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ESTIMATED STATE REVENUE IMPACTS OF SB 510

<u>Year</u>	<u>Coal Produced (tons)</u>	<u>Producer</u>	<u>Revenue At 5% AGU</u>	<u>Revenue via DNR 4/8/88 Decision</u>	<u>Maximum Revenue Under SB 510</u>	<u>Projected Revenue Loss with SB 510</u>
FY 89	1,500,000	UCM	\$1,440,000	\$900,000	\$450,000	\$450,000
FY 90	1,500,000	UCM	\$1,440,000	\$1,350,000	\$450,000	\$900,000
FY 91	2,000,000	UCM/Wishbone*	\$1,920,000	N/A	\$600,000	\$1,320,000
FY 92	2,500,000	UCM/Wishbone	\$2,400,000	N/A	\$750,000	\$1,650,000
FY 93	2,500,000	UCM/Wishbone	\$2,400,000	N/A	\$750,000	\$1,650,000

*Assume 6 months production at Wishbone Hill

Prepared: 4/27/88, DNR

DJM

April 8, 1988

Mr. Joseph Usibelli, Jr.
Usibelli Coal Mine, Inc.
P.O. Box 1000
Healy, Alaska 99743

Dear Mr. Usibelli:

The Department of Natural Resources has carefully reviewed Usibelli Coal Mine, Inc.'s (UCM), request for royalty relief for coal leases ADL 20633 and 51545.

The Commissioner of the Department of Natural Resources has the discretion to waive, suspend, refund, or reduce the royalty under two circumstances:

- (1) if she finds that such a reduction is necessary to promote development; or
- (2) if she finds the lease cannot be successfully operated at the royalty level.

Usibelli Coal Mine based its request for royalty relief on the "necessary to promote development" provision and did not assert that the operation cannot be successfully operated with the increased royalty. Therefore, our analysis was limited to the consideration of whether a royalty reduction is necessary to promote development.

Generally, requests for royalty reduction in order to promote development are granted as an incentive to extract resources not recoverable under current operating practices. In this instance, the argument has been made that an increase in royalty, as required by regulations adopted by the Department in 1982 (see 11 AAC 85.220) will adversely affect future development.

UCM has been paying a coal royalty of 5¢ per ton on one lease and 10¢ per ton on a second lease, for an average royalty of 7.5¢ per ton. This rate equals less than one-half of one percent of adjusted gross value.

April 8, 1988

Under the 1982 regulations, all coal leases issued or renewed by the State of Alaska must include a minimum royalty of 5 percent of adjusted gross value (5 percent AGV).

UCM requested a royalty rate equivalent to 1.5 percent adjusted gross value (1.5 percent AGV).

The issue becomes whether the 5 percent AGV royalty rate is reasonable in terms of both a fair return to the state and in terms of promoting development. In this regard, it is helpful to note that coal royalty in New Mexico is 12.5 percent of all revenues; Montana's rate is 12.5 percent of gross value; and Wyoming's coal royalty is 12.5 percent of the selling price. The current royalty for federal coal leases is 12.5 percent AGV.

In comparison, the Department finds that Alaska's lower royalty of 5 percent AGV provides both a fair return to the state, while recognizing the competitive advantage necessary for our emerging coal export industry.

Therefore, the Department cannot grant the full permanent reduction in royalty relief as requested by UCM. The information provided did not demonstrate that such a reduction for leases ADL 20633 and 51545 is necessary to promote development. However, our analysis indicates that an immediate increase in royalty as set out in regulation will put an unreasonable burden on UCM and your customers. Therefore, we find that a phased increase to the full royalty is warranted.

Under the authority granted by AS 38.05.140(d), the Department will phase in the 5 percent AGV royalty over a period of three years, as outlined in the schedule below:

<u>LEASE</u>	<u>FOR THE PERIOD</u>	<u>ROYALTY</u>
ADL 20633	Nov. 1, 1987 - April 30, 1988	\$0.29/ton
	May 1, 1988 - April 30, 1989	\$0.60/ton
	May 1, 1989 - April 30, 1990	\$0.90/ton
	After May 1, 1990	5% AGV
ADL 51545	May 1, 1987 - April 30, 1988	\$0.29/ton
	May 1, 1988 - April 30, 1989	\$0.60/ton
	May 1, 1989 - April 30, 1990	\$0.90/ton
	After May 1, 1990	5% AGV

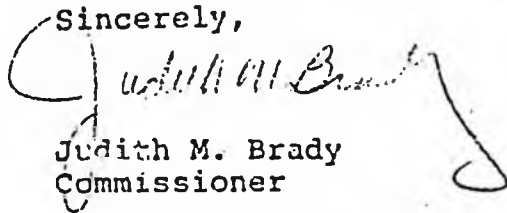
Further, the Department will grant your request for a partial refund of royalties paid at the 5 percent AGV rate during the period from May 1, 1987, for ADL 51545 and from November 1, 1987, in order to be consistent with the phased payment schedule. Such refund will be taken as credit against future royalty payments. The Division of Mining will contact you soon to outline this procedure.

Mr. Joseph Usibelli, Jr.

-3-

April 8, 1988

Sincerely,

A handwritten signature in cursive script, appearing to read "Judith M. Brady". The signature is written in dark ink and is positioned above the typed name.

Judith M. Brady
Commissioner

cc: Gerald Gallagher, Director
Division of Mining



Alaska State Legislature

Representative Mike Davis

District 19

P.O. Box V
Juneau, Alaska 99811
(907) 456-4930/4941

Interim Office:
P.O. Box 81435
Fairbanks, Alaska 99708
(907) 456-8161

February 17, 1988

Jerry Gallagher, Director
Division of Mining
Department of Natural Resources
P.O. Box 107016
Anchorage, AK 99510-7016

Dear Mr. Gallagher:

I join with the other Interior Delegation members in concern about the increase in Usibelli Coal Mine, Inc.'s royalty for its two producing leases in Healy.

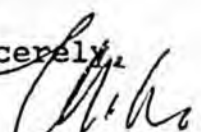
As Alaska's only operating coal mine, Usibelli has contributed significantly to economic development and employment in the Interior. Usibelli has also distinguished itself as a responsible corporate citizen and concerned member of the community.

Current regulations require all new and renewed leases to have a royalty of 5% of the adjusted gross value of the coal. However, Alaska statute allows the Commissioner of the Department of Natural Resources to waive, suspend, refund, or reduce the royalty to promote development or if the lease cannot be successfully operated under its terms.

The imposition of the 5% royalty could have a detrimental effect on Usibelli. I urge the Division to carefully consider the documentation provided by Usibelli Coal Mine Inc. regarding the impact of the royalty increase on their domestic and overseas markets. The final royalty rate should allow for profitable production, fair competition among lease holders, and just payment to the state for the public resource.

Please make my comments part of the hearing records. Thank you for the opportunity to participate in this important decision.

Sincerely,


Rep. Mike Davis

cc: Interior Delegation
Usibelli Coal Mine, Inc.



Official Business

Alaska State Legislature

P.O. BOX V
State Capitol
Juneau, Alaska 99811

February 17, 1988

Jerry Gallagher, Director
Division of Mining
Department of Natural Resources
P.O. Box 107016
Anchorage, AK 99510-7016

Dear Mr. Gallagher:

We are writing in support of Usibelli Coal Mine, Inc.'s (UCM) request for a reduction in royalty for their two producing leases in Healy. After reviewing their request, we believe it has merit.


Current royalty regulations may well have a detrimental short and long term effect on UCM. Its export contract could be jeopardized and further development could decrease. Alaska statute allows the Commissioner of the Department of Natural Resources to waive, suspend, refund, or reduce the royalty to promote development or if the lease cannot be successfully operated under its terms. The "best interest" of Alaska is to keep our one existing coal mine producing.

The royalty rate should not be at a level that makes the product noncompetitive, especially considering the growth potential for the business in export markets. At the level requested by Usibelli, \$.29/ton, the product would be competitively priced in the current marketplace. Continued development, foreign and domestic, can take place and a steady, secure supply of coal for the Interior would be assured. A reduction means retaining jobs at the mine, the loading facility, and in the support industry and it means the potential for additional employment in the coal mining and related industries.

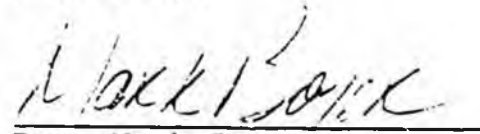
page two
Mr. Jerry Gallagher
February 17, 1988

Please make our comments part of the hearing records. Thank you for the opportunity to participate in this important decision.

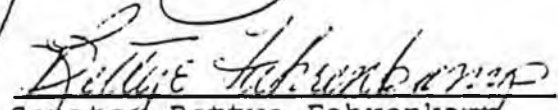
Sincerely,



Senator Jack Coghill




Rep. Mark Boyer



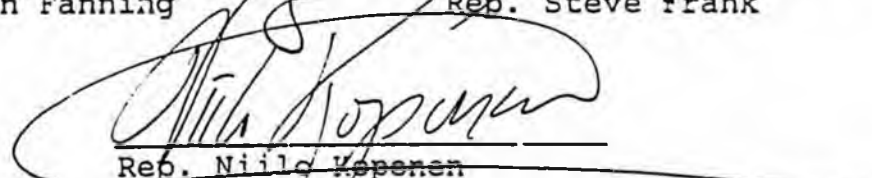
Senator Bettye Fahrenkamp



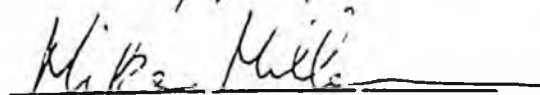
Senator Ken Fanning



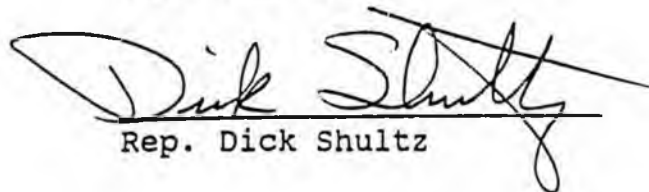
Rep. Steve Frank



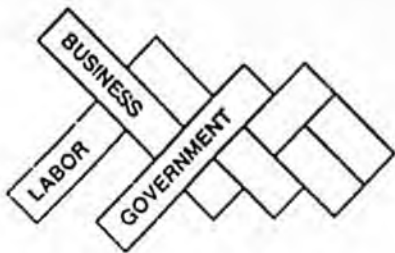
Rep. Niilo Koponen



Rep. Mike Miller



Rep. Dick Shultz



MAR 3 1988

UNIFIED FAIRBANKS

UNIFIED FAIRBANKS RESOLUTION URGING RESTRAINT IN LEVYING INCREASED ROYALTIES ON COAL

WHEREAS, the State of Alaska is proposing to collect royalties on coal produced by the Usibelli Coal Mine which represents an increase from approximately .08 per ton (current average) to 0.98 per ton (an increase of approximately 12%); and,

WHEREAS, such an increase could be passed along to the Alaska Railbelt consumer in the form of higher electricity and heating rates; and,

WHEREAS, an increase of this magnitude could price Usibelli coal out of the export markets which have earned for Alaska a total of \$78 million dollars since exports to South Korea commenced in 1985; and which are critical to the financial well being of the ARR; and

WHEREAS, the royalty increases are in addition to rental on acreage, mining license taxes and corporate taxes are paid by Usibelli Coal Mine to the State of Alaska.

NOW THEREFORE BE IT RESOLVED, that UNIFIED FAIRBANKS urges restraint in levying royalties on coal produced by Usibelli Coal Mine at Healy. Royalty rates should be maintained at present levels, especially in view of the difficult international market conditions.

This resolution was passed at the meeting of Unified Fairbanks on Tuesday, February 23, 1988.

Sincerely,

UNIFIED FAIRBANKS


Charles P. Rees, President

CPR:slg:resolution 2-25-88:UFMN2

~~HOUSE RESOURCE~~

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