

~~HOUSE~~  
~~COMMITTEE REPORT~~

(11)  
Date referred: 5/2/86

FURTHER REFERRALS:

DATE: 5-10-86

The FINANCE Committee has considered CSSB 309 (Rls)  
"An Act relating to royalty gas contracts; and providing for an effective date."

and recommends:

- do pass
- do not pass
- do pass with attached amendment(s)
- no recommendation
- replace with HCS CSSB 309 (Finance)  same title  
 new title

and recommends NO RECOMMENDATION

further referral to the \_\_\_\_\_ Committee

- and attaches:
- letter of intent
  - first fiscal note
  - new fiscal note indeterminate 519
  - zero fiscal note

SIGNING DO PASS:

Albert D. Gales  
Mike Summ  
Fat  
Steve Klein  
Jan Gith

SIGNING OTHER RECOMMENDATIONS:

John P. ... (No Rec)  
Gene ... (No Rec)  
Ronald ... (No Rec)  
Kid ... (No Rec)  
John Biley (No Rec)

Albert D. Gales  
Chairman

# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : 5-9-86

**REQUEST**

Bill/Resolution No. HCSCSSB 309 (Finance)  
 Title: An Act relating to royalty gas contracts  
 Sponsor: Faiks  
 Requestor: House Finance  
 Date of Request: 5-9-86

**FISCAL DETAIL**

Agency Affected: Natural Resources  
 BRU: Petroleum Management

Components : \_\_\_\_\_

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

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>						

<b>CAPITAL</b>						
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<b>REVENUE</b>						
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**FUNDING : (Thousands of Dollars)**

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

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

The fiscal impact of this proposal is indeterminate. For explanation, see attached Supplemental Information.

Prepared by: Kay Brown  
 Division: Oil and Gas

Phone: 762-4241  
 Date: 5-9-86

Approved by Commissioner: *Leslie A. Whinnicki*  
 Agency: Natural Resources

Date: 5-9-86

Distribution (by Agency preparing fiscal note):

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

## SUPPLEMENTAL INFORMATION

### Fiscal Note proposed House CS for CS for SB 309 (Finance)

#### Alaska Department of Natural Resources

The potential fiscal impact of the proposed House CS for CS for SB 309 (Finance) cannot be precisely specified, because it is unknown at this time how often the new valuation mechanism would be applied in the future and to what extent future contract prices would deviate from market value.

The impact of the proposed House Finance CS is limited to gas sold to regulated gas and electric utilities. The royalty share of gas sold to regulated gas and electric utilities would be valued using solely the contract price, unless the commissioner finds, based on clear and convincing evidence, that the price is unreasonably low, the prospective reduction in royalty receipts would not be balanced by increased benefits to in-state gas and electric consumers, the lessee and the utility are related to each other, and the contract price is not in the best interest of the state. (All four conditions would have to clearly and convincingly exist in order not to use the contract price.) Thus, the contract price would be used in virtually all foreseeable instances involving sales to regulated gas or electric utilities.

The fiscal impact of Section 2 of the bill would depend on the extent to which contract prices differ from value in the future. Gas that will be sold to regulated gas and electric utilities is likely to come primarily from Cook Inlet, at least in the near term. The state's royalty share of Cook Inlet gas reserves not presently committed to a contract is about 190 billion cubic feet (BCF), of which some portion would likely be sold for local consumer uses. If value is higher than contract price by 10¢, 25¢ and \$1.00 per mcf for half of the state's share of Cook Inlet royalty gas not presently committed to a contract, then state revenues would be reduced by \$9.5 million, \$23.75 million and \$95 million, respectively, as a result of basing the royalty payment on the contract price rather than on the market value of the gas. Any royalty income lost to the state as a result of using solely the contract price to determine the royalty payment would go directly to benefit local gas and electric consumers.

Sections 3 and 4 of the bill give the commissioner authority, upon legislative approval, to enter into an in kind royalty gas sale to a gas or electric utility "at a negotiated price." It is implied but not expressly stated that the sale may be at a price below market value. The fiscal impact of these sections would be considered by future legislatures reviewing an in kind sale proposed by the commissioner. If the commissioner proposed to sell royalty gas at a price below market value, and the legislature approved it, future royalty income would be reduced.

The proposed House Finance CS would allow implementation of the department's preliminary settlement agreement with Chugach Electric, which would value Beluga field production purchased by Chugach under existing contracts at 75¢/mcf, subject to the passage of the legislation. This value is one-half the state's January offer to settle the pricing dispute at \$1.50/mcf, which was rejected by the Beluga producers who sell to Chugach. If the dispute had been settled at \$1.50/mcf under existing law, the state would have received \$1.9 million/year in new royalty income from the Beluga field. Settlement at 75¢/mcf, as will occur if the proposed House Finance CS is adopted, will increase state royalty revenues from Beluga production by about \$810,000/year, because the state's share of this production is currently valued at 21¢/mcf by the producers. This increase in state royalty revenues is less than would have been expected if 1) the state's \$1.50/mcf settlement offer had been accepted, or 2) the state had successfully pursued its legal arguments regarding the value of the state's royalty share under the existing lease terms and existing law.

SUPPLEMENTAL INFORMATION

Fiscal Note for Amendment #1  
of proposed House CS for CS for SB 309 (Finance)

Alaska Department of Natural Resources

The potential fiscal impact of Amendment #1 (related to valuation of North Slope royalty gas) of the proposed House CS for CS for SB 309 (Finance) cannot be precisely specified, because it is unknown at this time how often the new valuation mechanism would be applied in the future and to what extent future contract prices would deviate from market value.

The proposed amendment provides that, for North Slope gas that will be exported out of state, the commissioner may enter into an agreement with the lessee to use a contract price if the commissioner makes a written finding that the contract price assures the receipt of maximum benefits to the people of the state in return for the state's resources. The lessee must demonstrate by clear and convincing evidence that the value of the gas is reflected by the gas sales contract rather than being attributable to transportation, marketing, manufacturing, or other profit or cost centers.

The standard articulated above (maximum benefits to the people of the state) could allow the commissioner to purposely forgo potential royalty income in return for other benefits to the people of the state.

Under the proposed amendment, the commissioner would have the discretion to use a contract price rather than relying on the standards in the lease form to establish value. To the extent that a contract price differs from market value over time, or from the value established in other sales from the field, royalty income would be reduced.

The state's royalty share of North Slope gas reserves is about 4.5 trillion cubic feet (TCF). Assuming value is higher than contract price by 10¢, 25¢ and \$1.00 per mcf for the entire North Slope royalty share, royalty revenues to the state would be reduced by \$450 million, \$1.1 billion and \$4.5 billion, respectively, as a result of basing the royalty payment on the contract price rather than the market value of the gas.

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 309 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. The legislature finds that the best interest of  
10 the state will be served if the commissioner of natural resources is au-  
11 thorized to establish the in-value royalty for gas sold to a gas or elec-  
12 tric utility by using the contract price between the lessee of the state  
13 and the utility, whether or not the gas lease establishes a different stan-  
14 dard for the valuation and if the lessee and the utility are not related to  
15 each other. The legislature finds that this authorization should apply  
16 prospectively and does not intend the authorization to apply to the val-  
17 uation for royalty purposes of gas sold by a lessee under a gas sales  
18 contract entered into before the effective date of this Act. The legisla-  
19 ture does not intend this Act to apply to the policies of the state regard-  
20 ing the value of the state's royalty share of oil production.

21 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

22 (aa) Within 90 days after the written request of a lessee of a  
23 lease issued under this section, the commissioner shall enter into an  
24 agreement with the lessee to use the price for the gas established in  
25 the contract between the lessee and a gas or electric utility as the  
26 value of the state's royalty share of gas production sold by the  
27 lessee under the contract unless the commissioner makes a written  
28 finding, based on clear and convincing evidence, that

29 (1) the contract price is unreasonably low;

1 (2) the prospective reduction in royalty receipts would not  
2 be balanced by increased benefits to in-state gas and electric con-  
3 sumers;

4 (3) the lessee and the utility are related in management,  
5 ownership, or other aspect; and

6 (4) the contract price is not in the best interest of the  
7 state.

8 (bb) Notwithstanding (aa) of this section, in the event of a  
9 contract for the sale of royalty gas from North Slope gas leases that  
10 provides for delivery of the gas through a pipeline for export out of  
11 the state, the commissioner may enter into an agreement with the  
12 lessee to use the price for the gas established in the gas sales  
13 contract as the value of the state's royalty share of gas production  
14 sold by the lessee under the gas sales contract if the commissioner  
15 makes a written finding that the contract price assures the receipt of  
16 maximum benefits to the people of the state in return for the state's  
17 resources. To obtain the agreement allowed in this subsection, a  
18 lessee must file a written request with the commissioner within 90  
19 days after the first delivery of gas under the gas sales contract.  
20 The commissioner shall act in writing on the request within 120 days  
21 of receiving the written request. The agreement between the lessee  
22 and the commissioner may be for a lesser period of time than the  
23 length of the lessee's gas sales contract and may provide for periodic  
24 review of the royalty value term by the commissioner. The lessee has  
25 the burden of providing all information necessary for the commissioner  
26 to make an informed decision and shall provide clear and convincing  
27 evidence that the value of the gas is reflected by the gas sales  
28 contract rather than attributable to transportation, marketing, manu-  
29 facturing, or other profit or cost centers. In this subsection,

1 (1) "gas sales contract" includes a written agreement for  
2 the intracompany transfer of gas;

3 (2) "North Slope gas leases" includes a gas lease that is  
4 issued by the state under this section and that covers land lying in  
5 whole or in part north of 68 degrees north latitude; and

6 (3) "price for the gas established in the gas sales con-  
7 tract" includes tax reimbursement amounts, deliverability and other  
8 charges, and other forms of consideration received by the lessee under  
9 the gas sales contract.

10 (cc) In (aa) of this section

11 (1) "gas or electric utility" includes an electric coopera-  
12 tive organized under AS 10.25, a municipal utility, and a gas or  
13 electric utility regulated under AS 42.05; provided that if the con-  
14 tract gas is transmitted to consumers through a pipeline and the gas  
15 utility either owns the pipeline or is related in ownership to the  
16 owner of the pipeline, then the gas utility qualifies as a "gas or  
17 electric utility" within the meaning of this paragraph only if it is  
18 bound or agrees to be bound by the covenants set out in AS 38.35.120;

19 (2) "price for the gas established in the contract" in-  
20 cludes tax reimbursement amounts, deliverability and other charges,  
21 and other forms of consideration paid by the gas or electric utility  
22 under the contract;

23 (3) "state's royalty share of gas production" does not  
24 include the state's royalty share of gas production from land patented  
25 to the state under

26 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
27 Enabling Act);

28 (B) 38 Stat. 1214 (Act of March 4, 1915); or

29 (C) 43 U.S.C. 1635 in settlement of the claims of the



1 state under 38 Stat. 1214.

2 \* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

3 (h) Upon legislative approval, the commissioner may enter into a  
4 contract to sell royalty gas taken in kind by the state to a gas or  
5 electric utility at a negotiated price for the gas if the  
6 commissioner, after considering the consumer benefits, other benefits,  
7 and detriments of the sale, makes a written finding that the sale is  
8 in the best interest of the state. In this subsection,

9 (1) "gas or electric utility" has the meaning given in  
10 AS 38.05.180(cc);

11 (2) "royalty gas taken in kind by the state" does not  
12 include royalty gas taken in kind by the state from gas production on  
13 land patented to the state under

14 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
15 Enabling Act);

16 (B) 38 Stat. 1214 (Act of March 4, 1915); or

17 (C) 43 U.S.C. 1635 in settlement of the claims of the  
18 state under 38 Stat. 1214.

19 \* Sec. 4. AS 38.05.810(a) is amended to read:

20 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]  
21 lease, sale, or other disposal of state land or resources may be made  
22 to a state or federal agency or political subdivision, or the lease,  
23 sale, or disposal of coal deposits suitable for mining may be made to  
24 a utility owned and operated by a government agency or nonprofit  
25 cooperative association organized to participate under the Federal  
26 Rural Electrification Act for the purpose of generating electric power  
27 and energy or the production of process steam, or both, for less than  
28 the appraised value as determined by the director and approved by the  
29 commissioner to be fair and proper and in the best interests of the

1 public, with due consideration given to the nature of the public  
2 services or function rendered by the agency, subdivision, or utility  
3 making application, and of the terms of the grant under which the land  
4 was acquired by the state.

5 \* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
6 agreements to establish for a lease issued under AS 38.05.180 the in-value  
7 royalties on gas production that is sold under a contract entered into on  
8 or after the effective date of this Act between the state's lessee and a  
9 gas or electric utility.

10 \* Sec. 6. AS 38.05.180(bb), enacted by sec. 2 of this Act, applies to  
11 agreements to establish for a lease issued under AS 38.05.180 the in-value  
12 royalties on gas production that is sold under a gas sales contract entered  
13 into on or after the effective date of this Act between the state's lessee  
14 and a purchaser of the gas.

15 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
16 10.070(c).  
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# STATE OF ALASKA 1986 LEGISLATIVE SESSION FISCAL NOTE

Revision Date : 5-7-86

**REQUEST**

Bill/Resolution No. : HCS CSSB 309 (Res)  
 Title : Royalty value of a natural gas lease on state land  
 Sponsor : Faiks  
 Requestor : House Finance  
 Date of Request : 5-6-86

**FISCAL DETAIL**

Agency Affected : Natural Resources  
 BRU : Petroleum Management  
 Components : \_\_\_\_\_

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

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>						
<b>CAPITAL</b>						
<b>REVENUE</b>						

**FUNDING : (Thousands of Dollars)**

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

**POSITIONS :**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS :** Attach a separate page if necessary

The fiscal impact of this proposal is indeterminate. For explanation, see attached Supplemental Information.

Prepared by : Kay Brown *RPM* Phone : 762-4241  
 Division : Oil and Gas Date : 5-7-86  
 Approved by Commissioner : James D. Amundson, Deputy Date : 5/7/86  
 Agency : Natural Resources

Distribution (by Agency preparing fiscal note):

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

## SUPPLEMENTAL INFORMATION

Fiscal Note for House CS for CS for SB 309 (Resources)

Alaska Department of Natural Resources

The potential fiscal impact of House CS for CS for SB 309 (Resources) cannot be precisely specified, because it is unknown at this time how often the new valuation mechanism would be applied in the future and to what extent future contract prices would deviate from market value.

However, the bill would adversely affect the state's ability to collect royalties owed under the leases, and likely would result in lower revenues.

The bill would require the commissioner to use solely the contract price to determine royalty value for virtually all arms-length contracts, whether for consumer or industrial purposes. The bill could affect all state-owned gas reserves not presently under contract.

The state's royalty share of North Slope gas reserves is about 4.5 trillion cubic feet (TCF). If value is higher than contract price by 10¢, 25¢ and \$1.00 per mcf for the entire North Slope royalty share, royalty revenues to the state would be reduced by \$450 million, \$1.1 billion and \$4.5 billion, respectively, as a result of basing the royalty payment on the contract price rather than the market value of the gas.

The state's royalty share of Cook Inlet gas reserves not presently committed to a contract is about 190 billion cubic feet (BCF). If value is higher than contract price by 10¢, 25¢ and \$1.00 per mcf for the entire royalty share not presently under contract, then state revenues would be reduced by \$19 million, \$47.5 million and \$190 million, respectively, as a result of basing the royalty payment on the contract price rather than on the market value of the gas.

May 1, 1986

TESTIMONY OF KAY BROWN, DIRECTOR, DIVISION OF OIL AND GAS  
TO HOUSE RESOURCES COMMITTEE  
ON PROPOSED HOUSE RESOURCES CS FOR CS SB309

Thank you, Mr. Chairman. For the record, I'm Kay Brown, Director of the Division of Oil and Gas for the Department of Natural Resources. I appreciate this opportunity to testify.

The bill before the committee was intended to benefit Alaska gas and electric consumers. We don't believe it is prudent to try to address other issues -- such as how to value the royalty share of gas production sold for industrial and export uses -- in this consumer bill.

The Department of Natural Resources supports the House Oil and Gas Committee Substitute for SB 309. We object to the proposed Resources Committee Substitute, which addresses industrial and export sales. If the legislature insists on addressing industrial and export sales, we have previously

provided language that would accomplish this in a way that protects the state's interest.

The approach suggested in the proposed Resources Committee Substitute is not acceptable. Let me explain why.

Fundamentally, we believe that the burden must be on the lessee to show that the royalty value is a fair value, and not on the Commissioner to show that it isn't.

The department believes it is appropriate to accept a contract price as the royalty value for arms-length sales to regulated utilities -- as provided in the House Oil and Gas Committee Substitute for SB 309 -- because Alaska consumers would be the direct beneficiaries of any royalties lost to the state as a result of using solely the contract price to establish royalty value. We do not believe that industrial and export gas uses should receive the same exception, since the likely effect would be to increase the profits of industrial and export concerns without a corresponding public benefit.

The proposed Resources Committee Substitute significantly erodes the state's rights under existing oil and gas leases. It would bind the state as landowner to prices established in contracts to which it was not a party, and, contrary to

the provisions of the leases, would forego royalties the state is entitled to receive.

Further, the proposed CS does not include language authorizing "below market" sales of royalty gas for consumer uses, which was included in previous versions of the bill and which is an important element of the department's preliminary settlement agreement with Chugach Electric. We recommend that this language be restored.

The proposed Committee Substitute expands the presumption that a contract price is the correct royalty value to cover virtually all arms-length contracts, whether for consumer or industrial purposes. There is no assurance that a contract would be structured to reflect the true value of the gas.

The department believes that adoption of the proposed Committee Substitute would adversely affect the state's ability to collect royalties in several important instances. For example, Marathon Oil Company has advised the department that it intends to take gas from new fields (not covered by past royalty settlements) to its LNG plant in Cook Inlet. Presumably Marathon will sell the gas as LNG to a Japanese purchaser not related to Marathon in management, ownership or other aspect. Thus, Marathon would be entitled to the presumption of use of the contract price under the proposed

Com... substitute. However, the state would not be able  
to... challenge a low royalty value claimed by  
Marathon due to charges associated with liquifying and  
moving the gas. The contract price alone does not determine  
royalty value; other aspects of the transaction such as  
transportation and LNG facilities must be considered if the  
state's interests are to be protected.

Obviously the potential fiscal impacts of this bill are  
magnified with regard to the huge gas reserves of the North  
Slope. With North Slope gas, it is well known that pipeline,  
liquefaction and shipping charges will be very large. As  
with Cook Inlet LNG, the state will need to be vigilant to  
assure that the value of the gas is not attributed to these  
other segments of the export project. It is illuminating  
that millions of dollars and almost 10 years have failed to  
yield a consensus on the proper costs of the TAPS  
construction project. Yet this bill could require a  
Commissioner to make even more complex determinations, with  
no... access to necessary information, within 90  
days.

At a minimum, the state must have the ability to scrutinize  
all elements affecting a sale for industrial and export  
purposes, such as pipelines, LNG facilities and LNG tankers.  
Further, the lessee must have the burden of providing all



information necessary for the commissioner to make an informed decision, as well as the burden of providing clear and convincing evidence that the value of the gas is reflected by the gas sales contract price rather than being attributed to transportation, marketing, manufacturing or other profit or cost centers.

Further, the commissioner should have the ability to approve use of a contract price for a lesser period of time than that covered by the lessee's gas sales contract, and provide for a periodic review of the royalty value to be determined by the commissioner.

Without these minimum protections for the state, the proposed Committee Substitute is unacceptable.

As drafted, the proposed Committee Substitute would require use of an arms-length contract price as the royalty value unless the commissioner makes a written finding based on clear and convincing evidence that

(A) the contract price is unreasonably low;

(B) the prospective reduction in royalty receipts would not be balanced by increased benefits to in-state consumers; and

(C) the contract price is not in the best interest of the state.

All the conditions would have to be satisfied before the commissioner could reject a contract price, a more difficult standard than finding that any one of the conditions exists. Thus, even if the Commissioner had clear and convincing evidence that using the contract price to establish royalty value would be adverse to the state's best interest, the Commissioner would nonetheless be obligated to bind the state to the disadvantageous royalty value if the other two standards could not be proven by the same high evidentiary standard.

As a practical matter, it would be virtually impossible for the commissioner to obtain clear and convincing evidence to show that a contract price was unreasonably low and not in the state's best interest within the 90-day timeframe provided. The lessee would control access to the necessary information. Lessees have an understandable desire to minimize royalty payments, and no incentive to cooperate by providing proprietary information that the commissioner might request in order to make a decision. The lessees conceivably could spend years devising a complicated pricing formula that the Commissioner would be asked to approve in only 90 days.

In summary, Mr. Chairman, we are disappointed that this bill which we have supported in order to benefit gas and electric consumers may be broadened to cover industrial and export uses without adequate protection for the state's interests. We urge the committee to adopt the House Oil and Gas Committee Substitute, with the addition of the words "based on clear and convincing evidence" after the word "finding" on page 1, line 28 of that bill. If the committee deems it necessary to address industrial and export uses, we recommend use of the language included in Commissioner Wunnicke's April 22 letter to Co-chairman Shultz.

Thank you for your time and consideration.

SB 309

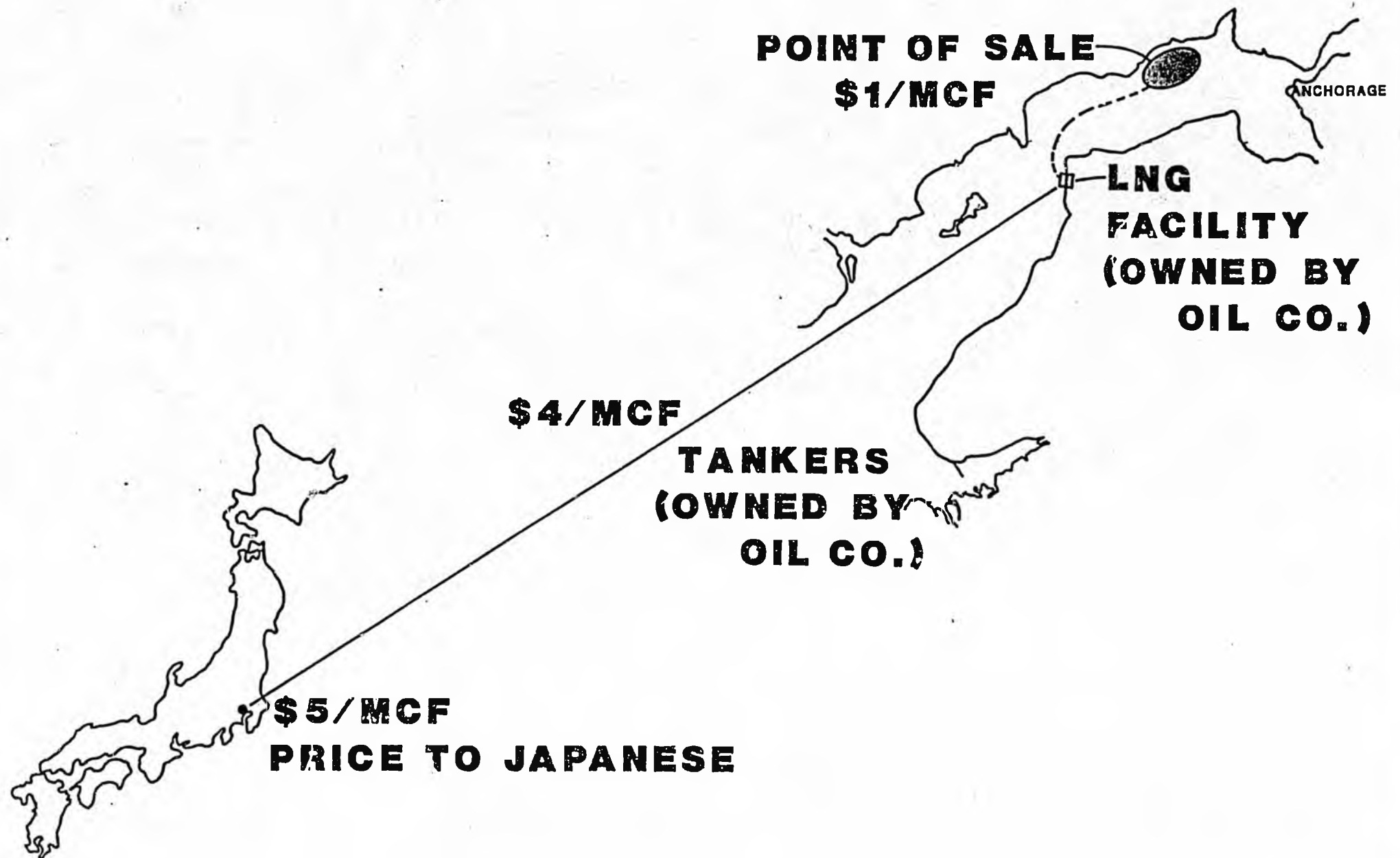
STATE FUNDING TO SCHOOL DISTRICTS UNDER HB 309

DISTRICT/ REAA	FY 86 STATE AIO		PROJECTED ENROLLMENT FY 87	FY 87 STATE AIO PER STUDENT		FY 87 TOTAL STATE AIO	
	FY86 ADM PER STUDENT	ACTUAL AID * TOTAL AID **		LISTED HB309	LESS 80% PL81-874 FOR REAAs	UNPRORATED	PRORATED
TOTAL	103,149	4,746 489,506,532	105,854	5,041	4,752	503,072,509	481,555,500
C&B TOTAL	88,001	4,103 361,046,049	90,423	4,108	4,108	371,482,867	340,825,542
REAA TOTAL	15,148	8,480 128,450,483	15,432	10,505	8,527	131,589,642	120,729,958
ANCHORAGE	40,026	3,492 139,764,099 **	40,674	3,492	3,492	142,026,807	130,305,776
BRISTOL BAY	217	10,121 2,196,257	241	10,121	10,121	2,439,161	2,237,865
CORDOVA	396	5,279 2,030,620 **	390	5,279	5,279	2,058,944	1,889,026
CRAIG	188	7,581 1,425,228	186	7,581	7,581	1,410,066	1,293,698
DILLINGHAM	429	9,020 3,869,580	465	9,020	9,020	4,194,300	3,848,157
FAIRBANKS	13,053	4,077 53,219,358 **	13,431	4,077	4,077	54,758,187	50,239,164
GALENA	148	10,395 1,532,460	146	10,395	10,395	1,517,670	1,392,421
HAINES	340	6,599 2,243,660	351	6,599	6,599	2,312,950	2,122,069
HOONAH	227	6,473 1,455,371	214	6,473	6,473	1,385,222	1,270,904
HYDABURG	97	9,530 924,410	97	9,530	9,530	924,410	848,121
JUNEAU	4,624	3,828 17,699,850 **	4,700	3,828	3,828	17,990,764	16,506,043
KAKE	214	7,393 1,582,102	202	7,393	7,393	1,493,396	1,370,142
KENAI	8,132	4,362 35,469,950 **	8,548	4,362	4,362	37,283,586	34,206,688
KETCHIKAN	2,435	3,916 9,535,827 **	2,439	3,916	3,916	9,551,492	8,763,237
KING COVE	126	9,751 1,228,626	120	9,751	9,751	1,170,120	1,073,554
KLAMOCK	157	7,714 1,211,098	156	7,714	7,714	1,203,384	1,104,072
KODIAK	2,252	5,708 12,854,416	2,278	5,708	5,708	13,002,824	11,929,741
KAT-SU	8,794	3,680 32,357,597 **	9,356	3,680	3,680	34,462,276	31,618,211
KENANA	112	10,927 1,223,824	126	10,927	10,927	1,376,802	1,263,179
NOME	816	7,452 6,080,832	850	7,452	7,452	6,334,200	5,811,458
NORTH SLOPE	1,092	9,570 10,450,440	1,155	9,570	9,570	11,053,350	10,141,151
PELICAN	48	12,936 620,928	54	12,936	12,936	698,544	640,895
PETERSBURG	542	4,445 2,409,732	597	4,445	4,445	2,652,039	2,433,174
SAND POINT	111	8,614 956,154	115	8,614	8,614	990,610	908,858
SITKA	1,596	4,128 6,589,107	1,654	4,128	4,128	6,827,519	6,264,065
SKAGWAY	125	6,399 799,900 **	136	6,399	6,399	870,291	798,469
ST. MARYS	111	15,544 1,725,384	115	15,544	15,544	1,787,560	1,640,038
TANANA	71	13,895 986,545	78	13,895	13,895	1,083,810	994,367
UNALASKA	137	8,538 1,169,706	141	8,538	8,538	1,203,858	1,104,507
VALDEZ	771	4,977 3,837,267	751	4,977	4,977	3,636,807	3,611,915
WRANGELL	455	4,915 2,236,325	451	4,915	4,915	2,216,665	2,033,731
YAKUTAT	159	8,059 1,281,381	157	8,059	8,059	1,265,263	1,160,845
ADAK	603	4,163 2,510,438	607	6,909	4,163	2,527,091	2,318,538
ALASKA GATEWAY	516	7,835 4,042,683	516	8,985	7,835	4,042,683	3,709,053
ALEUTIAN CHAIN	90	16,327 1,469,467	87	17,341	16,327	1,420,485	1,303,257
ANNETTE ISLAND	395	3,824 1,510,632	413	6,835	3,824	1,579,471	1,449,122
BERING STRAIT	1216	9,961 12,112,105	1,233	12,685	9,961	12,281,435	11,267,887
CHATHAM	306	6,448 1,972,971	306	9,029	6,448	1,972,971	1,810,148
CHUGACH	116	10,810 1,253,987	129	12,226	10,810	1,389,115	1,274,476
COPPER RIVER	567	7,297 4,137,351	575	7,465	7,297	4,195,726	3,849,466
DELTA-GREELY	998	5,148 5,137,915	1,084	6,152	5,148	5,580,661	5,120,107
IDITAROD	389	13,332 5,186,059	399	15,571	13,332	5,319,377	4,880,385
KASHUNANITUT	152	10,259 1,559,368	166	10,259	10,259	1,702,994	1,562,451
KUSPUK	349	14,508 5,063,293	408	17,031	14,508	5,919,265	5,430,767
LAKE & PENINSULA	377	13,288 5,009,479	370	16,095	13,288	4,916,465	4,510,724
LOWER KUSKOKWIM	2579	9,444 24,355,573	2,675	11,474	9,444	25,263,319	23,176,416
LOWER YUKON	1300	6,752 8,777,236	1,286	10,259	6,752	8,682,712	7,966,155
NORTHWEST ARCTIC	1482	8,788 13,024,232	1,525	10,802	8,788	13,410,316	12,304,155
PRIIBILOF	167	8,347 1,353,954	159	11,934	8,347	1,410,648	1,294,232
RAILBELT	358	9,656 3,471,144	357	9,933	9,656	3,461,448	3,175,786
SOUTHEAST ISLANDS	496	8,227 4,080,456	458	10,052	8,227	3,767,840	3,456,892
SOUTHWEST	474	10,286 4,875,561	485	13,837	10,286	4,999,993	4,586,442
YUKON FLATS	369	14,565 5,374,370	377	16,110	14,565	5,490,888	5,037,742
YUKON KOYUKUK	572	11,032 6,310,481	596	13,719	11,032	6,575,256	6,032,621
YUPIIT	282	11,474 3,235,668	285	11,474	11,474	3,270,090	3,000,220
CENTRAL CORRESP.	995	2,608 2,594,960	924	2,608	2,608	2,409,792	2,210,919

\* Listed value less 80% PL81-874 funds for REAAs.  
 \*\* Includes local contribution adjustments (CH.75 SLA 1985 Sec.3) and \$130,650 in emergency funds to Skagway.  
 \* PL81-874 funds were not computed in these re districts; the funding level is uncertain at this time.

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# OIL COMPANY SALE TO JAPANESE UTILITY



Offered: 5/2/86  
Referred: Finance

Original sponsors: Faiks, Kelly,  
and V. Fischer

1 IN THE SENATE BY THE RESOURCES COMMITTEE  
2 HOUSE CS FOR CS FOR SENATE BILL NO. 309 (Resources)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. The legislature finds that to provide for the  
10 utilization, development and conservation of gas resources for the maximum  
11 benefit of the people of the state, the value of production of gas for  
12 purposes of computing the royalty reserved to the state must be based  
13 primarily on the contract price of the gas. This will encourage stable  
14 markets, promote investment, assure reasonable energy prices and provide  
15 the maximum benefit to the people of the state. The legislature does not  
16 intend this Act to apply to the policies of the state regarding the sale of  
17 royalty oil.

18 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

19 (aa) Within 90 days after the written request of a lessee of a  
20 lease issued under this section, the commissioner shall enter into an  
21 agreement with the lessee to use the price for the gas established in  
22 the contract between the lessee and a purchaser as the value of the  
23 state's royalty share of gas production sold by the lessee under the  
24 contract unless

25 (1) the lessee and purchaser are related in management,  
26 ownership, or other aspect; or

27 (2) the commissioner makes a written finding based on clear  
28 and convincing evidence that

29 (A) the contract price is unreasonably low;

1 (B) the prospective reduction in royalty receipts  
2 would not be balanced by increased benefits to in-state  
3 consumers; and

4 (C) the contract price is not in the best interest of  
5 the state.

6 (bb) In (aa) of this section

7 (1) "price for the gas established in the contract" in-  
8 cludes tax reimbursement amounts, deliverability and other charges,  
9 and other forms of consideration paid by the purchaser under the  
10 contract;

11 (2) "state's royalty share of gas production" does not  
12 include the state's royalty share of gas production from land patented  
13 to the state under

14 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
15 Enabling Act);

16 (B) 38 Stat. 1214 (Act of March 4, 1915); or

17 (C) 43 U.S.C. 1635 in settlement of the claims of the  
18 state under 38 Stat. 1214.

19 \* Sec. 3. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
20 agreements to establish for a lease issued under AS 38.05.180 the in-value  
21 royalties on gas production that is sold by the state's lessee under a  
22 contract entered into on or after the effective date of this Act.

23 \* Sec. 4. This Act takes effect immediately in accordance with AS 01.-  
24 10.070(c).

Offered: 5/2/86  
Referred: Finance

Original sponsors: Faiks, Kelly,  
and V.Fischer

1 IN THE SENATE BY THE RESOURCES COMMITTEE  
2 HOUSE CS FOR CS FOR SENATE BILL NO. 309 (Resources)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. The legislature finds that to provide for the  
10 utilization, development and conservation of gas resources for the maximum  
11 benefit of the people of the state, the value of production of gas for  
12 purposes of computing the royalty reserved to the state must be based  
13 primarily on the contract price of the gas. This will encourage stable  
14 markets, promote investment, assure reasonable energy prices and provide  
15 the maximum benefit to the people of the state. The legislature does not  
16 intend this Act to apply to the policies of the state regarding the sale of  
17 royalty oil.

18 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

19 (aa) Within 90 days after the written request of a lessee of a  
20 lease issued under this section, the commissioner shall enter into an  
21 agreement with the lessee to use the price for the gas established in  
22 the contract between the lessee and a purchaser as the value of the  
23 state's royalty share of gas production sold by the lessee under the  
24 contract unless

25 (1) the lessee and purchaser are related in management,  
26 ownership, or other aspect; or

27 (2) the commissioner makes a written finding based on clear  
28 and convincing evidence that

29 (A) the contract price is unreasonably low;



1 (B) the prospective reduction in royalty receipts  
2 would not be balanced by increased benefits to in-state  
3 consumers; and

4 (C) the contract price is not in the best interest of  
5 the state.

6 (bb) In (aa) of this section

7 (1) "price for the gas established in the contract" in-  
8 cludes tax reimbursement amounts, deliverability and other charges,  
9 and other forms of consideration paid by the purchaser under the  
10 contract;

11 (2) "state's royalty share of gas production" does not  
12 include the state's royalty share of gas production from land patented  
13 to the state under

14 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
15 Enabling Act);

16 (B) 38 Stat. 1214 (Act of March 4, 1915); or

17 (C) 43 U.S.C. 1635 in settlement of the claims of the  
18 state under 38 Stat. 1214.

19 \* Sec. 3. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
20 agreements to establish for a lease issued under AS 38.05.180 the in-value  
21 royalties on gas production that is sold by the state's lessee under a  
22 contract entered into on or after the effective date of this Act.

23 \* Sec. 4. This Act takes effect immediately in accordance with AS 01.-  
24 10.070(c).

Offered: 4/21/86  
Referred: Resources and  
Finance

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE  
2 HOUSE CS FOR CS FOR SENATE BILL NO. 309 (O&G)  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 FOURTEENTH LEGISLATURE - SECOND SESSION  
5 A BILL  
6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."  
8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:  
9 \* Section 1. FINDINGS. The legislature finds that the best interest of  
10 the state will be served if the commissioner of natural resources is au-  
11 thorized to establish the in-value royalty for gas sold to a gas or elec-  
12 tric utility by using the contract price between the lessee of the state  
13 and the utility, whether or not the gas lease establishes a different stan-  
14 dard for the valuation and if the lessee and the utility are not related to  
15 each other. The legislature finds that this authorization should apply  
16 prospectively and does not intend the authorization to apply to the val-  
17 uation for royalty purposes of gas sold by a lessee under a gas sales  
18 contract entered into before the effective date of this Act. The legisla-  
19 ture does not intend this Act to apply to the policies of the state regard-  
20 ing the sale of royalty oil.  
21 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:  
22 (aa) Within 90 days after the written request of a lessee of a  
23 lease issued under this section, the commissioner shall enter into an  
24 agreement with the lessee to use the price for the gas established in  
25 the contract between the lessee and a gas or electric utility as the  
26 value of the state's royalty share of gas production sold by the  
27 lessee under the contract unless the commissioner makes a written  
28 finding that  
29 (1) the contract price is unreasonably low;

1           (2) the prospective reduction in royalty receipts would not  
2 be balanced by increased benefits to in-state gas and electric con-  
3 sumers;

4           (3) the lessee and the utility are not related in manage-  
5 ment, ownership, or other aspect; and

6           (4) the contract price is not in the best interest of the  
7 state.

8           (bb) In (aa) of this section

9           (1) "gas or electric utility" includes an electric coopera-  
10 tive organized under AS 10.25, a municipal utility, and a gas or  
11 electric utility regulated under AS 42.05; provided that if the con-  
12 tract gas is transmitted to consumers through a pipeline and the gas  
13 utility either owns the pipeline or is related in ownership to the  
14 owner of the pipeline, then the gas utility qualifies as a "gas or  
15 electric utility" within the meaning of this paragraph only if it is  
16 bound or agrees to be bound by the covenants set out in AS 38.35.120;

17           (2) "price for the gas established in the contract" in-  
18 cludes tax reimbursement amounts, deliverability and other charges,  
19 and other forms of consideration paid by the gas or electric utility  
20 under the contract;

21           (3) "state's royalty share of gas production" does not  
22 include the state's royalty share of gas production from land patented  
23 to the state under

24                   (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
25 Enabling Act);

26                   (B) 38 Stat. 1214 (Act of March 4, 1915); or

27                   (C) 43 U.S.C. 1635 in settlement of the claims of the  
28 state under 38 Stat. 1214.

29 \* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

1 (h) The commissioner may enter into a contract to sell royalty  
2 gas taken in kind by the state to a gas or electric utility at less  
3 than the market value of the royalty gas if the commissioner makes a  
4 written finding that the sale is in the best interest of the state.  
5 The commissioner shall consider the consumer benefits, other benefits,  
6 and detriments of the sale. In this subsection,

7 (1) "gas or electric utility" has the meaning given in  
8 AS 38.05.180(bb);

9 (2) "royalty gas taken in kind by the state" does not  
10 include royalty gas taken in kind by the state from gas production on  
11 land patented to the state under

12 (A) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health  
13 Enabling Act);

14 (B) 38 Stat. 1214 (Act of March 4, 1915); or

15 (C) 43 U.S.C. 1635 in settlement of the claims of the  
16 state under 38 Stat. 1214.

17 \* Sec. 4. AS 38.05.810(a) is amended to read:

18 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]  
19 lease, sale, or other disposal of state land or resources may be made  
20 to a state or federal agency or political subdivision, or the lease,  
21 sale, or disposal of coal deposits suitable for mining may be made to  
22 a utility owned and operated by a government agency or nonprofit  
23 cooperative association organized to participate under the Federal  
24 Rural Electrification Act for the purpose of generating electric power  
25 and energy or the production of process steam, or both, for less than  
26 the appraised value as determined by the director and approved by the  
27 commissioner to be fair and proper and in the best interests of the  
28 public, with due consideration given to the nature of the public  
29 services or function rendered by the agency, subdivision, or utility

1 making application, and of the terms of the grant under which the land  
2 was acquired by the state.

3 \* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
4 agreements to establish for a lease issued under AS 38.05.180 the in-value  
5 royalties on gas production that is sold under a contract entered into on  
6 or after the effective date of this Act between the state's lessee and a  
7 gas or electric utility.

8 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
9 10.070(c).

Offered: 2/28/86

Original sponsors: Faiks, Kelly  
and V. Fischer

1 IN THE SENATE

BY THE RULES COMMITTEE

2 CS FOR SENATE BILL NO. 309 (Rules)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. (a) The legislature finds that the best inter-  
10 est of the state will be served if the commissioner of natural resources is  
11 authorized to establish the in-value royalty for gas sold to a gas or  
12 electric utility by using the contract price between the lessee of the  
13 state and the utility, whether or not the gas lease establishes a different  
14 standard for the valuation and if the lessee and the utility are not re-  
15 lated to each other. The legislature finds that this authorization should  
16 apply prospectively and does not intend the authorization to apply to the  
17 valuation for royalty purposes of gas sold by a lessee under a gas sales  
18 contract entered into before the effective date of this Act.

19 (b) The legislature finds that it is also in the best interest of the  
20 state to give the commissioner explicit discretionary authority to sell  
21 royalty gas received in kind by the state to gas or electric utilities at a  
22 price that is below market value.

23 (c) The legislature finds that the proper exercise of the discretion  
24 conferred on the commissioner by this Act would support and complement the  
25 other programs that assist the citizens of the state with their long-term  
26 gas and electrical needs, including the power cost equalization program  
27 under AS 44.83.162 - 44.83.165 and hydroelectric and other programs for the  
28 generation of electricity.

29 (d) The legislature finds that the state should adopt a policy for  
S

1 the sale of royalty gas to gas or electric utilities for in-state consumer  
2 use and in-state generation of electricity that is fundamentally different  
3 from the policies of the state for the sale of royalty oil and for the sale  
4 of royalty gas for export from the state or for uses other than in-state  
5 consumer use and in-state generation of electricity.

6 (e) The legislature finds it is in the state's best interest to  
7 facilitate the financing and construction of a pipeline and increased gas  
8 production from the Prudhoe Bay reservoir by establishing a procedure by  
9 which the state could commit itself to a royalty valuation methodology for  
10 as long as the state takes its royalty share of gas production in value.

11 \* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

12 (aa) Within 90 days after the written request of a lessee of a  
13 lease issued under this section, unless the commissioner makes a  
14 written finding based on clear and convincing evidence that the con-  
15 tract price is unreasonably low and that a prospective reduction in  
16 royalty receipts would not be balanced by increased benefits to in-  
17 state gas and electric consumers, the commissioner shall enter into an  
18 agreement with the lessee to use the price for the gas established in  
19 the contract between the lessee and a gas or electric utility, if the  
20 lessee and the utility are not related in management, ownership, or  
21 other aspect, as the value of the state's royalty share of gas produc-  
22 tion sold by the lessee under the contract to the utility. In this  
23 subsection

24 (1) "gas or electric utility" includes an electric coopera-  
25 tive organized under AS 10.25, a municipal utility, and a gas or  
26 electric utility regulated under AS 42.05; and

27 (2) "price for the gas established in the contract" in-  
28 cludes tax reimbursement amounts, deliverability and other charges,  
29 and other forms of consideration paid by the gas or electric utility

1 under the contract.

2 (bb) In the event of a contract between parties that are unrelat-  
3 ed in management, ownership, or other aspect for the sale of gas from  
4 Prudhoe Bay reservoir gas leases by means of delivery of the gas  
5 through a pipeline for export out of the state, and within 90 days  
6 after the written request of a lessee of a lease issued under this  
7 section, unless the commissioner makes a written finding that the  
8 contract price does not assure the maximum benefits to the people of  
9 the state in return for the state's gas resources, the commissioner  
10 shall enter into an agreement with the lessee to use the price for the  
11 gas established in the gas sales contract as the value of the state's  
12 royalty share of gas production sold by the lessee under the gas sales  
13 contract. The lessee shall have the burden of providing all informa-  
14 tion necessary for the commissioner to make an informed decision, and  
15 shall provide clear and convincing evidence that the value of the gas  
16 is reflected by the gas sales contract price rather than being attri-  
17 buted to transportation, marketing, or other profit or cost centers.  
18 In this subsection, "price for the gas established in the gas sales  
19 contract" includes tax reimbursement amounts, deliverability and other  
20 charges, and other forms of consideration received by the lessee under  
21 the gas sales contract.

22 \* Sec. 3. AS 38.05.183 is amended by adding a new subsection to read:

23 (h) The commissioner may enter into a contract to sell royalty  
24 gas taken in kind by the state to a gas or electric utility at less  
25 than the market value of the royalty gas if the commissioner, after  
26 considering the consumer benefits, other benefits, and detriments of  
27 the sale, makes a written finding that the sale is in the best inter-  
28 est of the state. In this subsection, "gas or electric utility"  
29 includes an electric cooperative organized under AS 10.25, a municipal



1 utility, and a gas or electric utility regulated under AS 42.05.

2 \* Sec. 4. AS 38.05.810(a) is amended to read:

3 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]  
4 lease, sale, or other disposal of state land or resources may be made  
5 to a state or federal agency or political subdivision, or the lease,  
6 sale, or disposal of coal deposits suitable for mining may be made to  
7 a utility owned and operated by a government agency or nonprofit  
8 cooperative association organized to participate under the Federal  
9 Rural Electrification Act for the purpose of generating electric power  
10 and energy or the production of process steam, or both, for less than  
11 the appraised value as determined by the director and approved by the  
12 commissioner to be fair and proper and in the best interests of the  
13 public, with due consideration given to the nature of the public  
14 services or function rendered by the agency, subdivision, or utility  
15 making application, and of the terms of the grant under which the land  
16 was acquired by the state.

17 \* Sec. 5. AS 38.05.180(aa), enacted by sec. 2 of this Act, applies to  
18 agreements to establish for a lease issued under AS 38.05.180 the in-value  
19 royalties on gas production that is sold under a contract entered into on  
20 or after the effective date of this Act between the state's lessee and a  
21 gas or electric utility.

22 \* Sec. 6. This Act takes effect immediately in accordance with AS 01.-  
23 10.070(c).  
24  
25  
26  
27  
28  
29

Offered: 2/20/86  
Referred: Rules

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2

CS FOR SENATE BILL NO. 309 (Resources)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-

7

viding for an effective date."

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

9

\* Section 1. FINDINGS. (a) The legislature finds that the best inter-

10 est of the state will be served if the commissioner of natural resources is

11 authorized to establish the value for royalty gas taken in value by the

12 state and sold to a nonprofit electric utility by using the contract price

13 between the lessee of the state and the nonprofit electric utility, whether

14 or not the royalty gas lease with the state establishes a different stan-

15 dard for the valuation and if the lessee and the nonprofit electric utility

16 are not related to each other. The legislature finds that this authoriza-

17 tion should apply prospectively and does not intend the authorization to

18 apply to the valuation of royalty gas that is sold by a lessee of the state

19 under a contract entered into before the effective date of this Act with a

20 nonprofit electric utility.

21 (b) The legislature finds that it is also in the best interest of the

22 state to give the commissioner explicit discretionary authority to sell

23 royalty gas received in kind by the state to nonprofit electric utilities

24 at a price that is below market value.

25 (c) The proper exercise of the discretion conferred by this Act on

26 the commissioner would support and complement the other programs that

27 assist the citizens of the state with their long-term electrical needs,

28 including the power cost equalization program under AS 44.83.162 - 44.83.-

29 165 and hydroelectric and other programs for the generation of electricity.

1 (d) The state should adopt a policy for the sale of royalty gas to  
2 nonprofit electric utilities for in-state generation of electricity that is  
3 fundamentally different from the policies of the state for the sale of  
4 royalty oil and for the sale of royalty gas for export from the state or  
5 for uses other than in-state generation of electricity.

6 \* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

7 (aa) Within 90 days after the written request of a lessee of a  
8 lease issued under this section, unless the commissioner makes a  
9 written finding based on clear and convincing evidence that the con-  
10 tract price is unreasonably low and that a prospective reduction in  
11 royalty receipts would not be balanced by increased benefits to elec-  
12 tric consumers, the commissioner shall enter into an agreement with  
13 the lessee to use the price for the gas established in the contract  
14 between the lessee and a nonprofit electric utility, if the lessee and  
15 the utility are not related in management, ownership, or other aspect,  
16 as the value of the state's royalty share of gas production sold by a  
17 lessee of the state to a nonprofit electric utility. In this  
18 subsection

19 (1) "nonprofit electric utility" includes an electric  
20 cooperative organized under AS 10.25 and a municipal utility; and

21 (2) "price for the gas established in the contract" in-  
22 cludes tax reimbursement amounts, deliverability and other charges,  
23 and other forms of consideration paid by the nonprofit electric utili-  
24 ty under the contract.

25 \* Sec. 3. AS 38.05.183(h) is amended by adding a new subsection to  
26 read:

27 (h) The commissioner may enter into a contract to sell royalty  
28 gas taken in kind by the state to a nonprofit electric utility at less  
29 than the market value of the royalty gas if the commissioner, after

1 considering the consumer benefits, other benefits, and detriments of  
2 the sale, makes a written finding that the sale is in the best inter-  
3 est of the state. In this subsection, "nonprofit electric utility"  
4 includes an electric cooperative organized under AS 10.25 and a  
5 municipal utility.

6 \* Sec. 4. AS 38.05.810(a) is amended to read:

7 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]  
8 lease, sale, or other disposal of state land or resources may be made  
9 to a state or federal agency or political subdivision, or the lease,  
10 sale, or disposal of coal deposits suitable for mining may be made to  
11 a utility owned and operated by a government agency or nonprofit  
12 cooperative association organized to participate under the Federal  
13 Rural Electrification Act for the purpose of generating electric power  
14 and energy or the production of process steam, or both, for less than  
15 the appraised value as determined by the director and approved by the  
16 commissioner to be fair and proper and in the best interests of the  
17 public, with due consideration given to the nature of the public  
18 services or function rendered by the agency, subdivision, or utility  
19 making application, and of the terms of the grant under which the land  
20 was acquired by the state.

21 \* Sec. 5. Section 2 of this Act applies to contracts entered into on or  
22 after the effective date of this Act to sell to nonprofit electric  
23 utilities gas produced under a lease issued under AS 38.05.180.

24 \* Sec. 6. Section 3 of this Act applies to contracts entered into by  
25 the state on or after the effective date of this Act to sell new quantities  
26 of royalty gas to nonprofit electric utilities.

27 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
28 10.070(c).

Offered: 2/20/86  
Referred: Rules

Original sponsors: Faiks, Kelly  
and V.Fischer

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2

CS FOR SENATE BILL NO. 309 (Resources)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act relating to royalty gas contracts; and pro-  
7 viding for an effective date."

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

9 \* Section 1. FINDINGS. (a) The legislature finds that the best inter-  
10 est of the state will be served if the commissioner of natural resources is  
11 authorized to establish the value for royalty gas taken in value by the  
12 state and sold to a nonprofit electric utility by using the contract price  
13 between the lessee of the state and the nonprofit electric utility, whether  
14 or not the royalty gas lease with the state establishes a different stan-  
15 dard for the valuation and if the lessee and the nonprofit electric utility  
16 are not related to each other. The legislature finds that this authoriza-  
17 tion should apply prospectively and does not intend the authorization to  
18 apply to the valuation of royalty gas that is sold by a lessee of the state  
19 under a contract entered into before the effective date of this Act with a  
20 nonprofit electric utility.

21 (b) The legislature finds that it is also in the best interest of the  
22 state to give the commissioner explicit discretionary authority to sell  
23 royalty gas received in kind by the state to nonprofit electric utilities  
24 at a price that is below market value.

25 (c) The proper exercise of the discretion conferred by this Act on  
26 the commissioner would support and complement the other programs that  
27 assist the citizens of the state with their long-term electrical needs,  
28 including the power cost equalization program under AS 44.83.162 - 44.83.-  
29 165 and hydroelectric and other programs for the generation of electricity.

1 (d) The state should adopt a policy for the sale of royalty gas to  
2 nonprofit electric utilities for in-state generation of electricity that is  
3 fundamentally different from the policies of the state for the sale of  
4 royalty oil and for the sale of royalty gas for export from the state or  
5 for uses other than in-state generation of electricity.

6 \* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

7 (aa) Within 90 days after the written request of a lessee of a  
8 lease issued under this section, unless the commissioner makes a  
9 written finding based on clear and convincing evidence that the con-  
10 tract price is unreasonably low and that a prospective reduction in  
11 royalty receipts would not be balanced by increased benefits to elec-  
12 tric consumers, the commissioner shall enter into an agreement with  
13 the lessee to use the price for the gas established in the contract  
14 between the lessee and a nonprofit electric utility, if the lessee and  
15 the utility are not related in management, ownership, or other aspect,  
16 as the value of the state's royalty share of gas production sold by a  
17 lessee of the state to a nonprofit electric utility. In this  
18 subsection

19 (1) "nonprofit electric utility" includes an electric  
20 cooperative organized under AS 10.25 and a municipal utility; and

21 (2) "price for the gas established in the contract" in-  
22 cludes tax reimbursement amounts, deliverability and other charges,  
23 and other forms of consideration paid by the nonprofit electric utili-  
24 ty under the contract.

25 \* Sec. 3. AS 38.05.183(h) is amended by adding a new subsection to  
26 read:

27 (h) The commissioner may enter into a contract to sell royalty  
28 gas taken in kind by the state to a nonprofit electric utility at less  
29 than the market value of the royalty gas if the commissioner, after

1 considering the consumer benefits, other benefits, and detriments of  
2 the sale, makes a written finding that the sale is in the best inter-  
3 est of the state. In this subsection, "nonprofit electric utility"  
4 includes an electric cooperative organized under AS 10.25 and a  
5 municipal utility.

6 \* Sec. 4. AS 38.05.810(a) is amended to read:

7 (a) Except as otherwise provided in AS 38.05.183(h), the [THE]  
8 lease, sale, or other disposal of state land or resources may be made  
9 to a state or federal agency or political subdivision, or the lease,  
10 sale, or disposal of coal deposits suitable for mining may be made to  
11 a utility owned and operated by a government agency or nonprofit  
12 cooperative association organized to participate under the Federal  
13 Rural Electrification Act for the purpose of generating electric power  
14 and energy or the production of process steam, or both, for less than  
15 the appraised value as determined by the director and approved by the  
16 commissioner to be fair and proper and in the best interests of the  
17 public, with due consideration given to the nature of the public  
18 services or function rendered by the agency, subdivisor, or utility  
19 making application, and of the terms of the grant under which the land  
20 was acquired by the state.

21 \* Sec. 5. Section 2 of this Act applies to contracts entered into on or  
22 after the effective date of this Act to sell to nonprofit electric  
23 utilities gas produced under a lease issued under AS 38.05.180.

24 \* Sec. 6. Section 3 of this Act applies to contracts entered into by  
25 the state on or after the effective date of this Act to sell new quantities  
26 of royalty gas to nonprofit electric utilities.

27 \* Sec. 7. This Act takes effect immediately in accordance with AS 01.-  
28 10.070(c).

Introduced: 5/4/85  
Referred: Resources

1 IN THE SENATE

BY FAIKS, KELLY AND V.FISCHER

2

SENATE BILL NO. 309

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the royalty value of a natural  
7 gas lease on state land; and providing for an effective  
8 date."

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

10 \* Section 1. FINDING. The legislature finds that to provide for the  
11 utilization, development and conservation of gas resources for the maximum  
12 benefit of the people of the state, the value of production of gas for  
13 purposes of computing the royalty reserved to the state must be based  
14 primarily on the contract price of gas rather than the current market value  
15 of the gas. This will encourage stable markets, promote investment, assure  
16 reasonable energy prices and provide the maximum benefit to the people of  
17 the state.

18 \* Sec. 2. AS 38.05.180 is amended by adding a new subsection to read:

19 (aa) Notwithstanding other provisions of this section, if the  
20 royalty share of natural gas reserved to the state under a lease  
21 issued under (f) of this section is taken in value, the value of  
22 production sold under a long-term sales contract may not be greater  
23 than the price received for the production under the long-term sales  
24 contract unless it is shown by clear and convincing evidence that the  
25 long-term contract price was unreasonably low at the time of contract.

26 \* Sec. 3. This Act applies to leases issued before or after the effective  
27 date of this Act.

28 \* Sec. 4. This Act takes effect immediately in accordance with AS 01.-  
29 10.070(c).