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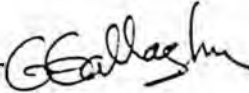
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MEMORANDUM
Department of Natural Resources
Commissioner's Office

STATE OF ALASKA

To: Rep. Sam Cotten

date: 5/7/88

From: Gerald Gallagher 
Director; Division of Mining

subject: Coal Royalty
Relief

You requested information regarding DNR's current authority to lower coal royalties. I have attached copies of the applicable statutes (A.S. 38.05.150(d)) and regulation (11 AAC 82.665).

As you can see, the Commissioner of DNR has broad discretion to reduce, suspend, waive or refund royalties under A.S. 38.05.150(d), subject to two criteria:

1. If such a reduction is necessary to promote development, or
2. If the lease cannot be successfully operated under its terms.

If a lessee can factually demonstrate either that they cannot operate at a reasonable profit under existing royalty rates, *or* that a royalty reduction rate will lead to increased production, the Commissioner has authority to adjust the royalty rate.

The regulation requires detailed reports and accounting of costs and expenses, as well as a public hearing. The Department's administration of this process requires a lease-specific showing of need for such a reduction and adequate evidence to support such a showing. The burden of providing both the showing of need and the supporting evidence is the applicant's.

This process allows the state to reduce its royalty share in those specific instances where it is demonstrated that development will actually result from such relief.

I am available to discuss this issue at your request.

(c) A person may not take or hold at one time phosphate leases on state land exceeding in the aggregate 10,240 acres. A person may not take or hold sodium leases or permits during the life of sodium leases on state land exceeding in the aggregate acreage 5,120 acres, except that the commissioner may, where it is necessary in order to secure the economic mining of sodium compounds, permit a person to take or hold sodium leases or permits for up to 15,360 acres. A person may not take or hold at any one time oil or gas leases exceeding in the aggregate 500,000 acres granted on tide and submerged land and 500,000 acres on all land other than tide and submerged land, including leases held both as lessee and under option or operating agreement from others. Where more than a single person holds an interest in an oil or gas lease, each person shall be charged only with that percentage of the total acreage which corresponds to its percentage share of the total beneficial interest in the lease.

(d) The commissioner, for the purpose of encouraging the greatest ultimate recovery of coal, oil shale, phosphate, sodium, potassium, sulphur, and geothermal resources and in the interest of conservation of natural resources, after public hearing, or, when the state's title to land beneath navigable waters has been legally challenged by the United States and litigation initiated, may waive, suspend, refund, or reduce the rental, or minimum royalty, or reduce the royalty on an entire leasehold, or on any tract or portion of a leasehold segregated for royalty purposes, whenever the commissioner determines that it is necessary to do so in order to promote development, or that the lease cannot be successfully operated under its terms. If the commissioner, in the interest of conservation, directs or assents to the suspension of operations and production under a lease granted, the payment of acreage rental or of minimum royalty prescribed by the lease may be suspended during the period of suspension of operations and production. The term of the lease shall be extended by adding the period of suspension to the lease.

(e) The provisions of (d) of this section that apply to waiver, suspension, refund or reduction of rental of minimum royalty apply to rental or minimum royalty paid before or after June 19, 1970 on any lease covering land beneath navigable waters which, according to the records of the division of lands, is in effect on June 19, 1970.

(f) The submerged and shoreland lying north of 57° 30 minutes north latitude and east of 159° 49 minutes west longitude within the Bristol Bay drainage are designated as the Bristol Bay Fisheries Reserve. Within the Bristol Bay Fisheries Reserve no surface entry permit to develop an oil or gas lease may be issued on state owned or controlled land until the legislature by appropriate resolution specifically finds that the entry will not constitute danger to the fishery. (§ 2 art VIII ch 169 SLA 1959; am § 1 ch 68 SLA 1969; am §§ 1, 2 ch 208 SLA 1970; am §§ 3, 4 ch 71 SLA 1971; am § 1 ch 102 SLA 1972; am §§ 3, 5 ch 155 SLA 1978)

Sec. 38.05.145. Leasing procedure. (a) Deposits of coal, phosphates, oil shale, sodium, potassium, oil, gas, geothermal resources and state land containing these deposits are subject to disposition under regulations, recommended by the director and adopted by the commissioner, and the provisions of AS 38.05.145 — 38.05.151. In applying the acreage limitations the commissioner may apply the rule of approximation. The uses of the rule of approximation made before March 31, 1960, by the commissioner are ratified.

(b) *(Repealed, § 6 ch 155 SLA 1978.)* (§ 3 art VIII ch 169 SLA 1959; am § 16 ch 61 SLA 1960; am § 3 ch 30 SLA 1964; am §§ 5, 6 ch 71 SLA 1971; am § 33 ch 71 SLA 1972; am § 6 ch 155 SLA 1978)

applies. When locating the unsurveyed remainder of a section of land, a projection of the section lines from the surveyed portion as monumented under the public rectangular system to the first protracted section corner position determines the remainder of the surveyed section. If the first protracted section corner position can be closed into by the public land rectangular survey system within the accuracies and standards established by the Bureau of Land Management's 1947 Manual of Surveying Instructions and in accordance with the department's survey requirements, the protracted corner becomes a common corner for description purposes. Otherwise the surveyed section of land is closed into the protracted section line position as defined by protracted data.

(b) The boundaries of leases issued before July 22, 1979 will be controlled by this section upon approval of the commissioner with the consent of the lessees of record. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.035
AS 38.05.145(a)

11 AAC 82.655. RULE OF APPROXIMATION. The "rule of approximation" as defined in AS 38.05.365 shall be used in determining if a lease or permit complies with the area requirements of AS 38.05. (Eff. 9/5/74, Reg. 51)

Authority: AS 38.05.020
AS 38.05.145(a)

11 AAC 82.660. EXCESS AREA; PARTIAL TERMINATION. If for any reason a permit or lease covers more acreage than the maximum permitted by AS 38.05 or the regulations to be included in one lease or permit of its kind, the lease or permit is not void, but the acreage covered must be reduced to the permitted maximum. Whenever the commissioner determines that a lease exceeds the permitted acreage, he will promptly mail notice to the lessee or permittee, stating the amount of acreage that must be eliminated. Within 60 days after the receipt of the notice, the lessee or permittee of record may file an instrument surrendering or assigning in full at least the amount of acreage that must be eliminated which must be one or more legal subdivisions or in such other shape or shapes as the commissioner approves. The surrender or assignment is effective when filed. If the

surrender or assignment is not filed within 60 days, the commissioner will eliminate the minimum necessary and promptly mail notice to the lessee or permittee, specifying the parcels eliminated. (Eff. 9/5/74, Reg. 51; am 7/22/79, Reg. 71)

Authority: AS 38.05.020
AS 38.05.145(a)

11 AAC 82.665. RENTAL AND ROYALTY RELIEF. (a) Application for relief under AS 38.05.140 must comply with 11 AAC 88.105 and

(1) state all the facts entitling the applicant to relief;

(2) state location and status of all past and present activities on the lease;

(3) include a detailed report of all production during the six months preceding the filing of the application;

(4) contain a detailed statement covering the entire life of the lease showing all expenses and costs of operating the lease including all royalties and overriding royalties and all income from all produced minerals from the lease; and

(5) include an agreement by the applicant to defray the cost of publishing a notice as provided in (b) of this section.

(b) Upon receipt of an application complying with (a) of this section, the commissioner will cause to be published a notice of public hearing if required on the application. The notice must

(1) state the time and place of hearing;

(2) describe the lands involved; and

(3) state the name of the applicant and the nature of the relief applied for.

(c) The notice must be published at least once a week for at least two consecutive weeks in advance of the hearing date, which must be at least 15 days after the last date of publication, in at least one newspaper of general circulation in the vicinity of the principal office of the department, and must be posted at that office for the same period.

(d) At the time and place specified in the published notice, the commissioner will hear evidence offered by the applicant and any other interested party.



Alaska Environmental Lobby, Inc.

P.O. Box 22151 Juneau, Alaska 99802

907-586-2345

SB 510 Coal Royalty Rates

Usibelli Coal is currently seeking relief from its royalty payment schedule, "to protect its market share and for promotion and development." The State owns this coal and the Department of Natural Resources, as a public steward, has a responsibility to assure that the people of Alaska are compensated for the removal of this resource.

The concept of a severance tax is to pay for taking non-renewable resources, such as coal. Alaska collects no severance tax on coal, but instead receives a percentage of a company's sales of that coal once the company has removed it from the ground. All other coal producing states collect severance taxes. In addition, Wyoming collects a royalty of 12.5% of the selling price; Montana collects 12.5% of gross value; New Mexico collects 12.5% of the adjusted gross value (AGV).

Our existing royalty schedule was adopted in 1982 after much study and public debate. Despite the fact that it was adopted under different world energy projections and assumptions, it was nonetheless set after extensive studies. Usibelli has known for five years that its royalty rate would be increasing this year. Upon the implementation of the pre-determined rate, Usibelli appealed to the Commissioner of DNR for relief. After review, the Commissioner issued a written ruling on April 8, 1988, that adjusted the schedule, phasing in the increase over a three year period.

SB 510 was introduced within the last three weeks of this session and has received a minimum of public scrutiny. Public policy problems with SB 510 include:

* Allowing industry to write public policy is a dangerous precedent. The criteria being suggested to grant this relief appears to be what is good for Usibelli. The coal industry seldom hesitates to mention job loss when discussing any royalty or tax increases. What about the jobs and services lost because the state is not paid for its coal - the firehouses closed, the school books not available, the enforcement programs not funded?

* The public needs to be consulted on how to proceed since it is a public resource. Responding to Usibelli's relief-seeking measures at the last minute allows for very little public testimony and no comprehensive study by the department to justify any numbers.

* Establishing a four year term for the one-and-a-half percent royalty benefits only one company, Usibelli. There are over 50 coal leases in the state. At least two other companies hope to be in production in the early 1990's, but the time limitation will expire before they can reap any benefits from this proposal.

* This does not provide stability for the industry. Knowing that an increase could happen after four years, but not knowing what it will be does not allow the industry to plan for organized growth. A one-year relief schedule while the state studies and recommends appropriate royalties is a workable compromise.

Our focus must remain what is best for all the people of Alaska who own this coal. The Commissioner of DNR has acted responsibly. The public must participate in decisions regarding the selling of Alaska's resources.

ALASKA CENTER FOR THE ENVIRONMENT • ALASKA CHAPTER, SIERRA CLUB • JUNEAU GROUP, SIERRA CLUB • SITKA GROUP, SIERRA CLUB
KNIK GROUP, SIERRA CLUB • DENALI GROUP, SIERRA CLUB • ANCHORAGE AUDUBON SOCIETY • ARCTIC AUDUBON SOCIETY
DENALI CITIZENS' COUNCIL • ALASKA FRIENDS OF THE EARTH • JUNEAU AUDUBON SOCIETY • KACHEMAK BAY CONSERVATION SOCIETY
KENAI PENINSULA AUDUBON SOCIETY • KODIAK AUDUBON SOCIETY • LYNN CANAL CONSERVATION • ALASKA WILDLIFE ALLIANCE
SITKA CONSERVATION SOCIETY • NORTHERN ALASKA ENVIRONMENTAL CENTER • SOUTHEAST ALASKA CONSERVATION COUNCIL
KNIK KANOERS AND KAYAKERS

than 200 people from Japan, Nepal and China, is the largest assault ever on Everest. One member of the Japanese team, Hidetaka Mizukoshi, died of heart failure during the climb.

Climbing began last month to celebrate the 35th anniversary of the first Everest conquest by New Zealander Sir Edmund Hillary and Sherpa guide Tenzing Norgay. More than 192 people have since scaled the 29,028-foot mountain, with 13 climbing successfully more than once.

In this climb, however, members of two teams met at the summit after climbing simultaneously from the mountain's north face in China and the south face in Nepal, the first such rendezvous in history.

"This is the greatest event in the history of climbing," said Kunga Sherpa, leader of one of the Nepalese base camp setups.

On the summit, a cameraman asked one of the Japanese climbers how he felt, and he gaspingly replied: "I feel great!"

last year.

Why do Koreans get break on Usibelli coal?

By KATHI BERRY
Staff Writer

Koreans paid about \$13 less per ton of Alaska coal than Alaskans did in 1987, according to calculations based on sales of Usibelli Coal Mine Inc. last year.

A ton of coal at the Healy mine cost Alaskans about \$30 in 1987, while that same ton of coal sold for about \$17, or about 45 percent less, in the international market, the figures show.

The question of how much Usibelli charges for coal, and how much the coal mine should pay in

royalties to the state, has been a topic of debate as the state Legislature nears adjournment in Juneau.

Usibelli is the sole supplier of coal in Alaska.

Some say fierce competition forces Usibelli to sell at rock-bottom prices to compete in the international market. Others say the company charges higher prices in Fairbanks simply because the market will allow it.

"Charging those prices may be the only way Usibelli can stay in business and keep Fairbanks supplied in coal," said Pat O'Brien,

head of the economics department at the University of Alaska Fairbanks.

Usibelli officials would not disclose company prices. Those listed here were calculated following interviews with financial experts associated with the utilities and power producers to which Usibelli sells coal. The international prices were confirmed by officials with Sunco Alaska Corp., the company that buys coal from Usibelli, then sells it to Korean firms.

Joe Usibelli Sr., the mine's chief (See *USIBELLI*, Back Page)

UAF graduating class largest ever

The University of Alaska Fairbanks will graduate the largest class in its history Sunday in the 66th annual Commencement Ceremonies.

Including the new School of Career and Continuing Education, formerly Tanana Valley Community College, more than 700 degrees will be awarded. Last year 590 were awarded.

UAF officials expect to grant 14 doctorates, three educational specialist degrees, 134 master's degrees and 435 bachelor's degrees.

In addition, it plans to award 68 associate of applied sciences degrees, 28 associate of arts degrees and 32 certificates.

This year's graduates will receive their diplomas Sunday in Patty Center. Commencement begins at 2 p.m. with the procession of the faculty and graduating students.

About 400 graduates are expected to participate in the Fairbanks commencement. Students at branch campuses in Nome, Kotzebue and Bethel will be recognized

(See *UAF*, Back Page)



RONALD GRAHAM
Commencement speaker

Fairbanks firm wins contract

News-Miner Bureau
WASHINGTON—The U.S. Army Corps of Engineers today awarded a \$3.3-million contract to a Fairbanks firm to build a new dining facility at Fort Wainwright.

The contract for the 14,000-square foot dining hall was awarded to Glemm Company Inc.

Harvey Marlin, vice president, said the company hopes to complete construction by next spring, ahead of schedule.

The dining hall is needed to accommodate additional troops that are being assigned to the post with the Sixth Light Infantry Division.



BANK FIRE—A helicopter landed on the roof of the 62-story building of the Shell Oil Co. refinery today, leaving one person dead, 33 injured and five missing, and forcing 2,800 residents to evacuate, officials said.

Explosion in Louisiana

NORCO, La. (AP)—An explosion and fire ripped through Shell Oil Co. refinery today, leaving one person dead, 33 injured and five missing, and forcing 2,800 residents to evacuate, officials said.

The blast was so powerful it broke windows and set off burglar alarms 20 miles away, and Shell spokeswoman Sarah Coletti said both plant workers and nei-

13,000 expected to help with Cleanup Day

Royalty payment rise could end Usibelli's foreign sales

By KATHI BERRY
Staff Writer

A state regulation that would increase royalty payments on coal by nearly \$1 per ton could force Usibelli Coal Mine Inc. out of business in the international market, some state legislators say.

That's the main reason the Senate unanimously passed a bill Tuesday that would reduce royalty payments to about 30 cents per ton for the next four years, and why many think the bill will pass in the House.

"We are just hanging on in the international market now," said Sen. Rettye Fahrenkamp, D-Fairbanks, who introduced the legislation April 19. "Why do something that will rack the boat and push us out of the market completely?"

Alaska coal is at risk because it is of much lower quality than other coal on the international market, but sells for about the same price per ton, Fahrenkamp said.

Usibelli, Alaska's sole supplier of coal, exported more than 800,000 tons of coal to firms in Korea and Taiwan last year. That coal contained about 25 percent water and less burnable material than other coal on the international market, Fahrenkamp said.

"That means if you see four ships of Alaska coal pass by, the fourth

one would be worth no more than a boat full of water," Fahrenkamp said.

Alaska competes against China, the Soviet Union, Canada, South Africa and Australia in an international market in which the demand for coal has diminished in recent years, largely because of dropping oil prices.

Koreans are willing to pay for Alaska's low quality coal only to honor a political "gentlemen's agreement," according to Bill Noll, vice president of Suncel Alaska Corp., the company that buys coal from Usibelli to sell internationally.

"There is a tremendous amount of political pressure on Asia to buy U.S. exports," Noll said. "For that reason alone, they are willing to bite the bullet and pay more for Alaska coal, even if it means it's a bit of a money loser."

A long list of influential Alaskans worked for years to put the Korean contract together. For that reason, any rise in the international price of Alaska coal now will insult the Koreans, Noll said.

"Dumping the price up at all will push the situation to the brink," Noll said. "It would be like slapping a trusted friend in the face."

Suncel Alaska upheld its end of the agreement when it invested \$17

million in a new shipping terminal in Seward four years ago. At that time, the price of oil was high and the demand for coal great, Noll said.

Today, Suncel must continue to buy Alaska coal to pay off its investment loans, Noll said.

"We are stuck, but that doesn't mean we'll accept any deal that comes along," Noll said. "If a royalty tax comes into place at an unacceptable level, and if it's passed through to us as a company, then we will at our earliest opportunity get out of that contract."

The Fahrenkamp bill requires Usibelli to pay royalty taxes at 1.5 percent of the adjusted gross value of coal, or about 30 cents per ton. A state regulation requires Usibelli to pay 5 percent of that value, or about \$1 per ton. Both taxes are up from the 7.5 cents per ton paid by Usibelli during the past several years.

Suncel officials say they'll protest any move to pass on those increased royalty costs to their company.

"The thrust of it is this, if you guys (at Usibelli) want to get more pennies now, fine. But remember that if you do, we'll pick up our marbles and move on as soon as we possibly can," he said.

Only one other coal mine in Alaska has the potential to start produc-

ing in the near future, Gallagher said. That operation, known as the Washbone Hill project in Southcentral Alaska, could begin within five years.

Usibelli officials will not say if the mine plans to absorb the costs incurred through increased royalties. However, the company's financial statements in recent years seem to indicate that Usibelli can do so, at least in the short run, said Bob Logan, an assistant economics professor at the University of Alaska Fairbanks.

Such financial statements have not been available to the legislators, who are trying to figure out what would be a fair price to charge Usibelli.

Usibelli operates on state land and the company pays the state an annual lease fee of about \$50,000. The mining company also pays an annual mining license tax of about \$200,000 and a corporate income tax of an unknown amount, said Jerry Gallagher, director of the state's Division of Mining.

"One of my duties is to make sure the state gets a fair return for our renewable resources," Gallagher said. "What that is has not been answered. All we have to go on is a coal producer telling us what he is willing to pay."

No one wants to charge so much that Usibelli is forced out of the international market, Gallagher said.

After Usibelli expanded into that market three years ago, the increase created about 40 new jobs at the Usibelli mine, about 10 new jobs with the Alaska Railroad and about 15 at the Suncel terminal.

The business also diversifies the economy, creates more business for the Alaska Railroad and opens an international market that other Alaska coal companies may eventually get into, Noll said.

The higher output also lowers the price of coal in Fairbanks by about \$1 per ton, according to Robert Hansen, company manager of finance and administrative services for GVEA.

If current royalty regulations remain in effect, the state would earn \$671,750 annually from Usibelli. If the proposed royalty bill passes, the state would get about \$390,000 in royalties. Both sums can be obtained only if Usibelli keeps its export market, however.

Noll says a higher royalty tax may one day be appropriate. "We are not saying never," Noll said. "We are saying not now. Not yet."

USIBELLI

(Continued from page 1)

executive officer, was reluctant to discuss the marketing strategy behind the mine's price structure.

"I don't want to say why the charge is less to Korea than it is to Fairbanks," he said. "All we will get is a black eye out of it and no body will understand."

State officials say Usibelli sold more than 1.5 million tons of coal in 1987. A little more than half of its production, about 800,000 tons, went to companies in Korea and Taiwan.

The rest was sold to Golden Valley Electric Association, Fairbanks Municipal Utilities System, University of Alaska Fairbanks, and to the military at Ft. Wainwright, Clear and Eielson. Small amounts were purchased by Reliable Coal in Healy, which sells to the Coal Bunker in Fairbanks.

By the time a ton of coal is transported to Korea, it costs about \$36. The same ton hauled by train to Fairbanks costs about \$41.

This means it costs about 3 cents per mile to transport a ton of coal 4,500 miles to Korea, while it costs about 8 cents per mile to ship the same amount of coal 122 miles to Fairbanks.

Suncel officials say they get a discount for contracting with the Alaska Railroad to haul the coal to Seward. Also, strong competition forces shipping companies to offer low rates.

Even so, figures such as these make some wonder whether high prices in Fairbanks are subsidizing Usibelli's international market.

"It seems like a reasonable assumption," said Jerry Gallagher, director of the state Division of Mining in Anchorage. "In the sense that charging higher prices here probably makes it possible for them to charge lower prices abroad."

Gallagher says Fairbanks is a "captive market" for coal manufacturers. "Fairbanksans are at the mercy of the only coal company and the only railroad in the state," he said.

City Mayor Bill Walley agrees. "The high rate that we have paid Usibelli in the last two years is a direct result of having to deal with a monopoly source of energy," Walley wrote in an April 2 letter to city council members.

John Sims, Usibelli vice president, said Koreans get a lower

price mainly because they agreed to buy large quantities of coal annually. The Koreans also get a discount for signing a 15 year contract that can be renegotiated annually and for "coming up with loans and guarantees which gave us protection," Sims said.

"If any of our customers, if MUS wanted to contract for the same amount of coal under the same terms as the Koreans, the price would be equitable," Sims said. "Similarly, if a consumer doesn't like long term contracts and doesn't want to plan ahead, then our price goes up. It's a simple fact of life. It's not unique to the way Usibelli does business."

In the Fairbanks market, Usibelli has less competition than in the international market, so the company has more flexibility to charge what it wants, O'Brien said.

"However, they can't charge a price so high that it will encourage local companies to switch to oil or natural gas," he said. "And they do have to make sure that coal costs less than it would for an out of state company to get a ton of coal to Fairbanks."

Usibelli's price is about \$3, or 20 percent, higher than the price of an average ton of coal delivered to an electrical utility plant elsewhere in the country, according to figures from the federal Energy Information Administration.

"A person just looking at these figures would say, hey, Usibelli is gouging the Alaskan and giving a basement price to Koreans," said Bob Logan, assistant professor of economics at the University of Alaska Fairbanks. "The problem is that Usibelli is running a business and so they'll charge what they can to maximize their profits. That doesn't make them evil."

Usibelli probably has higher costs than elsewhere in the nation because its equipment is more expensive and its coals is dug from frozen ground, Logan said.

No one knows how much Usibelli could reduce its prices in the domestic market and still remain in business, said Bill Noll, vice president of Suncel Alaska.

"As of right now, that is untested," Noll said. "It's like a guy who hasn't lifted 100-pound-male for years because he's had no reason to do so. Our best safeguard is competition. It keeps us all honest and flexible."

Price varies even in Fairbanks

By KATHI BERRY
Staff Writer

The coal is the same, but the price per ton varies when it's purchased by customers in Fairbanks.

Local utilities, the University of Alaska and the military spend between \$21 and \$33 for a ton of coal before it leaves the Usibelli Coal Mine in Healy. The reason for the variety in price is simple, according to John Sims, company vice president.

"We sell it cheaper to companies that promise to buy large quantities over a long period of time," he said.

Golden Valley Electric Association, a rural electric cooperative, bought 141,358 tons for \$21.04 per ton in 1987. The Fairbanks Municipal

agree only to short-term contracts, Sims said.

GVEA also gets a discount because it owns a coal-generation plant in Healy. That means Usibelli does not have to charge an extra \$2 per ton for crushing and loading at the mine. It saves another \$1 because Usibelli doesn't have to contend with shipping schedules, Sims said.

Finally, GVEA's contract contains several clauses that benefit Usibelli and the contract has been extended since the early 1970s, when prices for coal were lower, Sims said.

"All of our contracts, whether buying one or 100,000 tons, fit into a complex matrix of agreements which depend on about 15 factors," Sims said. "Those include provisions that make companies pay for

guarantee, Sims said.

City Mayor Bill Walley recently vetoed a 10-year contract with Usibelli that would have reduced the annual cost per ton by at least \$5. The city council sustained the veto.

Walley fears that signing a long-term contract with the mine would reduce the city's chances of finding cheaper energy alternatives in the future, most notably, a natural gas pipeline proposed from Wasilla to Fairbanks.

"I don't know what to say about that other than it will probably be a long time before that pipeline comes on line," Sims said. "Meanwhile, the higher contract price is being passed on to Fairbanks consumers."

In April, the city's Public Utilities Board recommended that the

The following chart shows approximate amounts of coal that customers purchased from Usibelli Coal Mine, Inc. during calendar year 1987.

NATIONAL SALES FROM USIBELLI FOR CALENDAR YEAR 1987

Tons purchased	Total spent on coal	Avg. cost per ton	Avg. cost per ton
		(per ton)	(per ton)
GVEA	141,358 tons*	\$2,974,172.30	\$21.04
MUS	127,533 tons	\$4,231,544.90	\$33.18
UAF	52,128 tons*	\$1,644,638.40	\$31.55
Reliable Coal	10,000 tons	\$270,000.00	\$27.00
Eielson	144,971 tons	\$4,615,876.60	\$31.84
Fl. WW	143,275 tons	\$4,593,716.00	\$31.84
Clear	82,601 tons	\$2,630,015.80	\$31.84
Total			
Military	371,847 tons	\$11,839,608.00	\$31.81
OVERALL TOTALS	702,166 tons	\$20,959,163.00	\$29.82

INTERNATIONAL SALES FROM USIBELLI FOR CALENDAR YEAR 1987

Suncel Electric Power	844,708 tons*
	23,900 tons*

Price varies even in Fairbanks

By KATHI BERRY
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The coal is the same, but the price per ton varies when it's purchased by customers in Fairbanks.

Local utilities, the University of Alaska and the military spend between \$21 and \$33 for a ton of coal before it leaves the Usibelli Coal Mine in Healy. The reason for the variety in price is simple, according to John Sims, company vice president.

"We sell it cheaper to companies that promise to buy large quantities over a long period of time," he said.

Golden Valley Electric Association, a rural electric cooperative, bought 141,350 tons for \$21.04 per ton in 1987. The Fairbanks Municipal Utilities System, the University of Alaska Fairbanks and military bases on Ft. Wainwright, Clear and Eielson spent about \$10 more for similar amounts.

GVEA gets a better price because it agreed to what amounts to a 15-year contract, while MUS and several of the military bases will

agree only to short term contracts, Sims said.

GVEA also gets a discount because it owns a coal generation plant in Healy. That means Usibelli does not have to charge an extra \$2 per ton for crushing and loading at the mine. It saves another \$1 because Usibelli doesn't have to contend with shipping schedules, Sims said.

Finally, GVEA's contract contains several clauses that benefit Usibelli and the contract has been extended since the early 1970s, when prices for coal were lower, Sims said.

"All of our contracts, whether buying one or 100,000 tons, fit into a complex matrix of agreements which depend on about 15 factors," Sims said. "Those include provisions that make companies pay for a certain amount annually, advance payments, scheduling for transport, sampling procedures, guaranteed heat value and more."

MUS pays more than any other customer in Fairbanks because it will agree only to an annual contract, with few provisions of

guarantee, Sims said.

City Mayor Bill Walley recently vetoed a 10-year contract with Usibelli that would have reduced the annual cost per ton by at least \$5. The city council sustained the veto.

Walley fears that signing a long-term contract with the mine would reduce the city's chances of finding cheaper energy alternatives in the future, most notably, a natural gas pipeline proposed from Wasilla to Fairbanks.

"I don't know what to say about that other than it will probably be a long time before that pipeline comes on line," Sims said. "Meanwhile, the higher contract price is being passed on to Fairbanks consumers."

In April, the city's Public Utilities Board recommended that the city sign a five-year contract with Usibelli in which MUS would pay \$31.37 for 121,000 tons per year, according to Cathy Devlin, MUS budget director.

The city council is expected to vote on the proposal Monday. If it passes, it will need Walley's approval.

The following chart shows approximate amounts of coal that customers purchased from Usibelli Coal Mine, Inc. during calendar year 1987.

NATIONAL SALES FROM USIBELLI FOR CALENDAR YEAR 1987			
Coal purchased	Total assets on coal	Ave cost per ton	Ave cost per ton
GVEA 141,358 tons*	\$2,974,172.30	\$21.04	NA
MUS 127,533 tons	\$4,231,544.90	\$33.18	\$41.37
UAF 52,128 tons*	\$1,644,838.40	\$31.55	\$39.74
Reliable Coal 10,000 tons	\$270,000.00	\$27.00	NA
Eielson 144,971 tons	\$4,615,876.60	\$31.84	\$42.33
Fl. VWV 143,275 tons	\$4,593,718.00	\$31.84	\$41.17
Clear 82,601 tons	\$2,630,015.80	\$31.84	\$36.54
Total Military 371,847 tons	\$11,839,608.00	\$31.84	NA
OVERALL TOTALS 702,868 tons	\$20,959,963.00	\$29.82	NA

INTERNATIONAL SALES FROM USIBELLI FOR CALENDAR YEAR 1987			
Suncel Electric Power 644,708 tons*			
Taiwan Power 132,069 tons*			
TOTALS 800,677 tons	\$14,640,937.00	\$17.53	\$36.36

OVERALL NATIONAL AND INTERNATIONAL SALES			
TOTALS 1,503,543 tons	\$35,000,000.00	\$23.28	NA

All prices listed were garnered from the financial compilations of the individual companies. Ton estimates were supplied by the companies. Numbers with the asterisk (*) were supplied by the state. International numbers were calculated based on estimates from Usibelli Coal Mine, Inc. and Suncel Alaska Corporation.

These are the figures charged per ton of coal on the Alaska Railroad from Healy to different destinations.

Healy to	Rail miles	Cost per ton	Cost per ton mile
Healy to Fairbanks	112	\$8.19	.073
Healy to Ft. VWV	116	\$9.33	.080
Healy to Clear	65	\$4.70	.071
Healy to Eielson	140	\$16.49	.075
Healy to Seward	353	\$9.95	.028

The figures come from the Alaska Railroad and Suncel Alaska Corporation.

Even so, figures such as these make some wonder whether high prices in Fairbanks are subsidizing Usibelli's international market.

"It seems like a reasonable assumption," said Jerry Gallagher, director of the state Division of Mining in Anchorage. "In the sense that charging higher prices here probably makes it possible for them to charge lower prices abroad."

Gallagher says Fairbanks is a "reactive market" for coal manufacturers. "Fairbanksans are at the mercy of the only coal company and the only railroad in the state," he said.

City Mayor Bill Walley agrees. "The high rate that we have paid Usibelli in the last two years is a direct result of having to deal with a monopoly source of energy," Walley wrote in an April 2 letter to city council members.

John Sims, Usibelli vice president, said Koreans get a lower

figures would say, hey, Usibelli is gouging the Alaskan and giving a basement price to Koreans," said Bob Logan, assistant professor of economics at the University of Alaska Fairbanks. "The problem is that Usibelli is running a business and so they'll charge what they can to maximize their profits. That doesn't make them evil."

Usibelli probably has higher costs than elsewhere in the nation because its equipment is more expensive and its coals is dug from frozen ground, Logan said.

No one knows how much Usibelli could reduce its prices in the domestic market and still remain in business, said Bill Noll, vice president of Suncel Alaska.

"As of right now, that is untested," Noll said. "It's like a guy who hasn't lifted 100 pounds in a few years because he's had no reason to do so. Our best safeguard is competition. It keeps us all loose and flexing."

10 worst little locations

Though it will probably have as much appeal as Mr. Black's annual list of the 10 worst dressed people in America, Glenn Hackney, the "Litter Laureate" of this year's Fairbanks litter cleanup campaign, has issued a special list for the occasion.

Hackney's Hit Parade of the Most Littered Places in Fairbanks—1988, "is just that, a list of the places most needing cleanup May 14, the community's official Cleanup Day this year. Sharpen the dubious distinction of making the list are the following locations:

- The Parks Highway, going west just past the bridge over the Chena River. "More than half a mile of running eyesores," reads the list.
- Geist Road on the right going east about a quarter mile from the Parks Highway.
- On the Richardson Highway, to the right of the first painted construction barrel going south from Airport Way. "Observe a large cardboard box, obvious escapee from an uncovered load from a truck," is the list comment.
- The Steese Highway going ab

out a quarter-mile south from Farmers Loop.

• In the median strip about a quarter-mile farther along the Steese. "Another whacking great cardboard box," noted the Litter Laureate.

• Plastic debris going south on Peger Road, in front of Northland Dairy.

• The Airport Way access road at Wibur Street, on the bus stop side.

• The bike path just past Pay 'N Pak on Airport Way going east.

• Nearly any intersection on Airport Way between Cwiles and Market streets, going either east or west. Among the debris are "Alaska tumbleweeds," also known as plastic grocery bags.

• The area behind the old sewage treatment, at plant across from the new Community Center construction site.

"I've been doing this (participating in Cleanup Day) for about 20 years up here now," Hackney said. "I just like to see a clean community." He said Cleanup Day is the biggest community event in Fairbanks.

Gruenstein to visit here Friday

Peter Gruenstein, who's campaigning for Congress, is scheduled to be in Fairbanks Friday for a variety of public appearances.

The Anchorage Democrat is seeking his party's nomination to challenge Republican Rep. Don Young for Alaska's lone seat in the U.S. House of Representatives. His schedule:

8 a.m.—Gruenstein meets with members of the Fairbanks Young Democrats at the Fairbanks Bakery, 3500 College Road.

10 a.m.—KFAA Radio Problem Corner appearance.

1:30 p.m.—Appearance at Earth's North Press Club meeting, Wendy's, 1857 Airport Way.

7 p.m.—David and Rachel Hopkins host a neighborhood meeting for Gruenstein in their home at 40 Steelhead Rd., off Chena Pump Road.

Short Takes

Standard cuts price of North Slope oil

Standard Alaska Production Co. announced today it has reduced the price of North Slope crude oil by 42 cents a barrel and is adopting a new contract pricing method that will help eliminate some of the guess work in oil pricing.

"The 42 cent reduction, which we put into effect May 1, means the contract price of North Slope crude on the West Coast went from \$16.25 to \$15.83," said Paul Laird, spokesman for Standard. He said the new contract pricing

method uses the previous month's average daily spot price for the oil. "So our delivered contract price in June will be based on the previous month's average daily spot price for North Slope crude oil, in this example May's average would be used," Laird said.

Bush plans to visit Alaska in June

Vice President George Bush, seeking the Republican nomination for president, will visit Alaska sometime in June, according to Sen. Frank Murkowski.

The senator, in Fairbanks to meet with constituents and others this week, said Bush probably would visit Alaska in June to talk about opening the Arctic National Wildlife Refuge to oil and gas exploration and development.

FIRE

(Continued from page 1)

"One of the men was saying 'Car 33' was in flames and he was screaming 'Please help,'" said cleaning supervisor Zora Imanovic, who heard the man on her two-way radio as she made her way to the roof.

Firefighters found the body of an unidentified man after prying open the elevator's doors on the 12th floor about two hours after the fire was extinguished, Svider said. The building, one of the West's

today from other offices, said chairman William Start. First Interstate is the nation's eighth largest banking company, with assets of \$58.5 billion and offices in 19 states.

Anthony said at least 40 people—37 maintenance workers and three firefighters—were injured. All were treated for minor cuts, burns or smoke inhalation and released.

Broken, heat-blasted glass showered onto the streets, severing fire hoses, and fire Capt. Mike Bow-

UAF

(Continued from page 1)
at those sites.

artist and former UA regents, and Dr. Louis O. Quam, former chief

academic procession begins. UAF in Speaker Harold L. Graham. After common consent. Reception in the



CLEANUP

(Continued from page 1)
joined the Rubbish Reductions to help coordinate various aspects of the cleanup.

A special Cleanup Day preview presentation will be made at Tues



Official Business

Alaska State Legislature

SENATE

Committee on Finance

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

SENATE LETTER OF INTENT

SENATE BILL 510

It is the intent of the Legislature that the Senate Committee on International Trade prepare an analysis of Alaska's coal royalty and tax structure to determine ways to encourage the export of Alaska's coal while maintaining a fair return to the State of this non-renewable resource. In addition, the Committee will consider and report on various incentive opportunities and scientific research needs that will stimulate greater production and utilization of Alaska coal. This analysis and report shall be submitted to the Legislature by January 20, 1989.

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CS SB 510 (Fin)
PUBLISH DATE: SENATE 4/30/88

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: _____
Tide: SB 510 An Act relating to a ceiling BRU: Minerals Management
on the state's royalty rate on coal leases
Sponsor: Fahrenkamp Components: _____
Requestor: Senate Resources

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
---------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The Department of Natural Resources anticipates no additional expenditures will be necessary to implement this legislation, however, there will be revenue impact, as discussed on the attached sheet.

Prepared by: Lawrence Ostrovsky Phone: 4/21/88
Division: Commissioner's Office Date: 465-2400

Approved by Commissioner: [Signature] Date: 465-2400
Agency: Department of Natural Resources

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

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APR 26 1988

LEGISLATIVE FINANCE

Fiscal Impact of SB 510

<u>Year</u>	<u>Coal Tonnage</u>	<u>Producers</u>	<u>5% AGV Revenue</u>	<u>SB 510 Revenue</u>	<u>Annual Revenue Loss</u>	<u>Cumulation Revenue Loss</u>
1988	1,600,000	UCM	\$1,536,000	\$480,000	\$1,056,000	\$1,056,000
1989	1,600,000	UCM	\$1,536,000	\$480,000	\$1,056,000	\$2,112,000
1990	1,600,000	UCM	\$1,536,000	\$480,000	\$1,056,000	\$3,168,000
1991	2,600,000	UCM and Wishbone	\$2,496,000	\$780,000	\$1,716,000	\$4,884,000
1992	2,600,000	UCM and Wishbone	\$2,496,000	\$780,000	\$1,716,000	\$6,600,000

Prepared by: DMR Division of Mining
April 22, 1988

Fiscal Note for SB 510

Page 2 of 2

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P.2

USIBELLI COAL MINE, INC.

MARKETING
2173 University Avenue So.
Suite 101
Fairbanks, Alaska 99709
(907) 479-2630
FAX 479-2793

Am has seen

March 31, 1988

Representative Sam Cotten
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Representative Cotten:

You now have a better understanding of the Healy Project - the brain-child of Usibelli Coal Mine and Brown and Root - which, if feasible, holds some extremely positive and far reaching implications for Alaska. We certainly appreciate your interest by devoting time during your busy schedule to learn more about this project which can provide an increment of inexpensive electrical power for the Railbelt region as well as produce an enhanced premium quality processed (dried) coal for export and domestic markets.

Although we have stressed that this project is doable in the private sector at market rate financing, there are innovative ways of utilizing the state's financial leverage to provide real tangible benefits in the form of even less expensive assured electricity rates for Railbelt consumers. This is where you come in. We ask that two actions be taken by the Legislature.

1) That the Railbelt Energy Fund be retained for its original intent pending the outcome of detailed evaluations by APA and legislative agencies of appropriate competing uses (Healy project, other coal-fired generation sites, power line upgrades and expansion, loans for completion of Bradley Lake and Enstar's natural gas pipeline from Wasilla to Fairbanks).

2) That you start to give very serious consideration to our approach to Healy Project financing which could involve using assets of the Railbelt Energy Fund to collateralize (underwrite) a loan at sub-market rates to the project. The benefit of the lower than market rate would be passed through entirely in the form of lower cost wholesale power for the consumer.

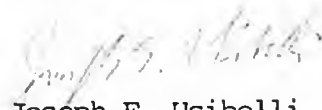
This concept, which is attractively simple, would put the Railbelt Energy fund assets to work, without spending them, totally consistent with the purpose of the fund. In this way the State of Alaska and the private sector can team up to create real opportunity for Alaska.

March 31, 1988
Page Two

As we progress with the Healy Project we will keep you informed and hopefully garner your enthusiastic support for the venture which, outside of Oil and Gas and military spending, is the largest venture undertaken in Alaska.

Thank you again.

Sincerely,


Joseph E. Usibelli
CHAIRMAN

P.S. The following "Bullet Sheet" will I hope provide you with some important perspectives on Alaska Coal.

BULLET SHEET

1) Alaska contains up to 40% of the entire U.S. coal resource base.

2) Alaska currently produces only 2/10th of 1% of the U.S. annual coal production of 900 million tons (clearly we have not reached our potential).

3) Usibelli Coal Mine is the only significant producer and currently mines 1.5 million tons per year at Healy.

4) Known recoverable coal reserves on the Usibelli Coal Mine leases contain the energy equivalence of a one billion barrel oil field.

5) In reality COAL is Alaska's most abundant non-renewable energy resource.

6) Alaskan coal in general is extremely low in sulfur - the element blamed for acid rain problems.

7) Alaskan sub-bituminous coal is the only coal of this quality moving to an international market (South Korea) - because of its high moisture content (27%), sub-bituminous coal has a lower heating value than other coal produced by Australia, Canada, China and South Africa with whom we compete.

8) It makes sense to process or dry sub-bituminous coal before shipping it.

9) It makes sense to focus an important and fundamental aspect of Alaskan energy policy on increased in-state use of coal for power generation.

10) It makes sense utilizing coal close to where it is produced for our own in-state energy needs as well as developing export markets.

11) It makes sense creating quality year-round jobs in coal mining, power plant operation, etc. as well as providing a reliable low-cost energy source which will stimulate economic activity.

12) It makes sense - very good sense - recognizing that Alaska is a coal state and adopting public policy which recognizes this economic reality.

USIBELLI COAL MINE, INC.

MARKETING
2173 University Avenue So.
Suite 101
Fairbanks, Alaska 99709
(907) 479-2630
FAX 479-2793

cc for SBS10

April 27, 1988

Representative Sam Cotten
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Dear Representative ^{Sam} Cotten:

Please support passage of HB 560 which will fix royalty rates on coal produced from state leases in the range 5 cents to 30 cents per ton (2000 lbs).

This relief is sought as a necessary action to help ensure continuation of the Suneel (Alaska) - Korea Electric Power (KEPCO) coal supply contract. The parties are currently operating with a provisional price for 1988 (no firm price was struck) pending resolution of the royalty dispute and other concerns. The Koreans have indicated very clearly that a royalty increase cannot be assumed and could provide just cause for contract cancellation at the earliest opportunity.

Alaska coal is currently still the highest cost coal entering the Pacific-rim on a delivered heat content basis. Our present position in the export sector is both fragile and tenuous. Alaska's small coal industry should be encouraged not constrained by government action.

UCM has diligently pursued opportunities to expand exports most notably to Taiwan. At a time when this patient policy may be rewarded the state shows gross insensitivity with respect to the royalty issue. Absent royalty relief there is virtually no chance of concluding a contract with the Taiwanese.

It should also be noted that the increased royalty would impact in-state customers by putting upward pressure on electrical power rates for coal-fired generation.

I urge you to vote in favor of establishing modest, predictable royalty rates for Alaska coal. The revenue impacts to the state are minimal but, with an eye to the future, it would surely be prudent policy to preserve quality jobs and hopefully contribute to a climate in which the industry can expand.

Sincerely,

John

John Sims
VICE-PRESIDENT MARKETING

I am using what influence I have to convince miners that your efforts on their behalf must be acknowledged.

BS

DDM

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

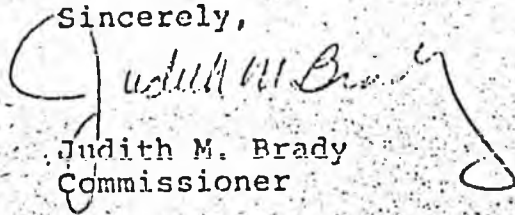
Further, the Department will grant your request for a partial refund of royalties paid at the 5 percent AGV rate during the period from May 1, 1987, for ADL 51545 and from November 1, 1987, in order to be consistent with the phased payment schedule. Such refund will be taken as credit against future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

Mr. Joseph Usibelli, Jr.

-3-

April 8, 1988

Sincerely,



Judith M. Brady
Commissioner

cc: Gerald Gallagher, Director
Division of Mining

Usibelli (Sims) to
Senate Finance
House Resources

THE CASE FOR ROYALTY RELIEF

In the past royalties on coal extracted from state leases were set on a cents per ton (2000 lbs) basis. The only production leases that provided this modest royalty flow in recent times were on Usibelli Coal Mine where until 1987 the rate in effect was 5 cents per ton on one lease and 10 cents per ton on another (average say 7.5 cents per ton). Back in 1982 the State of Alaska adopted new regulations relating to coal on state lands setting new royalty levels and rentals for state coal leases. The first impact of these changes, which were vigorously opposed by the coal industry at the time, occurred when the renewal of UCM's main production leases became due in 1987. The State's DNR had no alternative but to implement the new provisions. As a consequence the royalty rate increased from an historic level of approximately 7.5 cents per ton to a figure of 5% of Adjusted Gross Value computed to be equivalent to 96 cents per ton. This was a one step increase of +1300% and is in addition to a mining production (license) tax, corporate income taxes, lease acreage rentals, black-lung tax, etc. levied by the state and federal governments. Usibelli Coal Mine faced with this royalty hike and given the current extremely difficult and sensitive situation in international markets decided to petition for relief from the full impact of the royalty hike. It is well to be aware that acts of government such as tax modifications and royalty changes are provided for in standard coal contracts as pass-throughs to the customer. Following established practices UCM would pass royalty hikes onto its customer base both at home and abroad.

Under the prevailing State of Alaska regulations, petition for relief can be made on the grounds of "inability to operate the lease successfully at the royalty level" or as a means of "promoting development". UCM clearly based its request for relief on the "promote development" provisions allowed in the regulation.

Despite overwhelming testimony in favor of royalty relief at the February public hearing in Fairbanks, Commissioner of Natural Resources decided to implement in phases the full 5% AGV formula over the period May 1, 1987 to May 1, 1990. Faced with this adverse decision issued on April 8th, 1988 in response to its petition filed on October 19, 1987, UCM has only two avenues available:

- 1) Petition the Commissioner for reconsideration - an option which is being pursued.

- 2) Seek a Legislative solution to the issue.

The latter is the subject of bills which have been introduced in both the Senate (SB 510) and the House of Representative (HB 560). I urge you to support the legislative remedy as a clean-cut expeditious means of resolving the problem.

Consistent with the "promote development" justification pursued by UCM, I offer the following comments:

- 1) Faced with a possible \$1.00 per ton increase in price the Suneel (Alaska) - KEPCO contract could falter. At present a provisional price for 1988 is in effect and any attempt to collect the royalty hike could jeopardize the contract even leading to cancellation at the end of 1988. The situation is in reality extremely serious.

- 2) UCM is poised to initiate discussions with Taipower for a

coal supply contract, following a test program conducted in 1987, which could match the tonnage being sold to South Korea. This initiative certainly cannot proceed and stands no chance of success unless royalty relief is granted.

3) Similarly an added component of cost in the form of the higher royalty would certainly dampen opportunities currently in a preliminary stage with Japanese interests.

Loss of opportunity inherent in the above actions falls fairly and squarely into the "promote development" provision of the regulations.

UCM is optimistic about its future and indeed the future of a much broader and diversified coal mining industry in Alaska providing that opportunity is nurtured and fostered by government actions not squashed and choked off. You should be aware that some encouragement for Alaska coal in international markets is taking place as rival currencies such as the Canadian and Australian units strengthen against the U.S. dollar. There are welcome signs that the glutted oversupply situation is also correcting itself and coal prices are holding steady and very selectively have improved. Alaska coal is still the most expensive coal on a delivered heat-value basis and needs every bit of encouragement and assistance.

This is no time to "shoot ourselves in the foot". I believe that as economies of scale emerge and as critical mass is generated from our present small coal industry the levels of royalty inherent in a 5% AGV formula might be reasonable. For the present and certainly into the foreseeable future it is important to do everything we can to promote the industry, and royalty constraint is a fundamental element

of promoting the development of an abundant energy resource. It is fallacious to compare Alaskan coal royalties with other coal producing states such as New Mexico, Wyoming and Colorado where the industry is established and where costs of doing business are that much lower. Note however that in the face of extreme competition the tendency has been to reduce royalties and/or severance taxes in certain states.

The action that is needed is clear and simple. Support the legislation which sets royalties at a reasonable level and assures continuing growth and interest in Alaska's coal industry.

Suneel Alaska Corporation
Seward Coal Terminal

PHONE: (907) 224-3120
TELEX: (CBO) 25283 SWD
FACSIMILE: (907) 224-3931

903 OLD AIRPORT ROAD
P.O. BOX 1708
SEWARD, ALASKA 99664

April 13, 1988

Mr. John Sims
Vice President
Usibelli Coal Mine, Inc.
2173 University Ave. South, Suite 101
Fairbanks, AK 99709

Dear John:

Per our telephone conversation today, we are in receipt of Commissioner Brady's letter of April 8th to Joe, Jr. regarding coal royalties.

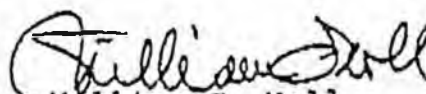
Naturally, we are keenly disappointed in the apparent results of the efforts to contain costs of Alaskan coal. Although there is some explanation offered in the Commissioner's letter, I am at a total loss in understanding this approach to answering the universal concerns expressed at DNR's public hearing in Fairbanks on February 24th.

Suneel is immediately concerned with the possible impact of the contents of the Commissioner's letter to UCM. We will be anxiously awaiting UCM's further comment. We are especially interested in knowing whether UCM will initiate any sort of appeal process.

Suneel continues to reject outright the notion of any increase in costs in any sector of coal exporting at this time. There is no justification for increases in the international marketplace.

Please keep us informed of UCM's plans and actions regarding these royalties.

Sincerely,


William C. Noll
Vice President

cc: Mr. Jerry Gallagher, Division of Mining

Suneel Alaska Corporation

Seward Coal Terminal

PHONE: (907) 224-3120
TELEX: (090) 25353 SWD
FACSIMILE: (907) 224-3931

803 OLD AIRPORT ROAD
P.O. BOX 1769
SEWARD, ALASKA 99664

February 9, 1988

RECEIVED

FEB 11 1988
DIVISION OF REVENUE

Mr. Richard C. Hundrup
Controller
Usibelli Coal Mine, Inc.
P.O. Box 1000
Healy, Alaska 99743

Dear Rick:

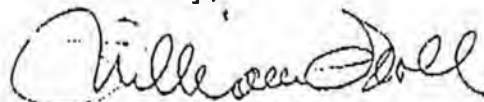
Subject your letter dated February 4, 1988, regarding the royalties on Usibelli coal.

As Suneel has continuously pointed out, the FOR price of your coal has always been far higher than other coals in the international marketplace. The Usibelli portion of the FOBST and C&F prices is disproportionately high.

Inasmuch as royalties to the State of Alaska contribute to Usibelli's costs of operation, a tight rein ought to be held in that area. The thought that those costs will be even further increased, thus greatly exacerbating an already-strained relationship with KEPCO, is simply unconscionable.

As you know very well, Suneel has already written its thoughts to Commissioner Brady and Director Gallagher at the Department of Natural Resources. Suneel will continue those communications. Suneel has already informed Director Gallagher of our intent to testify at the public hearings scheduled for February 24th. I do not see any purpose in being included on the Usibelli list, but if you wish to send us an advance copy of your planned testimony or previous written argument, we will be pleased to review it.

Sincerely,



William C. Noll
Vice President

cc: Mr. Jerry Gallagher
Suneel Seoul
Mr. Howard Cohen
Mr. John Sims

ALASKA COAL ASSOCIATION

P.O. Box 101
Healy, Alaska
9 9 7 4 3

17 February 1988

Mr. Gerry Gallagher
Alaska Department of Natural Resources
Director - Division of Mining
P.O. Box 7016
Anchorage, Alaska

99510-7016

Dear Mr. Gallagher:

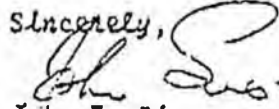
The Alaska Coal Association at it's February 16th, 1988 meeting in Juneau discussed the issue of royalties on coal production from state leases.

The members of the association unanimously agreed that an increase in state royalty rates at this time would send a very discouraging message to prospective export customers, and could certainly threaten the continuation of coal exports to South Korea.

The membership is appreciative of initiatives by the state to promote and facilitate the expansion and development of Alaska's coal industry.

Your own efforts to bring sensitivity and pragmatism into the process are most welcome.

Sincerely,


John F. Sims
PRESIDENT - ACA

cpb:jfs z:181/acaroyal
cc: ACA membership



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.

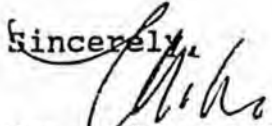
As Alaska's only operating coal mine, Usibelli has contributed significantly to economic development and employment in the Interior. Usibelli has also distinguished itself as a responsible corporate citizen and concerned member of the community.

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.

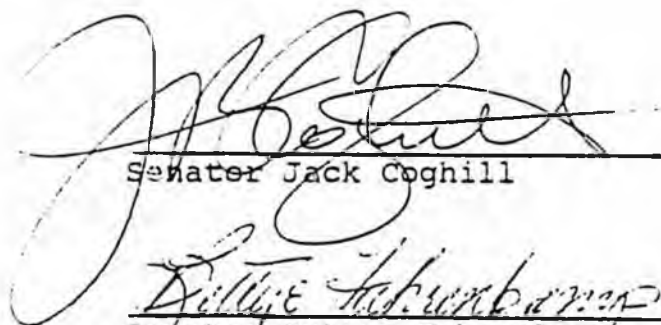
Current royalty regulations may well have a detrimental short and long term effect on UCM. Its export contract could be jeopardized and further development could decrease. Alaska statute allows the Commissioner of the Department of Natural Resources to waive, suspend, refund, or reduce the royalty to 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.

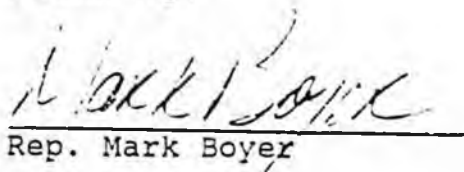
page two
Mr. Jerry Gallagher
February 17, 1988

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

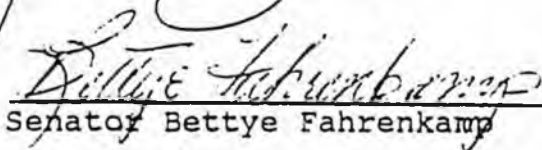
Sincerely,



Senator Jack Coghill



Rep. Mark Boyer



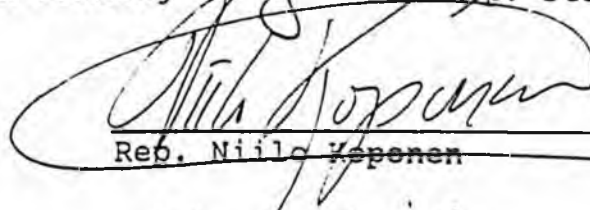
Senator Bettye Fahrenkamp



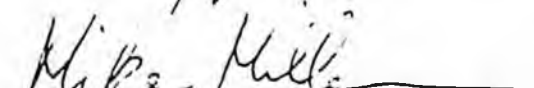
Senator Ken Fanning



Rep. Steve Frank



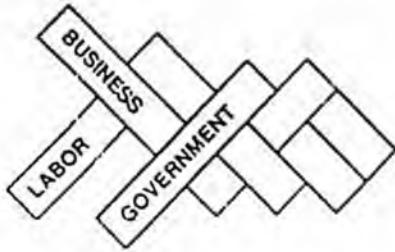
Rep. Niilo Kopenen



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

February 24, 1988

Jerry Gallagher
Director, Division of Mining
Department of Natural Resources
State of Alaska
3601 C Street, Suite 900-984
Anchorage, Alaska 99503

H3/wsk
389

file
COAL
Royalty

Re: State Royalty Rates - Usibelli Coal Mines

Dear Jerry:

The recent request by Usibelli Coal Mines to limit the percentage increase in coal royalty payments to the State of Alaska should be approved. The current world market price of coal is considerably below the export cost of coal from the Usibelli Mine. An increase in cost as a result of additional royalties would probably result in the failure of renewal of the existing export contracts. Such an increase would certainly preclude the negotiation of additional export contracts.

Without the export of coal the Usibelli Mine would have to reduce production by fifty percent. Thus, the unit cost to Interior Alaska consumers would rise. A worst case scenario would be the complete termination of production at the Usibelli Mine. Without the production of coal, fuel oil would be the only source of energy for Interior Alaska. Without the competition from coal, fuel oil and electrical energy costs could be expected to rise.

Fairbanks Exploration is currently in a joint venture with BP Minerals America for the evaluation of the bulk tonnage gold potential of the Fairbanks Mining District. Upon successful completion of our current feasibility study, it is estimated that a major mining project (capital cost approximately \$100 Million) operating at 10,000 TPD would consume approximately 15 Megawatts. With the addition of a trolley assisted haulage system the electrical energy requirement is expected to double. The total consumption of electrical energy at the mine would approximate that of the larger plants in interior Alaska.

FAIRBANKS EXPLORATION INC.

P.O. Box 82549 • Fairbanks, Alaska 99708 • (907)479-7547

Jerry Gallagher
February 24, 1988
Page 2

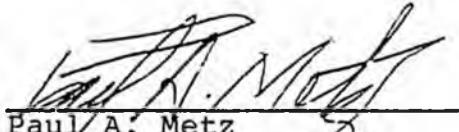
The feasibility of bulk mineable metals is very sensitive to the cost of energy. Without the current relatively moderate energy costs in Interior Alaska is highly unlikely that our project will be feasible.

The loss of the productive capacity of the Usibelli Mine may result in the loss of 130 direct jobs in Interior Alaska. The opportunity cost of not developing a world-class gold mine would be the loss of another 300 direct and 600 indirect jobs. Such a cost greatly exceeds any benefit the State of Alaska might realize from the proposed increase in coal royalty rates.

Sincerely,

FAIRBANKS EXPLORATION, INC.

By



Paul A. Metz
Chairman of the Board

cc. The Hon. Steve Cowper, Governor
Members of the Senate and the House
Joe Usibelli

FAIRBANKS EXPLORATION INC.

P.O. Box 82549 • Fairbanks, Alaska 99708 • (907)479-7547



Greater Fairbanks

Chamber of Commerce

First National Center

P.O. Box 7446

500 Cushman Street

(907) 452-1105

Fairbanks, Alaska 99707

May 2, 1988

Representative John Coghill
P.O. Box V
Juneau, Alaska 99811

Dear Representative Coghill:

Attached is a resolution, which was adopted by the Greater Fairbanks Chamber of Commerce, urging restraint in levying increased royalties on coal produced from land leased from the State of Alaska. Legislation in the form of SB 510 and HB 560 has been proposed that would be effective in implementing the intent of that resolution.

For the reasons stated in the resolution, we strongly urge you to support the passage of SB 510 and HB 560 during the current legislative session.

Sincerely,

Mike Kelly,
Chairman of the Board

W.R. Coz,
President and C.E.O.

WRC:jlw

cc: Interior Del.
attachment



Greater Fairbanks

Chamber

of Commerce

First National Center

P.O. Box 74446

709 Second Avenue

(907) 452-1105

Fairbanks, Alaska 99707

RESOLUTION 5-0288

A 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 \$.96 per ton, 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 Alaska Railroad; and

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

NOW THEREFORE BE IT RESOLVED that the Greater Fairbanks Chamber of Commerce 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.

Dated this 23rd day of February, 1988.

By Mike Kelly
Mike Kelly, Chairman

By W.R. Cox
W.R. Cox, President and CEO

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