HJR

33

Alaska State Legislature

House of Representatives

Committee on Transportation

Rep. Bette Cato, Chairman

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4858

May 4
~~April 24~~, 1987

COMMITTEE CALENDAR:

HJR 33: Relating to the shipping of Alaska oil.

SCR 5: Relating to promotion and marketing of the state-operated international airports.

HB 213: "An Act relating to allocation of federal-aid highway funds; and providing for an effective date."

FOR THIS MEETING YOU HAVE:

A folder on HJR 33 that includes:
* a copy of HJR 33
* a memorandum from Rep. Pourchot
* a history and discussion of the resolution
* a letter from the Governor
* a fiscal note from the Dept. of Revenue

A folder on SCR 5 that includes:
* a copy of SCR 5
* a fiscal note from DOT/PF
* a memorandum from Sen. Sturgulewski
* 1986 & '87 financial statements from the international airports
* a letter of support from the municipality of Anchorage
* a marketing report from the Anchorage Convention & Visitors Bureau
* four magazine or newspaper articles
* the House Labor & Commerce Committee Report Form

A folder on HB 213 that includes:
* a copy of HB 213
* a copy of the committee substitute for HB 213
* a sectional analysis
* a fiscal note & position paper on HB 213 from DOT/PF
* information from the six-year capital plan
* a classification of road miles within Alaska
* a letter from the Ass't. Division Administrator of the Federal Highway Administration
* a report on HB 213 from Rep. Hoffman
* minutes from the 4/13 & 4/15 public hearings of HB 213

Alaska State Legislature

REPRESENTATIVE
PAT POURCHOT

HOUSE FINANCE COMMITTEE, VICE CHAIR

HOUSE ETHICS COMMITTEE, CHAIR

LEGISLATIVE BUDGET & AUDIT COMMITTEE

House of Representatives

ANCHORAGE
P.O. BOX 104836
ANCHORAGE, AK 99510
(W) (907) 276-6818
(H) (907) 338-2425

JUNEAU
P.O. BOX V
STATE CAPITOL
JUNEAU, AK 99811
(907) 465-3712

MEMORANDUM

DATE: May 4, 1987

TO: House Transportation Committee Members
Rep. Bette Cato, Chairman
Rep. Henry Springer, Vice-Chairman
Rep. "Red" Boucher
Rep. Ben Grussendorf
Rep. Mike Miller
Rep. Bill Hudson
Rep. Drue Pearce

FROM: Rep. Pat Pourchot Pat

SUBJECT: HJR 33 - Relating to the Shipping of Oil

House Joint Resolution 33, relating to the shipping of Alaska oil, has been scheduled for a hearing in the House Transportation Committee on Monday, May 4th.

This resolution urges the Secretary of the United States Department of Transportation to adopt before July 16, 1987, a rule that would enable four very large crude oil carrier ships to continue to operate in the United States domestic shipping market without interruption.

Attached is a brief background and summary of the reason for this resolution. It is important that we act expeditiously on the resolution because if the U.S. Department of Transportation fails to adopt a rule by July 16, 1987, the transportation of Alaska oil may be disrupted. In addition, the transportation costs will increase substantially, and the state government could stand to lose a significant amount of money.

I appreciate your consideration on this resolution. Thank you.

HOUSE JOINT RESOLUTION 33

HISTORY

On January 16, 1987, the U.S. Court of Appeals decision (First Attransco Tanker Corp. vs. Dole) vacated a Department of Transportation ruling. The DOT ruling permitted three very large crude carrier ships to repay the remainder of their construction subsidies in 1985/6. In doing so, they became Jones Act ships rather than just U.S. flag ships.

The Court ruled that the Secretary of Transportation was well within her authority to permit this repayment. However, the Court also ruled there were procedural defects in that she did not adequately explain the effect of this action on other Jones Act ships. Thus the ruling was unjustified. The decision requires all three ships to cease Alaskan service on July 16, 1987, unless the Department of Transportation explains the effect on other Jones Act ships to the Court's satisfaction.

Prior to repaying the subsidy, these three large, efficient U.S. flag ships were not allowed to carry Alaskan oil unless there were no suitable Jones Act ships available. Even under those circumstances these ships could only be used part time (no more than six months out of the year). A fourth ship which entered Jones Act trade under generally similar circumstances in 1983 is also vulnerable to the ruling.

In total these four ships are currently moving 200,000 barrels of Alaskan oil to market every day. If they are taken out of the fleet, then a large number of much smaller, less efficient and more expensive ships must take their place if the Alaskan oil is to get to market. This would raise the market price for all Jones shipping by an estimated 25 cents to $1.00 per barrel.

An increase in the cost of transportation not only reduces oil company income and incentive in Alaska but also reduces the netback value of all Alaskan production. For example, each 50 cent increase in per barrel transportation cost would reduce state income by roughly $75 million per year.

Given this situation, Alaska should support the DOT's intention to issue a new rule confirming that these vessels should remain Jones Act vessels as soon as possible because of the July 16, 1987 deadline.

Attached is further information regarding this "Repayment of Construction Differential Subsidies (CDS)".

Repayment of Construction Differential Subsidies (CDS) (also called "CDS Sanitization")

DISCUSSION ISSUES:

The following information should be noted in discussion of CDS Sanitization:

- This is a significant economic issue for Alaska. Removal of the four large efficient ships will require using nearly all the smaller ships available, driving the market price for all shipping up by $.25 to $1 per barrel. Netback values on the crude oil will decline accordingly. Each $.50 per barrel reduction in netback represents roughly $75 MM per year in lost state revenues.

- Alaskan oil production has increased significantly in the last year, highlighting the need for efficient transportation. The Lisburne field (40-50 MBD) began commercial production in early 1986, Prudhoe Bay production increased with natural gas liquid (NGL) recovery in early 1987 (50 MBD). Kuparuk has reached peak production, and Endicott field is expected to begin production in the fourth quarter of 1987 (up to 100 MBD).

- Largely because of the increased Alaskan production the four large, efficient VLCC vessels in question have been in continuous service since repayment of their remaining subsidy: the BROOKLYN and the BAYRIDGE under charter to EXXON, and the ARCO INDEPENDENCE and the ARCO SPIRIT under long term charter to Standard Oil.

- Larger vessels make the transport of crude oil to the West Coast and Gulf Coast more economically efficient than smaller vessels. This is especially true to the Gulf Coast, which accounts for a substantial portion of the Alaskan oil delivered.

SENT AS MAILGRAM

April 7, 1987

The Honorable Elizabeth H. Dole
Secretary
Department of Transportation
400 Seventh Street, S.W.
Room 10200
Washington, D.C. 20590

Dear Secretary Dole:

The State of Alaska is concerned about a recent court decision and possible action by Congress that could seriously affect the Alaska North Slope oil trade.

As you know, the decision in Independent U.S. Tanker Owners Committee v. Dole, vacating a Department of Transportation ruling which allowed three VLCC class CDS ships to enter the Alaskan trade, would cause higher transportation costs for Alaska oil. The court decision would force the use of smaller, less efficient tankers, assuming alternative transportation is even available. The added expense of using smaller tankers would cause the State to lose millions of dollars in severance taxes and royalties. Significant revenue losses would also be incurred by the Federal government.

As you are probably aware, the Maritime Administration (Marad), in a notice of intended action in the March 11, 1987 Federal Register, promised to address the CDS issue through new rule making. However, to date proposed rules have not been published. The Court vacating the rule stayed its order until July 16, 1987. We are concerned that any delay in promulgating a new rule could allow the July court deadline to take effect, given the stringent requirements of the Administrative Procedure Act and the various regulatory approvals which must be obtained before final rule making. To safeguard Alaska and the nation from large scale disruption in the North Slope oil trade, and to protect all the parties that have relied on the previous Department of Transportation ruling struck down by the Court, we urge that you expeditiously issue the necessary regulations.

Regarding a parallel issue, we appreciate your efforts, including your letter to Chairman Whitten of the House

Appropriations Committee, to reject an amendment, which would block Marad from proceeding in any manner to act on the CDS repayment. Although the Committee adopted the amendment, the State of Alaska looks forward to working with you to ensure that this measure will eventually be rejected by Congress. Toward this end, my Washington, D.C., staff has already been in touch with Rebecca Range of your department.

Thank you for your consideration of these matters.

Sincerely,

Steve Cowper
Governor

cc: Senator Ted Stevens
Senator Frank Murkowski
Congressman Don Young
Rebecca Range

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HJR 33
Publish Date:

REQUEST

Revision Date: 5/4/87
Title: Shipping State Oil

Sponsor: Pourchot
Requestor: House Transportation

Agency Affected: Revenue
BRU: Audit

Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	(Revenue Impact $17.7 mil to $52.9 Mil Per Year)					

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: See attached.

Prepared By: Steven E. Kettel Steven E. Kettel
Division: Audit

Phone: 465-2320
Date: 5/4/87

Approved by Commissioner: Hugh Malone H. Malone
Agency: Revenue

Date: 5/4/87

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

page ____ of ____

MEMORANDUM
STATE OF ALASKA DEPARTMENT OF REVENUE
PETROLEUM RESEARCH SECTION

TO: Eric Ostrovsky, Governor's Office, Washington, D.C.
FROM: Roger Marks, Petroleum Economist
SUBJECT: CDS Tankers
DATE: April 2, 1987

Our June 1985 analysis showed that CDS tankers could save 45% on average shipping costs over non-CDS tankers. This amounted to \$1.25/bbl for Gulf Coast shipments and \$0.57/bbl for West Coast shipments. Since repayment we have seen average tanker rates to destinations east of Panama drop 75 cents.

The three CDS tankers now engaged in ANS trade are moving oil to the U.S. Gulf Coast, and can carry 60 million barrels of ANS per year.

The losses to the State from removal of these tankers would accrue from lower wellhead values due to higher transportation costs. We estimate these losses to be a minimum of \$18 million and as much as \$50 million annually:

Royalty Effect

60 X 1.25 X .125 = \$9.4

Severance Tax Effect

60 X 1.25 X (1 - .125) X .15 X .84 = \$8.3

TOTAL \$17.7 million

(The severance tax is levied on non-royalty oil. The severance tax rate is 15 percent. The economic limit factor (ELF), which reduces the effective severance tax rate as well productivity declines, is estimated to be 0.84 over the near term.)

This can be considered a conservative estimate. The reduced competition from removal of the tankers (the tanker market is tight now) could raise transportation cost for all ANS, in which case the State could stand to lose over \$50 million annually if tanker rates on all shipments to the Gulf Coast returned to the previous level:

Royalty Effect

300 X 0.75 X .125 = 28.1

Severance Tax Effect

300 X 0.75 X (1 - .125) X .15 X .84 = 24.8

TOTAL \$52.9 million

TESTIMONY OF STANDARD OIL ON HJR 33

THE JONES ACT REQUIRES THAT ALL CARGO TRANSPORTED IN THE DOMESTIC TRADE BE CARRIED ON VESSELS BUILT IN THE UNITED STATES, DOCUMENTED UNDER UNITED STATES LAW, CREWED BY U.S. SEAMEN AND OWNED BY U.S. CITIZENS. UNDER THE MERCHANT MARINE ACT, JONES ACT TANKERS MUST BE BUILT WITHOUT CONSTRUCTION SUBSIDIES AND MUST OPERATE WITHOUT DIRECT FEDERAL OPERATING ASSISTANCE. TANKERS BUILT WITH CONSTRUCTION DIFFERENTIAL SUBSIDY (CDS) ARE ALSO U.S. BUILT, MANNED AND OWNED BUT THESE VESSELS ARE NOT PERMITTED PERMANENT TRADING PRIVILEGES IN THE DOMESTIC TRADE BECAUSE OF THE SUBSIDY THEY RECEIVED.

IN 1977, DEMAND FOR LARGE U.S. FLAG CRUDE TANKERS TO CARRY ANS CRUDE FROM VALDEZ TO PANAMA WAS GREATER THAN THE JONES ACT FLEET COULD SATISFY. IN ORDER TO ALLEVIATE THE SHORTAGE OF LARGE, JONES ACT CRUDE TANKER CAPACITY, VERY LARGE CARGO CARRIERS (VLCC) BUILT WITH CDS WERE GIVEN PERMISSION TO ENTER THE ANS TRADE ON A TEMPORARY BASIS. THESE VESSELS WERE ORIGINALLY BUILT FOR FOREIGN TRADE BUT REDUCED WORLD PETROLEUM DEMAND AND THE HIGHER COST OF US FLAG VESSELS MADE THESE VESSELS UNSUITABLE FOR IMPORT TRADES.

IN ADDITION TO THE SECRETARY'S AUTHORITY TO TEMPORARILY WAIVE JONES ACT SHIP REQUIREMENTS, THE SECRETARY HAS UNDER THE MERCHANT MARINE ACT, THE AUTHORITY TO ELIMINATE ALL DOMESTIC TRADE RESTRICTIONS ON A VESSEL CONSTRUCTED WITH CDS IN EXCHANGE FOR FULL REPAYMENT WITH INTEREST OF THE CDS OBLIGATION. FIVE SHIPS HAVE BEEN ALLOWED TO REPAY THEIR CDS OBLIGATIONS, THE STUYVESANT, BAY RIDGE, BROOKLYN, ARCO SPIRIT AND ARCO INDEPENDENCE. ALL OF THESE SHIPS ARE IN THE ALASKA TRADE.

ON MAY 7, 1985 THE DEPARTMENT OF TRANSPORTATION PUBLISHED A FINAL RULE WHICH

WAIVER ON THE
ALLOWED THESE VESSELS TO OBTAIN A PERMANENT BAN ON DOMESTIC TRADING PRIVILEGES. ON JANUARY 16, 1987, THE COURT OF APPEALS RULES THAT THE SECRETARY VIOLATED THE ADMINISTRATIVE PROCEDURE ACT IN ADOPTING THIS RULE. THE COURT VACATED ITS ORDER, HOWEVER, UNTIL JULY 16, 1987 TO"ALLOW THE SECRETARY TO UNDERTAKE FURTHER PROCEEDINGS TO ADDRESS THE PROBLEMS OF THE MERCHANT MARINE."

SINCE
THE DEPARTMENT HAS PROPOSED A RULE WHICH WOULD REAFFIRM ALLOWING THESE VESSELS IN THE ANS TRADE.

THE FINANCIAL EFFECT ON STANDARD IF WE ARE NOT ALLOWED TO CONTINUE UTILIZING THESE SHIPS IS IN THE MILLIONS OF DOLLARS.

THE FINANCIAL EFFECT ON THE STATE OF ALASKA FROM REDUCED ROYALTIES AND SEVERANCE TAXES ARE ESTIMATED TO RANGE FROM$18-150 ANNUALLY. IF THE PROPOSED RULE IS NOT ALLOWED TO TAKE EFFECT.

STANDARD STRONGLY SUPPORTS THE RESOLUTION BEFORE YOU. ALLOWING THESE SHIPS IN THE ANS TRADE IS IN THE BEST INTEREST OF BOTH THE ALASKAN OIL INDUSTRY AND THE STATE OF ALASKA.

STATE OF ALASKA
THE LEGISLATURE

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

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May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

H. TRANS. 5-4-87 1:30 p.m.

(7)

HOUSE COMMITTEE REPORT

Date referred: 4/22/87

FURTHER REFERRALS:

DATE: May 4, 1987

The Transportation Committee has considered HJR 33

Relating to the shipping of Alaska oil.

RECOMMENDS:

[ ] replace with ______ [ ] the same title

[ ] attached amendment(s) [ ] a new title

[X] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the ______ Committee

ADOPTS: [ ] ______ letter of intent

ATTACHES NEW FISCAL NOTE(s):

[ ] fiscal impact

[ ] zero fiscal note

[X] zero with analysis

[ ] same as previous fiscal note published ______

[ ] same as previous zero fiscal note published ______

SIGNING DO PASS:

Bette Cato

Bett Fields

C.B. Banke

Heinrich Springer

SIGNING OTHER RECOMMENDATIONS:

Bette Cato

Chairman's signature

COMMITTEE:

House Transportation Committee

DATE: May 4, 1987

SIGN-IN

Subject of meeting:

*HJR 33: Relating to the shipping of Alaska oil.

SCR 5: Marketing of International Airports.

HB 213: Allocation of Federal Highway Funds

Official Business

NAME Please include title

ADDRESS Please use full address. Please include zip.

NAME	ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Jim Palmer Mgr Gov't Affairs	~~Standard Oil~~ Alaska Production Company Box 196612 Anch 99519	6612 564-5403		HJR 33
Chief Vincent Wright	Research, ~~Auditor~~ & Taxation	465-2173	Dep't of Revenue	HJR 33
MARK HICKEY	DOT/PF		DOT/PF	HB213
Sen. Sturgulewski	The Alaska State Leg. Pouch V Juneau 99811	465-4989	Sponsor of SCR 5	
Rep. Hoffman	"	465-4453	Sponsor of HB 213	

* indicates first public hearing