

**ALASKA LEGISLATURE**

**2491**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004**

32

***The proven worth of DNA databases:***

- ✓ In England, where DNA is collected from all felons and misdemeanants, the DNA database is used to solve over 700 crimes per week.
- ✓ Virginia's DNA database, the most mature all felons system in the country, averaged at least one "cold hit" per day in 2002. In one month of 2002, the Virginia database made 68 "cold hits."  
"Cold Hit" - when DNA from a crime scene is matched on the DNA database to a convicted offender's profile.
- ✓ "Approximately 85% of hits would have been missed if the databank were limited to only violent offenders."  
Paul Ferrara, Director, Virginia Division of Forensic Science.
- ✓ 52% of Florida offenders linked to sexual assaults and homicides by DNA matches have had prior burglary convictions (non violent offense).

***Congress begins to respond:***

- ✓ The federal DNA Backlog Elimination Act authorizes \$170 million in federal funding for state DNA programs. Congress is now considering increasing this amount to over \$300 million.

***State Legislatures begin to respond:***

- ✓ In 2002, 27 states introduced over 80 bills to expand the state offender DNA database to include more felons.
- ✓ Of these states, 20 introduced bills to expand the DNA database to include all convicted felons.

**FOR MORE INFORMATION, OR ASSISTANCE IN  
DRAFTING DNA DATABASE EXPANSION  
LEGISLATION FOR YOUR STATE, CONTACT:**

Tim Schellberg or Lisa Hurst  
253-627-1091  
tms@smithallinglane.com  
lhurst@smithallinglane.com

**OR VISIT:**

**<http://DNAresource.com>**

# OPINION

COMPASS: *Points of view from the community*

## DNA law aims to boost safety

By REP. TOM ANDERSON

Alaska has the highest percentage of reported rapes per capita in the United States and has held this ranking for 19 of the last 26 years. Anchorage currently ranks fifth out of 274 metropolitan areas of reported rapes, half of which are reported by Alaska Natives.

These statistics speak for themselves, and they are very alarming. As a legislator, I feel it is my duty to help protect the most vulnerable in the state and to increase the level of safety that all residents experience here.

Along with Rep. Mike Hawker, I am sponsoring House Bill 49, which expands the DNA testing of convicted criminals. Under current state law, only those felons convicted of crimes against a person, burglary and felony attempt to commit burglary after Jan. 1, 1996, are required to submit their DNA into the state database.

If passed, HB 49 will broaden this law so that all people, including adjudicated juveniles, convicted of felonies, crimes against a person or sexual misdemeanors; those who are required to register as sex offenders; and those currently incarcerated or on parole for these crimes will have their DNA entered into the statewide database.

DNA testing, usually done through a simple mouth swab, is the fingerprinting of the 21st century. Through DNA analysis of blood, hair, fingernails or skin left at crime scenes, investigators are able to connect perpetrators with their past crimes or to exonerate those who are falsely accused.

Currently, 24 states require all felons to submit DNA samples. To that end, collecting DNA from a larger pool will increase the number of violent crimes solved.

DNA has been collected from crime scenes and stored for decades, but without



*Through DNA analysis of blood, hair, fingernails or skin left at crime scenes, investigators are able to connect perpetrators with their past crimes or to exonerate those who are falsely accused.*

the matching profile, cases remain unsolved, and the victims and their families never experience closure or justice.

Collecting DNA also helps prevent future crimes. An offender who is not caught quickly remains free to commit more crimes. This is a downward spiral, and we now have the tools at hand to catch these criminals at the commission of another violent crime or for a nonviolent offense.

One of the most important benefits of increasing the DNA database to include nonviolent felonies is the drop in number of innocent people wrongly suspected, arrested and convicted for someone else's crime. HB 49 works to protect the innocent when both the accused and the offender's profiles are in the database.

Within months last year in Santa Clara County, Calif., three men convicted of serious offenses were freed. Additionally, since 1989, DNA tests have cleared 73 people, eight of whom were on death row and had exhausted their appeals. The DNA database saves lives. The innocent will no longer be at the mercy of mistaken eyewitnesses, hearsay or other circumstances.

Expanding the DNA database is also cost-efficient. Securing DNA profiles saves prosecution time by eliminating suspects. Profiles offer solid proof to the courts, and

felons who must offer their DNA may not be as likely to re-offend.

HB 49 also increases the penalty for misuse of the database by emphasizing the importance of confidentiality of the DNA records and samples. Those who disclose, use or tamper (or attempt to tamper) with such records and samples without authorization will be penalized.

Many of my colleagues and I ran on a platform that supported improving public safety. HB 49 is a fulfillment of that promise. Not only will this legislation help increase the efficiency and production of law enforcement, it will help save money in the long term by preventing possible future crimes.

For the protection of our mothers, sisters, wives and daughters and our communities, please support this important crime-fighting legislation. To testify at a hearing, to provide written support, or to track the progress of HB 49 through the legislative process online, visit our Web site, [www.akrepublicans.org](http://www.akrepublicans.org).

■ State Rep. Tom Anderson, R-Anchorage, is a lifelong resident of District 19. He is chairman of the House Labor & Commerce Committee, vice chairman of the House Judiciary Committee and a member of the Finance Subcommittee on Public Safety and Corrections.

# DNA and CODIS Update

May 2003

Chris Beheim 269-5743  
State Crime Laboratory

## Biological Testing at the Alaska Crime Laboratory

- 1982 Blood and Semen Identification
- 1987 ABO Typing 1 in 20
- 1992 DQ-alpha Typing 1 in 100
- 1996 Polymarker Typing 1 in 1000
- 1999 STR Typing  
1 in 2,111,000,000,000,000,000

STR

## Short Tandem Repeat

1997 13 Core Loci Selected by FBI

Consistent Technology to Allow Comparisons

## Alaska's DNA Registration System

- AS 44.41.035 Directs DPS to establish a DNA registration system
- Individuals convicted of a felony crime against a person after January 1, 1996 must provide a blood or oral sample
- Burglary added as a qualifying conviction in September 2001

# CODIS

## Combined DNA Index System

- Convicted Offender
- Forensic (crime scene evidence)

# CODIS

- IDENTIFY SUSPECTS

Compare DNA profiles from unknown crime scene evidence to convicted offender DNA profiles obtained locally and nationally.

- LINK CASES

Compare unknown DNA profiles collected as evidence from various crime scenes.

## CODIS

- State DNA Index System
- National DNA Index System (NDIS)  
NDIS opened October 13, 1998

## National DNA Index System

States Submitting STR Profiles to NDIS

October 1999 - 10 States



States Submitting  
STR Profiles

# NDIS Status October 1999

- 20,155 Offender STR profiles
- 1,722 Forensic STR profiles
- 10 States

# CODIS Laboratories January 2002

Total: 150+ labs in 48 States



## NDIS Status

January 2003

- 1,266,351 Offender STR profiles
- 42 States, 2 Federal Laboratories and Puerto Rico

## Alaska CODIS Database

April 30, 2003

- 3,243 Convicted offender STR profiles
- 312 Forensic STR profiles
- 165 "no suspect" forensic STR profiles

## Alaska CODIS Hits

April 30, 2003

30 Total Hits

15 Offender to Case

15 Case to Case Hits

40 Investigations Aided

Feb. 28

19 hits

12 Offender

7 forensic

23 I.A.

## Should Alaska's Database Law be Expanded?

- 40 State & Federal database laws retroactive
- 26 States collect from all Felons
- Collect from all Registered Sex Offenders
- Increase penalty for refusing
- Increase penalty for unauthorized disclosure

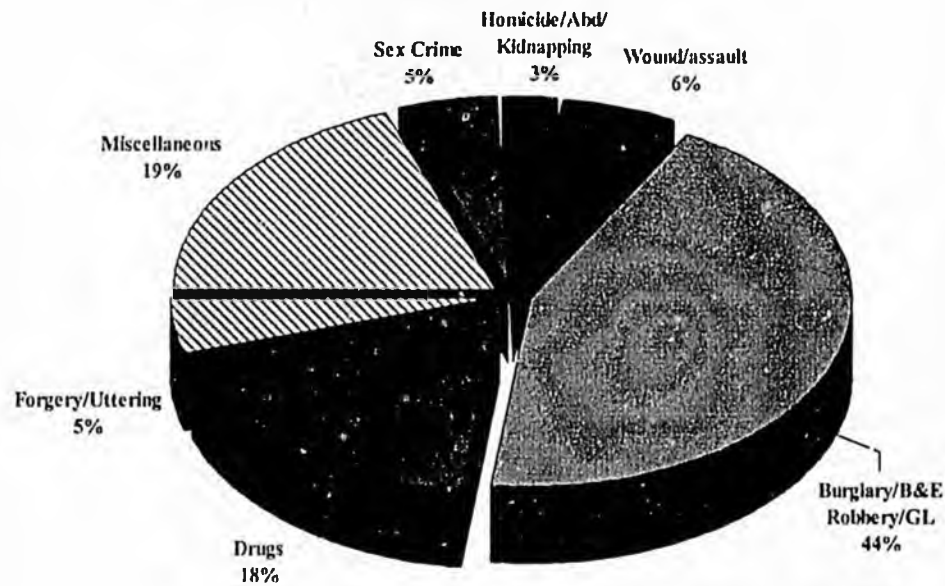
## Virginia's DNA Database

- 1998 5 cold hits
- 1999 74 cold hits
- 2000 178 cold hits
- 2001 308 cold hits
- 2002 445 cold hits

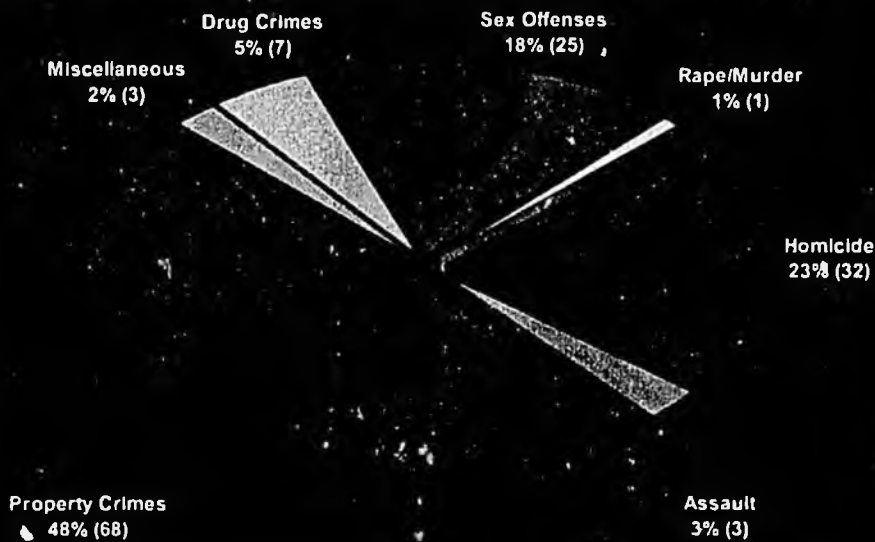
### Crimes Solved/Assisted by Type

Sex 266  
 Sex/Homicide 12  
 Homicide 125  
 B+E/Burglary/GL/Robbery 618  
 Miscellaneous 120

### Virginia's "Cold Hits" on the DNA Database Identified Offender's Prior Conviction



**Virginia's "Cold Hits" on the DNA Database**  
*Drug Possession Only to Type of Crime Solved*



\* Numbers as of October 31, 2002

**Virginia's "Cold Hits" on the DNA Database**  
*Forgery to Type of Crime Solved*



\* Numbers as of October 31, 2002

## Virginia's DNA Database

- 82 % of "hits" would have been missed if the Databank was limited to only violent offenders
- Approximately 38% of violent crimes solved were perpetrated by individuals with previous property crime convictions
- DNA Databases are most effective with inclusion of all felons and applied to all forms of cases

### Virginia DNA Database

1998	26,090	Samples	30 Hits
2003	191,017	Samples	1,131 Hits

### Alaska DNA Database

2003	3,555	Samples	30 Hits
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## Why Expand Offender Databases?

- Catch More Criminals
- Exonerate the Innocent
- Protect Public Safety
- Very Cost Effective

### 2003 Congressional Budget As Passed Congress Feb. 14 2003

✓ Crime Lab Improvement Program (CLIP)	\$40.538 M
✓ Coverdell Forensics Science Improvement	\$ 5.0 M
✓ Committed non-DNA "Soft" Earmarks	<u>(\$30.14 M)</u>
⚡ Funds Remaining for non-DNA Grants	\$15.39 M
✓ DNA Backlog Elimination Act	\$36.0 M
✓ Committed DNA "Soft" Earmarks	<u>(\$ 7.9 M)</u>
⚡ Funds Remaining for DNA Grants	\$28.1 M
Convicted offender	\$15 million
Unsolved Casework	\$13.1 million

✓ \$4 million to the FBI for four regional mitochondrial DNA labs

## **President Bush's Proposed 2004 Budget DNA Provisions**

### **President / Attorney General "DNA Initiative"**

- ✓ \$232.6 Million for FY 2004
- ✓ Continued funding for five years
- ✓ Total commitment of over \$1 billion

### **Safeguards of DNA process**

- Laboratories performing analyses are accredited
- Lab procedures are strictly controlled and reviewed
- All hits to convicted offenders are confirmed
- CODIS computers and lines are very secure
- DNA profiles provide no health or genetic information

# SENATE COMMITTEE REPORT

DATE: 4/16/03

FURTHER: Finance

DATE TURNED  
IN TO OFFICE: 5/9/03

Judiciary Committee considered CS FOR HOUSE BILL NO. 49(JUD)

## HB 49 EXPAND DNA DATABASE

"An Act relating to the deoxyribonucleic acid (DNA) identification registration system and testing; and providing for an effective date."

and recommends:

- be replaced with S CS CS HB 49 (JUD)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**

- same title
- new title

**House Bill:**

- same title
- technical title
- new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
ADM	2/26	*		3
LAW	2/25		✓	2
DPS	2/11		✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:		DO PASS	DO NOT PASS	NO REC	AMEND
Therriault	<i>[Signature]</i>			X	
Ogan	<i>[Signature]</i>				*
French	<i>[Signature]</i>	X			
Seckins	CHAIR: <i>[Signature]</i>	✓			



**HB**

**56**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: HB56CS-LAW-C&FB-2-6  
Bill Version: CSHB 56 (L&C)  
( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: LAW  
Title "An Act relating to the award of actual RDU CIVIL  
reasonable attorney fees and costs..." Component Commercial & Fair Business  
Sponsor Representative Gara  
Requester House Finance Component No. \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	*****	*****	*****	*****	*****	*****
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

HB 56 allows the attorney general to recover full reasonable attorneys fees and costs when the state prevails in an action brought under Alaska's Consumer Protection Act, AS 45.50.471 et seq. Currently, private parties who bring successful actions under the Act can recover full fees and costs, but the state can only recover a portion of its fees pursuant to Alaska Civil Rule 82 for bringing the same action. It is unclear how much, if any, additional revenues might result if this bill passes. Presently, most actions brought by the attorney general under the Act are settled, and the settlement often considers the time and expenses incurred by the attorney general to bring the action. In larger multi-state cases, settlements often include payment of attorneys fees and costs. In smaller, local cases, however, potential violators may be deterred by the risk of paying the state's full attorneys fees and costs. In cases where litigation is inevitable, this bill would allow the recovery of additional funds, and may assist in settlement negotiations.

Prepared by: Kathryn A. Daughhete, Director Phone 465-3673  
Division Administrative Services Date/Time 2/6/04 11:28 AM  
Approved by: Kathryn Daughhete for Gregg D. Renkes, Attorney General Date 2/6/2004  
Agency Department of Law

FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

BILL NO. CSHB 56

ANALYSIS CONTINUATION

in settlement negotiations.

Aside from the indeterminate revenues, passage of this legislation will have no fiscal impact on the Department of Law expenditures.

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

## SPONSOR STATEMENT

### **HB 56: Making State's Fight Against Consumer Fraud More Effective; And More Cost Effective.**

This bill provides the state with a needed tool to fight consumer fraud more effectively, more efficiently, and without any cost to the state. This bill strengthens the state's ability to represent Alaskans who have been victimized by fraudulent business practices, whether by used car dealers, telemarketers, or others who prey on Alaska's consumers. It does so while actually saving the state money. Senator Fred Dyson and I have worked on similar cost-effective consumer protection measures in the past, and will join hands to advance this proposal in our respective legislative houses.

Currently victims of consumer fraud can contact the State's Attorney General's Office for help. However, due to budget constraints, the State cannot help many such victims. In 2001 roughly half of all Alaskans who complained of consumer law violations were turned away due to budget constraints.

HB 56 changes the law to allow the state to recover its full enforcement, investigation and court costs if it prevails against a party that has violated Alaska's consumer protection laws. The bill is modeled after legislation in other areas that allow state and federal investigators and enforcement authorities to recover their enforcement costs. For example, federal anti-trust, and federal and state hazardous waste laws allow the recovery of enforcement costs and full attorneys fees from parties who violate the law.

The public policies behind this bill are simple: Those who engage in unfair business practices should not force the state to bear the costs of their misconduct. Moreover, by allowing the state to recover not only the existing penalties that are available under state law, but it's enforcement costs, the law will help fund a more vibrant, more cost-effective consumer protection presence in Alaska.

Current law prevents the state from recovering many types of investigative and enforcement costs, and allows the state to recover only 20% of its attorney fee costs. Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Les Gara", followed by a horizontal line.

Les Gara

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

## Differences Between HB 56 and CSHB 56(L&C)

### **There is one change:**

The original bill did not include a statement that this bill involves a court rule change.

Since that version was introduced, however, it has been made clear that, indeed, the Act would substantively change Court Rules 54(d), 79 and 82 of the Alaska Rules of Civil Procedure. The proposed CSHB 56 takes this into account and incorporates the court rule changes (Sec. 2., starting page 1, line 10 of proposed CS).

The bill now states a 2/3 vote is required because a court rule change is involved.

As a result, Sec. 4 of the original bill, the EFFECT NOTWITHSTANDING VOTE clause, is no longer necessary and has also been removed.

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

## Sectional Analysis: HB 56

This bill provides the state with a needed tool to fight consumer fraud more effectively, more efficiently, and without any cost to the state. This bill strengthens the state's ability to represent Alaskans who have been victimized by fraudulent business practices, whether by dishonest used car dealers, telemarketers, or others who prey on Alaska's consumers. It does so while actually saving the state money.

HB 56 changes the law to allow the state to recover its full enforcement, investigation and court costs if it prevails against a party that has violated Alaska's consumer protection laws. The bill is modeled after legislation in other areas that allows the state to recover its enforcement costs. For example, federal anti-trust, and federal and state hazardous waste laws allow the state to recover its enforcement costs from parties who violate the law.

**Section 1:** Currently the state is entitled to only partial compensation for its enforcement efforts when it prevails in a case under Alaska's consumer protection law, the Unfair Trade Practices Act. This section changes the law to entitle the state, if it prevails in such a case, to receive full compensation for its enforcement efforts on behalf of a victim. Under this section, a court may award full compensation to the state for its attorneys fees and investigation and other enforcement costs. The state would have to prove that these costs were reasonable.

**Section 2:** This notice is required when the Legislature changes existing court rules on attorney's fees and costs.

**Section 3:** Provides for a standard effective date, and that the new law only applies to new cases that arise because of conduct that occurs after this law is enacted.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mall Stop 3101


State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 120 6th St., Rm. 329

## MEMORANDUM

March 7, 2003

**SUBJECT:** CSHB 56( ) relating to attorney fees and costs awarded in unfair trade actions (Work Order No. 23-LS0300\H)

**TO:** Representative Les Gara  
Attn: Ryan

**FROM:**   
Theresa L. Bannister  
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

**Section 1.** Provides that in an unfair trade practice action the state shall be awarded its actual reasonable attorney fees and costs, including investigation costs, if the state wins the case.

**Section 2.** Explains how sec. 1 indirectly causes changes in Rules 54(d), 79, and 82 of the court's rules of civil procedure.

**Section 3.** Applies sec. 1 to causes of action that accrue on or after the effective date of this Act.

If I may be of further assistance, please advise.

TLB:med  
03-272.med



# AKPIRG

**ALASKA PUBLIC INTEREST RESEARCH GROUP**

PO Box 101093 ♦ Anchorage, Alaska 99510-1093 ♦ Ph: (907) 278-3661 ♦ Fax: (907) 278-9300 ♦ email: akpirg@akpirg.org

## Statement in Support of HB 56

**HB 56 deserves a prompt hearing because of its value to Alaskan consumers and the Attorney General's office.**

HB 56 bolsters the State of Alaska's ability to fight consumer fraud. With the proliferation of both phone and internet solicitations and Alaskan's reliance on such commercial mechanisms, fraudulent businesses have ever-increasing avenues to engage in illegal business practices. Identity theft has risen to become the most prevalent form of fraud reported to the Department of Law. Yet, in 2001 around half of all Alaskans who complained about consumer law violations couldn't get help from the state due to a lack of funding. This bill makes bad businesses pay for their violations.

HB 56 gives the state another method to fight consumer fraud without expense to the state. Through this legislation, the state will be able to represent Alaskans who have been wronged by fraudulent business practices. While doing this, the law will also allow the state to recover its full court costs if it prevails against a party that has violated Alaska's consumer protection laws. Current law prevents the state from recovering many types of investigative and enforcement costs, and allows the state to recover only 20% of its attorney fee costs. Just as businesses must purchase a license to operate in Alaska, those businesses that break Alaska laws should be held responsible for the costs they rack up in Alaska courts.

HB 56 is patterned after legislation, both state and federal, which allows the recovery of enforcement costs. Federal anti-trust laws, and federal and state hazardous waste laws allow the state to recover its enforcement costs from parties who violate the law.

Currently, Alaska is entitled to only partial compensation for its enforcement efforts when it prevails in a case under the Unfair Trade Practices Act. HB 56 changes the law to entitle the state to receive full compensation for its investigation and enforcement efforts on behalf of a victim, if it prevails in such a case. The state would have to prove that these costs were reasonable.

AkPIRG urges quick passage of HB 56.



Honorable Tom Anderson, Chair  
House Labor and Commerce Committee  
Alaska Capital, Room 432  
Juneau, AK 99801-1182

March 27, 2003

RE: HB 56 (Gara)-Support

Dear Chair Anderson:

On behalf of the AARP members in Alaska, we encourage you and your colleagues on the House Labor and Commerce Committee to support HB 56, authored by Representative Les Gara.

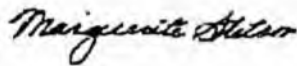
This bill will allow the State of Alaska to recover all costs involved in the prosecution of an entity that violates the State's consumer protection laws. We fully agree with Representative Gara that the State should not bear the costs for someone who conducts business illegally here. Many AARP members are the victims of consumer fraud. We know many more would be able to secure the professional assistance of the Attorney General's office if more funding was available. HB 56 is an ideal way to provide that funding.

AARP urges an "AYE" vote on HB 56.

Should you have any questions about our position, please feel free to contact Marie Darlin (907.586.3637), Coordinator of the AARP Capitol City Task Force; Patrick Luby

(907.762.3314), AARP Legislative Representative; or me (907.245.5259).

Sincerely,



Marguerite Stetson  
AARP Alaska  
Executive Council Member for Advocacy  
3009 Northwood Street  
Anchorage, AK 99517-1871  
907.245.5259 voice  
907.245.5279 fax  
[ffmas@aurora.uaf.edu](mailto:ffmas@aurora.uaf.edu)

cc: Vice-Chair Bob Lynn  
Representative Nancy Dahlstrom  
Representative Carl Gatto  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative David Guttenberg  
Representative Les Gara  
Marie Darin  
Patrick Luby

**HB**

**56**

SFIN

FILE

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT  
MAY 18 2004  
SENATE FINANCE  
COMMITTEE

DATE: 04/22/04

FURTHER:

DATE TURNED IN TO OFFICE: 8 May 2004

Finance Committee considered CS FOR HOUSE BILL NO. 56(L&C)

## HB 56 UNFAIR TRADE PRACTICES ATTY FEES/COSTS

"An Act relating to the award to the state of actual reasonable attorney fees and costs, including costs of investigation, in certain court actions relating to unfair trade practices; and amending Rules 54(d), 79, and 82, Alaska Rules of Civil Procedure."

and recommends:

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

**Senate Bill:**  
 Same Title  
 New Title

**House Bill:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero.	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
LOW	4/2/03		*	✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	NO REC	AMEND
<i>Frank Jensen</i>	x			
<i>[Signature]</i>	✓			
<i>[Signature]</i>			✓	
<i>[Signature]</i>	✓			
<i>Ben Stevens</i>	x			
COCHAIR: <i>[Signature]</i>			✓	
COCHAIR: <i>[Signature]</i>	✓			

MAY 18 2004

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSHB 56(L&C)  
(H) Publish Date: 4/28/03

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Law  
Title "An Act relating to the attorney fees and costs BRU Civil Division  
awarded in certain court actions . . ." Component Fair Business Practices  
Sponsor Representative Gara  
Requester House Labor and Commerce Committee Component No. 2206

**Expenditures/Revenues** (Thousands of Dollars)

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

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

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

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

Estimate of any current year (FY2003) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
HB 56 allows the attorney general to recover full reasonable attorneys fees and costs when the state prevails in an action brought under Alaska's Consumer Protection Act, AS 45.50.471 et seq. Currently, private parties who bring successful actions under the Act can recover full fees and costs, but the state can only recover a portion of its fees pursuant to Alaska Civil Rule 82 for bringing the same action. It is unclear how much, if any, additional revenues might result if this bill passes. Presently, most actions brought by the attorney general under the Act are settled, and the settlement often considers the time and expenses incurred by the attorney general to bring the action. In larger multi-state cases, settlements often include payment of attorneys fees and costs. In smaller, local cases, however, potential violators may be deterred by the risk of paying the state's full attorneys fees and costs. In cases where litigation is inevitable, this bill would allow the recovery of additional funds, and may assist in settlement negotiations.

Prepared by: Joan M. Kasson Phone (907) 465-5370  
Division Attorney General's Office Date/Time 4/21/03 4:17 PM  
Approved by: Kathryn Daughhete for Gregg D. Renkes, Attorney General Date 4/21/2003  
Agency Department of Law

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

## SPONSOR STATEMENT

### **HB 56: Making State's Fight Against Consumer Fraud More Effective; And More Cost Effective.**

This bill provides the state with a needed tool to fight consumer fraud more effectively, more efficiently, and without any cost to the state. This bill strengthens the state's ability to represent Alaskans who have been victimized by fraudulent business practices, whether by used car dealers, telemarketers, or others who prey on Alaska's consumers. It does so while actually saving the state money. Senator Fred Dyson and I have worked on similar cost-effective consumer protection measures in the past, and will join hands to advance this proposal in our respective legislative houses.

Currently victims of consumer fraud can contact the State's Attorney General's Office for help. However, due to budget constraints, the State cannot help many such victims. In 2001 roughly half of all Alaskans who complained of consumer law violations were turned away due to budget constraints.

HB 56 changes the law to allow the state to recover its full enforcement, investigation and court costs if it prevails against a party that has violated Alaska's consumer protection laws. The bill is modeled after legislation in other areas that allow state and federal investigators and enforcement authorities to recover their enforcement costs. For example, federal anti-trust, and federal and state hazardous waste laws allow the recovery of enforcement costs and full attorney fees from parties who violate the law.

The public policies behind this bill are simple: Those who engage in unfair business practices should not force the state to bear the costs of their misconduct. Moreover, by allowing the state to recover not only the existing penalties that are available under state law, but its enforcement costs, the law will help fund a more vibrant, more cost-effective consumer protection presence in Alaska.

Current law prevents the state from recovering many types of investigative and enforcement costs, and allows the state to recover only 20% of its attorney fee costs. Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Les Gara", followed by a horizontal line.

Les Gara

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

## Differences Between HB 56 and CSHB 56(L&C)

### **There is one change:**

The original bill did not include a statement that this bill involves a court rule change.

Since that version was introduced, however, it has been made clear that, indeed, the Act would substantively change Court Rules 54(d), 79 and 82 of the Alaska Rules of Civil Procedure. The proposed CSHB 56 takes this into account and incorporates the court rule changes (Sec. 2., starting page 1, line 10 of proposed CS).

The bill now states a 2/3 vote is required because a court rule change is involved.

As a result, Sec. 4 of the original bill, the EFFECT NOTWITHSTANDING VOTE clause, is no longer necessary and has also been removed.

# ALASKA STATE LEGISLATURE



REPRESENTATIVE LES GARA

## Sectional Analysis: HB 56

This bill provides the state with a needed tool to fight consumer fraud more effectively, more efficiently, and without any cost to the state. This bill strengthens the state's ability to represent Alaskans who have been victimized by fraudulent business practices, whether by dishonest used car dealers, telemarketers, or others who prey on Alaska's consumers. It does so while actually saving the state money.

HB 56 changes the law to allow the state to recover its full enforcement, investigation and court costs if it prevails against a party that has violated Alaska's consumer protection laws. The bill is modeled after legislation in other areas that allows the state to recover its enforcement costs. For example, federal anti-trust, and federal and state hazardous waste laws allow the state to recover its enforcement costs from parties who violate the law.

**Section 1:** Currently the state is entitled to only partial compensation for its enforcement efforts when it prevails in a case under Alaska's consumer protection law, the Unfair Trade Practices Act. This section changes the law to entitle the state, if it prevails in such a case, to receive full compensation for its enforcement efforts on behalf of a victim. Under this section, a court may award full compensation to the state for its attorneys fees and investigation and other enforcement costs. The state would have to prove that these costs were reasonable.

**Section 2:** This notice is required when the Legislature changes existing court rules on attorney's fees and costs.

**Section 3:** Provides for a standard effective date, and that the new law only applies to new cases that arise because of conduct that occurs after this law is enacted.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101


State Capitol  
Juneau, Alaska 99801-1192  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

March 7, 2003

**SUBJECT:** CSHB 56( ) relating to attorney fees and costs awarded in unfair trade actions (Work Order No. 23-LS0300\H)

**TO:** Representative Les Gara  
Attn: Ryan

**FROM:**  Theresa L. Bannister  
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1. Provides that in an unfair trade practice action the state shall be awarded its actual reasonable attorney fees and costs, including investigation costs, if the state wins the case.

Section 2. Explains how sec. 1 indirectly causes changes in Rules 54(d), 79, and 82 of the court's rules of civil procedure.

Section 3. Applies sec. 1 to causes of action that accrue on or after the effective date of this Act.

If I may be of further assistance, please advise.

TLB:med  
03-272.med



May 7, 2004

The Honorable Lyda Green, Co-Chair  
Senate Finance Committee  
Alaska State Capitol, Room 516  
Juneau, Alaska 99801-1182

The Honorable Gary Wilken, Co-Chair  
Senate Finance Committee  
Alaska State Capitol, Room 518  
Juneau, Alaska 99801-1182

Dear Co-Chairs Green and Wilken:

RE: HB 56 (Gara) – Support

On behalf of the AARP members in Alaska, we encourage you and your colleagues on the Senate Finance Committee to support HB 56, sponsored by Representative Les Gara and co-authored by Representatives Crawford, Lynn, Croft, Kerttula, Berkowitz, Anderson, and Guttenberg.

This bill will allow the State of Alaska to recover all costs involved in the prosecution of an entity that violates the State's consumer protection laws. We fully agree that the State should not bear the costs for someone who conducts business here illegally. Many AARP members are the victims of consumer fraud. We know many more would be able to secure the professional assistance of the Attorney General's office if more funding was available. HB 56 is an ideal way to provide that funding.

AARP urges an "AYE" vote on HB 56.

Should you have any questions about our position, please feel free to contact Marie Darlin, Coordinator of the AARP Capital City Task Force (907-586-3637); Patrick Luby, AARP Legislative Representative (907-762-3314); or me (907-245-5259).

Thank you for your consideration.

Sincerely,

*Marguerite Stetson*

Marguerite Stetson  
AARP State Coordinator for Advocacy  
3009 Northwood Street  
Anchorage, AK 99517-1871  
907-245-5259 (voice)  
907-245-5279 (fax)  
[ffmas@aurora.uaf.edu](mailto:ffmas@aurora.uaf.edu)

cc: Vice-Chair Con Bunde  
Senator Fred Dyson  
Senator Ben Stevens  
Senator Lyman Hoffman  
Senator Donny Olson  
Representative Les Gara  
Marie Darlin  
Patrick Luby

Sen. Fred Dyson  
Sen. Ben Stevens  
Sen. Lyman Hoffman  
Sen. Donny Olson  
Rep. Les Gara  
Marie Darlin  
Patrick Luby



Honorable Tom Anderson, Chair  
House Labor and Commerce Committee  
Alaska Capital, Room 432  
Juneau, AK 99801-1182

March 27, 2003

RE: HB 56 (Gara)-Support

Dear Chair Anderson:

On behalf of the AARP members in Alaska, we encourage you and your colleagues on the House Labor and Commerce Committee to support HB 56, authored by Representative Les Gara.


This bill will allow the State of Alaska to recover all costs involved in the prosecution of an entity that violates the State's consumer protection laws. We fully agree with Representative Gara that the State should not bear the costs for someone who conducts business illegally here. Many AARP members are the victims of consumer fraud. We know many more would be able to secure the professional assistance of the Attorney General's office if more funding was available. HB 56 is an ideal way to provide that funding.

AARP urges an "AYE" vote on HB 56.

Should you have any questions about our position, please feel free to contact Marie Darin (907.586.3637), Coordinator of the AARP Capitol City Task Force; Patrick Luby

(907.762.3314), AARP Legislative Representative; or me (907.245.5259).

Sincerely,



Marguerite Stetson  
AARP Alaska  
Executive Council Member for Advocacy  
3009 Northwood Street  
Anchorage, AK 99517-1871  
907.245.5259 voice  
907.245.5279 fax  
[ffmas@aurora.uaf.edu](mailto:ffmas@aurora.uaf.edu)

cc: Vice-Chair Bob Lynn  
Representative Nancy Dahlstrom  
Representative Carl Gatto  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative David Guttenberg  
Representative Les Gara  
Marie Darlin  
Patrick Luby



# AKPIRG

**ALASKA PUBLIC INTEREST RESEARCH GROUP**

PO Box 101093 ♦ Anchorage, Alaska 99510-1093 ♦ Ph: (907) 278-3661 ♦ Fax: (907) 278-9300 ♦ email: akpirg@akpirg.org

## Statement in Support of HB 56

**HB 56 deserves a prompt hearing because of its value to Alaskan consumers and the Attorney General's office.**

HB 56 bolsters the State of Alaska's ability to fight consumer fraud. With the proliferation of both phone and internet solicitations and Alaskan's reliance on such commercial mechanisms, fraudulent businesses have ever-increasing avenues to engage in illegal business practices. Identity theft has risen to become the most prevalent form of fraud reported to the Department of Law. Yet, in 2001 around half of all Alaskans who complained about consumer law violations couldn't get help from the state due to a lack of funding. This bill makes bad businesses pay for their violations

HB 56 gives the state another method to fight consumer fraud without expense to the state. Through this legislation, the state will be able to represent Alaskans who have been wronged by fraudulent business practices. While doing this, the law will also allow the state to recover its full court costs if it prevails against a party that has violated Alaska's consumer protection laws. Current law prevents the state from recovering many types of investigative and enforcement costs, and allows the state to recover only 20% of its attorney fee costs. Just as businesses must purchase a license to operate in Alaska, those businesses that break Alaska laws should be held responsible for the costs they rack up in Alaska courts.

HB 56 is patterned after legislation, both state and federal, which allows the recovery of enforcement costs. Federal anti-trust laws, and federal and state hazardous waste laws allow the state to recover its enforcement costs from parties who violate the law.

Currently, Alaska is entitled to only partial compensation for its enforcement efforts when it prevails in a case under the Unfair Trade Practices Act. HB 56 changes the law to entitle the state to receive full compensation for its investigation and enforcement efforts on behalf of a victim, if it prevails in such a case. The state would have to prove that these costs were reasonable.

AkPIRG urges quick passage of HB 56.

# SENATE COMMITTEE REPORT

DATE: 04/02/04

FURTHER: Finance

DATE TURNED  
IN TO OFFICE: 4/21/04

Judiciary Committee considered CS FOR HOUSE BILL NO. 56(L&C)

## HB 56 UNFAIR TRADE PRACTICES ATTY FEES/COSTS

"An Act relating to the award to the state of actual reasonable attorney fees and costs, including costs of investigation, in certain court actions relating to unfair trade practices; and amending Rules 54(d), 79, and 82, Alaska Rules of Civil Procedure."

and recommends:

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

**Senate Bill:**  
 Same Title  
 New Title

**House Bill:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
LAW	4/21		✓		1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	X			
<i>[Signature]</i>		<del>X</del>	<del>X</del>	
<i>[Signature]</i>				
<b>CHAIR:</b> <i>[Signature]</i>				✓

*French  
Ogan*

*Seems*

*[Handwritten mark]*



**HB**

**57**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 28, 2003

FURTHER REFERRALS:

Date of Committee Action: 4/2/03

The FINANCE Committee considered:

HB 57

HOUSE BILL NO. 57

ROYALTY GAS CONTRACTS

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

Recommends it be replaced with  HCS or  CS for HB 57 FM  
 For Senate Bills with new title:  Technical Title  New Title: HCR \_\_\_\_\_  Same Title  New Title

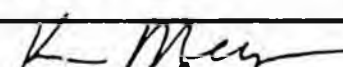
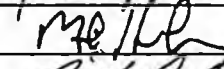
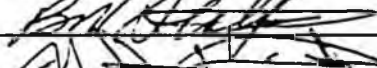
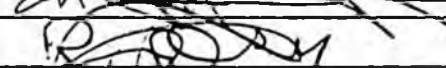
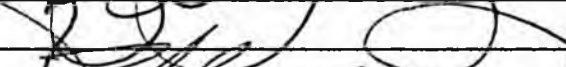

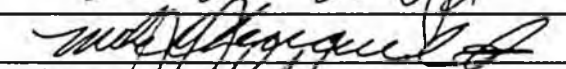
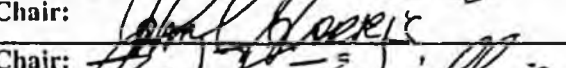
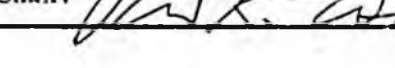

- attach amendments
- add new referral to \_\_\_\_\_ Committee
- Letter of Intent \_\_\_\_\_ Committee

List of Abbrev for Depts.:

- ADM
- CEC
- COR
- CRT
- EED
- DEC
- DFG
- GOV
- ISS
- LEG
- LAW
- LWF
- MVA
- DNR
- DPS
- REV
- DOT
- UA

<u>NEW FISCAL NOTES</u>				
*Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
DNR		✓		

<u>PREVIOUS FISCAL NOTES</u>				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Meyer			✓	
	Hawker			✓	
	STOLTZE			✓	
	Whitaker	✓			
	FOSTER	X			
	Toule			✓	
	CRON			✓	
	Chevalier	✓			
Chair: 	Harzi's	✓			
Chair: 	Williams	✓			

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSHB57(FIN)  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): 3/25/2003 Dept. Affected: Natural Resources  
 Title Royalty Gas Contracts BRU Resource Development  
 Component Oil and Gas Development  
 Sponsor Chenault  
 Requester House Finance Component No. 439

**Expenditures/Revenues** (Thousands of Dollars)

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

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

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES (GF 1004)</b>	<b>(98.0)</b>	<b>(130.3)</b>	<b>(938.8)</b>	<b>(2,438.9)</b>	<b>(3,476.4)</b>	<b>(4,462.7)</b>
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**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1002 Federal Receipts						
1003 CF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2003) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

\*\* Fiscal Note prepared for House Finance Committee Work Draft

This bill amends AS 38.05.180(aa) requiring DNR to enter into agreements with lessees to use the price for gas established in contract(s) entered into on or after the effective date between the lessee and a manufacturer of agricultural chemicals as the value of the state's royalty share. HB 57 will result in a loss of state revenues. Should lessees supplying gas to only one agricultural manufacturer apply under AS 38.05.180(aa), the state could lose an estimated \$11.5 million in cumulative royalties over the period FY 2004-09; an average of about \$1.9 million per year (see Table 1, below).

Prepared by: Mark D. Myers Phone 269-8800  
 Division Oil and Gas Date/Time 3/25/2003  
 Approved by: Tom Irwin, Commissioner Date 3/25/2003  
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 57(FIN) wk dr

ANALYSIS CONTINUATION

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

New Gas Produced from Other 3rd-Party Producers - State Lands								
FY	Total (1000 Cubic Feet per Year)	State Leases	Non-State	State Royalty Share	Contract	Royalty	Diff	Royalty Foregone (\$ per Year)
					Value	Value		
					(\$ per Mcf)			
2004	1,728,506	1,728,506	-	230,583	2.00	2.43	0.43	(98,033)
2005	1,728,506	1,728,506	-	230,583	2.00	2.57	0.57	(130,287)
2006	14,900,000	9,983,000	4,917,000	1,331,732	2.00	2.70	0.70	(938,763)
2007	32,300,001	21,641,001	10,659,000	2,886,909	2.00	2.84	0.84	(2,438,869)
2008	39,500,000	26,465,000	13,035,000	3,530,431	2.00	2.98	0.98	(3,476,367)
2009	44,400,000	29,748,000	14,652,000	3,968,383	2.00	3.12	1.12	(4,462,725)

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

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

**Assumptions**

1. Annual gas consumption at the fertilizer plant is equal to about 53 billion cubic feet per year (Bcf), based on historic rates of gas usage over the past five years.
2. The analysis in Table 1 draws from the "Annual Contract Quantity" (ACQ) commitments contained in the existing Unocal-Agrium gas supply contract. During the later years of the contract, the ACQ falls from the approximate plant capacity of about 53 Bcf per year in FY 2005 to 9.1 Bcf per year in FY 2009.
3. Based on representations made to the Division of Oil and Gas by Agrium, the analysis in Table 1 assumes that the state's royalty share on ACQ volumes deliverable from state leases under the current contract between Unocal and Agrium will not be subject to the bill. Agrium and Unocal are currently in litigation regarding that contract. If Agrium and Unocal negotiate a new, low-price contract to replace the current contract in connection with the ongoing litigation, the royalties foregone could nearly triple, from \$11.5 to \$29.5 million. Agrium has assured the Division of Oil and Gas that it does not intend to renegotiate its contract with Unocal in a manner that would subject volumes deliverable under the current contract to the provisions of this bill.
4. State leases would account for approximately two-thirds of the total gas usage at the plant from new, 3<sup>rd</sup>-party gas supply contracts after 2005; the remaining one-third is new gas production from private and federal lands.

## FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 57(FIN) wk d.

### ANALYSIS CONTINUATION

5. The average state royalty share for gas dispositions to the plant is 13.34 percent.
6. Royalty value is indexed to the Alaska Department of Revenue prevailing value for Cook Inlet Gas (DOR PV). The Division of Oil and Gas forecasts DOR PV to increase from about \$2.50 per Mcf today, to \$3.12 per Mcf in FY 2009, based on the historic trend observed during 1995-02.
7. The implied gas shortfall in ACQ commitments is made up of new gas from 3<sup>rd</sup>-party producers but at a cost of \$2.00 per Mcf. This is considerably higher than the current \$1.20 benchmark input gas price in the existing Unocal-Agrium contract.

### Sensitivity Analysis

Three alternative gas-supply scenarios are considered. **Case A:** Assume that the average formula-driven, gas-supply contract value is \$2.25 per Mcf instead of \$2.00 (see assumption #7). All else equal, this would lower estimated royalties foregone from \$11.5 million to \$8.5 million. **Case B:** By comparison, if the average formula-driven, gas-supply contract value is \$1.20 per -- equal to the current Unocal benchmark -- the royalties foregone would nearly double from \$11.5 to 21.3 million.) **Case C:** If the fertilizer plant operates at 75% capacity due to input gas supply shortages from both existing and 3<sup>rd</sup>-party producers then, assuming \$2.00 per Mcf input gas cost, estimated royalties foregone would fall from \$11.5 million to \$8.7 million. **Cases A and C combined** would reduce cumulative royalties foregone from \$11.5 million to about \$6.4 million.

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CSHB57(FIN)  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): 4/4/2003 Dept. Affected: Natural Resources  
 Title: Royalty Gas Contracts BRU: Resource Development  
 Component: Oil and Gas Development  
 Sponsor: Chenault  
 Requester: House Finance Component No. 439

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipmen..						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES (GF 1004)</b>	<b>*(98.0)</b>	<b>*(130.3)</b>	<b>*(938.8)</b>	<b>*(2,438.9)</b>	<b>*(3,476.4)</b>	<b>*(4,462.7)</b>
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill amends AS 38.05.180(aa) requiring DNR to enter into agreements with lessees to use the price for gas established in contract(s) entered into on or after the effective date between the lessee and a manufacturer of agricultural chemicals as the value of the state's royalty share. HB 57 will result in a loss of state revenues. Should lessees supplying gas to only one agricultural manufacturer apply under AS 38.05.180(aa), the state could lose an estimated \$11.5 million in cumulative royalties over the period FY 2004-09; an average of about \$1.9 million per year (see Table 1, below).

\*If a contract does not meet any one of the four criteria under AS 38.05.180(aa)(2)((B)(i)-(iv), the Commissioner would deny the (aa) treatment. Under this scenario, the fiscal impact to the state would be less although the amount is impossible to predict.

Prepared by: Mark D. Myers Phone 269-8800  
 Division: Oil and Gas Date/Time 4/4/2003  
 Approved by: Tom Irwin, Commissioner Date 4/4/2003  
 Agency: Natural Resources

FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 57(FIN)

ANALYSIS CONTINUATION

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

New Gas Produced from Other 3rd-Party Producers - State Lands								
FY	Total	State Leases	Non-State	State Royalty Share	Contract Value	Royalty Value	Diff	Royalty Foregone
	(1000 Cubic Feet per Year)				(\$ per Mcf)			(\$ per Year)
2004	1,728,506	1,728,506	-	230,583	2.00	2.43	0.43	(98,033)
2005	1,728,506	1,728,506	-	230,583	2.00	2.57	0.57	(130,287)
2006	14,900,000	9,983,000	4,917,000	1,331,732	2.00	2.70	0.70	(938,763)
2007	32,300,001	21,641,001	10,659,000	2,886,909	2.00	2.84	0.84	(2,438,869)
2008	39,500,000	26,465,000	13,035,000	3,530,431	2.00	2.98	0.98	(3,476,367)
2009	44,400,000	29,748,000	14,652,000	3,968,383	2.00	3.12	1.12	(4,462,725)

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

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

**Assumptions**

1. Annual gas consumption at the fertilizer plant is equal to about 53 billion cubic feet per year (Bcf), based on historic rates of gas usage over the past five years.
2. The analysis in Table 1 draws from the "Annual Contract Quantity" (ACQ) commitments contained in the existing Unocal-Agrium gas supply contract. During the later years of the contract, the ACQ falls from the approximate plant capacity of about 53 Bcf per year in FY 2005 to 9.1 Bcf per year in FY 2009.
3. Based on representations made to the Division of Oil and Gas by Agrium, the analysis in Table 1 assumes that the state's royalty share on ACQ volumes deliverable from state leases under the current contract between Unocal and Agrium will not be subject to the bill. Agrium and Unocal are currently in litigation regarding that contract. If Agrium and Unocal negotiate a new, low-price contract to replace the current contract in connection with the ongoing litigation, the royalties foregone could nearly triple, from \$11.5 to \$29.5 million. Agrium has assured the Division of Oil and Gas that it does not intend to renegotiate its contract with Unocal in a manner that would subject volumes deliverable under the current contract to the provisions of this bill.
4. State leases would account for approximately two-thirds of the total gas usage at the plant from new, 3<sup>rd</sup>-party gas supply contracts after 2005; the remaining one-third is new gas production from private and federal lands.

## FISCAL NOTE

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 57(FIN)

### ANALYSIS CONTINUATION

5. The average state royalty share for gas dispositions to the plant is 13.34 percent.
6. Royalty value is indexed to the Alaska Department of Revenue prevailing value for Cook Inlet Gas (DOR PV). The Division of Oil and Gas forecasts DOR PV to increase from about \$2.50 per Mcf today, to \$3.12 per Mcf in FY 2009, based on the historic trend observed during 1995-02.
7. The implied gas shortfall in ACQ commitments is made up of new gas from 3<sup>rd</sup>-party producers but at a cost of \$2.00 per Mcf. This is considerably higher than the current \$1.20 benchmark input gas price in the existing Unocal-Agrium contract.

### Sensitivity Analysis

Three alternative gas-supply scenarios are considered. **Case A:** Assume that the average formula-driven, gas-supply contract value is \$2.25 per Mcf instead of \$2.00 (see assumption #7). All else equal, this would lower estimated royalties foregone from \$11.5 million to \$8.5 million. **Case B:** By comparison, if the average formula-driven, gas-supply contract value is \$1.20 per – equal to the current Unocal benchmark – the royalties foregone would nearly double from \$11.5 to 21.3 million.) **Case C:** If the fertilizer plant operates at 75% capacity due to input gas supply shortages from both existing and 3<sup>rd</sup>-party producers then, assuming \$2.00 per Mcf input gas cost, estimated royalties foregone would fall from \$11.5 million to \$8.7 million. **Cases A and C combined** would reduce cumulative royalties foregone from \$11.5 million to about \$6.4 million.

adopted 4/2/03

23-J.S0303\W  
Chenoweth  
4/2/03

**CS FOR HOUSE BILL NO. 57( )**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-THIRD LEGISLATURE - FIRST SESSION**

**BY**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVES CHENAULT, Whitaker**

**A BILL**

**FOR AN ACT ENTITLED**

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

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

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

5 (aa) Within 90 days after the written request of a lessee of a lease issued under  
6 this section or of a lessee of federal land from which the state is entitled under  
7 applicable federal law to receive a share of the royalty on gas production, the  
8 commissioner shall enter into an agreement with the lessee to use or accept the price  
9 for the gas established in the contract between the lessee and a gas or electric utility,  
10 or, for a contract that is entered into on or after the effective date of this Act, to  
11 use or accept a price for the gas established in the contract between the lessee and  
12 a manufacturer of agricultural chemicals, as appropriate, as the value of the state's  
13 royalty share of gas production sold by the lessee under the contract

14 (1) but only if

1                    (A) for a contract between the lessee and a gas or electric  
2 utility, the primary function of the utility with which the lessee has entered  
3 into the contract is to provide, either directly or by selling at wholesale to  
4 another utility, gas or electricity to the general public, including residential  
5 consumers, within the utilities' service areas, and the utility with which the  
6 lessee has entered into the contract is not an affiliated interest, as that term is  
7 defined in AS 42.05.990, with the lessee or with a subsequent purchaser of  
8 more than 10 percent of the utility's gas or electricity; or

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

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

23                    (A) for a contract entered into for a circumstance described  
24 in (1)(A) of this subsection

25                    (i) the contract price is unreasonably low;

26                    (ii) [(B)] the prospective reduction in royalty receipts  
27 would not be balanced by increased benefits to in-state gas and electric  
28 consumers;

29                    (iii) [(C)] the lessee and the utility are related in  
30 management, ownership, or other aspect; and

31                    (iv) [(D)] the contract price is not in the best interest of

1 the state;

2 (B) for a contract entered into under (1)(B) of this  
3 subsection between a lessee and a manufacturer of agricultural chemicals,

4 (i) the contract price is unreasonably low;

5 (ii) the prospective reduction in royalty receipts  
6 would not be balanced by employment opportunities or other  
7 tangible benefits to the state;

8 (iii) the lessee and the manufacturer are related in  
9 management, ownership, or other aspect; or

10 (iv) the contract price is not in the best interest of  
11 the state.

12 \* Sec. 2. AS 38.05.180(bb)(2) is amended to read:

13 (2) "price for the gas established in the contract" includes tax  
14 reimbursement amounts, deliverability and other charges, and other forms of  
15 consideration paid by the gas or electric utility or by the manufacturer of  
16 agricultural chemicals, as appropriate, under the contract;

17 \* Sec. 3. AS 38.05.180(bb) is amended by adding a new paragraph to read:

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

22 \* Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to  
23 read:

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

# FISCAL NOTE

**STATE OF ALASKA**  
**2003 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 57(O&G)  
 (H) Publish Date: 2/26/03

Revision Date/Time (Note If correction): 2/11/2003 Dept. Affected: Natural Resources  
 Title: Royalty Gas Contracts BRU: Oil and Gas Development  
 Component: Oil and Gas Development  
 Sponsor: Chenault  
 Requester: House Oil and Gas Component No. 439

**Expenditures/Revenues** (Thousands of Dollars)

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

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

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>		**See Revenue Impact Analysis Below**		
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**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

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

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

\*\*This bill amends AS 38.05.180(aa) requiring DNR to enter into agreements with lessees to use the price for gas established in contract between the lessee and a manufacturer as the value of the state's royalty share. HB 57 will result in a loss of state revenues. Should only one manufacturer apply under AS 38.05.180(aa), the state could lose an estimated \$33.4 million in royalties over a period of seven years (see Table 3, below). However, proposed amendments in HB 57 are worded more broadly than just one company. Interpretation of "manufacturer" may be broadly interpreted to apply to disposition of all royalty gas subject to in-state processing (e.g. LNG, NGIs). Therefore, this \$33.4 million could significantly understate the total revenue impact of HB 57. Furthermore, a much larger revenue impact could occur with a major sale of North Slope royalty gas, since both Prudhoe Bay's existing Central Gas Facility and any new gas treatment facilities are apt to add value to gas treated in these facilities.

Prepared by: Mark D. Myers Phone 269-8800  
 Division: Oil and Gas Date/Time 2/11/03 1:09 PM  
 Approved by: Tom Irwin, Commissioner Date 2/11/2003  
 Agency: Natural Resources

FISCAL NOTE #1

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 57(O&G)

ANALYSIS CONTINUATION

The estimates in Table 1 show the impact HB 57 would have had on the value of royalty gas dispositions to the Nikiski fertilizer plant operated by Agrium U.S. Inc., had HB 57 been in effect during the period 2000-02. The cumulative impact would have been approximately \$8.2 million in nominal dollars.

The estimates in Table 2 illustrate the forward impact of HB 57 on state royalty revenue based on the assumption that Unocal supplies all of the input gas requirements to the Nikiski fertilizer plant through FY 2009. The estimates in Table 2 indicate that the state would forego approximately \$36.6 million in royalty revenue or about \$5.2 million per year over the period FY 2004-09. The benefit to Agrium would be half of these amounts because the Unocal-Agrium gas supply contract requires that both parties share equally in any royalty adjustments.

**Table 1. Impact of HB 57 on State Royalty Revenue, 2000 - 2002**

	Gas Production from State Leases (Thousand Cubic Feet per Year)	State Royalty Share	State Royalty Percent (%)	Contract			Royalty Foregone (\$ per Year)	Discount/Compound Factor 0.08	Discounted Royalty Foregone (\$ per Year)
				Value	Royalty Value	Diff			
2000	26,337,176	3,431,229	13.03%	\$1.20	\$1.70	\$0.50	\$ 1,715,614	121.2%	\$ 2,079,597
2001	27,004,457	3,573,255	13.23%	1.38	2.20	0.81	2,907,105	112.2%	3,262,844
2002	24,315,609	3,353,117	13.79%	1.47	2.55	1.08	3,621,743	103.9%	3,763,826
Average				\$1.35			\$8,244,462		\$9,106,267

**Table 2. Impact of HB 57 on State Royalty Revenue: Fixed Supply  
FY 2003 - 2009**

FY	Gas Production from State Leases (Thousand Cubic Feet per Year)	State Royalty Share	State Royalty Percent (%)	Contract			Royalty Foregone (\$ per Year)	Discount/Compound Factor 0.08	Discounted Royalty Foregone (\$ per Year)
				Value	Royalty Value	Diff			
2003	25,885,747	3,452,534	13.34%	\$1.20	\$2.37	\$1.17	\$ 4,045,087	96.2%	\$ 3,892,387
2004	25,885,747	3,452,534	13.34%	1.20	2.43	1.23	4,219,421	89.1%	3,759,389
2005	25,885,747	3,452,534	13.34%	1.20	2.57	1.37	4,701,181	82.5%	3,878,355
2006	25,885,747	3,452,534	13.34%	1.20	2.70	1.50	5,182,941	76.4%	3,959,069
2007	25,885,747	3,452,534	13.34%	1.20	2.84	1.64	5,664,700	70.7%	4,006,545
2008	25,885,747	3,452,534	13.34%	1.20	2.98	1.78	6,146,460	65.5%	4,025,264
2009	25,885,747	3,452,534	13.34%	1.20	3.12	1.92	6,628,220	60.6%	4,019,226
							\$36,588,010		\$27,540,236

The analysis in Table 3 is similar to Table 2 except that the current contractual gas supply commitment to the plant declines sharply after FY 2005. Cumulative royalties foregone for this supply of gas would be \$22.0 million (as before, this benefit would be shared equally between Agrium and Unocal). The implied yearly gas shortfall during FY 2006-09 is supplemented with *new gas* from 3<sup>rd</sup>-party producers. Royalty production from new gas also would be eligible for cumulative HB 57 benefits equal to \$11.4 million. In this situation, Agrium is assumed to realize 100 percent of the benefits. Table 3 indicates that the state would forego a total of about \$33.4 million in royalty revenue or about \$4.8 million per year (undiscounted) over the period FY 2004-09. Detailed assumptions used for the estimates in Tables 2 and 3, plus several sensitivity scenarios, are described below.

## FISCAL NOTE #1

STATE OF ALASKA  
2003 LEGISLATIVE SESSION

BILL NO. CSHB 57(O&G)

### ANALYSIS CONTINUATION

#### Assumptions (Continued)

6. The underlying analysis in Table 2 is built on the assumption that Unocal supplies 100% of plant input-gas requirements through FY 2009. The analysis in Table 3 draws from the "Annual Contract Quantity" (ACQ) commitments contained in the existing Unocal-Agrium gas supply contract. During the later years of the contract, the ACQ falls from the approximate plant capacity of about 53 Bcf per year in FY 2005 to 9.1 Bcf per year in FY 2009.
7. The implied gas shortfall in Table 3 is made up of *new gas* from 3<sup>rd</sup>-party producers but at a higher cost of \$2.00 per Mcf. This implies a smaller contract-price differential for new gas dispositions to the plant when compared with the forecast of DOR PV. It is further assumed that about 2/3 of new gas is produced from state leases that are subject to the provisions of HB 57; the remaining 1/3 is new gas production from private and federal lands.

#### Sensitivity Analysis

Several alternative gas-supply scenarios are considered. **Case A:** Assume that the average formula-driven, gas-supply contract value is \$1.35 per Mcf instead of \$1.20 (see assumption #4). All else equal, this would lower the estimate of royalties foregone from \$33.4 million to \$31.0 million. **Case B:** If the fertilizer plant operates at 75% capacity due to input gas supply shortages from both existing and 3<sup>rd</sup>-party producers then, all else equal, estimated royalties foregone would fall from \$33.4 million to \$25.0 million. **Cases A and B combined** would reduce royalty foregone from \$33.4 million to \$23.3 million.

**Testimony on HB 57/SB 50**  
**Gary Carlson**  
**Senior Vice President, Forest Oil Corporation**  
**3/26/03**

Gas exploration is only a recent focus in the Cook Inlet outside the companies that controlled the market. You now have companies like Aurora, Evergreen and Forest Oil, beginning to invest in gas exploration and development with the anticipation of supply gaps in current markets. There is a small, but expanding demand by the utilities, and an anticipated large gap in the amount of gas committed to keep the Agrium plant at capacity. Forest Oil is actively investing in gas prospects in part due to this anticipated market.

Field size distribution analysis suggests that there are 100 BCF to 500 BCF accumulations yet to be discovered in the Inlet. The current annual production rate of 200 BCF can be broken down into service to various markets. A rough estimate would be 35% LNG, 25% fertilizer feedstock, 30% utilities and 10% fuel in oil and gas facilities.

The commerciality of the projects is tied to capital required, rate that the asset can produce, and price. As an industry, we are working hard to drive down the costs using new technology and innovative utilization of current

infrastructure. The gap in supply for the fertilizer plant is a key driver for the anticipated market. I will not try to address the price Agrium can afford to pay for its feedstock except to say that it ranges from \$1.50 - \$2.00 MCF depending upon fertilizer prices.

Under current law, these low product prices coupled with the potential of a 20% royalty burden would limit the number of small or moderate gas development projects that would be considered commercial. The other threat facing potential upstream investors in gas potential is the partial idling or shutting in of the fertilizer plant for Cook Inlet gas, thus eliminating the near term market.

The timeframe from exploration to first production can exceed 5 years; therefore, some degree of certainty is essential to encourage investment. Currently, the States ability and willingness to negotiate an equitable royalty settlement is a possible solution to this critical problem; however, there still remains a degree of uncertainty in the process.

As an upstream investor in the Cook Inlet, Forest Oil supports SB 50. I would be happy to answer any questions.

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# The Alaska Farm Bureau



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Robert Franklin, President  
Fax: (907) 488-3184  
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March 27, 2003

Representative Charles Chenault  
Fax 465-2833

Dear Representative Chenault,

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

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

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

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

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

Signed:

Robert Franklin - pres.  
Phone 488-7738

## Considerations in amending HB57 to reflect an Alaska fertilizer price

- 1) About 1,200-1400 tons of urea is sold annually in Alaska as agriculture fertilizer.
- 2) There are just two dealers for Agrium fertilizer in Alaska.  
Alaska Mill & Feed – Anchorage  
Alaska Farmers Coop – Delta Jct.
- 3) Additional urea is sold through the dealers for retail home lawn/garden and government sales.
- 4) An agriculture price could be administered by the dealers signing an end user certificate verifying the sale to agriculture production.
- 5) A reduction in urea pricing would help offset the high cost of imported phosphorus/potash used in agriculture production.
- 6) Lower fertilizer costs will make Alaska agriculture producers more competitive and profitable.
- 7) Lower fertilizer costs will encourage landowners to apply proper soil amendments, thereby promoting adequate plant cover and reduced soil erosion.
- 8) Consideration by the state in reducing natural gas pricing should be offset by a reduction in the end product that is sold and utilized in Alaska.

*I provided this information to Pete Fellman in Rep. John Harris's office. Pete has expressed interest & knowledge on the subject.*

March 31, 2003

To Whom It May Concern,

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

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

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

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

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

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

*adopted  
3/25/03*

23-LS0303NS  
Chenoweth  
3/12/03

*Rep. Williams*

CS FOR HOUSE BILL NO. 57(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES CHENAULT, Whitaker

A BILL

FOR AN ACT ENTITLED

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

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

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

5 (aa) Within 90 days after the written request of a lessee of a lease issued under  
6 this section or of a lessee of federal land from which the state is entitled under  
7 applicable federal law to receive a share of the royalty on gas production, the  
8 commissioner shall enter into an agreement with the lessee to use or accept the price  
9 for the gas established in the contract between the lessee and a gas or electric utility,  
10 or, for a contract that is entered into on or after the effective date of this Act, to  
11 use or accept a price for the gas established in the contract between the lessee and  
12 a manufacturer of agricultural chemicals, as appropriate, as the value of the state's  
13 royalty share of gas production sold by the lessee under the contract

14 (1) but only if

1                   (A) for a contract between the lessee and a gas or electric  
2                   utility. the primary function of the utility with which the lessee has entered  
3                   into the contract is to provide, either directly or by selling at wholesale to  
4                   another utility, gas or electricity to the general public, including residential  
5                   consumers, within the utilities' service areas, and the utility with which the  
6                   lessee has entered into the contract is not an affiliated interest, as that term is  
7                   defined in AS 42.05.990, with the lessee or with a subsequent purchaser of  
8                   more than 10 percent of the utility's gas or electricity; or

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

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

23                               (A) the contract price is unreasonably low;

24                               (B) the prospective reduction in royalty receipts would not be  
25                   balanced in a contract entered into for a circumstance described

26                                       (i) in (1)(A) of this subsection by increased benefits to  
27                   in-state gas and electric consumers; or

28                                       (ii) in (1)(B) of this subsection by employment  
29                   opportunities or other tangible benefits to the state;

30                               (C) the lessee and the utility or manufacturer of agricultural  
31                   chemicals, as appropriate, are related in management, ownership, or other

1 aspect: and

2 (D) the contract price is not in the best interest of the state.

3 \* Sec. 2. AS 38.05.180(bb)(2) is amended to read:

4 (2) "price for the gas established in the contract" includes tax  
5 reimbursement amounts, deliverability and other charges, and other forms of  
6 consideration paid by the gas or electric utility or by the manufacturer of  
7 agricultural chemicals, as appropriate, under the contract;

8 \* Sec. 3. AS 38.05.180(bb) is amended by adding a new paragraph to read:

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

13 \* Sec. 4. The uncodified law of the State of Alaska is amended by adding a new section to  
14 read:

15 APPLICABILITY. The provisions of this Act apply to determine the price received  
16 by the state on royalty gas production as it relates to the sale of the gas to a manufacturer of  
17 agricultural chemicals based on contracts under AS 38.05.180(aa) that are entered into on or  
18 after the effective date of this Act.

Lisa Parker  
Corporate Community Relations  
Agrium U.S. Inc.  
P.O. Box 575  
Kenai, Alaska 99611-0575

Dear Ms. Parker

As you requested, we have reviewed the fiscal note prepared by the Alaska Division of Oil and Gas for House Bill 57. The note hypothesizes certain revenue impacts from passage of the bill. The note does not, however, provide a complete picture of the Bill's potential economic benefits to the State of Alaska. The economic benefits of Agrium's Kenai operations were summarized in our report, *The Economic Impacts of Agrium Kenai Nitrogen Operations in Alaska, 2001*, dated October, 2002. This letter describes elements of that analysis that we find particularly relevant to HB 57.

In 2001 the Agrium Nikiski plant purchased 53 billion cubic feet of Cook Inlet natural gas worth approximately \$80 million. The plant's value-added processing used this raw material to create \$333 million in total economic output (the value of the finished product plus the indirect and induced economic impacts of plant operations (those that are *in excess of* Agrium's direct spending for goods and services). This \$6.28 of total economic output per Mcf is more than four times the value of the raw gas.

Another way of saying this is that the plant represents more than \$300 million each year in Alaska economic activity that would not otherwise have occurred. This is because there is currently no other high-value-added use for the Cook Inlet gas purchased by Agrium. In fact, the economic loss, should Agrium cease operations, would be somewhat greater, since the state would also lose its 90 percent share of the federal royalty associated with that portion of Agrium's feedstock that comes from federal leases.<sup>1</sup> The magnitude of the economic benefits to the state compared with the cost in "royalty foregone" under HB 57 is notable. The royalty foregone "cost" is only about 6% of the more than \$50 million per year that the plant creates in payroll and less than 1% of the plant's total economic output.

HB 57 is important because, by your description, loss of the Agrium economic engine appears a real possibility. The current royalty structure is indexed not to actual Cook Inlet gas transactions, but to those in the Lower 48, where market exchanges are facilitated by a broad network of transportation pipelines. The resulting high royalty values are helping to push the total effective cost of Agrium's natural gas feedstock toward a point at which the Nikiski plant will become uneconomic to operate. If that happens, unless there is an alternative buyer for the gas (currently unidentified), there will be little or no incentive either to produce the gas that Agrium currently buys or to

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<sup>1</sup> Other factors also would come into play in the event of a plant shut-down, such as devaluation of local real estate, etc. However, these effects are beyond the scope of this discussion.

explore for more. As a result, the value to Alaska of the state gas that Agrium now purchases would decline to the net present value of that gas at some point in the future (i.e., when and if a new purchaser materializes). The value of all the gas that could be produced and sold to Agrium in the meantime would be lost forever.<sup>2</sup>

The accompanying table shows the projected value to the state of imposing the higher royalty structure compared with the value of uninterrupted Agrium operations using a royalty structure based on actual contract value. (All figures in nominal dollars).

Please let us know if we can provide any further information.

Sincerely,



Jim Calvin  
Partner

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<sup>2</sup> More precisely, that unsold gas would remain in the ground until such time as a means exists for production and sales *in excess of* what Agrium would have used in the interim (and, one must presume, for a purpose other than production of ammonia and urea). The expected net present value of these market conditions seems likely to approach zero.

**SOLDOTNA CHAMBER OF COMMERCE**

**RESOLUTION 2003-02**

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

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

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

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

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

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

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

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

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

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

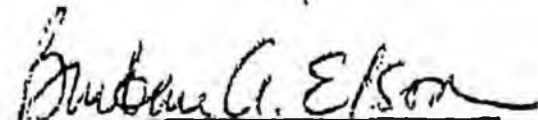
**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SOLDOTNA CHAMBER OF COMMERCE:**

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

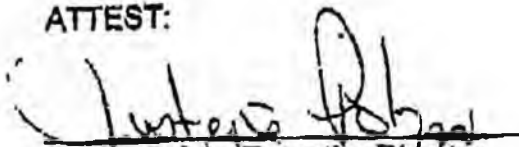
**SECTION 2:** That copies of this resolution shall be sent to all members of the 23<sup>rd</sup> Alaska State Legislature.

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

**ADOPTED BY THE BOARD OF DIRECTORS OF THE SOLDOTNA CHAMBER OF COMMERCE THIS 14<sup>th</sup> Day of MARCH 2003.**

  
**Barbara Elson, President**

ATTEST:

  
**Justine Polzin, Executive Director**



Kenai Chamber of Commerce  
402 Overland  
Kenai, Alaska 99611  

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

**RESOLUTION 2003-01**

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

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

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

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

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

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

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

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

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

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

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



Kenai Chamber of Commerce  
402 Overland  
Kenai, Alaska 99611

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

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

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

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

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

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

**UNANIMOUSLY PASSED BY THE KENAI CHAMBER OF COMMERCE OF THE CITY OF KENAI ALASKA, this 7<sup>th</sup> day of February, 2003.**

*Cherie L. Brewer*

Cherie L. Brewer  
Chamber Board President

>>> "G. Scott Pfoff" <gspfoff@aurorapower.com> 02/11/03 10:14AM >>>  
To whom it may concern,

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

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

G. Scott Pfoff  
President,  
Aurora Power Resources, Inc  
(713) 977-5799

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To: Pete Sprague, Assembly President

Assembly Members

Thru: Dale L. Bagley, Mayor

From: Bill Popp, Oil & Gas Liaison

Date: February 6<sup>th</sup>, 2003

Subject: House Bill 57 and Senate Bill 50

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

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

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

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

**THE ECONOMIC IMPACT OF  
AGRIUM KENAI NITROGEN OPERATIONS  
IN ALASKA, 2001**

**EXECUTIVE SUMMARY**

**PREPARED FOR:**

**RESOURCE SOLUTIONS  
ANCHORAGE, ALASKA**

**PREPARED BY:**



**ANCHORAGE • JUNEAU**

**October 2002**

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## EXECUTIVE SUMMARY

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Agrium Kenai Nitrogen Operations contracted with Resource Solutions and the McDowell Group, Alaska research and consulting firms, to quantify the economic impact of Agrium Kenai Nitrogen Operations on the Kenai Peninsula Borough and the Alaska economy during calendar year 2001. This report details the study findings of the economic impacts of Agrium's production on the Kenai Peninsula and Alaska. Findings are expressed in terms of direct, indirect, and induced impacts, which are explained below.

Agrium Kenai Nitrogen Operations is one of Alaska's few major manufacturing operations and contributes to Alaska's economy by adding value to Cook Inlet natural gas production. The Agrium complex is located near Nikiski, 10 miles north of Kenai and directly employs close to 300 people. The plant is the United State's second largest producer of ammonia and urea. It consists of two urea and two ammonia plants, a tidewater port facility, and a power cogeneration facility. The Agrium Kenai Nitrogen Operations complex has an annual production capacity of nearly 2 million tons. In 2001, the Kenai plants produced 1.4 million metric tons of anhydrous ammonia and urea. For feedstock, the plant uses approximately 155 million cubic feet of Cook Inlet natural gas daily. Virtually all of Agrium's Kenai production is destined for overseas markets. Agrium's total gross sales in 2001 were \$210 million.

**Direct economic impacts.** Direct impacts are the initial expenditures by Agrium Kenai Nitrogen Operations. These initial impacts include the amount directly spent by Agrium to purchase goods and services (such as materials, utilities, construction services, and transportation), payments to government (such as taxes and fees), cash contributions to membership organizations and charitable organizations, and the wages paid to Agrium employees.

**Indirect and induced economic impacts.** Indirect impacts result from Agrium's spending on goods and services that in turn circulate through the economy as Agrium's suppliers in the Borough and in Alaska conduct their business with Agrium's initial dollars. Induced impacts result from the spending of Agrium (and suppliers') payroll dollars by employee households. For instance, when Agrium employees and employees of Agrium suppliers spend money in the regional economy, induced impacts accumulate as these dollars continue to circulate. These indirect and induced impacts are estimated using econometric model multipliers developed specifically for Alaska and refined by McDowell Group for use in this study.

## Summary of Economic Impacts

Agrium's total economic output in Alaska was \$333 million in 2001. Economic output is the gross sale value of Agrium's production (\$210 million) plus the impacts of spending in support of Agrium's operations (\$123 million). Total impacts include 1,000 Alaska jobs (292 direct plus 700 indirect and induced jobs), \$50 million in Alaska payroll (\$25 million in Agrium payroll plus indirect and induced payroll), and charitable support by Agrium of 87 organizations and programs, almost all of them in the Kenai Peninsula Borough.

The Kenai Peninsula Borough receives \$2.4 million in industrial property tax from Agrium, an estimated minimum of \$212,700 in residential property tax from Agrium employees' dwellings and \$1.4 million in state funding support for Agrium family school-age children's education - a total of \$4.0 million in direct revenue. The Agrium operation also accounts - directly and indirectly - for an estimated 5 percent of the population, 6 percent of employment, and 9 percent of wage and salary income in the Kenai Peninsula Borough.

**Table 1**  
**Summary of Agrium Kenai Nitrogen Operations Economic Impacts, 2001**

Economic Activity	Direct Impacts	Multiplier Effect	Indirect and Induced Impacts	Total Impacts
<b>Economic Impacts</b>				
Output	\$210 million	1.6	\$123 million	\$333 million
Economic value of Agrium production per Mcf of natural gas feedstock				\$6.28/Mcf
Employment	292 jobs	3.5	700 jobs	992 jobs
Payroll	\$25 million	2.0	\$25 million	\$50 million
AK goods & services purchased	\$95 million			
Employment (% of KPB total)				5.5%
Wage and salary income (% of Kena: Peninsula Borough total)				8.8%
<b>Revenue to Kenai Peninsula Borough (KPB)</b>				
Agrium industrial property tax	\$2.4 million			
Agrium employee property tax	\$212,700			
State revenue to KPB School District for Agrium dependents	\$1.4 million			
Total revenue to KPB	\$4.0 million			
<b>Social Impacts</b>				
Total population impacts (direct and indirect)				2,150 total 4.5% of KPB
Student enrollment (Agrium children as % of total KPB District enrollment)	3.3%			
Number of charities supported	87			

## Major Findings

By Alaska economic standards, the Agrium operation is exceptional for its combination of high pay levels, amount and concentration of expenditures in the local area, and the degree of value-added manufacturing that occurs in Alaska prior to export. The result is a high multiplier impact.

Per one thousand cubic feet (Mcf) of Cook Inlet natural gas used by Agrium for feedstock and power generation, \$6.28 in total Alaska economic output is generated.

Figure 1  
Total Output Impact per One Thousand  
Cubic Feet (Mcf) of Natural Gas Used, 2001



Source: Agrium U.S. Inc., McDowell Group compilations

Agrium Kenai Nitrogen Operations is the Kenai Peninsula's third largest private employer with direct employment of 292 in 2001. Only Peak Oilfield Services Company (367) and Safeway/Eagle Stores (342) employ more.

- If Peak Oilfield Services employees under contract to Agrium are included in Agrium's employment figures, Agrium becomes the #1 private employer in the Kenai Peninsula Borough. In terms of payroll (not available for individual private companies), Agrium has either the largest or the second largest private payroll in the Kenai Peninsula Borough.
- All of Agrium's employees live in the Kenai Peninsula Borough, increasing their local economic impact.

Multiplier impacts of Agrium Kenai Nitrogen Operations account for an additional 700 jobs in the Alaska and Kenai Peninsula Borough economies.

- Agrium spending on goods and services generates an additional 700 indirect and induced Kenai Peninsula Borough jobs. The secondary impacts of Agrium employee payroll spending bring the total employment impact to approximately 1,000 jobs.

- Agrium's total direct, indirect, and induced employment impacts account for 5.5 percent of the Kenai Peninsula Borough's total employment, and 8.0 percent of jobs in the Central Kenai Peninsula area (the area north of the Kasilof River and west of Skilak Lake).

**Agrium Kenai Nitrogen Operations provides high-paying jobs in the value-added manufacturing sector.**

- Agrium payroll average of \$83,865 per employee is more than double the average regional salary.
- Agrium Kenai Nitrogen Operations' \$25 million in direct payroll generates additional indirect and induced earnings of \$25 million, a total of \$50 million in salaries and wages in the Kenai Peninsula Borough economy.
- Agrium's total direct, indirect, and induced earnings account for 8.8 percent of Kenai Peninsula Borough's total wage and salary payroll, and 13.4 percent of payroll in the Central Kenai Peninsula area.

**Figure 2  
Comparison of Average Annual Earnings,  
Agrium Kenai Nitrogen Operations Employees vs.  
Kenai Peninsula Borough Average, 2001**



Source: Agrium U.S. Inc., Alaska Department of Labor and Workforce Development