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REPRESENTATIVE RALPH SAMUELS

HOUSE DISTRICT 29

Sponsor Statement HB 286

"An Act amending the manner of determining the royalty received by the state on gas production by directing the commissioner of natural resources to accept, under certain circumstances, the transfer price of the gas if established by transfer price order of the Regulatory Commission of Alaska; and providing for an effective date."

Anchorage Municipal Light and Power is proposing a housekeeping amendment to AS 38.05.180(aa). The amendment will allow the Department of Natural Resources to use the transfer price for gas set by the Regulatory Commission of Alaska to value the State's share of royalty gas. The amendment reflects language as proposed by ML&P and modified at DNR's request. DNR does not oppose this amendment.

Since 1986, Alaska utilities have been able to use the price set in their long-term gas purchase contracts as the value for royalty gas values.

ML&P has used (aa) for the gas ML&P uses from its share of the Beluga River Field. DNR agreed to let ML&P continue to receive (aa) treatment based on the ML&P/Shell contract even after ML&P bought Shell's interest in the field. But that contract expires at the end of 2005. While ML&P's share in the Beluga River Field will assure ML&P of a supply of gas, in the absence of the proposed legislation, ML&P will not be able to continue to receive (aa) treatment for its gas.

The proposed legislation adds language that allows DNR to use the gas transfer price set by the RCA much like DNR uses the contract price for gas. The transfer price is the rate ML&P is required to charge itself for the Beluga Field gas it uses. The proposed amendment allows DNR to give (aa) treatment not only to an arms-length gas supply contract, but also to RCA-approved orders setting the transfer price when a utility uses its own natural gas.

The proposed amendment is consistent with the purpose of the original law. It will allow ML&P to continue to receive the benefits the Legislature intended to provide to consumers. It assures that rigorous and fair regulatory process will be used to set the price for royalty gas. The fiscal impact will be minimal compared to the (aa) treatment ML&P presently receives. This amendment will help ensure that Anchorage electric consumers have certainty and stability in their electric rates.

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FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB286-DNR-O&G-04-27-
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Value of Royalty on Gas Production RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rep. Samuels
 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 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

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

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill amends AS 38.05.180(aa), a statute that relates to the royalty value of gas sold to a gas or electric utility that serves the general public. Under the state's oil and gas leases, a producer-lessee must pay the state royalties-in-value (cash) or royalties-in-kind (oil or gas). If the producer pays the gas royalty in-value, meaning that the producer sells the gas to its customer and then tenders a payment to the state, the producer is liable under the lease for a royalty value that is the higher of the producer's actual sales price (less certain allowed deductions) or the average royalty values for other producers in the same area based on their sales.

Under current law, AS 38.05.180(aa) provides that a gas producer can apply to the Commissioner of the Department of Natural Resources (the department) to have its royalty gas valued at its contract sales price

Prepared by: Mark D. Myers, Director Phone 269-8800
 Division Oil and Gas Date/Time 4/27/2005
 Approved by: Tom Irwin, Commissioner Date 4/27/2005
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
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BILL NO. HB286-DNR-O&G-0

ANALYSIS CONTINUATION

If the Commissioner approves the application, the state gives up the higher of value under the lease, relating to the average sales prices received by other producers as noted above. To obtain approval under AS 38.05.180(aa), the producer must present a negotiated, third-party arm's length contract for the Commissioner's consideration.

HB 286 would change current law to allow a producer-lessee that transfers its gas to an affiliated utility to apply for AS 38.05.180(aa) treatment. Under the bill, if a producer-lessee has an internal transfer price for gas consumed by its utility approved for ratemaking purposes by the Regulatory Commission of Alaska, it could apply to the department to have its transfer price used as its royalty value. In the absence of HB 286, the department would use the higher of value to determine the royalty value. Since there would be no negotiated, arm's length third-party contract for the producer-lessee's internally consumed gas, the higher of value would be the average of the other producers' royalty values.

***Indeterminate. The department is unable to determine whether enacting HB 286 would have a negative or positive fiscal impact on the state. If the transfer price were used for the royalty value, as the bill would permit with department approval, the impact would be negative if the transfer price was lower than the average of other producers' royalty values. However, the fiscal impact would be positive if the transfer price was higher than the average of other producers' royalty values.