

HB

57

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 4/17/03

REPORTED OUT
 MAY 14 2003
 FURTHER: SENATE FINANCE COMMITTEE
 DATE TURNED IN TO OFFICE: 14 May 2003

Finance Committee considered CS FOR HOUSE BILL NO. 57(FIN)

HB 57 ROYALTY GAS CONTRACTS

"An Act amending the manner of determining the royalty received by the state on gas production as it relates to the manufacture of certain value-added products."

and recommends:

- be replaced with S CS CS HB 57 FIN)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
DNR	5/5/03		✓	#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>	✓			

FISCAL NOTE

MAY 14 2003

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: DRAFT
Bill Version: S. CSHB57(FIN) Wk Draf
() Publish Date: _____

Revision Date/Time (Note if correction): 5/1/2003
Title Royalty Gas Contracts

Dept. Affected: Natural Resources
BRU Resource Development
Component Oil and Gas Development

Sponsor Chenault
Requester Senate Finance

Component No. 439

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (GF 1004)	**	**	**	**	**	**
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

WORKDRAFT - (S)FIN.** This bill amends AS 38.05.180 to include subsection (ee), which allows the DNR Commissioner to enter into agreements with lessees to establish the value of the state's royalty share for gas that is used in contract(s) entered into on or after the effective date between the lessee and a manufacturer of agricultural chemicals. The royalty value may not be less than the price used in contracts (floor) but may not exceed the amount that would otherwise be due under the lease (ceiling). HB 57 gives the commissioner discretion to determine and use the value that is in the best interest of the state and may or may not result in state revenues losses. The state could see lower revenues between an estimated \$0-to-\$11.5 million in cumulative royalties for the only known potential applicant over the period FY 2004-09 or an average of about \$0-to-\$1.9 million per year (see Table 1, below). However, the effects of the loss could be mitigated by other factors.

Prepared by: Mark D. Myers
Division Oil and Gas
Approved by: _____
Agency Natural Resources

Phone 269-8800
Date/Time 5/5/2003
Date 5/1/2003

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. S. CSHB 57(Fin) wk dr

ANALYSIS CONTINUATION

Table 1. Potential Impact of HB 57 on State Royalty Revenue: FY 2003 - 2009

New Gas Produced from Other 3rd-Party Producers - State Lands								
FY	Total	State Leases (1000 Cu. Feet)	Non-State Feet per Year	State Royalty Share	Contract Value (\$ per Mcf)	Royalty Value (\$ per Mcf)	Diff	Potential Royalty Foregone (\$ per Year)
2005	1,728,506	1,728,506	-	230,583	2.00	2.57	0.57	\$0 -to- (130,287)
2006	14,900,000	9,983,000	4,917,000	1,331,732	2.00	2.70	0.70	\$0 -to- (938,763)
2007	32,300,001	21,641,001	10,659,000	2,886,909	2.00	2.84	0.84	\$0 -to- (2,438,869)
2008	39,500,000	26,465,000	13,035,000	3,530,431	2.00	2.98	0.98	\$0 -to- (3,476,367)
2009	44,400,000	29,748,000	14,652,000	3,968,383	2.00	3.12	1.12	\$0 -to- (4,462,725)

Estimated Total Royalty Losses Under New gas Supply 3rd-Party Contracts (FY 2004-09) = **\$0 -to- (11,545,044)**
Total Royalty Losses (Discounted) = **\$0 -to- (7,619,642)**

The analysis in Table 1 illustrates the yearly potential royalty revenue impacts taking into account the decline in gas to be supplied by Unocal to Agrium under a pre-existing contract after FY 2005. The implied yearly gas shortfall during FY 2006-09 is, by assumption, supplemented with new gas from 3rd-party producers. Royalty production from new gas would post date the Act and be eligible for (ee) treatment under HB 57. It is further assumed that Agrium would realize 100 percent of the benefits. Table 1 indicates that the state would forego from \$0-to-\$11.5 million in royalty revenue or about \$0-to-\$1.9 million per year (undiscounted) over the period FY 2004-09. Detailed assumptions used for the estimates in Table 1, plus several sensitivity scenarios, are described below.

Assumptions

1. Annual gas consumption at the fertilizer plant is equal to about 53 billion cubic feet per year (Bcf), based on historic rates of gas usage over the past five years.
2. The analysis in Table 1 draws from the "Annual Contract Quantity" (ACQ) commitments contained in the existing Unocal-Agrium gas supply contract. During the later years of the contract, the ACQ falls from the approximate plant capacity of about 53 Bcf per year in FY 2005 to 9.1 Bcf per year in FY 2009.
3. State leases would account for approximately two-thirds of the total gas usage at the plant from new, 3rd-party gas supply contracts after 2005; the remaining one-third is new gas production from private and federal lands.
4. The average state royalty share for gas dispositions to the plant is 13.34 percent.
5. Royalty value is indexed to the Alaska Department of Revenue prevailing value for Cook Inlet Gas (DOR PV). The Division of Oil and Gas forecasts DOR PV to increase from about \$2.50 per Mcf today, to \$3.12 per Mcf in FY 2009, based on the historic trend observed during 1995-02.
6. The implied gas shortfall in ACQ commitments is made up of new gas from 3rd-party producers but at a cost of \$2.00 per Mcf. This is considerably higher than the current \$1.20 benchmark input gas price in the existing Unocal-Agrium contract.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. S.CSHB57(Fin) wkdr

ANALYSIS CONTINUATION

Sensitivity Analysis

Three alternative gas-supply scenarios are considered. **Case A:** Assume that the average formula-driven, gas-supply contract value is \$2.25 per Mcf instead of \$2.00 (see assumption #6). All else equal, this would lower maximum royalties foregone from \$11.5 million to \$8.5 million. **Case B:** By comparison, if the average formula-driven, gas-supply contract value is \$1.20 per – equal to the current Unocal benchmark – the maximum royalties foregone would nearly double from \$11.5 to 21.3 million.) **Case C:** If the fertilizer plant operates at 75% capacity due to input gas supply shortages from both existing and 3rd-party producers then, assuming \$2.00 per Mcf input gas cost, maximum royalties foregone would fall from \$11.5 million to \$8.7 million. **Cases A and C combined** would reduce cumulative maximum royalties foregone from \$11.5 million to about \$6.4 million.

adopted

23-LS0303\C
Chenoweth
4/23/03

SENATE CS FOR CS FOR HOUSE BILL NO. 57()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Whitaker, Crawford, Heinze, Lynn

A BILL
FOR AN ACT ENTITLED

1 "An Act amending the manner of determining the royalty received by the state on gas
2 production as it relates to the manufacture of certain value-added products."

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

4 * Section 1. AS 38.05.180(bb) is amended to read:

5 (bb) In (aa) and (ee) of this section,

6 (1) "gas or electric utility" includes an electric cooperative organized
7 under AS 10.25, a municipal utility, and a gas or electric utility regulated under
8 AS 42.05; provided that, if the contract gas is transmitted to consumers through a
9 pipeline and the gas utility either owns the pipeline or is related in ownership to the
10 owner of the pipeline, then the gas utility qualifies as a "gas or electric utility" within
11 the meaning of this paragraph only if it is bound or agrees to be bound by the
12 covenants set out in AS 38.35.120;

13 (2) "price for the gas established in the contract" includes tax
14 reimbursement amounts, deliverability and other charges, and other forms of

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1 consideration paid by the gas or electric utility or by the manufacturer of
2 agricultural chemicals, as appropriate, under the contract;

3 (3) "state's royalty share of gas production"

4 (A) includes payments on federal leases made to the state under
5 30 U.S.C. 191;

6 (B) does not include the state's royalty share of gas production
7 from land patented to the state under

8 (i) P.L. 84-830, 70 Stat. 709 (Alaska Mental Health
9 Enabling Act);

10 (ii) 38 Stat. 1214 (Act of March 4, 1915); or

11 (iii) 43 U.S.C. 1635 in settlement of the claims of the
12 state under 38 Stat. 1214.

13 * Sec. 2. AS 38.05.180(bb) is amended by adding a new paragraph to read:

14 (4) "manufacturer of agricultural chemicals" means a person that is a
15 business entity primarily engaging in the manufacturing of nitrogenous and phosphatic
16 based fertilizers, mixed fertilizers, pesticides, and similar chemicals for agricultural
17 purposes.

18 * Sec. 3. AS 38.05.180(cc) is amended to read:

19 (cc) The provisions of (aa) and (ee) of this section do not prohibit the
20 commissioner from accepting any payment on a federal lease tendered by the federal
21 agency responsible for determination and transmittal of the payment to the state under
22 30 U.S.C. 191 or otherwise due the state as the state's royalty share of gas production
23 irrespective of the state's acceptance of an amount that is different than the amount
24 due under the lease [THE USE OF THE CONTRACT PRICE] for purposes of
25 determining royalty share on gas production under that subsection.

26 * Sec. 4. AS 38.05.180 is amended by adding a new subsection to read:

27 (ee) For a contract that is entered into on or after the effective date of this Act,
28 within 90 days after the written request of a lessee of a lease issued under this section
29 or of a lessee of federal land from which the state is entitled under applicable federal
30 law to receive a share of the royalty on gas production, in order to establish the value
31 of the state's royalty share of gas production sold by the lessee under the contract, the

1 commissioner may enter into an agreement with the lessee to use or accept as a price
2 for the gas an amount that is not less than the price established in the contract between
3 the lessee and a manufacturer of agricultural chemicals, not to exceed the amount that
4 would otherwise be due under the lease. The commissioner may enter into the
5 agreement if it is in the best interest of the state

6 (1) only if the primary function of the manufacturer is to engage in the
7 production of a value-added product, and the manufacturer with which the lessee has
8 entered into the contract is not affiliated with the lessee or with a subsequent purchaser
9 of more than 10 percent of the manufacturer's value-added product; for purposes of
10 this paragraph, the parties to a contract or purchase are affiliated if, in the judgment of
11 the commissioner, one of the parties to the contract or purchase exercises substantial
12 influence over the policies and actions of the other as evidenced by relationship based
13 on common ownership or family interest or by action taken in concert without regard
14 to whether that influence is based upon stockholdings, stockholders, officers, or
15 directors;

16 (2) unless the commissioner makes a written finding, based on clear
17 and convincing evidence, that

18 (A) the contract price is unreasonably low; or

19 (B) the prospective reduction in royalty receipts would not be
20 balanced by employment opportunities or other tangible benefits to the state.

21 * Sec. 5. The uncoded law of the State of Alaska is amended by adding a new section to
22 read:

23 **APPLICABILITY.** The provisions of this Act apply to determine the price received
24 by the state on royalty gas production as it relates to the sale of the gas to a manufacturer of
25 agricultural chemicals based on contracts under AS 38.05.180(ee) that are entered into on or
26 after the effective date of this Act.



Alaska State Senate

Senate Finance Committee

Official Business

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

FAX COVER SHEET

DATE: 14 May 2003 TIME: 10:15 am

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: SCS CS HB 57 23-LS0303/C
Chenoweth 4/23/03

no changes

Final Please

Thx
Mindy

STATE OF ALASKA

REPRESENTATIVE
MIKE CHENAULT

Official Business

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145 Main St. Loop, Second Floor
Kenai, Alaska 99611
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Fax: (907) 283-3075

Session:
Capitol Building, Room 432
Juneau, Alaska 99801-1182
(907) 465-3779
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Fax: (907) 465-2833

HOUSE OF REPRESENTATIVES

HB 57 SPONSOR STATEMENT

This bill adds a new subsection to AS 38.05.180 (aa) which allows the commissioner to enter into an agreement with the producer to use or accept as a price for the gas an amount that is not less than the price established in the contract (between the producer and the manufacturer of agricultural chemicals) and the highest prevailing price being paid for natural gas in the area. What this does is allow the agricultural manufacturer, along with the producer, to know early on what the price will be for the gas being purchased from the state's royalty share and give "certainty in price".

Secondly, it amends current statute and gives the commissioner more discretion to reject an agreement between a producer and manufacturer. The commissioner may enter into an agreement if it is in the State's best interest and he finds:

1. The manufacturer and producer are not affiliated (one party exercises substantial financial interest over another);
2. He makes a written finding based on clear and convincing evidence that
 - a. the price is unreasonably low; or
 - b. that the royalty receipts would not be balanced by employment opportunities or other tangible benefits.

The House passed bill and the Senate Committee Substitute are the same in that, once adopted, the law would only apply to new contracts, not any existing contracts; the definition of manufacturing of agricultural chemicals is the same; and it will help provide certainty in price.

This policy is consistent with policies adopted by the State of Alaska. During the 22nd Legislature (2001) the state adopted AS 44.99.100: Declaration of state economic development policy. In part this policy states:

"To take advantage of investment opportunities afforded by Alaska's abundant natural resources and productive capacity, the state should undertake activities that serve as a catalyst to responsible economic development..."

"It is the policy of the state to encourage 'value-added' processing in the state..."

Thirdly, this should help accelerate exploration and production in the Cook Inlet.

STATE OF ALASKA

**REPRESENTATIVE
MIKE CHENAULT**

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145 Main St. Loop, Second Floor
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HOUSE OF REPRESENTATIVES

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SPONSOR STATEMENT **HOUSE BILL 57**

This bill proposes to add "manufacturer" as a further entity that may claim that benefit of the contract price as the basis for determining royalty due to the state of the gas production.

North Peninsula Chamber of Commerce

P.O. Box 8053 • Nikiski, Alaska 99635

NIKISKI IS ON THE MOVE...



April 7, 2003

RESOLUTION 2003-001

A RESOLUTION IN SUPPORT OF "AN ACT AMENDING THE MANNER OF DETERMINING THE ROYALTY RECEIVED BY THE STATE ON GAS PRODUCTION AS IT RELATES TO THE MANUFACTURE OF CERTAIN VALUE ADDED PRODUCTS"

WHEREAS, the manufacturing of value added resources in the State of Alaska serve as a catalyst to economic development in Alaska; and

WHEREAS, one of the state's premier value added manufacturing industries is located on the Kenai Peninsula; and

WHEREAS, this industry, Agrium Kenai Nitrogen Operations, is exceptional for its combination of high pay levels, amount and concentration of expenditures in Alaska; and

WHEREAS, Agrium Kenai Nitrogen Operations is one of the few industries adding value to Alaska's natural resources using Cook Inlet natural gas to create anhydrous ammonia and two forms of urea; and

WHEREAS, Agrium Kenai Nitrogen Operations purchases natural gas from producers in Cook Inlet; and

WHEREAS, Agrium Kenai Nitrogen Operations markets its products around the world competing against major world competition which is primarily based upon the monetization of trapped gas resources; and

WHEREAS, Agrium Kenai Nitrogen Operations is the Kenai Peninsula's third largest private employer and accounts for an additional 700 jobs in Alaska and the Kenai Peninsula; and

WHEREAS, Agrium Kenai Nitrogen Operations expenditures in Alaska are spread to over 250 businesses statewide with 118 companies located on the Kenai Peninsula; and

WHEREAS, House Bill 57 has been introduced which will provide for the State of Alaska to enter into agreements with non-affiliated natural gas producers to accept as the price for the State's royalty share the price established in an arm's length contract negotiated between the natural gas producer and a manufacturer of value added products; and

North Peninsula Chamber of Commerce
Resolution 2003-001

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE
NORTH PENINSULA CHAMBER OF COMMERCE:**

SECTION 1: That the North Peninsula Chamber of Commerce urges the 23rd Alaska State Legislature to enact HB 57, "An Act Amending The Manner Of Determining The Royalty Received By The State On Gas Production As It Relates To The Manufacture Of Certain Value Added Products."

SECTION 2: That copies of this resolution shall be sent to all members of the 23rd Alaska State Legislature.

SECTION 3: That this resolution takes effect immediately upon its enactment.

**ADOPTED BY THE BOARD OF DIRECTORS OF THE NORTH PENINSULA CHAMBER OF
COMMERCE THIS DAY OF MARCH 2003.**

Signed:

**Fred A. Miller
President**

Introduced by: Superman
Date: 04/01/03
Action: Adopted
Vote: 8 Yes, 0 No, 1 Absent

**KENAI PENINSULA BOROUGH
RESOLUTION 2003-035**

**A RESOLUTION SUPPORTING THE PASSAGE OF SENATE BILL 136 AND SIMILAR
LEGISLATION WHICH RAISES THE CURRENT OPTIONAL RESIDENTIAL TAX
EXEMPTION FROM \$10,000 TO \$50,000**

WHEREAS, AS 29.45.050 authorizes municipalities to implement various property tax exemptions; and

WHEREAS, the \$10,000 maximum residential property exemption authorized by AS 29.45.050(a) has remained unchanged since 1974; and

WHEREAS, of the five Alaska municipalities offering this tax exemption, the Kenai Peninsula Borough is the only one to also levy a sales tax; and

WHEREAS, the two percent sales tax levied by the Kenai Peninsula Borough has kept the mill rate to a minimum, thus allowing the State to retain a greater share of the AS 43.56 (Oil and Gas Property) revenues; and

WHEREAS, in October 2002, the voters of the Kenai Peninsula Borough defeated a ballot proposition that would have exempted food from sales tax; and

WHEREAS, over the last decade, property owners have seen a substantial rise in assessed valuations, thereby increasing their tax bills by fifty to one hundred percent in some areas; and

WHEREAS, an increase in the Residential Property Tax Exemption will minimally affect state revenues and should be left to the discretion of the local governing body; and

WHEREAS, a minimal and stable tax rate is a primary factor in residential and economic development; and

WHEREAS, the Kenai Peninsula Borough Assembly has identified an increase in residential property tax exemptions as one of its 2003 legislative priorities; and

WHEREAS, SB 136 and similar legislation will provide a discretionary tax relief mechanism that will benefit bonafide full time residential homeowners;

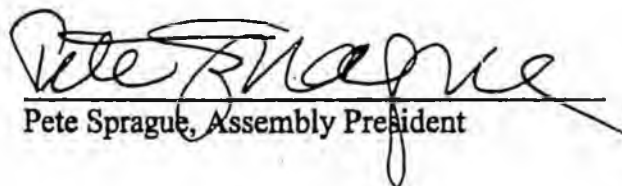
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

SECTION 1. That the Kenai Peninsula Borough Assembly urges the 23rd Alaska State Legislature to enact SB 136, increasing the optional residential property exemption from \$10,000 to \$50,000.

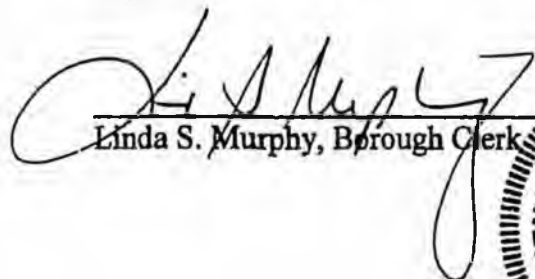
SECTION 2. That copies of this resolution shall be provided to Senators Con Bunde, Georgiana Lincoln, Gary Stevens and Tom Wagoner, and to Representatives Mike Chenault, Mike Hawker, Carl Morgan, Paul Seaton and Kelly Wolf.

SECTION 3. That this resolution shall take effect upon its adoption.

ADOPTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 1ST DAY OF APRIL, 2003.


Pete Sprague, Assembly President

ATTEST:


Linda S. Murphy, Borough Clerk



SOLDOTNA CHAMBER OF COMMERCE

RESOLUTION 2003-02

A RESOLUTION IN SUPPORT OF "AN ACT AMENDING THE MANNER OF DETERMINING THE ROYALTY RECEIVED BY THE STATE ON GAS PRODUCTION AS IT RELATES TO THE MANUFACTURE OF CERTAIN VALUE ADDED PRODUCTS"

WHEREAS, the manufacturing of value added resources in the State of Alaska serve as a catalyst to economic development in Alaska; and

WHEREAS, one of the state's premier value added manufacturing industries is located on the Kenai Peninsula; and

WHEREAS, this industry, Agrum Kenai Nitrogen Operations, is exceptional for its combination of high pay levels, amount and concentration of expenditures in Alaska; and

WHEREAS, Agrum Kenai Nitrogen Operations is one of the few industries adding value to Alaska's natural resources using Cook Inlet natural gas to create anhydrous ammonia and two forms of urea; and

WHEREAS, Agrum Kenai Nitrogen Operations purchases natural gas from producers in Cook Inlet; and

WHEREAS, Agrum Kenai Nitrogen Operations markets its products around the world competing against major world competition which is primarily based upon the monetization of trapped gas resources; and

WHEREAS, Agrum Kenai Nitrogen Operations is the Kenai Peninsula's third largest private employer and accounts for an additional 700 jobs in Alaska and the Kenai Peninsula; and

WHEREAS, Agrum Kenai Nitrogen Operations expenditures in Alaska are spread to over 250 businesses statewide with 115 companies located on the Kenai Peninsula; and

WHEREAS, House Bill 57 has been introduced which will provide for the State of Alaska to enter into agreements with non-affiliated natural gas producers to accept as the price for the State's royalty share the price established in an arm's length contract negotiated between the natural gas producer and a manufacturer of value added products; and

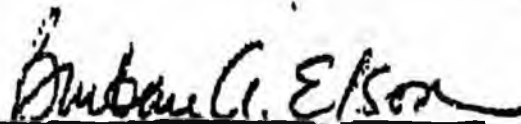
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SOLDOTNA CHAMBER OF COMMERCE:

SECTION 1: That the Soldotna Chamber of Commerce urges the 23rd Alaska State Legislature to enact HB 57, "An Act Amending The Manner Of Determining The Royalty Received By The State On Gas Production As It Relates To The Manufacture Of Certain Value Added Products."

SECTION 2: That copies of this resolution shall be sent to all members of the 23rd Alaska State Legislature.

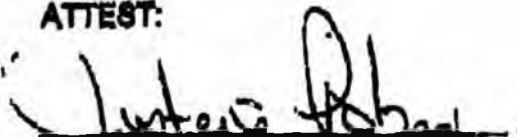
SECTION 3: That this resolution takes effect immediately upon its enactment.

ADOPTED BY THE BOARD OF DIRECTORS OF THE SOLDOTNA CHAMBER OF COMMERCE THIS 14th Day of MARCH 2003.



Barbara Elson, President

ATTEST:


Justine Polata, Executive Director

CITY OF SOLDOTNA
RESOLUTION 2003-17
(Requested by Council Member McLane)

A RESOLUTION SUPPORTING HOUSE BILL 57, AN ACT AMENDING THE MANNER OF DETERMINING THE ROYALTY RECEIVED BY THE STATE ON GAS PRODUCTION AS IT RELATES TO THE MANUFACTURE OF CERTAIN VALUE ADDED PRODUCTS

WHEREAS, the manufacturing of value added resources in the State of Alaska serves as a catalyst to economic development in Alaska; and

WHEREAS, one of the state's premier value added manufacturing industries is located on the Kenai Peninsula; and

WHEREAS, this industry, Agrium Kenai Nitrogen Operations, is exceptional for its combination of high pay levels, amount and concentration of expenditures in Alaska, and Agrium Kenai Nitrogen Operations is one of the few industries adding value to Alaska's natural resources using Cook Inlet natural gas to create anhydrous ammonia and two forms of urea; and

WHEREAS, Agrium Kenai Nitrogen Operations purchases natural gas from producers in Cook Inlet and markets its products around the world competing against major world competition which is primarily based upon the monetization of trapped gas resources; and

WHEREAS, Agrium Kenai Nitrogen Operations is the Kenai Peninsula's third largest private employer and accounts for an additional 700 jobs in Alaska and the Kenai Peninsula, and

WHEREAS, Agrium Kenai Nitrogen Operations' expenditures in Alaska are spread to over 250 businesses statewide with 118 companies located on the Kenai Peninsula; and

WHEREAS, House Bill 57 has been introduced which will provide for the State of Alaska to enter into agreements with non-affiliated natural gas producers to accept as the price for the State's royalty share the price established in an arm's length contract negotiated between the natural gas producer and a manufacturer of value added products;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SOLDOTNA, ALASKA:

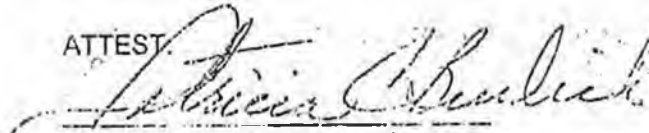
Section 1. The Soldotna City Council urges the 23rd Alaska State Legislature to enact HB 57, "An Act Amending the Manner of Determining the Royalty Received by the State on Gas Production as it Relates to the Manufacture of Certain Value Added Products".

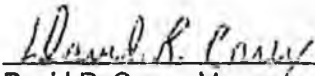
Section 2. Copies of this resolution shall be sent to all members of the 23rd Alaska State Legislature.

Section 3. This resolution shall take effect immediately upon adoption.

ADOPTED this 26th day of February, 2003.

ATTEST:


Patricia C. Burdick, CMC, City Clerk


David R. Carey, Mayor

Suggested by: City Council

CITY OF KENAI

RESOLUTION 2003-08

A RESOLUTION OF THE COUNCIL OF THE CITY OF KENAI, ALASKA SUPPORTING HB57, "AN ACT AMENDING THE MANNER OF DETERMINING THE ROYALTY RECEIVED BY THE STATE ON GAS PRODUCTION AS IT RELATES TO THE MANUFACTURE OF CERTAIN VALUE ADDED PRODUCTS."

WHEREAS, Agrium Kenai Nitrogen Operations is exceptional for its combination of high pay levels, amount and concentration of expenditures in Alaska; and,

WHEREAS, Agrium Kenai Nitrogen Operations is one of the few industries adding value to Alaska's natural resources using Cook Inlet natural gas to create anhydrous ammonia and two forms of urea; and,

WHEREAS, Agrium Kenai Nitrogen Operations purchases natural gas from producers in Cook Inlet; and,

WHEREAS, Agrium Kenai Nitrogen Operations markets its products around the world competing against major world competition which is primarily based upon the monetization of trapped gas resources; and,

WHEREAS, Agrium Kenai Nitrogen Operations is the Kenai Peninsula's third largest private employer and accounts for an additional 700 jobs in Alaska and the Kenai Peninsula; and,

WHEREAS, Agrium Kenai Nitrogen Operations expenditures in Alaska are spread to over 250 businesses statewide with 118 companies located on the Kenai Peninsula; and,

WHEREAS, House Bill 57 has been introduced which will provide for the State of Alaska to enter into agreements with non-affiliated natural gas producers to accept as the price for the State's royalty share the price established in an arm's length contract negotiated between the natural gas producer and a manufacturer of value added products, like Agrium Kenai Nitrogen Operations.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, the following:

Section 1: The Kenai City Council urges the 23rd Alaska State Legislature to enact HB 57, "An Act Amending the Manner of Determining the Royalty Received by the State on Gas Production as it Relates to the Manufacture of Certain Value Added Products."

Section 2: Copies of this resolution shall be sent to all members of the 23rd Alaska State Legislature.

Section 3: This resolution takes effect immediately upon its enactment.

PASSED BY THE COUNCIL OF THE CITY OF KENAI, ALASKA, this 19th day of February, 2003.

ATTEST:

Carol L. Freas
Carol L. Freas, City Clerk

John J. Williams
JOHN J. WILLIAMS, MAYOR



Kenai Chamber of Commerce
402 Overland
Kenai, Alaska 99611

(907) 283-7989
(907) 283-7183 (Fax)

RESOLUTION 2003-01

A RESOLUTION IN SUPPORT OF "AN ACT AMENDING THE MANNER OF DETERMINING THE ROYALTY RECEIVED BY THE STATE ON GAS PRODUCTION AS IT RELATES TO THE MANUFACTURE OF CERTAIN VALUE ADDED PRODUCTS"

WHEREAS, the Kenai Chamber of Commerce has over 350 business members, and

WHEREAS, the manufacturing of value added resources in the State of Alaska serve as a catalyst to economic development in Alaska; and

WHEREAS, one of the state's premier value added manufacturing industries is located on the Kenai Peninsula; and

WHEREAS, this industry, Agrium Kenai Nitrogen Operations, is exceptional for its combination of high pay levels, amount and concentration of expenditures in Alaska; and

WHEREAS, Agrium Kenai Nitrogen Operations is one of the few industries adding value to Alaska's natural resources using Cook Inlet natural gas to create anhydrous ammonia and two forms of urea; and

WHEREAS, Agrium Kenai Nitrogen Operations purchases natural gas from producers in Cook Inlet; and

WHEREAS, Agrium Kenai Nitrogen Operations markets its products around the world competing against major world competition which is primarily based upon the monetization of trapped gas resources; and

WHEREAS, Agrium Kenai Nitrogen Operations is the Kenai Peninsula's third largest private employer and accounts for an additional 700 jobs in Alaska and the Kenai Peninsula; and

WHEREAS, Agrium Kenai Nitrogen Operations expenditures in Alaska are spread to over 250 businesses statewide with 118 companies located on the Kenai Peninsula; and

WHEREAS, House Bill 57 has been introduced which will provide for the State of Alaska to enter into agreements with non-affiliated natural gas producers to accept as the price for the State's royalty share the price established in an arm's length contract



Kenai Chamber of Commerce
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Kenai, Alaska 99611

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negotiated between the natural gas producer and a manufacturer of value added producers; and

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE KENAI CHAMBER OF COMMERCE:

SECTION 1: That the Kenai Chamber of Commerce urges the 23rd Alaska State Legislature to enact HB 57, "An Act Amending The Manner Of Determining The Royalty Received By The State On Gas Production As It Relates To The Manufacture Of Certain Value Added Products."

SECTION 2: That copies of this resolution shall be sent to all members of the 23rd Alaska State Legislature and Governor Frank Murkowski.

SECTION 3: That this resolution takes effect immediately upon its enactment.

UNANIMOUSLY PASSED BY THE KENAI CHAMBER OF COMMERCE OF THE CITY OF KENAI ALASKA, this 7th day of February, 2003.

Cherie L. Brewer

Cherie L. Brewer
Chamber Board President

To: Pete Sprague, Assembly President

Assembly Members

Thru: Dale L. Bagley, Mayor

From: Bill Popp, Oil & Gas Liaison

Date: February 6th, 2003

Subject: House Bill 57 and Senate Bill 50

The Administration requests the support of the Assembly for House Bill 57 and Senate Bill 50. These companion pieces of legislation would allow the Commissioner of the Department of Natural Resources the discretion to enter into agreements with non-affiliated natural gas producers to accept as the price for the State's royalty share of natural gas the price established in an arm's length contract negotiated between the natural gas producer and Agrium Kenai Nitrogen Operations and any other manufacturer that uses Alaska natural gas to create value added products. Currently, under AS 38.05.180, this type of fixed royalty pricing arrangement is allowed only for public electrical utilities as a means of offering price certainty for natural gas for use in power generation.

Traditionally, the State of Alaska usually takes 12.5% of most produced natural gas as its royalty share of the resource, most of which is sold through an "in-kind" agreement where the producer acts as the selling 'agent' for the State. Further, the State of Alaska maintains an expectation that it will receive the highest prevailing value for its royalty share of natural gas sold. This value is calculated on a quarterly basis. Using this method has resulted in broad fluctuations in the value of royalty natural gas.

Agrium has requested this legislation to provide for a more stable cost structure for the natural gas it relies on as a feedstock for its Nikiaki facility. Under the current system, Agrium faces the potential for broad future price swings and retroactive royalty payment demands from the State for past royalty payment adjustments. This lack of price certainty makes it very difficult for Agrium to establish sound business planning for future production and capital investments.

It should be noted that the proposed legislation will apply to any non-affiliated manufacturer of value-added products that use natural gas as a feed stock. Affiliated companies such as the ConocoPhillips LNG facility, where the supplier of natural gas also owns the value-added manufacturing facility, will not qualify for this kind of royalty gas pricing agreement.

>>> "G. Scott Pfoff" <gpspfoff@aurorapower.com> 02/11/08 10:14AM >>>
To whom it may concern,

Aurora Gas, LLC is aggressively pursuing the development of natural gas producing properties, primarily on the West side of Cook Inlet. Oil and Gas exploration and development is a high cost, high risk endeavor. As a producer looking to market our natural gas, there is great hesitation to enter into a gas sales agreement with a purchaser such as Agrium because it adds yet another layer of risk to the producer. A producer selling gas to Agrium runs the risk, in fact the probability, that several years after selling its gas to Agrium, the State will assert a claim that royalty needs to be paid on a value higher than the arms length negotiated contract price. This additional royalty, plus interest accrued at a higher-than-market rate, would have to be born by the producer and/or by the purchaser.

It is for this reason that Aurora Gas, LLC and its natural gas marketing affiliate, Aurora Power Resources, Inc. strongly endorse HB57 and the concept that royalty should be paid on the basis of arms length negotiated contract prices. Accordingly, we salute and support the draft resolution in support of HB57 and urge the Kenai City Council to adopt same.

G. Scott Pfoff
President,
Aurora Power Resources, Inc
(713) 977-5789

March 31, 2003

To Whom It May Concern,

Pelican Hill Oil & Gas, Inc. is an independent oil and gas company with a history of successful operations in Kansas. We are now actively pursuing the exploration and development of oil and natural gas prospects on our leases in the Cook Inlet Basin. These are primarily gas prospects on the West Side of the inlet.

For all operators, and especially the smaller independent companies like Pelican Hill, the investment of time, money and resources that are required by such exploratory ventures can only be compensated by the prospect of discovering volumes of natural gas that are economically viable. There is always an inherent amount of risk associated with such ventures and the operator is never assured that original investment will ever be returned, let alone any profit from the ventures if oil or gas are discovered. Upon discovery of such deposits, the immense amount of risk involved may significantly decrease as development operations continue.

Entering into a gas sales agreement with a gas purchaser should not involve an amplification of the inherent risk for the producer or the purchaser that may arise long after a sales agreement has been executed and production has been initiated. This type of amplified risk would accompany any sales agreement between Pelican Hill Oil & Gas, Inc. and Agrium U.S. Inc, should this practice be applied. Solidifying an agreement with a purchaser must be accomplished without the likelihood of future State of Alaska royalty claims. Such claims made at a later date due to higher subsequent gas prices than those initially negotiated in an arms length contract is not a desired situation. In that case the royalty, as well as the interest the State would claim

The potential for this scenario to occur is high and would be a mitigating factor for Pelican Hill or any other producer to not enter into a gas sales agreement with Agrium.

For this reason, Pelican Hill Oil & Gas, Inc. endorses HB 57 entirely. We further endorse the concept that royalties should be paid on the original arms length negotiated contract foundation without any financially devastating changes. We soundly support draft resolution HB 57 and urge you to do the same.

Allen J. Gross
President
Pelican Hill Oil & Gas, Inc.
(949) 498-2101



The Alaska Farm Bureau



Colleen Wright, Project Coordinator
Post Office Box 55149 Fax: (907) 488-6179
North Pole, AK 99705-0149 E-mail: akfarmus@hotmail.com
or cwrite@ptialaska.net

Robert Franklin, President
Fax: (907) 488-3184
E-mail: akbfrank@gci.net

March 27, 2003

Representative Charles Chenault
Fax 465-2833

Dear Representative Chenault,

HB 57, commonly referred to as the "Agrium bill", would provide for consideration in the price paid for natural gas used in the production of agriculture fertilizer. Agrium and its predecessors have provided a valuable service to the agriculture industry in Alaska. The Alaska Farm Bureau supports the efforts of this legislation in maintaining the operation of a fertilizer production plant in Alaska.

There are other "tangible benefits", as noted in Section 1aa(2)Bii, that should be considered in the legislation. In Alaska, fertilizer accounts for about 25% of the cost of production for crops. About half of the fertilizer that is used is in the form of urea as produced by the Agrium facility. The price paid by Alaska farmers for urea has a significant impact on the profitability of agriculture.

When that fertilizer plant was originally built, the Kenai Borough provided tax relief for a period of time. One of the considerations during that period of tax relief was a substantial reduction or waiver of price for urea fertilizer sold to Alaska farmers. That offering of good will had a minimal impact on the cost of operations but it provided enormous help to agriculture in Alaska.

If the State provides relief to Agrium in the cost of natural gas, it would be appropriate to include a provision that reduces the cost of urea sold to Alaska farmers. The amount of fertilizer sold in Alaska is extremely small compared to their total production and the effect on their cost of operations would be insignificant. On the other hand, the good will would be positive and the economic benefit to Alaska agriculture would be substantial.

I would request that you add language to HB57 that provides a price reduction for fertilizer sold in Alaska for agriculture production. Feel free to contact me if you have any questions or need additional information.

Signed:

Robert Franklin - pres.
Phone 488-7738

SENATE FINANCE COMMITTEE

SIGN-IN

HB 57-ROYALTY GAS CONTRACTS

NAME: LISA PARKER Subject/Bill No: HB 57
Co./Dept./Title: AGRIUM Phone: 902-776-3275
Address: PO Box 575 KENNA Zip: 99611

Do you wish to testify? Yes No Respond To Questions

NAME: Jim Calvin Subject/Bill No: HB 57
Co./Dept./Title: McDowell Group Phone: 907-586-6126
Address: PO Box 21009 Juneau Zip: 99802

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond To Questions

SENATE FINANCE COMMITTEE

SIGN-IN

HB 57-ROYALTY GAS CONTRACTS

NAME: LISA PARKER Subject/Bill No: _____
Co./Dept./Title: AGRIUM Phone: 907-776-3275
Address: PO Box 575 KENAI Zip: 99611
Do you wish to testify? Yes No Respond To Questions

NAME: MARK MYERS Subject/Bill No: 3.57
Co./Dept./Title: DNR/OSB Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions

NAME: _____ Subject/Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____
Do you wish to testify? Yes No Respond To Questions