

ALASKA LEGISLATURE

1719

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998

Alaska State Legislature

REPRESENTATIVE
GENE THERRIAULT

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, Alaska 99701
(907) 488-0857
FAX: (907) 488-4271



While in Session
State Capitol
Juneau, Alaska
99801-1182
(907) 465-4797
Fax: (907) 465-3884

House Of Representatives

House District 33

CSHB 462 (STA)

"An Act relating to the contents of certain state documents."

Sponsor

Representative Gene Therriault

Sponsor Statement

House Bill 462 is designed to curtail the increasingly prevalent practice of using state publications to further personal political agendas. HB 462 would place a number of these publications off-limits to state officials for personal purposes. In the past, these documents have been used to disseminate legitimate programmatic and deadline information, but I believe have deteriorated recently into materials used primarily for self promotion. While any elected official would relish the opportunity to send political and personal messages to the electorate at state expense, this sort of message should be restricted to individual stationary or newsletter format purchased through the appropriate budgets. The use of routine publications for this has the potential of politicizing the underlying programs.

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House Of Representatives

House District 33

CSHB 462 0-LS1527H 3/20/98

"An act relating to state publications and documents"

SPONSOR: Representative Gene Therriault

Sectional Analysis

Section 1

Amends AS 44.99 by adding a new section that prohibits state agencies from placing a picture of an elected state official on an application form, warrant, or direct deposit notice provided by the agency. It prohibits elected state officials from placing a message on or with an application form, warrant, or a direct deposit notice provided by an agency, and limits messages from state agencies to those required by law, necessary for the operation of the document, related to seasonal health issues, or limited to stating the requirements or deadlines of a program or activity of a state agency.

The bill defines "elected state official" as the governor, lieutenant governor, a lieutenant governor who serves as acting governor or who succeeds to the office of the governor, or a legislator, including a person who has been appointed a member of the legislature by the governor to fill a vacancy in the legislature.

Inappropriate

May 1996

Legislators left Juneau without performing their most basic responsibility - passing a balanced budget. The result is a gaping \$400 million hole in the budget and cuts to vital programs, including such medical services for the elderly such as eyeglasses, hearing aids and acute dental care.

Alaskans Deserve better. I am urging your lawmakers to adopt my Safe Landing Budget Plan that balances the budget in three years and also protects your basic services.

Dear Longevity Bonus Recipient:

Last month my administration put forth the 1997 Capital Budget which includes millions of dollars worth of capital budget requests for construction of senior citizen housing and renovations to existing structures.

Pioneer's Homes in Ketchikan, Sitka, Juneau, Anchorage, Palmer and Fairbanks will see \$2.1 million dollars in repairs and renovations. More than \$6 million is earmarked for the Golden Towers housing complex in Fairbanks. I have allocated \$3.5 million for construction of assisted living centers and \$4 million for deferred maintenance projects.

I want to keep senior housing safe and accessible. I am counting on the legislature to pass my proposed Capital Budget plan during this legislative session.

Sincerely,
tk

February 1996

Dear Longevity Bonus Recipient:

Our greatest challenge this legislative session is to navigate Alaska's economy toward a safe economic landing. I believe any long-term budget plan must be based on five principles. We must close the budget gap and balance our budget. We must continue to cut the budget. We must protect and enlarge the Permanent Fund. Any plan to raise taxes and fees to pay for our essential services must be fair. And finally, there must be no tinkering without a vote of the people.

We can make Alaska a better place for our families. Lets work together to make this safe landing successful. Lets eliminate the budget gap in the next six years!

Sincerely,
tk

July 1996

Dear Longevity Bonus recipient:

I recently signed a new law that should interest you, Senate Bill 304, which becomes effective July 1. The new law will permanently disqualify a bonus recipient who is absent from the state for 180 days or more in any 12-month period. But it also allows you to take a sabbatical from the state for up to a year without losing eligibility. You would not receive the bonus while out of state but would still be eligible upon your return to Alaska. Remember that you must notify the department 30 days in advance of starting the sabbatical. The Longevity Bonus staff will be sending more information soon, but I wanted to give you an early heads up to this important change.

Sincerely,
Governor Tony Knowles

September 1997

Dear Longevity Bonus Recipient,

September is not too early to begin preventative winter health care. Flu shots should be available free from any medical provider that accepts Medicare. Check with your doctor.

Thanks to all of you who took the time to speak with me this summer while I visited communities from Barrow to Ketchikan, from Fairbanks to Emmonak. Your words of wisdom have meant much to me.

Sincerely,
Governor Tony Knowles

appropriate

inappropriate

Appropriate

August 1997

Dear Longevity Bonus Recipient,

The Longevity Bonus checks are mailed on the last working day of every month. Please allow sufficient time for the mail to reach your area. It is not unusual for checks mailed to one address to arrive on different days. If you have not received your payment by the 15th of the month please call the Longevity Bonus office at 907 465 4416 and one of the technicians will advise you of your options.

Sincerely,
The Longevity Bonus Staff

1998

PERMANENT FUND

Dividend Application Booklet

Dear Alaskan,

The booklet you hold is unique. It represents your opportunity to directly benefit from an Alaska program whose success is the envy of every state and province in North America. Others have tried, but none have equaled the stability and growth of our Alaska Permanent Fund. I'm pleased to present your application to share in the benefits of Alaska's publicly owned resources.

Over \$23 billion has been saved in the Permanent Fund since it was started more than 20 years ago. This program helps Alaska to maintain a stable statewide economy and provides a source of great pride and security for all of us, for our children, and for generations to come.

My family, like yours, has benefited from receiving the Permanent Fund dividend that has been paid annually since 1982. It's money Alaska's families can use to buy important household goods and services or to save for a college education.

Be sure to fill out your application today, and if you know someone who might need help with this application, please lend a hand. The deadline for filing is Tuesday, March 31, 1998.

Sincerely,

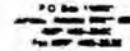


Tony Knowles
Governor

PS. The Knowles Administration is working to make the application process easier and more efficient. If you have questions or comments, please contact the dividend information office nearest you (see page 2 for telephone numbers). And don't forget, the deadline to file is March 31!

1997 \$1286.54

Your Permanent Fund Dividend Program 1997 Household Application Booklet



Dear Alaskan,

One of the best things about being Governor is this chance to send you your application for the Permanent Fund Dividend. It's a unique program that lets all of us share the benefits of our publicly owned resources. I'm especially pleased this year to join other Alaskans in celebrating the 20th anniversary of the Permanent Fund. We should all be proud of the \$10 billion we've set aside so far to help keep our economy stable in the days of declining state revenues.

I have asked the folks at the Dividend Division to find better ways to serve you in the years ahead. They are exploring taking applications by computer or telephone, and are considering other streamlining ideas. It's my commitment to make the process easier, more efficient and understandable for everyone. Please note that this booklet also contains a voter registration application. If you need to register or update your voter registration address, please take this opportunity to do so. If you have questions about any part of this booklet, contact the dividend information office nearest you (see Page 2 for telephone numbers).

Our Permanent Fund is one of the most successful public policy programs in the world today. As we mark this special anniversary, let us also reaffirm the commitment of all Alaskans to protect the Fund for future generations.

Sincerely,

Tony Knowles
Governor

15 YEARS OF PERMANENT FUND DIVIDENDS

Year	Amount	Year	Amount
1982	\$1,000.00	1990	.952.63
1983	.386.13	1991	.931.34
1984	.331.29	1992	.915.84
1985	.404.00	1993	.949.46
1986	.556.26	1994	.983.90
1987	.708.14	1995	.990.30
1988	.826.93	1996	1,130.68
1989	.873.16		

Application Deadline March 31, 1997

Alaska Permanent Fund Dividend ^{5/16/89}
1989 Household Application Booklet
Filing Deadline: June 30, 1989

Applicants are responsible for filing by the deadline.

Dear Alaska Resident:

Here is the form you need to apply for a 1989 Permanent Fund Dividend. These dividends come from a portion of the earnings of the Alaska Permanent Fund. The Permanent Fund was created by the voters in 1976 to save part of the oil revenues for every Alaskan, now and in the future. Permanent Fund Dividends are a direct return to Alaskans from the Permanent Fund which they own.

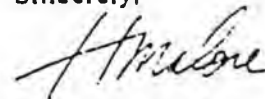
The dividend program has several purposes. The dividends help Alaska's economy. Since the program began in 1982, more than \$2.1 billion has been paid directly to Alaska residents. The dividends give each Alaskan a personal reason to support the Permanent Fund, to make sure that we continue to save for the future. The dividends put the Permanent Fund in the public eye. This "watchdog" effect helps protect the Fund, and is welcomed by the Fund's managers.

The 1988 dividend was \$826.93. The 1989 dividend amount will be announced October 1.

The Department of Revenue is proud to pay dividends each year to qualified Alaskans who apply. Before you apply for the dividend, carefully read the instructions in this booklet. Then answer each question truthfully. Those who are not honest in their answers are prosecuted for fraud.

Alaskans should take pride in the prudence they have shown in creating and maintaining their Permanent Fund. Permanent Fund Dividends are the rewards Alaskans reap every year for their foresight.

Sincerely,



Hugh Malone, Commissioner

Need Help? Contact one of our offices:

JUNEAU - Phone 465-2326
Alaska Department of Revenue
Dividend Information Office
State Office Building, 11th Floor
P.O. Box S-0464
Juneau, Alaska 99811-0464

ANCHORAGE
1016 West 6th Avenue
Phone (907) 276-2678

FAIRBANKS
675 Seventh Avenue
Phone (907) 451-2820

NEED MORE FORMS? You may pick up dividend forms at the Revenue offices listed above. Forms are also available at each Office of the Governor, Legislative Information Office, and city clerk's office. If you prefer to write, please send your request to the Juneau Dividend Information Office.

Alaska Department of Revenue

67-11-11-11

Filing Deadline: June 30, 1992

Dear Alaskans:

Under the Alaska Constitution, the natural resources of Alaska belong to the people of Alaska, not to state officials. As such, we have an ownership share in the revenues generated from those natural resources and placed in the Permanent Fund.

Permanent Fund dividends are the way that we, the owners, share in the Permanent Fund's earnings. They are a natural outgrowth of the owner-ship.

Dividends give each resident of Alaska a personal reason to guard and to build the Permanent Fund, and to keep watch on how the Fund is managed.

- Since 1982, when the dividends began, over \$3.5 billion has been injected into Alaska's economy. This has created thousands of new jobs and provided many families with income for basic needs. Dividends now add more to our economy than the seafood industry, construction, or the combined effects of agriculture, mining and tourism.
- Since 1982, the typical Alaska family of four has received \$27,880 in dividends.
- The amount of the 1992 dividend will be announced Thursday, October 1, 1992.

Permanent Fund Dividend

Year	Amount
1982	\$1,000.00
1983	386.15
1984	331.29
1985	404.00
1986	556.26
1987	708.19
1988	826.93
1989	873.16
1990	952.65
1991	931.34

Before you apply for the dividends, read the instructions in this booklet carefully. If you or someone you know needs help in applying, let us know. Answer each question truthfully. Those who are not honest in their answers are prosecuted for fraud.

Alaskans should take pride in creating and protecting their Permanent Fund. Dividends are the reward Alaskans reap every year for their foresight and vigilance.

Sincerely,

Darrel J. Rerwinkel, Commissioner

Need Help? Perhaps you or someone you know needs help with the dividend application. If so, call or visit the Dividend Information Office which is nearest you between the hours of 8 am and 5 pm, Monday through Friday. Persons calling from Fairbanks may call 451-2820.

ANCHORAGE - Phone (907) 276-2678
 Alaska Department of Revenue
 Dividend Information Office
 Corner of 6th and K
 1016 West Sixth Avenue, Suite 100
 Anchorage, Alaska 99501

JUNEAU - Phone (907) 465-2326
 Alaska Department of Revenue
 Dividend Information Office
 State Office Building, 11th Floor
 P.O. Box 110461
 Juneau, Alaska 99811

NEED MORE FORMS? You may pick up dividend forms at the Revenue offices listed above. Forms are also available at each Office of the Governor, Legislative Information Office, and city clerk's office. If you prefer to write, please send your request to the Juneau Dividend Information Office.

STATE OF ALASKA

LEWIS & CLARK GOVERNMENT

OFFICE OF THE LT. GOVERNOR

DIVISION OF ELECTIONS
P.O. BOX 110017
JUNEAU, ALASKA 99811-0017
PHONE: (907) 465-4811

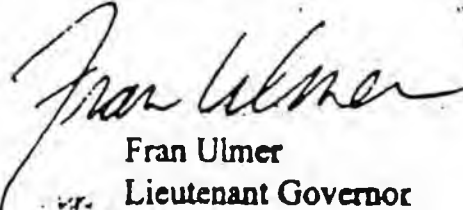
October 1996

I am pleased to provide you with the 1996 election pamphlet, your official guide to the November election. The ballot will be very full this year. You will have an opportunity to cast your vote for the president and vice president of the United States, for your U.S. senator and representative, and for the persons you wish to represent you in the state Senate and House of Representatives. In addition, you will find numerous justices and judges seeking retention on the bench, as well as four important ballot measures.

As Lieutenant Governor, and as a mother, I'd like to recommend that you make voting a "family affair" at your house. If you have children, encourage them to learn about the candidates. Discuss the issues with them. They're never too young to learn that voting is both a privilege and a responsibility.

As you read through this pamphlet, take time to notice the photographs depicting Native Alaskan culture. It is appropriate that, as we make our decisions about where future will lead us, we remember where we've been. Native Alaskans are the proud and resilient foundation of Alaska, bringing a wealth of traditions and values to enrich our lives.

Sincerely,



Fran Ulmer
Lieutenant Governor

STATE OF ALASKA

OFFICE OF THE GOVERNOR
Capitol Building, 3rd Floor
P.O. Box 110001
Juneau, Alaska 99811-0001
(907)465-3500



DIVISION OF ELECTIONS
Director's Office
Court Plaza Bldg., 4th Floor
P.O. Box 110017
Juneau, Alaska 99811-0017
(907)465-4611

October 1994

Dear Alaska Voter:

I am pleased to provide you with the 1994 Official Election Pamphlet. It will provide you with biographical and political information about each candidate, profiles and evaluations on the judges, information about the ballot measures and voter services available to you.

This year we are making the Official Election Pamphlet more individualized by providing information pertaining to your election district. The only candidates in this pamphlet are the candidates you will see on the ballot for your district on November 8. You will find your polling place location on the inside back cover of this pamphlet.

The Division of Elections would like to thank Judy Hargis, Publications Technician II, Department of Community and Regional Affairs, for her assistance in the design and preparation of the cover for the 1994 Official Election Pamphlet.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joseph L. Swanson".

Joseph L. Swanson, Director

STATEWIDE SUPPORT STAFF

Juneau Location
240 Main Street, 4th Floor
P.O. Box 110017
Juneau, Alaska 99811-0017
(907)465-4611

Anchorage Location
Dimond Center Towers
800 East Dimond Boulevard, Suite 3-570
Anchorage, Alaska 99515
(907)522-3800

REGIONAL OFFICES

Region I Elections Office
240 Main Street, 4th Floor
PO Box 110018
Juneau, Alaska 99811-0018
Phone: (907)465-3021
House Districts 1-6
Senate Seats A-C

Region II Elections Office
800 East Dimond Boulevard,
Suite 3-580
Anchorage, Alaska 99515
Phone: (907)522-8683
House Districts 7-28
Senate Seats D-N

Region III Elections Office
675 7th Avenue, Station H3
Fairbanks, Alaska 99701-4594
(907)451-2835
House Districts 29-36
Senate Seats O-R

Region IV Elections Office
Alaska State Office Building
PO Box 577
Nome, Alaska 99672-0577
(907)443-5285
House Districts 37-40
Senate Seats S-T

STATE OF ALASKA

OFFICE OF THE GOVERNOR

DIVISION OF ELECTIONS
P.O. BOX AF
JUNEAU, ALASKA 99811-0105
PHONE (907) 465-4611

The Official Election Pamphlet is prepared and distributed by the Division of Elections each State General Election.

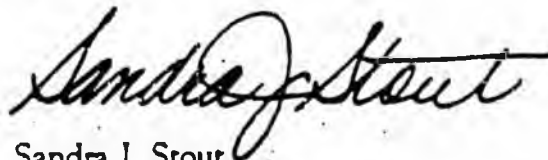
October 1986

Dear Alaskan Voters:

I am pleased to provide you with the 1986 edition of the **Official Election Pamphlet** and hope you will find the information contained in the pamphlet useful when exercising your right to vote in the General Election on November 4, 1986.

In the pamphlet you will find sample ballots, information about each of the ballot measures, the bonding proposition, professional review materials submitted by the Alaska Judicial Council on each judicial retention candidate, maps of districts, a list of polling places and absentee ballot information. In addition, candidates have provided biographical information and personal statements on issues. These pages are written and purchased by the candidates themselves. Those candidates who do not appear in this pamphlet have chosen not to purchase space.

Sincerely,



Sandra J. Stout
Director of Elections

HB

463

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 19, 1998

FURTHER REFERRALS:

Date of Committee Action: 5/2/98

The FINANCE Committee considered:

HB 463

HOUSE BILL NO. 463

ESTABLISH ALASKA PUBLIC BUILDING FUND

"An Act establishing the Alaska public building fund; and providing for an effective date."

recommends it be replaced the same title
 with the following committee substitute _____ a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(s): _____ (Dept)

APPROVES PREVIOUS: _____ (Dept/Date)

fiscal note(s) _____

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) Gov's, 3/19/98

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Gene Theriault</i> Theriault			X	
<i>John Kelly</i> Kelly			X	
<i>Mike Kohnring</i> Kohnring			X	
<i>Bob Davis</i> DAVIS	X			
<i>Ed Moses</i> Moses	X			
<i>John Crispendorf</i> Crispendorf	X			

CHAIR'S SIGNATURE

Gene Theriault

FISCAL NOTE

Bill Version: HB 463

(H) Publish Date: 3/19/98

**STATE OF ALASKA
1998 LEGISLATIVE SESSION**

Revision Date (Note if correction) _____ Dept. Affected All departments
 Title An Act establishing the Alaska public building fund. BRU _____
 Component _____
 Sponsor House State Affairs Committee
 Requester House State Affairs Committee Component Serial No. _____

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
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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)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would establish a fund for the deposit of state facility rent payments, and for appropriations from the fund for maintaining these facilities.

Establishing the fund would not in itself have a direct fiscal impact on any state agency. However, the purpose of the fund and the related facilities rent structure is to improve the management and maintenance of state facilities. Improved management and maintenance will reduce overall facilities costs over the long term. Although these cost reductions may be substantial, there are many variables involved and the cost reductions cannot be accurately projected at this time.

Prepared by Jack Kreinheder *Jack Kreinheder* Phone 465-4676
 Division Office of Management and Budget Date 3/18/98
 Approved by Commissioner Jim Ayers, Chief of Staff *J. Ayers* Date _____
 Agency Office of the Governor

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

STATE OF ALASKA

OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET

TONY KNOWLES, GOVERNOR

P.O. BOX 110020
JUNEAU, ALASKA 99811-0020
PHONE: (907) 465-4660
FAX: (907) 465-3008

April 30, 1998

The Honorable Gene Therriault
Alaska State House of Representatives
State Capitol, Rm 511
Juneau, AK 99801-1182

Dear Representative Therriault:

Thank you for discussing with me the scheduling of HB 463, establishing the Alaska Public Building Fund. I would like to respond to some of the issues you raised in our discussion.

With regard to the potential risk of the Public Building Fund being "raided" by future legislators, while we can't completely preclude such a possibility, I think it is unlikely. As far as we know, the only time an internal service fund was tapped in this way was when the State Equipment Fleet fund was tapped by the legislature during the mid-80's oil price crash; however, that was before the Constitutional Budget reserve fund was established to deal with such price declines.

Today we are again facing a similar oil revenue shortfall, but because we have the CBR to cushion the shortfall, we are not aware of any discussion of using any internal service funds like the State Equipment Fleet fund or the information systems fund to offset the revenue shortfall.

I also want to emphasize that HB 463 would not involve any changes to the FY 99 budget. The facilities rent structure would be incorporated in the FY 2000 budget. We would like to establish the Public Building Fund now, since we will be starting work on the FY 2000 budget soon, and the Building Fund would be an important part of incorporating facilities rent into the budget process.

One of the important benefits of a facilities rent structure and the Public Building Fund would be that the state could charge rent to the federal government and other non-general fund sources. These collections could then be used to improve facilities maintenance. While it is too early to make a specific projection of these additional revenues, we believe that the amount will be significant in our efforts to avoid future deferred maintenance.

I would appreciate your scheduling of HB 463 as soon as possible. If you have other questions, please call me or Jack Kreinheder. Thank you.

Sincerely,



Annalee McConnell
Director

Alaska State Legislature

CHAIR:
REPRESENTATIVE
JEANNETTE JAMES

State Capitol
Room 102
Juneau, Alaska
99801-1182
(907) 465-3743
FAX (907) 465-2381



House of Representatives
HOUSE STATE AFFAIRS

MEMBERS:
REPRESENTATIVES
IVAN IVAN
AL VEZEY
FRED DYSON
MARK HODGINS
KIM ELTON
ETHAN BERKOWITZ

Sponsor Statement

HB 463

Establishing the Alaska Public Building Fund

This bill would create the Alaska Public Building Fund. The fund would be used for the deposit of rent payments for state facilities, and for appropriating for maintaining these facilities.

This fund is an essential part of a rental structure for state facilities. Establishing the fund will allow money to be accumulated to pay for long-term facilities renewal and renovation costs that now are not adequately funded. This will in turn help avoid the future accumulation of hundreds of millions of dollars of deferred maintenance, as has occurred in the past. The legislature's Deferred Maintenance Task Force recognized that in addition to dealing with our current deferred maintenance needs, we must take action to avoid repeating the problem in the future.

The Alaska Public Building Fund is an important step in improving the management and maintenance of state facilities, and in avoiding future deferred maintenance problems.

STATE FACILITY RENTS PROCESS DESCRIPTION

The Elements of Rent

- **Maintenance & Operations**
The costs of utilities, janitorial, repairs and other costs associated with keeping a facility ready for the use of its occupants.
- **Renewal & Replacement (Depreciation)**
The scheduled replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility.
- **The cost of an administrative organization**
Resources to pay bills, account for and budget the costs of the maintenance effort, manage and report on the work.

Rent Implementation

- **Create and Internal Service Fund**
An Internal Service Fund (ISF) would be created in law to receive and expend the agencies rent payments.
- **Transfer GF Facility Cost**
The General Funds currently budgeted to pay for facility costs would be transferred to the occupant agencies for their use in paying rent.
- **Leverage Non-GF Funds**
Adjust agency budgets to maximize non-GF participation in rent payments.

Rent Process

- **Agencies Make Rent Payments**
Agencies would pay the ISF for services.
- **ISF Spends and Accounts for Facility Expenditures**
All facility expenditures would be made from the ISF based on legislative appropriations from the fund.
- **Rate Setting**
Rates would be set in accordance with a "rent methodology" approved by the appropriate federal agencies to insure federal reimbursement. ISF would "true-up" costs at year end and adjust future rates up or down based on desired service levels.

First Year Assumptions

- Start with a limited number of facilities, priority is multi-agency office buildings.
- DOA provides administrative oversight of ISF and contracts with DOT&PF for facility services.

Year 2000 Facility Rent

Draft -- 4/9/98

RENT METHODOLOGY**General Principles**

Rent is used to improve the consumption and provision of resources by providing linkages between the behavior of users and costs of facilities and related services they utilize and encouraging users to hold the facilities management organization accountable for the quality and costs (the value) of the services provided.

The rental structure will comply with generally accepted accounting principles (GAAP) as recognized by the Governmental Accounting Standards Board (GASB), and Federal cost principles as set forth in U.S. Office of Management and Budget Circular A-87.

Rates will:

- provide for operation on a break-even basis;
- include the full cost of providing service, including all applicable direct and indirect costs and depreciation;
- only recover OMB A-87 allowable costs during a one-year period;
- provide that all tenants are billed at the same rate for similar services;
- produce billings that appropriately represent or measure services provided or benefits received;
- insure that resources generated by one service are not used improperly for another.

The Cost Elements of Rent**Maintenance & Operations**

The costs of utilities, janitorial, repairs and other costs associated with keeping a facility ready for the use of its occupants.

Renewal & Replacement (Depreciation)

The scheduled replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility.

The cost of an administrative organization

Resources to pay bills, account for and budget the costs of the maintenance effort, manage and report on the work.

STEPS TO IMPLEMENTATION**Designate facilities in the rental pool**

For the year 2000 budget the following criteria are considered relevant in the selection of facilities for the first phase of rent implementation:

- multi-agency office facilities;
- maximize potential for non-gf rent payment;
- limit number of sites to minimize accounting and data collection;
- larger facilities, such as over 20,000 sq. ft.

Year 2000 Facility Rent

Draft – 4/9/98

Identify occupancy by agency

Rent will be based on "useable" square feet occupied by the tenant agency. Within a given facility, common or public areas including corridors, stairways, toilet rooms, shared conference facilities, etc. will be allocated to all of the tenants of that facility based on the proportion of the total occupied areas within the facility.

Identify current indirect costs

Current direct costs (utilities, janitorial, repairs, etc.) are well identified in the accounting system. Indirect costs of administrative support (accounts payable, human resource, etc.) currently provide services to many functions. A methodology for properly allocating current costs of administrative support and other indirect costs is needed. These costs are most appropriately allocated based on the number of transactions.

Transfer proportionate share of current costs to tenant agencies

Current general funds expended on the rental pool facilities (principally in the DOT&PF facilities budget) would be transferred in the budget to the tenant agencies based on their proportionate occupancy of each facility.

POSSIBLE FIRST PHASE FACILITIES

The listed criteria lead to the following possible initial rental pool and tenant agencies:

	Bank of America Center	Feribanks Regional Office Bldg	Juneau State Office Building	Juneau AOB	Court Plaza Building	Douglas Island Building	Community Building	Juneau DPS HQ	Kenai Office Building
Governor									
Administration									
Law									
Revenue									
Education									
Health & Soc Serv									
Labor									
Commerce									
Military & Vet Aff									
Natural Resources									
Fish & Game									
Public Safety									
Environmental Cons									
Corrections									
Comm & Reg Aff									
DOT									
Legislature									
Courts									

HB

467

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 6, 1998

FURTHER REFERRALS:

Date of Committee Action: 3/18/98

The FINANCE Committee considered:

HB 467

HOUSE BILL NO. 467

CONTRACTUAL LEGISLATIVE EMPLOYEES

"An Act relating to employees of the legislature who are employed under a personal services contract."

recommends it be replaced with the following committee substitute _____ the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) LAA fiscal note(s) _____

zero fiscal note(s) DOA zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>[Signature]</i>	Therriault	X		NR	
<i>[Signature]</i>	Hanley	X			
<i>[Signature]</i>	Mulder	X			
<i>[Signature]</i>	Martin	X			
<i>[Signature]</i>	Kohring	X			
<i>[Signature]</i>	J. J. DAVIES			X	
<i>[Signature]</i>	G. DAVIS	X			
<i>[Signature]</i>	Kelly	✓			
<i>[Signature]</i>	foster	X			

CHAIR'S SIGNATURE *[Signature]* *[Signature]*
 Co-Chair Therriault Hanley

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

NO. _____
BILL VERSION: HB 467
PUBLISH DATE: _____

Revision Date: _____
Title: "An act relating to employees of the
Legislature who are employed under a personal..."
Sponsor: Representative Kott
Requestor: House Finance Committee

Department Affected: Legislature
BRU: All
Component: All

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3

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

REVENUE FUND SOURCE	0	0	0	0	0	0
---------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary)

This bill adds the option of hiring a legislative employee under a personal services contract without enrolling them into the Public Employees Retirement System (PERS). Most State agencies can hire temporary or nonpermanent employees without enrolling them in PERS. The Legislature currently does not have the same ability during a Legislative session. This bill does not adversely affect any current employees. This bill would allow the Legislature to hire summer tour guides, laborers to load the van, and the Security Chief without enrolling these employees in PERS. The savings to the Legislature would be at least 4.3 each year.

Prepared By: Karla Schofield, Deputy Director *Karla Schofield* Phone: 465-3852
Division: Administrative Services Date: 3/13/98

Approved By: Pamela A. Varni, Executive Director *Pamela Varni*
Agency: Legislative Affairs Agency Date: 3/13/98

Distribution (by preparer): Leg. Finance, Legislative Sponsor, Requestor, OMB, Gov., & Impacted Agency(ies).

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

BILL NO. HB 467

Revision Date: (Note if correction)
 Title: "An Act relating to employees of the legislature who are employed under a personal services contract"
 Sponsor: (H) RULES
 Requestor: (H) FIN

Department Affected: Administration
 BRU: Centralized Administrative Services
 Component: Retirement & Benefits
COMPONENT SERIAL NO. 2271

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
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						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER:						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 98) cost: \$ none

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

This bill does not fiscally impact the Division of Retirement and Benefits.

Prepared by: Guy Bell, Director
 Division: Retirement & Benefits

Phone: 465-4460
 Date: _____

Approved by Commissioner: Mark Boyer *Alison M. Elgee*
 Agency: Department of Administration

Date: 3/15/98

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HB467: Regarding Legislative Contract Employees SPONSOR STATEMENT

The purpose of this bill is to add the option of hiring legislative employees using a personal services contract and eliminate the Public Employees Retirement System (PERS) membership requirement for the employment under the contract.

Most State agencies have the ability to hire temporary or nonpermanent employees who do not receive retirement benefit credit while they are employed. Temporary or nonpermanent employees are short term, often paid on an hourly basis, and may not receive other benefits such as medical insurance, or leave benefits. However, because of language in the PERS statute (AS 39.35) the Legislature does not have the same ability as other State of Alaska Agencies to hire temporary employees during a legislative session unless the employee participates in the retirement system.

For short-term temporary employment this requirement results in a needless cost to the Legislature and a tax disadvantage to the employee. For example, the summer tour guides in the Capitol, most of whom are students earning money for school, must be placed in the retirement system. Money is deducted from their paychecks for retirement which they may withdraw after leaving employment, but because it was tax deferred, they must not only pay the tax but they also must pay a penalty for early withdrawal. This is a waste of time and money. This same situation applies to the laborers who work to load and unload the moving vans, and these people generally only work a few days at a time.

Further, this year the same retirement issue caused an even more significant problem when the Legislative Affairs Agency needed to fill the Chief of Security position for the 1998 session. In this case, the stringent qualifications for the position almost dictate the only qualified applicants be former Alaska law enforcement officers who are retired under the PERS. Individuals who are retired under the PERS cannot accept a position covered by the retirement system without terminating their retirement. Because of the short-term nature of the position, terminating retirement is generally an unacceptable option. The current situation hinders, if not blocks, our ability to even fill a necessary position.

In the past we have utilized "professional services" contracts to hire individuals for certain jobs to avoid the retirement problem. However, this solution has become less and less of an option because of IRS rules on contractor vs. employee relationships. Under the IRS guidelines the duties and responsibilities of the Chief of Security as well as our tour guides and laborers make them clearly an employee. Using a "personal services" contract clearly classifies the individuals as an employee in order to satisfy IRS requirements, and this bill eliminates the conflict with PERS requirements.

This bill and the solution it offers does not adversely affect any current employees. The current PERS law protects the rights of legislative staff employees by recognizing that they work in a different environment than most state employees. This bill will not change that language. HB467 only adds an additional option in those cases when participation in the retirement plan is too restrictive or not appropriate. And, it gives the legislature the same flexibility afforded to other State Agencies.

HB

467

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 3/30/98

FURTHER: 4/15/98

DATE TURNED
IN TO OFFICE: 4/15/98

Finance Committee considered HOUSE BILL NO. 467

"An Act relating to employees of the legislature who are employed under a personal services contract."

an recommends:

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

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

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Roll, E. Steele</i>	✓	<i>Alan Powell</i>	X		
<i>J. Magum</i>	✓	<i>Bill Adams</i>	X		
		<i>Wanda Doney</i>	X		
Co-Chair:		Co-Chair:			
Co-Chair: <i>[Signature]</i>	✓	Co-Chair:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
Admin / RAB	3/15/98	Ø	
Leg / All	3/13/98		(-4.3)

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOT

REPORTED OUT OF
950 4/15/98

No: 2

STATE OF ALASKA
1998 LEGISLATIVE SESSION

Bill Version: HB 467
(H) Publish Date: 3/19/98

Revision Date: _____
Title: "An act relating to employees of the
Legislature who are employed under a personal..."
Sponsor: Representative Kott
Requestor: House Finance Committee

Department Affected: Legislature
BRU: All
Component: All

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3

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

REVENUE FUND SOURCE	0	0	0	0	0	0
---------------------	---	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3

POSITIONS:

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

Estimate of current year impact: _____

ANALYSIS: (Attach a separate page if necessary)

This bill adds the option of hiring a legislative employee under a personal services contract without enrolling them into the Public Employees Retirement System (PERS). Most State agencies can hire temporary or nonpermanent employees without enrolling them in PERS. The Legislature currently does not have the same ability during a Legislative session. This bill does not adversely affect any current employees. This bill would allow the Legislature to hire summer tour guides, laborers to load the van, and the Security Chief without enrolling these employees in PERS. The savings to the Legislature would be at least 4.3 each year.

Prepared By: Karla Schofield, Deputy Director *Karla Schofield* Phone: 465-3852
Division: Administrative Services Date: 3/13/98

Approved By: Pamela A. Varni, Executive Director *Pamela A. Varni*
Agency: Legislative Affairs Agency Date: 3/13/98

Distribution (by preparer): Leg. Finance, Legislative Sponsor, Requestor, OMB, Gov., & Impacted Agency(ies).

COMMITTEE COPY

FISCAL NOTE

Bill Version: HB 467

(H) Publish Date: 3/19/98

STATE OF ALASKA
1998 LEGISLATIVE SESSION

Revision Date: (Note if correction)
Title: "An Act relating to employees of the legislature who are employed under a personal services contract"
Sponsor: (H) RULES
Requestor: (H) FIN

Department Affected: Administration
BRU: Centralized Administrative Services
Component: Retirement & Benefits

COMPONENT SERIAL NO. 2271

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
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						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 98) cost: \$ none

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

This bill does not fiscally impact the Division of Retirement and Benefits.

Prepared by: Guy Bell, Director
Division: Retirement & Benefits

Phone: 465-4460
Date:

Approved by Commissioner: Mark Boyer
Agency: Department of Administration

Date: 3/15/98

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HB

469

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: May 1, 1998

FURTHER REFERRALS:

Date of Committee Action: 4/5/1998

The FINANCE Committee considered:

HB 469

HOUSE BILL NO. 469

APPROVE SALE ROYALTY OIL TO MAPCO

“An Act approving the sale of Prudhoe Bay Unit royalty oil by the State of Alaska to Mapco Alaska Petroleum, Inc.; and providing for an effective date.”

recommends it be replaced with the following committee substitute _____ [] the same title
[] a new title

[] additional referral to _____ Committee
[] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date)

_____ fiscal note(s) _____

[X] fiscal note(s) DNR, 3/13/98

[] zero fiscal note(s) _____

[] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DN	NR	AM
<i>[Signature]</i> Therriault			✓	
<i>[Signature]</i> Kohring		✓		
<i>[Signature]</i> Davies	X			
<i>[Signature]</i> Grussendorf			X	
<i>[Signature]</i> Moses	+			
<i>[Signature]</i> Kelly	✓			
<i>[Signature]</i> Mulder			X	
<i>[Signature]</i> Martin			X	

CHAIR'S SIGNATURE _____

FISCAL NOTE Bill Version: HB 469
(H) Publish Date: 3/13/98

**STATE OF ALASKA
1998 LEGISLATIVE SESSION**

Revision Date: _____ Dept Affected: Natural Resources
Title: MAPCO Royalty Oil Contract BRU: Resource Development
Component: Oil & Gas Development
Sponsor: Rules Committee
Requestor: Governor Component Serial No. 439

Expenditures/Revenues (Thousands of Dollars)

	FY99	FY00	FY01	FY02	FY03	FY04
OPERATING EXPENDITURES						
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	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES (fund code)	760.2	1,533.0	1,533.0	1,533.0	772.8	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: \$ _____

POSITIONS

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

ANALYSIS: (Attach a separate page if necessary)

Sale of royalty oil to Mapco from Jan 1, 1998, when first barrel is paid for, to Dec 31, 2003, at 28,000 bbl/day.

Prepared by: *Carol Annall* Phone: 465-4730
 Division: Support Services Date: 3/10/98
 Approved by Commissioner: *Carol Annall* Date: 3/10/98
 Agency: Natural Resources

MAPCO COMMENTS ON GASOLINE PRICES

April 8, 1998

There have been several articles recently in Alaska newspapers which expressed concerns about gasoline prices in Alaska. On behalf of MAPCO, I am pleased to respond to some of those concerns.

First, I need to note that crude oil is not the only component or cost involved with refining gasoline. Crude cost accounts for less than half of the retail price of gasoline. MAPCO and other Alaska refiners pay fair market value for the crude we purchase and we pay a pro-rated tariff to get it to our refinery. For one of our crude contracts with the State of Alaska, MAPCO pays a \$.15 per barrel premium for the crude oil.

The other costs of refining product in Alaska are all higher than at lower 48 refineries. Electricity is an ingredient of refining and we pay several million dollars per year to GVEA for electricity. We pay twice the cost for electricity here compared to our Memphis refinery. And electricity costs are two to three times higher here than for refineries in the Pacific Northwest. The chemicals, fuel, labor and transportation components of refining and distributing our refined product are all considerably higher here than in the lower 48 states. The average rate of pay at our North Pole Refinery is about \$10.00 per hour higher than for comparable positions at our Memphis refinery. This is a 50% higher cost for labor at our Alaska refinery. Alaska has some of the most stringent environmental standards that impact costs at the refining, wholesale and retail levels. In addition, MAPCO paid a \$30 million quality bank penalty in 1997 for the 600 million gallons of refined product sold, which equates to \$.05 per gallon. Or you can look at the quality bank penalty as adding \$2.10 to the cost of each barrel of crude we refine. The \$70 million jet fuel expansion we are currently doing at our refinery would cost in the \$45 to \$50 million range in Memphis. So it follows that refined product prices will also be higher in Alaska than elsewhere in the Country.

But the prices in Alaska are much lower than they would be without the presence of the Alaska refiners. When I left for college at the University of Oregon driving down the Alcan Highway with Jim Dodson in the fall of 1963, the price of gasoline in Fairbanks was around \$.55 per gallon. We arrived in Eugene, Oregon, and paid about \$.26 per gallon. It was after 1969 when Tesoro started refining in Alaska that prices dropped. In 1978 gasoline was \$.859 in Fairbanks and it was \$.609 in Eugene. The percentage price difference had dropped considerably by 1978. MAPCO started refining gasoline in 1985 and prices dropped again. Today the price of gasoline in Fairbanks is \$1.209 and in Eugene, Oregon it is \$1.109. The gap has narrowed considerably. I should note that today the price of the Fairbanks Daily News-Miner is \$.75 and the cost of the Eugene Register Guard is \$.50. The news paper here costs 50% more than in Eugene, while the gasoline is only 9% more in Fairbanks. I should comment that I think the price of the Fairbanks Daily News-Miner is a bargain and is very reasonable in view of the costs associated with publishing the news paper here in Fairbanks.

I also wanted to point out that some of the data used in analyzing gasoline prices was not correct as pertains to the Fairbanks and Anchorage markets. The data provided to Senator Frank Murkowski by AAA that was quoted in some news articles appeared to show a price of \$1.269 for Alaska. The Fairbanks price is \$1.209 and the Anchorage price is about \$1.159. So the after tax price of Alaska gasoline is in the \$.89 to \$.94 per gallon range as opposed to \$1.00 per gallon. The price of gasoline in the bush areas is really not relevant to the analysis in my opinion since they can only receive fuel once or twice a year in relatively small volumes.

MAPCO is proud of our refining activity and the positive influence we have had on fuel prices over the 20 years we have operated at our North Pole Refinery. We are proud that in 1998 we supported 688 Alaskan vendors with \$450 million in spending. We spent more with everyone of those vendors than we would have for comparable goods or services in the lower 48 States. But that is a fact of life in Alaska. Our presence here means that \$450 million multiplies around the Alaska economy a number of times and helps thousands of Alaskans directly or indirectly. As an example, we pay approximately \$1.8 million in property taxes that are shared between the Fairbanks North Star Borough and the City of North Pole. Our refining and retail operations employ about 500 Alaskans with a total for payroll and benefits of approximately \$20 million per year. This payroll amount is in addition to the total paid to vendors in 1997.

Attached are three graphs showing that our price of gasoline, jet fuel and diesel fuel have fallen as fast, and in some cases faster, than crude oil prices have fallen since a year ago. We feel we have been very fair and sensitive to the Alaskan consumer, and we pledge to maintain that sensitivity and fairness in the future.

For additional information contact:

Jeff Cook, Vice President External Affairs
MAPCO ALASKA PETROLEUM Inc.
(907) 488-5104

MAPCO ALASKA PETROLEUM Inc. POSITION PAPER

FIVE YEAR ROYALTY OIL CONTRACT WITH STATE OF ALASKA

April 2, 1998

MAPCO ALASKA PETROLEUM Inc. (MAPI) is seeking ratification of a new five year royalty oil contract from the Alaska State legislature. The contract was unanimously recommended for legislative approval by the Alaska Royalty Oil and Gas Development Advisory Board at their February 17, 1998, meeting. Approval of the contract is now before the legislature in the form of SB 342 and HB 469.

The contract has been signed by the Alaska Commissioner of Natural Resources and the President of MAPI. The contract calls for the sale of approximately 28,000 barrels per day (bpd) of North Slope royalty crude to MAPI. The contract will be effective December 1, 1998, and calls for MAPI to pay the State Royalty-in-Value price for the royalty oil plus a \$.15 per barrel premium. Over the five years of the contract, the State could receive an additional \$7.665 million in gross revenues over what they would receive from other Prudhoe Bay lessees for the royalty oil.

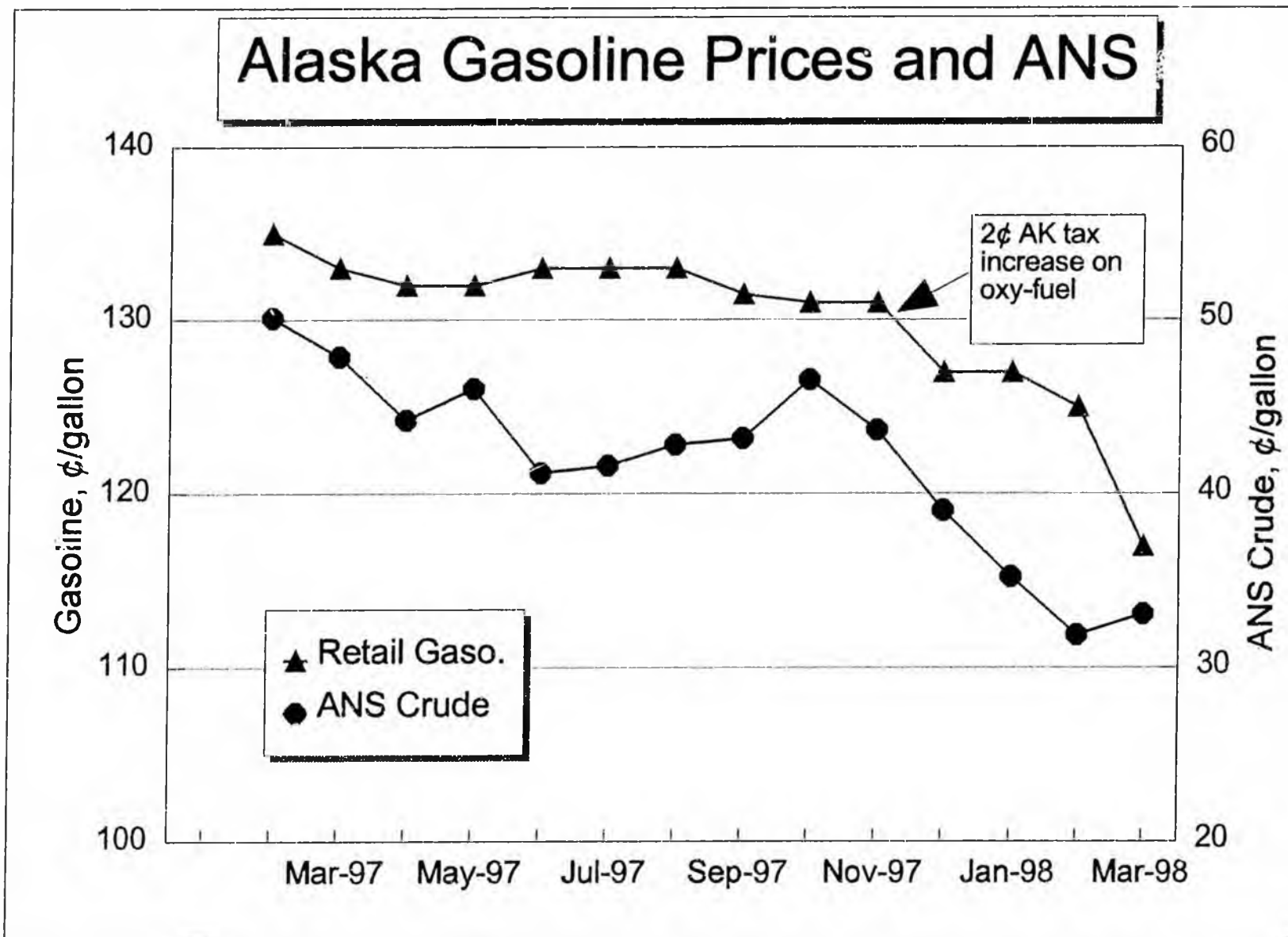
The effective date of December 1, 1998, coincides with the expiration of a current one year contract MAPI now has with the State for 13,000 bpd of royalty oil. The new contract will replace the volume in the one year contract and add the additional volume to provide feed-stock for the \$70 million refinery expansion currently underway at MAPI. The cornerstone of this expansion is the addition of a third crude unit to the refinery. The new crude unit will begin shipping the additional production approximately December 1, 1998.

The \$70 million expansion project currently has 50 Alaska workers on site. Construction employment will peak at about 375 workers this summer. Over 30 Alaskan vendors and contractors will be working on the refinery expansion. Once completed, the new crude unit will produce an additional 14,000 bpd of jet fuel for Alaska's growing air cargo and air passenger business. An additional 25 rail cars of jet fuel will be shipped daily on the Alaska Railroad from Fairbanks to Anchorage when the project is completed. Local property tax payments by MAPI will increase, revenues to GVEA and ARRC will increase, and vendors and contractors will benefit from both the construction and the ongoing operation of the third crude unit. Also, a total of 19 permanent new employees will be hired at the refinery and the Anchorage terminal to support the production expansion.

MAPCO has refining, marketing and retail activities throughout Alaska. MAPI employs 155 people in the refining and marketing business and about 350 workers at the 28 MAPCO Express retail stores in Alaska. MAPI spent approximately \$450 million with over 680 Alaskan vendors and contractors in 1997. In addition, MAPI provided approximately \$500,000 in funding to educational institutions, non profit organizations and for event sponsorships in 1997. MAPI has its refining headquarters at North Pole near Fairbanks and its marketing headquarters in Anchorage.

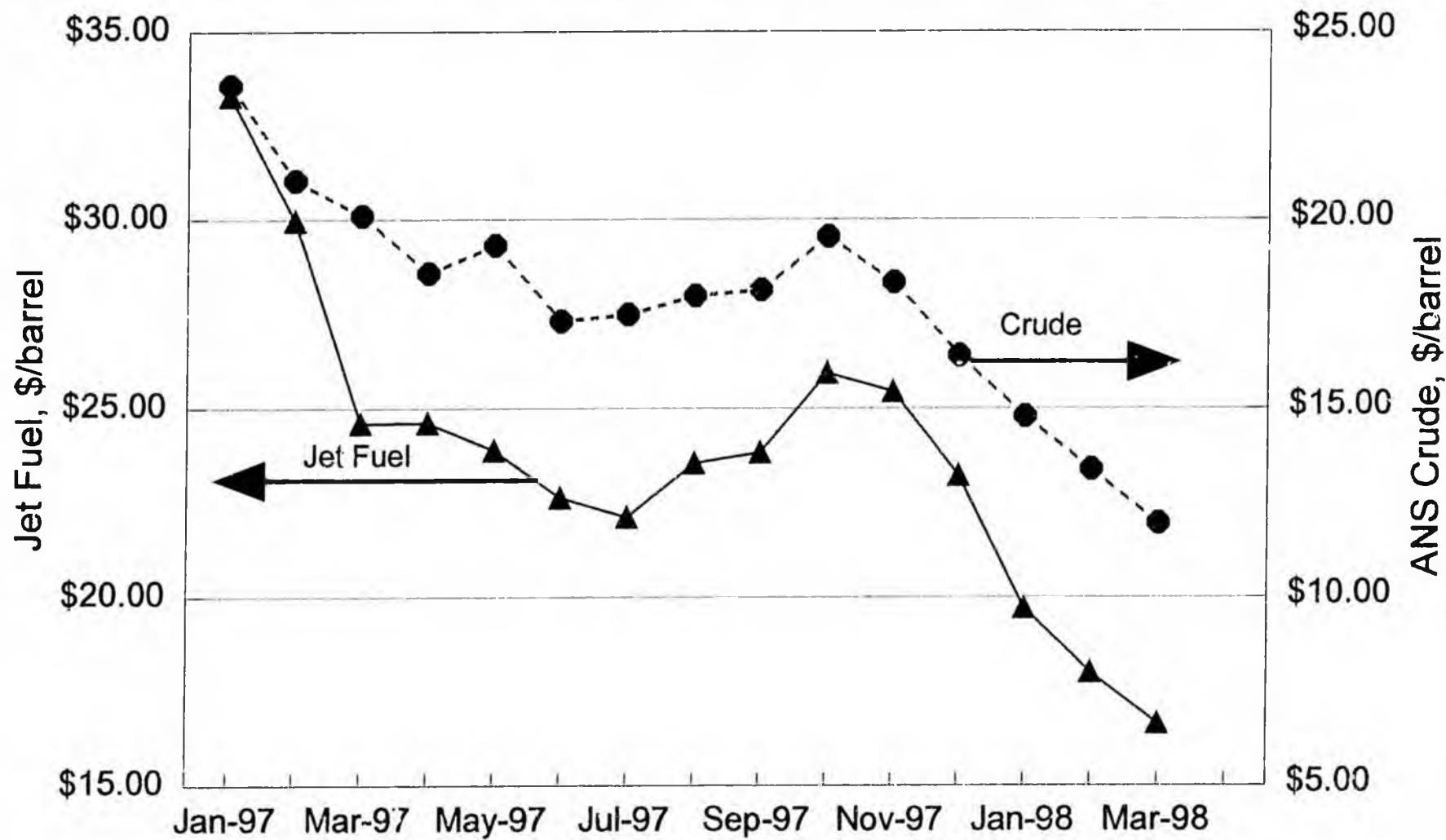
For more information contact Jeff Cook at (907) 488-5104

Alaska Gasoline Prices and ANS

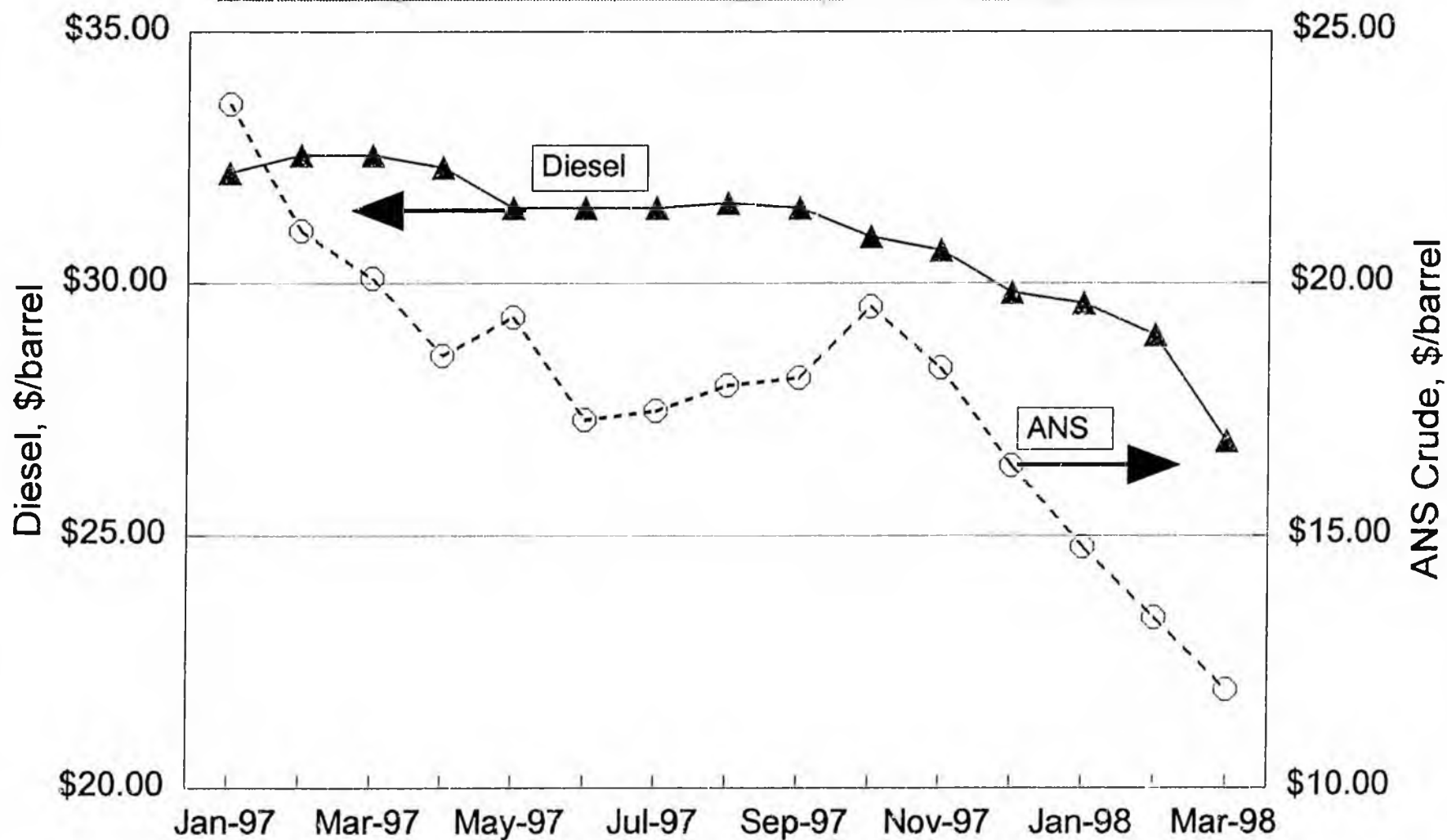


04/08/98

Jet Fuel Price at Anchorage International Vs. ANS



Anchorage Rack Diesel Vs. ANS





Gasoline Price Comparisons in Selected U S Cities

(Price per gallon of regular, unleaded motor gasoline at self-service pump)
ACCRA Cost of Living Index - Second Quarter 1997

SELECTED CITIES -Price w/tax

Anchorage, AK	\$1.32
Fairbanks, AK	\$1.42
Juneau, AK	\$1.44
Kodiak, AK	\$1.66
Bakersfield, CA	\$1.37
Los Angeles, CA	\$1.38
San Francisco, CA	\$1.53
Boise, ID	\$1.35
Billings, MT	\$1.40
Reno, NV	\$1.44

OIL PRICES

Wednesday, April 3, 1998			
CRUDE GRADES	Wed	Tue	Yr. Ago
OFFSHORE			
European "spot" or free market prices			
Arab II	10.75	10.64	15.15
Arab NCV	9.75	9.66	13.10
Iran II	11.33	11.29	15.35
Portes	13.05	12.78	17.45
Srent	12.80	12.71	17.40
Bony II	12.33	12.27	17.55
Unis-Medit.	11.80	11.73	16.15
DOMESTIC			
Spot market			
Al. Tex. Int. Crude			
11500-14501 (1997)	15.55	15.33	19.23
W. Tex. Sour. (1997-1998)	13.30	12.73	15.97
W. Sw. St. J. (1997-1998)	14.55	14.51	18.00
Al. No. Slope Pacific Oil	12.71	12.62	13.25
Spot market crude oil values in Northwest Europe around 17.50 GMT in dollars per barrel, for main loading ports in country of origin for prompt loading, except as indicated.			
REFINED PRODUCTS			
Fuel Oil, No. 2 NY gal.	4243	4214	5644
Diesel Fuel, 15.5			
NY Harbor low sulfur	4423	4357	5899
Gasoline, undec. premium			
NY gal. undec. premium	5037	4954	6245
Gasoline, undec. premium			
NY gal. undec. premium	5172	5094	6458
Gasoline, undec. reg.			
NY gal. non-decimated	4532	4456	5750
Gasoline, undec. reg.			
NY gal. decimated	4757	4623	6053
Propane, non-het. Mont. Bellevu.			
per 100 gal.	2829	2823	3483
Propane, wet-het. Mont. Bellevu.			
per 100 gal.	2813	2812	3478

PRICE OF GASOLINE IN FAIRBANKS ONE YEAR AGO PER AMERICAN CHAMBER OF COMMERCE RESEARCH ANALYSIS SURVEY WAS \$1.42 per gallon. PRICE TODAY IS \$1.21 per gallon. THAT IS A DROP OF \$.21 per gallon.

PER WALL STREET JOURNAL OIL PRICES, PRICE OF NORTH SLOPE CRUDE ONE YEAR AGO WAS \$18.20 per barrel. PRICE AT CLOSING 4-8-98 WAS \$12.72 per barrel. THAT IS A DROP OF \$5.48 PER BARREL IN ONE YEAR. IF ONE WERE TO ASSUME CRUDE OIL WAS THE ONLY COMPONENT OF GASOLINE AND THERE WAS A LINEAR DROP IN PRICE, GASOLINE SHOULD HAVE DROPPED BY \$.13 per gallon (\$5.48 per barrel drop divided by 42 gallons per barrel).

ACTUAL DROP IS \$.21 per gallon. PROJECTED DROP FROM CRUDE PRICE IS \$.13 per gallon. RETAIL PRICE HAD ACTUALLY DROPPED FASTER THAN THE CORRESPONDING DROP IN CRUDE PRICE.

TONY KNOWLES
GOVERNOR



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Juneau, Alaska 99811-0001
(907) 465 3500
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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 10, 1998

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Phillips:

I am transmitting a bill that provides for legislative approval of a royalty oil contract between the state and Mapco Alaska Petroleum, Inc. for the sale of Prudhoe Bay Unit royalty oil. A copy of the resolution of the Alaska Royalty Oil and Gas Development Advisory Board, recommending approval of that contract in accordance with AS 38.06.040(a)(3) and 38.06.050(a) and providing the report required by AS 38.06.070(c), is also being provided to the Legislature with this bill.

Under the contract, the state will receive a fair value for the royalty oil, while promoting in-state processing and petroleum product competition. Among the economic benefits to Alaska's citizens are competitive consumer prices for petroleum products, such as gasoline, diesel and jet fuels, and employment of Alaskans at Mapco's North Pole refinery.

Copies of the commissioner's preliminary finding and the draft contract have been sent to the legislature and made available to the public for review. The commissioner's final finding and the signed contract are attached.

I respect the Legislature's desire to have a direct voice in major disposals of royalty oil. Therefore, although this and previous administrations have consistently taken the position the statutory requirement of legislative approval of royalty oil contracts is unconstitutional, as a matter of comity, I am introducing a bill approving and ratifying the contract. The contract is consistent with provisions requiring approval by the Legislature before it takes effect.

I urge your prompt consideration and passage of this bill.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tony Knowles".

Tony Knowles
Governor

HUSK, - NITE - 77-11-11-11

THE ALASKA ROYALTY OIL AND GAS DEVELOPMENT ADVISORY BOARD

Resolution 98-1

On January 30, 1998, the Commissioner of Natural Resources provided the Alaska Royalty Oil and Gas Development Advisory Board ("Board") with the Preliminary Finding and Determination to Sell Royalty Oil to Mapco Alaska Petroleum Inc. dated January 30, 1998 ("Finding") and a copy of the proposed Agreement for the Sale and Purchase of State Royalty Oil to Mapco Alaska Petroleum Inc ("Contract"). Under the Contract, the Department of Natural Resources will sell approximately 28,000 barrels per day of Prudhoe Bay Unit royalty oil to Mapco for five years. Mapco will process the oil in its refinery in North Pole, Alaska.

The Contract was negotiated between representatives of the Division of Oil and Gas and Mapco over the past four months. On January 30, 1998, the division published the Finding, the Contract and gave public notice that the Board would review the Contract at a public hearing on February 17, 1998.

On February 17, the Board met to discuss the Contract and take public comments. Representatives from the division, representatives of Mapco, and members of the public attended the meeting. A presentation from division staff about the proposed sale and contract was given to the Board. After review and consideration of the information presented, public comment, and the criteria of AS 38.06.070, the Board approved the proposed sale and recommended the proposed contract be approved by the legislature.

Based on the Board's review of the Contract, the Commissioner's Finding, and the information presented at its public hearing, the Board is of the opinion that the proposed disposition of Prudhoe Bay Unit royalty oil to Mapco is consistent with AS 38.06.070 and AS 38.05.183. In report to the legislature, the Board adopts the Commissioner's Finding by reference, and recommends that the Twentieth Alaska State Legislature approve the Agreement for the Sale and Purchase of State Royalty Oil to Mapco Alaska Petroleum Inc.

Lynn Aleshire 2/17/98
Date

Thomas Cook 2-17-98
Date

Wilson Condon 2/17/98
Date

Becky Gay 2-17-98
Date

Becky Beck for Deborah B. Sedwick 2/17/98
Date

John Shively 2/17/98
Date

SENATE BILL No. 342
HOUSE BILL No. 469

**Final Finding and Determination
to Sell Royalty Oil
to
MAPCO Alaska Petroleum Inc.**

SENATE BILL NO. 342
HOUSE BILL NO. 469



Alaska Department of
**NATURAL
RESOURCES**

**Division of Oil and Gas
3601 "C" Street, Suite 1380
Anchorage, Alaska 99503-5948**

March 5, 1998

**Final Finding and Determination To Sell Royalty Oil
To MAPCO Alaska Petroleum Inc.
March 5, 1998**

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Appendix A: Summary of Previous North Slope Royalty Oil Sales

Appendix B: AS 38.05.183(c) & (e), AS 38.06.050(c), AS 38.06.055, and AS 38.06.070(a)

Appendix C: Comments and Responses on the Preliminary Finding and Draft Contract

Appendix D: Changes to the Preliminary Finding and Draft Contract

1

**Final Finding and Determination to Sell Royalty Oil
to
MAPCO Alaska Petroleum Inc.**

I. Summary

The commissioner of the Department of Natural Resources, on behalf of the state of Alaska, proposes a five-year sale of approximately 28,000 barrels per day of the state's royalty oil to MAPCO Alaska Petroleum Inc. (MAPCO). MAPCO operates a refinery in North Pole in the Fairbanks North Star Borough and is one of the state's largest retailers of petroleum products. This document provides the final finding and determination required under AS 38.05.183 for the proposed sale.

The department distributed the preliminary finding and draft contract on January 30, 1998. The public comment period ended one month later on March 3, 1998. The department notified the public about the preliminary finding and draft contract and written comments were solicited by sending a notice of the sale or copies of the preliminary finding and draft contract to 200 citizens, special interest groups, industry and government representatives, and the media. The department also advertised through display advertisements in newspapers throughout Alaska. At the close of the comment period, the department received three letters. The letters are included as Appendix C to this finding.

The mailing and advertisements also notified the public of a meeting of the Alaska Royalty Oil and Gas Development Advisory Board (Royalty Board) that was held on February 17, 1998 at which the proposed sale was discussed and public comment was solicited. Except for the representatives from MAPCO, there was no public testimony at the Royalty Board meeting. However, a letter from Hal Whitley, owner of Wet Willy's Carwash in Fairbanks was faxed to the Royalty Board in the morning before the Royalty Board met. The Royalty Board considered Mr. Whitley's comments. Subsequently, the Royalty Board unanimously supported the sale and adopted the Commissioner's findings as its report to the legislature, and passed a resolution recommending approval of the sale by the legislature.

This is a final finding and final conclusions have been reached. The commissioner has determined that the proposed sale to MAPCO is in the state's best interest. The final finding, a copy of the signed contract, and the recommendation from the Royalty Board will be forwarded to the Legislature under AS 38.06.055.

II. Background

The state of Alaska receives a royalty of approximately 12.5 percent of the oil and gas produced from the Prudhoe Bay Unit. The state may take its share of oil production "in-kind or in-value." When the state takes its royalty share of the oil in-kind (RIK), it assumes ownership of the oil, and the commissioner disposes of the oil through either competitive or non-competitive sales. When oil is taken in-value (RIV), the state's lessees who produce the oil market the state's share along with their own share of production. The lessees are obligated to pay the state the value of the state's RIV share.

MAPCO has a long history as a purchaser of RIK from the state. MAPCO has the longest running contract for ANS RIK. Deliveries under its long-term contract began in November 1979 for 35,000 barrels per day. This contract will not expire until December 2003. Through the end of 1997, MAPCO received approximately 205.8 million barrels of RIK.¹

On August 26, 1997, the state agreed to sell to MAPCO an additional volume of royalty oil equal to 11.6 percent of the daily royalty oil production of the Prudhoe Bay Unit (PBU) for one year. Deliveries under this contract began on December 1, 1997 and will continue through November 30, 1998. By statute this contract may not be renewed without a specific recommendation of the Royalty Board to the legislature and the legislature's subsequent approval. Last October, MAPCO initiated negotiations with the department for a new royalty oil supply contract to begin deliveries when this contract expires.

At the date of this final finding, Williams Companies Inc. is in the final stages of acquiring Mapco Inc. This acquisition will become final when Williams Companies Inc. receives approval from the Federal Trade Commission. On November 27, 1997, the companies announced that they had entered into a definitive merger agreement providing for Williams to acquire MAPCO. On February 26, 1998, MAPCO shareholders approved the acquisition. Standard and Poor's (S&P) revised its outlook for both companies to positive from stable. Primarily, the outlook change reflects the strengthening fundamentals of the Williams' pipelines and prospects for improving earnings at Williams Communications Group and Williams Energy Group. The proposed acquisition of Mapco Inc. is also a positive factor in S&P's outlook change.² The \$3 billion acquisition price includes \$2.2 billion of Williams common stock and the assumption of about \$750 million of acquired company debt. The conservatively financed acquisition should diversify Williams' pipeline operations with a relatively successful downstream energy services company. The merger will have no effect on the proposed sale and contract terms.

This finding and determination and the attached copy of the sales contract represent the result of those negotiations. Much of what was written by way of background to the 1997 contract still applies today.

In the following section of this finding, the description of the contract focuses on how this proposed contract differs from the current one-year contract.

III. Discussion of Contract Provisions

Term

First delivery of RIK oil is set for December 1, 1998 and will continue for five years. The contract will terminate December 31, 2003. This coincides with the termination date of MAPCO's current long-term, 25-year contract.

¹ Golden Valley Electric Association volumes are included in MAPCO's RIK deliveries.

² Standard & Poor's CreditWire dated November 24, 1997.

Quantity

The state agreed to increase the percentage of royalty oil that MAPCO may purchase to assure MAPCO a relatively constant supply of RIK oil as production declines. Over the life of the contract the volume of RIK taken by MAPCO will remain fairly constant. This proposed contract will increase the percentage of PBU royalty oil that MAPCO now receives under the current one-year contract. MAPCO will purchase 27.0 percent of the state's royalty share in 1999 (about 28,000 barrels per day from the PBU). In the second, third, fourth and fifth years, MAPCO's RIK purchase percentage will increase slightly to 28.5 percent, 30.0 percent, 32.0 percent and 33.5 percent, respectively.

Table 1: RIK Percentages and Maximum Quantities

Year	RIK. %	RIK Volume (Bpd)
1998	27.0	28,350
1999	27.0	28,350
2000	28.5	28,500
2001	30.0	28,200
2002	32.0	28,480
2003	33.5	28,475

When MAPCO's current long-term RIK contract with the state is considered with the proposed contract, the actual volume taken by MAPCO will increase to approximately 56.7 percent of the state's royalty oil from the PBU.

The percentage of royalty oil designated in the contract for each year is called the "Maximum Quantity." If MAPCO takes less than the Maximum Quantity, it will be subject to a per-barrel reservation fee on each barrel less than the Maximum Quantity. The per-barrel reservation fee is 0.75 percent of the full purchase price.³ MAPCO may elect to decrease or increase the quantity of RIK oil it will actually purchase month-to-month subject to certain notice requirements. MAPCO also has the right to terminate the contract with one hundred days notice to cease deliveries. With the same notice period, MAPCO may elect one time annually to permanently reduce the Maximum Quantity required under the contract. However, once MAPCO issues an annual notice of its option to permanently reduce the Maximum Quantity, MAPCO may not reinstate the Maximum Quantity to the initial level. In addition, MAPCO may not ever increase the Maximum Quantity.

Because of the terms of the PBU Agreement in force among the producers and the state, the state combines royalty production from both the Prudhoe Bay field and royalty oil processed currently through the Lisburne Production Center. The 112,000 barrels per day of royalty crude

³ The contract provides MAPCO with some operational flexibility. With the appropriate one hundred-day notice, MAPCO may take less than the Maximum Quantity, however, a reservation fee would apply to volumes less than the then applicable Maximum Quantity.

oil forecast for 1998 (Table 2) is the sum of the royalty offtake from PBU including both the Initial Participating Areas and the Greater Point McIntyre Area, i.e. Lisburne, Pt. McIntyre, West Beach, North Prudhoe Bay State, and the Niakuk/Alapah Participating Areas.⁴

Table 2 illustrates the present and future royalty crude oil supply from the PBU. The state is obligated to supply 35,000 barrels per day to MAPCO through 2003 and 30 percent of the PBU royalty oil to Tesoro through 1998. If the proposed MAPCO contract is awarded, the state will still keep approximately 13 percent of its royalty share of PBU production as RIV or about 40 percent of the total ANS royalty production in 1998. See Figure 1, titled "Total ANS Royalty and RIK Sale" for the percentage share of ANS RIK oil versus ANS RIV oil.

The state must reserve a sufficient percentage of its PBU royalty oil as RIV to insure that PBU lessees can deduct field costs as a credit from their RIV royalty for the royalty oil the state takes in-kind. The state's flexibility to nominate more RIK oil from the PBU will be limited after this RIK sale to MAPCO. However, there will be some flexibility for the state to offer additional royalty oil from other non-PBU fields on the North Slope as circumstances warrant.

Quality

MAPCO must accept the same quality of oil that the state receives from the producers at Pump Station No. 1. The existing contract with MAPCO does not distinguish between crude oil, condensate, or natural gas liquids (NGLs). MAPCO waives any claim that either condensate or NGLs blended with the crude oil by the lessees tendered to the state as royalty oil is not oil for the purposes of the contract. This waiver will protect the state against any future claim that MAPCO did not receive its full or correct volume of RIK by asserting that condensate or NGLs are not crude oil.

⁴Under the proposed contract, the state reserves the right to supply 100 percent of MAPCO's volume from just the PBU Initial Participating Areas (IPA) rather than include the production from the Greater Point McIntyre Area, i.e., production processed through the Lisburne Production Center. In this case MAPCO would receive initially 33.8 percent of the PBU IPA production. MAPCO will be notified 90 days in advance if the commissioner, in his sole discretion, chooses to exercise this right.

Figure 1: Total ANS Royalty and RIK Sale
(includes Proposed Mapco Contract)

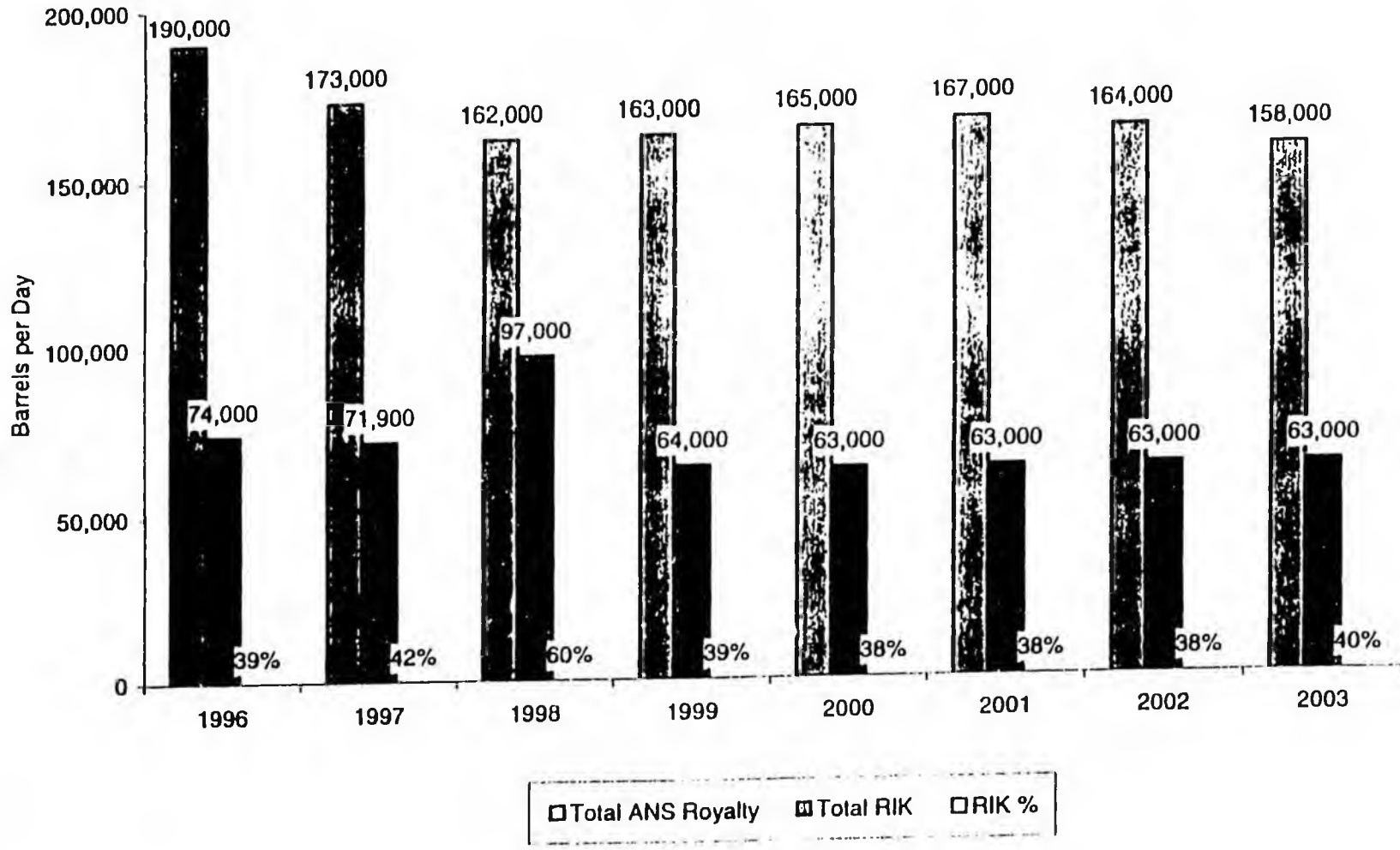


Table 2: North Slope Royalty Crude Oil Production Forecast

	(MBOD)									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Greater Point McIntyre Area	23	19	16	13	11	10	9	8	8	
Lisburne	1	1	1	1	1	1	1	1	1	
Niakuk	4	3	3	3	2	2	2	2	2	
Font McIntyre	17	14	11	9	8	7	6	6	5	
West Beach -N. Prudhoe Bay State	0	0	0	0	0	0	0	0	0	
Prudhoe Bay a/	89	84	81	77	74	71	68	64	60	
Satellites b/	0	2	3	4	4	4	5	5	4	
Prudhoe Bay Unit	112	105	100	94	89	85	82	77	72	
Kuparuk River Unit	33	35	36	34	33	32	29	27	25	
Milne Point	8	9	10	11	12	13	13	12	11	
Northstar	0	0	0	8	8	7	6	5	5	
Other Onshore	0	0	0	0	4	4	4	4	4	
Endicott	9	8	8	7	7	6	6	5	5	
Badami	0	6	6	5	5	4	4	3	3	
Alpine	0	0	6	6	6	6	6	5	5	
Total Royalty:	162	163	166	165	164	157	150	138	130	
Minus RIV Req'd for Field Cost Allowance										
Prudhoe Bay Unit	11	11	10	9	9	9	3	3	3	
Kuparuk River Unit	3	3	3	3	3	3	3	3	3	
Milne Point	0	0	0	0	0	0	0	0	0	
Endicott	1	1	1	1	1	1	1	1	1	
	15	15	14	13	13	13	7	7	7	
Minus Current RIK Contracts										
MAPCO #1	35	35	35	35	35	35	0	0	0	
MAPCO #2 c/	13	-	-	-	-	-	-	-	-	
Tesoro	34	-	-	-	-	-	-	-	-	
Total Current RIK Obligation	85	35	35	35	35	35	0	0	0	
ANS Royalty Oil Available to Supply New RIK Contracts:										
	65	113	117	117	116	109	143	131	123	
MAPCO's proposed 27.0% contract d/	28	28	28	28	28	28	-	-	-	
ANS Royalty Oil Remaining:	37	85	89	89	88	81	143	131	123	

a/ If the commissioner elects to sell MAPCO RIK from the Prudhoe Bay Initial Participating Area (IPA); then the price per barrel will be calculated on the basis of the volume weighted average of the Royalty Value received from just the IPA, plus \$.15. See Table 2.

b/ Satellites include wells penetrating several smaller, unnamed reservoirs.

c/ MAPCO's #2 contract expires November 30, 1998.

d/ MAPCO's proposed contract is expected to start December 1, 1998 and expires on December 31, 2003.

Price

The proposed contract requires MAPCO to pay a price per barrel equal to the state's royalty value per barrel plus \$.15. The state's royalty value is defined as an amount equal to the per barrel value the state would have received from the Lessees for its royalty oil if the state had taken its royalty in-value instead of in-kind, plus any costs incurred by the state as a result of taking the royalty in-kind rather than in-value. This price meets the statutory requirement that the value of RIK is at least equal to or exceeds RIV. The proposed contract price is comparable to the one-year contract price and the value of RIV. Table 3 illustrates the calculation of MAPCO's price if it took deliveries under the proposed contract in January 1997.

**Table 3: Volume Weighted Average Price -All Producers
Value of RIV**

<i>Producer</i>	<i>Gross Volume</i>	<i>PS-1 Value</i>	<i>Product of Volume Times PS-1 Value</i>	<i>Average Price</i>
Lisburne Production Center a/ b/ c/				
ARCO	1,803,528.68	\$19.50000	\$35,168,809.45	
BP Exploration	2,565,203.54	\$18.12000	\$46,481,488.14	
Exxon	2,167,463.77	\$18.73000	\$40,596,596.40	
Prudhoe Bay IPA a/				
ARCO	6,812,971.60	\$19.88000	\$135,441,875.41	
BP Exploration	9,731,640.80	\$18.64000	\$181,397,784.51	
Chevron	159,860.30	\$23.24800	\$3,716,432.25	
Exxon	7,700,737.40	\$19.58000	\$148,008,172.83	
Force	9,111.30	\$19.88000	\$181,132.64	
Mobil	362,126.20	\$19.82000	\$7,075,583.82	
Phillips	364,589.50	\$20.69000	\$7,543,356.76	
Texaco	100,129.00	\$18.95000	\$1,897,444.55	
Totals	31,777,362.10		\$607,508,676.78	
Volume Weighted Average Value:				\$19.11765
				+ \$.15/bbl
Price of Sale Oil:				\$19.26765

a/ Under the proposed contract, the state reserves the right to supply 100 percent of MAPCO's volume from just the Prudhoe Bay Unit Initial Participating Areas rather than include the production from the Greater Point McIntyre Areas, i.e., production processed through the Lisburne Production Center. This would imply that MAPCO would receive approximately 33.8 percent of the Prudhoe Bay Initial Participating Areas production. MAPCO will be notified 90 days in advance if the commissioner, in his sole discretion, chooses to exercise this right.

b/ Includes Larch, North Prudhoe Bay State and West Beach.

c/ Includes wells penetrating several smaller, unnamed reservoirs.

Like the current MAPCO and Tesoro contracts, the proposed contract price replaces the need for an escrow account and retroactive ANS Royalty Litigation⁵ adjustments that appear in MAPCO's 1978 contract. MAPCO's proposed contract will have a more certain purchase price, subject to only minor subsequent adjustments. The ANS Royalty Settlement Agreements concluded the ANS Royalty Litigation and provided an agreed-upon valuation method that did not exist when MAPCO's 25-year royalty oil contract was signed. MAPCO's new RIK contract will rely upon agreed-upon valuation methods in the ANS Royalty Settlement Agreements to establish a contract price. Except for certain related adjustments contemplated under the

⁵ ANS Royalty Litigation refers to the dispute between the state and the ANS lessees that was resolved in several settlement agreements (Case No. 77-847 Civil, June 1977).

settlement agreements with ARCO, BP, Exxon and the other PBU producers the MAPCO contract will not require an interim pricing method.

Previous RIK findings have described the so-called "displacement effect" and "competitive effect" that may occur with a state sale of RIK. Because the changes in the markets for ANS oil, these effects will be very minor.

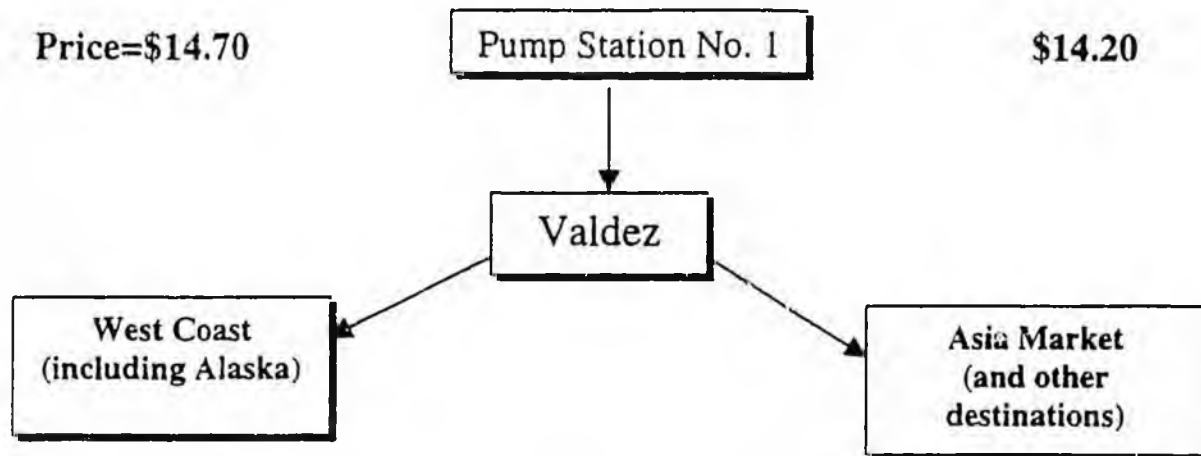
The "displacement effect" theorizes that any RIK sale by the state to in-state refiners will replace ANS sales by North Slope lessees to West Coast destinations including Alaska. Although the total volume of ANS sold on the West Coast is the same without a RIK sale, the producers must show in their royalty reports that a larger proportion of their oil is placed in destination markets where netback values are less than the West Coast. The West Coast destination yield a higher royalty value than the other destinations. The average royalty value, weighted by oil volumes to each destination, is lower when the proportion of oil reported by the lessees going to the non-West Coast destination increases. This proportion of deliveries to the West Coast and other destinations is also reflected in the netback value reported for severance tax purposes. In this way, selling RIK decreases the state's revenues from both RIV royalties and severance tax.

The potential for a "displacement effect" has diminished since the market of total ANS sold on the Gulf Coast has disappeared. The Gulf Coast's historically low royalty value contributed the biggest impact in calculating the displacement effect. There are now no more waterborne shipments of ANS to the Gulf Coast and the volumes shipped to the Mid-Continent or the Far East yield netbacks that are higher than the Gulf Coast netbacks.⁶

As shown in this example, (See Table 4) the displacement effect, is insignificant. The contract price is sufficient to compensate the state for any reduction in the royalty value of RIV oil.

⁶Alaska Department of Revenue, Fall 1997 Revenue Sources Book, Forecast and Historical Data. Anchorage, Alaska, p.19. ANS movements to destinations in the Far East, the Caribbean and the U.S. Mid-Continent represented just 5 percent of total ANS production in FY 1997.

TABLE 4: DISPLACEMENT EFFECT



If the North Slope producers take all of our royalty oil "in-value," their shipments will look like this:

28,000	+	922,000	+	50,000	=	1,000,000
(Mapco)		(CA and WA)		(Asia Market)		(Total)

In percentage terms:

3%	+	92%	+	5%	=	100%
----	---	-----	---	----	---	------

The calculation of royalty value (and severance tax) is:

$(\$14.70 \times 3\%)$	+	$(\$14.70 \times 92\%)$	+	$(\$14.20 \times 5\%)$	=	\$14.67
------------------------	---	-------------------------	---	------------------------	---	---------

If the state sells oil to Mapco, the producer's placements on the West Coast are reduced by 28,000 barrels. Their shipments will now look like this:

0	+	922,000	+	50,000	=	972,000
(Mapco)		(CA and WA)		(Asia market)		

In percentage terms:

0%	+	95%	+	5%	=	100%
----	---	-----	---	----	---	------

The calculation of royalty value (and severance tax) is:

$(\$14.70 \times 0\%)$	+	$(\$14.70 \times 95\%)$	+	$(\$14.20 \times 5\%)$	=	\$14.67
------------------------	---	-------------------------	---	------------------------	---	---------

In this example, the displacement effect has no effect on the state's royalty and severance tax revenue.

The "competitive effect" relies on the assumption that the price of ANS on the West Coast as reported in the producers' royalty value is higher than the price that would result from a purely competitive market. One North Slope producer dominates the ANS spot market and may be able to influence the price by its decision to transport oil to other destinations. When the state was selling nearly 210,000 barrels per day of RIK in 1986, (See Figure A-1) the state, as another seller in the market competing with the ANS producers, could conceivably contribute to a lower West Coast price. The "competitive effect" is probably immeasurable since ANS supply in the West Coast market is declining. Competitive market forces beyond the control of the ANS producers, including the state, now govern the price of ANS.

In-State Processing

In the proposed contract, MAPCO has agreed that 80 percent of the RIK it will purchase will be processed in the North Pole refinery. This clause is designed to prevent MAPCO from re-selling RIK to a third party and possibly profiting from a favorable price charged to MAPCO by the state. The in-state processing clause assures that the state will enjoy the benefits described in Section IV below.

Purchase Price Reopener

The contract provides no provision for either the state or MAPCO to renegotiate the price terms. Should the state pursue a price reopener as permitted by the ANS Royalty Settlement Agreements, the state is obligated only to inform MAPCO that negotiations have begun. MAPCO will pay based on whatever the Royalty Value the state and the producers may negotiate.

MAPCO also agrees that it will not intervene in any way in the negotiations or arbitration of a reopener between the state and the producers. If the new price terms that may result are disagreeable to MAPCO, it has the right to terminate the contract with one hundred days notice to cease deliveries.

Payments

The proposed contract has specified the timing and due dates associated with the Production Month Invoice, Initial Adjustments, and Subsequent Adjustments. The timing of these invoices and due dates have been shortened somewhat to reduce the state's exposure to default risk as described below.

The state has agreed that any subsequent adjustments rendered more than six years after the date of delivery will bear interest for only six years from the due date of the initial billing. However, this six-year interest limitation does not apply to adjustments that result from regulatory decisions, reopeners, court proceedings, or true-up audits that are commenced during the six-

year period. This provision appears in both the current one-year MAPCO contract and Tesoro's current three-year contract.

Termination Notice

The state requires at least one-hundred days notice of early termination of the contract or any reduction in the maximum quantity taken by MAPCO. This timing is based on the ANS Royalty Settlement Agreements and the PBU Agreement. Under the original PBU Agreement, the state has a right to "denominate" RIK deliveries with a six-month notice. However, under each of the ANS Royalty Settlement Agreements, the timing requirement was reduced to 90 days. The ANS Royalty Settlement Agreements provide that the lessees may claim *force majeure* if marine transportation is unavailable to transport any additional RIV for the first 90 days that the RIK has reverted back to the producers. During this up-to-90-day period that lessees could claim *force majeure*, the state must take full possession of its RIK and find customers to buy it and tankers to transport it. For this reason MAPCO must provide sufficient notice to terminate the contract or reduce its maximum quantity, up to six-months and ten days if necessary.

Late Payment Penalty

If MAPCO fails to make full payment of its monthly obligation within three business days following the receipt of the invoice, a five percent penalty will be imposed. In MAPCO's one year contract, the same late payment penalty applies.

Interest

Underpayments and overpayments are an unavoidable problem in any RIK sales contract. The contract price is based on Royalty Values calculated under provisions in the ANS Royalty Settlement Agreements that are subject to re-adjustments for true-up audits, regulatory decisions, reopeners, or court proceedings. Both the state and MAPCO agree to pay each other the statutory interest rate on readjustments made for overpayments or underpayments, respectively. The applicable rate is five percent over the annual rate charged member banks for advances by the 12th Federal Reserve Bank or 11 percent compounded quarterly, whichever is greater (AS 38.05.135(d)).

Local Hire

Like MAPCO's one-year contract and virtually every RIK contract to in-state refineries, the proposed contract requires that MAPCO agree to employ Alaska residents and Alaska companies to the extent they are available, willing and qualified for the applicable work performed in Alaska in connection with the Agreement. An Alaska resident is defined as one who has resided in Alaska for one year at the time of employment and "Alaska companies" means companies incorporated in Alaska or whose principal place of business is in Alaska. If

this provision is determined to be unconstitutional, then MAPCO agrees to hire Alaska residents to the extent that the constitution allows.

Security

The proposed contract requires an irrevocable stand-by letter of credit equivalent to the value of 75 days worth of RIK to secure the state in the event that MAPCO, for any reason, fails to pay its bills or to take delivery. The value of the letter of credit is calculated to protect the state from its exposure to "default risk" and "denomination risk." Default risk is the exposure the state faces if MAPCO fails to pay. Since MAPCO is billed on the first day of the month following the production month up to 39 days of RIK will be delivered to MAPCO before the state is in a position to declare the contract in default for failure to pay (See Table 5). In addition to the risk assumed by the state should MAPCO fail to pay, the state also runs a risk of losing full value of its RIK when it "denominates" the RIK volumes to RIV. As indicated above, the 90 day denomination notice period under the ANS Royalty Settlement Agreements plus 90 days should a lessee declare *force majeure* represents the amount of RIK oil subject to this risk. During this period, the state either has to organize a new RIK purchaser or negotiate with the lessees to take back the RIK. In either event, the state could be in a distress sale situation. The letter of credit instrument is intended to protect the state from losses for volumes delivered under the contracts or re-sold at a price less than the contract price.

The state's risk exposure is measured as follows:

Table 5: Calculation of MAPCO's Letter of Credit

	Days
Default Risk	
Days RIK tendered but not billed:	30
Days to Production Month Invoice:	2
Production Month Invoice Due:	3
Default Declared:	4
Total Default Exposure	39
Denomination Risk	
Volumes Subject to 90-day Denomination @ 100%	90 days
Probability that 90-day notice rights invoked @ 100%	90 days
Resale Value of denominated oil \$.80 on the \$1	
Number of days "at-risk" (20% X 90 days)	18
Volumes Subject to 90-day Force Majeure @ 100%	90 days
Probability that 90-days notice rights invoked @ 100%	90 days
Resale Value of denominated oil \$.80 on the \$1	
Number of days "at-risk" (20% X 90 days)	18
Total Denomination Exposure	36
Total Risk Exposure	75

The letter of credit is valued at the price of the RIK volume per day times the number of days of total risk exposure.

The proposed contract includes an alternative security provision if MAPCO so elects. This security provision requires that MAPCO provide the state with an irrevocable stand-by letter of credit for forty days of RIK oil, plus an irrevocable backup contract with a major oil company subject to approval by the Commissioner. The backup contract would assume MAPCO's full liability to the state to purchase RIK oil for a minimum of 90 days or a maximum of 180 days deliveries of RIK oil. Should MAPCO default, the state will draw from the 40 day letter of credit and the backup contract would immediately take effect for the RIK oil due MAPCO until the 90 day or 180 day (if producers invoke *force majeure* notice) denomination notice of the state's RIK oil became effective.

The concern for the state's exposure to default and denomination risk is driven by the state's previous experience. The security and other provisions of recent RIK contracts mitigate those risks. The Alpetco RIK sales contract, executed on February 22, 1978, a so-called in-state enhancement contract, was the worst performer recovering only 94.5% of the principal. Part of this difference were losses the state incurred on the royalty oil subject to "denomination risk." When Alpetco attempted to decrease its RIK purchases, the state realized only 78 percent of the contract price.

Over time, the Division has looked at some of the obvious problems with the Alpetco RIK contract and these problems have been mitigated or eliminated in the subsequent contracts. The proposed MAPCO contract avoids the following:

- Dispute clause that allowed Alpetco to unilaterally withhold any amounts Alpetco disputed without Alpetco's debt being called due and payable.

See MAPCO contract, page 15, line 11 (6.10 Disputed Payments) requires MAPCO to pay the full amount pending final resolution of the dispute.

- Ability to intervene in ANS Royalty Litigation allowed Alpetco the potential to disrupt the settlement if the state pursued litigation against Alpetco's parent company for claims.

See MAPCO contract, page 7, line 19 (2.5 Reopeners) stipulates that MAPCO shall not intervene or participate in any way regarding ANS Royalty Settlement Agreements or litigation with the lessees. This provision removes any leverage that MAPCO may have over the state.

- Failure to secure full value for its RIK oil resulted from the narrow marketing window imposed on the state when Alpetco could no longer take RIK volumes.

The MAPCO contract establishes the timing required for termination notices, notices to reduce the Maximum Quantity, and month-to-month deliveries volumes within the limits allowed in the ANS Royalty Settlement Agreements. The security clause requires a letter of credit and/or a backup contract so that the state can recover any losses due to premature denomination of RIK.

IV. In-State Benefit Analysis

The commissioner considered the effects of the sale of RIK on the economy of the state and the projected benefits of refining or processing the RIK in the state (under AS 38.05.183). In short, the terms of the proposed RIK sale should: (1) assure that the state receives at least as much value for the RIK as it would have received for RIV; and (2) encourage in-state processing of RIK together with the attendant economic and social benefits. These benefits are measured in terms of jobs, taxes, and economic competition among the state's refineries for their products. The conclusions reached in the best interest finding that accompanied the current one-year contract are still applicable. Some of the information has been updated here.

In the following discussion of in-state benefits, there is one caveat: the degree to which these effects may be attributable to the sale depends on how important the sale is to the continued operation and expansion of MAPCO's North Pole refinery. The state can offer a somewhat unique crude oil supply contract whose terms might not be available from any other seller. Presumably, MAPCO would continue operations without this contract, but there are direct benefits MAPCO may derive in dealing with the state. To the extent that these benefits are translated into jobs, taxes, and more vigorous refined-products competition, the people of the state also benefit. By the same token, the degree to which the sale may contribute to the ongoing operation and expansion of the refinery must also be taken into account when describing the environmental effects of the refinery's operation.

Economic Impacts

A \$70 million expansion and upgrade at the North Pole refinery is underway and will increase fuel production by 17,000 barrels per day. Recent upgrades at the North Pole refinery provide MAPCO the opportunity to expand its export markets in Western Canada and the Pacific Rim. In addition, the 1998 expansion will create 17 new jobs in North Pole and Anchorage.

MAPCO reports that it currently employs 120 people in the Fairbanks North Star Borough and 35 people in Anchorage who are directly associated with the North Pole refinery. In addition, MAPCO employs another 300 people statewide at their MAPCO express outlets.⁷ This translates as one-fourth of the manufacturing jobs in the Fairbanks North Star Borough competing largely with mining and construction jobs. For the most part, these are also high-wage jobs with a payroll in the Fairbanks North Star Borough of over \$9.4 million in 1994.⁸ Wages in the petroleum refinery and transportation sector averaged \$72,677 or more than twice the Fairbanks North Star Borough average. Income spent by workers in this sector contributes to an employment multiplier of over 2.5, i.e., for every job at MAPCO's North Pole refinery 2.5 jobs are created in the wider Fairbanks North Star Borough economy.

⁷ Communication with Keith Selby, MAPCO Alaska Petroleum, Inc. 1/23/98.

⁸ Lee Huskey, ISER. November 1995. "Table 2: The Fairbanks Petroleum Sector Private Industry Wage and Employment Effects," of the "The Petroleum Industry and the Fairbanks Economy" report.

MAPCO's statewide marketing and distribution of petroleum products activities, together with the refinery, employs a total of 455 people statewide with a payroll (including benefits) of over \$19.5 million in 1997.⁹

Consumption Effects

The market for crude oil and the market for retail petroleum products are different markets. While crude oil is a factor in the production of retail products (like electricity and labor), it is traded in a different market. Accordingly, lower prices of crude will not necessarily transfer immediately to a lower price for retail products. Wholesale product prices can move independently of ANS crude prices¹⁰ because of the other factors. These other factors include such influences as refinery outages, changing gasoline specifications, gasoline inventory levels, the previous month's wholesale price, and other energy market effects.

As with other in-state refiners, the presence of MAPCO in the state provides competition to outside fuel sellers who import products to Alaska. California suppliers can capture the difference in state highway gasoline taxes of 22 cents per gallon between markets in Alaska and California. For Washington, the difference is 15 cents. All other things being equal, this difference in government take provides a business opportunity for outside suppliers to sell gas in Alaska. The presence of local suppliers of retail products in competition with imported petroleum products adds price competition to the retail market. In the same manner, imported products offer competition to local suppliers.

The presence of MAPCO's North Pole refinery as a local product supplier with lower transportation cost to markets and situated next to a crude oil pipeline provides price competition to imported petroleum products. MAPCO's healthy market share of the gasoline and jet fuel trade indicates that imported products sellers must consider MAPCO's price in setting their own.

Two investigations conducted in the mid-1980's by the Alaska Attorney General's office supports the important role of competition in the level of in-state gasoline prices.¹¹ Both studies report that higher profit margins stem from weak competition. In 1985, only one in-state refinery produced motor gasoline throughout the entire calendar year. That refiner enjoyed a decrease in its price for most of its crude feedstock while wholesale prices were increased by an average of 6.5 cents per gallon.¹² The Attorney General's report concluded, "... the refineries are charging more for refined gasoline, even though they are paying less for the crude oil they use to make the gasoline." With only one refiner producing gasoline for the entire calendar year, there was little competitive pressure to reduce wholesale prices at a time when their largest cost input, the price of crude feedstock, decreased. MAPCO began refining motor gasoline in the last quarter of 1985 and has provided competition in that market.

⁹ Communication with Keith Selby, MAPCO Alaska Petroleum Inc., Anchorage, Alaska 1/26/98.

¹⁰ William W. Wade and Robert R. Trout. "Carb Gas Phase-In Price Spike: Collusion or Market Effects?" 1997

¹¹ Memo to M. Mike Miller, Chairman, House Judiciary Committee from Attorney General Norman C. Gorsuch. RE: Southeast Alaska Gasoline Price Investigation. May 13, 1985. Fairbanks Gasoline Report, February, 1986. An attachment to a memorandum to Governor Bill Sheffield from Attorney General Harold M. Brown, March 11, 1986.

¹² Fairbanks Gasoline Report, page 17.

This competition in the in-state gasoline sales market, along with other sellers, provides a dampening effect on prices. The effect of market competition on prices reported in the 1985 Attorney General's report explains that "The ... price difference [between wholesale prices in Anchorage and Southeast Alaska] appears to be due to a very low level of competition between wholesalers in Southeast Alaska, which permits higher profit margins."¹³ Insofar as state refineries and product wholesalers can compete, the consumer can enjoy lower prices than would be the case if competition did not exist.

Social Impacts

MAPCO paid 60 percent of the property tax revenues collected in 1996 by the City of North Pole. Until 1997, when the Ft. Knox Gold Mine came on line, MAPCO's North Pole refinery had the highest property assessment in the Fairbanks North Star Borough at \$94 million.¹⁴ MAPCO's tax contribution will grow as a result of the refinery expansion. No incremental effects on land use, impacts on the local social infrastructure, i.e., schools, public safety, roads, and other government services, are anticipated as a result of this sale.

Effect of Refinery Expansion

MAPCO's North Pole refinery is the largest refinery by volume in the state. Almost half of MAPCO's business is jet-fuel sales, and the company has about half the market at Anchorage International Airport which equals approximately 861,000 gallons per day in 1997. MAPCO's growth is being driven by the rapid expansion (about a 43% growth rate from 1995 levels), of jet-fuel sales in Anchorage as the growth in international air-cargo traffic continues. All of the additional jet fuel production due to the refinery expansion is projected to supplant foreign imports of jet fuel. Including purchased volumes, MAPCO supplies approximately 39% of the jet fuel used in Alaska. MAPCO's 1996 jet fuel production was 22,000 barrels per day or 924,000 gallons per day.¹⁵

Jet-fuel demand in Alaska has been growing at 7 to 8 percent a year and at least 4 percent growth is expected over the next few years.¹⁶ Total Alaska jet-fuel demand is about 55,000 barrels per day, with all but 14,000 to 15,000 barrels of that supplied by the four Alaska refineries, mostly by MAPCO. Over 80% of North Pole refinery's production is consumed in the state of Alaska. MAPCO markets more than 40,000 barrels per day of these refined products to Alaska, Western Canada and the Pacific Rim. MAPCO processes only Alaska North Slope crude oil. In addition, the refinery markets 64% of its gasoline production through MAPCO Express stores in Alaska.

MAPCO estimates that its retention (i.e. oil taken from TAPS at the North Pole refinery but not returned to the pipeline) will be approximately 45,000 barrels per day. In future years MAPCO will retain approximately 64,000 barrels per day to produce MAPCO's produce slate. See Table

¹³ Memo to M. Mike Miller, page 2.

¹⁴ Lee Huskey, ISER, November 1995. "Table 2: The Fairbanks Petroleum Sector Private Industry Wage and Employment Effects," of the "the Petroleum Industry and the Fairbank Economy" report.

¹⁵ Communication with Keith Selby, MAPCO Alaska Petroleum Inc., Anchorage, Alaska 1/23/98.

¹⁶ 1996 MAPCO Petroleum Inc. Annual Report.

6 and Figure 2 titled "North Pole Refinery Total Retention and State Royalty Volumes" for the amounts by year. For every barrel of oil that MAPCO retains in its refinery, MAPCO returns two barrels of residual oil to the TAPS. (See Table 6 and Figure 3 titled "MAPCO's Projected Product Slate" for the types and percentages of refined products). After the 1998 expansion, the maximum crude distillation capacity or processing capacity of the North Pole refinery will rise to 210,000 barrels per day.

Quality Bank

MAPCO's expansion will increase its return flow by 63,000 barrels to a total of 159,000 barrels per day.¹⁷ This increased return flow to the pipeline degrades the crude oil stream. MAPCO compensates for this degradation by making increased payments to the TAPS Quality Bank.

Any effect on ANS crude price due to increased degradation of the pipeline stream is compensated by the Quality Bank. The quality bank methodology, theoretically, equalizes value between crude streams by billing relatively lesser value streams and compensating relatively higher value ones.

Environmental Impacts

Air quality issues: MAPCO has made timely a application and complied with all permit requirements required under Title V of the federal Clean Air Act amendments of 1990 and 1993 state legislation under which Alaska was delegated authority. MAPCO is in compliance with the applicable air quality regulations and Alaska Department of Environmental Conservation (ADEC) officials expressed no problems with the refinery.¹⁸

Industrial wastewater issues: MAPCO runs its treated discharges through filters then into the North Pole Wastewater System. This is done under the authority of a pretreatment permit. MAPCO sends monitoring information to ADEC through quarterly reports. MAPCO is in compliance with the applicable wastewater regulations.¹⁹

Contaminated site issue: MAPCO has an ongoing groundwater remediation program and is still cleaning contaminants from the aquifer. ADEC reports that MAPCO is fulfilling its responsibility and operating properly under the appropriate permits. When asked, ADEC responded that if the refinery ceased operation and discontinued the remediation program, it would be a detriment to the environment as natural degradation of remaining contaminants would be very slow.²⁰ However, even if the refinery abruptly ceased operations, MAPCO would remain liable as an operator or owner for any contamination that has occurred as a result of refinery operations.²¹

¹⁷ Communication with Keith Selby at MAPCO, Anchorage, Alaska 12/3/97.

¹⁸ Communication with Jack Coutts, Alaska Department of Environmental Conservation, 12/18/97.

¹⁹ Communication with Tim Wingerter, Alaska Department of Environmental Conservation, 12/18/97.

²⁰ Communication with Doug Bauer, Alaska Department of Environmental Conservation, 12/19/97.

²¹ Communication with Mary Lundquist, Alaska Attorney General's Office, 1/22/98.

TABLE 6

Table 6: Mapco's Projected Product Slate (Percent of Total Refinery Throughput)

	1994	1995	1996	1997	1998	1999-2003
Gasoline Blendstock	9	13	15	15	13	9
Gasoline	11	12	12	11	14	10
Jet Fuel	54	52	50	50	49	57
Diesel	19	19	17	18	18	19
Heavy Atm. Gas Oil	5	2	4	5	5	4
Asphalt	2	2	2	1	1	1
Total	100	100	100	100	100	100

MAPCO Refinery Retention (barrels per day)

Total Retention	38,000	42,000	46,000	44,000	45,000	64,000
State Royalty Volume	35,000	35,000	35,000	35,000	45,000	57,000

Figure 2: North Pole Refinery Total Retention and State Royalty Volumes

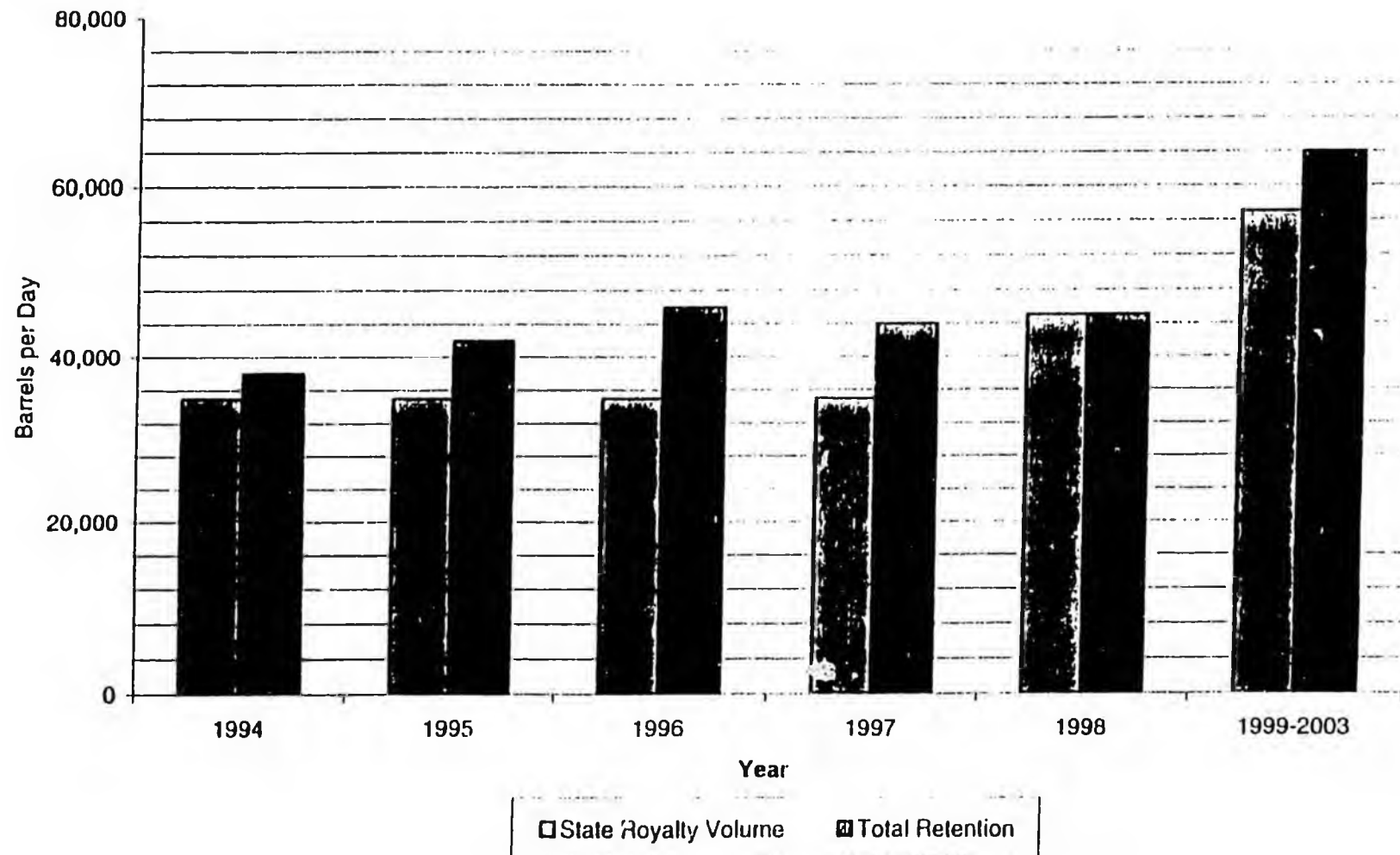
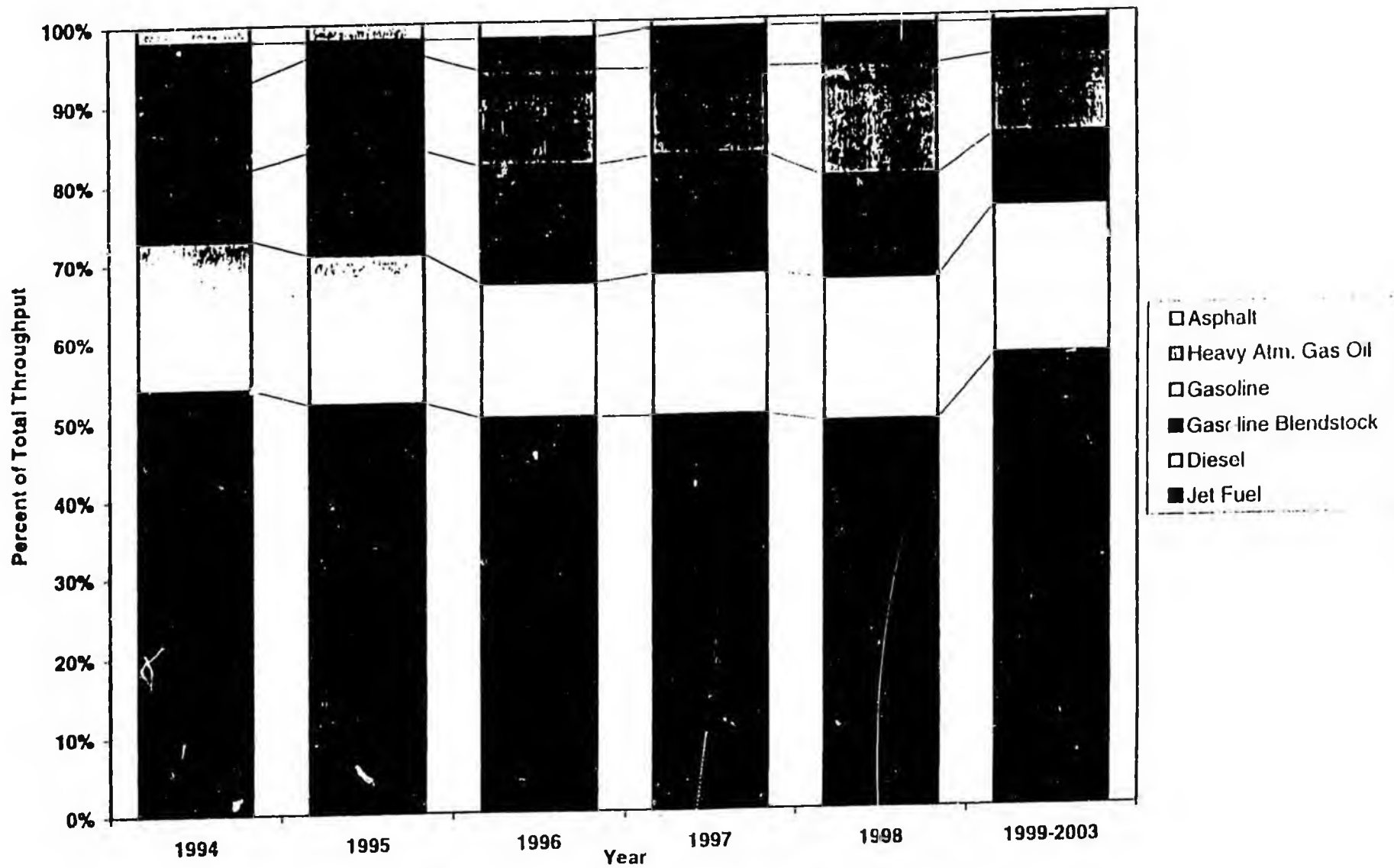


FIGURE 3: Mapco's Projected Product Slate



V. Findings and Determination

In any disposition of RIK, the commissioner must conclude that the best interest of the state will be served by a non-competitive sale (AS 38.05.183(a)), and that, the non-competitive sale of RIK will be awarded to the prospective buyer whose proposal offers maximum benefits to the citizens of the state (AS 38.05.183(e)). The commissioner considered the criteria listed in AS 38.05.183(e) and AS 38.06.070(a). The criteria listed in AS 38.05.183(e) are: (1) the cash value offered; (2) the projected effects of the sale, exchange or other disposal on the economy of the state; (3) the projected benefits of refining or processing the oil in the state; (4) the ability of the prospective buyer to provide refined products or by-products for distribution and sale in the state with price or supply benefits to the citizens of the state; and (5) the criteria listed in AS 38.06.070(a). These are the same criteria that are to be considered by the Royalty Board in its review of the sale. The criteria listed in AS 38.06.070(a) are: (1) the revenue needs and fiscal condition of the state; (2) the local and regional requirements for petroleum products; (3) the desirability of localized capital investment, increased payroll, and secondary development effects; (4) the social impacts of the sale; (5) the additional costs to the state and local governments caused by the development related to the transaction; (6) the local and regional labor market; (7) environmental effects; and (8) the impact on existing private commercial enterprises and investment patterns. The commissioner also considered comments from the public received during the 30-day public notice period.

The applicable statutes and regulations are included in Appendix B.

Competitive Bidding is Waived

As commissioner of the Department of Natural Resources, I have determined in accordance with AS 38.05.183(a) and 11 AAC 03.030 that the best interest of the state may be served by a sale without competitive bidding. The state is currently selling 71 percent of its PBU royalty oil under MAPCO's long term and one-year contracts and Tesoro's three-year contract. In 1999, Tesoro's three-year and MAPCO's one-year contracts expire.

By 1999, MAPCO will purchase approximately 60 percent of ANS royalty oil under its 25 year contract and the proposed contract. The state will retain 40 percent of its royalty, approximately 65,000 barrels per day for future RIK dispositions. Tesoro indicated verbally to the department an interest in a new one-year contract beginning in 1999.²² The state will retain enough royalty oil to meet the needs of other RIK purchasers even with the proposed contract.

A copy of the Preliminary Finding and Determination was delivered to the Alaska Royalty Oil and Gas Development Board as notification under 11 AAC 03.040 that competitive bidding has been waived.

²² Communication with Ipe Chako, Tesoro Alaska Petroleum Company, December 12, 1997.

The Sale is in the Best Interest of the State

In accordance with AS 38.05.182 and AS 38.05.183, I find that taking RIK oil and selling by non-competitive bid to MAPCO for use at the North Pole refinery is in the best interests of the state. The proposed RIK contract meets the following criteria as set out in AS 38.05.183(e).

1. The cash value offered: The RIK price offered under the proposed contract exceeds the royalty value of RIV by \$.15 per barrel. Therefore, the requirements of AS 38.05.183(c) and 11 AAC 03.010(b) are satisfied. Furthermore, the sales price satisfies the definition of "market conditions" in 11 AAC 03.024(1) and (3).
2. The projected effects of the sale, exchange or other disposal on the economy of the state: The projected effects of the sale to MAPCO on the economy of the state are expected to be positive. The people of the state will benefit from the proposed sale to the extent that benefits of this sale can be translated into jobs, taxes, and more vigorous refined-products competition.
3. The projected benefits of refining or processing the oil in the state: The presence of MAPCO's North Pole refinery as a local product supplier with lower transportation cost to markets and situated next to a crude oil pipeline provides price competition to imported petroleum products. The consumer may enjoy lower gasoline prices than would be the case if competition did not exist because MAPCO, other refineries and product wholesalers compete for a share of the gasoline sales market.
4. The ability of the prospective buyer to provide refined products for distribution and sale in the state with price or supply benefits to the citizens of the state: MAPCO's North Pole refinery is the largest refinery by volume in the state. It has been in business in Alaska since the late 1970's, and provides a 50 percent share of the local market for diesel fuels, jet fuels and gasolines.
5. The criteria listed in AS 38.060.070(a): See discussion below.

In addition, I find that the sale offers maximum benefits to the citizens of Alaska. The proposed sale meets the following criteria:

1. The revenue needs and fiscal condition of the state: The state depends on oil revenue and will continue to depend on oil revenues in the future. The price term of the sale protects the state's interest by ensuring that revenues from this sale will exceed the in-value alternative. (AS 38.06.070(a)(1))
2. The local and regional requirements for petroleum products: There are local and regional economic benefits to be derived from the continued operation and expansion of the North Pole refinery. While the proposed contract may increase the financial viability of the refinery, the extent to which these benefits can be ascribed to the proposed contract cannot be predicted. As described above, MAPCO is an important

competitor in the market of refined petroleum products. Vigorous competition in fuel sales in the state may provide for lower consumer product prices. (AS 38.06.070(a)(2))

3. The desirability of localized capital investment, increased payroll, and secondary development effects: To the extent that the sale helps provide a consistent and economic supply of crude oil to the refinery, the sale will contribute to ongoing economic stability in the Fairbanks North Star region and maintain a healthy competitor in the in-state market for refined petroleum products. MAPCO is undertaking a \$70 million expansion program at the refinery. During the construction period of the refinery expansion, there will be short-term economic benefits of jobs and salaries. In addition, MAPCO will add 17 permanent jobs to the local economy. (AS 38.06.070(a)(3))
4. The social impacts of the sale: Both the Fairbanks North Star Borough and the state receive revenues from MAPCO as property taxes and corporate income and excise taxes. MAPCO contributes \$94 million to the local property tax base. With the planned expansion of the refinery, this contribution will grow. (AS 38.06.070(a)(4))
5. The additional costs to the state and local governments caused by the development related to the transaction: Additional costs incurred by the state and local governments as a result of this transaction will be minor. The refinery expansion will employ more people who will require social and education services and the Division of Oil and Gas will incur additional administrative expenses. (AS 38.06.070(a)(5))
6. The local and regional labor market: MAPCO provides direct jobs to 120 people in the city of North Pole and 35 people in Anchorage for their North Pole refinery operations and another 300 people statewide. It is number ten of the top-ten private sector employers in the Fairbanks North Star region. (AS 38.06.070(a)(6))
7. Environmental effects: Any environmental effects will result from the continued operation and expansion of the North Pole refinery, not from the proposed sale. The sale by itself will have no incremental effect. (AS 38.06.070(a)(7))
8. Impact on existing private commercial enterprises and investment patterns: Any impacts on existing private commercial enterprises and investment patterns could result from more competition in the product market and lower prices for products might result from this competition. (AS 38.06.070(a)(8))

Criteria Weights

According to 11 AAC 03.060(b), "In considering the criteria described in AS 38.05.183(e), the Commissioner stated which criteria applied to the proposed disposition and discussed the weight given to the applicable criteria in determining the maximum benefit to the state...."

In making this finding, the department first determined that the state would not lower the total oil revenue, including royalties and severance taxes, due the state by making a disposal to MAPCO. The department next examined the criteria to determine that the state would not create any unacceptable social or environmental impacts. Finally, the department looked at whether the disposal contributed to competition in the in-state refining industry and the extent to which that would lead to lower product prices.

Royalty Board

The preliminary finding and determination was submitted to the Royalty Board in compliance with AS 38.05.183(c) which provides that the commissioner may not waive competitive bidding of this sale of RIK unless prior written notice is given to the board. Under AS 38.06.070(c) the Royalty Board will make a full report to the legislature on each criterion set out in AS 38.06.070(a) and (b) for any disposition of royalty oil that requires legislative approval. The Royalty Board's report will be submitted for legislative review at the time a bill for legislative approval of this proposed royalty oil contract is introduced in the legislature.

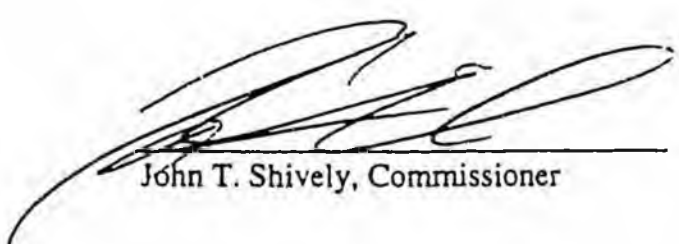
Legislative Approval

According to AS 38.06.055(c) the commissioner may not renew the current one-year contract with MAPCO without the prior approval of the legislature. By statute, the Royalty Board reviewed this sale and a written recommendation will be submitted to accompany a bill introduced in the legislature to approve the sale (AS 38.06.050).

Conclusion

Under the terms of the proposed contract, the state receives a fair value for the royalty oil, promote in-state processing, product competition and attendant benefits. The state will retain enough royalty oil to meet the needs of other RIK purchasers even with the proposed contract. The price terms are satisfactory, and the sale to MAPCO offers economic benefits to Alaska citizens.

The foregoing facts and analysis support the finding that this sale is in the best interest of the state and offers maximum benefits to Alaska citizens.



John T. Shively, Commissioner

3/5/98
Date

Appendix A: Summary of Previous North Slope Royalty Oil Sales

Volumes. Beginning in November 1979 and continuing to the present, the state has delivered North Slope RIK to fourteen companies in twenty negotiated contracts, two competitive sales, and one quasi-competitive sale. By December 1997, the state delivered over 529 million barrels or approximately 50 percent of its North Slope royalty crude oil through these contracts.

Negotiated royalty oil sales are defined as dispositions of royalty oil where a determination has been made that the best interest of the state does not require competitive bidding or that no competition exists. In every case the negotiated contracts were for sales of royalty oil to in-state refiners.

The state negotiates with a company the quantity, price and other terms of a short or long-term negotiated royalty oil sale. Short-term negotiated royalty oil sales are one year or less and do not require legislative approval. Long-term negotiated royalty oil sales are longer than one-year and legislative approval is required before the royalty oil contract becomes effective.

Figure A-1 shows the amount of royalty oil sold to these companies since the North Slope production began. The graph indicates that the amount of oil sold to each company has varied over the years. Tesoro and MAPCO have been the state's two most consistent customers.

Under various contracts through the 1980's Tesoro took approximately 218.8 million barrels of RIK.²³ The biggest of those contracts was a 10-year agreement that terminated in 1994. The crude oil purchased by Tesoro is refined at the Nikiski facility (capacity 72,000 barrels per day). Tesoro signed a one-year royalty oil supply contract for 27.2% or initially approximately 38,000 barrels per day of the state's royalty oil to begin deliveries after Tesoro's long-term RIK contract expired December 31, 1994. When Tesoro's one-year contract expired in December 1995, Tesoro signed a three-year RIK contract for 30% or an initial volume of approximately 39,000 barrels per day of the state's royalty oil. This contract expires at the end of December 1998.

The MAPCO and Golden Valley Electric Association (GVEA) purchases were refined at the MAPCO refinery in North Pole (capacity 159,000 barrels per day). MAPCO has the longest running contract for ANS RIK. Deliveries under its long-term contract began in November 1979 for 35,000 barrels per day. This contract will not expire until December 2003. In December 1997, MAPCO was issued a one-year RIK contract for 13,000 barrels per day. This contract expires at the end of November 1998. To date, MAPCO has received approximately 205.8 million barrels of RIK (including the GVEA volumes).

Chevron's RIK purchases were refined at its 18,000 barrels per day plant in Kenai, which ceased production in June 1991. The Petro Star's RIK was refined at its 14,000 barrels per day plant in North Pole. The new Petro Star Valdez Refinery Joint Venture (Petro Star JV), with a capacity of 40,000 barrels per day, was to be fully supplied with RIK purchased from the state from the

²³Includes Chevron exchange barrels

Kuparuk River Unit (76.18 percent of the royalty share). However, the contract lapsed automatically in December 1993 because Petro Star JV did not take any royalty oil.²⁴

Competitive and quasi-competitive sales contracts were entered into with several companies. In-state refineries, including Tesoro, refined some of the crude purchased in these sales, and some was exported from Alaska. The Alpetco purchases were exported.

Competitive royalty oil sales are where the state sold royalty oil in predetermined barrel lots for one-year or less through competitive bid. In these sales the buyers bid a fixed per barrel price for the oil that equaled or exceeded the state's volume weighted average of the lessees' reported RIV prices. In-state priority preferences are usually included as a provision of competitive royalty oil sales.

In the quasi-competitive sale the state's royalty oil was sold in predetermined barrel lots for less than one year through competitive bid using negotiated sale procedures. The quasi-competitive royalty oil sale called for interested parties to submit price bids to a standard form contract. The minimum bid per barrel equaled or exceeded the state's volume weighted average of the lessees' reported RIV prices. The selection of purchasers was based entirely on the premium offered. No in-state priority preferences were included as a part of this sale.

Figure A-2 illustrates the total amount of ANS royalty oil produced and the amount of that oil taken in-kind and sold by the state. In the early 1980s, after the first and second competitive royalty oil sales, the state sold nearly all of its royalty oil in-kind. From 1986 to 1990 the volume of oil the state sold in-kind remained relatively constant. From 1990 through 1993 the volume taken in-kind declined to approximately 26 percent of the state's North Slope royalty oil. In 1995 the volume of oil taken in-kind increased by 27.2% or 38,000 barrels per day when Tesoro signed a one-year RIK oil supply contract from the North Slope that began January 1995. After Tesoro's one-year RIK contract expired in December 1995, Tesoro began a new three-year contract for 30.0% of the state's royalty oil from the North Slope. This contract expires at the end of December 1998. In 1997, the state's RIK oil increased by 11.6% or 13,000 barrels per day when MAPCO signed a one-year RIK oil supply contract from the North Slope that began in December 1997. As of December 1997, deliveries of ANS RIK are approximately 82,000 barrels per day or 50.6 percent of the state's total North Slope royalty share.

Recent Developments. The status of the most recent contracts is shown in Table A-1. During the years of 1990 through 1994, the state took less of its oil in-kind than at any time since the last half of 1985. Beginning in 1995 to the present the state's RIK oil share increased with Tesoro signing one-year and three-year RIK contracts. At the end of 1997, the state's RIK oil share increased again when MAPCO began taking an additional 13,000 bpd under a new one-year RIK contract with the state. This one-year contract expires November 1998. In the future, the state's RIK oil share is likely to continue to increase under the proposed five-year contract to MAPCO.

²⁴Capacity figures are taken from Alaska Department of Natural Resources. Historical and Projected Oil and Gas Consumption. April 1997.

Major North Slope RIK Contracts to In-State Purchasers Since 1979

Purchaser		Period	Total RIK Volume (barrels)
Second Competitive RIK Sale			
Contract			
Chevron 4	4/85 - 3/86		5,703,996
Chevron 5, 6, 7	4/85 - 9/85		3,226,724
Sohio	4/85 - 12/85		955,688
Texaco 1	4/85 - 12/85		2,867,172
Texaco 2	4/85 - 3/86		9,506,588
Union 2	4/85 - 9/85		1,135,522
US Oil & Refining - B	4/85 - 3/86		3,802,521
Total			27,198,211
Open Competitive RIK Sale			
Contract			
Chevron 8	10/85 - 3/86		954,349
Union 3	10/85 - 3/86		715,760
US Oil & Refining - 1, 2, 3	10/85 - 3/86		1,908,696
Total			3,578,805
Estimate of Total RIK Oil			707,385,109

Source: Alaska Department of Natural Resources, Division of Oil and Gas

Figure A-2: Total ANS Royalty and RIK Sales
(includes New Mapco Contract)

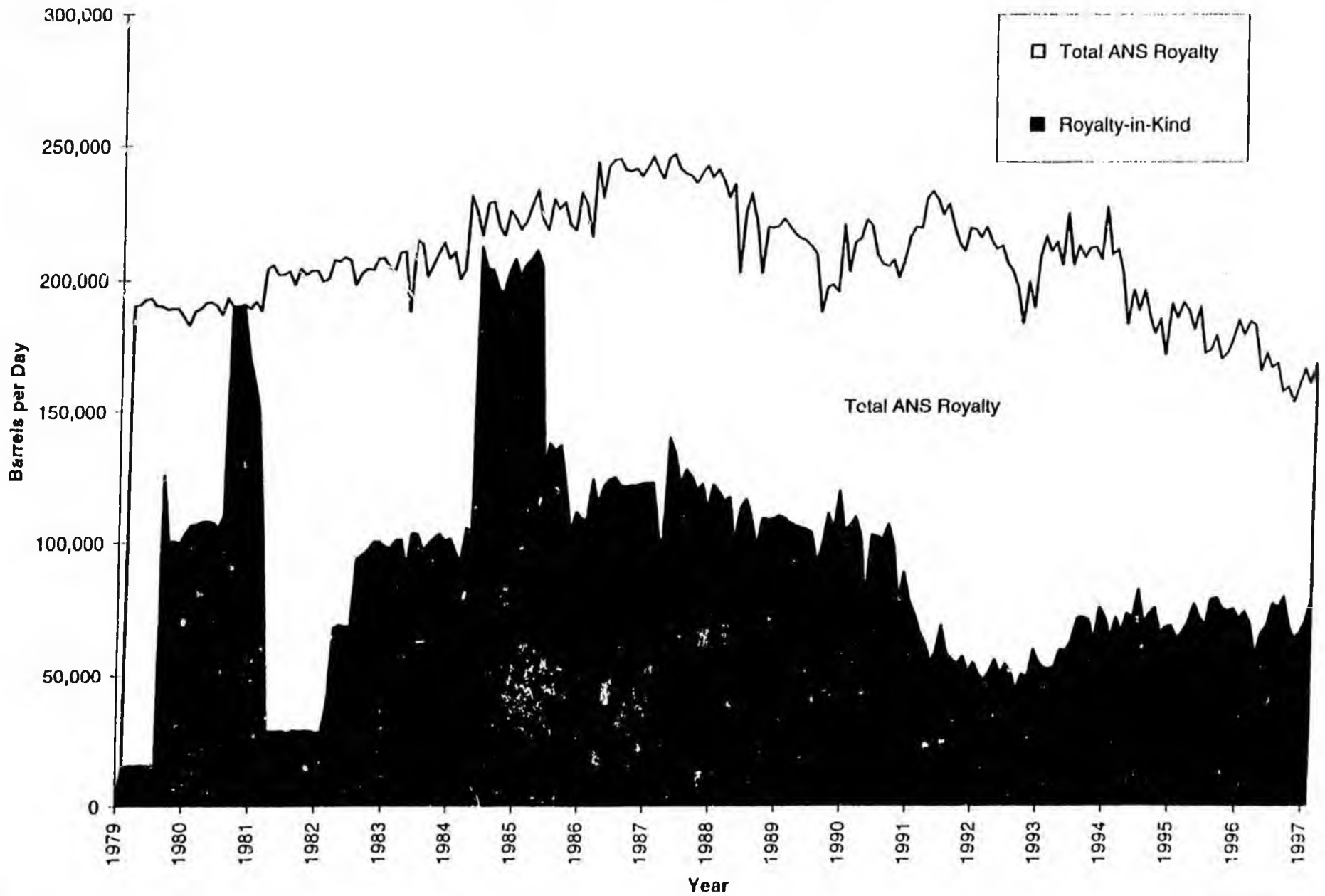


Figure A-1: RIK Volumes by Purchaser

