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Senate
Committee on Resources

M E M O R A N D U M April 4, 1986

TO: All Members
Senate Resources Committee

FROM: Staff, Senate Resources Committee McCl CP

RE: HB 559 "An Act approving the sale of Kuparuk River Unit royalty oil by the State of Alaska to Petro Star, Inc., and Chevron U.S.A., Inc.; and providing for an effective date"

This packet includes the following:

Transmittal letter from Governor to Rep. Grussendorf, with attachments
Fiscal Note with analysis
DNR Report Final Findings and Determination to Sell Kuparuk River Unit Royalty Oil to Petro Star, Inc., and Chevron U.S.A., Inc.
DNR Agreement for Sale and Purchase of State Royalty Oil
Crude Oil Purchase-Sale Agreement

Below is a brief summary of the terms of the contract:

1. Legislative action - This is a long-term negotiated contract requiring legislative approval, so a bill for legislative approval was introduced at the request of the governor. (Although the Administration disputes the constitutionality of statute requiring legislative approval, the Administration has required it as a matter of contract.)

2. Parties - Petro Star, Inc. and Chevron U.S.A., Inc. Contract has two parties in order to accommodate Petro Star's small size. Total sale volume approximates Petro Star's refinery charge, with Chevron purchasing what would otherwise be Petro Star's return oil. Instead of selling the whole amount to Petro Star with an option on the return oil, the state sells the "return oil" to Chevron for a premium. Petro Star and Chevron side agreement (contract Exhibit A) arranges for Petro Star to run Chevron's oil through the Petro Star refinery.

3. Price - Petro Star premium 35 cents. Chevron premium 50 cents. Basic price term is in-value, but is based on the Prudhoe Bay in-value amount, adjusted for the Kuparuk Pipeline tariff and the TAPS quality bank adjustment. The Prudhoe Bay in value price is comparatively higher, due to the different mix of lessees in the two fields. The prices will be adjusted for the outcome of Amerada Hess, with interest at whatever interest rate results from the resolution of the litigation.

4. Term - 10 years, from late 1986 to September 30, 1996.

5. Quantity and Source - Total sale of approximately 6500 bpd - up to 2500 bpd to Petro Star and about 4000 bpd to Chevron. Kuparuk field.

6. Security - Chevron will post a 90-day letter of credit, and Petro Star will post a 60-day letter of credit. 30 days of Petro Star's letter of credit is replaced with Chevron's agreement to take oil on 5 days' notice if Petro Star defaults. Petro Star has agreed to pay $1.12 per barrel into an escrow for Amerada Hess.

7. Continuation - Although the purchases are tied together, the contract does not specify conditions under which either Petro Star or Chevron could continue to purchase oil if the other party defaults or terminates. These conditions are details in paragraph 2.14 of the contract.

8. Other Terms - Most other terms of the contract are drawn from other long-term in-state refiner contracts.

COMMITTEE REPORT

SENATE

FURTHER: FINANCE

4/3/86

Date 4/4/86

Mr. President

The Committee on RESOURCES considered HB 559

approving the sale of Kuparuk River Unit royalty oil by the State of Alaska to Petro Star, Inc. and Chevron U.S.A.., Inc; efd.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

[X] do pass

[ ] do pass with attached amendment(s)

[ ] replace with/or adopt CS for __________
[ ] new title
[ ] same title and recommends __________

[ ] and attached a "LETTER OF INTENT" [ ] NEW FISCAL NOTE

[ ] reports it back without recommendation

[ ] recommends referral to __________ Committee

MEMBERS SIGNING DO PASS	MEMBERS HAVING OTHER RECOMMENDATIONS
[signature]	Rick Halford NO REC
[signature]	
[signature]	
RES RPT 4dp 1NR	

[signature]
Chairman

Do Pass
Chairman recommendation

McKee - bkgr info
FYI.
Jay

RECEIVED
MAR 0 6 1986
DIVISION OF OIL & GAS
ANCHORAGE, ALASKA

PETRO STAR / CHEVRON CONTRACT.

(1) *Legislative action - Long term negotiated contract requiring legislative approval, so a bill for legislative approval was introduced at the request of the governor.

[Although the Administration disputes the constitutionality of statute requiring legislative approval, the Administration appreciates the utility of legislative approval, and has required it as a matter of contract.]

(4) *Term - 10 years, from late 1986 to September 30, 1996.

(2) *Parties -Petro Star Inc. and Chevron U.S.A. Inc. Contract has two parties in order to accomodate Pstar's small size. Total sale volume approximates Pstar's refinery charge, with Chevron purchasing what would otherwise be Pstar's return oil. Instead of selling the whole amount to Pstar with an option on the return oil, the state sells the "return oil" to Chevron for a premium. Pstar and Chevron side agreement (contract Exhibit A) arranges for Pstar to run Chevron's oil through the Pstar refinery.

(5) *Source and Quantity - Total sale of approx. 6500 bpd - up to 2500 bpd to Pstar and about 4000 bpd to Chevron. Kuparuk field.

(3) *Price - Pstar premium 35 cents. Chevron premium 50 cents. Basic price term is in value, but is based on the Prudhoe Bay in value amount, adjusted for the Kuparuk Pipeline tariff and the TAPS quality bank adjustment. The Prudhoe Bay in value price is comparatively higher, due to the different mix of lessees in the two fields. The prices will be adjusted for the outcome of AH, with interest at whatever interest rate results from the resolution of the litigation.

*Security - Chevron will post a 90 day letter of credit, and Pstar will post a 60 day letter of credit. 30 days of Pstar's LC is replaced by Chevron's agreement to take oil on 5 day's notice if Pstar defaults. Pstar has agreed to pay $1.12 per barrel into an escrow for AH.

*Continuation - Although the purchases are tied together, the contract does specify conditions on which either Pstar or Chevron could continue to purchase oil if the other party defaults or terminates. These conditions are detailed in §2.14 of the contract.

*Other Terms - Most other terms of the contract are drawn from other long-term in state refiner contracts.