

SB

113

INITIAL SECTIONAL SUMMARY

3/8/95 by Kreitzer, Committee Aide

SB 113: "An Act authorizing a reduction in coal, oil and gas royalty for the producers of those minerals used in certain projects."

Section 1.: Adds the royalty reduction provision into the exploration licensing program passed by the Eighteenth Legislature (SB 150).

Section 2.: Amends the coal leasing provisions to include the royalty reduction for coal mining, production and sale or delivery for qualifying projects.

Section 3.: Adds a new subsection in the coal leasing provisions which would allow the commissioner the discretion to reduce the royalty due the state. The royalty may be calculated on either the amount or the value of the coal. The royalty may be reduced up to 50%. Qualifications for the royalty reduction:

- a) coal must be used as an energy resource by the general public
- b) coal must be used in a facility owned or operated by a municipality or village in the state and not more than 50 miles from the production site of the coal.

Section 4.: Adds the royalty reduction provision to the oil and gas leasing provisions.

Section 5.: Amends the oil and gas leasing provisions to include the royalty reduction.

Section 6.: Adds a new subsection in the oil and gas leasing provisions which would allow the commissioner the discretion to reduce the royalty due the state. The royalty may be calculated on either the amount or the value of the oil or gas. The royalty may be reduced up to 50%. Qualifications for the royalty reduction:

- a) oil or gas must be used as an energy resource by the general public
- b) oil or gas must be used in a facility owned or operated by a municipality or village in the state and not more than 50 miles from the production site of the oil or gas.
- c) the facility may not be connected to an existing pipeline.

SENATE BILL NO. 113

IN THE LEGISLATURE OF THE STATE OF ALASKA

NINETEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Introduced: 3/7/95
Referred: RES. FIN

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing a reduction in coal, oil, and gas royalty for the producers
2 of those minerals used in certain projects."

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

4 * Section 1. AS 38.05.134 is amended to read:

5 Sec. 38.05.134. CONVERSION TO LEASE. If the licensee requests and the
6 commissioner determines that the work commitment obligation set out in an oil and
7 gas exploration license issued under AS 38.05.132 has been met, the commissioner
8 shall convert to one or more oil and gas leases all or part, as the licensee may indicate,
9 of the area described in the exploration license that remains after the relinquishments,
10 removals, or deletions required by AS 38.05.132(d)(2). A lease issued under this
11 section

- 12 (1) is subject to the acreage limitations imposed by AS 38.05.140(c);
- 13 (2) is subject to AS 38.05.180(j) - (m), (o) - (u), and (x) - (z);
- 14 (3) must be conditioned upon a royalty in amount or value of not less

1 than 12.5 percent of production, except that a lessee who, proceeding under
2 AS 38.05.131 - 38.05.134, produces oil or gas that is used in a project that
3 qualifies under AS 38.05.180(dd) is entitled to the reduction in royalty authorized
4 by that subsection:

5 (4) must include an annual rent of \$3 per acre or fraction of an acre
6 initially paid to the state at inception of the lease and payable annually after that until
7 the income to the state from royalty under that lease exceeds the rental income to the
8 state under that lease for that year; and

9 (5) is subject to other conditions and obligations that are specified in
10 the lease.

11 * Sec. 2. AS 38.05.150(d) is amended to read:

12 (d) For the privilege of mining or extracting the coal in the land covered by
13 the lease, the lessee shall pay to the state the royalties specified in the lease. The
14 royalties shall be fixed before offering the lease, except that a lessee who produces
15 coal and sells or delivers it to a project that qualifies under (f) of this section shall
16 pay the royalty determined under that subsection, and shall be effective for a period
17 of not more than 20 years. The royalties shall be not less than five cents a ton of
18 2,000 pounds. The lessee shall also pay an annual rental, payable at the date of the
19 lease and annually thereafter, on the land or coal deposits covered by the lease, at a
20 rate fixed by the commissioner before offering the lease. The annual rental shall be
21 effective for a period of not more than 20 years. The annual rental shall be not less
22 than 25 cents an acre for the first year of the lease, not less than 50 cents an acre for
23 the second year, third year, fourth year and fifth year, and not less than \$1 an acre for
24 each year thereafter during the continuance of the lease. The rental for each year shall
25 be credited against the royalties as they accrue for that year. Each lease shall provide
26 that the annual rental payment is subject to adjustment at intervals of no more than 20
27 years and adjustments shall be based on the current rates for properties similarly
28 situated.

29 * Sec. 3. AS 38.05.150 is amended by adding a new subsection to read:

30 (f) For coal produced from a lease and sold or delivered for use in a project
31 that qualifies under this subsection, the commissioner may reduce the royalty on the

1 removed or sold from the lease;

2 (B) [(2)] a cash bonus bid with a fixed royalty share reserved
3 to the state of not less than 12.5 percent in amount or value of the production
4 removed or sold from the lease and a fixed share of the net profit derived from
5 the lease of not less than 30 percent reserved to the state;

6 (C) [(3)] a fixed cash bonus with a royalty share reserved to the
7 state as the bid variable but no less than 12.5 percent in amount or value of the
8 production removed or sold from the lease;

9 (D) [(4)] a fixed cash bonus with the share of the net profit
10 derived from the lease reserved to the state as the bid variable;

11 (E) [(5)] a fixed cash bonus with a fixed royalty share reserved
12 to the state of not less than 12.5 percent in amount or value of the production
13 removed or sold from the lease with the share of the net profit derived from
14 the lease reserved to the state as the bid variable;

15 (F) [(6)] a cash bonus bid with a fixed royalty share reserved
16 to the state based on a sliding scale according to the volume of production or
17 other factor but in no event less than 12.5 percent in amount or value of the
18 production removed or sold from the lease;

19 (G) [(7)] a fixed cash bonus with a royalty share reserved to the
20 state based on a sliding scale according to the volume of production or other
21 factor as the bid variable but not less than 12.5 percent in amount or value of
22 the production removed or sold from the lease;

23 ~~(4) notwithstanding a requirement, in the leasing method chosen,~~
24 ~~of a minimum fixed royalty share, a lessee who produces oil or gas and sells or~~
25 ~~delivers it to a project that qualifies under (dd) of this section shall pay the~~
26 ~~royalty determined under that subsection.~~

27 * Sec. 5. AS 38.05.180(w) is amended to read:

28 (w) Notwithstanding any other provisions of this section, land that [WHICH]
29 has been offered for lease within the previous five years and that [WHICH] received
30 no bids at competitive sale or for which no bid was accepted may be, at the discretion
31 of the commissioner, immediately offered for lease, under regulations adopted by the

1 commissioner, upon terms appearing most advantageous to the state; however,
2 noncompetitive leasing is prohibited. The commissioner shall establish a royalty
3 determined to be in the public interest but not less than 12.5 [12 1/2] percent, subject
4 to reduction under (dd) of this section. A lease must provide for payment to the
5 state or rental but need not adhere to the rental schedule in (n) of this section nor to
6 the 5,760-acres-per-lease limitation in (m) of this section. The lease term may not
7 exceed 10 years, except as provided in (o) of this section.

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

9 (dd) For oil or gas produced from a lease and sold or delivered for use in a
10 project that qualifies under this subsection, the commissioner may reduce the royalty
11 on the amount or value of oil or gas produced and delivered to the project, not to
12 exceed a reduction of 50 percent in the royalty rate, as the commissioner may
13 determine. Sale of oil or gas for a project qualifies for a royalty reduction under this
14 subsection if the commissioner determines that

15 (1) the sale or delivery of the oil or gas for which the reduction in the
16 royalty is sought is to a facility that converts the oil and gas for use as an energy
17 resource by the general public; and

18 (2) the facility to which the oil or gas is sold and delivered is

19 (A) owned or operated by

20 (i) a municipality; or

21 (ii) a village, as that term is defined in AS 46.03.900;

22 (B) located in the state and not more than 50 miles from the
23 point of production of the oil or gas; and

24 (C) not connected to a pipeline that exists on the effective date
25 of this Act and, in the judgment of the commissioner, could not be connected
26 to a pipeline that existed on the effective date of this Act because the law does
27 not permit the connection or because the connection would not be economically
28 feasible.

Mapco, a company that all Interior Alaskans are familiar with is building a 400 mile, 12 inch pipeline which will carry 185,000 barrels per day from mid-continent U.S. to Hobbs, New Mexico, a city of 29,000 people. The cost of the pipeline is estimated at 99 million dollars.

Why wouldn't it be a great money maker for a smaller company like Mapco to build a 400 mile oil pipeline to Fairbanks or Interior Alaska. A 24 inch pipeline would carry up to 400,000 barrels per day within the already designated 6 mile pipeline corridor. At an estimated cost of 500 million dollars, the pipeline owner could charge 2 dollars per barrel to transport the oil from the North Slope to Interior Alaska and pay for the pipeline in two years and have money left over.

There are many sound reasons for building such a line. A smaller shorter line could service the already discovered oil fields that are non-economic for the present owners to produce profitably.

There is no excess capacity in the present line to accommodate additional discoveries. Pressure could be taken off the Taps line so that many much needed repairs could be made. The oil could flow to the interior from where it could be distributed to nearly every other part of the state.

The pipeline would provide inexpensive efficient power for all present businesses, as well as other industries that could operate profitably with a plentiful supply of cheap energy.

If the Taps line had to be shut down for any of a multitude of reasons, Alaskans would have an emergency source of fuel. This would certainly be a consideration for the military installations in all of Alaska.

Another shorter pipeline is needed that is not as complex and would not have to contend with as many natural obstacles like river crossings, mountain ranges, and wetlands. It would also encourage competition in leasing, exploration, and production. Construction, development, exploration and engineering would generate thousands of Alaskan jobs.

A gas line to the interior would also make good sense. Instead of illegally wasting billions of cubic feet of gas per day on the North Slope by flaring, a gas line to the interior could solve many of our energy and pollution problems. Natural gas would make year round farming in the interior possible and profitable. A natural gas supply to the Big Delta area could go a long way to bringing in industries that would help replace the loss of military personnel due to the shutting down of Fort Greely.

For many uses, natural gas would replace more expensive and less efficient fuels. Natural gas is already in use as an energy source for pump stations along the pipeline. There is no question about its feasibility or economy. Because natural gas is a much cleaner burning fuel, its affect on the environment would be very positive.

Natural gas could also be diverted to towns and villages along the corridor and solve their heating and power problems once and for all. It would also provide jobs for the local residents.

Both an oil line and a natural gas line to the interior would make good economic sense. They would bring millions of dollars profit to the companies that would own them. They would add thousands of jobs. Both are affordable. If a mid sized company like Mapco can build a 400 mile oil pipeline to a limited market like Hobbs, New Mexico for under 100 million dollars, why can't the same be done in Alaska? Its ironic that Mapco earns the money in Alaska so that it can build a 400 mile pipeline in the lower forty eight.

If either or both of these lines are built, it would allow our three monopolistic oil companies, as well as Alyeska to leave Alaska with a clear conscience and invest their money in other parts of the world where the returns, according to them would be greater.

**Request for Proposals (RFP)
DOE 96-R-001
Rural Alaska Intertie Study**

The Department of Community and Regional Affairs, Division of Energy, is requesting proposals from qualified firms for a study to identify and evaluate opportunities from qualified firms for a study to identify and evaluate opportunities for electric transmission interties in rural Alaska.

Proposal documents are available during normal working hours beginning July 26, 1995 at the following address: Division of Energy, 333 W. 4th Avenue, Suite 206, Anchorage, AK 99501-2341, Phone (907) 269-4695, Fax: (907) 269-4685, Attn: Mariys Hagen.

Proposals must be received by the Division of Energy not later than 4:30 p.m., Anchorage time on August 23, 1995. Late proposals will not be accepted.

The State of Alaska complies with Title II of the Americans with Disabilities Act. Individuals with disabilities who may need auxiliary aids, services, and/or special modifications to respond to this Request for Proposals should contact Mariys Hagen at 269-4695, or 269-4555 TTY, or 1-800-930-4555 no later than August 14, 1995 to make the necessary arrangements.
Pub: July 26 - 30, 1995