELY
06/15/83	07	1319	SECOND READING
06/15/83	08	1319	ADVANCED TO 3RD READING BY UNAN CONSENT
06/15/83	09	1319	THIRD READING
06/15/83	10	1319	PASSED BY DIV 18-02-00
06/15/83	11	1320	EFFECTIVE DATE VOTE SAME AS PASSAGE

SB 269 HOUSE ACTION

DATE	SEQ	PAGE	LEGISLATIVE ACTION
06/16/83	12	1734	FIRST READING -- COMMITTEE REPORTS RESOURCES FINANCE RULES

LETTER OF INTENT  
FOR CSHB 271  
January 19, 1984

The House Resources Committee has considered CSHB 271, providing for approval of the Agreement between the State of Alaska and Tesoro Alaska Petroleum Company for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

It is the intent of the Committee that it be understood that approval of CSHB 271 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

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Representative John Ringstad  
Co-Chairman, Resource Committee

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Representative Dick Shultz  
Co-Chairman, Resource Committee

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Representative Rick Uehling  
Vice-Chairman, Resource Committee

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Representative John Cowdery  
Member, Resource Committee

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Representative Charlie Bussell  
Member, Resource Committee

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Representative John Liska  
Member, Resource Committee

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Representative Anthony Vaska  
Member, Resource Committee

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Representative Peter Goll  
Member, Resource Committee

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Representative Ronald Larson  
Member, Resource Committee

LETTER OF INTENT  
FOR CSHB 320  
January 19, 1984

The House Resources Committee has considered CSHB 320, providing for approval of the Agreement between the State of Alaska and Tesoro Alaska Petroleum Company for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

It is the intent of the Committee that it be understood that approval of CSHB 320 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

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Representative John Ringstad  
Co-Chairman, Resource Committee

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Representative Dick Shultz  
Co-Chairman, Resource Committee

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Representative Rick Uehling  
Vice-Chairman, Resource Committee

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Representative John Cowdery  
Member, Resource Committee

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Representative Charlie Bussell  
Member, Resource Committee

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Representative John Liska  
Member, Resource Committee

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Representative Anthony Vaska  
Member, Resource Committee

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Representative Peter Goll  
Member, Resource Committee

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Representative Ronald Larson  
Member, Resource Committee

LETTER OF INTENT  
FOR CSSB 269  
January 19, 1984

The House Resources Committee has considered CSSB 269, providing for approval of the Agreement between the State of Alaska and Chevron U.S.A., Inc., for the sale of a portion of Alaska's royalty oil. This Agreement must be approved by the legislature under the provisions of AS 38.06.055(a) which provides that "the commissioner of natural resources may not enter into a sale, exchange, or other disposition of oil or gas or of the rights or waiver of the rights to receive future production of royalty oil or gas under AS 38.05.183 without the prior approval of the legislature."

Section 19.1 of the Agreement provides that the Agreement may be "supplemented, amended or modified at any time, but only by written instrument duly executed by the parties to this Agreement." In making any such changes to the Agreement pursuant to this section, the Commissioner would be acting on behalf of the State of Alaska as one of the parties to the Agreement.

The Committee recognizes that a supplement, amendment, or modification of the Agreement could be a further "sale, exchange, or other disposition" within the meaning of AS 38.06.055(a). The Committee is also cognizant that pursuant to Section 20.1 of the Agreement, the Commissioner has the right to "grant" (consent to) an assignment of the Agreement.

It is the intent of the Committee that it be understood that approval of CSSB 269 does not constitute prior approval of any supplement, amendment or modification or any assignment that would be a further "sale, disposition, exchange, or other disposition" within the meaning of AS 38.06.055(a) and that it is expected that any such action by the Commissioner must first be preceded by compliance with the procedures for obtaining the prior approval of the legislature.

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Representative John Ringstad  
Co-Chairman, Resource Committee

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Representative Dick Shultz  
Co-Chairman, Resource Committee

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Representative Rick Jehling  
Vice-Chairman, Resource Committee

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Member, Resource Committee

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Representative Ronald Larson  
Member, Resource Committee

# STATE OF ALASKA

## DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M  
JUNEAU, ALASKA 99811  
PHONE: (907) 465-2400

March 12, 1983

Mr. James F. Smith  
President  
Tesoro Alaska Petroleum  
Company  
8700 Tesoro Drive  
San Antonio, Texas 78286

Dear Mr. Smith:

On March 12, 1983, the State of Alaska and Tesoro Alaska Petroleum Company ("Tesoro Alaska") entered into an Agreement for the Sale and Purchase of Royalty Oil (the "Agreement"). Article 7.5 of the Agreement provides that the State may elect to terminate the Agreement in the event that a "third party" obtains "control" (as such terms are defined therein) of Tesoro Alaska or its parent, Tesoro Petroleum Corporation ("Tesoro").

During the negotiations which led to the execution of the Agreement, you informed the State that, on January 26, 1983, two Charter Security Life Insurance Companies, subsidiaries of The Charter Company ("Charter"), had entered into a Purchase Agreement, a Stockholders Agreement, a Registration Rights Agreement and a Certificate of Designation Establishing A Series of \$2.20 Cumulative Convertible Preferred Stock (the "agreements") with Tesoro to purchase 2,875,000 shares of a new series of Cumulative Convertible Preferred Stock of Tesoro. Furthermore, those agreements contemplate that the Charter Security Life Insurance Companies or other companies affiliated with The Charter Company may purchase additional shares of Tesoro so that The Charter Company and companies affiliated with The Charter Company may own up to 30 percent of the voting interest in Tesoro. You also informed us that the Charter Security Life Insurance Companies will be entitled to up to three seats on Tesoro's Board of Directors, depending upon the size of Tesoro's Board.

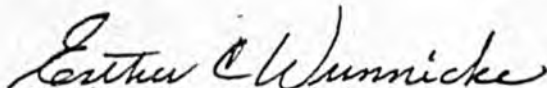
RECEIVED  
Department of Law

MAR 11 1983

AM 7 8 9 10 11 12 1 2 3 4 5 6 PM

The purpose of this letter is to set forth the understanding and intent of the State and Tesoro Alaska with respect to the application of Article 7.5 of the Agreement to the contemplated relationship between Charter and Tesoro. If the arrangements described in the preceding paragraph are effected, it is the understanding and intent of the parties that Charter and/or its affiliates will not control Tesoro or Tesoro Alaska within the meaning of Article 7.5 of the Agreement. If, however, Charter and/or its affiliates materially increases its or their ability to direct or cause direction of the management and policies of Tesoro or Tesoro Alaska over that contemplated in the agreements, Article 7.5 will be applicable.

Sincerely,

  
Esther C. Wunnicke  
Commissioner

ACCEPTED AND AGREED TO:

\_\_\_\_\_  
James F. Smith, President  
Tesoro Alaska Petroleum Company

TESORO

MOVE § ASK UNANIMOUS CONSENT TO  
ADOPT CS FOR HB 320

TESORO

MOVE § ASK UNANIMOUS CONSENT TO  
ADOPT CS FOR HB 371

CHAZRON

MOVE § ASK UNANIMOUS CONSENT TO  
ADOPT House CS FOR SB 269

~~1/1/11~~

MOVE § ASK UNANIMOUS CONSENT TO PASS CS HB 320  
FROM COMMITTEE WITH INDIVIDUAL RECOMMENDATIONS.

"

CS HB 371

"

H CS SB 269